

Mortgage Screening Process: Red Flags For Single-Family Mortgage Fraud

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Introduction

One key way that underwriters, processors and quality control employees can protect their employers is by identifying documentation that has been altered or contains misrepresentations or other information that might indicate "suspicious activity" (as defined in the Freddie Mac *Single-Family* and *Multifamily Seller/Service Guides*). As the technology used to create these types of documents evolves and documentation standards change, identification of such documents becomes more challenging.

To assist in recognizing mortgages that could contain false or misleading or otherwise suspicious information, Freddie Mac has compiled lists of red flags that may be identified during various parts of the mortgage screening process. Please keep in mind that a red flag is not proof of a misrepresentation or fraud; it's an indicator that something doesn't make sense or is inconsistent with what is expected.

Each individual red flag listed in this document may not be problematic in and of itself, but may warrant additional scrutiny when reviewed together with other red flags. Red flags must be reviewed promptly to determine if something is, in fact, wrong.

Seller/Service Requirements

The information in this document does not supersede or in any way alter the requirements in Freddie Mac's *Single-Family Seller/Service Guide* (Guide) or other Purchase Documents (as that term is defined in the Guide).

You must continue to meet all Guide requirements, including those relating to fraud prevention, detection, and reporting, and Freddie Mac's Exclusionary List, as well as meet any applicable Bank Secrecy Act requirements. Refer to Guide Chapter 3201 , *Fraud Prevention, Detection and Reporting*; Reporting Other Suspicious Activity Guide Section 3101.1, *Exclusionary List*, and Guide Section 1301.2, *Compliance with applicable law*.

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Red Flags

General Red Flags

- 🚩 Type, spacing, and/or font varies within document from a single source.
- 🚩 Evidence of “white-out” or other alterations.
- 🚩 Contains round dollar amounts or “squeezed-in” numbers.
- 🚩 Any documentation that is difficult to read (e.g., has been copied numerous times and font appears blurry).
- 🚩 Inconsistencies identified throughout the file (e.g., applicants’ names, phone numbers, addresses, Social Security numbers, or handwriting).
- 🚩 More than one mortgage lender is reflected throughout the file.
- 🚩 Parties to the transaction have more than one role (for example, real estate agent is also landlord; employer is also gift donor).
- 🚩 Applicant appears to be related to another party in the transaction, except the gift donor (for example, verifier of funds or employer, appraiser, escrow officer, etc.).
- 🚩 Applicants’ signatures vary 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, real estate agent or property seller.
- 🚩 Borrower or any party to the transaction is on Freddie Mac’s Exclusionary List.

Mortgage Loan Application

- 🚩 Down payment other than cash (e.g., rent credit, sale of personal property, repayment of loan, gift, etc.).
- 🚩 Loan is for an owner-occupied refinance, but the applicant does not live in the subject property.
- 🚩 Applicant is buying an investment property or second home, but does not own current residence.
- 🚩 Applicant is purchasing a second home in close proximity to the primary residence, or in a non-resort area.
- 🚩 Applicant is downsizing to smaller or less expensive home, but is retaining previous residence as “rental.”
- 🚩 A significant or unrealistic commute distance from subject property to employment exists (on owner-occupied transactions).

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- 🚩 Post office box is the only address listed for employer (especially on the handwritten application).
- 🚩 The employer's phone number is a cell phone, but employer has a "brick and mortar" presence.
- 🚩 Applicant's office phone number is the same as home number, but application and/or documentation do not reflect self-employment (applicant is possibly self-employed).
- 🚩 Number of years on the job/in that profession inconsistent with applicant's age.
- 🚩 Applicant's listed education does not appear to be sufficient for the indicated employment position.
- 🚩 Applicant's income level is not commensurate with his/her stated employment.
- 🚩 Employment is inconsistent with the credit report, bank statements (for direct payroll deposits), and tax returns.
- 🚩 Handwritten application lists debts in the same order as credit report (suggests the person completing the loan application may not have obtained an exhaustive list of debts/obligations from the applicant).
- 🚩 Not all real property and related liens are listed on Schedule of Real Estate Owned.
- 🚩 Incomplete handwritten application.
- 🚩 Significant or contradictory changes from initial to final loan application (e.g., debt, employment, income, etc.).
- 🚩 Unsigned or undated loan application.

