Underwriting Guide

Chapter 6A Fraud

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NewRez; its investors and Clients can experience substantial losses if either fraud or misrepresentation occurs on a loan. Fraud can occur with any type of loan. A common definition of fraud is an act of intentional misrepresentation, concealment, or omission of the truth for the purpose of deception or manipulation with the intent of securing something by taking unfair advantage of another. NewRez has a Zero Tolerance Policy on matters relating to fraud or misrepresentation.

NewRez utilizes several tools to combat fraud and reduce repurchase risk. The Data Verify DRIVE report is obtained on all loan applications, this tool detects fraud based on historical patterns of fraudulent and legitimate loans. The data determines the likelihood that a loan may result in a fraud driven loss based on misrepresentation or inconsistencies in the loan file.

The DRIVE summary returns a risk score and fraud alerts based on proprietary data related to income, employment, occupancy, undisclosed debt, identity, and third parties. Action is not required based on the fraud score alone, rather, it is required based on the severity of the fraud alert.

The Clear tool may also be used to mitigate fraud when the DRIVE report indicates an alert with elevated risk.

Today, most individuals have access to a personal computer and the Internet. With a simple click of a mouse, one can quickly and easily find personal information on an individual or a company, including financial statements, real property information, court records, and a myriad of other data. With the purchase of software, a scanner, and a color printer, a thief can create documents and provide supporting information to create identities, employer documentation, appraisals, and a credit history to support a mortgage request.

Fraud perpetrators seek the path of least resistance, targeting those lenders with the weakest controls for detecting and preventing fraud. Financial institutions that fail to ensure adequate internal controls, fraud detection tools, staff training, business partner due diligence and quality control reviews risk becoming targets for organized mortgage fraud rings. High incidence of fraud in a financial institution's portfolio risks the company's reputation, raises its costs to sell in the secondary market, and could ultimately impact its viability. Financial institutions are obligated to their borrowers, shareholders, investors, and the industry to manage fraud effectively.

Mortgage fraud is a serious issue for financial institutions. Institutions may recover only portion of a mortgage if the property value is inflated or if the mortgage was provided to an unqualified borrower. High foreclosure costs, including unpaid back taxes and interest, liens for unpaid homeowner dues, brokers' commissions, reappraisals, rehabilitation costs, attorneys' fees, and other related expenses plague the industry. Foreclosure attorneys' fees in particular can be substantial.

Refer to the Fraud Prevention Policy on the Policies and Procedures Intranet page.

6A.1 Types of Fraud

A loan file can contain warning signs that point to irregularities in the information submitted by the borrower or other parties involved in the transaction. This information may not seem unusual when viewed separately, but a comparison may indicate a pattern of deception.

Typically, there are two types and basic motives for mortgage fraud; Fraud for Property and Fraud for Profit.

6A.1 (a) Fraud for Property

The borrower or other interested party misrepresents or omits information with the intent to deceive or mislead the lender into extending credit that would not likely be offered if the true facts were known or to obtain more favorable terms on the loan (but not to encumber intentionally and significantly over-encumber the property). However; there is intent to repay the loan as agreed. Participants usually involve the borrower and borrower's family members.

6A.1 (b) Fraud for Profit

The borrower or other interested party enters into a transaction with the primary intention of creating inappropriate and significant financial gain (beyond just getting better pricing and terms for the loan), to the detriment of the lender. The borrower or other interested party does not intend that the loan be repaid as agreed, or the property has been significantly and intentionally overvalued and over encumbered or the lender's collateral interest in the subject property has been intentionally impaired or undermined. Participants may include multiple parties including the borrower, real estate agent, appraiser, loan officer, loan processor, underwriter, lender, closing attorney, or property management company.

6A.2 Fraud Indicators or Red Flags

The presence of one or more fraud indicators, or red flags, is not absolute proof of a fraudulent loan, but when viewed as a whole, a pattern of deception may begin to emerge. NewRez Clients can use the Red Flag Checklist, found on the Correspondent Lending website.

To determine if a loan is fraudulent, NewRez strongly encourages a review of all loan types for document-specific loan fraud indicators, or red flags that can identify irregularities in the information submitted by a borrower or other parties in the transaction.

6A.2 (a) Affinity Fraud

Affinity fraud (similar to investment club schemes explained above) exploits the trust and friendship that exist in groups of people who have something in common. The fraudsters who promote affinity frauds 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.

6A.2 (b) Air Loans

An air loan is a loan to a straw or nonexistent buyer, on a nonexistent property. An example of an air loan would be a correspondent invents borrowers and properties, establishes accounts for payments, and maintains custodial accounts for escrows. They may set up an office with a bank of telephones, each one used as the employer, appraiser, credit agency, etc., for verification purposes.

- Air loans typically involve straw buyers - refer to straw buyer red flags;
- Unable to independently validate chain of title;
- Mortgage payments are made by an entity other than the borrower; and
- No real estate agent is employed (fictitious transaction).

6A.2 (c) Builder Bailout

A “builder bailout” occurs when the builder or developer moves property quickly in a depressed real estate market. Potential indicators of builder bailouts include the following:

- The builder is willing to “do anything” to sell the property;
- Builder’s marketing material advertises rent credit to investors and/or payment credit;
- The borrower is barely qualified or unqualified;
- The sales price and appraised value are inflated;
- No-money-down sales are included;
- “Silent” or “concealed” second mortgages are involved;
- Significant incentives and/or concessions are offered;
- Sales price adjusted upwards;
- Questionable source of funds;

- Reference to unexplained payouts, inflated commissions or secondary financing on the Closing Disclosure or purchase contract; and
- Parties to the transaction are affiliated.

