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

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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: 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	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	0993840/843ZB06203
UNIVERSAL AMERICAN M	B	11/17/15	Tuc01	Z 00285278
BRCLYSBANKDE	B	10/24/15	Tuc01	B 03390354

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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

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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 ☐	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. 50th Street Marvel, IL 60233 f Employee's address and ZIP code	11 Nonqualified plans	12a See instructions for box 12
	13 Statutory employee ☐ Retirement plan ☐ Third-party sick pay ☐	12b
	14 Other	12c
		12d

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.

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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!
Appriasals

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	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; Glfvw	-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 Room Count	Total 8, Bdrms. 3, Baths 1.5	Total 12, Bdrms. 5, Baths 2.5	-8000	Total 10, Bdrms. 4, Baths 2.5	-5000	Total 6, Bdrms. 2, Baths 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	InsltdGls;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. % Gross Adj. %	$ 479,500	Net Adj. % Gross Adj. %	$ 476,050	Net Adj. % Gross Adj. %	$ 431,500

SALES COMPARISON AP

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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

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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 ☐

a Employee's social security number
934-00-8119

OMB No. 1545-0008

b Employer identification number (EIN)
36-6539056

c Employer's name, address, and ZIP code

LEE'S GENERAL CONTRCTORS
1962 Ohio Ln.
Chicago, IL 60345

d Control number
12145-4879

e Employee's first name and initial | Last name | Suff.

Tony Starks
219 N. 50th Street
Marvel, IL 60233

f Employee's address and ZIP code

1 Wages, tips, other compensation: 38334.40	2 Federal income tax withheld: 5545.54
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
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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.

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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

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

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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

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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	InsltdGls;Solar	-25000	Insulated Glass		None	2000
Garage/Carport	1gr;2dw	4gr;6dw	-15000	2gr;4dw	-5000	Street	20000
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