



Discover Gold Through Quality

Fraud Prevention Best Practices

Available at: www.FreddieMac.com/dgtq

Chapter 1 – Preventing, Detecting and Resolving Fraud

Introduction

Freddie Mac's Fraud Investigation Unit was created in 1989 to assist in the prevention, detection and resolution of mortgage fraud. We are committed to helping you and others in the mortgage industry combat fraud. Working together, we can keep our housing-finance system stable and financially strong.

To combat fraud Freddie Mac recommends you provide all appropriate employees, including servicing staff, in your organization with the following:

- Clear directives as to their responsibility when they suspect fraud
- An awareness of the major types of fraud
- An understanding of underwriting *red flags* and their use. See Chapter 2, Mortgage Screening Checklist
- A list of resources available to them to detect and investigate fraud

This chapter will give you guidelines to help you prevent, detect and resolve mortgage fraud in your business operations.

Fraud Hotline

To report incidents of fraud that might affect Freddie Mac, please contact our **Fraud Hotline** at (800) 437-2838 or (800) 4 FRAUD 8.

Preventing Fraud

In many organizations, fraud prevention and detection efforts are closely tied within the quality control area. Although your fraud prevention and detection efforts should not be limited to your quality control area, your quality control program is an excellent place to strengthen those efforts. Efforts to prevent and detect fraud should be made in a number of areas including:

- Employee training
- Prudent underwriting
- Quality control
- Loan servicing procedures

Employee Training

Employee training programs that are effective in the fight against fraud:

- Provide employees with the information to help them recognize the *red flags* that may signal the need for more review. See Chapter 2, Mortgage Screening Checklist
- Help employees understand the most common fraud schemes
- Ensure that your work force is familiar with your company's standards for ethical conduct
- Ensure external auditors and/or regulators that sound procedures are in place regarding fraud

Prudent Underwriting

Prudent underwriting—often the cornerstone of your efforts to fight fraud— includes:

- Knowing your brokers. See Chapter 5 of the Wholesale Originations Best Practices section of *Discover Gold Through Quality*
- Knowing your appraisers, builder clients, real estate agents and others with whom you conduct business
- Following comprehensive written procedures
- Screening all loans through Freddie Mac's Exclusionary List, which you can find on LoanProspector[®]. com, GoldWorks[®] and MIDANET[®]
- Staffing your organization in a way that ensures quality before quantity
- Encouraging your employees to adhere to the axiom, "If it doesn't make sense, don't make the loan."
- Sharing information amongst your staff and other departments

- Utilizing outside vendors on a rotating basis
- Performing due diligence

Quality Control

To ensure that your fraud prevention and detection efforts are working, you should group and analyze your quality control results accordingly to better identify and highlight potential trends:

- Branch office
- Loan officer
- Broker
- Underwriter
- Real estate agent
- Product
- Geographic area
- Closing/escrow agent
- Title company
- Appraiser

In addition, you should:

- Consider pre-funding quality control for high-risk loans based on LTV, rate, and FICO
- Target all early payment defaults for reverification and review
- Continually update your quality control policies and procedures
- Immediately report adverse findings to senior management if you suspect fraud
- Immediately report adverse findings to your Freddie Mac Quality Control Manager

Loan Servicing Procedures

Implementing the most diligent pre-funding reviews and post-funding quality control audits are no guarantee that fraud will be detected as most are based on sampling techniques. A number of things can be done in the servicing area to help you fight fraud, such as:

- Recognize and investigate adverse default trends
- Note changes in who is making payments on loans

FRAUD PREVENTION BEST PRACTICES

- Perform due diligence reviews before acquiring servicing
- Monitor pre-payment speeds on loans retained for servicing

Portfolio analysis should be performed to monitor for suspicious or abnormal activity that may uncover patterns of mortgage fraud:

- Review for first and early payment defaults
- Focus on geographic areas where the default rate is above average
- Review production of branches or loan officers whose loan default rate is above average
- Review monthly production to identify geographical concentrations
- Periodic review of high volume producers
- Review production for a branch or loan officer whose monthly production has dramatically increased within a short period of time

Review unusual patterns such as:

- No valid phone number - collector is unable to contact borrower
- Returned mail with no forwarding address
- Address change requested on owner occupied properties
- Social Security number change requests
- Insurance changed from occupant to investor
- Work number is disconnected
- Borrowers employer does not know borrower or borrower was terminated from employment prior to the closing date
- Loan is coded owner occupied, but the borrower states reason for default is “tenant not paying rents”

Pursue “suspicious” collection calls that may indicate fraud is taking place:

- “Oh...this isn’t my loan. I let someone use my name”
- “My broker/realtor/seller is supposed to be making the payments”
- “I’m not responsible for the payment. I only purchased the house for a friend/relative”
- “I deeded/sold this property to _____. Contact them for the payment”
- “This isn’t my loan. I never owned property at that address”
- “I bought multiple investment properties from the same person and they are all vacant and in disrepair”

Training programs for your loan servicing employees can be a crucial line of defense against mortgage fraud. Areas to include are customer service, collection, loss mitigation, foreclosure, bankruptcy, escrow, and real estate owned (REO). Employees should know the process for escalating any suspicious incidents and mortgage fraud awareness should be incorporated into any new employee orientation programs.

