

For Arch MI and Arch MI For Credit Unions

Mortgage Fraud

Do Your Diligence

a MORTGAGE SKILLS course



Legal Disclaimer



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What Is Mortgage Fraud?

Impact of Mortgage Fraud

- Mortgage Fraud Statistics

Mortgage Fraud Categories

Ways to Prevent Mortgage Fraud

- Common Red Flags

Types of Fraud

- Red Flag Activities



What is Mortgage Fraud?



What is Mortgage Fraud?

- Mortgage fraud is a crime characterized by some type of material misstatement, misrepresentation or omission on a loan, which is then relied upon by a lender.
- Fraud can occur at any point during the transaction, from inception to funding.



Mortgage Fraud

MORTGAGE FRAUD IS INVESTIGATED BY THE FBI



Mortgage Fraud is investigated by the Federal Bureau of Investigation and is punishable by up to 30 years in federal prison or \$1,000,000 fine, or both. It is illegal for a person to make any false statement regarding income, assets, debt, or matters of identification, or to willfully overvalue any land or property, in a loan and credit application for the purpose of influencing in any way the action of a financial institution.

Some of the applicable Federal criminal statutes which may be charged in connection with Mortgage Fraud include:

- 18 U.S.C. § 1001 - Statements or entries generally
- 18 U.S.C. § 1010 - HUD and Federal Housing Administration Transactions
- 18 U.S.C. § 1014 - Loan and credit applications generally
- 18 U.S.C. § 1028 - Fraud and related activity in connection with identification documents
- 18 U.S.C. § 1341 - Frauds and swindles by Mail
- 18 U.S.C. § 1342 - Fictitious name or address
- 18 U.S.C. § 1343 - Fraud by wire
- 18 U.S.C. § 1344 - Bank Fraud
- 42 U.S.C. § 408(a) - False Social Security Number

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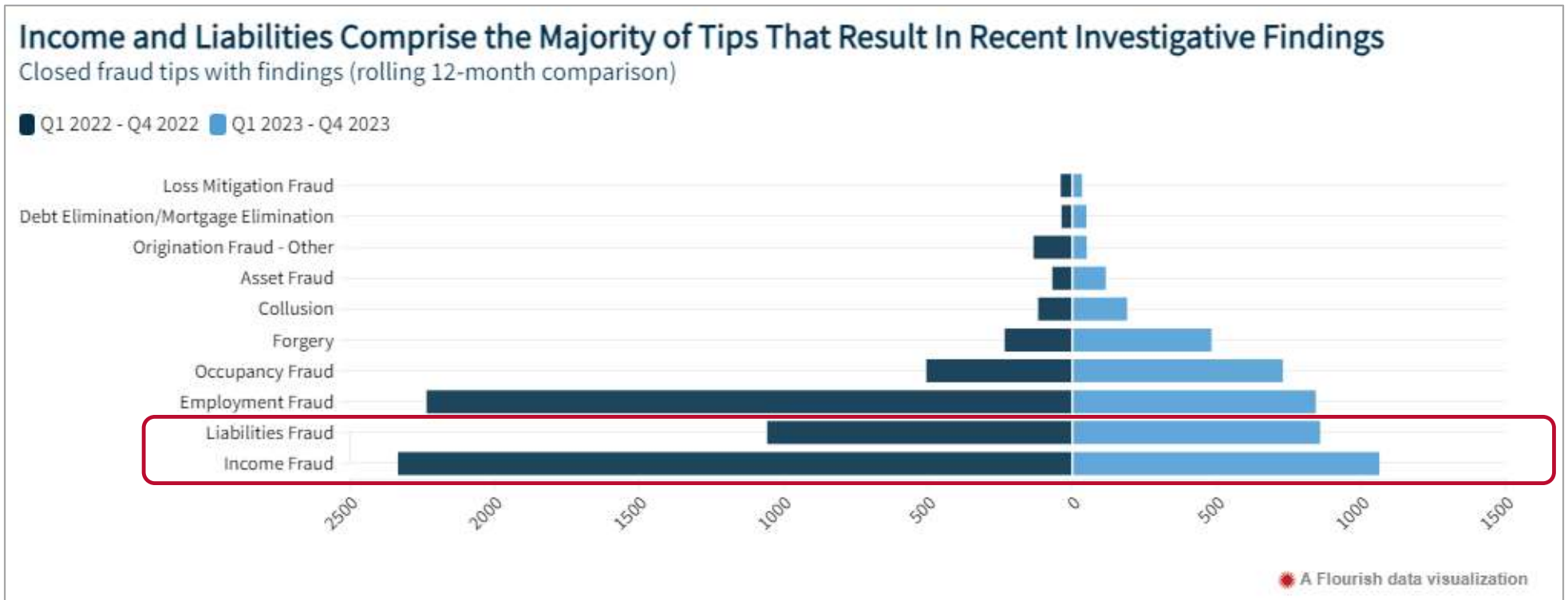


