

Mortgage Fraud and the Subprime Meltdown

CAGNY



Ann Fulmer | December 6, 2007



fraud protection you can bank on



The Market Today

- **Secondary market has mostly disappeared**
Subprime and non-conforming hardest hit
GSE market share now approaching 66%, up from 33%
- **Write-downs at \$40 billion to date**
May top \$400 billion before it's over
Even Freddie Mac was hit hard
- **Tens of thousands of jobs have disappeared**
- **Housing prices down**
Increasing foreclosures = additional price declines
- **Outlook is bleak**
Probably won't hit bottom until 2009



Subprime Market

- **40% of mortgage market in 2006**

Approximately one-third of total households

Homeownership is at approximately 66%

- **More bad news on the way**

Another 2 million subprime ARMs resetting before 2009

Loan quality still an issue through mid-2007

Normal peak of default is 3-5 years post-origination

Subprimes entering default sooner than primes



How Did We Get Here?

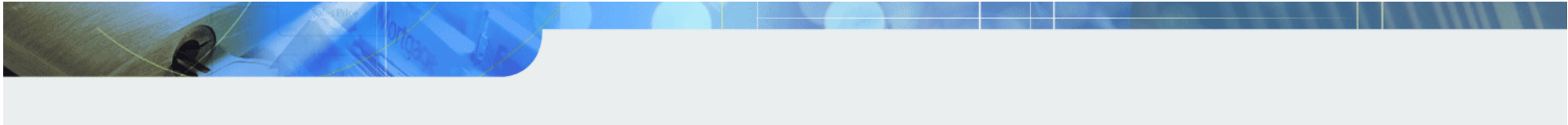
Consumer demand and market appetite

“Aggressive” underwriting practices

Misuse of loan programs

Faulty assessment of risk

Mistaken assumptions about loan quality





How Did We Get Here?

Mortgage fraud is the “X” factor in the meltdown

Scope of fraud is unknown, not quantifiable

\$1 to \$4 billion in direct lender losses in 2006

Based on reports from one-third of industry

Doesn't include fraud for housing

Interthinx sees variances indicative of potential fraud in 25% of all applications

Permeates all loan programs

What Does Fraud Look Like?



80% involves industry insiders in collusion:

Mortgage brokers, real estate agents, loan officers, appraisers, settlement agents

Fraud for profit

Most financially damaging

Fraud for housing

Most prolific

What Does Fraud Look Like?



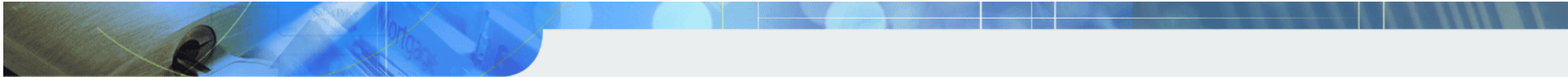
Schemes are limited only by the imagination

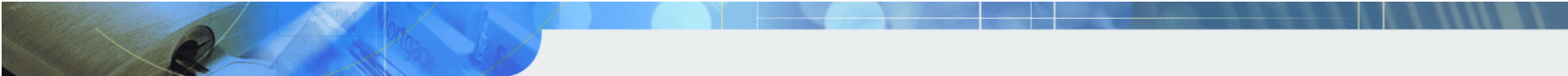
New schemes emerging daily

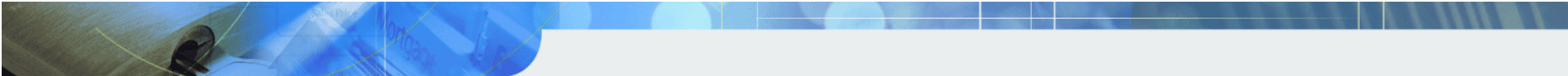
Inevitably leads to foreclosure

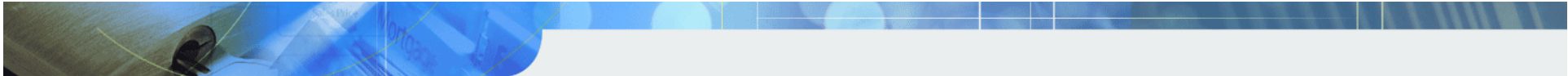
Collateral damage extends to entire communities

