



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

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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
BRCCLYSBANKDE	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 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 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

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			DESCRIPTION			DESCRIPTION			
Sale or Financing Concessions				ArmLth Conv; 0			ArmLth Conv; 5000			ArmLth Conv; 3500			
Date of Sale/Time				s10/17;c12/17			s04/18;c07/18			s06/17;c08/17			
Location	A; BsyRd			B; GlfCrse			N; Res			A; BsyRd			
Leasehold/Fee Simple	Fee Simple			Fee Simple			Fee Simple			Fee Simple			
Site	8986 sq ft			37114 sq ft			27456 sq ft			4890 sq ft			
View	N; Res			B; Glfw			B; Mtn			A; PwrLn			
Design (Style)	RT2:Colonial			RT2:Colonial			RT2:Colonial			RT2:Traditional			
Quality of Construction	Q4			Q2			Q3			Q5			
Actual Age	58			7			18			53			
Condition	C3			C3			C3			C3			
Above Grade	Total	Bdms.	Baths	Total	Bdms.	Baths	Total	Bdms.	Baths	Total	Bdms.	Baths	
Room Count	8	3	1.5	12	5	2.5	10	4	2.5	6	2	1	
Gross Living Area	1498 sq. ft.			3267 sq. ft.			2500 sq. ft.			850 sq. ft.			
Basement & Finished Rooms Below Grade	0sf0f			1600sf800f 1rr;1ba			0sf0f			0sf0f			
Functional Utility Heating/Cooling	Average Central			Average Central			Average Central			Average Htwtr;unit			
Energy Efficient Items	Insulated Glass			InsultdGls;Solar			Insulated Glass			None			
Garage/Carport	1gr;2dw			4gr;6dw			2gr;4dw			Street			
Porch/Patio/Deck	Porch			Porch/Deck			Deck			None			
Kitchen	Modern-Renovated			Modern-Renovated			Modern-Renovated			None			
Net Adjustment (Total)													
Adjusted Sale Price of Comparables				Net Adj. %			Net Adj. %			Net Adj. %			
				Gross Adj. %			Gross Adj. %			Gross Adj. %			
				\$ 479,500			\$ 476,050			\$ 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	
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 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



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	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 1/27/15	=\$40087.34
<hr/>		
	Summary	
	Previous Balance as of 1/27/15	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 2/25/15	=\$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													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		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	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	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)				□ + □ -		\$		□ + □ -		\$		□ + □ -		\$		
Adjusted Sale Price of Comparables				Net Adj.		%		Net Adj.		%		Net Adj.		%		
				Gross Adj.		\$ 479,500		Gross Adj.		\$ 476,050		Gross Adj.		\$ 431,500		