Impact of Mortgage Fraud

Mortgage Fraud Statistics

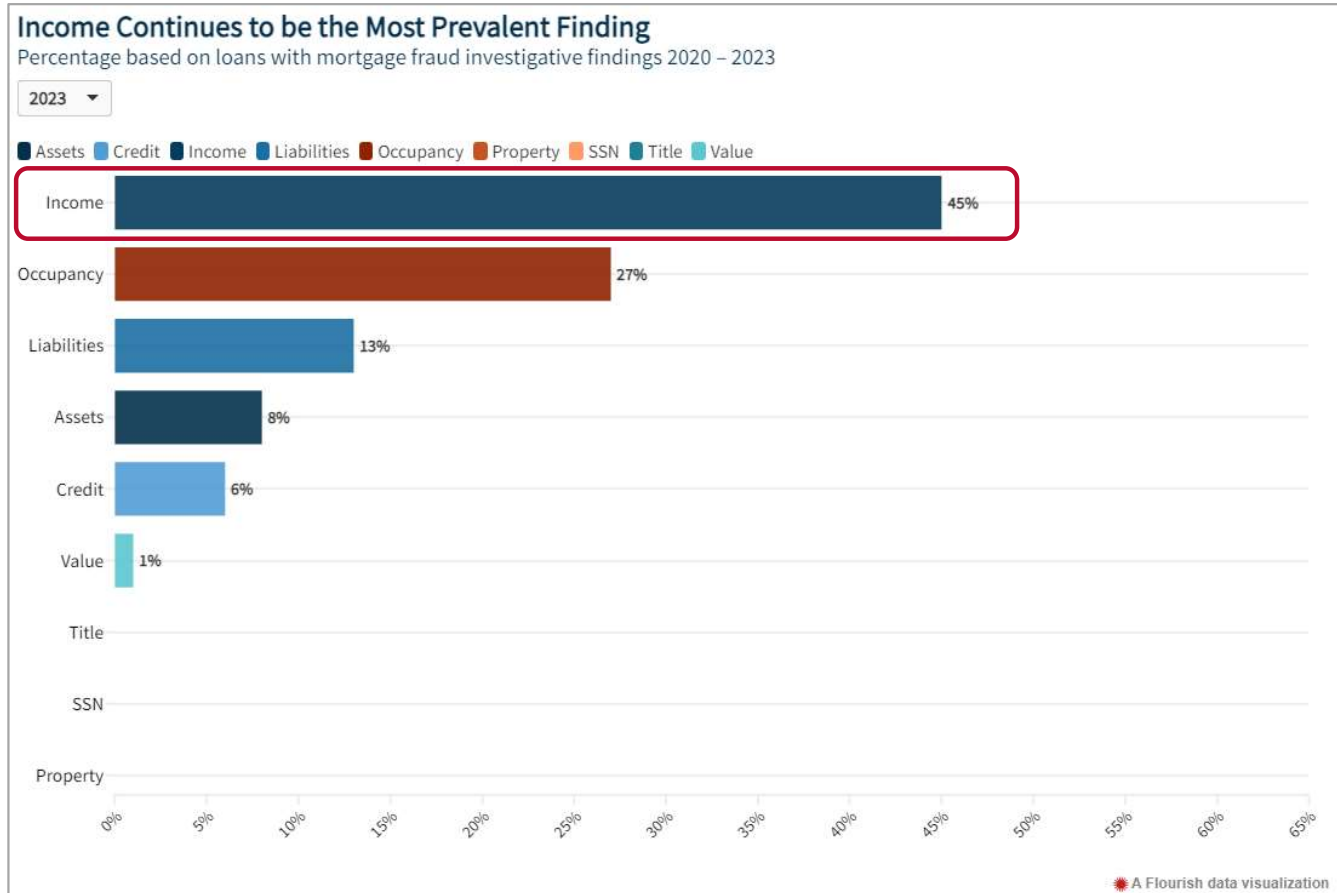


Fannie Mae Mortgage Fraud Tip Trends — Top Characteristics



<https://singlefamily.fanniemae.com/mortgage-fraud-prevention>, February 7, 2024

Fannie Mae Mortgage Fraud Loan Trends — Most Prevalent Finding



<https://singlefamily.fanniemae.com/mortgage-fraud-prevention>, February 7, 2024

Mortgage Fraud Categories



Mortgage Fraud Categories

1. Fraud for housing.
2. Fraud for profit.



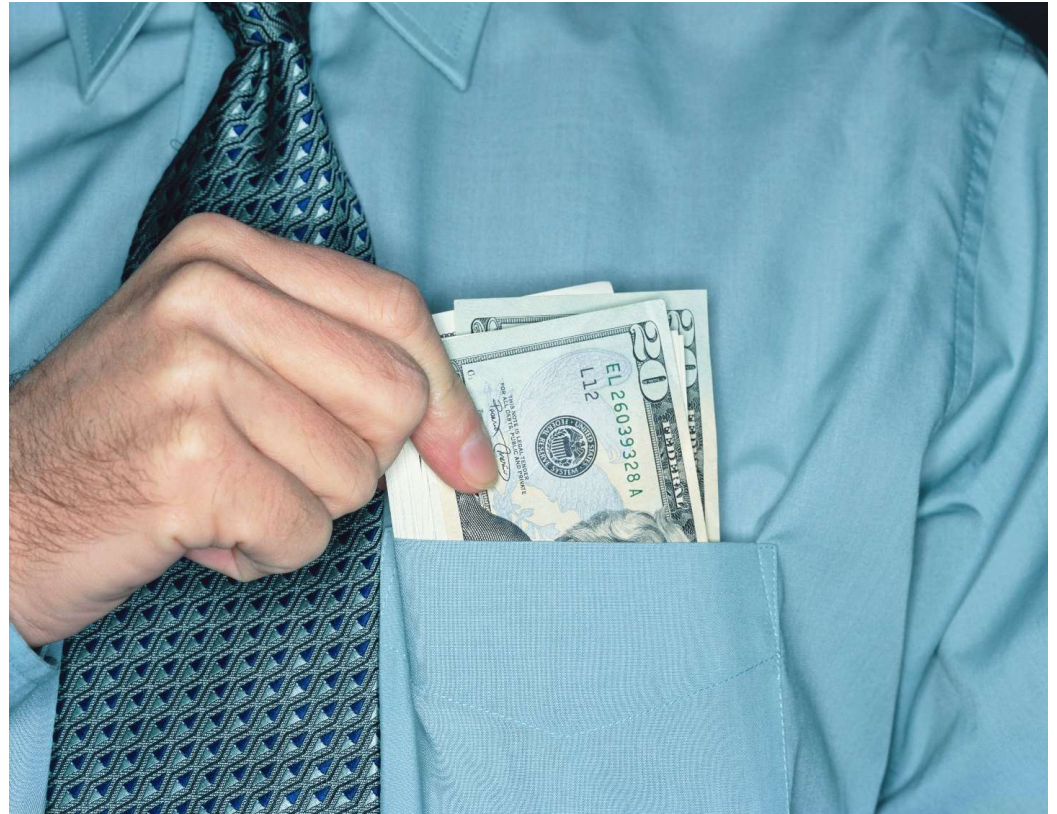
Fraud for Housing

- Motivated by desire/need to purchase a home.
- May misrepresent loan application information, e.g., inflate income or assets.
- Facts about the borrower or property are omitted or altered and loan is approved based on information disclosed and verified.



Fraud for Profit

- Motivated by money/greed.
- Schemes involve a pattern: two or more mortgage loans, multiple parties in various roles within the mortgage industry.
- Elaborate scheme involves industry insiders who know how to exploit the mortgage system.
- No true intent to repay the mortgage.



The 80/20 Rule

- 80% of mortgage fraud is for housing.
- 20% of mortgage fraud is for profit.
- 80% of fraud losses come from the 20% group.



Knowledge Check One

Is the following **true** or **false**?

- For mortgage fraud to occur, the fraud must take place at the beginning of the transaction.



Check Your Understanding One

The answer is *false*.

