White Paper

The LexisNexis® 15th Annual Mortgage Fraud Report

August 2013

LexisNexis®

Risk Solutions
Financial Services

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Executive Summary

As the mortgage industry heads into the latter part of 2013, the housing market is showing signs of positive growth. According to the National Association of Realtor's (NAR) Pending Home Sales Index (PHSI) which is based on purchase contracts, in May 2013, pending home sales were at their highest since late 2006. When combined with the lessening volume of available inventory in most areas, this could signal an interesting new origination year for most lenders. At the same time, lenders continue to work through backlogs of loan modifications and short sales—a trend that has made loan modification fraud, short sale schemes, and foreclosure rescue fraud part of the nation's vocabulary.

Both the industry and regulators are currently focused on reputational risk. In an attempt to protect both industry investment and consumer financial obligations, the Consumer Financial Protection Bureau (CFPB) recently released new mortgage regulations that emphasize loan and borrower quality. The first round of these regulations goes into effect in January 2014 and outlines rules for quality loans. It remains to be seen whether additional regulatory action like that taken by the CFPB will strengthen loan standards enough to see a marked decrease in defaults. If new home originations continue to climb after these quality guidelines are in place, what will the effect be on mortgage fraud?

This is the LexisNexis 15th Annual Mortgage Fraud Report, formerly known as the Mortgage Asset Research Institute Fraud Report. These annual reports examine the current composition of residential mortgage fraud and misrepresentation involving industry professionals in the United States. (See Appendix I at the end of this report for information about the methods used to collect data on mortgage fraud.) In addition, this year we are including statistics that reveal patterns of potential mortgage industry collusion, as well as an analysis of national default rates.

The LexisNexis examination of 2012 data identified that:

- According to the Financial Crimes Enforcement Network (FinCEN), approximately 69,000 Suspicious Activity Reports (SARs) specific to Mortgage Loan Fraud (MLF) in 2012 were received—a 25 percent decrease from those received in 2011.
- Five states—Florida, Arizona, New Jersey, California, and New York—occupy space on both the Investigation and Origination Mortgage Fraud Indices (MFIs).
- Florida's 2012 Investigation MFI, 805, indicates that the state had over eight times the expected rate of reported fraud and/or misrepresentation based on its origination volume. However, for loans originated in 2012, its Origination MFI is 169.
- Ohio, ranked first on the Origination MFI list, has a five-year high MFI of 224—which indicates that it had over two times the expected rate

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of reported fraud and/or misrepresentation for 2012 based on its origination volume.

- Slightly over four percent of reports submitted by MIDEX subscribers for loans originated in 2012 included some type of Loan Modification fraud and/or misrepresentation. This is down from seven percent of loans originated in 2011.
- Eight states—Vermont, Alabama, New York, Kentucky, Pennsylvania, Iowa, Louisiana, and Delaware—rank highly on both Collusion Indicator Indices (CIIs) as areas with high percentages of potential non-arm's length transaction activity.
- Vermont's CII for properties transferred with a 20 – 95 percent loss, 492, and CII for properties transferred with a 50 – 95 percent loss, 437, are the only CIIs over 400. In each of these scenarios, the state's potential collusion is four times what would be expected, given the number of recorded deed transfers for Vermont.
- All states in the top ten ranking of default properties have decreased percentages of total properties in recorded default in 2012 than in previous years.
- The only state to appear in the top ten on all three indicator lists (MFIs, CIIs, and volume of properties in default) is New Jersey. Five states appear on both the MFI and property default top ten rankings: Florida, Nevada, Illinois, Georgia, and Ohio. New York and Delaware are represented on the MFI and CII.

Slightly over four percent of reports submitted by MIDEX subscribers for loans originated in 2012 included some type of Loan Modification fraud and/or misrepresentation. This is down from seven percent of loans originated in 2011.

The body of this report presents the data and analysis supporting the findings cited above. The information contained in this report is meant to provide insights into current mortgage industry activities.

Data and Information Sources Used in This Annual Mortgage Fraud Report

For over two decades, major mortgage lenders, agencies, and insurers have been submitting information describing incidents of subscriber-verified fraud and material misrepresentation involving industry professionals to an industry-contributed database, known as MIDEX® (Mortgage Industry Data Exchange), in order to share adverse experiences involving professionals operating within the mortgage industry. Contributing subscribers use information services derived from the MIDEX database as a risk management tool to protect against mortgage fraud perpetrated by industry professionals. MIDEX enables subscribers to perform due diligence checks on mortgage professionals and companies as part of their business relationship credentialing processes. LexisNexis utilizes MIDEX submissions to develop representative statistics on a wide range of mortgage fraud and misrepresentation characteristics. Findings from this analysis are presented in Annual

Mortgage Fraud Reports to provide key insight into mortgage fraud trends, as reported by the industry.

In addition to MIDEX incident data, the report utilizes Home Mortgage Disclosure Act (HMDA) data sourced by the Mortgage Bankers Association (MBA), a key component used for calculating a state's Mortgage Fraud Index (MFI) value. Please refer to Appendix II for information on the MFI and its computation.

