

Common Red Flags

Resources to Help You Combat Mortgage Fraud

Fannie Mae is committed to working with our industry partners to help combat fraud by offering you the following list of Common Red Flags that may indicate mortgage fraud.

Inconsistencies in the loan file are often a tip off that the file contains misrepresentations. The presence of one or more of these red flags in a file does not necessarily mean that there was fraudulent intent. However, several red flags in a file may signal a fraudulent transaction.

High-level Red Flags

- Social security number discrepancies within the loan file
- Address discrepancies within the loan file
- Verifications addressed to a specific party's attention
- Verifications completed on the same day they were ordered
- Verifications completed on weekend or holiday
- Documentation includes deletions, correction fluid or other alteration
- Numbers on the documentation appear to be "squeezed" due to alteration
- Different handwriting or type styles within a document
- Excessive number of AUS submissions

Mortgage Application

- Significant or contradictory changes from handwritten to typed application
- Unsigned or undated application
- Employer's address shown only as a post office box
- Loan purpose is cash-out refinance on a recently acquired property
- Buyer currently resides in subject property
- Same telephone number for applicant and employer
- Extreme payment shock may signal straw buyer and/or inflated income
- Purchaser of investment property doesn't own residence

Sales Contract

- Non arms-length transaction: seller is real estate broker, relative, employer, etc.
- Seller is not currently reflected on title
- Purchaser is not the applicant
- Purchaser(s) deleted from/added to sales contract
- No real estate agent is involved
- Power of Attorney is used
- Second mortgage is indicated, but not disclosed on the application
- Earnest money deposit equals the entire down payment, or is an odd amount
- Multiple deposit checks have inconsistent dates, i.e., #303 dated 10/1, #299 dated 11/1
- Name and/or address on earnest money deposit check differ from buyer
- Real estate commission is excessive
- Contract dated after credit documents
- Contract is "boiler plate" with limited fill-in-the-blank terms, not reflective of a true negotiation

Common Red Flags

Credit Report

- No credit history or “thin” credit files
- Invalid Social Security number or variance from that on other documents
- Duplicate Social Security number or additional user of Social Security number
- Recently issued Social Security number
- Liabilities shown on credit report that are not on mortgage application
- Length of established credit is not consistent with applicant’s age
- Credit patterns are inconsistent with income & lifestyle
- All trade lines opened at the same time
- Authorized user accounts have superior payment histories
- Significant differences between original and new or supplemental credit reports
- Also Known As (AKA) or Doing Business As (DBA) indicated
- Numerous recent inquiries
- Missing pages and/or supplements
- Employment discrepancies
- Social security alerts

Employment and Income Documentation

- Applicant’s job title is generic, i.e., “manager”, “Vice President”
- Employer’s address is a P O Box, the property address, or applicant’s current residence
- Applicant’s residence is (will be) in location remote from employer
- Employer name is similar to a party to the transaction, i.e., utilizes applicant’s initials
- Employer unable to be contacted
- Year-to-date or past-year earnings are even dollar amounts
- Withholding not calculated correctly (check FICA tables)
- Withholding totals don’t foot from pay advice to pay advice
- Pay period dates overlap and/or don’t correspond with other documentation
- Abnormalities in pay check numbering
- Handwritten VOE, pay stubs, or W-2 forms
- W-2 form presented is not the employee’s copy
- Employer’s identification number has a format other than 12-3456789
- Income appears to be out of line with type of employment
- Self-employed applicant does not make estimated tax payments
- Real estate taxes or mortgage interest claimed, but no ownership of real property disclosed
- Tax returns not signed or dated
- High income applicant without paid preparer
- Paid preparer signs taxpayer’s copy of tax returns
- Interest and dividend income don’t substantiate assets
- Applicant reports substantial income but has no cash in bank
- Large increase in housing expense
- Reasonableness test: income appears to be out of line with type of employment, applicant age, education and / or lifestyle

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Asset Documentation

- Down payment source is other than deposits (gift, sale of personal property)
- Applicant's salary doesn't support savings on deposit
- Applicant doesn't utilize traditional banking institutions
- Pattern of loyalty to financial institutions other than the subject lender
- Balances are greater than the FDIC, SIPC insured limits
- High asset applicant's investments are not diversified
- Excessive balance maintained in checking account
- Dates of bank statements are unusual or out of sequence
- Recently deposited funds without a plausible paper-trail or explanation
- Bank account ownership includes unknown parties
- Balances verified as even dollar amounts
- Two-month average balance is equal to present balance
- Source of earnest money is not apparent
- Earnest money isn't reflected in account withdrawals
- Earnest money is from a bank or account with no relationship to the applicant
- Bank statements do not reflect deposits consistent with income
- Reasonableness Test: Assets appear to be out of line with type of employment, applicant age, education and / or lifestyle

Appraisal

- Appraisal ordered by a party to the transaction
- Occupant shown to be tenant or unknown
- Owner is someone other than seller shown on sales contract
- Appraisal indicates transaction is a refinance, but other documentation reflects a purchase
- Purchase price is substantially higher than predominant market value
- Purchase price is substantially lower than predominant market value
- Subject property obsolescence is minimized
- Large positive adjustments made to comparable properties
- Comparables' sales prices don't bracket the subject's value
- Comparable sales are not similar in style, size and amenity
- Dated sales used as comparable sales
- New construction / Condo conversion: All comparable sales located in subject development
- Comparable properties are a significant distance from the subject, or located across neighborhood boundaries (main arteries, waterways, etc.)
- Map scale distorts distance of comparable properties
- "For Rent" sign appears in photographs
- Photos appear to be taken from an awkward or unusual standpoint
- Address reflected in photos does not match property address
- Weather conditions in photos inconsistent with average marketing time, date of appraisal
- Appraisal dated before sales contract
- Significant appreciation in short period of time
- Prior sales are listed for subject and/or comparables without adequate explanation

Common Red Flags

Title

- Prepared for and/or mailed to a party other than the lender
- Evidence of financial strain may indicate a compromised sale transaction (flip, foreclosure rescue, straw buyer refinance, etc.), or might suggest undisclosed credit problems in the case of a refinance
 - Income tax, judgements or similar liens recorded
 - Delinquent property taxes
 - Notice of default or Modification agreement recorded
- Seller not on title
- Seller owned property for short time
- Buyer has pre-existing financial interest in the property
- Date and amount of existing encumbrances don't make sense
- Chain of title includes an interested party such as realtor or appraiser
- Buyer and Seller have similar names (property flips often utilize family members as straw buyers)

Owner Occupancy

Purchase Transactions:

- Real estate listed on application, yet applicant is a renter
- Applicant intends to lease current residence
- Significant or unrealistic commute distance
- Applicant is downgrading from a larger or more expensive house
- Sales Contract is subject to an existing lease
- Occupancy affidavits reflect applicant does NOT intend to occupy
- 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)
- Reverse directory does not disclose subject property address

HUD-1 Settlement Statement

- Borrower or Seller names are different than sales contract and title
- Sales price is inconsistent with contract, loan approval and/or appraisal
- Excessive earnest money or builder deposit
- Earnest money deposit is inconsistent with sales contract and/or application
- Payouts to unknown parties
- Refinance pays off previously undisclosed liens
- Excessive sales commissions
- Excessive fees and/or points
- Seller-paid closing costs, especially for purchaser with sufficient assets for down payment
- Cash proceeds to borrower are inconsistent with final application and loan approval