Detecting and Investigating Fraud

To assist you in identifying fraudulent mortgages, Freddie Mac is providing the following descriptions of common fraud elements and several possible fraud schemes. We do not represent this information to be all-inclusive. There are certainly more types of fraud than described in this section, and there will be new types of schemes that emerge. Keep in mind that many of these schemes contain several of the same elements, or may be referred to by a different name, so it can be difficult to distinguish between, or even keep track of the latest schemes.

Common Fraud Elements

Some common fraud elements typically found in many fraud schemes include:

Inflated Appraisals

Inflated appraisals are appraisals with fabricated or altered values and supporting information. The comparables used in the appraisal are often not valid comparables and may also contain false values and information.

See Chapter 2, Mortgage Screening Checklist, for a list of appraisal-related *red flags* that may occur when inflated appraisals are being used in the transaction.

Loan-level Misrepresentations

Misrepresentations in files may include fabricated or altered employment, income and asset documentation. There may be undisclosed mortgage debts on the application if the borrower is applying for multiple loans at the same time. Sources of funds to close may be misrepresented, or provided to the borrower by the person “orchestrating” the fraud scheme. The borrower’s occupancy intent may also be false.

Rapid Transfers of Title

The owner of record should be consistent with the property seller on the contract and title documents on a purchase, and match the borrower on the loan application and title documents on a refinance. If the property seller/borrower is not the owner of record, the loan needs to be investigated to ensure the circumstances of the transaction are legitimate.

Unusual HUD-1 Payouts

Payouts may be made to unknown entities, often the ones profiting from the scheme. Payouts might also be made to cover phantom liens, repair allocations, referral fees, and non-lien disbursements.

See Chapter 2, Mortgage Screening Checklist, for a list of HUD-1 related red flags that may occur.

Identify Theft

Identify theft is frequently used to impersonate realtors, loan officers, appraisers, borrowers and others in the mortgage industry. One or more parties in the transaction may be using a false identity. Forgeries often rely on participation of a notary.

Some of the following *red flags* may occur when identity theft is perpetrated in the transaction:

- 🔒 Borrower lives out of the area and does not appear on credit report to have any tie to the area in which property is located
- 🔒 Payments on the loan are not remitted from the borrower
- 🔒 The borrower did not attend closing and there was a use of a Power of Attorney
- 🔒 Social Security number has not been issued
- 🔒 The number of years employed is greater than the issue date of the SSN
- 🔒 Borrower name not associated with SSN

Straw Borrowers

A straw borrower is an individual whose personal profile is used to serve as a cover for a transaction. They are sometimes referred to as a nominee borrower or straw buyer. Straw borrowers are chosen for their ability to qualify for the loan. Straws can be willing participants in the transaction, or victims whose identity is being used unbeknownst to them (identity theft). Straw borrowers can cause loans to be approved that would ordinarily be declined.

For example, the actual borrower may NOT:

- Qualify for the mortgage
- Intend to occupy the property as a primary residence
- Be eligible for a loan program
- Exist

Some of the following *red flags* may occur when a straw borrower is used in the transaction:

- 📄 A quit claim deed is used either right before, or soon after, loan closing
- 📄 Investment property is represented as owner-occupied
- 📄 Someone signed on the borrower's behalf or use of a Power of Attorney
- 📄 Names were added to the purchase contract
- 📄 Purchase contract addenda adjusts the price
- 📄 Purchase contract or HUD-1 contains references to secondary financing
- 📄 Sale involves a relative or related party
- 📄 No sales agent is involved
- 📄 There is an indication of default by the property seller
- 📄 High FICO score
- 📄 Good assets, but gift used as down payment
- 📄 Sources of funds are questionable
- 📄 Repository alerts on credit report
- 📄 Post closing - payments are remitted by a party other than the borrower

Affinity Fraud

Affinity fraud exploits the trust and friendship that exist in groups of people who have something in common. The fraudsters who promote affinity scams frequently are—or pretend to be—members of the group, often preying on their own community of friends, family and co-workers. Affinity fraud has been found in many different types of groups such as religious, military, ethnic, professional, workplace, elderly and fitness/gym. Investment property schemes often take root from affinity groups.