Credit Report

- 🚩 All credit reports and/or supplements are not included in the file, or are incomplete (e.g., not all pages are included).
- 🚩 Credit report was pulled by a different lender.
- 🚩 Unresolved significant discrepancies between original and most recent credit report.
- 🚩 No established credit profile exists (possible use of alias or different Social Security number or use of a child's Social Security number).
- 🚩 Credit history inconsistent with income/employment/applicant's age.
- 🚩 Recent inquiries from other mortgage lenders.
- 🚩 Refinance of recently originated loan exists (current lender may have accelerated for misrepresentation or applicant may be engaged in a rapid refinance scheme).
- 🚩 Hawk alerts exist.
- 🚩 All trade lines opened at the same time or opened recently.

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- 🚩 All trade lines at or approaching maximum, but credit score does not reflect this attribute of the credit profile.
- 🚩 All accounts paid in full recently (possibly a new, undisclosed consolidation loan).
- 🚩 Not all obligations on the credit report are listed on the application (e.g., in-file credit report on closing date shows additional debt not considered in the balance of the underwriting).
- 🚩 Personal data on file application is not consistent with initial application.
- 🚩 Social security number is invalid, differs from loan application, or was issued prior to applicant's date of birth.
- 🚩 Residence or employment information is inconsistent with the application or other file documentation (e.g., indicated employment is in a different profession or line of work).

Verification of Employment (VOE) (if contained within the loan file)

- 🚩 Appears that the VOE may have been hand-carried (i.e., folded in half may indicate it wasn't mailed, but hand-carried; tri-folded may indicate the VOE was mailed).
- 🚩 Employer uses mail drop or post office box address.
- 🚩 Business entity is not in good standing or not registered with the appropriate regulatory agencies.
- 🚩 Credit explanation indicates that applicant was late due to illness/layoff, but income on VOE is not lower during that time period.
- 🚩 Date of hire is a weekend or holiday.
- 🚩 Name of employer incorporates some form of applicant's name (for example, applicant is John Doe and employer is J.D. Enterprises), but borrower is not represented to be self-employed.
- 🚩 Generic job titles exist (for example, assistant, associate, administrator, consultant).
- 🚩 Income is out of line with the type of employment.
- 🚩 Position typically compensated by commission where only a "base" salary is identified (and vice versa).
- 🚩 Contains round dollar amounts (i.e., year-to-date or prior year's earnings).
- 🚩 Contains "squeezed-in" numbers.
- 🚩 The previous year's total income says, "See W-2s and Paystubs" (employer would not likely be aware that lender has paystubs or W-2s).

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- 🚩 Person verifying employment appears to be related to the applicant (i.e., applicant's maiden name is the same as the signature of employer VOE completed same day as ordered).
- 🚩 Evidence of "white-out" or other alterations.
- 🚩 "Personnel" is misspelled.
- 🚩 Fax header does not list the company name.
- 🚩 Employer's phone number is identified as a cell phone number.
- 🚩 Illegible signature with no further identification.
- 🚩 Person verifying employment is not in a position that would typically sign the VOE.