According to incident data from MIDEX submissions, over recent years there has been an increase in reported incidents of potential collusion involving multiple professionals. For this reason, we looked into LexisNexis public record data involving property transfers (among other data points) to investigate this potential collusion activity on a larger scale. Using proprietary algorithms, LexisNexis public record data has been used to calculate the LexisNexis Collusion Indicator Index (CII) values, which reflect potential collusion activity within a state. Please refer to Appendix III for information on the CII and its computation.

In addition, this year we have included a ranking of states with the top ten highest percentages of property defaults, as represented in LexisNexis data. Please refer to Appendix IV for information on this ranking and its methodology.

According to incident data from MIDEX submissions, over recent years there has been an increase in reported incidents of potential collusion involving multiple professionals.

The LexisNexis Mortgage Fraud Reports and SAR Filing Trends

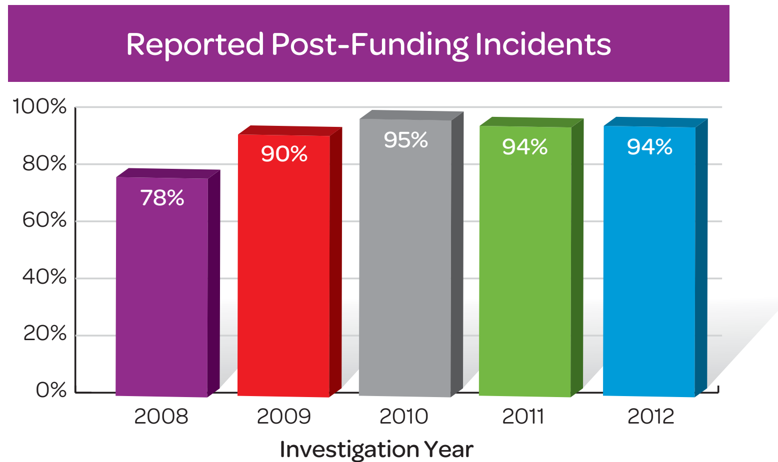
The Federal Bureau of Investigation (FBI), in conjunction with the Financial Crimes Enforcement Network (FinCEN), collects Suspicious Activity Reports (SARs) from all federally-insured financial institutions. According to remarks from FinCEN's Director at the April 2013 Mortgage Bankers Association Fraud Issues Conference, FinCEN received approximately 69,000 SARs specific to Mortgage Loan Fraud (MLF) in 2012, a "25 percent decrease from the roughly 92,000 MLF SARs FinCEN received in 2011." That this happened in a year that required more MLF SAR filers—because of the 2012 rule that non-bank residential mortgage lenders and originators now submit SARs—is noteworthy. Similarly, from 2011 to 2012, 16 percent fewer reports of verified, material misrepresentation involving industry professionals were received from MIDEX subscribers. It would be easy to make the assumption here that mortgage fraud levels have decreased, and while this is likely partially true, the decrease in loan volumes in general is also a factor.

According to statistics from the FBI, pending mortgage fraud cases have also decreased. In FY 2012, 1,954 cases were reported (compare to 2011, when 2,691 cases were reported). However, the numbers of criminal indictments (1,079 in FY 2012 and 1,223 in FY 2011) and convictions (1,026 in FY 2012 and 1,082 in FY 2011) have remained relatively constant. As was noted in last year's report, distressed homeowner fraud has replaced loan origination fraud as the most visible threat to the mortgage industry. To

that end, the FBI's Distressed Homeowner Initiative has thus far resulted in 107 criminal defendants, with more than 17,000 homeowner victims and total victim losses of more than $95 million.

The majority of MIDEX incidents involve Fraud for Profit, meaning fraud or misrepresentation involving industry professionals. Among these instances of Fraud for Profit, there is often a marked time lapse between loan origination and submission of a post investigation report to MIDEX. As more loans are either investigated with mortgage fraud and/or misrepresentation that occurs later in the loan process or investigated once loans go into default, this reporting time lapse is not expected to shorten.

Figure 1



As Figure 1 indicates, in 2008, 78 percent of loans investigated and submitted to LexisNexis were for loans originated in prior years, and 22 percent of investigations submitted in 2008 involved loans originated during that year. In 2010 - 2012, we have seen a marked increase in submissions for years older than the investigation year. Ninety-four percent of all incidents reported to MIDEX in 2012 were for loans originated prior to 2012.

Geographic Distribution of Mortgage Fraud

Tables 1 and 2 and Figure 2 on the next few pages present the states with the highest mortgage fraud indices (MFIs) based on incident reports submitted to LexisNexis. The first three columns of Table 1 show the rankings of states with the most serious mortgage fraud problems in loans investigated during 2012 (Investigation MFI). These loans could have been originated in any year. The remaining columns of the table show the rankings and a numerical measure for the same 10 states in preceding years, back to 2008. Table 2 provides a different view of states with high volumes of reported fraud and/or misrepresentation. This table examines the rankings of states with the most serious reported mortgage fraud problems in loans originated during 2012 (Origination MFI). A subset of Table 1, the remaining columns of the table show the rankings and a numerical measure of the same ten states in prior years, dating back to 2008.

