2023
Mortgage Fraud Report

CoreLogic

Contents

Overview/Highlights

Fraud Report - National Overview

The CoreLogic® Mortgage Fraud Report analyzes the collective level of loan application fraud risk the mortgage industry is experiencing each quarter.

CoreLogic develops the index based on residential mortgage loan applications processed by CoreLogic LoanSafe Fraud Manager™, a predictive scoring technology.

The report includes detailed data for six fraud type indicators that complement the national index: identity, income, occupancy, property, transaction, and undisclosed real estate debt.

- New York and Florida continue to hold the top two positions for mortgage application fraud risk, the same as last year. Also in the top five are Connecticut, California, and New Jersey.
  - New York's top position is influenced by high concentrations of several loan segments that have above-average risk, including 2- to 4-unit loans, FHA purchases, and investment purchases.
  - Both Florida and New Jersey showed moderately higher risk in nearly every loan segment.
  - Connecticut's higher risk profile is attributed to higher concentrations of investment, jumbo, and 2- to 4-unit loans.
  - California's higher risk is influenced by the high percentage of jumbo loans.
- Year-over-year measurements of all states nationwide showed minimal shifting. Massachusetts had the largest increase at 12%. It also increased a similar amount the prior year. The other top states for increasing risk are Maryland, Connecticut, California, and West Virginia. The risk increase in Massachusetts was tied to its concentration of 2- to 4-unit loans — over five times the national average.
- Occupancy and Identity fraud types showed the greatest risk increases. The occupancy risk increase this year is aligned with traditional occupancy fraud, where investors misrepresent their intention to use the home as their primary residence to get more favorable loan terms.
  - While identity fraud risk indicators increased, the absolute level of this fraud type within mortgage originations is low and the rise is not a great cause for concern. Fannie Mae's fraud report trends as of August 2023 shows no findings for 2020 or 2021 and only a 1% share of total mortgage fraud concerns in 2022.

1 in 134

Mortgage applications estimated to have indications of fraud in Q2 2023

1 in 123	1 in 181
Purchase applications	Refinance applications

Mortgage Application Fraud Risk Index

↓ **3.1%**

Q2 2023 compared to Q2 2022

The CoreLogic Mortgage Application Fraud Risk Index decreased 3.1% nationally year-over-year but has increased by 1.6% since last quarter. The year-over-year decline in the Index is partially attributed to recalibration of our updated scoring model, released in 2022.

During the second quarter of 2023, an estimated 0.75% of all mortgage applications contained fraud, about 1 in 134 applications. By comparison, in the second quarter of 2022, our estimate was 0.76%, or about 1 in 131 applications.

The 2- to 4-unit segment showed the highest risk, with an estimated 1 in 28 transactions estimated to have indications of fraud. 2- to 4- unit purchases showed slightly higher risk than refinances, although risk in both has increased by more than 20% compared to Q2 2022.

In both purchase and refinance populations, the lowest risk applications were VA-backed programs. This is unchanged from prior years.

"Fraud risk levels have been holding steady since last year. The industry continues to have a very high share of purchases compared to refinances. The rising interest rate environment makes errors, delays, and repurchases more costly. These factors have spurred more careful loan screening at many lenders. Top concerns voiced by clients include false income schemes, undisclosed debt, and occupancy misrepresentation."

Bridget Berg, Senior Leader, Loan Solutions

"While home prices have shown a lot of strength so far in 2023, elevated mortgage rates are making it difficult for many potential buyers to purchase properties, which will likely keep a lid on additional gains for the rest of the year. Nevertheless, home prices are still expected to continue to reaccelerate and reach mid-single-digit growth rate by the year's end, according to CoreLogic's latest Home Price Index forecast."

