



Foundations On-Demand

Fraud Red Flags Workbook

Introduction To Fraud Red Flags

Red flags can be found in any document at any point during the review of a loan file. It is our job to recognize these irregularities and determine whether the red flags may lead to potential fraud. As you review a loan, try to form a story in your head! If at any point in that story something does not make sense to you, pause: It doesn't mean you have found fraud, but generally, the more red flags you see, the higher likelihood of fraud.

What can be done to help combat mortgage fraud?

- Build Awareness – continue to educate yourself and learn how to “trust your gut”.
- Utilize Approved vendor lists – we rely on a lot of people to do jobs ethically – these lists will help.
- Monitor Ineligible lists or watch lists - verify history of vendors to ensure the people you work with are not flagged.
- So many websites and online tools! – use them! Some cost a fee, but many are free and are great ways to learn if something is truly fraudulent.

What should you do if you suspect fraud?

- Discuss with manager.
- Use online tools if possible.
- Leave review to professionals or seasoned reviewers.
- Use 3rd party investigator if possible.



Watch Me!

Intro To Fraud Red Flags

Loan Application, SSN and Credit Documentation

All documents may reveal a red flag, but only ONE document is found in EVERY loan file, which is the loan application! Within this one document, there are over 100 fields that may need to be completed. So, the possibility of a red flag or fraud in the loan application increases due to the amount of information required. Be sure the document is properly completed and that there are no inconsistencies when compared to other documents in the loan file. Take a look at some real red flags.



Watch Me!

Loan Application, SSN &
Credit Documentation video

ADDITIONAL INFORMATION

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XPN          XPN: FOUND ADDITIONAL SSN 555-55-5555 FOR
APPLICANT XPN      DISPLAYED SSN IS DIFFERENT THAN THE
INQUIRY SSN XPN      SSN MATCH INDICATOR, YNNYYYYYY
XPN          CKPT, INPUT SSN ISSUE DATE UNVERIFIED - XPN
TUC          07   Difference of 2 digit between SSN on input and SSN on file
TUC          TU ALERT: SUBJECT - RECORDED INQUIRIES IN LAST 60 DAYS = 04
TUC          TU ALERT: SUBJECT - SSN INPUT VALUE DOES NOT MATCH FILE
    
