

RED FLAGS	RED FLAG IDENTIFIED	ACCEPTABLE
SECTION 1: Loan File Red Flags		
1) Borrower's address is the same as employers, depositories or interested parties to the transaction		
2) Use of Post Office boxes for addresses		
3) Type, spacing ("squeezed-in numbers"), and/or font varies within document from a single source		
4) White outs or corrections on documents		
5) Graphics/logos are not aligned properly or look suspicious		
6) Inconsistent borrower's names, phone numbers, addresses, Social Security numbers, or handwriting throughout the file		
7) More than one mortgage lender is reflected throughout the file		
8) Parties to the transaction have more than one role (for example, realtor is landlord, employer is gift donor)		
9) Borrower appears to be related to any other party reflected in the file except the gift donor (for example, verifier of funds or employment, appraiser, escrow officer, etc.)		
10) Unusually long or short loan processing time (brokered loans)		
11) Patterns or similarities in loan packages received from a specific broker, loan originator, realtor or property seller		
12) Fax documents <ul style="list-style-type: none"> • Sending phone number and company name match loan application • Fax header missing 		
13) Whole numbers where it doesn't make sense		
14) Fraudulent signatures <ul style="list-style-type: none"> • Hesitation marks that may indicate "tracing" a signature • Toner on the back of the signature, which can be viewed from the back of the document that may indicate "tracing" a signature • Differ on various documents in the loan package 		
15) Verifications are hand-carried (i.e. folded, not creased, no addresses)		
SECTION 2: Loan Application Red Flags		
1) Incomplete handwritten application		
2) Handwritten application lists debts in the same order as the credit report		
3) Signatures on the 1003 do not match the other loan documents		
4) Non-purchasing spouse		
5) Borrower buying investment property, but does not own current residence		
6) New home is not large enough for proposed occupants		
7) Borrower is purchasing property from landlord or employer		
8) Rapid property purchases: borrower purchasing a property after short period of owner occupancy at current address		
9) Borrower's level of education is inconsistent with employment		
10) Borrower's office phone number is the same as the home number (borrower is possibly self-employed)		
11) Employment changes indicate inconsistencies		
12) Borrower income inconsistent with type of employment		
13) Employment/income not logical when compared to borrower's age, position or geographic location		
14) Non-transient job with company phone number identified as a cell phone		
15) Significant or unrealistic commute distance from subject property to employment (on owner-occupied transactions)		
16) Number of years on the job/in that profession inconsistent with borrower's age		
17) PO Box is the only address listed for employer (especially on the handwritten application)		
18) Significant or contradictory changes in debt, employment, income or assets from the initial to the final application		
19) Larger than customary escrow deposit		
20) Savings higher than expected for age and/or income		
21) Assets inconsistent compared to liabilities (for example, significant assets, yet no credit or minimal credit)		
22) Down payment other than cash (rent credit, sale of personal property, repayment of loan, gift, etc.)		
23) Incomplete Schedule of Real Estate Owned		
24) Borrower(s) are buying down in value or out of area with no explanations		

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SECTION 3: Social Security Red Flags		
1) Invalid Social Security number as evidenced by:		
a. Three or more leading zeros		
b. Zeroes in both positions four and five		
c. Ending in four zeros		
d. Leading number of 772 through 799		
e. Leading number of 800 - 899		
f. Leading number of 900-999		
g. Leading number of 666		
h. Issue date of Social Security number is inconsistent with borrower's age		
2) SSN on 1003 conflicts with the credit report or other file documentation		
3) Names other than the borrower(s) shown on the SS trace provided on the credit report		
4) Borrower(s) have ITIN along with SSN on income documentation (Individual Tax Identification Number: nine-digit number that always begins with the number 9 and has a 7 or 8 in the fourth digit)		
5) Borrower(s) with ITIN that have not provided documentation to establish legal residency in the U.S.		
6) Multiple Social Security numbers reported for borrower(s)		
SECTION 4: Credit Report Red Flags		
1) All credit reports and/or supplements are not included in the file		
2) Personal data not consistent with the handwritten application		
3) Variance in residence data from other file documentation		
4) Length of time on credit bureau file inconsistent with borrower's age		
5) Also Known As (AKA) or Doing Business As (DBA) indicated		
6) Credit report is from a different lender		
7) Employment history reported is inconsistent with loan application		
8) Current and previous residence history reported is inconsistent with loan application		
9) Invalid Social Security Number or variance		
10) Length of time on credit file inconsistent with the borrower's age		
11) All trades lines opened at the same time or opened recently		
12) All or some accounts recently paid in full (undisclosed loan)?		
13) Refinance of recently originated loan (current lender may have accelerated for misrepresentation)		
14) Indebtedness disclosed on the mortgage application varies from that reflected on the credit report		
15) Credit usage is inconsistent with income level. Eg: high income with little or no credit used or high income with excessive credit usage		
16) Single borrower has joint accounts		
17) Joint borrower has individual accounts		
18) Trade line(s) indicate Authorized user		
19) No Credit/Alternative Credit (possible use of alias or different social security number)		
20) Recent inquiries from other mortgage lenders		
21) All Hawk Alerts/Fraud Alerts on the credit report are addressed		
22) Handwritten application lists debts in same order as credit report		
23) Infile credit report on closing date shows additional debt		