6A.2 (d) Buy and Bail

The borrower is current on the mortgage, but the value of the home has fallen below the amount owed. The borrower continues to make payments on the home, while applying for a purchase money mortgage on another home that has been priced in alignment with today's prices. After the new property has been obtained, the buy and bail borrower will allow the first home to go to foreclosure.

Red flags common to this type of fraud are:

- The borrower will be a first time property owner (renting out the original property);
- The borrower has minimal or no equity in the original property;
- Inability to validate lease terms with the purported tenant; and
- Purported tenant has a pre-existing relationship with the homeowner.

6A.2 (e) Cash-Out Purchases

A cash-out purchase typically involves one closing and occurs when properties have been on the market an extended length of time and a desperate property seller is unable to find a qualified buyer. The property 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 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 appraisal may include red flags symptomatic of an inflated value;
- The preliminary Closing Disclosure may already indicate a portion of the net proceeds going back to the borrower; and
- Many of the same flags that accompany a traditional flip also apply: straw buyer, false source of funds, and false occupancy.

6A.2 (f) Condominium Conversion Bailouts

This type of fraud commonly involves multiple parties who create and promote incentive packages;

which are deliberately concealed from lenders. Inflated property values may also be part of this type of fraud, along with the masking of illegitimate cash disbursements on the settlement statement or failure to disclose them at all. As a condition of the sale, the buyer executes a purchase contract detailing the incentive package, which often includes substantial cash back to the borrower.

Red flags common to condominium conversion bailouts are:

- Out of state borrowers with strong credit scores;
- Excessive real estate fees;
- Large non-lien disbursements on the Closing Disclosure; and
- Large number of condominium conversions in a particular area.

6A.2 (g) Double Escrows

Double escrow transactions are not illegal, however, they are considered high risk since they are often associated with no-money-down purchase transactions, and/or inflated property values. Double escrows are one of the methods used to avoid down payment requirements. Parties involved in property flipping schemes often use double escrows in the original acquisition of the property.

Example of typical Double Escrow

> A buyer's offer is accepted to purchase a property for $150,000. Before escrow closes, the buyer acts as the seller of the property and opens a second escrow using a "straw buyer" who purchases the same property for $185,000. The straw buyer obtains a 90% LTV loan. With the proceeds from the second escrow transaction, the first escrow closes concurrently with the second escrow, resulting in no exchange of money.

6A.2 (h) Equity Skimming

Equity skimming involves investment property. The owner/investor collects the monthly rents and fails to make the mortgage payments. The investor usually obtains the property through a purchase transaction or an assumption.

- If obtained through a purchase transaction, the investor generally executes a second trust deed to the property seller as the down payment, resulting in no cash investment in the property.
- Once the property is assumed, the investor profits by collecting rents for the time it takes the lien holder to complete the foreclosure process. Investors using this method frequently obtain several properties within a short period. The investor makes mortgage payments (while

acquiring other properties using the same scheme) before finally defaulting on the mortgage payments.

6A.2 (i) Foreclosure Bailout

A foreclosure bailout may be a refinance or purchase transaction when the true purpose of the loan is to bail out the property owner from an existing lien that is in foreclosure. These transactions can be structured as a refinance or a purchase. When structured as a refinance, title is transferred (or gifted) to a friend or family member who applies for a loan in his/her own name. When structured as a purchase, the borrower acts as a "straw buyer" for the true owners of the property. In this case, the sales price and appraisal may be inflated to support an artificially low LTV.

6A.2 (i)(i) Purchase Transaction

Indicators of a foreclosure bailout purchase transaction are:

- Existing loan or lien on title is presently in default;
- Borrower's mortgage loan is not rated on the credit report;
- Gift equity or non-arm's length purchase transaction;
- The borrower is unable to clearly document the source of funds to close;
- An "investment company" is somehow involved in the transaction; and
- There is an "unreasonable" proposed occupancy (e.g., commuting distance) on the subject property.

6A.2 (i)(ii) Refinance

Indicators of a foreclosure bailout refinance transaction are:

- Borrower cannot verify "equitable interest";
- The mortgage loan on title in not in the borrower's name; and
- The property is not in the borrower's name.

6A.2 (j) Identity Theft

Identity fraud is the act of unlawfully using one or more pieces of another individual's personal identifying information. When identity theft is recognized during the mortgage loan process, it is recommended that third party documentation, such as a police report, letter from the borrower, previous year, and current year tax returns & W-2s and a letter from the IRS be provided to substantiate the fraud claim. In most instances, this involves the use of another person's Social Security number (SSN) or use of a fraudulent SSN.

Red flags associated with identity theft are:

- SSN issued recently or death claim filed under Social Security;
- Borrower's name is not associated with SSN;
- The number of years employed is greater than the issue date of the SSN;
- Employment and/or addresses on credit report do not match borrower's application;
- Credit patterns are inconsistent with income, assets, age, and education;
- Tax Identification numbers instead of Social Security numbers are used; and
- Borrower lives out of the area and does not appear, based on the credit report, to have any tie to the area in which the subject property is located.

Another form of identity theft involves Tax Return Fraud, which is the use of another person's name and SSN to file a tax return and obtain tax refund.