Selma Hepp, Chief Economist, CoreLogic

National Fraud Trends

National Mortgage Fraud Index

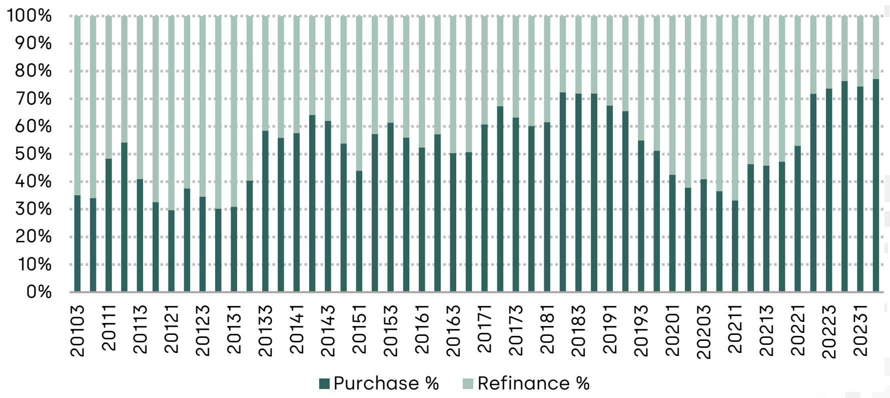
Risk Overview

High interest rates resulted in a second year of depressed mortgage loan levels, with 2023 Q2 application volume down 32% year-over-year. MBA's August 2023 Finance Forecast estimates closed loan originations are down 39%. Refinance volume decreased by 45% compared to a 27% decrease for purchases.

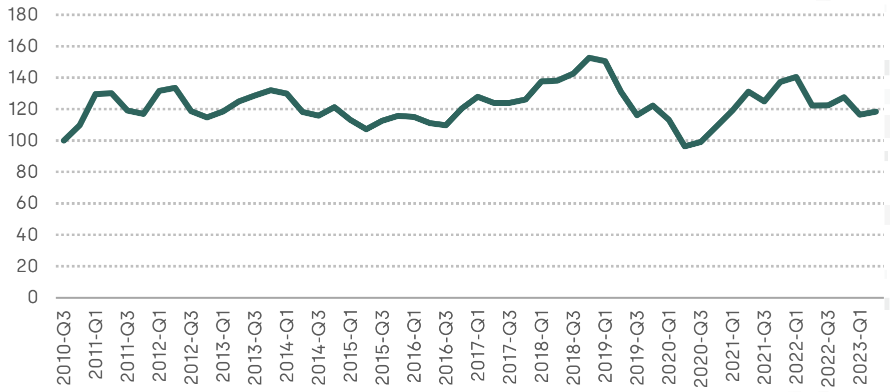
To analyze the national index, we trend the risk levels and volumes of distinguishing loan segments. Year-over-year the overall index was fairly stable, but there were interesting changes within the distinguishing segments.

- Purchase transactions as a share of overall volume have grown from 70% in Q2 2022 to 76% in Q2 2023. Purchase segments showed higher risk than refinances.
- There was a volume shift from conforming purchases (down 24%) to FHA purchases (up 14%). Both segments showed small risk decreases year-over-year, but risk levels are consistently 20% higher for FHA purchases. FHA purchase applications had a large increase in volume (over 40%) from Q1 to Q2 2023.
- Segments with increasing risk since Q2 2022 include 2- to 4-unit purchases (up 23%), 2- to 4-unit refinances (up 20%), jumbo refinances (up 7%), and jumbo purchases (up 3%).

Purchase/Refinance Mix



National Fraud Index



Note: *CoreLogic's Fraud Type trending measures changes in the risk indicator frequencies for each category. It is not representative of the prevalence of the category. One of the best sources for information on the incidence of various fraud types is Fannie Mae's Mortgage Fraud Prevention website.*

Fraud Types

Identity Fraud Risk Identity fraud occurs when an applicant's identity and/or credit history is altered, a synthetic identity is created, or a stolen identity is used to obtain a mortgage.	↑ **12.0%** Q2 2023 compared to Q2 2022
Occupancy Fraud Risk Occupancy fraud occurs when mortgage applicants deliberately misrepresent their intended use of a property (primary residence, secondary residence, or investment). Programs, pricing, and underwriting guidelines are impacted by a property's intended occupancy.	↑ **11.8%** Q2 2023 compared to Q2 2022
Income Fraud Risk Income fraud includes misrepresentation of the existence, continuance, source, or amount of income used to qualify.	↑ **6.2%** Q2 2023 compared to Q2 2022
Transaction Fraud Risk Transaction fraud occurs when the nature of the transaction is misrepresented, such as undisclosed agreements between parties and falsified down payments. The risk includes third party risk, non-arm's length transactions, and straw buyers.	↑ **1.9%** Q2 2023 compared to Q2 2022
Property Fraud Risk Property fraud occurs when information about the property or its value is intentionally misrepresented.	↑ **1.8%** Q2 2023 compared to Q2 2022
Undisclosed Real Estate Debt Undisclosed real estate debt fraud occurs when a loan applicant intentionally fails to disclose additional real estate debt or past foreclosures.	↓ **17.3%** Q2 2023 compared to Q2 2022

"The National Mortgage Fraud Index trends the risk scores on individual applications over time. The risk score model is highly predictive and the aggregation of these scores presents an excellent indication of the current state of mortgage fraud risk."