```

INQUIRIES

Inquirer Name	B/C	Inquiry Date	Repository	Subscriber Code
CALIBER HOME LOANS	B	12/15/15	Tuc01	F 01207005
CREDCO	B	12/15/15	Efx01/Xpn01	181ZB06107/3996926
CALIBER HOME LOANS	B	12/09/15	Tuc01	F 01207005
CREDCO	B	12/09/15	Efx01/Xpn01	181ZB06107/3996926
DHI MORTGAGE COMPANY	B	11/24/15	Tuc01	Z 00008281
EMS	B	11/24/15	Efx01	444ZB02813
EQUIFAX MORTGAGE SER	B	11/24/15	Xpn01	197678 5
CBCINNOVIS	B	11/17/15	Xpn01/Efx01	0993840/843ZB06203
UNIVERSAL AMERICAN M	B	11/17/15	Tuc01	Z 00285278
BRCLYSBANKDE	B	10/24/15	Tuc01	B 03390354

Loan Application, SSN and Credit Documentation

The Social Security Number (SSN) is one of the most important pieces to the loan. Check out the video and find out the how distribution of the SSN has changed over the years.

- The first three digits are the AREA number which was assigned by geographical region based on where someone was born.
- Since June 20th, 2011, the numbers are now being assigned randomly to help combat fraud.
- Middle two digits are called the GROUP number and they range from 01-99
- Last four digits are the SERIAL numbers and run from 0001-9999

Credit reports can also have many red flags that may not be fraud, but could simply be a sign of credit mismanagement.

Just remember, a newly issued Social Security Number might be an immigrant new to our country. However, it could also mean someone has stolen the identity of a child. Therefore, don't assume. Research when you can.



Watch Me!

Loan Application, SSN &
Credit Documentation Video

Income and Tax

Fraudsters do not realize how many different specific tax rules apply to the income documents we all receive. There are state specific taxes, city specific taxes, and different federal rules. All of which can trip someone up if they are trying to commit fraud.

What red flags do you see on this W2? Answers can be found on page 10.



Watch Me!

Income & Tax



Read Me!

Void <input type="checkbox"/>		a Employee's social security number 934-00-8119		OMB No. 1545-0008	
b Employer identification number (EIN) 36-6539056		1 Wages, tips, other compensation 38334.40		2 Federal income tax withheld 5545.54	
c Employer's name, address, and ZIP code LEE'S GENERAL CONTRCTORS 1962 Ohio Ln. Chicago, IL 60345		3 Social security wages 38334.40		4 Social security tax withheld 2221.96	
		5 Medicare wages and tips 38334.40		6 Medicare tax withheld 519.48	
		7 Social security tips		8 Allocated tips	
d Control number 12145-4879		9 Verification code		10 Dependent care benefits	
e Employee's first name and initial Last name Suff. Tony Starks 219 N. 50 th Street Marvel, IL 60233		11 Nonqualified plans		12a See instructions for box 12	
		13 Statutory employee Retirement plan Third-party sick pay <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>		12b	
		14 Other		12c	
				12d	
f Employee's address and ZIP code					
15 State Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name

W-2 Wage and Tax Statement
Form Copy D — For Employer

Department of the Treasury—Internal Revenue Service
For Privacy Act and Paperwork Reduction Act Notice, see separate instructions.

Assets

Like the credit report, assets documents can reveal red flags that are not necessarily fraud. They can show a borrower who cannot manage their own funds. But they can also be fabricated with falsified balances, deposits, and even owners of the accounts. A Verification of Deposit may confirm these suspicions so be sure to obtain the proper documentation from the bank holding the funds.

What red flags do you see on this document?

Answers can be found on page 11.



Watch Me!

Assets



Summary

Previous Balance as of 1/04/18	40228.28
Total Deposits and Credits: 1	+200.00
Total Checks and Debits: 10	-393.94
Total Service Charge: 1	-7.00
Statement Balance as of 5/13/18	=\$40087.34



Summary

Previous Balance as of 3/07/18	40228.28
Total Deposits and Credits: 1	+3440.05
Total Checks and Debits: 10	-2215.99
Total Service Charge: 1	-7.00
Statement Balance as of 8/21/18	=\$41505.34

Appraisals

Appraisals can be difficult to detect red flags. Look at the top two lines of the report. Does the subject price fall within the ranges listed on those top two lines?

