First American CoreLogic Releases Q2 2007 Core Mortgage Risk Monitor

Report Examines Q1 Data to Forecast Risk, Impact for Q2 2007

First American CoreLogic’s Core Mortgage Risk Monitor is a valuable resource for examining high-risk markets, contributing factors behind rising and falling risk levels, and their potential impact on local economies. Since the beginning of 2006, the Core Mortgage Risk Monitor has provided the industry with important, insightful trend analysis and forecasting.

For 2007, the CMRM has been expanded to provide readers with even more valuable information—including in-depth examination of the top 10 high-risk markets in the US, the 10 lowest-risk markets, and the new National Core Mortgage Risk Index Trend, which offers a detailed analysis of the all-important “whens, wheres and whys” of mortgage risk trends over the past three years.

The new Q2 2007 CMRM uses Q1 2007 data to forecast trends for the upcoming quarter of 2007, and analyzes how the rise in delinquencies and foreclosures is impacting local markets and the entire industry.

The new report reveals that, relative to the base period of Q1 2002, the Q2 2007 Core Mortgage Risk Index is holding relatively steady, posting a small, 6% increase, bringing the Index back to the base period level. The moderation of the Index in recent quarters is driven by continued moderation in house prices, relatively stable economic health at the national level, and a stabilization in fraud and collateral risk.

For the full report of the Q2 Core Mortgage Risk Monitor, visit our website at www.corelogic.com, or call 888.288.2009 to request a copy.
Quick Tips

Remember, First American CoreLogic offers complimentary training for all of our product offerings. For more information, or to sign up for free training, contact First American CoreLogic’s Customer Care team at 888.288.2009 or customercare@corelogic.com.

May Webinar: The New Risk Revolution

Integration of Credit Quality with Collateral, Borrower, and Broker to Be Discussed

In today’s environment of tightening risk guidelines, how can lenders grow and protect their business at the same time? FICO was once the standard for evaluating residential loan risk. Then came triangulating risk from collateral, brokers, and borrowers. Now there is a new, integrated approach that more clearly identifies risk.

Join us for a special online seminar, “The New Risk Revolution,” on Thursday, May 3rd (11:00am PT). In this webinar, First American CoreLogic’s Executive Vice President of Risk Management Steve Schroeder and Chief Economist Mark Fleming will discuss how integrating credit with collateral, borrower, and broker risk analysis better predicts early payment default and loan loss severity.

Factors Beyond FICO Driving Early Payment Defaults

Fitch Ratings Report Suggests Increased Risk Layers Playing Larger Role

Though many in the mortgage lending industry may have expected moderate increases in subprime mortgage defaults coinciding with the market slow-down, the steep rise in EPDs, (early payment defaults) has been a cause for growing concern. Of similar concern in recent months is that many potentially high-risk loans may have been funded because lenders were not focusing attention on the most telling indicators of risk.

According to a recent Fitch Ratings Report, that concern appears to be valid. While there is often a delay between home price growth slow-down and an increase in EPDs, Fitch discovered that the recent dramatic upswing in subprime defaults is attributable to factors far beyond FICO scores. Those factors—high borrower leverage and the extensive use of stated income loans—play a much greater role than has been previously realized, according to the report.

In compiling the report, Fitch studied collateral attributes of loans that fell into EPD, comparing them to loans that had not defaulted in their first year. In doing so, Fitch concluded that FICO scores have less significance as an EPD indicator when other high-risk mortgage loan factors are found, such as loans requiring little to no income verification. In addition to stated income loan products, high combined LTV (loan to value) ratios are also a significant contributor to the alarming increase in subprime loan delinquencies, according to Fitch’s analysis.

To register for the “The New Risk Revolution” webinar, click on “Events” at www.corelogic.com. You can also view a complimentary replay of our recently sponsored “Challenges to Nonprime Lending” webinar!

To download a copy of the complete report, “Subprime Collateral Trends and Early Payment Defaults,” go to www.fitchratings.com (registration required).
Lender Learns Predictive Power of Risk Scoring Tools

Client Shares Results of Real-World Tests of HistoryPro™ and LoanSafe™

Prior to 2007, a leading wholesale subprime lender was utilizing First American CoreLogic’s HistoryPro™ to assess collateral valuation. This client was primarily using the HistoryPro report for its rich property information and valuation data set rather than for the advanced risk analytics offered by HistoryPro’s F-Score.