Josh Wilson, Primary Fraud Risk Modeler, Science and Analytics

The largest increases year-over-year are in identity and occupancy fraud risk types.

Identity fraud risk is assessed for purchase transactions only. The 12% increase is not indicative of the occurrence rate, which is relatively rare for new mortgages.

Occupancy risk increased 11.8% and is being driven by increasing frequency of primary residence claims on purchases when borrowers already own multiple properties.

Income risk increased 6.2% overall. Several factors are driving the increase, including borrower incomes inconsistent with the location of the borrower or subject property, employment status, or years on job.

Transaction fraud risk increased 1.9%, due to potential illegal flipping activity and higher rates of corporate/LLC/private lender sales.

Property risk was affected by higher delinquency rates and foreclosure activity but was mostly offset by fewer valuation issues as home prices stabilized. The overall impact was a small increase of 1.8%.

Undisclosed real estate debt risk decreased 17% overall, down 21.8% for purchases and 9.3% for refinances. The Q2 2023 purchase buyer population is less likely to own additional properties than the Q2 2022 purchase buyer population.

What We're Watching

Occupancy and Income Fraud

"The year 2021 saw a surge in investor activity. Investors have since held a market share that averages 8 percentage points higher than in 2020. Investor activity has declined slightly since early 2023, but there is still no sign that the share will fall back to its pre-pandemic level in the near future.

Typical housing market investors are becoming more and more likely to operate on a smaller scale (owning three to nine properties). In June, this group accounted for 47% of investor purchases, the highest level since 2011, according to CoreLogic data."

Thomas Malone, Professional, Economist, CoreLogic

Occupancy Misrepresentation

Occupancy misrepresentation can be one of the more difficult frauds to address and prevent, because it usually does not occur until after the loan is underwritten. The loan application and mortgage both address it, but in most purchase transactions, it is referring to a future event. The loan application asks, "Will you occupy the property as your primary residence?" and the covenant on the mortgage states the borrower must occupy the property as their principal residence within 60 days and for at least one year.

Despite the challenges in addressing occupancy misrepresentation prior to closing, it can be relatively easy for an investor to identify after closing, increasing the risk of repurchase requests.

CoreLogic's Science and Analytics team studied the problem by tracking a large population of closed loans to identify subsequent evidence of suspect occupancy situations. Our goal was to test our current predictive methods and find new data point correlations to test for improved detection.

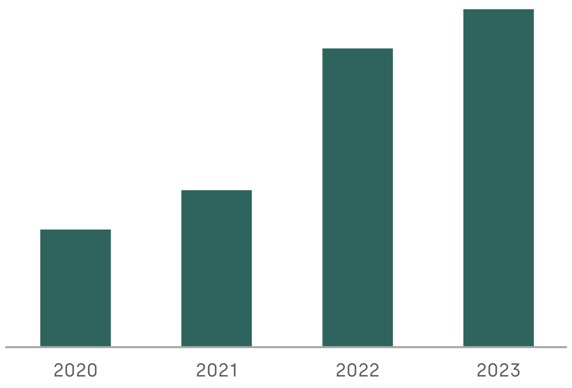
We targeted a population of loans to identify occupancy discrepancies after closing using various data sources:

- Applications processed through our fraud solutions
- Matching mortgages that could be tied to the processed applications
- Matching assessor data that may reflect post-sale changes
- Matching information from publicly available sales offerings/listings

We found:

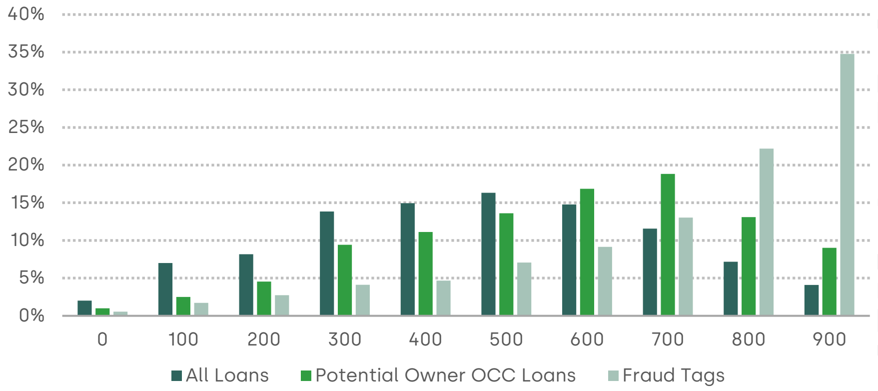
- The percentage of suspect occupancy loans in the population tripled from 2020 to 2023.
- We believe the pandemic market impact in 2020 decreased occupancy misrepresentation risk and 2020 was a low-risk point.
- Our current model scored the target population loans in the high-risk range more than twice as often as the control population. This is great news that our alerts and model are working well, but because these loans ultimately closed there is an opportunity for clients to improve their prevention.
- There are several existing alerts that are not directly related to occupancy that may provide lift to our occupancy analysis methodology.

