

The following **RED FLAGS** have been listed here as a guide to assist in the processing, underwriting, quality control and loss mitigation review of loan files. These Red Flags do not necessarily mean that misrepresentations have occurred; they identify loans that potentially contain misrepresentations. The presence of any of these Red Flags should alert the reviewer to take a more in-depth look at loan. In cases where multiple Red Flags are identified, the potential for losses to the lender is greatly increased.

## SIGNATURES

Variances in the signatures on loan documents may indicate forgeries. To detect potential forgeries, it is important to review the signatures for the borrower and seller on documents signed at different times in the loan process. If significant variances are noted, escalate the file to the next level of review. If the same parties submit a group of loans, review the signatures between documents in each file. If significant variances are noted, escalate all files in the group to the next level of review.

### Signatures that should be reviewed include:

- Borrower signatures on the Purchase Contract, Contract Addendums, initial application and disclosure documents, letters obtained during processing, closing documents, and documents obtained after closing
- Seller signatures on the Purchase Contract, Contract Addendums, title transfer and other closing documents
- Landlord signatures on Verification of Rents from the same landlord or rental complex employee
- Depository signatures on Verification of Deposits or Verification of Mortgages for the same financial institution employee.
- Employer signatures on Verification of Employment forms for the same human resources representative

**Note:** If the signatures for an individual are exactly the same, it may indicate that a signature from one document was copied and placed on another document and that the signer did not actually execute or sign all the documents. Only a trained handwriting analyst has the expertise to authoritatively indicate that signatures were or were not likely to be made by the same individual. Direct interview with the signer may be the best way to determine the authenticity of signatures and should be undertaken by trained investigators.

## PURCHASE CONTRACT

If any of the following Red Flags are identified on the purchase contract for the subject property, escalate the file for a more in-depth loan review and re-verify as much information as possible from sources which are independent of the originator.

- The seller is a business entity and the seller is not the builder of a newly constructed property
- A realtor is not involved
- A real estate agent is listed but did not sign the contract
- Information for the parties (buyer, seller, realtor, etc.) is incomplete (no names, addresses, etc)
- Borrower is required to use services from particular vendors (inspectors, closing agents, loan brokers, lenders, etc.)
- Secondary financing is offered by seller, realtor, broker or other interested party
- Secondary financing is offered, but was not disclosed to the Primary Financing Lender at time of application
- Borrower is not listed as the purchaser on the contract
- Seller does not hold title to the subject property at the time the contract was signed (contract is subject to seller obtaining title)
- Seller is a real estate professional (realtor, broker, etc.)

- Seller has a relationship to the borrower (relative, employer, loan broker, etc.)
- Contract is not dated (or is dated after the appraisal)
- Contract Price changed multiple times, or was increased to meet appraised value
- Real Estate Commission is excessive for market
- Contract Price is well below market value for the area
- Lease Contract with an Option to Buy
- Buyer allowances are excessive or are for unusual items
- Power of Attorney is being used for Buyer or Seller without a reasonable explanation
- The contract is a "generic" form easily obtained from a stationary company

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## EARNEST MONEY DEPOSIT

If any of the following Red Flags are identified on the purchase contract for the subject property, escalate the file for a more in-depth loan review and re-verify as much information as possible from sources which are independent of the originator.

- Deposit is made in a non-cash form (personal items, sweat equity, promissory note, personal loan, etc.)
- Deposit is made in an unusual amount (i.e., \$3,012.95)
- Deposit check is not cashed
- Deposit check is not from borrower
- Deposit check is dated prior to the Purchase Contract
- Deposit check is drawn on a borrower account which was not disclosed, verified or documented in the loan file
- Deposit check(s) from the same account are non-sequential (i.e., check #109 is dated May 15, 2005 but #117 is dated April 30, 2005)
- Escrow receipt is not supported by a copy of cancelled EMD check or bank statement showing clearing of check or withdrawal of certified funds in the appropriate amount
- Amount of Earnest Money verified does not match amount reflected on HUD-1, Purchase Contract, etc.