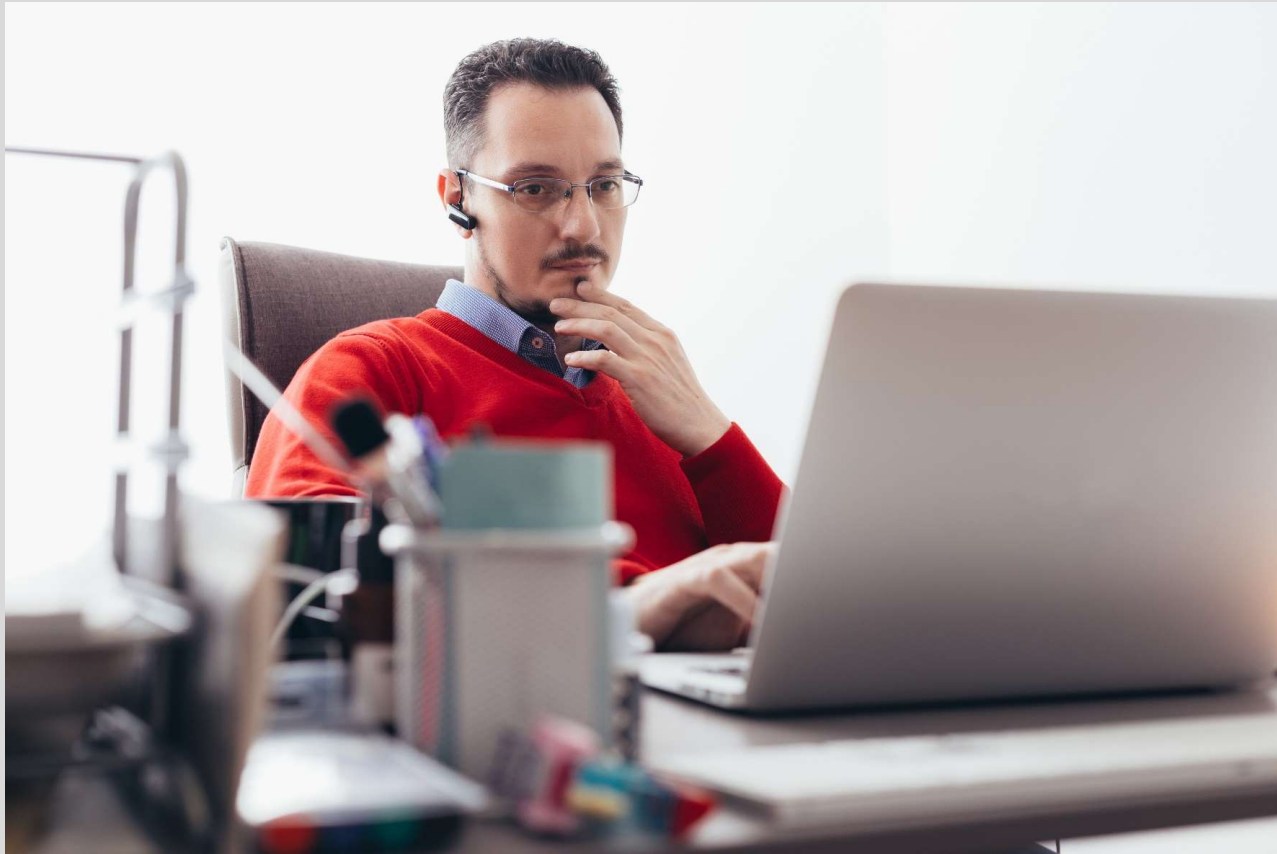
- Mortgage fraud CAN take place **at any point** in the transaction.



Ways to Prevent Mortgage Fraud



Red Flags



What Are Red Flags | ?

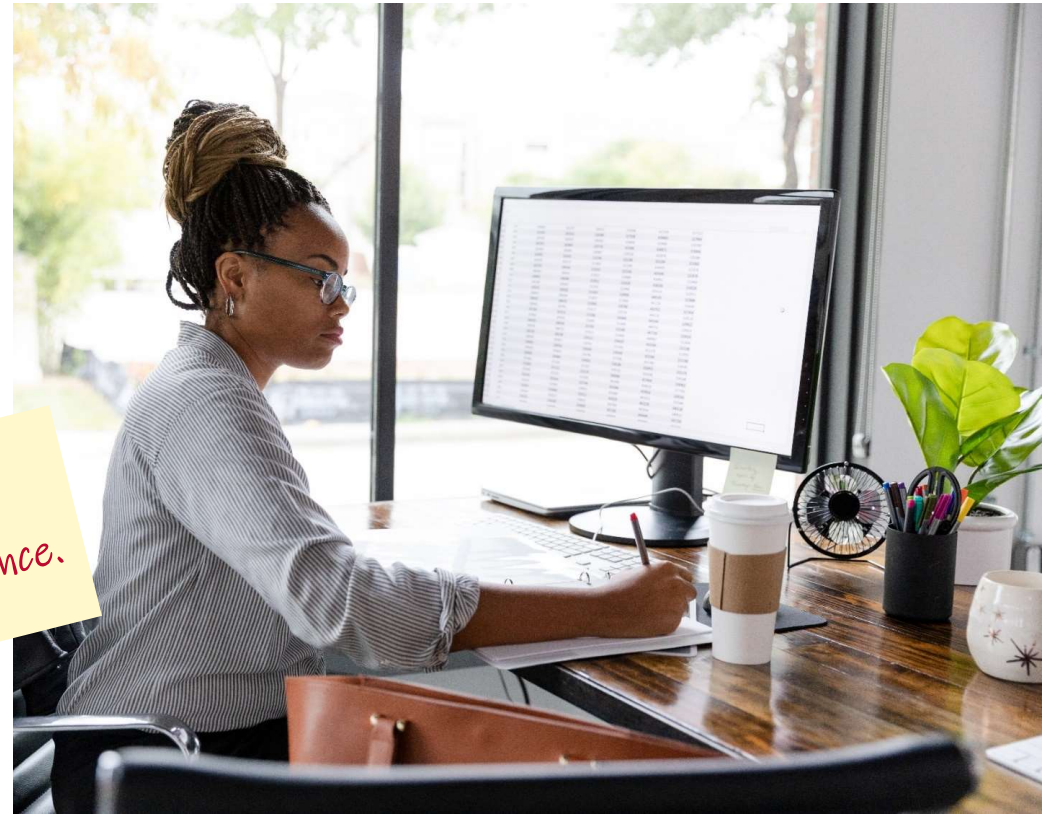
- Red flags are inconsistencies in the information presented in a mortgage loan file.
- Items in file that trigger questions.
- Not easy to detect.
- Something in the file that doesn't quite make sense.



Loan File Review

- Review for inconsistencies.
- Are there missing pieces to the loan story?
- Warrants additional scrutiny and clarification.

IMPORTANT!
Do your due diligence.



Ways to Prevent Mortgage Fraud

Common Red Flags



Common Red Flags

- Mortgage Application:
 - Changes from handwritten to typed.
- Sales Contract:
 - Purchaser is not the applicant.
- Credit Report:
 - Duplicate Social Security numbers.
 - Death or fraud alerts.



Common Red Flags

- Employment and Income:
 - Employer name similar to borrower name.
 - Odd or missing withholdings.
 - Year-to-date/past-year earnings are even dollar amounts.
- Assets:
 - Two-month average balance is equal to the present balance on bank statement.
- Appraisal:
 - Appraisal dated before sales contract.
 - Owner is not the seller.