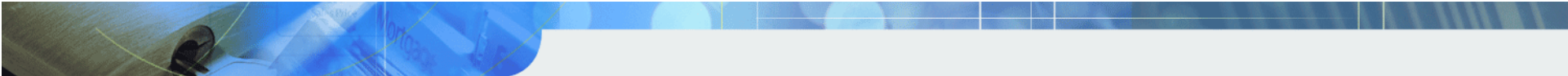
Why should we care?

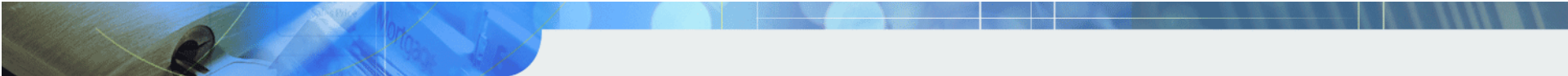


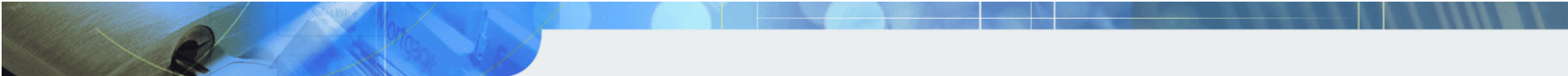


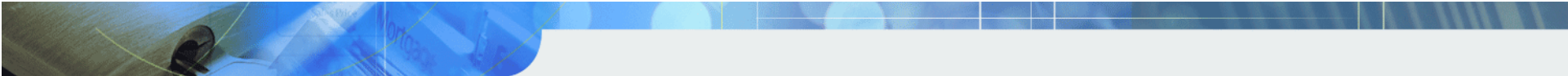


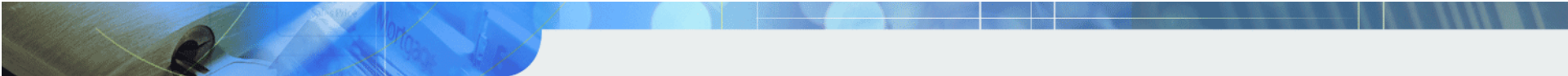


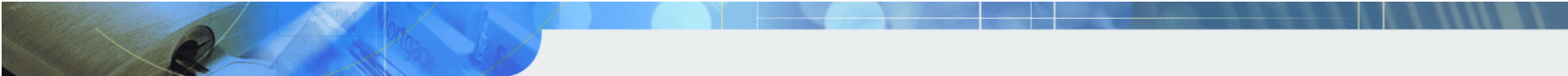


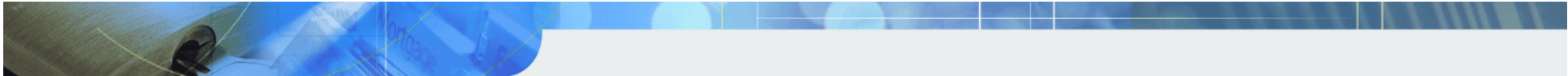






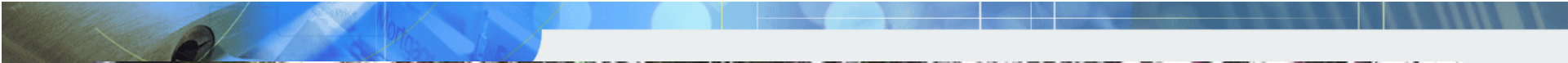


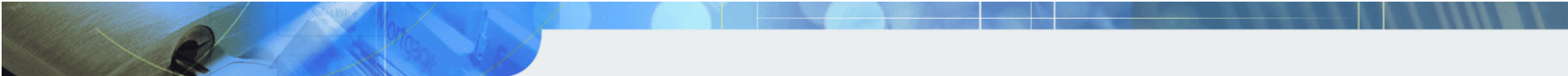