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## LOAN APPLICATION

- Application is not signed or dated
- The handwritten and typed application forms contain:
  - Significant changes or contradictory information
  - Inconsistencies in information
- Abnormal or unusual patterns on applications from the same source (broker / originator)
- Social Security Number is:
  - Invalid
  - Has been used in a death benefit claim
  - Issue date does not coincide with age
    - Issued prior to date of birth
    - Issued significantly after date of birth and borrower is not an immigrant
- Different participants to the loan share the same address / phone number / or name throughout file
- Dates on the application do not coincide with dates on verification documents
- Borrower's residence and employment phone numbers are the same but borrower is not self-employed
- Inconsistencies in
  - Borrower's age vs. time employed
  - Borrower's age vs. assets accumulated
  - Borrower's position vs. age and educational level
  - Borrower's income vs. assets accumulated

- Low income w/ high assets
  - High income w/ low assets
  - Borrower's income vs. position held (i.e. Janitor making \$60K annually or file clerk making \$100,000)
  - Employer or Depository address provided is a PO Box number, is a "PMB" (private mail box number) or includes a suite number (suite numbers are sometimes associated with "mail drops", not actual business offices)
  - Borrower currently resides in subject property (purchasing from landlord)
  - For investment property financing:
    - Borrower currently rents but is making an investment property purchase
    - Evaluate other rental properties listed on the schedule of real estate owned
      - Consider if the borrower has a history of owning rental properties – does he have a history of being a landlord
      - Have investment properties been obtained over a limited period of time
      - Are the rental amounts supported by legitimate lease agreements
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## OCCUPANCY

- On primary residence financing, review documents for the following red flags:
- Value of current residence exceeds subject property value
  - Borrower owns multiple investment properties in the same area as the subject property
    - Borrower has obtained properties under owner-occupied terms within the past 12 months but these properties are now investment homes
  - Borrower has obtained other properties, which are currently investment homes, within the past 3 years
  - Borrower has obtained another property(ies) in the same or similar neighborhood within the past 3 years and occupied it (them) less than 12 months
  - Borrower occupying a SFD while subject property is a multi-unit property without a reasonable explanation provided
  - Current residence to be sold or rented but no supporting documentation is provided
  - Inordinate amount of real estate owned by borrower
    - Multiple properties obtained in a short period of time
  - Buying down to a less expensive or smaller property
  - An unrealistic or significant increase in commute distance between current residence, subject property and employer on primary residence purchases
  - Borrower currently residing with relatives
  - Borrower currently living rent-free
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## APPRAISAL

- Appraisal is ordered by someone other than the originator (borrower, seller, realtor, etc.)
- “Appraisal prepared for” field is blank or shows a different lender than the originator
- Names of owner and/or borrower are not consistent with purchase contract or title report
- Name fields for owner and/or borrower have been left blank
- Current occupant of subject is listed as tenant, unknown, or owner of record on an owner-occupied transaction
- Appraisal date is prior to purchase contract date
- Appraisal date is prior to application date (especially in a retail lending operation)
- The appraiser is not licensed or the license expired or was revoked prior to appraisal date
- Market approach value exceeds replacement cost approach by a significant margin
- Land value is excessive for market
- Previous sales history on subject and comparables cannot be verified through public records

- Public records indicate recent sales that are not reflected on appraisal
- Comments on appraisal indicate there are issues or problems with the property that were not accounted for in the comparable adjustments
- Comparables
  - Were provided by interested parties to the transaction (realtor, seller, broker)
  - Are located an unreasonable distance from the subject property (normally over 1 mile, except for rural properties)
  - Review map for boundaries separating the subject from the comparables – RR tracks, parks, interstates, rivers, etc)
  - Are all located in one neighborhood that is different from the subject property
  - Positive time adjustments made in stable or declining markets
  - Sales are more than six months prior to appraised date (up to one year may be acceptable in soft markets)
  - Not the same type as subject property
  - All adjustments are in one direction:
    - All negative adjustments indicates comparables are all superior to the subject
    - All positive adjustments indicates comparables are all inferior to the subject
  - Use of unsupported adjustments
  - Net adjustments exceed 15%
  - Gross adjustments exceed 25%
- Photos
  - Show “For Sale” signs in subject property yard / window on refinance transactions
  - Show “For Rent” signs in subject property yard / window
  - Do not match property description of subject property
  - Property outlines, landscaping, general background differ between front and rear photos of subject
  - Show a different street number for subject than reflected elsewhere in appraisal and file
  - Do not show subject or comparables (trees, landscaping, gates block street view and MLS photos not provided)
  - Do not show the rear of the subject property
  - Indicate that comparables
    - May be superior to subject
    - May not have same market appeal as subject
  - Show exterior obsolescence not addressed in appraisal
  - Property appears distressed or in need of repairs