6A.2 (k) Foreclosure Rescue

A foreclosure specialist promises to assist the defaulted borrower in avoiding foreclosure. The specialist usually charges the borrower an up-front fee (HUD-approved counseling agencies do not charge) for services that are not delivered. These frauds usually further encumber the property and/or result in the homeowners losing title. The frauds always ultimately force the borrower into foreclosure status, but sometimes delay the servicer's ability to accomplish the foreclosure, through elaborate bankruptcy filings. Below are common red flags.

The borrower or current owner was:

- Advised by a foreclosure specialist to avoid contact with their servicer;
- Has paid someone to negotiate with the servicer on his or her behalf;
- States that they are sending their mortgage payments to a third party;
- Receives a purchase offer that is greater than the listing price;
- States that they will be renting back from new owner; and
- Quit-claimed (any portion of) title to a third party at the advice of a foreclosure specialist.

6A.2 (l) Investment Club Schemes

Investment club schemes (also referred to as chunking) involve property sales pitched as investment opportunities to consumers who are promised improbably high returns and low risks. In some cases, the perpetrators charge membership fees to the victim-purchasers. In other cases, the victim-purchasers may not even realize that they will be personally responsible for repayment of the mortgages. In the initial phases of an investment club scheme, victim-purchasers may receive some of the promised financial benefit, as the perpetrator uses money received from new victim-purchasers to pay initial club members in order to elude detection and attract new investors. Typically, the fraud perpetrator purchases distressed properties at low prices, paying an appraiser to illegally inflate the value in order to deceive lenders into financing at, or above 100% of the value. The perpetrator convinces the purchaser that no (or minimal) down payment, cash incentives and/or a guaranteed return on their investment justify the sales price. As with flipping schemes, the perpetrator profits from the difference between the price at which the perpetrator purchased the property and the new (inflated) loan amount. Frequently, perpetrators of these frauds market to purchasers who are distant from the properties, to facilitate deception about the condition and value of the properties.

Red flags common to this type of fraud are:

- No real estate agent is employed (club recruits buyers and/or non-arm's length transaction);
- Property was recently in foreclosure, or acquired at REO sale at a much lower sales price;
- Borrower may have paid a membership fee to participate in the club;
- First-time landlord, non-savvy investors;
- Property seller offers to manage these rental properties;
- Borrower may have been told that the property seller or the club would make mortgage payments;
- Borrower purchased multiple properties simultaneously, but did not disclose other loans in process to their lender (also known as shot gunning), watch for credit inquiries;
- The appraised value is fraudulently inflated (See appraisal red flags in this section);
- The borrower's signature may vary throughout the file; and
- Multiple mortgage inquiries: the perpetrator guides the borrower to apply simultaneously for purchase money mortgages for multiple properties, withholding information about the other purchases from each lender.

6A.2 (m) Power of Attorney

Because the use of a Power of Attorney (POA) means the principal will not actually sign the loan documents, there is a risk that the principal may not be aware of the loan transaction or that the principal is a fictitious person. If any wrongdoing is suspected, investigate the circumstances to ensure use of the POA is legitimate before proceeding with the loan. The Settlement Agent must not act as the attorney-in-fact or sign documents on behalf of any party to the transaction. For specific POA requirements, refer to Chapter 8 Delivery/Funding Options.

6A.2 (n) Property Flips

A transaction in which a property is purchased and resold quickly for a significant profit is commonly referred to as a flip. Property flipping becomes illegal when a home is purchased and resold within a short period at an artificially inflated value. The flip typically involves a fraudulent appraisal, which may falsely indicate that renovations were made to the home. Properties targeted for property flips generally include properties that can be acquired at lower prices than other properties in the same neighborhood and often include real estate owned (REO) properties, properties subject to a short sale, other distressed properties, or newly constructed properties where the builder or developer must liquidate housing inventory quickly. A property involved in a flip may be resold on the same day or within days, weeks, or months of the purchase. In some cases, the seller of the property flip never holds title to the property, but instead sells or assigns their interest in a contract to purchase the property to a third party.

Property flips are not inherently illegal, and not all transactions involving a rapid purchase and resale are improper. Legitimate property flips are acceptable transactions. Some indications of property flips that may be legitimate include:

- Sales of properties by a Government Sponsored Enterprise (GSE) state or federally chartered financial institution, mortgage insurer, or federal state or local government agency;
- Property sales by employers or relocation agencies related to employee relocations; and
- Sales of properties that have been substantially improved by bona fide and verified renovations since the property was acquired by the property seller in which any increase in sales price over the property seller's acquisition costs is representative of the market given the improvements to the house.

Red flags common to property flipping are:

- Ownership changes two or more times in a brief period;
- Appreciation of the subject property exceeds that in the normal marketplace;
- The property seller recently acquired the property for a significantly lower price or there have been several transfers of the property according to the real estate tax assessment record;
- No real estate agent is employed (non-arm's length transaction);
- Property was recently in foreclosure, or acquired at REO sale at a much lower sales price;
- Parties to the transaction are affiliated or related by birth or marriage;
- Owner listed on appraisal and/or title may not match the property seller on the sales contract;
- A quitclaim deed is used right before or right after closing;
- Sales contract has unusually large earnest money deposit held by property seller;
- Unusual fees or credits are found on the Closing Disclosure;

- Title commitment references other deeds to be recorded simultaneously;
- Property seller is a corporation (i.e., LLC); and
- Comparable sales or listings used in the appraisal report are properties involving the same property seller and/or real estate broker as the subject property in an attempt to create an artificially inflated market.

