A black and white photograph of the Chicago skyline viewed from a park. The skyline is seen across a body of water, with a wooden fence in the foreground. Large trees frame the left and right sides of the image. The sky is cloudy.

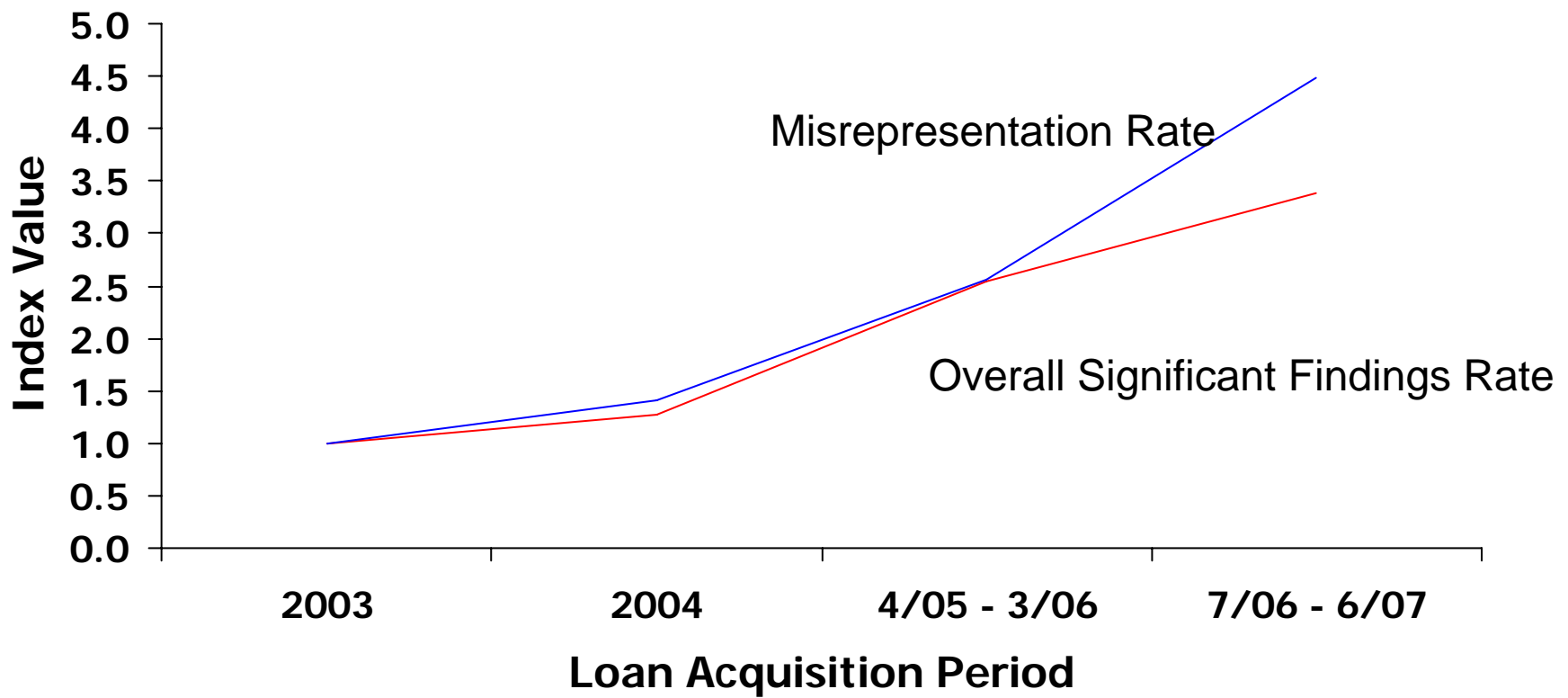
Amy Heinz, Fannie Mae
Chicago, IL
March 14, 2008