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## EMPLOYMENT/INCOME

- Income amount consistent with job title
  - Salary vs. Commission income (especially for sales employment types)
  - Self-employment claimed (especially for Presidents, Vice Presidents, Owners, Consultants, Managers, etc)
- VOE
  - Does not show signs of being mailed
    - Form has no creases
    - Dated/signed by employer within 1 day of being signed by originator
  - Addressed to the employer:
    - At a PO Box address
    - Attention a particular individual
  - Contains spelling mistakes (i.e. personal vs. personnel)
  - Contains squeezed-in letters / corrections / strikeouts / font inconsistencies

- Signatures are not legible and there is not a printed name or position listed to identify the individual
- Is not signed by someone in human resources
- Borrower's date of hire fell on a holiday or weekend
- The remarks section contains excessive praise for the borrower
- Income that is excessive compared to position
- Large increase in income from historic levels
- Year-to-date income is reflected in round dollar amounts

**-Pay stubs**

- Handwritten
- Do not show employer
- Do not show employee
- Year-to-date income is reflected in round dollar amounts
- Figures are misaligned
- Figures are squeezed in
- Not issued for consistent pay periods
- Check numbers do not coincide with issue dates
- Check numbers are out of sequence (when multiple stubs provided from same employer)
- Year-to-date earnings show marked increase from previous year's earnings
- Year-to-date earnings are not consistent w/ annual salary
- Contain incorrect deductions for taxes and withholdings
- Contain additional deductions for debt payments not listed on loan application
- Pay dates and amount coincide with deposits listed on bank statements

**-W-2**

- EIN is not in the correct format of xx-xxxxxx
- Handwritten
- Year-to-date income is reflected in round dollar amounts
- Figures are misaligned
- Figures are squeezed in
- Font is not the same throughout form
- Contains incorrect deductions for taxes and withholdings
- FICA taxable wages exceed federal maximum for that year
- FICA withholding exceeds federal maximum for that year (see below)
- Use of the wrong form for a particular year (crossed out and "corrected" year)
- Check for consistencies with other documents in the file for:
  - Employer name
  - Employee name
  - Employee social security number
- Copy provided for loan file is the one that should have been sent to the IRS with the applicant's federal tax returns

Year	FICA Maximum Taxable Wages	FICA Tax Rate	FICA Maximum Withholding Amount	Medicare Maximum Taxable Wages	Medicare Tax Rate	Medicare Maximum Withholding Amount
2006	\$94,200	6.2%	\$5,840.40	unlimited	1.45%	unlimited
2005	\$90,000	6.2%	\$5,580.00	unlimited	1.45%	unlimited
2004	\$87,900	6.2%	\$5,449.80	unlimited	1.45%	unlimited
2003	\$87,000	6.2%	\$5,394.00	unlimited	1.45%	unlimited
2002	\$84,900	6.2%	\$5,263.80	unlimited	1.45%	unlimited
2001	\$80,400	6.2%	\$4,984.80	unlimited	1.45%	unlimited
2000	\$76,200	6.2%	\$4,724.40	unlimited	1.45%	unlimited
1999	\$72,600	6.2%	\$4,501.20	unlimited	1.45%	unlimited
1998	\$68,400	6.2%	\$4,240.80	unlimited	1.45%	unlimited
1997	\$65,400	6.2%	\$4,054.80	unlimited	1.45%	unlimited
1996	\$62,700	6.2%	\$3,887.40	unlimited	1.45%	unlimited
1995	\$61,200	6.2%	\$3,794.40	unlimited	1.45%	unlimited
1994	\$60,600	6.2%	\$3,757.20	unlimited	1.45%	unlimited
1993	\$57,600	6.2%	\$3,571.20	\$135,000	1.45%	\$1,957.50
1992	\$55,500	6.2%	\$3,441.00	\$130,200	1.45%	\$1,887.90
1991	\$53,400	6.2%	\$3,310.80	\$125,000	1.45%	\$1,812.50
1990	\$51,300	7.65%	\$3,924.45	none	none	none

#### -Income Tax Returns

-If multiple years of tax returns are provided, review all side-by-side to check for inconsistencies, patterns, etc.