With affinity fraud, there is an immediate level of trust within the group. Some members may have invested and made high returns, becoming advocates for the scheme. Loyalty to the group may deter members from reporting schemes or monetary losses to authorities.

Common Fraud Schemes

Again, there are certainly more types of fraud than described in this section, and there will be new types of schemes that emerge. Some common fraud schemes include:

Builder Bailout Scheme

Builder bailouts occur when the builder or developer is motivated to move property quickly when the market has slowed and sales have begun to lag. The builder and other industry professionals may engage in questionable practices in order to move the remaining inventory of properties.

With builder bailouts, there are typically several misrepresentations involved with the transaction and may include:

- False income and employment
 - False down payment
 - False intent to occupy the property
 - Straw buyers
 - Inflated appraisals - usually just enough to create equity for the borrower or to cover the down payment
 - Invalid subordinate financing
- Some of the following *red flags* may occur in builder bailouts:

- 🔪 The builder is willing to "do anything" to sell property
- 🔪 The borrower is barely qualified or unqualified, or may be a straw buyer
- 🔪 The sales price and appraisal show signs of inflation
- 🔪 Incentives such as buy-down funds appear excessive
- 🔪 No-money-down sales are heavily promoted
- 🔪 "Silent" second mortgages are involved
- 🔪 The sales price is adjusted upwards
- 🔪 The source of borrower down payment funds is questionable
- 🔪 There is a reference to secondary financing on HUD-1 or purchase contract
- 🔪 Parties to the transaction are affiliated
- 🔪 Multiple sales to same person in the same project or subdivision
- 🔪 Several loans close within a short period of time within a specific project or subdivision

Property Flips

Property flips occur when ownership of one property changes several times in a brief period of time. Property flipping becomes illegal and a fraud for profit scheme when a home is purchased and resold within a short time frame at an artificially inflated value. The flip typically involves a fraudulent appraisal, which may indicate that renovations were made to the home, when, in fact, there were none, or the renovations consisted only of minor cosmetic improvements. Flips may also be used to conceal the identity of the true buyer or seller of the property.

Some of the following *red flags* may occur in flips:

- 📄 Ownership changes two or more times in a brief period of time
- 📄 Two or more closings occur almost simultaneously
- 📄 The property has been owned for a short time by the seller
- 📄 The property seller is not on title
- 📄 There is a reference to a double escrow or other HUD-1 form
- 📄 Parties to the transaction are affiliated
- 📄 Up-and-down fluctuation of sales price over short period of time
- 📄 Multiple investment properties obtained by same buyer within short time frame
- 📄 “Purchases” disguised as “refinances” to circumvent a down payment
- 📄 Property seller is an entity/corporation
- 📄 Unusual cash payouts at closing on HUD-1 to non-lien holders
- 📄 Comparable sales on appraisal are previously flipped properties

Foreclosure Rescue Scheme

A foreclosure rescue scheme is a type of fraud that takes advantage of homeowners who have fallen behind on their mortgage payments. The fraud perpetrator or “rescuer” approaches the homeowner with a promise to pay off the delinquent mortgage and help the homeowner stay in the property. At closing, the homeowner surrenders title (usually unaware they are doing so) to an investment buyer, who may have been recruited. The proceeds are used to pay off the defaulted loan, but the remaining equity is paid out to the “rescuer”.

Some of the following *red flags* may occur with a foreclosure rescue scheme:

- 📄 Buyer purchases a home as an investment while he or she continues to rent
- 📄 Buyer purchases multiple rental properties simultaneously
- 📄 Buyer purchases the property as a primary residence when he or she already owns a home of superior value
- 📄 Buyer is unable to contribute to funds to close

Investment Property Fraud

Investment property fraud often involves an elaborate scheme to profit the fraudster using legitimate investment buyers or straw buyers. Affinity groups may be targeted. These schemes commonly involve:

- Investment clubs or seminars to promote an investment opportunity
- No money down offers on multiple properties being sold to one borrower
- Cash back to borrower at closing

- Out-of-state property purchases where borrowers don't physically have a chance to look at the property (or properties) prior to closing. (The property may be distressed without the buyer's knowledge.)
- Loan-level misrepresentations to qualify the borrowers
- Artificially inflated values
- Purchases that are disguised as refinances to circumvent a down payment
- Rushed closings to avoid exposure before the scheme unfolds