The numerical measure of each state's fraud problem is represented by the Mortgage Fraud Index (MFI). An MFI of 0 would indicate no reported fraud to MIDEX for a state. An MFI of 100 would indicate that the reported fraud for a state is level with expectations specific to fraud rates, given the number of loan originations for that state. That is, a state that has five percent of the incident reports submitted to MIDEX for 2012 and also has five percent of the country's loan originations in the same year would have an MFI of 100. Appendix II at the end of this report explains in detail how the MFI is calculated.

Tables 1 and 2 detail how states rank against others for reported fraud and misrepresentation in the past five years. Based on incident reports submitted to LexisNexis through the first quarter of 2013, Florida's MFI ranked first in the nation for loans investigated in 2012. The reported fraud rate was close to eight times (MFI FL/2012 = 805) that of Georgia for investigated loans. This is a slight increase from its updated fraud rate for loans investigated in 2011 (MFI FL/2011 = 772) and 2010 (MFI FL/2010 = 734). Florida's Investigation MFI, 805, is over eight times the expected rate of fraud for the state, based on its origination volume. Compare this to Florida's Origination MFI, which is considerably lower: for loans originated in 2012, Florida ranks fourth in the nation with an MFI of 169—under two times the expected rate of fraud and misrepresentation. This year's Origination MFI is notable, as it is the first time in recent years that the state has fallen below an MFI of 200.

Table 1

Mortgage Fraud Index (MFI) By State (2008-2012 All Forensic Investigations)

State	2012		2011		2010		2009		2008	
	Rank	MFI	Rank	MFI	Rank	MFI	Rank	MFI	Rank	MFI
Florida	1	805	1	772	1	734	1	715	1	427
Nevada	2	280	2	292	3	226	3	219	6	165
Arizona	3	174	3	216	2	232	4	195	9	108
Delaware	4	165	18	63	38	26	15	62	42	14
Illinois	5	150	8	96	7	119	10	115	7	144
New Jersey	6	120	10	86	12	67	13	71	14	73
California	7	116	7	122	6	142	6	129	4	186
Michigan	8	110	4	189	4	179	2	254	2	191
Georgia	9	106	6	146	5	175	5	149	5	167
New York	10	98	11	83	14	63	8	120	12	83

A subset of all investigations conducted in 2012 is that which involves loans also originated in 2012.

The following listing ranks states based solely on these 2012 originations:

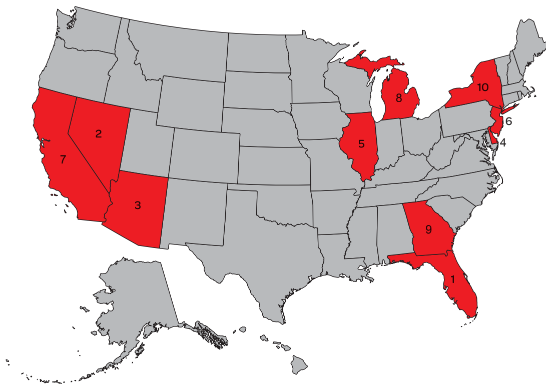
Table 2

Mortgage Fraud Index (MFI) By State (2008-2012 All Originations)

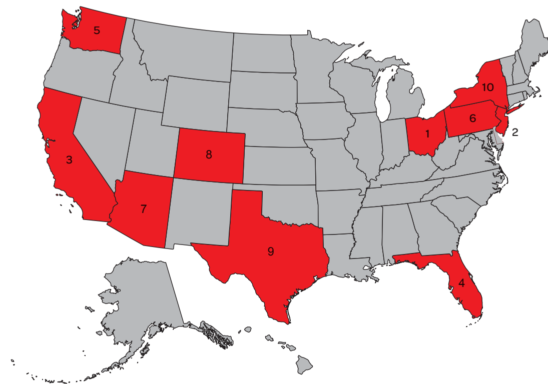
State	2012		2011		2010		2009		2008	
	Rank	MFI	Rank	MFI	Rank	MFI	Rank	MFI	Rank	MFI
Ohio	1	224	14	115	18	87	25	69	30	36
New Jersey	2	213	2	331	9	165	4	197	11	111
California	3	196	11	140	7	209	12	119	6	155
Florida	4	169	4	238	2	291	1	353	1	504
Washington	5	167	10	155	29	47	31	49	14	64
Pennsylvania	6	146	16	107	37	13	34	42	37	29
Arizona	7	131	n/a	n/a	22	68	7	163	10	140
Colorado	8	109	6	205	16	94	30	60	20	51
Texas	9	108	20	70	24	62	17	92	19	52
New York	10	88	7	181	1	317	3	259	5	159

Figure 2

2012 Investigations - Top 10 States



2012 Originations - Top 10 States



It should be noted that the 2008 through 2012 MFI values for all states listed in Tables 1 and 2 differ somewhat from those shown in the same tables of last year's Annual Mortgage Fraud Report. This is due to the fact that this year's tables are based on an additional year of submissions, some of which were reported on loans investigated and originated in years 2008 through 2012.