6A.2 (o) Purchase Disguised as Refinance

This scheme is often used to disguise the borrower's equity contribution in the transaction, inflate the property value and close the loan as a refinance, providing cash out to the fraudster.

The following red flags may be present:

- Borrower does not hold title on the commitment;
- Recent transfers of the subject property - may have been flipped; and
- Multiple investment properties purchased within a short time frame.

6A.2 (p) Rental Property

6A.2 (p)(i) Income

Red Flags related to income include:

- Tax returns not signed or dated address discrepancies within the file discrepancies on a lease;
- Paid preparer signs taxpayer's copy of tax returns;
- Applicant reports substantial income but has not cash in the bank;
- Excessive number of AUS submissions;
- A purchaser of an investment property does not own a residence;
- The rental income per the IRS tax transcripts deviates significantly from the other rental income documentation; and
- Borrower claims rental income on the loan application but amount conflicts with obtained documentation and/or the IRS tax transcripts.

6A.2 (p)(ii) Occupancy

Red Flags related to occupancy include:

Purchase Transactions	• Real estate listed on application, yet applicant is a renter; • Borrower intends to lease current residence; • Significant or unrealistic commute distance; • Borrower is downgrading from a larger or more expensive house; • Sales contract is subject to an existing lease; • Occupancy affidavits reflect applicant does not intent to occupy; and • New homeowner's insurance is a rental policy (declarations page).
Refinance Transactions	• Rental property listed on application is more expensive than subject property; • Different mailing address on applicant's bank statements, pay advices, etc.; • Different address reported on credit report; • Significant or unrealistic commute distance; • Appraisal reflects vacant or tenant occupancy; • Occupancy affidavits reflect applicant does not intend to occupy; • Homeowner's insurance is a rental policy (declarations page); and • Reverse directory does not disclose subject property address.

6A.2 (q) Short Sale Fraud

The borrower deliberately withholds mortgage payments, forcing the loan into default so that an accomplice can submit a straw short-sale offer at a purchase price less than the borrower's loan balance. The borrower deceives the servicer into believing that the straw short-sale offer is legitimate.

Red flags common to this type of fraud are:

- Sudden default, no workout discussions, and immediate offer at short sale price;
- Ambiguous or conflicting reasons for default;
- The mortgage delinquency is inconsistent with the borrower's spending, savings, and other credit patterns;
- Short sale offer is from a related party;
- Short sale offering price is less than current market; and
- Cash back at closing to the delinquent borrower, or other disbursements that have not been expressly approved by the servicer (sometimes disguised as repairs or other payouts).

6A.2 (r) Shot Gunning

Shot gunning occurs when a fraud perpetrator simultaneously secures loans from multiple lenders but does not disclose any of the other applications in process to the individual lender. Shot gunning can accompany several of the schemes covered in this section, such as property flipping and investment club schemes. In those cases, the perpetrator would not qualify for multiple purchase money mortgages and applies with various lenders but does not reveal the other applications to any given lender. Each lender simultaneously funds what it believes to be the only new mortgage loan. Until the loan closes, the only clues of this activity are credit bureau reported mortgage inquiries, which can be explained by the borrower as price and term comparison -shopping.

6A.2 (s) Straw Borrower

A straw buyer is a person used to buy property in order to conceal the actual owner. The straw buyer does not intend to occupy the property or make payments and often deeds the property to the other individual immediately after closing. The straw buyer is usually compensated.

Participants in a straw borrower situation:

- Act as a substitute for the actual borrower;
- Use a quitclaim deed either immediately before or soon after closing the loan;
- Represent investment property as owner-occupied or a second home; and
- Sign on the actual borrower's behalf.

Red flags common to transactions with straw buyers are as follows:

- First-time home buyer, with substantial increase in housing expense;
- Buyer does not intend to occupy - unrealistic commute, size, or condition of property, etc.;
- No real estate agent is employed (non-arm's length transaction);
- Power of Attorney may be used;
- Boilerplate contract with limited insertions, not reflective of a true negotiation;
- Income, savings and/or credit patterns are inconsistent with the borrower's overall profile;
- High LTV, limited reserves and/or property seller-paid concessions;
- Inconsistent signatures throughout the file; and
- Use of gift funds for down payment and/or closing costs, minimum borrower contribution.

6A.3 Risk Mitigation

For all loan types and loan programs, a thorough review of specific loan documentation is essential to determine the validity of the information provided by the borrower and parties to the transaction.