MBA National Fraud Issues Conference

The Secondary Market Response to Mortgage Fraud

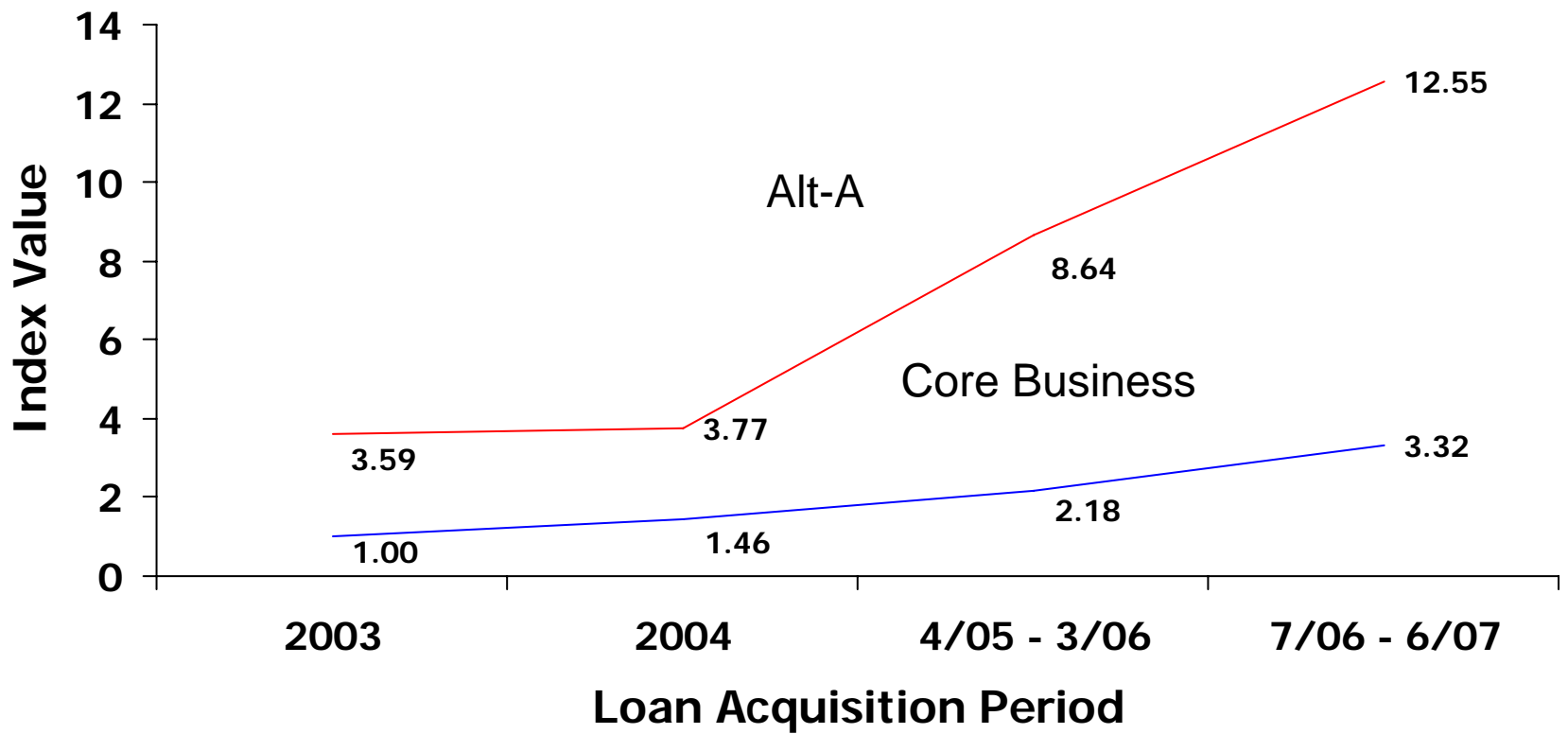
Mortgage Industry Fraud

Random Finding Rate Index by Acquisition Period
1.00 = 2003 Finding Rate



Mortgage Industry Fraud

Random Misrepresentation Index by Acquisition Period
1.00 = 2003 Core Business Misrepresentation Rate