Potential Occupancy Misrep Over Time



Score Distribution

All Loans vs Potential Owner Occupied Misrepresentation vs Fraud Tags



Income Fraud Follow-up

In our last annual report, we discussed increasing Income fraud, and our work on creating a combination alert to better target high-risk transactions with commonly occurring red flags. As a follow-up, we are providing an update to that new alert. It has maintained its level near the peak value range over the last year.

Layered Income Risk Alert

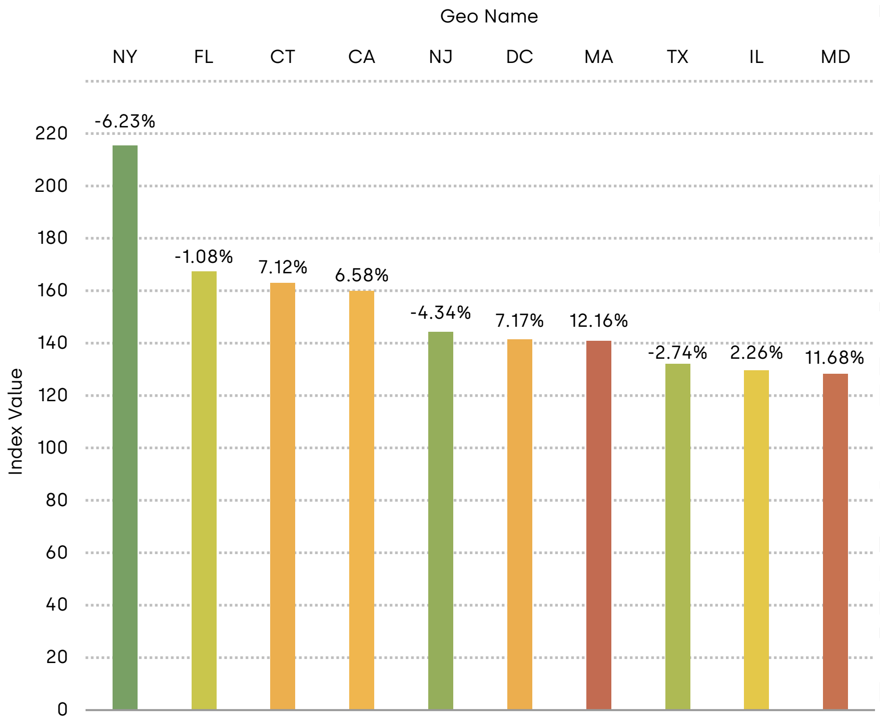
Mortgage Fraud Risk Highlights

By State

Top Ten States with the Highest Application Fraud Risk

New York and Florida retain the top two spots, despite decreases in risk in both states. Connecticut moved into the top three thanks to an over 7% increase in risk. Maryland, Illinois, and Massachusetts are new to the top ten for 2023.

