

Lender Best Practice: Fraud Red Flags

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Let's just go ahead & say the word - Fraud! Now that we have that out of the way we can get down to business as we work with you, our partners, to tackle this issue that haunts and impacts all of us. We are seeing a noticeable increase in repurchase demands from the agencies due to misrepresentations on the topics below. Please help us reduce repurchase demands by paying attention to signs & red flags associated with each type of fraud.

Note: This Best Practice is a reissue from August. Because of the increase of fraud in the industry, we wanted to send a reminder on these tips and red flags.

Occupancy Fraud:

Second home occupancy fraud - This type of fraud involves the use of the property for something other than a 2nd home for the borrower.

Red flags:

- 2nd homes that are not under the exclusive control of the borrower.
- A 2nd home that will be the primary residence of another party with or without a lease. This still applies in spite of the borrower staying there during visits.
- Borrower is not sure how he/she intends to use the property at time of application.
- A management company controls occupancy
- Property is listed for rent just before or after closing
- Borrower indicates the home will be the primary residence of someone else including family members.
- Property does not have the qualities of a 2nd home & no details provided by the borrower.

Investment property reverse occupancy fraud - This type of fraud involves a borrower who qualifies with rent from the property but actually occupies the property instead of renting it.

Red flags:

- Borrower currently rents primary residence & needs rental income from subject to qualify
- Few to no rental properties in the subject's neighborhood
- Property is close to borrower's place of employment
- Property is superior to borrower's current residence
- Borrower currently occupies the property that will supposedly be investment property

Employment Fraud:

Employment change fraud - This type of fraud involves a borrower changing jobs around closing & not disclosing the change which is fraud for convenience.

Red flags:

- Be aware of comments from a borrower about changing jobs.
- Borrower provides the name of someone to call for the verbal VOE.
- Verbal VOE's are not completed accurately per product guidelines.
- Employment fraud is one of the easiest to catch in a post-closing audit by an investor, quality control or internal audits.

Debt Fraud:

Undisclosed debt - this type of fraud involves a borrower failing to disclose new debts obtained but not disclosed to the lender.

Red flags:

- Recurring payments in bank statements to undisclosed creditors not shown on the credit report.
- Paystub deductions for undisclosed loans, child support, alimony, etc.
- Undisclosed alimony payments found in tax returns.
- Children claimed as dependents on tax returns when dependents are not disclosed on the application.
- Tax returns that claim mortgage interest but no REO is disclosed.
- Tax returns that show rental properties with interest claimed but shown as free & clear on the final 1003.
- REO listed on the initial application but not verified or included in qualifying ratios.
- Inquiries unrelated to the subject transaction that could result in new debts before or immediately after closing.
- Borrower is purchasing investment property or 2nd home, states current address is rent free but has a large payment on each month of bank statements that could be a housing expense.
- Borrower purchases additional REO simultaneously with the subject but does not disclose. Debts are discovered shortly after closing.

Wire Fraud:

Wire Fraud - This type of fraud involves using fraudulent wire transfer instructions to hack borrowers email accounts. 80% of the attempts we see target borrowers.

Tips to prevent this form of fraud & protect your borrowers:

- Work closely with your closing agent and your borrowers to reconfirm all wiring instructions for closing before transferring any money.
- Double check all email wire instructions with your closing agent by phone before sending your wire.
- Independently validate the phone number and call it to confirm wire information. Do not use any phone number contained in the sent email.
- Notify borrowers of wire fraud schemes during loan application
- Send all settlement agent communications via secure platform

Thank you for your business!

-Your SunTrust Correspondent Lending Team