6A.3 (a) Loan Application

Review the loan application for the following red flags:

- Inconsistent Social Security numbers from document to document;
- Invalid or recently issued Social Security number;
- Unsigned, undated, outdated and/or incomplete application;
- Compare borrower's names and address with property seller's names and address (could be a straw buyer);
- Inadequate documentation to support required owner occupancy;
- Borrower's signature is inconsistent throughout the loan file;
- Borrower is buying investment property, but does not own current residence;
- Borrower is buying investment property as an out-of-state investor;
- Number of years on the job/in that profession is inconsistent with borrower's age, years of education, borrower profile or type of employment;
- Employer's telephone number is a cell phone;
- Employer's address is a Post Office Box;
- Employer/company name is similar to the borrower name;
- Significant increase or unrealistic change commuting distance;
- New housing not large enough to accommodate all occupants;
- Buyer is downgrading from larger to smaller home;
- Buyer currently resides in property and is purchasing it from the landlord;
- Buyer intends to rent/sell current residence with no documentation;
- Down payment is other than cash;
- Borrower/co-borrower working for same employer, or is an employee of the property seller;
- Same telephone number for home and business (may be self-employed);
- High income borrower has little or no personal property or minimal liquid assets;
- New housing expense exceeds 150% of current housing expense;
- Assets are not consistent with borrower's income;
- Inappropriate salary with respect to loan amount;
- Significant or contradictory changes from handwritten to typed loan application; and
- Application retaken for a borrower where misrepresentations were identified, such as under-reported income to the IRS, fraudulent W-2, etc.

6A.3 (b) Occupancy

For owner-occupied transactions containing address discrepancies; or red flags present that would imply occupancy other than indicated, the loan file must contain acceptable documentation to justify proceeding with the transaction. Documentation must be scrutinized to ensure reasonableness of the owner-occupancy status in order to proceed with the transaction.

Review the loan file for the following red flags:

Purchase Transactions	• A previous mortgage transaction within the past 12 months was also the purchase of a primary residence; • Hazard insurance policy indicates investment property when application states owner-occupied; • The mailing address on the insurance policy is different from the subject property, when the subject is represented as a primary residence; • Value of current residence exceeds subject property value when subject property is to be owner occupied and current residence is to be investment property; • Commute distance from work and subject owner occupied property is excessive (acceptable explanation may be a virtual office); • Application is for a second home in area not typical for second home properties and/or not reasonable distance from current owner-occupied property; • The borrower profile does not make sense for occupancy in subject property (i.e., elderly borrower moving from current residence of many years to a much larger home); • There are duplicate applications with conflicting occupancy information; • Borrower owns numerous properties or has multiple mortgages shown on credit report and purchase of new primary residence appears unreasonable; • Request is for a second home, yet borrower already has a second home; • Purchases of a second home in the same location as the principal or current second home residence or investment property owned; • New housing square footage/bedroom count is insufficient to

	accommodate; and • Primary residence purchase with a non-occupant co-borrower receiving an automated underwriting decision when income from non-occupant co-borrower is not included in the analysis and loan is restructured as an investment property with the primary borrower occupying one of the units.
Refinance Transactions	• Different address for paystubs, bank statements, or other financial documents when the loan is a refinance of an owner occupied property; • Application is a refinance of the primary residence, but the home telephone number does not match the subject address Appraisal occupancy is different from the loan application (Appraisal indicates property is tenant occupied, but is stated as primary on the application); and • Title commitment does not show homestead exemption on an owner occupied refinance.

6A.3 (c) Social Security Numbers

For loans that receive Social Security number verification messages from AUS, validate the accuracy of the Social Security number by providing a copy of the verification provided from the Social Security Administration using Form SSA-89. Verification can also be obtained using the Form SSA -89 through third party vendors (e.g., Fraud Guard, Equifax Verification Services or LandSafe) to satisfy this verification requirement. A copy of the Social Security validation must be included in the loan file for purchase.

Review Social Security numbers for the following red flags:

- Inconsistent social security numbers provided during processing and underwriting the loan
- Invalid numbers listed below (as of June 2009)
    - The first three digits are 000;
    - The second two digits are 00;
    - The last four digits are 0000;
    - The first three digits are 666;
    - The first three digits are 773 through 899;
    - The first three digits are 90 through 999 (only issued occasionally);
    - Zeros in positions 4 and 5;

- Leading number of 74 or 79; and
- Leading numbers of 8 or 9.

NOTE: Effective June 25, 2011, the Social Security Administration began using a randomized approach of assigning Social Security numbers. It will no longer be possible to determine the place or approximate date of issuance simply by examining a number. The only way to conclusively determine if an SSN assigned after June 25, 2011 has been issued will be using a service that makes a direct inquiry into the Social Security Administration databases and systems.

6A.3 (d) Borrower Contact

- Phone number is invalid or has been disconnected;
- Employer states the borrower does not work there or is out of the country for some time;
- Caller gives information that is inconsistent with the application;
- Borrower calls frequently for an application status;
- Inconsistent language/ability to communicate;
- E -mail address is inconsistent with the borrower or borrower's employer; and
- Borrower discloses and unauthorized third party.

6A.3 (e) Credit Report

Review the credit report for the following red flags:

- Credit report "warning" messages must be carefully reviewed;
- Credit report lists an Also Known As (AKA) or Doing Business As (DBA) or name variances;
- Credit report is run with a U.S. address for a borrower who lives outside of the U.S.;
- Nicknames that are unrelated to the borrower's name;
- Age of accounts is inconsistent with the borrower's age;
- Address history on in-house credit is inconsistent;
- Trade lines were opened at the same time or opened recently;
- Recently added as authorized user on several trade lines or numerous authorized user accounts;
- Pattern of delinquencies that are inconsistent with credit explanations;
- Undisclosed bankruptcies, foreclosures, or debts;
- Greater number of authorized user trade lines than traditional trade lines;
- Contains authorized user accounts with trade line information inconsistent with the borrowers other accounts;
- Recently originated loan has been refinanced;
- All accounts have been recently paid in full;

- Disputed accounts appear on the credit report (possible credit doctoring);
- Open credit obligation listed on the application but does not appear on the credit report;
- Employment information and history varies from loan application and/or VOE;
- High income borrower or borrower is over 25 years old lacks established credit or has inappropriate accounts;
- Other sources show a variance in employment or residence data;
- Social Security number is invalid, issued before the borrower was born, issued to a minor, is attributed to a deceased individual or the numbers vary, or the SSN differs from the SSN on the loan application;
- Borrower has multiple Social Security numbers;
- Multiple inquiries in a short time frame; and
- Recent (within two weeks) nonbank inquiries.