A Process for Handling Red Flags



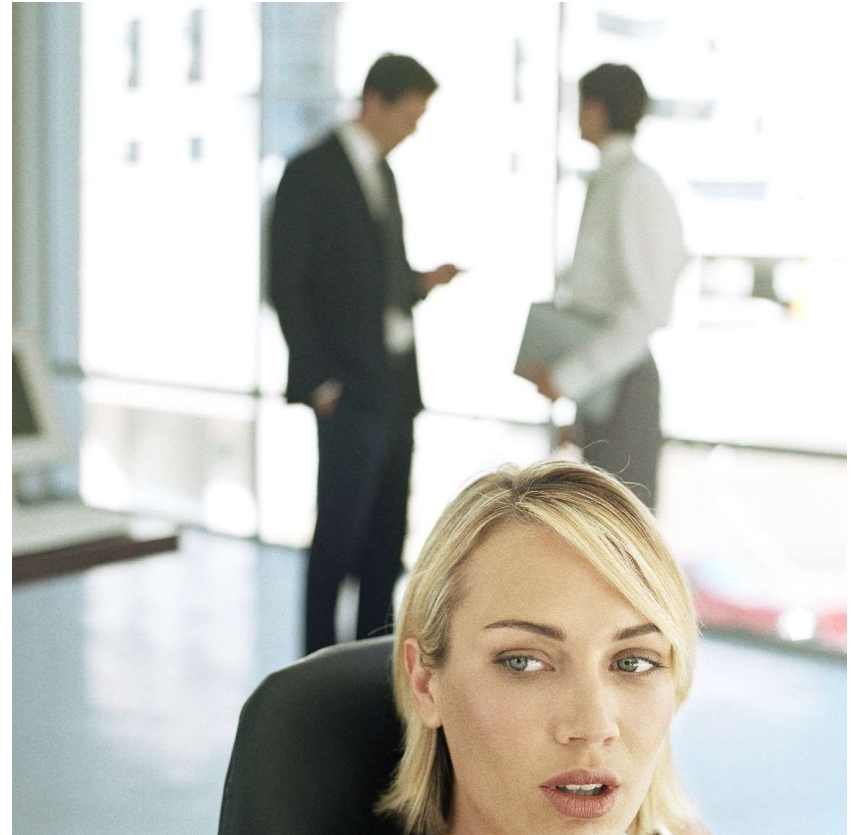
Knowledge Check Two

- Do you know your company's procedure for escalating suspicious activity?



Check Your Understanding Two

- If your answer was “no,” be sure to take the time to become familiar with your company’s internal fraud procedure(s).



Types of Fraud



Some Types of Fraud



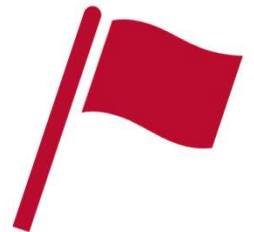
What Is Income Fraud?

- Borrower's income was either inflated or fabricated.
- Most frequent type of mortgage fraud.
- Internet makes it easier:
 - Websites offer false verification of income or employment, forged W-2's, or tax returns.



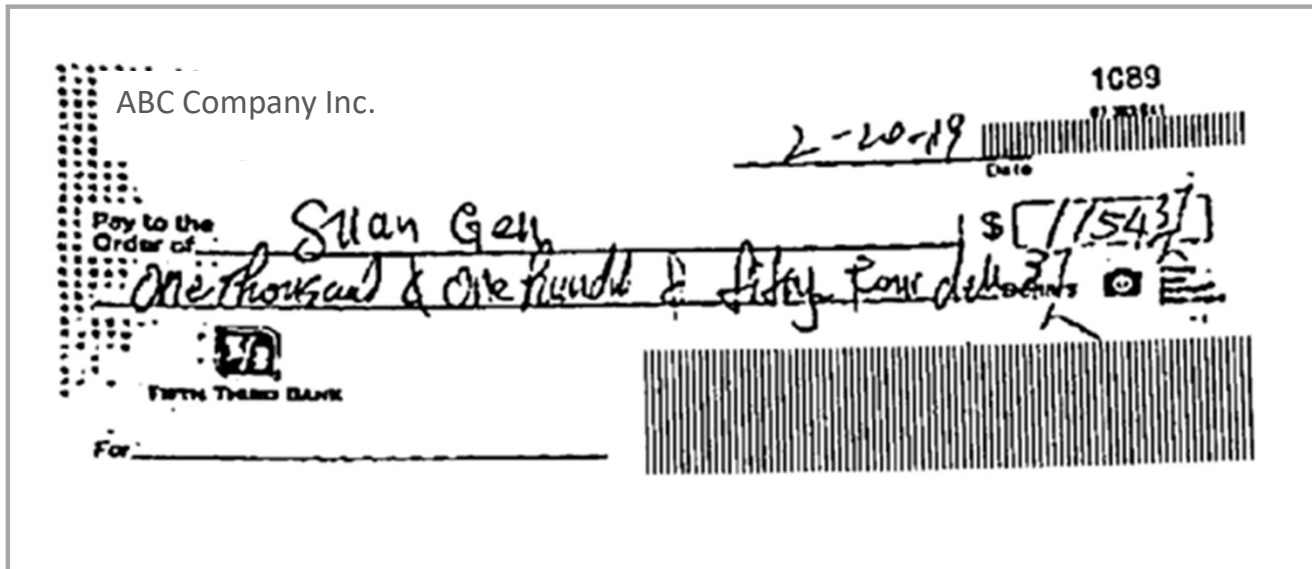
Income Fraud — Red Flag Examples

- Year-to-date or past-year earnings are even dollar amounts.
- Withholding is not calculated correctly (check FICA tables).
- Withholding totals vary significantly from pay period to pay period.
- Pay period dates overlap and/or do not correspond with other documentation.
- Abnormalities in paycheck 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.
- High-income applicant without paid preparer.
- Applicant reports substantial income but has no cash in the bank.
- Reasonableness test: Income appears to be out of line with the type of employment.