Purchases Disguised as Refinances

These schemes are often used to disguise the borrowers equity contribution in the transaction, inflate the property value, close the loan as a refinance and provide cash-out to the fraudster. Some of the following *red flags* may occur when a purchase is disguised as a refinance:

- 🔒 Borrower is not in title on the title commitment
- 🔒 Land contracts executed right before or after application
- 🔒 No payment history on land contract or zero paid down on balance
- 🔒 Recent transfers of the subject property—was it flipped?
- 🔒 Multiple investment properties purchased within a short time frame
- 🔒 Inflated appraised values
- 🔒 Borrowers unfamiliar with terms/conditions of land contract or unaware of the existence of a land contract
- 🔒 Same name of borrower and owner of record on appraisal Property is refinanced right after a purchase on the property

Cash-out Purchases

A cash-out purchase scheme normally involves one closing and occurs when properties have been on the market for an extended length of time and a desperate seller is unable to find a qualified buyer.

The seller may be offered a way out of the situation with an offer that exceeds the selling price of the property and an agreement to make a refund to the buyer after closing. The property appraisal is inflated and a straw buyer is used to purchase the property. The loan often goes into early payment default and ends in a foreclosure.

The following *red flags* may indicate a cash-out purchase:

- 📄 The home may have been on the market for an extended period of time
- 📄 The sales contract may have been modified or may include an addendum regarding the payment to the borrower
- 📄 The appraisal may include red flags symptomatic of inflated value
- 📄 Many of the same red flags that accompany a traditional flip also apply to cash-out purchase fraud - straw buyer, false source of funds and false occupancy
- 📄 The preliminary *HUD-1* Form may already indicate a portion of the net proceeds going back to the borrower

List of Investigative Resources

You should provide your staff with the resources available to investigate suspected misrepresentation and/or fraud in the mortgage file. These sources may include:

- Freddie Mac Fraud Hotline: **1-800 4 FRAUD 8**
- Discover Gold Website www.FreddieMac.com/dgtq
- Freddie Mac Fraud Prevention
www.FreddieMac.com/singlefamily/fraud_prevention.html
- Freddie Mac Exclusionary List (Seller/Service providers only)
- Internet - search and access records/information. Freddie Mac does not endorse any particular vendor or website, but a list of websites that may be helpful include:
 - www.accurant.com (Accurant records database)
 - www.lexisnexis.com (LexisNexis records database)
 - www.mari-inc.com (Mortgage Asset Research Institute)
 - www.searchsystems.net (public information)
 - www.searchbug.net (people and company finder)
 - www.salary.com (salary benchmarks)
 - www.mortgagefraudblog.com (recent fraud cases)
 - www.mbafighthsfraud.mortgagebankers.org/ (Mortgage Fraud Against Lenders Resource Center)
 - www.mortgagefraud.squarespace.com (recent fraud cases)
 - www.fraud.org (National Consumer League's Fraud Center)
 - www.fraudproblem.com (Real estate and mortgage fraud information and assistance center)
 - <http://www.asc.gov/> (Appraisal Subcommittee)

- www.nationalmortgagenews.com/fraud/newsletter (National Mortgage News Fraud and Compliance Report)
 - www.consumer.gov/idtheft (Federal Trade Commission's Identify Theft site)
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Resolution

Once fraud affecting Freddie Mac has been detected, immediately contact our **Fraud Hotline** at (800) 437-2838 or (800) 4 FRAUD 8. If fraud is discovered in an isolated Freddie Mac loan, call your Freddie Mac QC representative.

In addition, some industry best practices include:

- Requiring the broker to repurchase the loan
 - Beginning foreclosure proceedings or acceleration of the Note in accordance with the mortgage documents
 - Terminating business or employment relationships
 - Initiating civil actions
 - Referring the matter to state or local mortgage regulators
 - Referring the matter to local, state or federal authorities for criminal action
 - If your institution is federally insured, file a Suspicious Activity Report
 - Conducting a comprehensive review of responsible parties including a determination of overall exposure levels
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Freddie Mac Exclusionary List

The Freddie Mac Exclusionary List is updated and distributed monthly. It contains the names and addresses of individuals and companies that have been excluded from participating in transactions involving Freddie Mac loans, either directly or indirectly. Freddie Mac's Seller/Servicers and our contractors must warrant that no person or entity on the Exclusionary List is involved in the origination or servicing of a loan sold to or serviced for Freddie Mac. (See Guide Section 6.11)

The Exclusionary List must not be distributed to third parties because it contains confidential information. There are no exceptions to this policy. Individuals accessing or using the Exclusionary List are required to maintain the confidential nature of the information on the Exclusionary List. By accessing or using the Exclusionary List, the user agrees to indemnify Freddie Mac for any loss, damage or expense resulting from the users' failure to maintain the confidentiality of the information on the List.