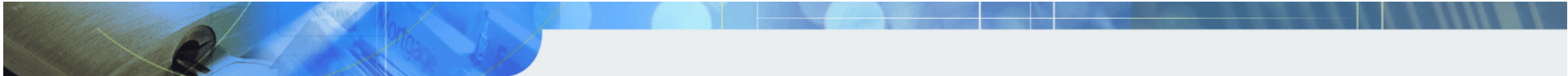


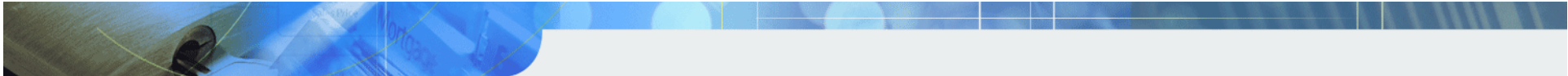


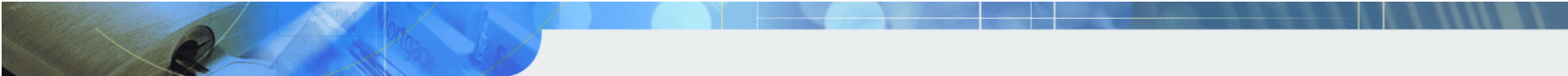


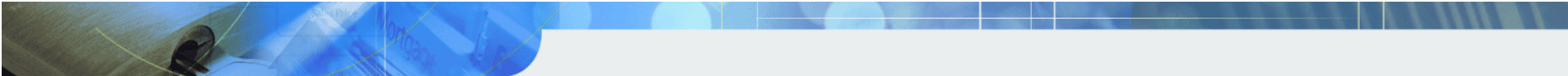


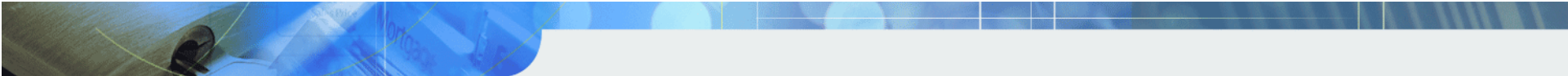


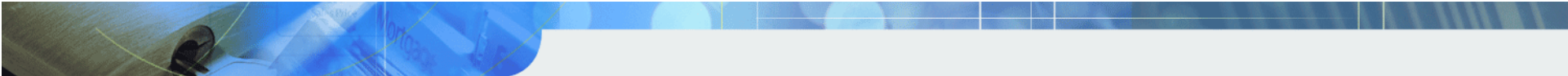


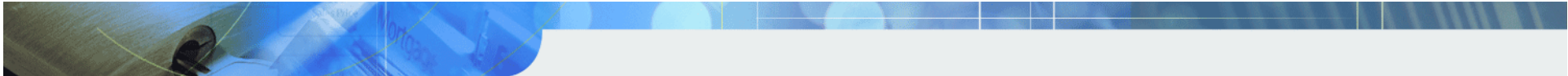


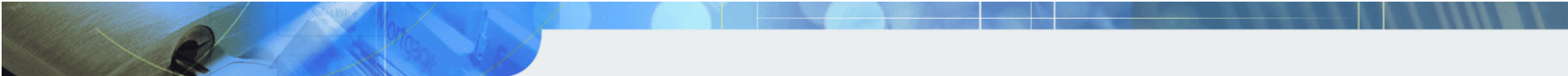


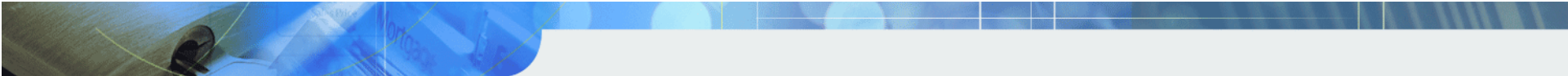














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