If not, you have a red flag as the value would be outside what is currently selling in the subject's neighborhood.

What are the red flags on this document?

Answers are on page 12.



Watch Me!

Appraisals



Read Me!

Uniform Residential Appraisal Report												File #			
There are 9 comparable properties currently offered for sale in the subject neighborhood ranging in price from \$ 218,000												to \$ 265,000			
There are 12 comparable sales in the subject neighborhood within the past twelve months ranging in sale price from \$ 215,000												to \$ 255,000			
FEATURE		SUBJECT		COMPARABLE SALE # 1			COMPARABLE SALE # 2			COMPARABLE SALE # 3					
Address		1428 Elm Street Springwood, OH 45503		1543 Evergreen Rd Rosewood, OH 45504			47 Dogwood Ave Parkview, OH 45513			1400 Elm Street Springwood, OH 45503					
Proximity to Subject				3.37 miles			4.89 miles			0.02 miles					
Sale Price		\$475,000		\$699,000			\$570,250			\$265,000					
Sale Price/Gross Liv. Area		\$ sq. ft.		\$ 107.75 sq. ft.			\$117.79 sq. ft.			\$ 146.01 sq. ft.					
Data Source(s)				MLS #11135 DOM 39			MLS #111566 DOM 79			MLS #43511 DOM 165					
Verification Source(s)				Ohio Public Records			Ohio Public Records			Ohio Public Records					
VALUE ADJUSTMENTS		DESCRIPTION		DESCRIPTION			+(-) \$ Adjustment			DESCRIPTION			+(-) \$ Adjustment		
Sale or Financing Concessions				ArmLth Conv; 0						ArmLth Conv; 5000			-5000		
Date of Sale/Time				s10/17;c12/17						s04/18;c07/18			s06/17;c08/17		
Location		A; BsyRd		B; GlfCrse			-5,000			N; Res			0		
Leasehold/Fee Simple		Fee Simple		Fee Simple						Fee Simple					
Site		8986 sq ft		37114 sq ft			-16500			27456 sq ft			-12700		
View		N; Res		B; Glfw			-5000			B; Mtn			-2500		
Design (Style)		RT2:Colonial		RT2:Colonial			-25000			RT2:Colonial			-25000		
Quality of Construction		Q4		Q2			-10000			Q3			-5000		
Actual Age		58		7			-30000			18			-15000		
Condition		C3		C3			-5000			C3			-5000		
Above Grade		Total	Bdms.	Baths	Total	Bdms.	Baths		Total	Bdms.	Baths		Total	Bdms.	Baths
Room Count		8	3	1.5	12	5	2.5	-8000	10	4	2.5	-5000	6	2	1
Gross Living Area		1498 sq. ft.		3267 sq. ft.			-65000			2500 sq. ft.			-19000		
Basement & Finished Rooms Below Grade		0sf0f		1600sf800f 1rr,1ba			-5000			0sf0f					
Functional Utility		Average		Average						Average					
Heating/Cooling		Central		Central						Central		Htwtr;unit			
Energy Efficient Items		Insulated Glass		InsultdGls;Solar			-25000			Insulated Glass		None			
Garage/Carport		1gr;2dw		4gr;6dw			-15000			2gr;4dw		-5000			
Porch/Patio/Deck		Porch		Porch/Deck			-5000			Deck		0			
Kitchen		Modern-Renovated		Modern-Renovated						Modern-Renovated					
Net Adjustment (Total)				□ + □ -			\$			□ + □ -		\$			
Adjusted Sale Price of Comparables				Net Adj. %			\$ 479,500			Net Adj. %		\$ 476,050			
				Gross Adj. %			\$ 479,500			Gross Adj. %		\$ 476,050			
										Net Adj. %		\$ 431,500			
										Gross Adj. %		\$ 431,500			

Closing Documentation

Post-closing documents are some of the most important documents for fraud investigators – particularly the Closing Disclosure. It may seem like fraudsters believe that lenders never look at the documents once the loan closes!

Recent statistics show that there is an increase in escrow officers' involvement in fraudulent activity.

Much of this goes back to our discussion of fraud for profit from our Mortgage Fraud Fundamentals video. It involves multiple parties, multiple misrepresentations, and the motivation is to make money and deceive lenders.

So continue your review and investigation through the process of closing the loan. You never know where you might catch someone in the act.



Watch Me!

Closing Documentation

Income

Answers for finding Red flags example:

- ❖ “Contractors” spelled wrong
- ❖ Social Security and Medicare deductions are incorrect
- ❖ Copy D for Employer
- ❖ Missing Employer ID Number
- ❖ Boxes 1, 3, and 5 are identical
- ❖ Social Security Number is invalid

Void <input type="checkbox"/>		a Employee's social security number 934-00-8119		OMB No. 1545-0008	
b Employer identification number (EIN) 36-6539056			1 Wages, tips, other compensation 38334.40	2 Federal income tax withheld 5545.54	
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			14 Other		12c