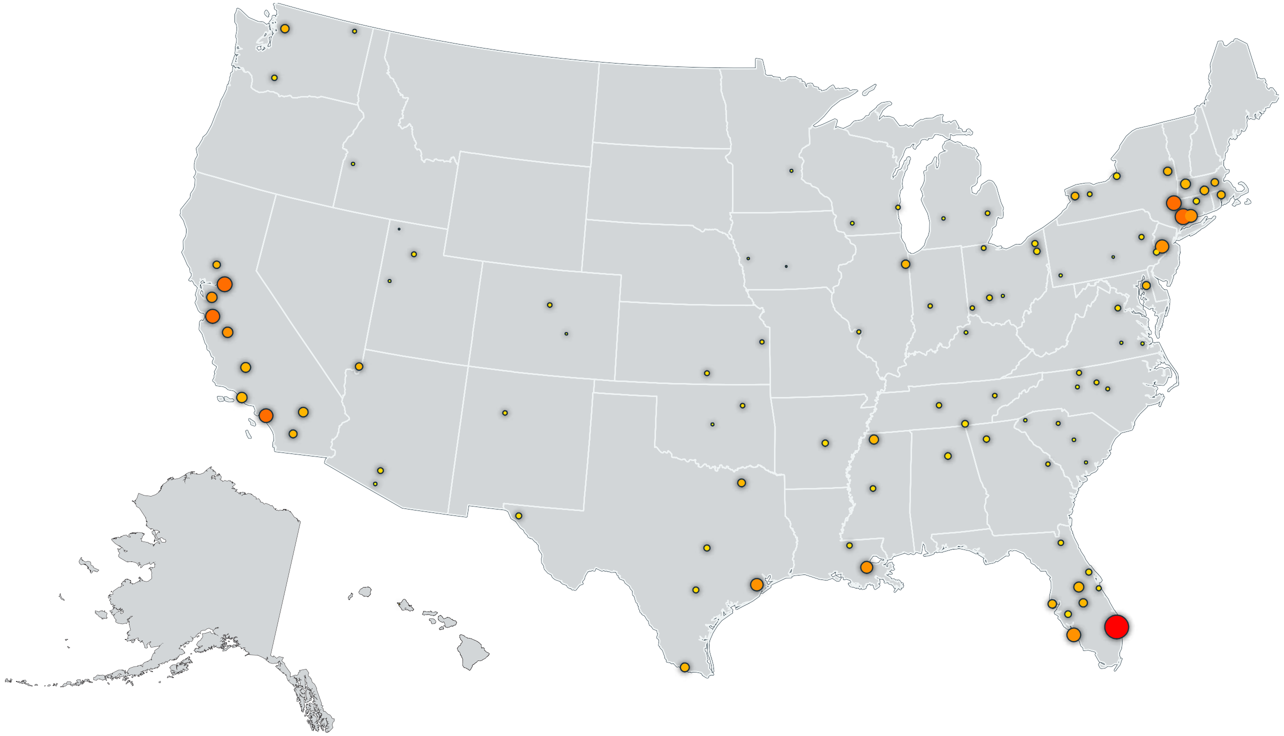
State Top 10 Index YoY%



By Metro Area

The Fraud Risk heat map displays the metro area rank for fraud risk as of Q1 2023.

All metro area data and graphs are limited to the top 100 areas based on population.



By Metro Area *(continued)*

Top 25 Metro Areas
with the Highest Application Fraud Risk

Rank	Metro Area	Population	Index
1	Miami-Fort Lauderdale-Pompano Beach, FL	6,173,008	323
2	Bridgeport-Stamford-Norwalk, CT	942,426	228
3	Stockton, CA	767,967	214
4	Poughkeepsie-Newburgh-Middletown, NY	678,527	212
5	San Jose-Sunnyvale-Santa Clara, CA	1,971,160	203
6	Los Angeles-Long Beach-Anaheim, CA	13,109,903	200
7	Cape Coral-Fort Myers, FL	790,767	200
8	New York-Newark-Jersey City, NY-NJ-PA	19,124,359	196
9	New Haven-Milford, CT	851,948	190
10	Houston-The Woodlands-Sugar Land, TX	7,154,478	185
11	New Orleans-Metairie, LA	1,272,258	178
12	Fresno, CA	1,000,918	161
13	San Francisco-Oakland-Berkeley, CA	4,696,902	160
14	Oxnard-Thousand Oaks-Ventura, CA	841,387	160

Top 25 Metro Areas
with the Highest Application Fraud Risk (continued)

Rank	Metro Area	Population	Index
15	Orlando-Kissimmee-Sanford, FL	2,639,374	155
16	Bakersfield, CA	901,362	154
17	Springfield, MA	695,654	154
18	Riverside-San Bernardino-Ontario, CA	4,678,371	150
19	Memphis, TN-MS-AR	1,348,678	145
20	McAllen-Edinburg-Mission, TX	875,200	142
21	Worcester, MA-CT	945,752	138
22	Tampa-St. Petersburg-Clearwater, FL	3,243,963	137
23	Seattle-Tacoma-Bellevue, WA	4,018,598	136
24	Lakeland-Winter Haven, FL	744,552	135
25	Albany-Schenectady-Troy, NY	878,550	135

Methodology

Data sources

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Learn more at corelogic.com

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