FRAUD PREVENTION BEST PRACTICES

- The Exclusionary List is available to Freddie Mac Seller/Serviceers via LoanProspector.com, GoldWorks and MIDANET. For directions on how to access the Exclusionary List through these systems refer to:
 - Loan Prospector -
http://www.FreddieMac.com/learn/uw/pdfs/qrefs/ex_lst_lp.pdf
 - GoldWorks -
http://www.FreddieMac.com/learn/service/pdfs/ex_lst_gold.pdf
 - MIDANET -
http://www.FreddieMac.com/learn/deliver/pdfs/qrefs/ex_lst_midanet.pdf
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Chapter 2 – Mortgage Screening Checklist

Introduction

There are a number of details that underwriters, processors and quality control employees should look for in the loan file documents. To assist you in identifying mortgages that may contain false or misleading information, we have put together this *Mortgage Screening Checklist*. Finding one or more of the items does not necessarily mean there is fraudulent intent. However, these *red flags* may signal the need for a more intensive file review.

Mortgage Loan Application

- ✎ Down payment other than cash (rent credit, sale of personal property, repayment of loan, gift, etc.)
- ✎ Loan is for a owner-occupied refinance, but the owner lives elsewhere (usually out of state)
- ✎ Non-purchasing spouse
- ✎ Borrower buying investment property, but does not own current residence
- ✎ New home is not large enough for proposed occupants
- ✎ Post office box is the only address listed for employer (especially on the handwritten application)
- ✎ The employer's phone number is a cell phone
- ✎ Significant or unrealistic commute distance from subject property to employment (on owner-occupied transactions)
- ✎ Number of years on the job/in that profession inconsistent with borrower's age
- ✎ Borrower's level of education is inconsistent with employment
- ✎ Borrower's office phone number is the same as home number (borrower is possibly self-employed)
- ✎ Assets inconsistent compared to liabilities (for example, significant assets, yet no credit or minimal credit)
- ✎ Buyer is downgrading to smaller or less expensive home
- ✎ Incomplete handwritten application
- ✎ Borrower income inconsistent with type of employment
- ✎ Non-transient job with company phone number identified as a cell phone

DISCOVER GOLD THROUGH QUALITY

- 📄 Incomplete Schedule of Real Estate Owned
 - 📄 Significant or contradictory changes in debt, employment, income or assets from the initial to the final application
 - 📄 Borrower is purchasing property from landlord or employer
 - 📄 Handwritten application lists debts in the same order as credit report
 - 📄 Borrower signature is inconsistent with rest of the loan file
 - 📄 Compare employment against the credit report, bank statements (for direct payroll deposits), and tax returns
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Credit Report

- 📄 All credit reports and/or supplements are not included in the file
- 📄 Personal data not consistent with handwritten application
- 📄 Social security number is invalid, differs from loan application or has been recently issued
- 📄 Variance in residence data from other file documentation
- 📄 Employment cannot be verified by a credit bureau
- 📄 Variance in employment data from other file documentation
- 📄 No credit (possible use of alias or different social security number)
- 📄 Credit habits inconsistent with income/employment
- 📄 All trade lines opened at the same time or opened recently
- 📄 All accounts paid in full recently (possibly a new, undisclosed consolidation loan)
- 📄 Refinance of recently originated loan (current lender may have accelerated for misrepresentation)
- 📄 Length of time on credit bureau file inconsistent with buyer's age
- 📄 Also Known As (AKA) or Doing Business As (DBA) indicated
- 📄 Recent inquiries from other mortgage lenders
- 📄 Indebtedness disclosed on the mortgage application varies from that reflected on the credit report
- 📄 Infile credit report on closing date shows additional debt
- 📄 Credit report is from a different lender
- 📄 Hawk alerts

Verification of Employment (VOE)

