



Q3-06

# Fraud Trends

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## Goal

In this analysis, we wish to investigate the distribution of fraud across Property Value Ranges; we will look for time trends in this distribution. This will reveal whether fraud is shifting over time to higher or lower property value ranges (neighborhoods).

## Data

We use data from DISSCO, the Interthinx automated fraud detection tool. Potential fraud is defined by whether a major variance (drop dead code) was triggered. This report is limited to consideration of 2005Q3 compared to 2006Q3.

We include 5 types of fraud in this analysis: Employment/Income, Identity, Occupancy, Straw Buyer, and Property Flipping. There are 6 property value ranges defined by cut points at \$100K, \$250K, \$500K, \$750K, and \$1 million. Percentages in the tables below refer to percent change in the rate of potential fraud; for example, if a rate increases from 15% to 20%, it would be a 33% increase in the rate.

## Employment/Income

There is an overall decrease in employment/income variances, with stronger decreases occurring in higher property values. However, this may be a result of more Stated Income Programs in the higher property value ranges. Stated Income Programs preclude detection of some types of fraud in this category.

PROPERTY VALUE RANGE	PERCENT OF CHANGE 2005 Q3 TO 2006 Q3
Less Than \$100K	-11
\$100 – 249K	-18
\$250-499K	-24%
\$500-749K	-32%
\$750- \$1Million	-37%
Over \$1Million	-46%

## Identity Fraud

There is an overall decrease in identity variances, with the decrease spread across all property value ranges. This may be a result of increased attention within the financial industry on identity theft. In other words, the fraudsters are switching tactics due to lenders' proactive use of automated fraud detection models. (See Straw Buyer Frauds)

PROPERTY VALUE RANGE	PERCENT OF CHANGE 2005 Q3 TO 2006 Q3
Less Than \$100K	-17%
\$100 – 249K	-16%
\$250-499K	-14%
\$500-749K	-14%
\$750- \$1Million	-19%
Over \$1Million	-37%

## Straw Buyer Frauds

There are strong increases in all property value ranges. These striking increases in Straw Buyer Frauds may correlate to the decrease in Identity Fraud. The fraudsters are using more Straw Buyers as this type of fraud is harder to detect than Identity Fraud, but it accomplishes the same goal.

PROPERTY VALUE RANGE	PERCENT OF CHANGE 2005 Q3 TO 2006 Q3
Less Than \$100K	90%
\$100 – 249K	70%
\$250-499K	32%
\$500-749K	98%
\$750- \$1Million	205%
Over \$1Million	95%

## Occupancy Fraud

There are increases in all property value ranges, with the largest increases in occupancy fraud in the higher property value ranges. This is consistent with the Straw Buyer trend cited above.

PROPERTY VALUE RANGE	PERCENT OF CHANGE 2005 Q3 TO 2006 Q3
Less Than \$100K	17%
\$100 – 249K	45%
\$250-499K	53%
\$500-749K	79%
\$750- \$1Million	105%
Over \$1Million	88%

## Property Flipping

As fraudsters become bolder in their schemes, we see an increase in property flipping scams in the higher value range neighborhoods.

PROPERTY VALUE RANGE	PERCENT OF CHANGE 2005 Q3 TO 2006 Q3
Less Than \$100K	-8%
\$100 – 249K	-13%
\$250-499K	-13%
\$500-749K	3%
\$750- \$1Million	53%
Over \$1Million	12%