Further analysis of Tables 1 and 2 and the maps in Figure 2 demonstrate that:

- Five states—Florida, Arizona, New Jersey, California, and New York—occupy space on both the Investigation and Origination Mortgage Fraud Indices.
- Florida's 2012 Investigation MFI, 805, indicates that the state had over eight times the expected rate of reported fraud and/or misrepresentation based on its origination volume. However, for loans originated in 2012, its Origination MFI is 169. In the five-year study above, this Origination MFI is significantly lower than its previous Origination MFIs—238 in 2011, 291 in 2010, 353 in 2009, and 504 in 2008.
- New to the Investigation MFI list, Delaware and New Jersey have Investigation MFIs of 165 and 120, respectively, their first in five years to be above the expected level of 100.
- Though in the Investigation MFI top ten, Michigan and Georgia experienced marked decreases in their MFIs—Michigan from 189 (2011) to 110 (2012) and Georgia from 146 (2011) to 106 (2012).
- Ohio, ranked first on the Origination MFI list, has a five-year high MFI of 224—which indicates that it had over 2 times the reported fraud and/or misrepresentation for 2012 based on its origination volume.
- Two states, Washington and Pennsylvania, had noticeably higher Origination MFIs in 2012 than in previous years (particularly in years 2008 – 2010).
- Texas' Origination MFI, 108, is its first in five years to be above the expected level of 100.
- New York, though still in the Origination top ten, had a significantly lower 2012 Origination MFI than in previous years—88, as compared to 181 (in 2011), 317 (in 2010), 259 (in 2009), and 159 (in 2008). This year's MFI is lower than the expected level of 100, which means that the state had fewer reported instances of fraud and/or misrepresentation than would be expected per its origination volume.

Closer analysis of the loan origination locations appearing most commonly on MIDEX reports for loans originated in 2012 yields five Metropolitan Statistical Areas (MSAs) that, combined, represent 35 percent of all reports received.

In last year's report, the top 5 MSAs represented 46 percent of all reports received—indicating that a wider range of MSAs were reported with associated fraud and/or misrepresentation for loans originated in 2012.

Table 3

Top National MSAs	Percentage of All Reports Received
San Francisco-Oakland-Fremont, CA	12.1%
Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	6.4%
Los Angeles-Long Beach-Santa Ana, CA	6.4%
New York-Northern New Jersey-Long Island, NY-NJ-PA	5.7%
Miami-Fort Lauderdale-Pompano Beach, FL	4.3%

In Table 3 above, two of the top MSAs are located in California—the San Francisco-Oakland-Fremont MSA, which ranks first with 12.1 percent of all reported incidents, and the Los Angeles-Long Beach-Santa Ana MSA, which is tied for second place with 6.4 percent. It is noteworthy that the San Francisco-Oakland-Fremont MSA was not in the top five MSAs for 2011. Tied for second place with the Los Angeles-Long Beach-Santa Ana MSA in 2012 is the Philadelphia-Camden-Wilmington MSA, another area not on this top five list for 2011 originations. In fourth place for 2012 is the New York-Northern New Jersey-Long Island MSA, with 5.7 percent of all MIDEX submissions. Compare this to 2011 originations, when properties in this MSA represented 11 percent of reported incidents. The Miami-Fort Lauderdale-Pompano Beach MSA ranks fifth with 4.3 percent.

Types of Fraud Reported

The LexisNexis MIDEX system classifies the types of subscriber verified fraud and misrepresentation involved in each incident reported by its cooperating subscribers. These classifications are shown in Figures 3 and 4 for loans originated in the five-year period from 2008 through 2012. These numbers will change from year to year, as fraud perpetrated in each of these years will continue to surface and be reported for another three years or more.

