Mortgage and Loan White Paper

Must-Have Fraud Detection Tools for Credit Unions

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Credit unions have been increasing their presence in housing. In fact, they have more than quadrupled their share of total mortgage market volume in the last nine years, according to the National Association of Federal Credit Unions.

With this rapid growth comes the difficult and time consuming job of processing loans for purchase or re-finance and there is the need to verify property and ownership information that is submitted on a loan application to make sure that it is complete and accurate. The focus must be on preventing fraud rather than dealing with it after the fact.

Credit unions took a collective hit from the housing crisis when a handful of so-called "corporate credit unions" collapsed under the weight of their investments in low-quality mortgage backed bonds. Fraud on the part of homebuyers and mortgage brokers helped make the mortgage crisis more serious. Mortgage applications were not checked for accuracy as well as they should have been — even in the credit union industry. Many mortgage officers did not have the tools to verify that the borrower was not fully disclosing all of their assets and liens, nor could they identify potentially bad or fraudulent loan actors.

At the height of the crisis in late 2008 and early 2009, National Credit Union Administration figures show corporate credit unions had losses amounting to a staggering $30 billion, about a third of the approximately $90 billion in total credit union

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capital. During those years many credit unions did not have the means to easily search a series of names or addresses to find potential fraud. Property-centric information that professionals in the mortgage, real estate and land services industries require to make informed business decisions was not easily accessible. Eight years after the height of the financial crisis, many credit unions are still paying to clean up a multibillion-dollar mess created by a handful of failed corporate credit unions, which invested heavily in now-toxic and often fraudulent mortgages.

Obtaining a mortgage isn't supposed to be as easy as getting cash from an ATM. Credit unions need to investigate thoroughly to make applicants prove they can repay loans before approval. Lenders lose hundreds of millions of dollars each year to mortgage defaults where there is an element of fraud that was not discovered through the underwriting process.

Credit unions are increasingly vulnerable to financial, regulatory and reputational risk. Once fraud is committed, lenders risk losses on short sales and face post-foreclosure issues, including repurchase demands from investors. It is critical that income, job and assets are validated and that property, lien holder and chain of title are confirmed. A credit union's knowledge of its customers, and the risks presented by its customers, is basic and fundamental to the development and implementation of an effective loan department. Real estate mortgage loan fraud continues to be a threat to credit unions of all sizes and assets.

From a regulation standpoint, changes have required lenders to institute fraud prevention controls. Failure to meet these requirements can result in sanctions and penalties. In some cases, lenders could be subject to lawsuits that include punitive damages in excess of actual losses.

The risk of mortgage lenders being victimized by fraud increased during the first quarter as economic conditions nationwide shifted, according to a report from Interthinx. The report found that overall the National Mortgage Fraud Risk Index rose 3 percent in the fourth quarter of 2014 from the previous quarter and remained unchanged year-over-year at 101. Additionally, Interthinx's research found that purchase transactions carry more risk than refinances, due to higher occupancy and property valuation risk. Employment and income fraud increased 3 percent quarter-to-quarter but nonetheless improved 20 percent from a year ago, with an index of 61. The Identity Fraud Risk Index also rose from the previous quarter by 15 percent.

Fraud isn't always easy to detect because many perpetrators know how to avoid detection. Still, lenders can help protect themselves if they can identify red flags and learn to sense when something "isn't quite right." Providing any incorrect information or deliberately withholding any information to obtain a loan constitutes fraud, no matter how pure one's intentions are.

The easiest way to identify mortgage fraud is to have access to the technology and tools available to run searches, reports and access data that can help you uncover problematic

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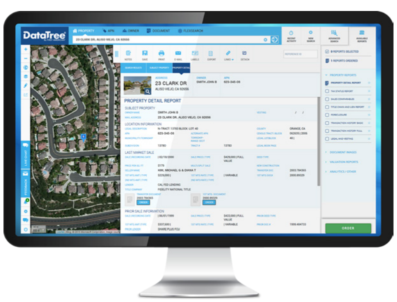
DataTree® by First American® provides deeper insight for mortgage lenders into the property and ownership information presented in an application or a loan file.



deals, or worse, a problematic referral source. Sometimes bad news is good news and taking the extra steps when underwriting will ensure that fraudulent deals don't slip through the cracks.

Employees are one of a credit union's strongest lines of defense for spotting and reporting suspicious activity. Employees need to be trained in mortgage fraud, and they should be able to recognize potential deception when armed with the proper tools and know-how to report suspicious transactions for further investigation. Most importantly, training should be mandatory and ongoing to reinforce the importance that executive leadership places on fraud prevention.

Credit unions need to be up-to-date with their tools to make informed decisions. With fewer loans to go around, it's important that mortgages being funded are of high quality. Irrespective of how big or small a credit union is, one thing is certain: all credit unions need to harness technology to do their job better. Technology can radically improve a credit union's ability to identify fraud. To help combat this financial plague, credit unions must be knowledgeable of the process, players and potential schemes types prevalent in the mortgage environment.

DataTree by First American provides deeper insight for mortgage lenders into the property and ownership information presented in an application or a loan file. DataTree includes two distinct advantages for credit unions:

1) Verified Record provides data confidence and security when accessing standard conveyances and mortgages. With Verified Record, you'll know that key fields in the transaction have been digitally matched between multiple independent sources.
2) FlexSearch™, a powerful search engine, allows credit unions to conduct nationwide searches instantly for any name or phrase contained within billions of recorded land documents, such as deeds, judgments, liens and releases. These tools, as well as access to nationwide property, homeowner and mortgage data, billions of recorded document images and a wide selection of property reports, allow credit unions to be confident with their lending practices.

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