



# Foundations On-Demand

Fraud Red Flags Workbook

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## 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
XPN	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
TUIC		TU ALERT: SUBJECT - SSN INPUT VALUE DOES NOT MATCH FILE

Inquirer Name	B/C	Inquiry Date	INQUIRIES	Subscriber Code
			Repository	
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	181ZB0 6107/ 3 99692 6
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	0 993 840 / 843 ZB0 6203
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 9.



### 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  Tony Starks 219 N. 50 <sup>th</sup> Street Marvel, IL 60233		Suff.	11 Nonqualified plans	12a See instructions for box 12  12b  12c  12d	
			13 Statutory employee <input type="checkbox"/> Retirement plan <input type="checkbox"/> Third-party sick pay <input type="checkbox"/>		
			14 Other		
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 10.



## 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

# Foundations On-Demand

## FRAUD RED FLAGS

# 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 11.



## 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				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				ArmLth Conv; 3500			
Location	A; BsyRd	B; GlfCrse				N; Res				0			
Leasehold/Fee Simple	Fee Simple	Fee Simple				Fee Simple				A; BsyRd			
Site	8986 sq ft	37114 sq ft				27456 sq ft				Fee Simple			
View	N; Res	B; Glfvw				-5000				4890 sq ft			
Design (Style)	RT2:Colonial	RT2:Colonial				-25000				s06/17;c08/17			
Quality of Construction	Q4	Q2				-10000				3000			
Actual Age	58	7				-30000				Q5			
Condition	C3	C3				-5000				53			
Above Grade	Total Bdmns. Baths	Total Bdmns. Baths				Total Bdmns. Baths				C3			
Room Count	8 3 1.5	12 5 2.5				-8000				5000			
Gross Living Area	1498 sq. ft.	3267 sq. ft.				-65000				6 2 1			
SALES	Osf0f	1600sf800f 1rr;1ba				-5000				15000			
Functional Utility	Average	Average				Average				RT2:Traditional			
Heating/Cooling	Central	Central				Central				A; PwrLn			
Energy Efficient Items	Insulated Glass	Insulated Glass				-25000				15000			
Garage/Carport	1gr;2dw	4gr;6dw				-15000				41000			
Porch/Patio/Deck	Porch	Porch/Deck				-5000				850 sq. ft.			
Kitchen	Modern-	Modern-				Deck				None			
	Renovated	Renovated				Modem-				3000			
Renovated		Renovated				Renovated				23000			
Net Adjustment (Total)		<input type="checkbox"/> + <input type="checkbox"/> -				\$				\$			
Adjusted Sale Price of Comparables		Net Adj. % Gross Adj. %				\$ 479,500				Net Adj. % Gross Adj. %			
		Net Adj. % Gross Adj. %				\$ 476,050				Net Adj. % 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

# Foundations On-Demand

## FRAUD RED FLAGS

### 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			
c Employer's name, address, and ZIP code  LEE'S GENERAL CONTRACTORS 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  Tony Starks 219 N. 50 <sup>th</sup> Street Marvel, IL 60233		Suff. 11 Nonqualified plans  13 Statutory employee <input type="checkbox"/> Retirement plan <input type="checkbox"/> Third-party sick pay <input type="checkbox"/> 14 Other	12a See instructions for box 12  12b  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
<b>W-2 Wage and Tax Statement</b> Form 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

FEATURE								SUBJECT		COMPARABLE SALE # 1			COMPARABLE SALE # 2			COMPARABLE SALE # 3			File #			
Address								1428 Elm Street		1543 Evergreen Rd			47 Dogwood Ave			1400 Elm Street						
Proximity to Subject								Springwood, OH 45503		Rosewood, OH 45504			Parkview, OH 45513			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			ArmLth			-5000			ArmLth			
Date of Sale/Time										Conv: 0			Conv: 5000			Conv: 3500			-3500			
Location								s10/17;c12/17		s04/18;c07/18			s06/17;c08/17			s06/17;c08/17			3000			
Leasehold/Fee Simple								A; BsyRd		B; GifCrse			-5,000			N; Res			0			
Site								Fee Simple		Fee Simple			Fee Simple			Fee Simple						
View								8986 sq ft		37114 sq ft			-16500			27456 sq ft			-12700			
Design (Style)								N; Res		B; Gifvw			-5000			B; Mtn			-2500			
Quality of Construction								RT2:Colonial		RT2:Colonial			-25000			RT2:Colonial			-25000			
Actual Age								Q4		Q2			-10000			Q3			-5000			
Condition								58		7			-30000			18			-15000			
Above Grade Room Count								C3		C3			-5000			C3			-5000			
Gross Living Area								Total	Bdrms.	Baths	Total	Bdrms.	Baths	Total	Bdrms.	Baths	Total	Bdrms.	Baths			
Basement & Finished Rooms Below Grade								8	3	1.5	12	5	2.5	-8000	10	4	2.5	-5000	6	2	1	15000
Functional Utility								0sf0f		1600sf800f			-5000			0sf0f			0sf0f			
Heating/Cooling								Average		Average			Average			Average			Average			
Energy Efficient Items								Central		Central			Central			Hwtwr;unit			3000			
Garage/Carport								Insulated Glass		InsldGls; Solar			-25000			Insulated Glass			None			
Porch/Patio/Deck								1gr;2dw		4gr;6dw			-15000			2gr;4dw			-5000			
Kitchen								Porch		Porch/Deck			-5000			Deck			0			
Renovated								Renovated		Renovated			Renovated			Renovated			Renovated			
Net Adjustment (Total)										□ + □ -			\$			□ + □ -			\$			
Adjusted Sale Price of Comparables								Net Adj. %		Gross Adj. %			\$ 479,500			Net Adj. %			Gross Adj. %			\$ 431,500