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SECTION 5: Income Red Flags		
1) Company name similar to borrower's name but not shown as self-employed (i.e., Charles Smith & Charlie's Body Shop)		
2) Date of hire is a weekend or holiday		
3) Business entity is not in good standing or registered with the appropriate regulatory agencies		
4) Income level and/or income documentation is inconsistent with type of employment Ex: no supporting W-2's or pay stubs for a job that typically issues		
SECTION 6: VOE Red Flags		
1) VOE (VOEs have a high propensity for fraud)		
2) Typed by employer		
3) Generic job titles (i.e., manager, general manager, accountant, consultant)		
4) Commissioned position with "base" salary only (and vice versa)		
5) YTD past year's income says, "See W-2s and Paystubs"		
6) VOE shows company car and application shows auto loan		
7) Illegible employer signature with no further identification		
8) Person verifying employment appears to be related to the borrower		
9) Co-borrower's maiden name is the same as the signature of employer (self-employed)		
10) Credit explanation indicates that borrower was late due to illness/layoff, but income on VOE is not lower during that time frame		
11) Company phone number is identified as a cell phone number		
12) Person verifying income is not in a proper position to sign the VOE		
SECTION 7: Paystub Red Flags		
1) Calculations on paystubs are inconsistent and/or do not add up		
2) Accuracy of FICA calculation: Social Security - 6.20% & Medicare 1.45%		
3) Not computer-generated from large employer		
4) Debts reflected as deduction from paystub (i.e., credit union loans, etc.) not disclosed on application		
5) Year-to-date totals do not total accurately from paycheck to paycheck		
6) Social Security number is not consistent with other loan file documents		
7) Number of dependents is inaccurate based on loan application		
8) Handwritten paystubs		
9) Check numbers are not sequential and/or do not increase chronologically		
10) Pay period ending date is inconsistent with calendar		
SECTION 8: W-2s/1099 Red Flags		
1) Not computer-generated from large employer		
2) W-2 is typed, but paystubs are computer-generated		
3) Employer or employee names or addresses are inaccurate		
4) Income reflected on W-2 statements is different than income reported on mortgage application, VOE and tax returns		
5) Withholdings are inconsistent with paystub		
6) Handwritten/manually typed W-2's or paystubs (should be system/computer generated)		
7) Copy submitted is not "Employee's Copy" (Copy C)		
8) FICA withholdings exceed maximum allowed for the year: <ul style="list-style-type: none"> • Social Security - 6.20% • Medicare - 1.45% 		
9) Employer identification number is formatted other than XX-XXXXXXX		
10) Employers ID different from one year to the next (1099)		