- ✎ Appearance that the VOE may have been hand-carried (i.e., folded, not creased. If folded in half, it may indicate it wasn't mailed, but hand-carried. If creased, it may indicate the VOE was mailed)
- ✎ Name of employer incorporates some form of borrower's name (for example, borrower is John Doe and employer is J.D. Enterprises)
- ✎ Employer uses mail drop or post office box address
- ✎ Typed by employer
- ✎ Date of hire is a weekend or holiday
- ✎ Generic job titles (for example, manager, general manager, accountant, consultant)
- ✎ Income is out of line with the type of employment
- ✎ Commission-type position with "base" salary only (and vice versa)
- ✎ Round dollar amounts in (i.e., year-to-date or prior year's earnings)
- ✎ "Squeezed-in" numbers
- ✎ YTD past year's income says, "See W-2s and Paystubs"
- ✎ VOE shows company car and application shows auto loan
- ✎ Illegible signature with no further identification
- ✎ Co-borrower's maiden name is the same as the signature of employer (self-employed)
- ✎ Person verifying employment appears to be related to the borrower
- ✎ VOE completed same day as ordered
- ✎ White-outs or cross-outs
- ✎ Credit explanation indicates that borrower was late due to illness/layoff, but income on VOE is not lower during that time period
- ✎ Business entity is not in good standing or not registered with the appropriate regulatory agencies
- ✎ Handwritten paystubs or W-2 forms
- ✎ Company phone number is identified as a cell phone number

DISCOVER GOLD THROUGH QUALITY

- 🔗 “Personnel” is misspelled
 - 🔗 Person verifying income is not in a proper position to sign the VOE
-

Paystubs

- 🔗 Form is handwritten
 - 🔗 Not computer-generated from large employer
 - 🔗 Check numbers do not increase chronologically
 - 🔗 Round dollar amounts
 - 🔗 Amounts withheld for Social Security, Medicare and other government programs are inconsistent with the level required
 - 🔗 Debts reflected as deduction from pay (credit union loans, etc.) not disclosed on application
 - 🔗 Year-to-date totals do not total accurately from paycheck to paycheck
 - 🔗 Social Security number is not consistent with other loan file documents
 - 🔗 Type/fonts are inconsistent
 - 🔗 Number of dependents is inaccurate based on loan application
-

Form W-2/1099

- 🔗 Form is handwritten
- 🔗 Not computer-generated from large employer
- 🔗 W-2 is typed, but paystubs are computer-generated
- 🔗 Different type/font within the form
- 🔗 Employer identification number is formatted other than XX-XXXXXXX (two digits, hyphen, seven digits) and/or other than numeric (could be invalid)
- 🔗 Employer and employee names or addresses are inaccurate
- 🔗 Wrong SSN or misspelled name
- 🔗 Round dollar amounts
- 🔗 Income reflected on W-2 statements is different than income reported on mortgage application, VOE and tax returns

DISCOVER GOLD THROUGH QUALITY

- ✎ FICA and Medicare wages/taxes and local taxes, where applicable, exceed ceilings/set percentages
 - ✎ Copy submitted is not “Employee’s Copy” (Copy C)
 - ✎ Withholdings are inconsistent with paystub
-

Tax Returns (Form 1040)

- ✎ Address and/or profession does not agree with other information submitted on the mortgage application
 - ✎ Type of handwriting varies within return
 - ✎ Evidence of “white-out” or other alterations
 - ✎ Unemployment compensation reported, but no gap in employment is disclosed
 - ✎ No estimated tax payments by self-employed borrower (Schedule SE required); or self-employment tax claimed, but self-employment not disclosed
 - ✎ Tax returns are not signed/dated by borrower
 - ✎ Paid preparer signs taxpayer’s copy
-

Schedule A (Itemized Deductions)

- ✎ Real estate taxes and/or mortgage interest is paid but no property is owned (or vice versa)
 - ✎ Tax preparation fee is deducted, yet prior year’s return is prepared by borrower
 - ✎ Few or no deductions for a high-income borrower
-

Schedule B (Interest and Dividend Income)

- ✎ Borrower with substantial cash in the bank shows little or no related interest income
 - ✎ No dividends are earned on stocks owned
 - ✎ Amount or source of income does not agree with the information submitted on the mortgage application
-

Schedule C (Profit/Loss from Business Owned)

- ✎ Business code is inconsistent with type of business
 - ✎ Gross income does not agree with total income on Form 1099s
 - ✎ No “cost of goods sold” on retail or similar type of business
 - ✎ Borrower takes a depreciation deduction for real estate not disclosed (or vice versa)
 - ✎ Borrower shows interest expense but no related loan (possibly business loans with personal liability)
 - ✎ No deductions for taxes and licenses
 - ✎ Wages are paid, but no tax expense is claimed
 - ✎ Wages are paid, but there is no employer identification number
 - ✎ Salaries paid are inconsistent with the type of business
 - ✎ Business expenses are inconsistent with type of business (for example, truck driver with no car and truck expense)
 - ✎ No IRA or Keogh deduction
 - ✎ Income significantly higher than from previous years
-

Schedule E (Rents and Royalties)

