

# U.S. Structured Finance Newsletter

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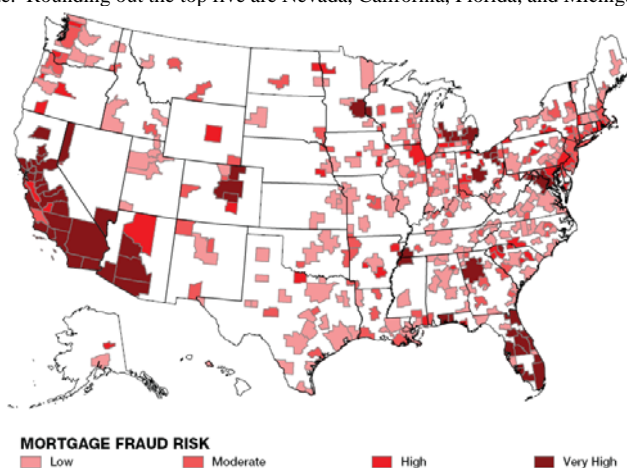
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## THE MIGRATION OF FRAUD

The Interthinx<sup>1</sup> Mortgage Fraud Index tracks the risk of mortgage fraud throughout the United States. In its *Q1 2010 Mortgage Fraud Risk Report*<sup>2</sup>, the Fraud Index increased 4% from the fourth quarter of 2009, and increased 11% year-over-year. The index has reached its highest levels since 2004, which can be attributed to the rising trends in predominant fraud types such as inflated property values and inaccurate reporting of income and employment. Furthermore, with the dynamic nature of mortgage fraud risk and its tendency to capitalize on local market conditions, the risk exhibits a westward migration that may be associated with the movement of the people who are most likely to commit fraud to less fraud-saturated markets.

### Fraud Risk by Geography:

The map below shows the distribution of current mortgage fraud risk in Metropolitan Statistical Areas (MSA) throughout the United States as indicated by the Interthinx Mortgage Fraud Index. The number of "very high risk" MSAs has increased sharply, with Arizona taking over as the riskiest state. Rounding out the top five are Nevada, California, Florida, and Michigan, respectively.



Source: Interthinx

### Fraud Migration:

The chart below shows the Mortgage Fraud Risk Index for all 50 states and the District of Columbia. Arizona took over California's place as the riskiest state. The national value of the Index is 151, with ten states being above the national risk value, shown in red. The five states with the lowest risk, shown in green, include South Dakota, Maine, Montana, Kansas, and West Virginia. Note these five lowest-risk states have index values that are half the national value.



Source: Interthinx

Today, the highest risk areas were the ones that experienced surging economies with historically high levels of real estate activity. Severe housing price appreciation was caused by easy-credit terms, low interest rates, consumer demand and fraud. However, the image in these areas today is one of extensive foreclosures and declining prices. Additional troubles are also abound as property valuation fraud has returned to an upward trend this quarter with an increase of 4%, coupled with an 11% increase in employment/income fraud from last quarter. These trends may have ramifications on Residential Mortgage-Backed Securities (RMBS) as they will likely cause a rise in delinquencies and losses. Additionally, the Fraud Risk Index may continue to rise as a series of ARMs, the majority having negative amortization features, recast for the first time. As a result, DBRS will continue to monitor the Fraud Risk Index and its implications on the RMBS market.

For questions or comments, please contact Maxim Berger at [mberger@dbrs.com](mailto:mberger@dbrs.com) or Kathleen Tillwitz at [ktillwitz@dbrs.com](mailto:ktillwitz@dbrs.com).

1. <http://www.interthinx.com/>  
2. [http://www.interthinx.com/pdf/10\\_Q1MFRI\\_051210\\_FNL.pdf](http://www.interthinx.com/pdf/10_Q1MFRI_051210_FNL.pdf)

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