

2007

Risk Metrics Validation Study



Interthinx®, the leading provider of risk mitigation, mortgage fraud and regulatory compliance tools for the financial services sector, has released its most recent study statistically validating the precision of its scoring system for mortgage risk exposure.

Interthinx has leveraged mortgage performance data from the credit bureaus to allow ongoing comparison of scoring model predictions with actual loan outcomes. Analysis based on this data set has demonstrated that the Interthinx system can consistently predict the likelihood that a loan will suffer from delinquency, foreclosure, or other types of loan problems in the first year. With remarkably clear separation between high and low risk loans the statistical validation confirms Interthinx's leading position in predictive performance metrics.

These results are made possible by the combination of detailed loan information, performance data, and Interthinx FraudNET™ technology. This allows modeling of complex interactions between different data elements and provides historical context on property and participants. Interthinx is the only provider of risk intelligence tools capable of this comprehensive analysis due to its aggregation and scoring of mortgage application data for more than a decade.

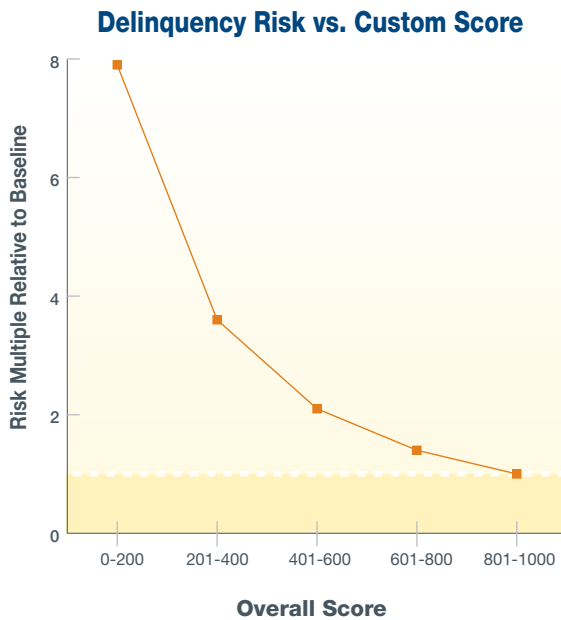
The Interthinx approach, powered by its FraudNet technology, is based on data rich processes which have always correlated borrower, third party and collateral data for final analysis. FraudNET is a network of data, pattern matching analytics and industry experience that fuels FraudGUARD® and its scoring system for superior risk assessment and loss severity mitigation. FraudGUARD is the premiere loan-level fraud detection tool available to lenders and investors.

Analysis Details:

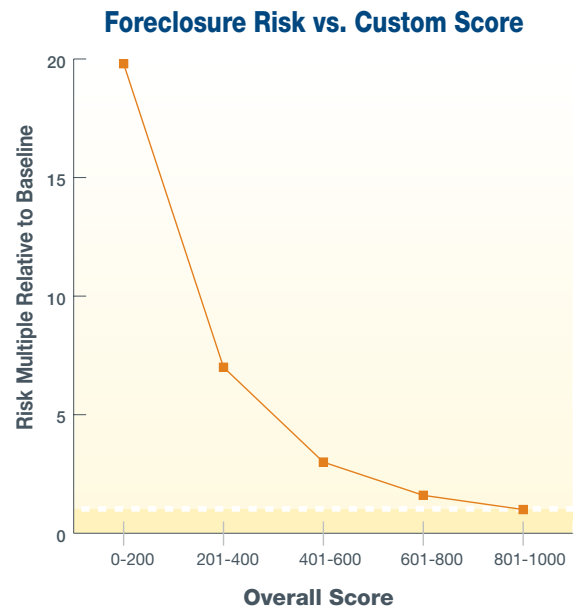
Utilizing performance data, Interthinx analyzed incidents of 30, 60, 90 and 120+ day late payments, defaults and foreclosure for over 2 million loans. By comparing this data to previous fraud scores and red flags from loan applications, Interthinx is able to quantitatively measure the ability of FraudGUARD to detect high risk loans.