Paystubs

- 🚩 Form is handwritten.
- 🚩 Form is provided by a larger employer but is not computer generated.
- 🚩 Different type/font used within the paystub.
- 🚩 Contains round dollar amounts.
- 🚩 Contains typographical errors or misspellings.
- 🚩 IRS transcripts show amended filing with changes to taxable income.
- 🚩 Check numbers do not increase chronologically or are the same number for different pay periods.
- 🚩 Amounts withheld for Social Security, Medicare and other payroll taxes are inconsistent with the level required.
- 🚩 Net pay is inconsistent with deposits on bank statements.
- 🚩 Debts reflected as payroll deductions (credit union loans, 401K loan, garnishment, etc.) not disclosed on application.
- 🚩 Year-to-date totals are inconsistent from pay period to pay period.
- 🚩 Social Security number is not consistent with other loan file documents.
- 🚩 Applicant's address on paystub is not consistent with home address on application.

Form W-2/1099

- 🚩 Form is handwritten.
- 🚩 Form is from a large employer, but is not computer generated.
- 🚩 W-2 is typed, but paystubs are computer-generated.
- 🚩 Different type/font used within the form.
- 🚩 Contains round dollar amounts.

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- 🚩 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.
- 🚩 Incorrect Social Security Number or misspelled name.
- 🚩 Income reflected on W-2 statements is different than income reported elsewhere, including on mortgage application, VOE and tax returns.
- 🚩 Social Security wage base exceeds the annual maximum (see IRS for resources related to this item).
- 🚩 FICA and Medicare wages/taxes and local taxes, where applicable, exceed ceilings/set percentages (see IRS for resources related to this item).
- 🚩 Withholdings are inconsistent with paystub.

Tax Returns

Form 1040

- 🚩 Address and/or profession is not consistent with other information submitted on the mortgage application.
- 🚩 Alimony reported that is not listed on the loan application as a monthly obligation.
- 🚩 Unemployment compensation reported, but no gap in employment is disclosed.
- 🚩 If tax return was handwritten, handwriting style varies within return.
- 🚩 Evidence of “white-out” or other alterations.
- 🚩 No estimated tax payments by self-employed applicant (Schedule SE required); or self-employment tax claimed, but self-employment not disclosed.
- 🚩 Tax returns are not signed/dated by applicant (would not apply to electronically filed returns).

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 return was self-prepared.
- 🚩 Few or no deductions for a high-income applicant.

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Schedule B (Interest and Dividend Income)

- 🚩 Applicant with significant cash in the bank shows little or no interest income.
- 🚩 No dividends earned on stocks owned.
- 🚩 Amount or source of income is not consistent 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 is inconsistent with total income on Form 1099s.
- 🚩 No "cost of goods sold" for retail or similar type of business.
- 🚩 Applicant takes a depreciation deduction for real estate not disclosed (or vice versa).
- 🚩 Applicant reports 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 vehicle expenses).
- 🚩 No IRA or Keogh deduction.
- 🚩 Income significantly higher than from previous years.

Schedule E (Rents and Royalties)

- 🚩 Additional properties are listed, but not disclosed on the mortgage application.
- 🚩 Mortgage interest is deducted, but no mortgage is disclosed on the mortgage application.
- 🚩 Net income from rents plus depreciation does not equal the cash flow submitted by applicant.
- 🚩 Applicant reports partnership income, but does not list related liabilities (may be liable as a general partner for partnership's debts).

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Verification of Deposit (VOD) (if contained within the loan file) and Bank Statements

