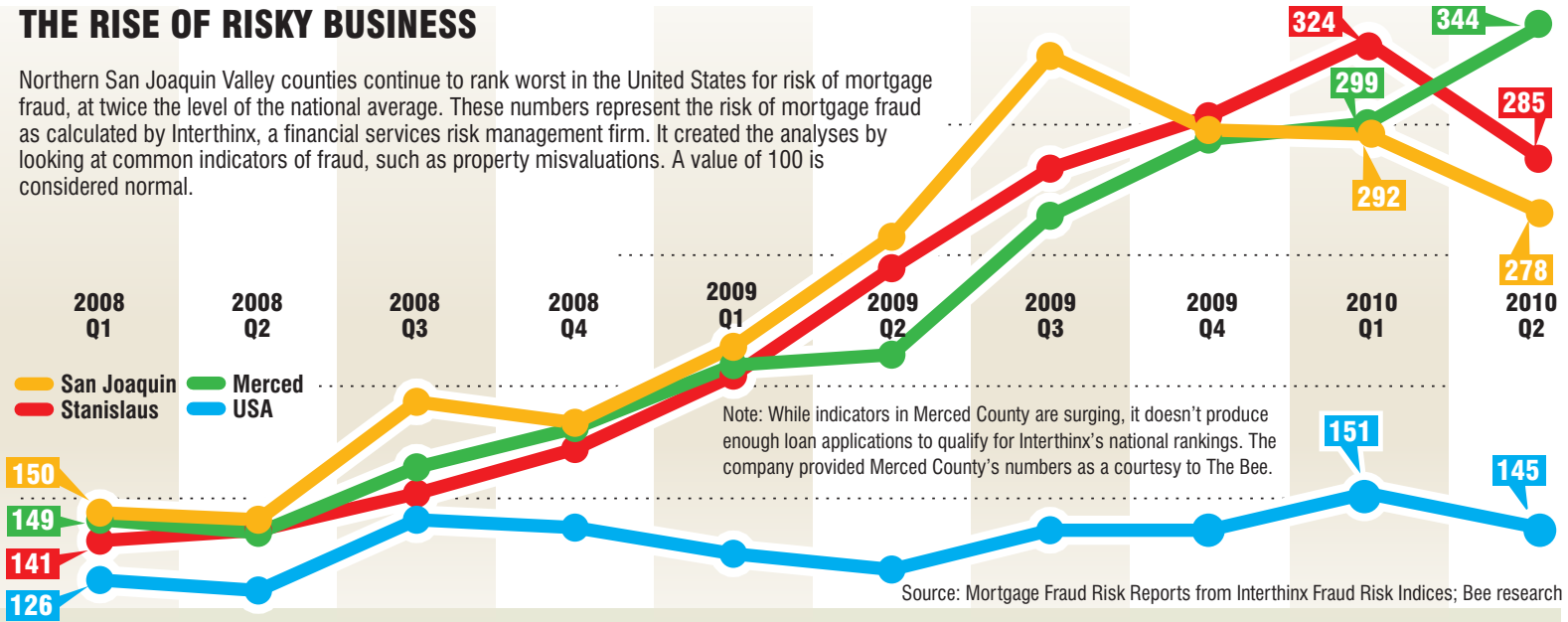


THE RISE OF RISKY BUSINESS

Northern San Joaquin Valley counties continue to rank worst in the United States for risk of mortgage fraud, at twice the level of the national average. These numbers represent the risk of mortgage fraud as calculated by Interthinx, a financial services risk management firm. It created the analyses by looking at common indicators of fraud, such as property misvaluations. A value of 100 is considered normal.



HOW SHORT SALE FRAUD WORKS

1. To avoid foreclosure, parties agree to short sell a property with the lender accepting an amount short of what's owed.

Example:

True Value: \$200,000

Owed on mortgage: \$220,000



buddy, maybe working with an appraiser or lawyer; identities often are concealed in a limited liability corporation. The conspiracy includes withholding better offers, often shutting out first-time buyers.

True value: \$200,000

Best offer: \$200,000

Listing price: \$150,000

Offer presented to bank: \$150,000 (concealed)



3. To cut loss and erase negative asset, lender accepts bogus offer.

Bank writes off \$70,000 difference between mortgage and presumed best offer



4. New owner turns around and sells property for its true, higher value, maybe to someone who bid on the short sale. Conspirators

pocket the profit, plus fees and commissions.



New sale: \$200,000

Minus: Short sale of \$150,000

Equals: Illegitimate profit of \$50,000

Note: During the real estate boom a few years ago, investors would "flip" properties, or buy low and sell quickly

for a profit. Legal flips could include fixing up homes to increase value, or just smart investing. In illegal flips, values were inflated to trick lenders into loaning more money than a property was worth.

The above is called a "flop" and works in the opposite way – deflating values to trick lenders into letting property go for less than it is worth.