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SECTION 9: Tax Returns Red Flags		
1) No taxpayer label used, yet residence has not changed		
2) Address and/or profession does not agree with other information submitted on the mortgage application		
3) Type of handwriting varies within return		
4) No estimated tax payments by self-employed borrower (Schedule SE required); or self-employment tax claimed, but self-employment not disclosed		
5) Tax returns are not signed/dated by borrower		
6) Paid preparer signs taxpayer's copy		
7) Inconsistent, name, address & social security number		
8) Number of dependents inconsistent with the 1003		
9) Professionally prepared returns are handwritten or not signed		
10) Wages do not agree with W-2s or VOE in the file		
11) Borrower does not state self-employed while 1040s indicate otherwise (i.e. claimed self-employed health ins. deduction)		
12) Gross income on page one is different than page two		
13) Obvious income/deduction calculation errors		
14) Occupation differs from what was stated on 1003		
15) Unemployment income claimed however file does not indicate a gap in employment		
16) Schedule A (Itemized Deductions) <ul style="list-style-type: none"> • State income tax paid by borrower who lives and works in a state that does not have income tax • Real estate taxes/mortgage interest paid, but application shows no ownership of property (or vice versa) • Tax preparation fee is deducted, yet prior year's return is prepared by borrower • Few or no deductions for a high-income borrower 		
17) Schedule B (Itemized Deductions) <ul style="list-style-type: none"> • Substantial cash in bank shows little interest income • No dividend earned on stocks owned • Amount or source of income does not agree with the information submitted on the mortgage application 		
18) Schedule C (Profit & Loss from Business Owned) <ul style="list-style-type: none"> • Gross Income doesn't agree w/ total income on 1099 • Income appears high for type of business • Cost of goods sold missing from a retail type of business • No deductions for tax and licenses when applicable • Business expenses are not consistent with type of business (for example, truck driver with no car and truck expense) • Business code is inconsistent with type of business • Borrower takes a depreciation deduction for real estate not disclosed (or vice versa) • Borrower shows interest expense but no related loan (possibly business loans with personal liability) • Wages are paid, but no tax expense is claimed • Wages are paid, but there is no employer identification number • Salaries paid are inconsistent with type of business • No IRA or Keogh deduction • Income significantly higher than from previous years 		
19) Schedule E (Rents and Royalties) <ul style="list-style-type: none"> • Schedule of real estate differs from properties listed on Schedule E • Property taxes and insurance were not expensed • Mortgage interest is deducted as an expense for a property, but there is no mortgage listed on application • Pass through of tax liability is reported from partnerships and s-corps and is not consistent with the K-1 schedule • Mortgage interest is deducted but no mortgage is disclosed • Borrower shows partnership income (may be liable as a general partner for partnership's debts) 		

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SECTION 10: Asset Red Flags		
1) Source of funds consists of (unverified) note, equity exchange, sale of residence		
2) Cash in the bank is not sufficient to close		
3) Gift letter is not backed up by written transfer of funds		
4) Deposit money made in multiple transactions		
5) Closing check drawn on a different bank		
6) Asset level (verified or stated) is inconsistent with the level of income on the application		
7) Asset documentation is inconsistent with the type of account that is held		
8) Verified account holder documentation is inconsistent with loan application		
9) Assets verified with computer inquiries do not contain data that can fully identify the account belongs to the borrower(s)		
SECTION 11: Verification of Deposit Red Flags		
1) VOD (VODs have a high propensity for fraud)		
2) VOD is completed the same day it is ordered		
3) VOD signed by bank officer, or someone who ordinarily would not verify an account		
4) VOD provided was not signed by the appropriate party; the signature and/or position of person signing is not legible; no telephone number of the depository		
5) Date of verification by the bank is a weekend or holiday		
6) Verify authorized signer: Is the printed name and the signature name spelled the same? Is the date of the signature on or before the application date? Is their position provided and legible?		
7) Account has been recently opened		
8) Account numbers do not match those on the application		
9) Significant changes in balance from previous two months to date of verification		
10) Savings account with average two-month balance exactly equal to present balance (no interest accumulation)		
11) Excessive balance in checking account vs. savings account		
12) Loan secured by checking or savings account		
13) Illegible signature		
SECTION 12: Bank Statement Red Flags		
1) Missing bank statement pages		
2) Borrower's address on statement is inconsistent with loan file		
3) Additional and/or non-borrower account holders listed		
4) Periodic deposits at odds with reported income and/or debts		
5) Include insufficient funds fees		
6) Daily balances are inconsistent with opening/closing balances		
7) Earnest-money deposit not reflected as a withdrawal		
8) Bank statements provided do not reflect payroll deposits (salaried borrower) as reflected on pay stubs		
9) The dates shown on the statement are inconsistent		
10) Duplicate checks with different amounts		
11) Calculation errors; balances are not correct, statement does not reconcile		
12) Transaction dates are not listed chronologically		
13) Account holder is not the borrower; social security number if provided, does not match		
14) Current balance is higher than average balance		
15) Large deposits with no interest paid		
16) Interest calculations don't match the balances		
17) The verification format is not applicable for the lending institution. For instance, BofA doesn't complete bank VODs; they use a computer-generated form.		
18) Statement date not in agreement with the transaction dates listed		

