

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.

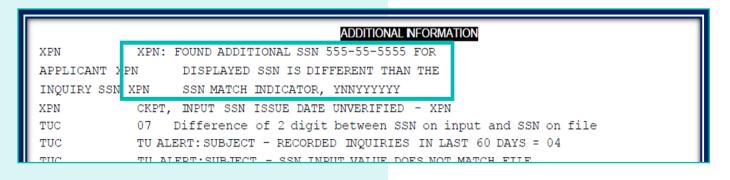




Loan Application, SSN and Credit Documentation

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.





			INQUIRIES	
Inquirer Name	B/C	Inquiry Date	Repository	Subscriber Code
CALIBER HOME LOANS	В	12/15/15	TucOl	F 01207005
CREDCO	В	12/15/15	EfxOl/XpnOl	181ZB06107/3996926
CALIBER HOME LOANS	В	12/09/15	TucOl	F 01207005
CREDCO	В	12/09/15	Efx01/Xpn01	181ZB0 6107/ 3 99692 6
DHI MORTGAGE COMPANY	В	11/24 /15	TucOl	z 00008281
EMS	В	11/24/15	EfxOl	444ZB02813
EQUIFAX MORTGAGE SER	В	11/24/15	XpnOl	197678 5
CBCINNOVIS	в	11/17/15	XpnOl/EfxOl	0 993 840 / 843 ZB0 6203
UNIVERSAL AMERICAN M	В	1 1/17/15	TucOl	Z 00285278
BRCLYSBANKDE	В	10/24/15	TucOl	В 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.





Vaid	34-00-8119	OMB No. 154	5-0008				
b Employer identification number (EIN) 36-6539056				ges, tips, other compensation 8334.40	2 Federal income tax withheld 5545.54		
c Employer's name, address, and ZIP code				cial security wages 8334.40	4 Social security tax withheld 2221.96		
LEE'S GENERAL CONTRCTORS 1962 Ohio Ln.				dicare wages and tips 8334.40	6 Medicare tax w 519.48	6 Medicare tax withheld 519.48	
Chicago, IL 60345				cial 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.			11 Nonqualified plans		12a See instructions for box 12		
Tony Starks			13 State emp	utory Retirement Third-party loyee plan sick pay	12b		
219 N. 50 th Street Marvel, IL 60233			14 Oth	er	12c		
					12d		
f Employee's address and ZIP code 15 State Employer's state ID number	16 State wages, tips, etc.	17 State incom	ne tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name	
W-2 Wage and Tax Statement					of the Treasury—Interna r Privacy Act and Pape Act Notice, see sepa	rwork Reduction	



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.





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?

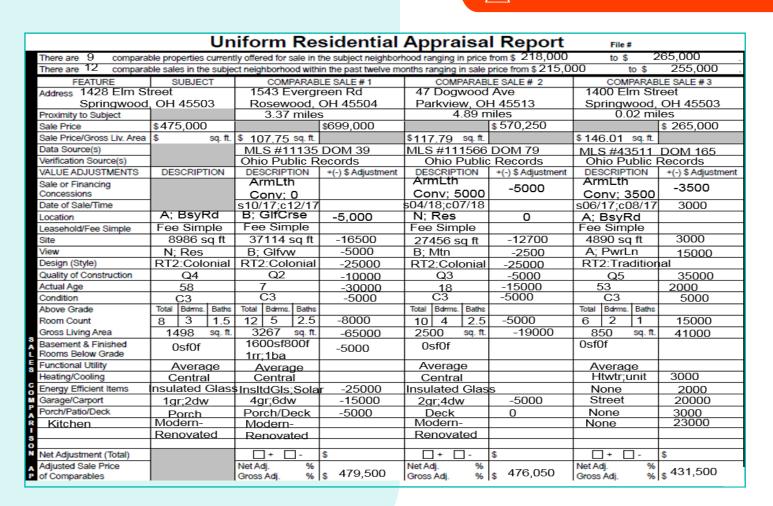
If not, you have a red flag as the value would be outside what is currently selling in the subject's neighborhood.

What are the red flags on this document?

Answers are on page 11.



Read Me!





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.





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

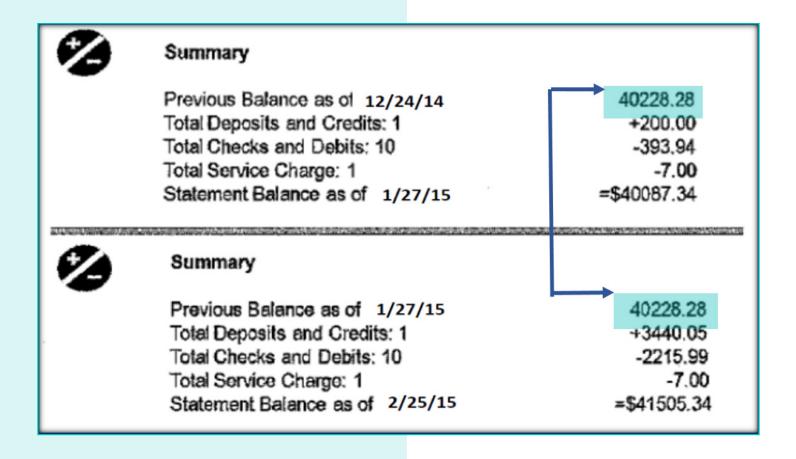
Void a Employee's social security number	
b Employer identification number (EIN) 36-6539056	1 Wages, tips, other compensation 38334.40 2 Federal income tax withheld 5545.54
LEE'S GENERAL CONTRCTORS 1962 Ohio Ln.	3 Social security wages
Chicago, IL 60345 d Control number 12145-4879 e Employee's first name and initial Last name S	9 Verification code 10 Dependent care benefits uff. 11 Nonqualified plans 12a See instructions for box 12
Tony Starks 219 N. 50 th Street Marvel, IL 60233	13 Statutory employee plan Sick pay 2 12b 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2
f Employee's address and ZIP code 15 State Employee's state ID number 16 State wages, tips, etc. 17 State in	come 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





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

	Un	iform Re	sidential	Appraisa	I 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 comparat	ble sales in the subje	ct neighborhood with	in the past twelve mo	onths ranging in sale	price from \$ 215,0	00 to \$	255,000 .
FEATURE SUBJECT COMPARABLE SALE # 1 COMPARABLE SALE # 2 COMPARABLE SALE # 3							
Address 1428 Elm Street		1543 Evergreen Rd		47 Dogwood Ave		1400 Elm Street	
Springwood, OH 45503		Rosewood, OH 45504		Parkview, OH 45513		Springwood, OH 45503	
Proximity to Subject		3.37 miles		4.89 miles		0.02 mi	
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 R		Ohio Public		Ohio Public	
VALUE ADJUSTMENTS	DESCRIPTION	DESCRIPTION	+(-) \$ Adjustment	DESCRIPTION	+(-) \$ Adjustment	DESCRIPTION	+(-) \$ Adjustment
Sale or Financing		ArmLth		ArmLth	-5000	ArmLth	-3500
Concessions		Conv; 0		Conv; 5000		Conv; 3500	
Date of Sale/Time	A . Da Da	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		-25000	RT2:Colonial	-25000	RT2:Tradition	ial
Quality of Construction	Q4	Q2	-10000	Q3	-5000	Q5	35000
Actual Age	58	7	-30000	18	-15000	53	2000
Condition	Ç3	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	nsulated Glass	InsltdGls;Sola	r -25000	Insulated Glas	s	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-	Modern-		Modern-		None	23000
Kitchen	Renovated	Renovated		Renovated			
			•		•		•
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