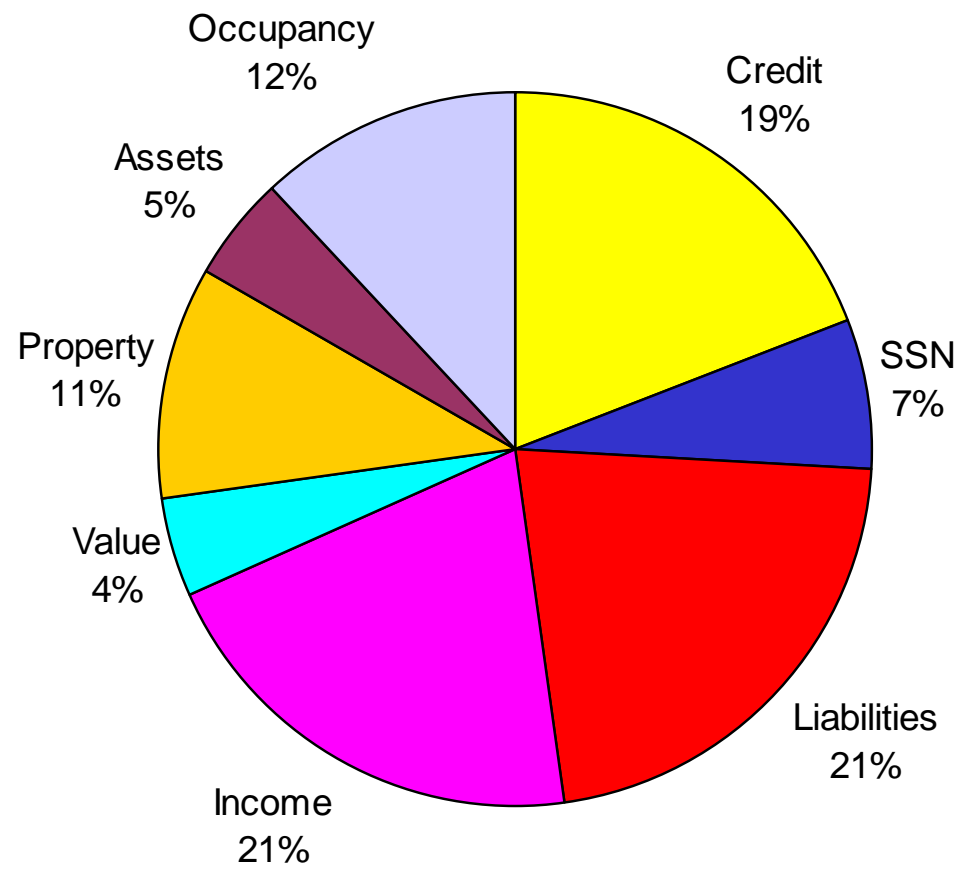


Factors Fueling Mortgage Fraud Risk

- Technology
- Consumer & Business Awareness
- Risk-Reward Calculation

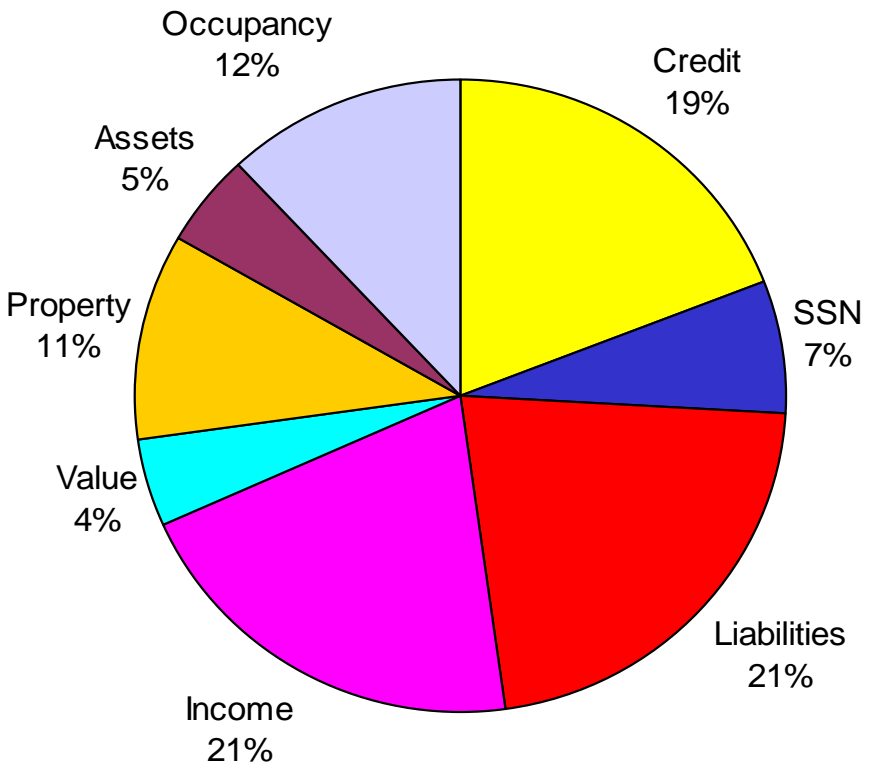
Misrepresentation Findings – U.S.