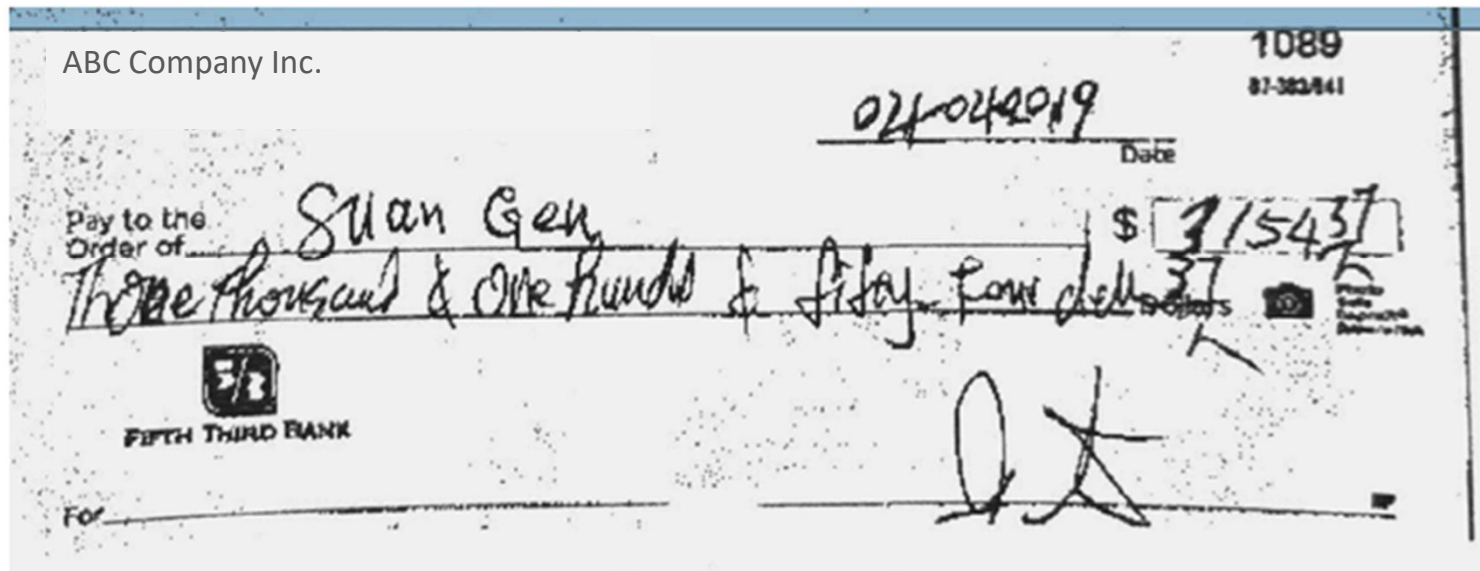


Source: <https://singlefamily.fanniemae.com/mortgage-fraud-prevention>

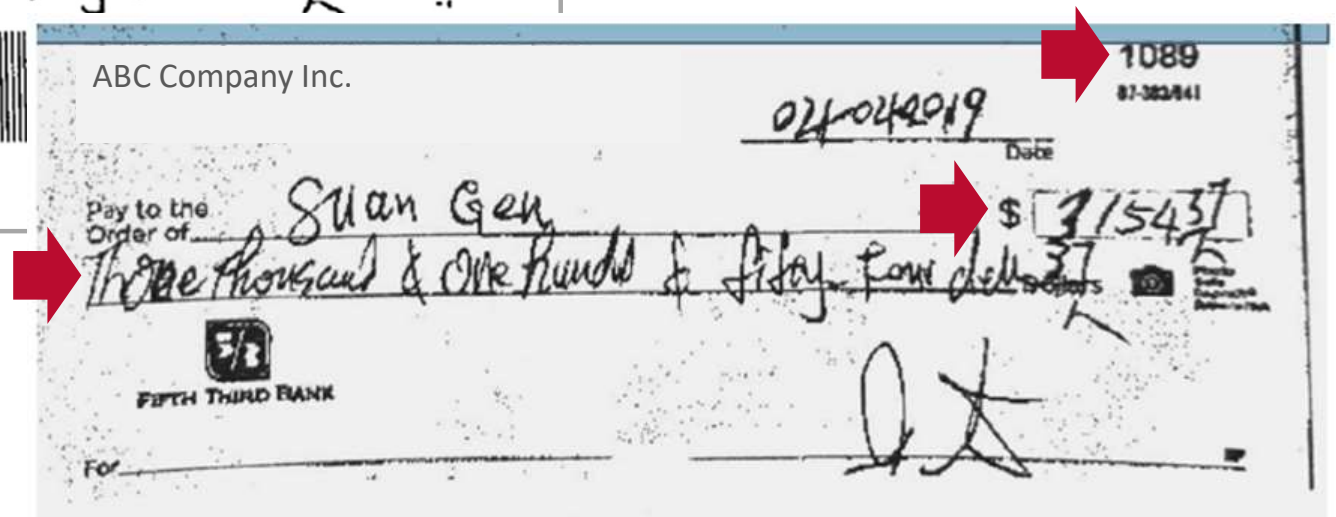
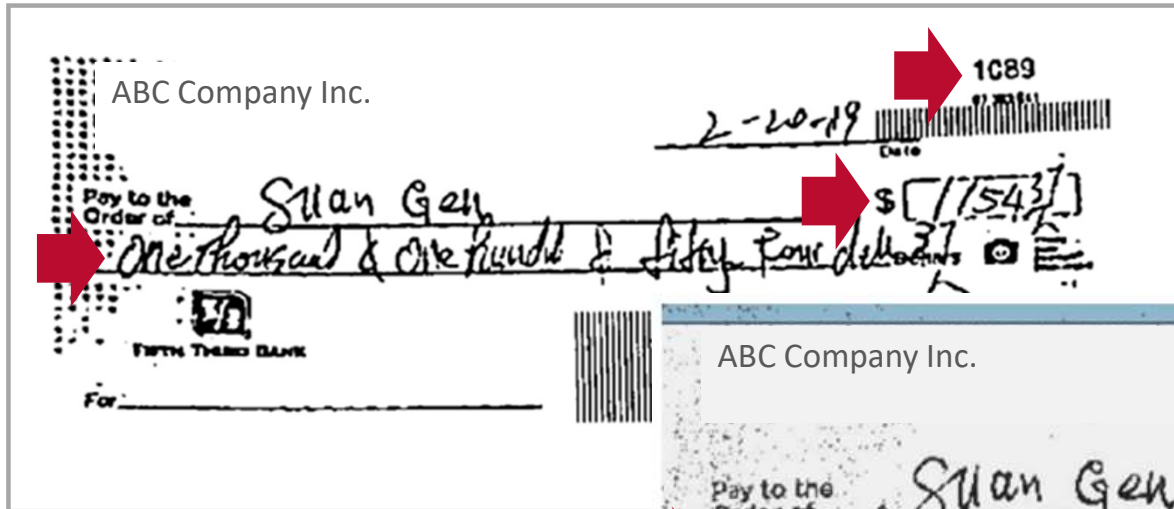
Income Fraud Example #1, Proof of Income



Income Fraud Example #1, Proof of Raise



Income Fraud Example #1, Comparison



What Is Employment Fraud?

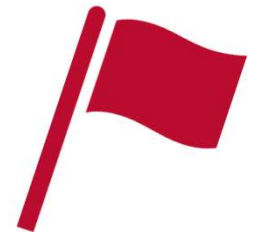
- The misrepresentation of the length, status or existence of a borrower's employment.
- Second most common type of mortgage fraud.

IMPORTANT!
Be sure the employment status is "Active" on all written and Verbal Verifications of Employment.



Employment Fraud — Red Flag Examples

- Applicant's job title is generic (Manager, Vice President).
- Employer's address is a post office box, the property address or applicant's current residence.
- Applicant's residence is (will be) in a location remote from employer.
- Employer's name is similar to a party to the transaction; e.g., uses the applicant's initials.
- Employer cannot be contacted.
- W-2 form presented is not the employee's copy.
- Employer's identification number has a format other than 12-3456789.
- Self-employed applicant does not make estimated tax payments.



Did You Know?

FICA = Federal Insurance Contributions Act

1. 6.2% Social Security tax.
2. 1.45% Medicare tax.
3. .9% Medicare tax surtax for earnings >\$200,000.



What's Important to Check on Earnings Statement

The Social Security Tax deduction should be 6.2% of the Gross Pay.

$$\begin{aligned} &\$2,673.24 \times \\ &6.2\% = \$165.74 \end{aligned}$$

EARNINGS STATEMENT							
CO FILE DEPT CLOCK VOIRNO 060 WFC 100142 501002 0000210002 2							
ARCH TECHNOLOGY 1436 PINE STREET DALLAS, TX 75201							
Taxable Marital Status: Married Exemptions/Allowances: Federal 3 State 3 Social Security Number: XXX-XX-2345							
Period Ending: 06/30/2022 Pay Date: 06/30/2022		0000000002 TOM SHANKS 222 GROVE ROAD IRVING, TX 75014					
Earnings	rate	hrs	this period	year to date	Other Benefits Information	this period	total to date
Regular	2,673.42	86.67	2,673.24	30,325.79			
Gross Pay			2,673.24	30,325.79			
Deductions	Statutory						
Federal Income Tax			-400.98	4,811.76			
Social Security Tax			-165.74	1,976.88			
Medicare Tax			-38.76	465.12			
Other							
Chking			-2,068.76				
Net Pay			2,068.76				
*Excluded from federal taxable wages							
Your federal taxable wages this period are \$7,673.42							

The Medicare Tax deduction should be 1.45% of the Gross Pay.

$$\begin{aligned} &\$2,673.24 \times \\ &1.45\% = \$38.76 \end{aligned}$$

0.9% Medicare tax surtax for earnings >\$200,000.