-1040

-Borrower did not sign / date copies

-Information is not consistent with loan application / W-2

-Social Security Numbers are inconsistent with other documentation in the loan file or are missing

-Marital Status & Dependents - is alimony / child support due from borrower which is not disclosed as a debt on the loan application

-Employer is different from employer shown on application and other loan documentation

-Income is not consistent with income reflected on loan application and other loan documentation

-Use of round or even dollar amounts for income and deductions

-High income borrower does not use professional income tax preparer

-Unemployment compensation is listed and loan application does not indicate a gap in employment

-Borrower has taken an IRA withdrawal before reaching normal retirement age and loan application does not reflect a change in employment

-Figures are misaligned

-Figures are squeezed in

-Font is not the same throughout form

-Strikeovers / alterations found on document (especially for tax year on form)

-Paid preparer hand-writes tax returns or signs all pages of tax return

-Amounts on schedules are not carried over accurately to the 1040 form

#### -Schedule A

-Does real estate tax paid match primary residence owned (or not owned) per loan application

-Mortgage interest deduction matches with primary residence financing (or free and clear) per loan application

- Un-reimbursed employee expense deduction
  - Schedule B
    - Interest and Dividend Income – do they support amounts and types of assets stated on loan application
    - Stock in employer firm listed as dividend producing for tax reporting purposes but borrower did not list self-employment on the loan application (or is not employed by a major company which provides stock options / benefits to employees where the income from these sources can be cross-checked by benefit statements)
  - Schedule C
    - EIN entered is the borrower’s SSN (EIN can be left blank)
    - Gross Income not supported by 1099 forms
    - No Cost of Goods Sold entered for a manufacturing business
    - Interest expense is claimed but no debt is shown on loan application or on credit bureau report
    - Mortgage Interest expense matches properties owned (or not owned) per loan application
    - No wages paid on non-commission operations
    - No IRA / Keogh / SEP, etc. deduction
  - Schedule E
    - Properties owned do not correspond to Schedule of Real Estate Owned on loan application
    - Cash Flow stated on Schedule of Real Estate Owned does not correspond to Schedule E Net Income (loss) plus Depreciation
    - Partnership Income reported on page 2
    - Borrower may be liable for business debts incurred by the Partnership
  - Schedule SE
    - Not filed for a self employed borrower
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## ASSETS

- VOD
  - Does not show signs of being mailed
    - Form has no creases
    - Signed and dated by depository within 1 day of being signed by originator and does not indicate the request was transmitted by fax
  - Addressed to the depository:
    - At a PO Box address
    - Attention a particular individual
  - Form does not show a “time and date” stamp for when received by the depository
  - Contains spelling mistakes (i.e. “account”)
  - Contains squeezed-in letters / corrections / strikeouts / font inconsistencies
  - Signatures are not legible and there is not a printed name or position listed to identify the individual
  - Date completed fell on a bank holiday or weekend
  - Large increase in balance over prior 60 days
  - Balances reflected in even dollar amounts
  - A second account holder noted who is not a loan applicant (or who is a participant to the loan transaction)
  - Account is recently opened with no paper-trail for source provided
  - Balance in checking account excessive as compared to balance in savings account
  - Average balance for past 2 months equal to current balance
  - Large recent deposit (especially if required for down payment) but no paper-trail for source is provided
  - Unusually large deposit(s) made during the 60 days prior to loan application date
- Bank Statements
  - Contains spelling mistakes (i.e. “account”)
  - Contains squeezed-in letters / corrections / strikeouts / font inconsistencies