Distribution of misrepresentation findings for 2006-2007 originations

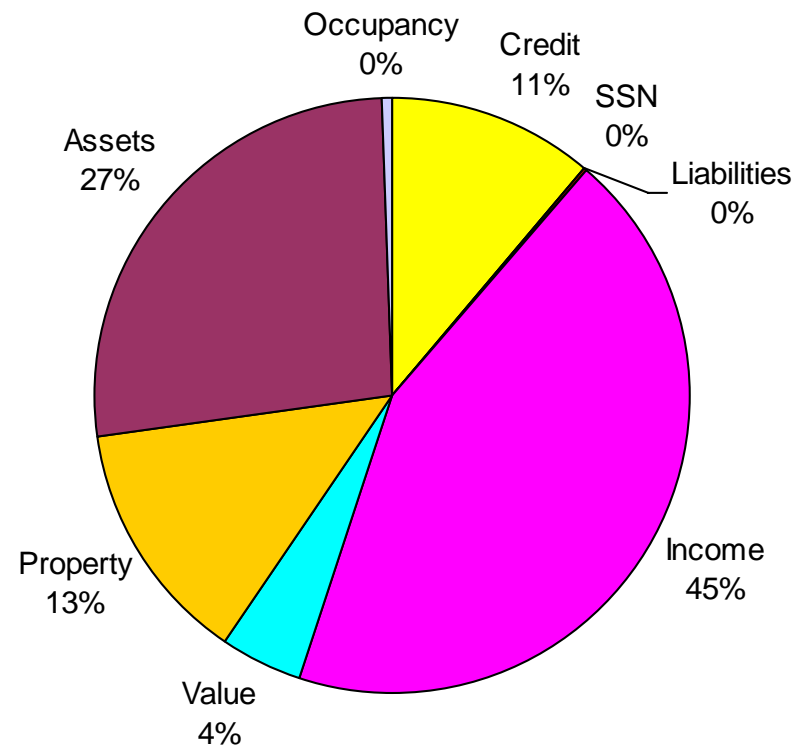


Misrepresentation Findings – U.S.