6A.3 (f) Verifications of Rent

Review verifications of rent for the following red flags:

- Lease period dates on the VOR do not correspond to the dates on the application;
- Last name of the landlord on the lease is the same as the borrower;
- The landlord shares the same address as the borrower;
- The landlord's telephone number on the lease is invalid;
- Rent on lease does not match the amount disclosed on the application Schedule E lists additional properties that are not on the loan application VOR is not in the name of the borrower; and
- Any visible sign that suggests the document has been altered.

6A.3 (g) Assets

Review the asset documentation (bank statements, verification of deposit) for the following red flags:

- Excessive balance in checking versus savings account;
- Bank statements mailed to address other than the borrower's residence, such as a Post Office Box or relative's address;
- Other names on the account with no explanation of why or backup documentation;
- Check Social Security number against 1003, W-2s, 1040s;
- Savings account with average two month balance exactly equal to present balance (no interest accumulation);
- Prepared/signed by originator before or on the same date as completed/signed by depository;

- Large balances although the borrower has little or no interest income on tax returns;
- Account balance is significantly higher than the average balance or no average balance indicated on the Verification of Employment;
- Regular payroll deposits that do not agree with reported income;
- Deposits that exceed the borrower's normal take-home pay;
- Account numbers are inconsistent with the application;
- Transactions do not add up to equal the ending balance;
- Borrower-provided online bank statement with no URL;
- Cash in bank not sufficient to close escrow;
- New bank account opened within the past month;
- Bank statements are from an unfamiliar financial institution, have suspicious logo or do not identify the name or address of the financial institution;
- Round dollar amounts, especially on interest-bearing accounts;
- Borrower has no bank account or bank account is not in borrower's name;
- Significant changes in balance from prior two months of date of verification;
- Gift is given by current or former occupant/owner of the subject property;
- Type or handwriting identical throughout;
- Document is not folded;
- High income borrower with little or no cash;
- Evidence of ink eradicator or use of "white -out", or other alterations made to the document;
- Account was opened on a non-business day;
- VOD completed on a non-business day; and
- Addressed to a specific individual at the depository institution.

6A.3 (h) Verification of Employment (VOE)

Review the Verification of Employment for the following red flags:

- Verification form is forwarded to a Post Office Box (may be acceptable with independent verification) Income is out of line with the borrower's occupation;
- Property seller's address is the same as the employer's;
- Year-to-date and/or past years income says See "W-2s and Paystubs;"
- VOE is prepared/signed by originator on the same date as completed/signed by employer;
- VOE is prepared by someone other than a representative of a payroll or human resources department or has a generic job title such as secretary, manager, or general manager;
- Person verifying employment appears to be a relative of the borrower (i.e., same last name;
- Illegible phone number or name of person signing the document;
- Signature on the VOE reflects the same name as the borrower or other party affiliated with the

transaction;
- The date the VOE was signed is not reasonable for processing time (i.e., VOE mailed out of state is signed the day after it was printed);
- Salary is displayed in round dollar amounts;
- VOE shows a company car allowance, yet applications shows an auto loan;
- Employer uses mail drop or Post Office Box or personal residence for business address;
- Borrower's profession changed from previous to current employer;
- Dates of employment on the VOE do not match dates on the application;
- Inappropriate verification sources (such as, secretary or relative) were used;
- Amount of overtime equals or exceeds base pay;
- Handwriting or type is inconsistent throughout the VOE;
- Document is not folded (never mailed);
- Evidence of ink eradicator ("white out") or other alterations appears on VOE Name of employer is similar to name of borrower;
- No employer address on VOE;
- No indication the VOE was mailed or faxed to the employer;
- Faxed VOE has unknown fax number (number other than employer);
- Business phone number is determined to be a cell phone and not appropriate for size of the company; and
- Type or handwriting is not identical throughout.

6A.3 (i) Paystub

Review pay stubs for the following red flags:

- Company name not imprinted;
- Employer's address is missing, is a Post Office Box, or is different than provided by borrower;
- Name of employer is similar to the borrower's name;
- Employee or address name not printed;
- Handwritten;
- Contains misspellings;
- Round dollar amounts;
- Year-to-date totals are not accurate from paycheck to paycheck;
- Date of pay period missing and/or inconsistent pay periods;
- No withholding;
- No check issue date;
- Lacks current income breakdown or year-to-date;
- Incorrect or inconsistent Social Security/Medicare deductions for level required;

- Tax deduction not detailed (Social Security, Medicare, etc.);
- Pay stub numbers are in sequential order or show the same check number repeatedly;
- Evidence of ink eradicator (white out) or other alterations;
- Employee or employer name does not match the W-2, personal tax return or the loan application;
- Social Security number differs from W-2 or personal tax return or other documentation; and
- Payroll deductions reveal additional liabilities not disclosed on loan application.