Social Security Wage Base

- Social Security Administration changes the Wage Base annually.
- Wage Base is the maximum amount of earnings that are subject to social security tax withholding each year.

Year	Wage Base	Increase	Maximum Social Security Employee Share	Maximum Social Security Employer Share	Maximum Total Contribution to Social Security
2024	\$168,600	5.2%	\$10,453.20	\$10,453.20	\$20,906.40
2023	\$160,200	9.0%	\$9,932.40	\$9,932.40	\$19,864.80
2022	\$147,000	2.9%	\$9,114.00	\$9,114.00	\$18,228.00
2021	\$142,800	3.7%	\$8,853.60	\$8,853.60	\$17,707.20
2020	\$137,700	3.6%	\$8,537.40	\$8,537.40	\$17,074.80
2019	\$132,900	3.5%	\$8,239.80	\$8,239.80	\$16,479.60
2018	\$128,400	0.9%	\$7,960.80	\$7,960.80	\$15,921.60
2017	\$127,200	7.3%	\$7,886.40	\$7,886.40	\$15,772.80
2016	\$118,500	0.0%	\$7,347.00	\$7,347.00	\$14,694.00
2015	\$118,500	1.3%	\$7,347.00	\$7,347.00	\$14,694.00

Source https://en.wikipedia.org/wiki/Social_Security_Wage_Base

W-2 Wage and Tax Statement Example



For 2023, the maximum Social Security wages are \$160,200. The amount reported in Box 3 should never be higher than the wage base.

a Employee's social security number		This information is being furnished to the Internal Revenue Service. If you are required to file a tax return, a negligence penalty or other sanction may be imposed on you if this income is taxable and you fail to report it.			
b Employer identification number (EIN)		1 Wages, tips, other compensation		2 Federal income tax withheld	
Employer's name, address, and ZIP code		3 Social security wages		4 Social security tax withheld	
		5 Medicare wages and tips		6 Medicare tax withheld	
		7 Social security tips		8 Allocated tips	
Control number		9		10 Dependent care benefits	
Employee's first name and initial		Last name		Suff.	
		11 Nonqualified plans		12a See instructions for box 12	
		13 Statutory employee <input type="checkbox"/> Retirement plan <input type="checkbox"/> Third-party sick pay <input type="checkbox"/>		12b	
		14 Other		12c	
				12d	
f Employee's address and ZIP code					
15 State	Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax
					20 Locality name

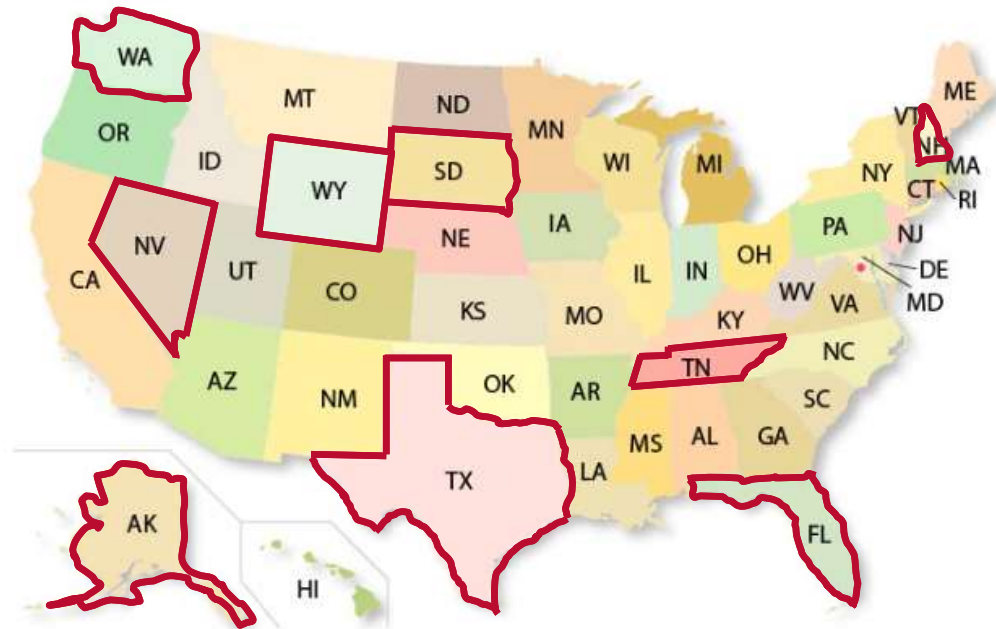
Form **W-2** Wage and Tax Statement
 Copy C—For EMPLOYEE'S RECORDS
 (See Notice to Employee on the back of Copy B.)

Department of the Treasury—Internal Revenue Service

There is NO cap on Medicare wages.

Nine States Do Not Have Income Tax

1. Alaska.
2. Florida.
3. Nevada.
4. New Hampshire.
5. South Dakota.
6. Tennessee.
7. Texas.
8. Washington.
9. Wyoming.



Did You Know?

Employer Identification Number (EIN) / Tax Identification Number.

EIN format: 12-3456789

- Business owners need EIN to:
 - Open business bank account(s),
 - Apply for business license(s), and
 - File tax returns.



Example

		a Employee's social security number		This information is being furnished to the Internal Revenue Service. If you are required to file a tax return, a negligence penalty or other sanction may be imposed on you if this income is taxable and you fail to report it.			
		OMB No. 1545-0008					
b Employer identification number (EIN)		12-3456789		1 Wages, tips, other compensation		2 Federal income tax withheld	
c Employer's name, address, and ZIP code				3 Social security wages		4 Social security tax withheld	
				5 Medicare wages and tips		6 Medicare tax withheld	
				7 Social security tips		8 Allocated tips	
d Control number		9		10 Dependent care benefits			
e Employee's first name and		Suff.		11 Nonqualified plans		12a See instructions for box 12	
f Employee's address and ZIP code		13 Statutory employee <input type="checkbox"/>		Retirement plan <input type="checkbox"/>		12b	
		14 Other		12c		12d	
15 State	Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name	

Form W-2 Wage and Tax Statement
 Copy C—For EMPLOYEE'S RECORDS
 (See Notice to Employee on the back of Copy B.)

Department of the Treasury—Internal Revenue Service

If the format or the number of digits is incorrect, you must follow-up.

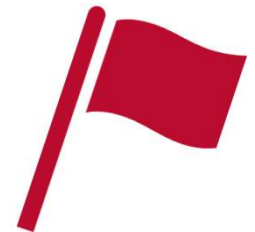
What Is Documentation Fraud?

- The falsification, modification or alteration of documents relied upon to make a mortgage decision.



Documentation Fraud — Red Flag Examples

- Altered bank statements.
- Modified or fraudulent documents.
- Misrepresentation of employment.
- Falsified credit scores.
- Omitted information or documentation.