2006-2007

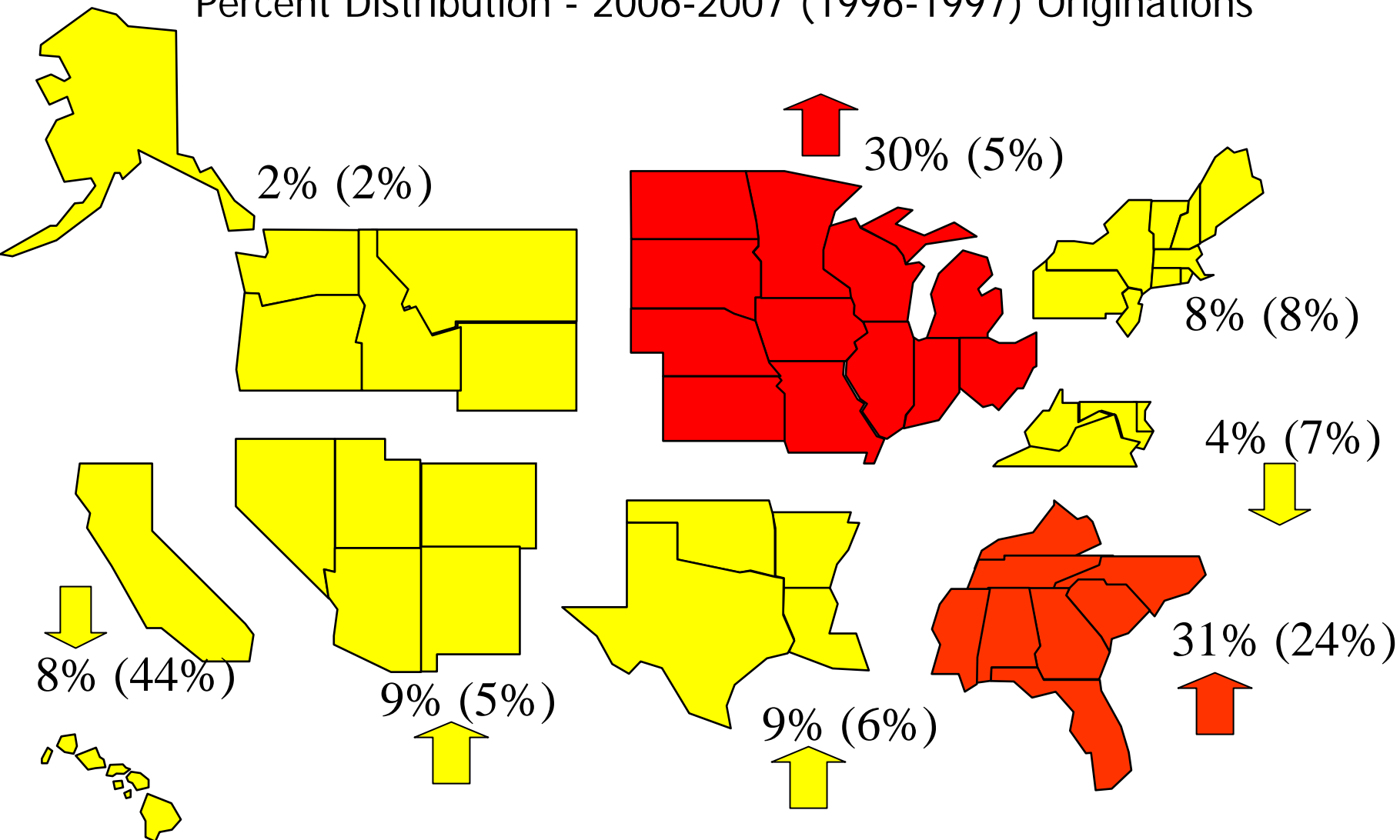


1996-1997



Mortgage Industry Fraud By Region

Percent Distribution - 2006-2007 (1996-1997) Originations



Source: Fannie Mae Loan Reviews

Data through January 2008

"Hot" Mortgage Fraud Areas

Reviews of loans originated in 2006-2007

Listed by first three zip code digits, representative city and most common misrep findings

1.	554 -	Minneapolis, MN	Credit & SSN
2.	303 -	Atlanta, GA	Credit & Income
3.	482 -	Detroit, MI	Credit & Property/Value
4.	381 -	Memphis, TN	Income & Assets
5.	551 -	St. Paul, MN	Credit & SSN
6.	330 -	Pompano Beach, FL	Income & Credit
7.	331 -	Miami, FL	Income & Assets
8.	481 -	Dearborn, MI	Credit & Income
9.	339 -	Fort Myers, FL	Credit & Occupancy
10.	631 -	St. Louis, MO	Property/Value & Occupancy

Top ten zip code areas represent 25 percent of US fraudulent loans.

Property & Appraisal Fraud Issues

- Scams & Patterns
 - *Builder Bailouts*
 - *Developer Bailouts*
 - *Property Flips*
 - *Cash-Out Refinances*
 - *Investment Clubs*
- Issues & Methods
 - *Appraiser Identity Theft*
 - *Fabricated Data*
 - *Concealed Data*
 - *Superior Comps*
 - *Interested Party Contributions*



Local Fraud Schemes



SSN/Identity Fraud - 10 loans @ \$1.7 million

- Credit reports indicated SSNs were invalid; SSA verifications were fabricated



Property Flipping & Income Fraud - 112 loans @ \$10 million

- DU messages; verification documents were clearly fabricated



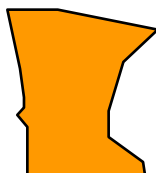
Developer Property Flipping & Forgery/Straw Buyers - 123 loans @ \$15.5 million

- Same appraiser; borrowers from out of state; varying signatures
- Disbursements to parties not on sales contract



Value/Appraisal Fraud - 771 loans @ \$113 million

- Same appraiser; appraiser clearly fabricated comparable sales prices



SSN/Identity Fraud - 684 loans @ \$123.4 million

- Files contained credit and QC reports with clear indications that SSNs were invalid.

Best Anti-Fraud Practices

- ✓ **Know business partners**
- ✓ **Employ technology skillfully**
- ✓ **Understand common & emerging fraud schemes**
- ✓ **Fully integrate QC into business strategy**
- ✓ **Share and report suspicious information**

Anti-Fraud Assistance/Tools

- ***Desktop Underwriter ® Messaging***
- ***To Report Possible Fraud to Fannie Mae:***
 - 1-800-7FANNIE
 - fraud_tips@fanniemae.com
- ***Mortgage Fraud Information:***
 - eFannieMae.com

Industry Partner Mortgage Fraud Website

eFannieMae.com

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New Uniform Security Instruments

New Master Form and Short Form Uniform Security Instruments are available for 26 states to streamline the recording process and provide cost savings for borrowers.