- A second account holder noted who is not a loan applicant (or who is a participant to the loan transaction)
  - Multiple “non-sufficient funds” or overdraft charges
  - Regular deposits that may be from employer are not consistent with income for employment stated on application or with income documentation
  - Account holder is a business entity, not the borrower individually (use of LLC in account name)
  - Substantial amounts of funds being transferred into and out of account
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## CREDIT

- Borrower does not have established, traditional credit trade lines
  - Limited trade lines for high income borrower (or trade lines not appropriate to the individual’s status)
  - Trade lines were opened prior to issue date of borrower’s SSN
  - Trade line opening dates do not coincide with borrower’s age
  - All trade lines appear to have been opened at the same time, or in a very limited time period
  - All accounts were recently paid in full and no debt-consolidation loan is noted on the application
  - Borrower has made recent credit inquiries with no corresponding new accounts opened
  - Credit report references AKAs and DBAs for borrower not listed on loan application
  - Credit report references different primary residence address for borrower than listed on loan application
  - Credit report references different employer for borrower than listed on loan application
  - Credit report references multiple names and/or SSNs for borrower
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## TITLE REPORT

- Title Report prepared for a different financial institution
  - Title Report does not provide seller’s name
  - Name for current owner is different from seller’s name on a purchase, or from borrower on a refinance
  - Current owner’s title is “subject to recording of deed”
  - Current owner recently obtained title
  - Exceptions show that an owner/seller who is not currently in title has a mortgage debt which is significantly lower than the borrower’s loan amount
  - Title reflects no current liens when other loan documentation indicates current mortgages to be paid through closing
  - Title reflects liens, delinquent tax obligations, other outstanding liens not disclosed elsewhere in the application or loan file
  - Title Report is missing pages or schedules
  - Parcel number (tax ID number) is different from that reflected on appraisal
  - Property is zoned for a different type of property than that reflected on the appraisal (i.e., multi-unit apartment complex vs. 4-unit property)
  - Property subject to a Lis Pendens filing (this indicates the property is in the process of being foreclosed upon)
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## HUD-1/SETTLEMENT

- There appears to be a relationship between the settlement agent and other participants on the loan (broker, realtor, etc.) based on addresses, phone number, names of principles owning the firms, etc.
- Real estate commission paid is
  - Unreasonably high

- Nonexistent even though a real state agent is shown on the sales contract (possible non-arms-length transaction)
- Payments made from seller proceeds that are not supported with documentation in the loan file
- Payment of mortgage liens that are not shown on the title report as liens of record
- Payments for liens that were filed shortly before, or on the day of, the settlement
- Payments for repairs to the subject property that are not fully documented in the loan file (i.e., the “documentation” is a typed or handwritten note not on letterhead and not supported by invoices for materials, etc.)
- Earnest Money Deposit reflected on HUD not supported by documentation in the loan file
- Borrower receiving significant funds back on a purchase transaction
- Undisclosed seller credits
- There are references to another corresponding / simultaneous transaction on the subject property
- Disbursements are made to LLCs
- The seller is listed as an LLC
- Points paid are unusually higher than normally seen in that market

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## LOAN SERVICING

Once the loan has been originated, clues to possible misrepresentation can be identified by servicing personnel. Training serving staff to look for the following Red Flags and having procedures in place to escalate a thorough loss mitigation review can identify schemes in their early stages. Management can then require more in-depth reviews of other loans from the same sources or having similar parties to insure they are credit worthy transactions.

- The loan payment is made by someone other than the borrower (cross-check payer name with other parties to the loan transaction: realtor, seller, broker, closing agent, etc.)
- Mail is returned on a recently closed loan
- Mailing address changes on owner-occupied transactions
- Property tax records show that the tax bill is being sent to the borrower at a different address than the subject property on an owner-occupied transaction
- Requests to change the Social Security Number for the borrower(s) on a loan being serviced
- Borrower states during customer service conversations that “this is not my loan...”, “my property manager is handling the payments on this loan”, “this loan actually belongs to...”, etc
- Addresses on tax bill, insurance bill and coupon book vary and are not consistent with loan origination information regarding borrower’s primary residence
- If loan has been identified as having an early payment default, request collection records for review immediately