- ✎ Additional properties are listed, but not shown, on the mortgage application
 - ✎ Mortgage interest is deducted but no mortgage is disclosed
 - ✎ Net income from rents plus depreciation does not equal the cash flow submitted by borrower
 - ✎ Borrower shows partnership income (may be liable as a general partner for partnership’s debts)
-

Verification of Deposit (VOD) and Bank Statements

- ✎ Source of funds consists of (unverified) note, equity exchange, sale of residence
- ✎ Evidence that VOD may have been hand-carried (i.e., folded, not creased)

DISCOVER GOLD THROUGH QUALITY

- 📄 Post office box for depository (if not typical for area or company)
- 📄 Cash in the bank is not sufficient to close
- 📄 Round dollar amounts (especially on interest-bearing accounts)
- 📄 New bank account (verify previous account)
- 📄 Significant changes in balance from previous two months to date of verification
- 📄 Savings account with average two-month balance exactly equal to present balance (no interest accumulation)
- 📄 Excessive balance in checking account vs. savings account
- 📄 “Squeezed-in” numbers
- 📄 Loan secured by checking or savings account
- 📄 Bank account not in borrower’s name
- 📄 Bank account or bank statements reflect additional, non-borrowing account holders
- 📄 Illegible signature with no further identification
- 📄 VOD is completed the same day it is ordered
- 📄 VOD signed by bank officer, or someone who ordinarily would not verify an account
- 📄 Date of verification by the bank is a weekend or holiday
- 📄 “White-outs,” cross-outs
- 📄 Gift letter that is not backed up by written transfer of funds
- 📄 Bank statements reflect an account holder name in a different font
- 📄 Bank statements reflect periodic deposits at odds with reported income
- 📄 Bank statements include insufficient-funds fees
- 📄 Bank statements reflect periodic withdrawals at odds with debts
- 📄 Bank statements reflect daily balances inconsistent with opening/closing balances
- 📄 Bank statements do not reflect withdrawal of earnest-money deposit
- 📄 Bank statements reflect automatic payroll deposits that are not consistent with the employment listed on the loan application
- 📄 Deposit money made in multiple transactions
- 📄 Closing check drawn on a different bank

DISCOVER GOLD THROUGH QUALITY

- ✎ Bank statement does not reconcile
 - ✎ Bank logo on statement is suspicious
-

Bank Checks

- ✎ Numbers, payee or other information appear to be altered
 - ✎ Bank and/or account number is inconsistent with the information on application
 - ✎ Low check number (indicates newly opened account)
 - ✎ Check is not canceled
 - ✎ Dollar amount is not encoded correctly on check
 - ✎ Check number does not agree with encoded number
 - ✎ Endorsement dates are inconsistent with the date the check was written
 - ✎ Check numbers from single account do not increase chronologically
 - ✎ Checks reflect additional signers for the account
 - ✎ Cashiers check for funds to close mentions an entity or non-interested party as remittee (possible flip)
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Sales Contract

- ✎ Borrower is not shown as purchaser
- ✎ The borrower/buyer signature does not match other documents in the file
- ✎ The contract is not dated
- ✎ Names are deleted from, or added to, the purchase contract
- ✎ Seller is a realtor, relative or employer
- ✎ Earnest-money deposit consists of the entire down payment, or is an odd amount
- ✎ Sales price is substantially above or below market value
- ✎ Second mortgage is indicated
- ✎ No realtor involved
- ✎ Name and address on earnest-money deposit check is different from that of the buyer

DISCOVER GOLD THROUGH QUALITY

- 🔗 Earnest-money deposit checks have inconsistent dates, for example:
 - Check #111 dated November 1
 - Check #113 dated September 1
 - Check #114 dated October 1
 - 🔗 Multiple contracts exist
 - 🔗 Earnest-money check is not cashed
 - 🔗 Sales contract date is after the appraisal date
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Escrow/Closing Instructions

- 🔗 “Fill in the blank” escrow instructions
 - 🔗 Change of sales prices to “fit” the appraisal
 - 🔗 Odd amounts paid as a deposit/down payment
 - 🔗 Down payment is paid into escrow upon opening
 - 🔗 Cash is paid outside of escrow to property seller
 - 🔗 Sale is subject to property seller acquiring title
 - 🔗 Business entity acting as the property seller is controlled by or related to borrower
 - 🔗 Buyer is required to use a specific broker/lender
 - 🔗 Reference to another (double) escrow
 - 🔗 Unusual credits with no economic substance
 - 🔗 Demands paid off to undisclosed third parties (potential obligations)
 - 🔗 Subject property is not subject to inspection
 - 🔗 Right of assignment
 - 🔗 Related parties involved in the transaction
 - 🔗 Power of attorney used with no explanation
 - 🔗 Power of attorney is not properly documented/recorded
 - 🔗 No amendments to escrow
 - 🔗 Unusual amendments to the original transaction
 - 🔗 Seller on HUD I different than seller on preliminary title report
-

