9-21-2010

Vice President of Business Relations at Interthinx, Ann Fulmer Supplemental Written Testimony before the FCIC

Ann Fulmer

Supplemental Testimony of Ann Fulmer

V.P. Business Relations, Interthinx, Inc.,

a Verisk Analytics company

Before the Financial Crisis Inquiry Commission

September 21, 2010

Miami

Estimates of Fraud Magnitude
2005 - 2007

Total mortgage originations 2005-2007: 37 million loans $8 trillion

	Most Conservative Loan Loss Estimate:		Least Conservative Loan Loss Estimate:	
	Percentage	Dollar Value	Percentage	Dollar Value
Proven fraud (% of total originations)	13%	$ 1 trillion	60%	$ 4.8 trillion
Fraudulent loans resulting in foreclosure	16%	$ 160 billion	60%	$ 2.9 trillion
Loss severity on foreclosed loans with fraud at origination	70%	$ 112 billion*	70%	$ 2 trillion*

* *These figures correct inadvertent math errors that resulted in a misstatement of these figures during the hearing.*

Methodology

The estimates of the magnitude of mortgage fraud are presented as ranges because of the lack of a comprehensive data set and the fact that incidents of fraud, percent of fraudulent loans that result in foreclosure, and loss severities will vary between lenders. These differences are based on several factors, including the date of origination, the specific loan program and level of documentation required to support an application at origination, the geographic location of the property, the amount by which the property value was overstated at origination, property values at the time of default and foreclosure, and the length of time the loan performed before default and foreclosure.

Most Conservative Estimates

Proven fraud rate: The Interthinx loan investigation team reviewed a statistically significant sample of randomly selected closed loans from a variety of originators. They found that 13 percent of the sample contained material misrepresentations or omissions at origination sufficient to justify the rescission of mortgage insurance or to form the basis of a repurchase demand.

Percent of fraudulent loans resulting in foreclosure: The Interthinx investigators found that 38 percent of loans that had been identified as being in foreclosure at the time of the review contained material misrepresentations or omissions at origination sufficient to justify the rescission of mortgage insurance or to form the basis of a repurchase demand. Since foreclosure moratoria and delays due to an overburdened legal system would lead to an understated rate of completed foreclosures, Fannie Mae's serious delinquency rate on conventional single-family homes, which was 5.38 percent as of December 2009, was used as a proxy for foreclosures to calculate the estimate of total fraudulent loans resulting in foreclosure. This rate is calculated as follows:

> 5.4% of total originations will end in foreclosure (using Serious Delinquency Rate as a proxy for foreclosure rate)
>
> Therefore: 37,000,000 x .054 = 1,998,000 foreclosures
>
> 38% of foreclosures are due to fraud
>
> Therefore: 1,998,000 x .38 = 759,240 loans foreclosed due to fraud
>
> 13% is overall fraud rate
>
> Therefore: 37,000,000 x .13 = 4,810,000 fraudulent loans
>
> Percent of fraudulent loans resulting in foreclosure =
>
> Number of foreclosures due to fraud/Total number of frauds =
>
> 759,240/4,810,000 = 16%

Average loss severity: Interthinx clients provide an original loan amount and estimate of loss for each loan to be reviewed. The average loss estimate on foreclosed loans with material misrepresentations or omissions at origination sufficient to justify the rescission of mortgage insurance or to form the basis of a repurchase demand was 70 percent of the original loan amount.

Least Conservative Estimates

These figures represent the estimates, based on actual experience, of Quality Control and Assurance, Fraud Prevention, and Risk Management executives at several large banks and servicers; Interthinx investigators; attorneys and bank managers engaged in loan loss mitigation and recovery; and on reviews of Federal criminal bank fraud indictments and evidence received by the Senate Financial Services Committee investigations and testimony before this Commission.