[Access Uniform Security Instruments](#)



DO@/DU® Updates

Expanded Approval® recommendations are now available to all DO/DU users.

Starting August 20, DO/DU users will be required to enter a credit provider-issued password in each DO/DU session to order credit reports. Also, a streamlined process makes it easier to enter Community Seconds®, and other DU processes are aligned with recent mortgage product updates.

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- HUD Area Median Incomes (AMIs)
- Accepted Condos, Co-ops, and PUDs
- MvCommunityMortgage®
- Asset Management Network
- Titling Manufactured Housing as Real Property
- Fannie Mae Property GeoCoder™
- 2007 Fannie Mae Loan Limits

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Learn about our commitment to preventing mortgage fraud and ways to report questionable activities.
- [Hurricane Relief](#)
Visit our Hurricane Relief page to access resources related to the aftermath of Hurricanes Katrina and Rita.

Become a Fannie Mae Lender

Benefits:

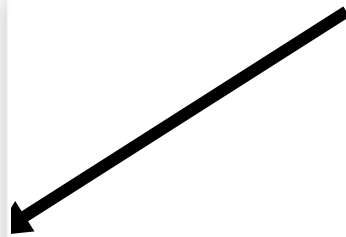
- Innovative loan products and options
- State-of-the-art technology solutions
- Training opportunities

[How to Apply Online](#)



Mortgage Fraud

- [Preventing Mortgage Fraud](#)
Learn about Fannie Mae's commitment to preventing mortgage fraud and ways to report questionable activities.



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Mortgage Fraud Resources



Gain Access to Data to Help You Combat Fraud

New DU® Red Flag Messaging Reports can help your Underwriting and Quality Control departments identify potential fraud associated with certain loan characteristics.

[Get details and learn how to register for the reports \(.pdf\)](#)

We offer resources and information to help you detect and prevent fraud.

About Mortgage Fraud

- Learn the basics of mortgage fraud by:
- [Viewing our Mortgage Fraud Overview \(.pdf, 199K, 18 pages\)](#)
 - [Registering for the Basics of Mortgage Fraud Web seminar](#)
 - [Accessing resources to help you combat mortgage fraud \(.pdf, 40K, 2 pages\)](#)

Report Mortgage Fraud

If you have information concerning possible mortgage fraud,

- phone Fannie Mae at 1-800-732-6643; or
- [report the information via e-mail.](#)

Remember: E-mail is not a secure communication method; do not send Social Security numbers or financial account information via e-mail

Red Flags & Educational Tools

Report Mortgage Fraud

Tools

Monthly Newsletter

Mortgage Fraud Updates

Our monthly fraud publication, *Mortgage Fraud Update*, provides data on misrepresentation findings by type and geography for loans delivered to Fannie Mae.

- [January 2008](#)
(.pdf, 68K, 4 pages)
- [December 2007](#)
(.pdf, 151K, 14 pages)
- [November 2007](#)
(.pdf, 88K, 5 pages)

[View all Mortgage Fraud Updates](#)

Training & Education

- [Housing Finance Institute™](#)
This Institute offers periodic classroom training by industry experts on Quality Assurance and Fraud Prevention.
 - [Basics of a Sound Quality Control Program](#)
This instructor-led Web seminar reviews Fannie Mae's requirements for lenders regarding their internal audit and management control systems, basics of a sound quality assurance system and our requirements in the mortgage review process.
 - [Mortgage Quality Assurance](#)
This publication, one of five Cornerstone publications, offers information on how to detect and take appropriate action in response to fraud.
 - [Focus On...Preventing, Detecting & Reporting Mortgage Fraud](#)
(.pdf, 80K, 6 pages)
This special report summarizes the most common types of fraud and provides questions and answers from a Fannie Mae fraud expert.
-

Educational Tools

[For More Information](#)



Fannie Mae Mortgage Fraud Update January 2008

Mortgage Fraud Statistics

The following charts and tables reflect data on loans delivered to Fannie Mae. They are a reflection of Fannie Mae's experience, and do not purport to represent statistics covering the mortgage lending industry as a whole. They are intended to be used for information and benchmarking purposes only.