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SECTION 13: Bank Check Red Flags		
1) Numbers, payee or other information appear to be altered		
2) Bank and/or account number is inconsistent with the information on application		
3) Low check number (indicates newly opened account)		
4) Check is not canceled		
5) Dollar amount is not encoded correctly on check		
6) Check number does not agree with encoded number		
7) Endorsement dates are inconsistent with the date the check was written		
8) Check numbers from single account do not increase chronologically		
9) Checks reflect additional signers for the account		
10) Cashiers check for funds to close mentions an entity on non-interested party as "remittee" (possible flip)		
SECTION 14: Sales Contract Red Flags		
1) Seller on contract is inconsistent with owner of record.		
2) Purchase price is considerably lower than the appraised value		
3) Names are deleted from, or added to, the purchase contract		
4) Earnest-money deposit <ul style="list-style-type: none"> • Consists of the entire down payment, or in an odd amount • Check contains a name and address that is different from that of the buyer • Checks have inconsistent dates, i.e. check #111 dated Nov 1, #113 dated Sep 1 • Check is not cashed 		
5) Multiple contracts exist		
6) Sales contract date is after the appraised value		
7) Review seller information for potential non arms-length transaction: <ul style="list-style-type: none"> • Seller is a real estate agent or party to transaction • Seller is a company or employer • Seller is a relative - same last name as borrower(s) 		
8) Private sale/a real estate agent is not involved in transaction.		
9) Purchaser listed is other than borrower		
10) Sales contract names seller as a company or partnership (possible flip)		
11) Second mortgage is indicated and/or second mortgage is held by a private party versus a financial institution		
12) Date of purchase contract inconsistent with Appraisal, Application, or other documentation		
13) Sales concessions or rent back agreements		
14) Check contract assignments for borrower deletions or additions (often indicates straw buyers)		
SECTION 15: Appraisal Red Flags		
1) Appraiser is on a watch list		
2) Information about the property is not consistent throughout the report (i.e. room count varies from one section to another within the report)		
3) Appraisal is ordered by a party other than lender (buyer, property seller, real estate agent)		
4) Address and legal description of the subject property are inconsistent with other file information		
5) Owner is identified by the appraiser as a tenant on an owner-occupied residence (may be on the sales history section)		
6) Requested information is left blank (borrower, client, occupant, etc.)		
7) Owner on sales contract is not the same as the owner on the appraisal		
8) Borrower(s) or lender "prepared for" information is incorrect on appraisal		
9) Value of the property is higher than the "Predominant Value" of the neighborhood		
10) Appreciation of property value in a stable or declining area		
11) Most recent sale on subject and comps is missing		

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SECTION 15: Appraisal Red Flags <i>(continued)</i>		
12) New home is not large enough for proposed occupants		
13) High land value in urban areas (consider the area)		
14) Source or Comp information not verified as required (i.e. data source: MLS, sales office, SREA, CMDC, real estate agent, etc)		
15) Appraiser uses comparable properties that are significantly newer than the subject property		
16) Distance of the comparables from subject property is excessive for location		
17) Excessive gross or discretionary line-item adjustments. Discretionary line adjustments include site, view, condition, quality		
18) Incorrect adjustments were made for sales or financing concessions		
19) Significant increase in appraised value from prior sales data for both purchase and refinance properties		
20) Date of the appraisal is prior to date of sales contract		
21) Photos <ul style="list-style-type: none"> • Do not match property description • Taken at odd angles • Only show one view • Reveal items not disclosed in the appraisal (i.e. railroad tracks, another structure on premises) • Comp photos look the same as subject photo • Weather conditions are not consistent with date of appraisal • House number doesn't match property address 		
22) Appraisal is dated prior to the loan application date		
23) Property value increase due to repairs or renovations is not supported with documentation or photographs nor addressed by appraiser		
24) Appraiser is located outside of subject property county		
25) Income approach is not used on tenant-occupied, single-family dwellings		
SECTION 16: Prelim Red Flags		
1) Prepared for/mailed to a party other than the lender		
2) Property seller not on the title (double escrow)		
3) Property seller-owned property for a short time with cash out on the sale		
4) Notice of default is recorded (possible cash-out refinance with a straw buyer)		
5) Delinquent property taxes		
6) Judgment against borrower is not shown on credit report		
7) Modification agreement on existing loan(s)		
8) Suspicious transfer		
9) Report shows Lis Pendens or tax lien (possible distressed seller)		
10) Rapid transfers of title		