Asset Documentation Fraud – Red Flag Examples

- Down payment source is other than deposits (gift, sale of personal property).
- Applicant's salary does not support savings on deposit.
- Applicant does not use traditional banking institutions.
- Pattern of loyalty to financial institutions other than the subject lender.
- Balances are greater than the FDIC or 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.



Asset Documentation Fraud – Red Flag Examples

- 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 is not 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.



Fraud Example #2, Bank Statement

Bank Statement
Provided to
Underwriting:

CUSTOMER STATEMENT

Account Name	Account Number	Beginning Balance	Ending Balance
Interest Checking	xxxxxx8775	\$1,306.65	\$4,069.74
Savings	xxxxxx3083	\$25,504.25	\$29,101.84
Grace	xxxxxx8482	\$352.28	\$352.61
Total Account Balances:		\$27,163.06	\$33,514.00

Actual Re-Verified
Bank Statement:

CUSTOMER STATEMENT

Account Name	Account Number	Beginning Balance	Ending Balance
Interest Checking	xxxxxx8775	\$1,306.65	\$4,069.74
Savings	xxxxxx3083	\$18,604.25	\$19,101.84
Grace	xxxxxx8482	\$352.28	\$352.61
Total Account Balances:		\$17,163.00	\$23,514.00

Fraud Example #2, Bank Statement

Bank Statement
Provided to
Underwriting:

Statement Summary

Account Number/ Name	Current Balance	Current Dividends	Year-to-Date Dividends
1/ PRIMARY SHARE	15,036.45	0.00	0.00
8/ TCU SHARE DRAFT	111.78	0.00	0.00
Total	15,148.23	0.00	0.00

Actual Re-Verified
Bank Statement:

Statement Summary

Account Number/ Name	Current Balance	Current Dividends	Year-to-Date Dividends
1/ PRIMARY SHARE	36.45	0.00	0.00
8/ TCU SHARE DRAFT	111.78	0.00	0.00
Total	148.23	0.00	0.00

Fraud Example #3, Bank Statement



Bank Statement
Provided to
Underwriting:

ASSETS			
Checking & Savings	ACCOUNT	BEGINNING BALANCE THIS PERIOD	ENDING BALANCE THIS PERIOD
Chase Total Checking	000000951759846	\$3,477.07	\$3,755.65
Chase Savings	000003028559916	61,086.55	64,245.32
Total		\$64,563.62	\$68,000.97
TOTAL ASSETS		\$64,563.62	\$68,000.97

Actual Re-Verified
Bank Statement:

Bank Statement Verification		
Account Number	As of Date	Balance
#####9648	02/08/2023	\$3,755.65
Bank Statement Verification		
Account Number	As of Date	Balance
#####9916	02/08/2023	\$24,245.32

Red Flag Activity One

Verification of Deposit (VOD)



Activity One — Spot the RED Flags

I certify that this verification has been sent directly to the bank or depository and has not passed through the hands of the applicant or any other party.

3. Signature of lender	4. Title SR_PROCESSOR	5. Date 05/19/2023	6. Lender's No. (Optional)
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7. Information To Be Verified

Type of Account	Account In Name of	Account Number	Balance
CHECKING	JOHNATHAN KNIGHT	916573573	\$ 6,500.00
			\$
			\$

To Depository: I/We have applied for a mortgage loan and stated in my financial statement that the balance on deposit with you is as shown above. You are authorized to verify this information and to supply the lender identified above with the information requested in items 10 through 13. Your response is solely a matter of courtesy for which no responsibility is attached to your institution or any of your officers.

8. Name and Address of Applicant(s) PETER KENT II, SSN: 340-34-8846 34 N. WALER CHICAGO, IL 60651	9. Signature of Applicant(s) SEE ATTACHMENT
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To Be Completed by Depository

Part II — Verification of Depository

10. Deposit Accounts of Applicant(s)

Type of Account	Account Number	Current Balance	Average Balance For Previous Two Months	Date Opened
Checking	910716573	\$ 14,278.53	\$ 6,500.96	
		\$	\$	
		\$	\$	

11. Loans Outstanding To Applicant(s)

Loan Number	Date of Loan	Original Amount	Current Balance	Installments (Monthly/Quarterly)	Secured By	Number of Late Payments
		\$	\$	\$ per		
		\$	\$	\$ per		
		\$	\$	\$ per		

12. Please include any additional information which may be of assistance in determination of credit worthiness. (Please include information on loans paid-in-full in Item 11 above.)

13. If the name(s) on the account(s) differ from those listed in item 7, please supply the name(s) on the account(s) as reflected by your records.

Part III — Authorized Signature - Federal statutes provide severe penalties for any fraud, intentional misrepresentation, or criminal conspiracy or conspiracy purposed to influence the issuance of any guaranty or insurance by the VA Secretary, the U.S.D.A., FHMA/FHA Commissioner, or the HUD/CPD Assistant Secretary.

14. Signature of Depository Representative Lisa Lowe	15. Title (Please print or type) Assistant Manager	16. Date 05/19/2023
17. Please print or type name signed in item 14 Lisa Lowe	18. Phone No. 263-663-6663	

Activity One — Answer

I certify that this verification has been sent directly to the bank or depository and has not passed through the hands of the applicant or any other party.

3. Signature of lender	4. Title SR, PROCESSOR	5. Date 05/19/2023	6. Lender's No. (Optional)
------------------------	---------------------------	-----------------------	----------------------------

7. Information To Be Verified

Type of Account	Account In Name of	Account Number	Balance
CHECKING	JOHNATHAN KNIGHT	916573573	\$ 6,500.00
			\$
			\$

To Depository: I/We have applied for a mortgage loan and stated in my financial statement that the balance on deposit with you is as shown above. You are authorized to verify this information and to supply the lender identified above with the information requested in items 10 through 13. Your response is solely a matter of courtesy for which no responsibility is attached to your institution or any of your officers.

8. Name and Address of Applicant(s) PETER KENT II, SSN: 340-34-8846 34 N. WALER CHICAGO, IL 60651	9. Signature of Applicant(s) SEE ATTACHMENT
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To Be Completed by Depository

Part II — Verification of Depository

10. Deposit Accounts of Applicant(s)

Type of Account	Account Number	Current Balance	Average Balance For Previous Two Months	Date Opened
Checking	910716573	\$ 14,278.53	\$ 6,500.96	
		\$	\$	
		\$	\$	

11. Loans Outstanding To Applicant(s)

Loan Number	Date of Loan	Original Amount	Current Balance	Installments (Monthly/Quarterly)	Secured By	Number of Late Payments
		\$	\$	\$ per		
		\$	\$	\$ per		
		\$	\$	\$ per		

12. Please include any additional information which may be of assistance in determination of credit worthiness. (Please include information on loans paid-in-full in Item 11 above.)

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Part III — Authorized Signature - Federal statutes provide severe penalties for any fraud, intentional misrepresentation, or criminal collusion or conspiracy purposed to influence the issuance of any guaranty or insurance by the VA Secretary, the U.S.D.A., FHMA/FHA Commissioner, or the HUD/CPD Assistant Secretary.