Figure 3

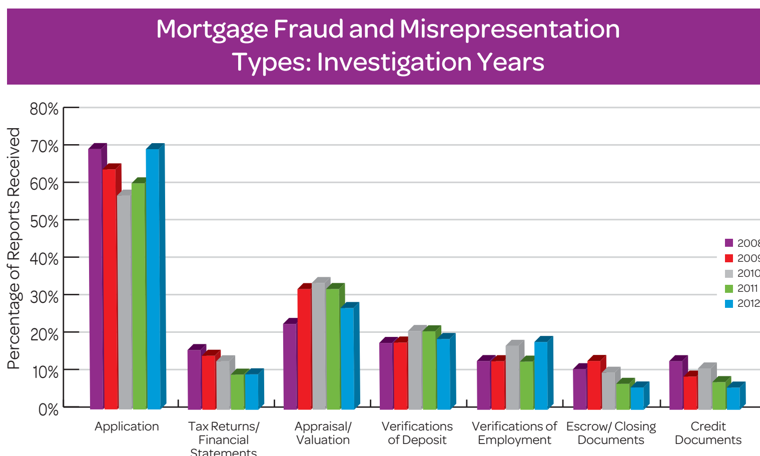
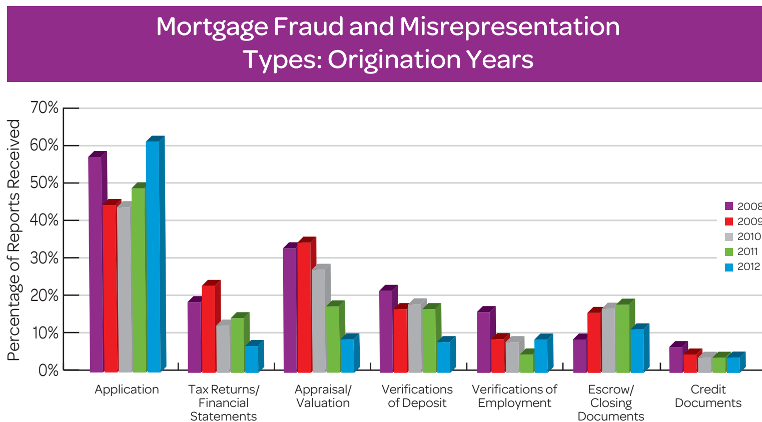


Figure 4



In a five-year fraud assessment, Figures 3 and 4 show each type of fraud and misrepresentation as a percentage of all incidents submitted to the MIDEX database. Note that the total percentage for each year exceeds 100 percent because most reported incidents involve more than one type of fraud or misrepresentation. Figure 3 contains fraud types broken down by investigation year, while Figure 4 shows a subset of this grouping, fraud types broken down by origination year.

Analysis of all loans investigated in 2012 shows a five-year high of 69 percent of all reports received having some type of Application misrepresentation or fraud. Similarly, focusing on just those loans originated in 2012, 61 percent of loans report Application misrepresentation and/or fraud. This is up from 49 percent of originated loans in 2011 and 43 percent in 2010. These percentages are hardly surprising, given that the application form is comprehensive in collecting borrower personal identity, employment, asset, and liability information (all of which present verification challenges). Application fraud and misrepresentation includes, but is not limited to, the following categories on the loan application: incorrect name(s) used for the borrower(s); occupancy, income, employment, debt and asset misrepresentation; different signature(s) for the same name(s); invalid Social Security number(s); misrepresented citizen/alien status; incorrect address(es) or address history; and incorrect transaction type.

Other trends include:

- For loans investigated in 2012, there is an increase in reported fraud and/or misrepresentation on Verifications of Employment—up to 17 percent from 12 percent for loans investigated in 2011.
- Conversely, there is a decrease in reported Credit Report fraud and/or misrepresentation for loans investigated in 2012.
- Three categories, Tax Returns and Financial Statements, Appraisals, and Verifications of Deposit and Bank Statements, experienced a decrease in incidents of reported fraud and/or misrepresentation for loans originated in 2012.

Analysis of all loans investigated in 2012 shows a five-year high of 69 percent of all reports received having some type of Application misrepresentation or fraud.

- The most noticeable decrease in reports for 2012 originations is that of fraud and/or misrepresentation on the Appraisal—down to nine percent from a high of 34 percent in 2009.

Though not included in the figures above, slightly over four percent of reports submitted by MIDEX subscribers for loans originated in 2012 included some type of Loan Modification fraud and/or misrepresentation. This is down from seven percent of loans originated in 2011.

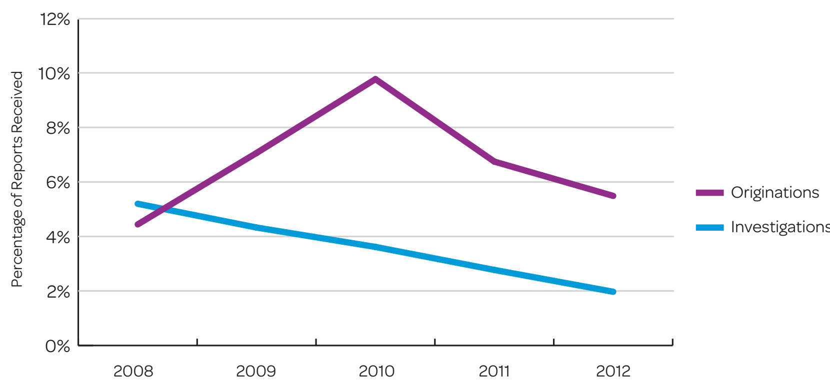
Geographic Distribution of Potential Collusion Fraud

In last year's report, LexisNexis introduced an analysis of potential collusion activity. This year's numbers are equally strong. Our analysis of this activity is two-fold. First, using incidents reported to MIDEX (Figure 5), we are able to distinguish a higher percentage of loans originated in 2012 with reported undisclosed non-arm's length transactions than for loans investigated in the same year (for any origination year). In Figure 5 and the discussion of subscriber-reported collusion in MIDEX incidents, "collusion" refers to incidents of subscriber-verified undisclosed non-arm's length transactions.