					12d
f Employee's address and ZIP code					
15 State Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name



Form W-2 Wage and Tax Statement
Copy D — For Employer

Department of the Treasury—Internal Revenue Service
For Privacy Act and Paperwork Reduction Act Notice, see separate instructions.

Assets

Red flags include:

- Balance did not change from final to previous
- Basic math errors

	Summary Previous Balance as of 12/24/14 Total Deposits and Credits: 1 Total Checks and Debits: 10 Total Service Charge: 1 Statement Balance as of 1/27/15	 40228.28 +200.00 -393.94 -7.00 =\$40087.34
	Summary Previous Balance as of 1/27/15 Total Deposits and Credits: 1 Total Checks and Debits: 10 Total Service Charge: 1 Statement Balance as of 2/25/15	 40228.28 +3440.05 -2215.99 -7.00 =\$41505.34

Appraisals

Red flags include:

- Value not supported by neighborhood comps
- Excessive distance for comps
- Unreasonable comp sales prices
- Excessive adjustment throughout
- Across the board adjustments
- One-way adjustments

Uniform Residential Appraisal Report											
There are 9 comparable properties currently offered for sale in the subject neighborhood ranging in price from \$ 218,000 to \$ 265,000											
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Sale or Financing Concessions		ArmLth Conv; 0			ArmLth Conv; 5000	-5000		ArmLth Conv; 3500	-3500		
Date of Sale/Time		s10/17;c12/17			s04/18;c07/18			s06/17;c08/17	3000		
Location	A; BsyRd	B; GlfCrse	-5,000		N; Res	0		A; BsyRd			
Leasehold/Fee Simple	Fee Simple	Fee Simple			Fee Simple			Fee Simple			
Site	8986 sq ft	37114 sq ft	-16500		27456 sq ft	-12700		4890 sq ft	3000		
View	N; Res	B; Glfw	-5000		B; Mtn	-2500		A; PwrLn	15000		
Design (Style)	RT2:Colonial	RT2:Colonial	-25000		RT2:Colonial	-25000		RT2:Traditional			
Quality of Construction	Q4	Q2	-10000		Q3	-5000		Q5	35000		
Actual Age	58	7	-30000		18	-15000		53	2000		
Condition	C3	C3	-5000		C3	-5000		C3	5000		
Above Grade	Total Bdrms. Baths	Total Bdrms. Baths			Total Bdrms. Baths			Total Bdrms. Baths			
Room Count	8 3 1.5	12 5 2.5	-8000		10 4 2.5	-5000		6 2 1	15000		
Gross Living Area	1498 sq. ft.	3267 sq. ft.	-65000		2500 sq. ft.	-19000		850 sq. ft.	41000		
Basement & Finished Rooms Below Grade	0sf0f	1600sf800f 1rr,1ba	-5000		0sf0f			0sf0f			
Functional Utility	Average	Average			Average			Average			
Heating/Cooling	Central	Central			Central			Htwtr;unit	3000		
Energy Efficient Items	Insulated Glass	InsldtGls;Solar	-25000		Insulated Glass			None	2000		
Garage/Carport	1gr;2dw	4gr;6dw	-15000		2gr;4dw	-5000		Street	20000		
Porch/Patio/Deck	Porch	Porch/Deck	-5000		Deck	0		None	3000		
Kitchen	Modern-Renovated	Modern-Renovated			Modern-Renovated			None	23000		
Net Adjustment (Total)		<input type="checkbox"/> + <input type="checkbox"/> -	\$		<input type="checkbox"/> + <input type="checkbox"/> -	\$		<input type="checkbox"/> + <input type="checkbox"/> -	\$		
Adjusted Sale Price of Comparables		Net Adj. Gross Adj.	% %	\$ 479,500	Net Adj. Gross Adj.	% %	\$ 476,050	Net Adj. Gross Adj.	% %	\$ 431,500	

Fraud Red Flags - Quiz



Answer Me!

Introduction To Fraud Red Flags

1. What are red flags?
2. Do red flags always mean fraud?
3. What types of documents can fraud be found in?
4. What are a few of the more common red flags you might see?

Loan Application, Social Security Number & Credit Documents

5. When reviewing the loan application, what are some potential red flag areas?
6. Name the three sections of a Social Security Number
7. Is this a valid SSN? 923-00-0000
Yes or No? WHY?
8. When did Area numbers >772 or >800 become valid

Income and Tax Documents

9. What are a few common red flag areas in income docs?
10. What does the FICA consist of?
11. What are the Social Security and Medicare deductions?
12. Does Social Security have a cap on the deductions?
13. What other taxes or deductions could be a potential red flag?
14. Name a few red flags found within asset documents.

Asset Documents

15. What red flags might appear on a Verification of Deposit?
16. Why is it important to obtain all pages of the asset statement?
17. What are some red flags might you find in the photos within the appraisal?

Appraisals

18. What are some red flags you might find on the comparable page?
