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New BasePoint Study Finds Fraud Linked to Up to 70% of Early Payment Defaults

Mortgage lenders can reduce early payment default by using predictive models

Carlsbad, Calif. – February 12, 2007 – BasePoint Analytics, a leading provider of scientific fraud analytics and consulting services, today announced the results of a new scientific study which found that up to 70% of mortgage early payment defaults can be linked to a significant misrepresentation on the original loan application. The purpose of the BasePoint study was to investigate the link between fraud and payment trends during the early life of the loan. The result of the study concluded that loans that contained egregious misrepresentations were up to 5 times more likely to default in the first six months than loans that did not. More importantly, the study concluded that predictive models could be deployed early in the loan process to help lenders predict which loans were likely to default within the first six months, enabling the loans to be rejected pre-funding. In fact, predictive models such as BasePoint's FraudMark™ for Origination correctly identify approximately 40% of a lender's loans pre-funding that, if booked, would stop paying within the first six months.

"Many lenders are facing increases in repurchase requests and early payment defaults. In an effort to help lenders deal with these challenges, BasePoint has rigorously studied the issue and found a direct correlation between EPDs and mortgage fraud," said Tim Grace, president and CEO of BasePoint. "We can demonstrate for lenders and investment banks how they can substantially reduce their EPD losses, and often within a short period of time. The cost of mortgage fraud is borne by every person or family who buys or sells a home. That's why BasePoint continues to focus on developing advanced software solutions to put a stop to mortgage fraud before it happens."

BasePoint analyzed over 16,000 loans that were confirmed to contain egregious misrepresentations in the loan file that later led to a default. These misrepresentations included fraud such as: income inflated by as much as 500%, appraisals that overvalued the property by 50% or more, fictitious employers and falsified tax returns. The study concluded that misrepresentations can grossly affect the risk of a loan.

Traditionally mortgage lenders have relied on credit scores to assess the risk of a borrower. Credit scores effectively predict risk when the facts on the application are true. However, when a borrower or broker misrepresents fundamental characteristics such as: income, employment, debt or the value of the property, the credit score risk assessment isn't as effective. Specific models such as FraudMark, built to detect the risk when fraud is present, act as a proxy for risk when

misrepresentation is involved. In fact, FraudMark outperforms traditional credit scores by over 200% in determining early payment default when fraudulent misrepresentations are present in the application.

FraudMark uses sophisticated analytic scoring technology to identify suspicious mortgage loan applications, enabling the lender to quickly and effectively stop them before funding. These models accurately predict the likelihood of a loan containing fraud that will result in financial loss to the lender. FraudMark enables lenders to decrease fraud losses by automatically identifying loans that have the highest associated fraud risk. Over the past year FraudMark has helped lenders prevent nearly $1 billion in suspicious loans from funding.

About BasePoint

BasePoint Analytics, based in Carlsbad, California offers a unique combination of scientific fraud scoring software and expert services. Using sophisticated predictive analytics, BasePoint enables global banks and high volume mortgage lenders to quickly identify fraudulent transactions early in the process, minimizing fraud loss while accelerating the processing of non-fraudulent transactions. The company's fraud experts have deep, real-world domain expertise and have successfully solved fraud for some of the highest profile banks and lending institutions in the world. BasePoint's industry-leading customers include: New Century Mortgage, Aegis Mortgage Corporation, MasterCard Worldwide and several top 20 global banks. In addition, the company has strategically partnered with First American Real Estate Solutions. For more information about BasePoint, visit www.basepointanalytics.com or call 760.602.4971.

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