We are able to distinguish a higher percentage of loans originated in 2012 with reported undisclosed non-arm's length transactions than for loans investigated in the same year (for any origination year).

Figure 5

Reported Undisclosed Non-Arm's Length Transactions in MIDEX Incidents



While submissions with reported collusion among mortgage industry professionals in 2012 investigations (for any loan origination year) have fallen to two percent, it is significant that instances reported for loans originated during the past three years show increased percentages from 2010 forward. For loans originated in 2010, 9.7 percent of MIDEX submissions show undisclosed Non-Arm's Length Transactions, followed by 6.8 percent for 2011 originations and 5.7 percent for 2012 originations. For previous origination years, reports contained a relatively constant percentage below five percent. This means that not only are more incidents involving multiple professionals being noted—but, as incidents submitted to MIDEX, they are being investigated, verified, and reported.

The LexisNexis Collusion Indicator Index (CII) was created to help the mortgage industry better understand and pinpoint areas of potential collusion amongst buyers and sellers, saving them time and resources in investigations to detect and prevent mortgage fraud. The CII is a ranking of states based on factors indicative of potential collusion activity. Whereas the MIDEX data discussed above includes reported collusion activity perpetrated by mortgage industry professionals, data used in the CII highlights potential collusion activity by individuals without regard to profession. This data is an analysis of deed transfers where it has been determined that there is a potential relationship between the borrower and the seller—particularly, when a property has been transferred at a loss between relatives and known associates. These relationships are potential undisclosed non-arm's length transactions, though it should be noted that a fraction of them could be disclosed and legitimate. However, these transactions often have a higher fraud risk element because of these relationships. Thus, the CII does not rank the amount of actual collusion activity in a state, but rather, the potential for collusion based on the existence of relationships between parties involved in a transaction. The calculation of these relationships utilizes factors such as cohabitation, shared assets, business connections, as well as other complex criteria derived from public record data.

Using relationship data in conjunction with deed transfer data, LexisNexis is able to identify the states with the highest potential collusion over the most recent five year period. This is accomplished in two ways in Tables 4 and 5: first, a wide-angle look at deeds where properties were transferred among individuals likely to be related with a 20 – 95 percent decrease in price; and second, a more focused look at deeds where properties were transferred among individuals likely to be related with a 50 – 95 percent decrease in price.

The first three columns of Tables 4 and 5 show the ranking of states with the most serious potential collusion activity. The remaining columns of the tables show the rankings and a numerical measure for the same 10 states in preceding years, back to 2008. The numerical measure of each state's potential collusion activity is represented by the CII. A CII of 0 would indicate no discernible collusion for a state. A CII of 100 would indicate that the potential collusion for a state is level with expectations, given the number of recorded deed transfers for that state. Appendix III at the end of this report explains how the CII is calculated.

Table 4

LexisNexis Collusion Indicator Index (CII) By State
Properties with a 20 - 95% Decrease in Sales Price

State	2012		2011		2010		2009		2008	
	Rank	CII	Rank	CII	Rank	CII	Rank	CII	Rank	CII
Vermont	1	492	1	530	1	548	1	544	1	778
Alabama	2	329	2	397	2	410	2	496	4	575
New York	3	238	4	303	5	256	6	285	11	303
Kentucky	4	206	7	227	9	213	13	193	21	191
Pennsylvania	5	205	6	246	4	266	5	314	7	414
Iowa	6	194	8	214	13	187	12	201	18	217
Louisiana	7	173	5	280	7	242	7	265	10	357
Nebraska	8	166	15	152	12	202	14	191	19	212
Delaware	9	159	16	146	14	157	8	252	2	727
Wisconsin	10	157	11	190	10	211	11	204	22	189

Table 5

LexisNexis Collusion Indicator Index (CII) By State Properties with a 50 - 95% Decrease in Sales Price										
State	2012		2011		2010		2009		2008	
	Rank	CII	Rank	CII	Rank	CII	Rank	CII	Rank	CII
Vermont	1	437	1	539	1	598	1	688	4	557
Alabama	2	357	2	489	3	421	3	573	5	470
Pennsylvania	3	278	3	382	6	333	7	388	9	348
New York	4	264	5	361	8	292	10	329	14	281
Kentucky	5	262	6	356	5	345	9	367	16	252
Delaware	6	247	11	229	12	263	11	317	1	818
New Jersey	7	233	7	316	7	304	6	403	6	459
Louisiana	8	185	10	238	15	181	8	377	8	349
Iowa	9	167	14	204	35	101	21	175	29	127
Oregon	10	167	12	229	10	271	5	454	3	573

Further analysis of Tables 4 and 5 shows that:

