




*Expertise for Mortgage Warehouse Lenders
Consulting. Technology. Information.*

Strategies for Successful Fraud Mitigation

Friday, February 16th, 2007
4:00pm EST



1 in every 200 mortgage loans contains
material misrepresentations that result in
financial fraud or repurchase loss.

BasePoint Analytics

The Fraud Matrix

Fraud for Housing

Fraud for Profit

**Individual Borrower or Organization
or Warehouse Staff**

Collusion - Misrepresentation – Forgery
Credit - Collateral - Identity

People

Process

Technology

Industry

Have Experienced and Knowledgeable Staff

- **Perform Fraud Awareness Training**

- Common Borrower and Originator Fraud Schemes
 - Recognizing Red Flags
 - Geographic Hot Spots

- **Require Mortgage Technical Education**

- Appraisal Techniques
 - Analyzing Credit Reports
 - Proper Closing Procedures

- **Promote Techniques for Internet Data Mining**

Anticipating, Modeling and Preventing Risk Events are More Effective than After-the-fact Inspection and Damage Control

- Establish Formal Policies and Procedures for Originator and Loan Review
- Incorporate Recourse Agreements with Originators and Closing Agents
- Verify Originator, Closing Agent and Appraiser Licensing
- Integrate External Database Validation and Research Tools
- Monitor for Changes in Volume and Product and Behaviour
- Enforce Disciplined Underwriting/Review
- Utilize Risk-Based Quality Control

Use Fraud Detection Technology Wisely and Know its Limitations

Of the top 15 red flags only 25% are caught by automated tools

90% respondents reported they used at least one technological tool on about 50% of their loans at a cost of \$100 per loan, however fraud was reduced by less than 25%

Automated Tools =
More False Positives =
More Human Review =
Added Cost and Time =

Results Possibly Being Ignored

Use Operational Technology to Streamline the Process

- **Integrate Identity, Credit, and Property Fraud Databases**
- **Utilize Comprehensive Operational Control Systems**
- **Monitor Collateral Movement and Document Exceptions**
- **Incorporate Automated Prefunding Review and Validation**
- **Establish Fraud Metrics based on Quantitative Analysis**

Rely on Expert Industry Resources

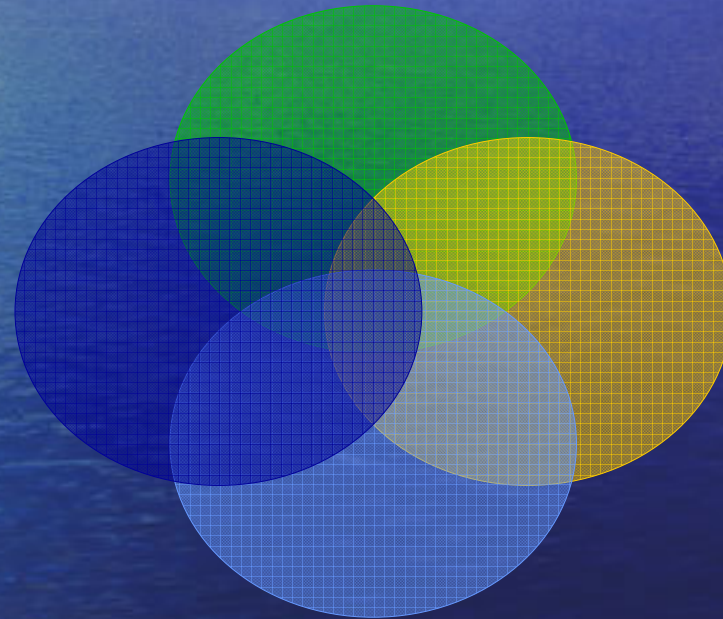
- **Professional Associations**
- **Governmental Agencies**
- **Technology Vendors**
- **Legal Counsel**
- **SRG Warehouse Information Networksm**

People

Process

Technology

Industry Resources





The tide going out
leaves the rocks on the shore.

Anon

*Thank You
for your time today!*

Summary of Topics

- Have experienced and knowledgeable staff
- Anticipating, modeling and preventing risk events are more effective than after-the-fact inspection and damage control
- Use fraud detection technology wisely and know its limitations
- Use operational technology to streamline the process
- Rely on expert industry resources



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