6A.3 (j) W-2 Statement

Review the W-2(s) for the following red flags:

- Invalid Employer Identification Number (format should be xxxxxxxxx);
- Employer Identification number same as borrower's Social Security number;
- Different type size or font within the form;
- Handwritten;
- Faxed document;
- Inconsistencies in name spelling, address, employer's address, social security number, etc.;
- Reported income does not match income reported on loan application or on the VOE;
- Evidence of ink eradicator ("white out") or other alterations;
- Incorrect withholding amounts (FICA and Medicare wages/taxes and local taxes exceed ceilings/set percentages);
- Taxes paid are lower compared to income stated on W-2;
- Round dollar amounts;
- No address or it is an incorrect address for the employee or employer;
- Incorrect form provided; and
- The borrower should provide "Copy C," unless the closing is prior to April 15.

6A.3 (k) Tax Returns

- Verification form is forwarded to a Post Office Box (may be acceptable with independent verification);
- Income is out of line with the borrower's occupation;
- Year-to -date and/or past years income says (See "W-2s and Paystubs");
- VOE is prepared/signed by originator on the same date as completed/signed by employer;
- VOE is prepared by someone other than a representative of a payroll or human resources department or has a generic job title such as secretary, manager, or general manager;
- Person verifying employment appears to be a relative of the borrower (i.e., same last name);

- Illegible phone number or name of person signing the document;
- Signature on the VOE reflects the same name as the borrower or other party affiliated with the transaction;
- The date the VOE was signed is not reasonable for processing time (i.e., VOE mailed out of state is signed the day after it was printed);
- Salary is displayed in round dollar amounts;
- VOE shows a company car allowance, yet applications shows an auto loan;
- Employer uses mail drop or Post Office Box or personal residence for business address;
- Borrower's profession changed from previous to current employer;
- Dates of employment on the VOE do not match dates on the application Inappropriate verification sources (such as, secretary or relative) were used;
- Amount of overtime equals or exceeds base pay;
- Handwriting or type is inconsistent throughout the VOE;
- Document is not folded (never mailed);
- Evidence of ink eradicator ("white out") or other alterations appears on VOE;
- Name of employer is similar to name of borrower;
- No employer address on VOE;
- No indication the VOE was mailed or faxed to the employer;
- Faxed VOE has unknown fax number (number other than employer);
- Business phone number is determined to be a cell phone and not appropriate for size of the company; and
- Type or handwriting is not identical throughout.

6A.3 (l) Phantom Employment, Credit, Income

Phantom employment or income occurs when the credit file is developed through fraudulent means. The following scenarios describe common methods of falsifying employment or income:

- A co-worker or superior completes a VOE with false information;
- A co-worker or superior acts as an authorized signer on a VOE;
- Verified employment is not consistent with employment reference on the credit report;
- The borrower may rent a post office box or provide another address for his/her employer. When the VOE is mailed to the false address, someone who has been instructed on what information to provide to the requesting party then completes it;
- The borrower provides false telephone numbers for those lenders that perform telephone verifications;
- The borrower provides false tax returns, W-2s, and paystubs, all of which may be easily obtained through interested parties to the transaction;

- The borrower may use a fraudulent Social Security number on the original credit application. When the credit report is generated, it will reflect no credit, thereby effectively hiding the borrower's poor credit history; and
- The borrower may assume the identity of someone else.

6A.3 (m) Cancelled Checks

Review cancelled checks submitted as documentation for the following red flags:

- Encoding numbers are missing;
- Encoding numbers inconsistent with the date and amount of the check;
- Misalignment in type or variation in font type;
- Check numbers and dates are not in numerical and chronological order;
- Bank account numbers on the checks are inconsistent with the application and asset verification;
- Any visible sign that suggests the document may have been altered or falsified including, but not limited to, misaligned text, variation in font type, or signs of information that has been cut and pasted;
- Earnest money deposit check is written on account that the application does not list;
- Money orders or several checks were used for deposit and they are not in sequential order; and
- Check is dated prior to the sales contract execution date.

6A.3 (n) Appraisal

Review the appraisal for the following red flags:

- Ordered by a party to the transaction other than the loan originator (such as a realtor, property seller, borrower);
- Property seller's name does not match the name on the title preliminary report or purchase agreement;
- Borrower is not listed as the owner (non-borrowing owner);
- Ordered before sales contract written;
- Photos do not match property description;
- Photos of property taken from odd angles;
- Photos show a For Sale sign in the yard for a refinance or a For Rent sign in the yard for a purchase;
- Subject property has significant deferred maintenance;
- Comparable sales not verified as recorded (data source MLS, sales office);

- Comparable sales have prior sales within the last 12 months with substantially different value;
- All comparable sales are within the same neighborhood/subdivision and/or the same builder on new construction;
- Comparable sales are older than six months in a market that has a faster marketing time;
- All comparable sales are sourced from private sale transaction versus property sold through Multiple Listing Service (MLS), Clerks office; etc.;
- Comparable sales are more than one mile away from subject property in an area where there are sufficient comparable sales closer to the subject property;
- All comparable sales are adjusted in the same direction;
- Overall adjustments are in excess of 25% without reasonable explanation;
- Appraiser is on the exclusionary; the appraisal is not acceptable;
- Appraiser name is the same as or similar to other parties engaged in the transaction;
- Appraiser comments that the property has been listed for sale within the last 90 days
- Appraiser used incorrect, outdated, or obsolete form;
- Income approach not used on tenant occupied properties;
- Tenant is shown as the occupant on an owner-occupied loan;
- Occupant is shown as tenant or unknown on a primary or secondary home property;
- Property ownership has been transferred within the last 120 days;
- The property has been sold one or more times in the last 12 months;
- The property's history shows recent sales within the year for a lower price; and
- Out of area or non-local appraiser.