- Eight states—Vermont, Alabama, New York, Kentucky, Pennsylvania, Iowa, Louisiana, and Delaware—rank highly on both tables as areas with high percentages of potential non-arm's length transaction activity.
- Vermont's CII for properties transferred with a 20 – 95 percent loss, 492, and CII for properties transferred with a 50 – 95 percent loss, 437, are the only CIIs over 400. In each of these scenarios, the state's potential collusion is four times what would be expected, given the number of recorded deed transfers for Vermont.
- Most states experienced a decrease in potential non-arm's length transaction activity in both Tables 4 and 5. Notable decreases include Vermont and Pennsylvania for properties transferred with a 20 – 95 percent loss and Vermont, Pennsylvania, New Jersey, and Oregon for properties transferred with a 50 – 95 percent loss.
- Delaware is the only state to show an increase in potential non-arm's length transactions in both categories. The state has a 2012 CII of 159 for properties transferred with a 20 – 95 percent loss (up from 146 in 2011) and a 2012 CII of 247 for properties transferred with a 50 – 95 percent loss (up from 229 in 2011).

Considered in conjunction with newly reported and verified instances of loan modification fraud and/or misrepresentation, this evidence of potential collusion activity indicates that the analysis of collaborative relationships should be a very visible part of the investigatory landscape.

Geographic Distribution of Properties in Default

Using a nationwide aggregation of available property data, LexisNexis is able to determine which states are most likely suffering from the largest percentages of properties in default. In this study, properties in default include those for which a notice of default has been recorded and: a release has not been issued, a foreclosure has not been recorded, or the property has not been sold to a new owner. These defaults are included in the year that the notices were recorded (which isn't necessarily the year in which owners ceased paying mortgages). Table 6 on the next page shows states with the largest percentages of properties in default, as well as the changing percentages of those states for the previous four years.

Table 6

States with Largest Percentages of Properties in Default According to LexisNexis Data										
State	2012		2011		2010		2009		2008	
	Rank	%	Rank	%	Rank	%	Rank	%	Rank	%
Florida	1	5.42%	1	7.41%	2	10.22%	2	13.42%	1	11.50%
Illinois	2	4.86%	3	6.33%	3	6.90%	6	6.66%	5	6.46%
Hawaii	3	4.42%	4	4.71%	7	5.94%	10	5.80%	9	5.24%
Nevada	4	4.13%	2	7.01%	1	13.34%	1	14.94%	2	10.75%
Ohio	5	3.41%	9	3.64%	15	3.90%	19	3.91%	17	3.44%
New Jersey	6	3.06%	10	3.57%	11	5.04%	12	5.25%	10	4.71%
Washington, DC	7	3.02%	7	3.86%	10	5.15%	8	6.19%	8	5.64%
Massachusetts	8	2.97%	6	4.21%	4	6.33%	5	6.81%	4	6.98%
Georgia	9	2.94%	5	4.32%	5	6.32%	7	6.36%	11	4.38%
New Mexico	10	2.72%	15	3.14%	18	3.77%	20	3.68%	25	2.69%

The data above indicates that:

- All states in the top ten have decreased percentages of total properties in recorded default in 2012 than in previous years.
- Florida and Nevada experienced the most dramatic decreases: Florida from a high of 13.42 percent of its properties in default in 2009 to 5.42 percent in 2012, and Nevada from a high of 14.94 percent in 2009 to 4.13 percent in 2012.
- Most states in the top ten had the highest percentages of recorded defaults in 2009 and 2010.
- Ohio and New Mexico have the most stable default percentages across this five-year period.

The data in Table 6 above reveals a positive trend. This evidence of fewer properties in default is proof that, because of increased borrower financial security and decreased unstable property inventory, a larger percentage of borrowers in 2012 is making regular payments on mortgage loans than in previous years.

Final Remarks

When assessed in the aggregate, the three economic indicators included in this report—verified mortgage fraud and misrepresentation activity, potential collusion activity, and volume of properties in default—indicate where in the United States the implosion of the housing market has had the most dramatic impact. The only state to appear in the top ten on all three indicator lists is New Jersey. Five states appear on both the MFI and property default rankings: Florida, Nevada, Illinois, Georgia, and Ohio. New York and Delaware are represented on both the MFI and CII. The more shared problematic economic indicators a state has, the greater its financial challenges in the coming years.

Appendix I
Source and Analysis of the LexisNexis Mortgage Fraud Data

The statistical data presented in Figures 2 – 5 and Tables 1 – 3 of this report were derived from information in a cooperative mortgage fraud database operated by LexisNexis. The Mortgage Industry Data Exchange (MIDEX®) contains information about licensing, public sanctions, and incidents of alleged fraud and misrepresentation by mortgage industry professionals reported by MIDEX subscribers.

The MIDEX statistical data discussed in this document is derived from incidents that MIDEX subscribers report to LexisNexis. (Agreeing to submit reports describing their fraud investigation findings to the non-public section of the MIDEX system is required for those who wish to access other subscribers' non-public reports.) Only material misrepresentations are permitted to be included in these reports. That is, companies only submit reports to MIDEX in those cases where, knowing what they know after thorough investigations, they would not have originated, bought, or insured the loans in question.