Types of Misrepresentation Findings

Definitions:

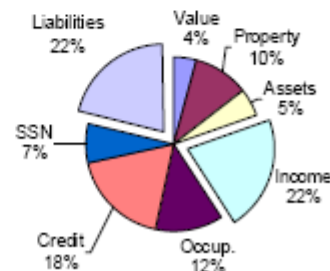
- **Credit** = The borrower's identity and/or credit history was/were misrepresented.
- **SSN** = There is a significant discrepancy in the SSN(s) used to qualify the borrower(s).
- **Liabilities** = The borrower's liabilities were misrepresented.
- **Value** = The property value was inflated and there was non-property-related misrepresentation in the loan transaction.
- **Property** = A specific material fact about the property and/or the comparable sales was misrepresented.
- **Assets** = The borrower's funds information was inflated or fabricated.
- **Income** = The borrower's income/employment information was inflated or fabricated.
- **Occupancy** = The borrower's intent to occupy the subject property was materially misrepresented.

Distribution of Misrepresentation Findings by Type

The following pie chart depicts the distribution of significant misrepresentation findings by type. It reflects findings for loans originated in 2006-2007, as of reviews completed through December 2007.

Observations

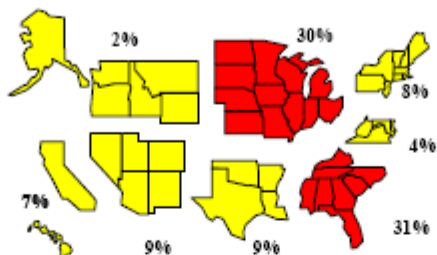
- Income misrepresentation and undisclosed Liabilities are tied for the most common single misrepresentation finding at 22% each.
- Credit-related misrepresentation (Credit, SSN and Liabilities) is the most common group (47%).
- **The top ten markets for credit-related misrepresentation (by first 3 zip code digits and representative city):**
 1. 554 – Minneapolis, MN
 2. 551 – St. Paul, MN
 3. 303 – Atlanta, GA
 4. 482 – Detroit, MI
 5. 606 – Chicago, IL
 6. 852 – Gilbert, AZ
 7. 339 – Fort Myers, FL
 8. 381 – Memphis, TN
 9. 481 – Dearborn, MI
 10. 770 – Houston, TX



Distribution of Misrepresentation Findings by Geography

By Region

The following map depicts the distribution of significant misrepresentation findings by geographic region. It depicts all loans with misrepresentation that were originated in 2006-2007, as of reviews completed through December 2007.



Observations

- The Southeast and Midwest have nearly equal leading shares of Fannie Mae loans with mortgage fraud findings.
- The share of fraudulent loans found in the West and Southwest regions continues to grow. The total share was 10% one year prior. It is now 16% and expected to climb further to be more in line with the regions' share of new business (approximately 23%).

By Zip Code Area

The following table depicts the top ten zip code areas (first three zip code digits) for Fannie Mae misrepresentation findings, a representative city, and the most common types of misrepresentation findings for each area. The table depicts all loans with misrepresentation that were originated in 2006-2007, as of reviews completed through December 2007.

Rank	Zip3	City, State	Most Common Fraud Types
1.	554	Minneapolis, MN	Credit & SSN
2.	303	Atlanta, GA	Credit & Income
3.	482	Detroit, MI	Credit & Value/Property
4.	381	Memphis, TN	Income & Assets
5.	551	St. Paul, MN	Credit & SSN
6.	330	Pompano Beach, FL	Income & Credit
7.	331	Miami, FL	Income & Assets
8.	339	Fort Myers, FL	Credit & Occupancy
9.	770	Houston, TX	Income & Credit
10.	481	Dearborn, MI	Credit & Income

Observations

- A high percentage of the Credit & SSN findings for Minneapolis and St. Paul are attributable to one large conspiracy involving multiple borrowers who used fabricated SSNs.
- In addition to income and asset misrepresentation, Memphis has also been a common location for property-flipping schemes where appraisers systematically fail to accurately report and analyze prior sales histories.
- A significant percentage of the fraudulent loans discovered thus far in the Pompano Beach, Fort Meyers, Houston and Miami areas have involved loans secured by condominium units.