19. True or False: Once a loan closes the review for red flags stops?

Closing Documentation

20. What are two significant red flags found within the Closing Disclosure?

Fraud Red Flags - Quiz

Introduction To Fraud Red Flags

1. What are red flags?
Irregularities and inconsistencies found in a loan file that are not common to most situations.
2. Do red flags always mean fraud?
No! But you should research as needed and treat each red flag in a case by case view.
3. What types of documents can fraud be found in?
Any document! Income, assets, credit, appraisals, closing, etc...
4. What are a few of the more common red flags you might see?
Signature issues, Social Security Inconsistencies, Typos, Handwritten Edits, etc...

Loan Application, Social Security Number & Credit Documents

5. When reviewing the loan application, what are some potential red flag areas?
Really, all areas can have red flags. But pay close attention to some numbers like the SSN, Education and type of job, and years on job with the borrower's age.
6. Name the 3 sections of a Social Security Number
xxx = Area Number; xx = Group Number; xxxx = Serial Number
7. Is this a valid SSN? 923-00-0000 Yes or No? WHY?
No! Can never begin with a "9", "00" is not a valid Group number and 0000 is not a valid Serial Number.



Answer Key!

8. When did Area numbers >772 or >800 become valid Social Security Numbers?
June 20th, 2011
9. What are the primary attributes of a credit report?
Borrower's name, Social Security Number and Address
10. What are some red flag areas found within the Credit Report?
Social Security variations are always red flags; length of credit connected with the borrower's age; excessive credit inquiries; Conflicting

Income and Tax Documents

11. What are a few common red flag areas in income docs?
Rounded Numbers, VOE signed by someone other than Payroll or HR, EIN, Basic math errors or inconsistencies, SSN inconsistencies
12. What does the FICA consist of?
Social Security and Medicare deductions
13. What are the Social Security and Medicare deductions?
Social Security: 6.2% and Medicare: 1.45%
14. Does Social Security have a cap on the deductions?
Yes! Each year the IRS provides a limit to the amount someone can be taxed for Soc Sec. In 2017 it is \$127,200 with a max deduction of \$8,700.
15. What other taxes/ deductions are potential red flags?
State specific taxes like disability or city specific deductions like City Wage taxes
16. Name a few red flags found within asset documents.
Income level does not support assets; balances do not match from one statement to the next; overdraft charges; Fees being charged on high balances, etc...

Fraud Red Flags - Quiz (cont.)



Answer Key!

Asset Documents

17. What red flags might appear on a Verification of Deposit?

Someone on the account that might not be on loan; current balance is not supported by last 2 months average balance; the account was recently opened

18. Why is it important to obtain all pages of the asset statement?

Not only is it basic mortgage guidelines in most cases, but you never know what information you might find on some pages. You may find that “fee” explained in more detail that could cause additional investigation.

19. What some red flags might you find in the photos within the appraisal?

A For Sale sign on a refi; photos show a ranch but the home is described as a 2-story; home listed “as is” but shows significant physical depreciation and concerns;

Appraisals

no comments on proximity to major roadway or railroad tracks, etc...

20. What are some red flags you might on the comparable page?

Excessive adjustments; across the board (aka one-way) adjustments; comps not in the same neighborhood; old comp sales

21. True or False. Once a loan closes the review for red flags stops?

False! Many companies have post-closing teams that will review the documents to ensure there are no issues. Just because the loan closes, does not mean

the reviews stop.

22. What are two significant red flags found within the Closing Disclosure?

1) Sales prices differs from the purchase contract;

2) Unusual payouts or disbursements to people unrelated to the transaction

Closing Documentation