As 2006 drew to a close, the client asked us to help conduct real-world scenario tests with previously-recorded loan-by-loan F-Scores and other key data points on past loans. Employing HistoryPro’s full analytic capabilities, loans with observed early payment default were stratified by F-Score and divided into two groups: Purchase and Purchase/Refinances.

As represented in Figure 1, loans that fell into the highest risk bucket (F-Score 20+) experienced an EPD rate four times that of loans in the lowest risk (F-Score 0) bucket.

The client was also interested in testing the incremental performance of First American CoreLogic’s newest risk tool—LoanSafe™, which simultaneously evaluates the collateral, borrower, and agent. The results demonstrated not only an increased capability to predict early payment default but also a capacity to predict loss severity (Figure 2, page 4).

Loans in lower risk strata that were periodically subject to early payment default, experienced far lower loss severity than those categorized in higher risk strata.

By harnessing the full power of First American CoreLogic’s F-Score inside of LoanSafe, the lender was able to streamline workflow by implementing a revised due diligence process for loans deemed higher risk, applying the most appropriate risk pricing based on the propensity for EPD and associated loss severity.

As 2007 continues to present challenges for lenders and investors—particularly in the hard-hit subprime market—First

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Figure 1. F-Score Distribution for Purchase Loans

<table>
<thead>
<tr>
<th>F-Score Buckets</th>
<th>Percent of Loan Count (% total)</th>
<th>Percent EPD</th>
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<tbody>
<tr>
<td>0</td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td>1-3</td>
<td>13%</td>
<td></td>
</tr>
<tr>
<td>4-8</td>
<td>11%</td>
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<td>9-19</td>
<td>9%</td>
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<td>20+</td>
<td>7%</td>
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First American CoreLogic’s LoanSafe™ has proven itself to be the industry’s most comprehensive first line of defense against fraud and risk, delivering a combined solution of collateral, borrower and broker analysis.

Now, LoanSafe RDS™ provides even more comprehensive protection against loan risk. Adding credit characteristics to the collateral, broker and borrower equation provides a more powerful tool for identifying early payment default and loss severity.

For more information about LoanSafe RDS, contact First American CoreLogic Customer Care at 888.288.2009 or customercare@corelogic.com.
Lender Learns Predictive Power of Risk Scoring Tools

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American CoreLogic remains committed to working with our clients to implement the LoanSafe risk decisioning platform to collapse cycle times and increase pull-through rates that reflect positively on institutional reputation.

Additionally, a loan-by-loan LoanSafe assessment ensures that your loan pools have passed the same rigorous analysis used by Wall Street investors, as they face an increasing amount of scrutiny in the wake of recent industry challenges.

As a result of the recent merger of First American Real Estate Solutions and CoreLogic, we can now combine the information in First American’s extensive proprietary database with the 45 million records in CoreLogic’s Third Party Scorecard™ database to further enhance the predictiveness of LoanSafe scoring.

Figure 2. Relative EPD 90 Rates

To learn more about LoanSafe, HistoryPro, and the other First American CoreLogic risk management tools and services, contact us at 888.288.2009, email customerservice@corelogic.com, or visit www.corelogic.com.
The New Face of Income Fraud, Part 1
by Anthony Romano, Executive Vice President, First American CoreLogic

When we read the recent statistics about mortgage fraud, we expect to see references to property flipping schemes, money laundering, equity stripping activity or multi-lien fraud. We examine FBI SARS numbers and read about lenders who are hit with millions of dollars of losses. To be sure, these types of “fraud for profit” schemes and the schemers are still around, but soon they may be considered relatively docile compared to the new face of fraud.

In 2007 alone, over $1 trillion in adjustable rate mortgages will reset—and in case you’re wondering, the note rate on ALL of these will go north. Recently released statistics conclude that payment shock of 50 to 75% will be common. That means, for example, that in California a $2,500 payment can get up to $3,750 in a hurry.