Interthinx can illustrate the power of FraudGUARD to detect risk. The internal scoring system is based on a scoring range from the worst score of zero to the best score of one thousand. The following graphs show the difference in risk between each score group; loans with a low score have a much greater level of risk than loans with a high score.

Baseline risk is established by the 800-1000 score group. Risk in other groups is shown as a multiple of the baseline risk. Delinquency risk is defined in this study as the risk of any of the following during the first year of a loan: 60 days or more delinquency, bankruptcy, or foreclosure. Foreclosure risk is defined as the risk of initiation of foreclosure during the first year of the loan.



The risk of delinquency in the first year is 8 times higher for loans with a score in the 0-200 range than for loans with a score in the 800-1000 range.



The risk of foreclosure in the first year is 20 times higher for loans with a score in the 0-200 range than for loans with a score in the 800-1000 range.

The graphs illustrate:

- The score rank-orders loans in terms of risk. The higher the score, the lower the risk.
- The score provides clear separation between high risk and low risk loans.
- The score is particularly strong at separating out risks with higher loss severity, as shown by the very high risk multiples on the risk curve for foreclosure.

This analysis was led by Derek Stanford, Ph.D., Director of Analytics for Interthinx. Dr. Stanford, an expert in statistical pattern recognition and predictive modeling, used a variety of methods for modeling and hypothesis testing to assess the performance of the scoring model and identify promising areas for future research. Overall, this analysis demonstrates that the combination used by Interthinx, which included unique data sources and statistically proven predictive technology, can provide investors and lenders with comprehensive loan-level risk assessment that is simply not available anywhere else today.

Fraud is a constantly evolving target, and the mortgage industry itself is subject to frequent change. This requires an ongoing effort to detect and anticipate changes and update models appropriately. Interthinx has developed proprietary algorithms to update predictive scoring models to reflect the latest fraud and industry trends.

Because customers are different, FraudGUARD scores are customized to reflect the priorities and characteristics of each customer. Similarly, the scores used in this study reflect the characteristics of many customers combined. Using a statistical optimization process, the Interthinx goal is to eventually tailor scoring performance to the needs of individual customers.

Interthinx provides the financial services sector a scoring model that not only provides specific, detailed warnings about fraud and risk, but also predicts future performance in terms of delinquency and default.

The Interthinx Value Proposition Includes:

- Statistically validated performance analytics
- Largest aggregator of application data & proprietary information on loan level fraud necessary for accurate scoring results
- Largest provider of Third Party Review Services
- Leading team of highly experienced mortgage fraud and risk experts

Interthinx Enables/Provides:

- Expert and authenticated risk scoring based on rules and artificial intelligence technology
- Automated review of 100% of loans for fraud including identity, collateral risk, third parties and data integrity
- Automated interfacing for efficient processing
- The ability to effectively separate problematic loans (vs. random sampling techniques)
- Enterprise Level Management Reporting to identify trends with sellers and within entire portfolios
- Customization of suggested “Actions” for quick resolution according to internal investor credit policies
- State of the art training on a continuous basis

About Us:

About Us: Interthinx® is the nation’s leading provider of **proven** loan risk mitigation tools for the financial services industry. Used at every point in the mortgage lifecycle to assess risk, prevent mortgage fraud and minimize loss severity, Interthinx is relied upon by over **1400 customers**, including 15 of the top 20 mortgage lenders and 3 of the top 5 largest financial institutions. This aggregation of application information for over 10 years deems Interthinx the largest provider of critical data sets and proprietary algorithms for truly comprehensive risk management in the industry. **For mortgage loan risk to be assessed correctly, loan pool data must be compared to a massive data set of historical loan information.** With technology which earned Mortgage Technology Magazine’s prestigious **10X Award** as “*a diagnostic and corrective solution of the highest order*”, Interthinx expertise in predictive analytics, data mining and risk scoring sets the standard for the industry and directly increases the value of client portfolios.





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