6A.3 (o) Sales Contract

Review the sales contract for the following red flags:

- The borrower is not shown as the purchaser of the subject property;
- Names are deleted from or added to the contract;
- The property seller is a party related to the transaction such as the realtor, employer, appraiser or relative;
- Earnest money deposit consists of the entire down payment or is a large amount not customary with the size of the purchase;
- Earnest money deposit is placed directly with the property seller and represents the entire down payment for the loan;
- There is no earnest money deposit in the sales contract;
- The earnest money deposit on the sales contract does not match the earnest money deposit on the loan application;
- Earnest money deposit with a realtor who does not sign the contract and acknowledges receipt

of funds;

- Earnest money is deposited with unknown third party outside of the transaction;
- Earnest money check is dated prior to the sales contract or much later than the sales contract date;
- Sales price is substantially below or significantly higher than what is typical for the market;
- There is no realtor involved;
- Name and address on the earnest money deposit check do not match the borrower/buyer;
- Purchase contract indicates it has been assigned or is contingent upon another party (i.e., property seller) purchasing the subject property first, such as the property seller;
- Property seller or buyer is a corporation;
- Property seller's name on the sales contract is not the owner's name on the appraisal;
- Property seller's name on the sales contract is not the owner of the property per the title commitment;
- The buyer's name on the sales contract is not the proposed insured per the title commitment;
- Property seller's name listed on the contract is not consistent throughout or is not the same as the signature;
- Sales contract references an addendum, but the addendum was not provided;
- Sales contract is dated after the date of the appraisal or after the date of the loan application;
- Sales contract has no date;
- Property seller concessions/contributions appear excessive and/or property seller is paying all of buyer's closing costs;
- Property seller concessions/contributions do not match the details of transaction on the application;
- Comments in appraisal indicate sales price is unreasonable for subject property; and
- Comments in appraisal indicate that sale of property is not an arm's length transaction.

6A.3 (p) Closing Disclosure

Review the Closing Disclosure for the following red flags:

- Mortgage being paid off is not listed on application or credit report;
- Mortgage being paid off is not the mortgage of the borrower or the property seller;
- Mortgages identified on the title commitment are not paid off;
- Property seller's name on Closing Disclosure is not consistent with property seller on sales contract, title commitment or appraisal;
- Property seller changes on day of escrow or in closing process;
- No money due from buyer;
- Cash proceeds back to buyer on a purchase transaction;

- Property seller from the buyer with no earnest money deposit placed in escrow with the title agency;
- Excessive sales concessions;
- Discrepancies between the Closing Disclosure and the escrow instructions such as different property seller name or variations in fees and/or payoffs;
- No real estate commission paid, yet realtor is identified on sales contract;
- Real estate commission paid when no realtor involved per sales contract;
- Difference in sales price listed on sales contract and Closing Disclosure;
- Funds being disbursed to parties that were not identified as parties to the transaction;
- Funds being disbursed to unidentified parties with name of party receiving funds not identified on Closing Disclosure;
- Closing Disclosure indicates funds are being disbursed to a simultaneous escrow for the same property;
- Earnest money deposit is excessive and is placed with property seller not passing through the escrow account with the closing agent;
- Earnest money deposit with property seller represents entire borrower contribution to the transaction;
- Earnest money deposit does not match the earnest money deposit on the sales contract and/or the application;
- Title agency or closing attorney submits multiple Closing Disclosures for approval and review with information on payoffs, property seller, monies due from buyer changing in various Closing Disclosures;
- Property seller contributions or property seller concessions are on Closing Disclosure that are not in sales contract or on the application;
- Property seller is a corporation; and
- Borrower has owned the property for a short period of time and is requesting cash-out of the transaction.

6A.3 (q) Preliminary Title Report

Review the Preliminary Title Report for the following red flags:

- Prepared for or mailed to a party other than the originator;
- Title work is prepared by a title company that is not closing the transaction;
- Title company changes during the application process;
- Title commitment references other deeds to be recorded simultaneously;
- Delinquent property taxes tax liens or judgments on property;
- Notice of default/foreclosure recorded;

- Ownership of property has changed more than once in the last 120 days;
- Property seller not on title (could indicate a double escrow);
- Borrower is not on title when transaction is a refinance;
- Buyer is not listed as proposed insured;
- Property seller is only on the title by rights under contract on a purchase transaction;
- Realtor, appraiser, or other interested parties are in the chain of title;
- Mortgages are being paid off that are not on the application or credit report; and
- Property mortgage history indicates significant differences in lien amounts.

6A.3 (r) Escrow/Closing Instructions

Review the Escrow/Closing Instructions for the following red flags:

- Reference to another (double) escrow/sale;
- Power of Attorney being used with no explanation;
- Unusual amendments to the original transaction;
- Related parties in the transaction;
- Demands being paid to undisclosed third party;
- Cash is being paid to outside escrow to the property seller;
- Odd amounts being paid as a deposit/down payment;
- Buyer is required to use a specific escrow company; and
- Borrower has right of as assignment.