Appraisal

- 📄 Ordered by any party to the transaction other than lender (buyer, property seller, realtor)
- 📄 Owner of record does not agree with other information disclosed in the loan file
- 📄 Spaces where requesting information is left blank (borrower, client, occupant, etc.)
- 📄 Appreciation in stable or declining market
- 📄 Most recent sale(s) on subject and/or comps are missing
- 📄 Appraisal is ordered and/or prepared prior to date of sales contract or loan application
- 📄 New home is not large enough for proposed occupants
- 📄 High land value in urban areas (consider the area)
- 📄 Comps not verified as recorded (data source MLS, sales office, HUD-1, SREA, CMDC, real estate agent, etc.)
- 📄 Comps not similar to the subject property
- 📄 Appraiser uses public records and exterior inspections as sole data sources
- 📄 Excessive distance between comps and subject property
- 📄 Excessive adjustments in urban or suburban area where marketing time is under six months
- 📄 Income approach is not used on tenant-occupied, single-family dwellings
- 📄 Missing photos or maps
- 📄 Photos do not match description of property
- 📄 Photos of subject property taken from odd angles or with no depth of field
- 📄 Photos reveal items not disclosed in appraisal (for example, commercial property next door, railroad tracks, another structure on premises, etc.)
- 📄 “For rent, for sale” sign in photo of subject property on owner-occupant refinance application
- 📄 Refinance transaction, but the property is vacant
- 📄 Photos of subject or comps look familiar
- 📄 Appraiser is located outside of subject property county
- 📄 Weather conditions in photo of property are not appropriate for the date of the appraisal (i.e., July photo shows snow on the ground for a property in Illinois)
- 📄 Occupant is identified as a tenant on an owner-occupied application

DISCOVER GOLD THROUGH QUALITY

- 🔒 Occupants are unknown
 - 🔒 House number in photo does not match property address
 - 🔒 Time frame between sales not enough for reported renovations made to property
 - 🔒 Loan file contains a note with a predetermined value
 - 🔒 Full value is applied to excess land
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Preliminary Title Report/Title Search

- 🔒 Ordered by, prepared for/mailed to a party other than the lender
 - 🔒 Property seller not on the title (purchase disguised as a refinance or property flip)
 - 🔒 Property seller-owned property for a short time with cash out on the sale
 - 🔒 Notice of default is recorded (possible cash-out purchase with a straw buyer or foreclosure rescue scam)
 - 🔒 Delinquent property taxes
 - 🔒 Judgment against borrower is not shown on credit report
 - 🔒 Modification agreement on existing loan(s)
 - 🔒 Suspicious transfer
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HUD-1/Settlement Statement

- 🔒 Names and addresses of property seller and buyer vary from other loan documentation
- 🔒 Name of the property seller is a corporation or an LLC
- 🔒 Seller's address is the same as the mortgage broker
- 🔒 No real estate agent involved in transaction
- 🔒 Date of settlement is delayed without explanation
- 🔒 Sales price differs from sales contract
- 🔒 Reference is made to undisclosed secondary financing or double escrow
- 🔒 Rent prorated on owner-occupied transactions
- 🔒 Cash proceeds to buyer in excess of \$300
- 🔒 Zero amount due to/from buyer
- 🔒 No loan pay off for the seller

DISCOVER GOLD THROUGH QUALITY

- 📄 HUD-1 or escrow instructions contain unusual credits, disbursements, related parties, delinquent loans paid off, or multiple mortgages paid off
 - 📄 Payoffs for items not consistent with liens listed on title commitment
 - 📄 Excessive fees
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Additional

- 📄 Type, spacing, and/or font varies within document from a single source
 - 📄 Inconsistent borrowers' names, phone numbers, addresses, Social Security numbers, or handwriting throughout file
 - 📄 More than one mortgage lender is reflected throughout the file
 - 📄 Parties to the transaction have more than one role (for example, realtor is landlord, employer is gift donor)
 - 📄 Borrower appears to be related to any other party reflected in the file except the gift donor (for example, verifier of funds or employment, appraiser, escrow officer, etc.)
 - 📄 Borrowers' signatures differ throughout the loan package
 - 📄 Unusually long or unusually short loan processing time (brokered loans)
 - 📄 Patterns or similarities in loan packages received from a specific broker, loan originator, realtor or property seller
 - 📄 Borrower or any other individual/company is on Freddie Mac's Exclusionary List
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