The reports submitted to LexisNexis include the following information about each incident:

- Location of the collateral (state, city and address, to the extent known)
- Names of the originating entity and the loan officer who took the application
- Date the misrepresentation(s) took place
- The method used to verify the existence of the reported misrepresentation(s)
- A short narrative description of the misrepresentation(s) found during the MIDEX subscriber's investigation
- Names of any other professionals who appear to be in a position to influence the accuracy of the information found to be misrepresented; e.g., the name of the appraiser and appraisal firm in cases where the property value is found to be significantly inflated
- A certification from an authorized individual at the submitting mortgage entity that the report is, to the best of his/her knowledge, complete, and accurate

LexisNexis staff reviews the reports to assure they meet submission standards for severity and consistency. Submissions are input directly by MIDEX subscribers via an online form, or data entry staffers convert hard copy submissions to a standard, searchable format for inclusion in the MIDEX system. After reading the report's narrative description, LexisNexis classifies the incident as involving one or more of the types of misrepresentations listed in Figures 3 – 4.

If LexisNexis makes any changes to a submitted report, it is returned to the submitting subscriber for review prior to its being entered into the system.

The subscribers participating in the MIDEX system represent a wide range of mortgage entities. They include secondary market agencies, major private mortgage insurance companies, and lenders who account for the vast majority of wholesale lending in the country.

Appendix II
Computation of the Mortgage Fraud Index (MFI)

The Mortgage Fraud Index, or MFI, is an indication of the amount of mortgage-related fraud and misrepresentation involving industry professionals found through MIDEX subscriber fraud investigations in various geographical areas within any particular year. It involves very straightforward calculations.

To come up with Tables 1 and 2's MFI for loans investigated and originated in 2012 in a sample state (e.g., Florida) LexisNexis staff determines the percentage of all MIDEX fraud reports that were submitted for loans originated on properties located in Florida in 2012. They determined that, to date, 7.14 percent of MIDEX reports submitted from across the country by subscribers for 2012 originations involved loans on Florida properties. But according to HMDA data, Florida had 4.22 percent of the nation's total 2012 mortgage originations—the most recent year such data are available.

If mortgage fraud and misrepresentation by industry professionals were distributed throughout the country like originations, then we would expect approximately 4.22 percent of such mortgage fraud to occur in Florida. But the 7.14 percent MIDEX fraud figure for Florida in 2012 was higher than its origination figure. Therefore, the 2012 Origination MFI for Florida, as of this report's date, is:

MFI FL/2012 = (7.14/4.22) x 100 = 169

This is, of course, a dynamic figure. Often, a fraud investigation is not completed until a year or two after the loan was originated. LexisNexis will continue to receive Florida fraud reports for another two to five years from its MIDEX subscribers that find misrepresentation in their 2008-2012 books of business. Therefore, Florida's (and all other states') MFI figures will continue to change somewhat in future Periodic Reports, especially those containing recent years like 2011 and 2012.

It should be noted that the MFI is based on the number of fraud and misrepresentation incidents reported for each state, and not the dollar amounts of those mortgages. Therefore, a fraud on a $120,000 loan in Birmingham, Alabama, is counted the same as a fraud on a $720,000 loan in Los Angeles, California. Also, there is currently no distinction made between purchases, refinances, or home improvement loans in these figures.

Appendix III
Source and Analysis of the LexisNexis Collusion Indicator Index (CII)

Identifying potential relationships between borrower and seller entities connected with a property transaction is a calculation that leverages a parallel-processing computing platform from HPCC Systems to perform large scale graph analytics and contains roughly 4 billion relationships between 283 million active identities. During the analytics process that calculates potential collusion, it expands to 140 billion data points.

The CIIs in Tables 4 and 5 are determined by the percentage of deeds believed to involve individuals in non-arm's length relationships using the data described on the prior pages. For example, for properties with a 20 – 95 percent decrease in sales price in 2012, Alabama's CII is 329. To date, 1.493 percent of deeds with potential collusion identified across the country involved Alabama properties. But according to recorded deed transfer data, Alabama had .454 percent of the nation's total deed transfers in 2012. If this potential collusion activity were evenly distributed among states, we would expect approximately .454 percent of potential collusion activity to occur in Alabama. But the 1.493 percent collusion figure is over three times its deed transfer figure. Therefore, the 2012 CII for Alabama, as of this report's date, is:

CII AL/2012 = 1.493/.454) X 100 = 329

Foreclosures and quit claims have been excluded from calculations, as have any transactions under $10,000.

Appendix IV
Source and Analysis of the LexisNexis Property Default Data

LexisNexis has included all properties in its aggregated data where a notice of default has been recorded and: a release has not been issued, a foreclosure has not been recorded, or the property has not been sold to a new owner.

These defaults are included in the year that the notices were recorded (which isn't necessarily the year in which owners ceased paying mortgages). On January 1 of each year, the number of properties in default by state was counted for the previous year.

For more information:

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