- 🚩 Appears that the VOD may have been hand-carried (i.e., folded in half, not tri-folded).
- 🚩 Post office box for depository (if not typical for area or company).
- 🚩 VOD is completed the same day it is ordered.
- 🚩 VOD signed by person who would not ordinarily verify an account.
- 🚩 Verification completed on a weekend or holiday.
- 🚩 Source of funds consists of unverified note, equity exchange or sale of residence.
- 🚩 Recent large deposits without acceptable explanation.
- 🚩 Cash in the bank is not sufficient to close.
- 🚩 Contains round dollar amounts (especially on interest-bearing accounts).
- 🚩 Contains “squeezed-in” numbers.
- 🚩 Illegible signature with no further identification.
- 🚩 Evidence of “white-out” or other alterations.
- 🚩 Bank account not in applicant’s name or there is indication the account is jointly held (e.g., reflects additional, non-borrowing account holders).
- 🚩 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.
- 🚩 Gift letter that is not supported by source or transfer of funds.
- 🚩 Bank logo on statement appears suspicious.
- 🚩 Bank statement dates are unusual or out of sequence.
- 🚩 Applicant’s address on bank statement is inconsistent with address listed on the application.
- 🚩 Bank statements where an account holder’s name is in a different font than the rest of the statement.
- 🚩 Bank statements reflect periodic deposits inconsistent with reported income.
- 🚩 Bank statements include insufficient-funds fees.
- 🚩 Bank statements reflect periodic withdrawals inconsistent 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.
- 🚩 Bank statement does not reconcile.

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- 🚩 Down payment funds are made in multiple transactions.
- 🚩 Cashier's check for funds to close drawn on a bank not associated with the applicant.
- 🚩 Significant volume of ATM activity and/or debit card purchases is regularly conducted outside the applicant's geographic area.
- 🚩 Earnest money and or cashier's check written from accounts that are not verified.

Appraisal

- 🚩 Owner of record listed is inconsistent with other information disclosed in the loan file.
- 🚩 Occupant is identified as a tenant on an owner-occupied refinance application.
- 🚩 Owner-occupied refinance transaction, but the property is vacant.
- 🚩 Occupant of subject property is listed as "unknown".
- 🚩 Appraiser uses public record, exterior inspections, or property seller/builder as sole data sources.
- 🚩 Illegal zoning is checked on first page of the appraisal.
- 🚩 "Physical deficiencies or adverse conditions that affect the livability, soundness, or structural integrity box" is checked "Yes" on the first page of the appraisal.
- 🚩 Subject property has increased in value in a stable or declining market.
- 🚩 Land value is atypically high for the area.
- 🚩 Excessive adjustments in urban or suburban area where marketing time is under six months.
- 🚩 Time frame between sales does not allow enough time for reported renovations made to property.
- 🚩 Loan file contains a note with a predetermined value.
- 🚩 Ineligible Condition (C5, C6) or Quality (Q6) ratings.
- 🚩 Blank spaces on the form (borrower, client, occupant, etc.).
- 🚩 Missing photos or maps.
- 🚩 Photos do not match description of property.
- 🚩 House number in photo does not match property address.
- 🚩 Photos do not match the floor plan sketch (i.e. location of garage, fireplace, etc.).
- 🚩 Photos of subject property taken from odd angles or with no depth of field, or have been cropped or otherwise altered.
- 🚩 Photos reveal items not disclosed in appraisal (e.g., commercial property next door, railroad tracks, another structure on premises, etc.).
- 🚩 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).

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- 🚩 “For rent” or “for sale” sign in photo of subject property on owner-occupant refinance application.
- 🚩 Most recent sale(s) and/or listing information on subject property and/or comparable properties are missing.
- 🚩 Use of unverified comparable sales (i.e., not verified through traditional data sources such as MLS, sales office, HUD-1, real estate agent, etc.).
- 🚩 Use of inappropriate comparable properties (e.g., that are not similar to the subject property when comparable properties are present).
- 🚩 Excessive distance between comparable properties and subject property.
- 🚩 All comparable properties are from different town(s) than the subject property.
- 🚩 Lack of bracketing with comparable sales used (e.g., all sales are significantly larger in living area than the subject).
- 🚩 Appraisal is ordered and/or prepared prior to date of sales contract or loan application.
- 🚩 Appraiser is located outside of subject property county.