The good news is that during the last two years, these borrowers took advantage of the appreciation gains, monetized some equity in their home with a second mortgage, and put all that money in Apple or IBM stock, right? These huge gains are now a pile of money just waiting to help offset the increased mortgage payment. What’s that you say? The second mortgage and HELOC didn’t find its way into the stock market, but is now a backyard fireplace, deck, and lap pool? You mean, the refund period on that 60-inch High Definition TV set expired and it can’t be taken back? Can’t we rip up the hardwood floors and give back the granite countertops? What about a refund on that 14-day cruise to Greece?

If I happen to sound like a wiseguy know-it-all, I’m not—and I have the new car, new golf clubs, and new TV to prove it. What I also have is a fixed rate mortgage.

So what does all this mean for those with ARMs, and what does any of this have to do with fraud, exactly? Well, as ARMs reset, the new payment will be beyond the means of most homeowners. I recently read that Fitch believes the shock will dramatically increase delinquency and default, and we are seeing signs of this already.

But why go delinquent? Why not just re-finance into another mortgage product? I’ll tell you why in two words: Repayment Capacity. Qualifying with a 4.87% teaser from 2004 requires less income than today’s rates above 6% (and higher for lower FICO band borrowers). If your income did not increase by 50% in the intervening period, then the DTI pressure may now keep you out of many mortgage products.

But hey, what about those stated loans? Those special loan products previously reserved for self-employed folks or people new on the job scene. Today, they are prolific, and are helping people make the ratios work—more often than we think—by lying about their income. We aren’t talking about hardened criminals here, but about middle-class America that wants to keep the home ownership dream alive, but must fib a bit to pre-qualify today.

Here’s the problem for lenders (and MBS/ABS market where these notes end up). We are now facing unprecedented layers of risk that are built into loan products (low FICO, 100% LTV or piggy back, option ARM, and low documentation). It’s hard to imagine the industry priced for all of these, and we are seeing performance degradation in these stated loans today. Now the big challenge will be misrepresentation of income in order to get into a new loan product—hence, the “new fraud.” This is soft fraud for sure, or what is often referred to as “fraud for housing,” but it’s misrepresentation just the same, and if not caught in origination, it can easily become a repurchase issue—and most reps and warrants say that all fraud gets pushed back.

How can lender originators identify and prevent income misrepresentation? Tune in next month.

To learn more about First American CoreLogic’s IncomePro™, the industry’s first real-time, integrated income validation tool, contact us at 888.288.2009, customerservice@corelogic.com, or visit us online at www.corelogic.com.
The Sudoku Challenge Continues

*April’s Puzzle Continues Trend of Increasing Difficulty*

With so many InsideEdge subscribers solving our monthly sudoku puzzles, we’ve done our best to adjust the difficulty levels to keep up with our readers’ increasing Sudoku savvy, just as First American CoreLogic strives to keep our industry-leading solutions far ahead of the mortgage risk challenges our clients face on a daily basis.

For those not yet familiar with Sudoku, the rules are simple: Enter a numerical digit from 1 through 9 in each cell of a 9x9 grid made up of 3x3 subgrids (called “regions”), starting with random digits already revealed in some cells (the “givens”). Each row, column, and region must contain only one instance of each numeral, 1 through 9.

![Sudoku Puzzle](sudoku.png)

**First American CoreLogic**

is the leading provider of residential mortgage risk management and fraud protection technology and services to the U.S. mortgage banking industry. CoreLogic quantifies the risk in more than 25 percent of U.S.-based originations annually on behalf of its clients, identifying more than $1.2 billion dollars in potential loan loss in 2006. Since 1997, mortgage originators and the capital markets have relied on CoreLogic to increase loan performance by making smarter lending and purchase decisions. The company’s PowerLogic™ Risk Decision Platform delivers fast, efficient, accurate, easy-to-use solutions.

**Events at a Glance**

Be sure to visit First American CoreLogic at the following events to learn more about our innovative solutions for detecting and managing fraud risk.

**MBA National Secondary Market Conference and Expo**

*May 20-23, 2007*  
*New York, NY*

**CBA/RMA Risk Management Conference**

*July 17-19, 2007*  
*Chicago, IL*

**Predictive Methods Conference**

*June 11-13, 2007*  
*Dana Point, CA*