Sales Contract

- 🚩 Multiple sales contracts exist.
- 🚩 Sales contract is dated after the appraisal date.
- 🚩 Sales contract is subject to an existing lease on an owner-occupied transaction.
- 🚩 Sales contract includes personal property or prohibited sales concessions.
- 🚩 Sales price is significantly above or below market value.
- 🚩 Applicant is not shown as purchaser.
- 🚩 No real estate professional involved.
- 🚩 Real estate agent(s) used, but not paid a fee.
- 🚩 Seller is a corporation or LLC and the subject property is not new construction.
- 🚩 Seller is an affiliated real estate agent, trust, relative or employer.
- 🚩 The parties to the transaction are related by family or commercial enterprise.
- 🚩 The contract is not dated.
- 🚩 Names are deleted from or added to the purchase contract.
- 🚩 The contract is an “option contract.”
- 🚩 The contract was assigned or is assignable.
- 🚩 Earnest-money deposit is an unusually high amount, consists of the entire down payment, or is an odd amount.
- 🚩 Name and address on earnest-money deposit check is different from that of the buyer.

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- 🚩 Earnest-money deposit checks have inconsistent dates, for example:
 - Check #111 dated November 1
 - Check #113 dated September 1
 - Check #114 dated October 1
- 🚩 Earnest-money check is not cashed or is not reflected on the HUD-1 Settlement Statement.

Escrow/Closing Instructions

- 🚩 “Fill in the blank” or generic escrow instructions.
- 🚩 Change of sales prices to “fit” the appraisal.
- 🚩 Odd amounts paid as a deposit/down payment.
- 🚩 Significant or unusual buyer credits or fees.
- 🚩 Unusual amendments to the original transaction.
- 🚩 Seller on HUD-1 different than seller on preliminary title report.
- 🚩 Evidence of “white-outs” or alterations without initials.
- 🚩 Payoffs to third parties whose lien was not listed on the preliminary title report.
- 🚩 Reference to another escrow.
- 🚩 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.
- 🚩 Entity acting as the property seller is controlled by, affiliated with, or related to the applicant or another party to the transaction.
- 🚩 Buyer is required to use a specific broker/lender.
- 🚩 Sale of subject property is not subject to inspection.
- 🚩 Power of attorney used with no explanation.
- 🚩 Power of attorney is not properly documented/recorded.

Preliminary Title Report/Title Search

- 🚩 Ordered by, prepared for, or mailed to a party other than the lender.
- 🚩 Property seller is not in title (possible purchase disguised as a refinance or improper property flip).
- 🚩 Seller owned property for a short time with a cash-out on the sale.
- 🚩 Notice of default is recorded (possible cash-out purchase with a straw buyer or foreclosure rescue).

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- 🚩 Report indicates delinquent property taxes.
- 🚩 Report indicates modification agreement on existing loan(s).

Funds to Close

- 🚩 Remitter on cashier's check or source of the wire is not the borrower.
- 🚩 Cashier's check issued from a bank that is inconsistent with the depository information on application.
- 🚩 Cashier's check issued from a bank branch that is out of the buyer's geographic area.
- 🚩 Dollar amount is incorrectly encoded on check.

HUD-1/Settlement Statement

- 🚩 Names and addresses of property seller and buyer vary from other loan documentation.
- 🚩 Seller's mailing address is the same as another party to the transaction.
- 🚩 Excessive real estate agent commissions paid.
- 🚩 Real estate commission paid, but no realtors listed on the purchase contract.
- 🚩 Sales price differs from sales contract.
- 🚩 Reference is made to undisclosed secondary financing or double escrow.
- 🚩 Rent prorated on owner-occupied transactions.
- 🚩 Zero amount due to/from buyer.
- 🚩 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 seller paid marketing, administrative, assignment or trust fees.
- 🚩 Payouts to unknown parties.
- 🚩 Terms of the closed mortgage differ from the terms approved by the underwriter.
- 🚩 Date of settlement is delayed without explanation.

Legal disclaimer:

This document is not a replacement or substitute for the information found in the *Single-Family Seller/Service Guide*, and /or terms of your Master Agreement and/or Master Commitment.

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