14. Signature of Depository Representative Lisa Lowe	15. Title (Please print or type) Assistant Manager	16. Date 05/19/2023
17. Please print or type name signed in item 14 Lisa Lowe	18. Phone No. 263-663-6663	



Red Flag Activity Two

Verification of Employment (VOE)



Activity Two — Spot the RED Flags



Fannie Mae

Request for Verification of Employment

Privacy Act Notice: This information is to be used by the agency collecting it or its assignees in determining whether you qualify as a prospective mortgagee under its program. It will not be disclosed outside the agency except as required and permitted by law. You do not have to provide this information, but if you do not your application for approval as a prospective mortgagee may be delayed or denied. See HUD/FHA's 42 USC, Section 1452(b) (if HUD/CPD); and Title 42 USC, Section 1471 (if VA); or 7 USC, Section 1821 (if USDA/FmHA).

Instructions: Lender - Complete items 1 through 7. Have applicant complete items 8. Forward directly to employer named in item 9. Do not forward to applicant. The form is to be transmitted directly to the lender and is not to be transmitted through the applicant or any other party.

Part I - Request

1. To (Name and address of employer)
Deerborn American Tractor Supply
P.O. Box 2368
Folsom, CA 95762

2. From (Name and address of lender)
Capitol Mortgage, Inc.
170 10th Ave.
Sacramento, CA 94162

I certify that this verification has been sent directly to the employer and has not passed through the hands of the applicant or any other interested party.

3. Signature of Lender *[Signature]* 4. Title Credit Analyst 5. Date 02/11/2023 6. Lender's Number (Optional)

I have applied for a mortgage loan and stated that I am now or was formerly employed by you. My signature below authorizes verification of this information.

7. Name and Address of Applicant (include employee or badge number)
Larry Deerborn
27 Sunset Ave. Sacramento, CA 94582

8. Signature of Applicant
See Attached

Part II - Verification of Present Employment

9. Applicant's Date of Employment 02/06/2018 10. Present Position Manager 11. Probability of Continued Employment Good

12A. Current Gross Base Pay (Enter Amount and Check Period)
\$ 1,403.89 Annual Hourly Monthly Weekly Other (Specify)

13. For Military Personnel Only
Pay Grade _____ Type _____ Monthly Amount _____
Base Pay \$ _____

14. If Overtime or Bonus is Applicable, Is its Continuance Likely?
Overtime Yes No
Bonus Yes No

15. If paid hourly - average hours per week _____

Type	Year To Date	Past Year 2020	Past Year 2021	Rations	\$
Base Pay	\$	\$ 110,000.00	\$ 158,000.00	Flight or Hazard	\$
Overtime	\$	\$	\$	Clothing	\$
Commissions	\$	\$	\$	Quarters	\$
Bonus	\$	\$	\$	Pro Pay	\$
Total	\$ 0.00	\$ 110,000.00	\$ 158,000.00	Overseas or Combat	\$
				Variable Housing Allowance	\$

16. Date of applicant's next pay increase 02/06/2023

17. Projected amount of next pay increase 5%

18. Date of applicant's last pay increase 02/06/2022

19. Amount of last pay increase 5%

20. Remarks (If employee was off work for any length of time, please indicate time period and reason)

Part III - Verification of Previous Employment

21. Date Hired _____ 23. Salary/Wage at Termination Per (Year) (Month) (Week) _____
Base _____ Overtime _____ Commissions _____ Bonus _____

22. Date Terminated _____

24. Reason for Leaving _____ 25. Position Held _____

Part IV - Authorized Signature - Federal statutes provide severe penalties for any fraud, intentional misrepresentation, or criminal connivance or conspiracy purposed to influence the issuance of any guaranty or insurance by the VA Secretary, the U.S.D.A., FmHA/FHA Commissioner, or the HUD/CPD Assistant Secretary.

26. Signature of Employer *Eileen Carnio* 27. Title (Please print or type) HR Specialist 28. Date 02/10/2023

29. Print or type name signed in item 26 Eileen Carnio 30. Phone No. _____

Activity Two — Answer

Employer completed VOEs are rare. Question handwritten/electronically signed VOEs obtained by the lender from employers. Does the employer normally use a third-party vendor for verifications of employment?

Fannie Mae

Request for Verification of Employment

Privacy Act Notice: This information is to be used by the agency collecting it or its assignee in determining whether you qualify as a prospective mortgage under its program. It will not be disclosed outside the agency except as required and permitted by law. You do not have to provide this information, but if you do not your application for approval as a prospective borrower may be delayed or denied. See 38 CFR 101-11.6, 101-11.7, 101-11.8, 101-11.9, 101-11.10, 101-11.11, 101-11.12, 101-11.13, 101-11.14, 101-11.15, 101-11.16, 101-11.17, 101-11.18, 101-11.19, 101-11.20, 101-11.21, 101-11.22, 101-11.23, 101-11.24, 101-11.25, 101-11.26, 101-11.27, 101-11.28, 101-11.29, 101-11.30, 101-11.31, 101-11.32, 101-11.33, 101-11.34, 101-11.35, 101-11.36, 101-11.37, 101-11.38, 101-11.39, 101-11.40, 101-11.41, 101-11.42, 101-11.43, 101-11.44, 101-11.45, 101-11.46, 101-11.47, 101-11.48, 101-11.49, 101-11.50, 101-11.51, 101-11.52, 101-11.53, 101-11.54, 101-11.55, 101-11.56, 101-11.57, 101-11.58, 101-11.59, 101-11.60, 101-11.61, 101-11.62, 101-11.63, 101-11.64, 101-11.65, 101-11.66, 101-11.67, 101-11.68, 101-11.69, 101-11.70, 101-11.71, 101-11.72, 101-11.73, 101-11.74, 101-11.75, 101-11.76, 101-11.77, 101-11.78, 101-11.79, 101-11.80, 101-11.81, 101-11.82, 101-11.83, 101-11.84, 101-11.85, 101-11.86, 101-11.87, 101-11.88, 101-11.89, 101-11.90, 101-11.91, 101-11.92, 101-11.93, 101-11.94, 101-11.95, 101-11.96, 101-11.97, 101-11.98, 101-11.99, 101-12.00.

Instructions: Lender - Complete items 1 through 7. Have applicant complete items 8. Forward directly to employer named in item 7. Do not forward to applicant. The form is to be transmitted directly to the lender and is not to be transmitted through the applicant or any other party.

Part I — Request

1. To (Name and address of employer)
Deerborn American Tractor Supply
P.O. Box 2368
Folsom, CA 95762

2. From (Name and address of lender)
Capitol Mortgage, Inc.
170 10th Ave.
Sacramento, CA 94162

I certify that this verification has been sent directly to the employer and has not passed through the hands of the applicant or any other interested party.

3. Signature of Lender *[Signature]* 4. Title Credit Analyst 5. Date 02/11/2023 6. Lender's Number (Optional)

I have applied for a mortgage loan and stated that I am now or was formerly employed by you. My signature below authorizes verification of this information.

7. Name and Address of Applicant (include employee or badge number)
Larry Deerborn
27 Sunset Ave. Sacramento, CA 94582

8. Signature of Applicant See Attached

Part II — Verification of Present Employment

9. Applicant's Date of Employment 02/06/2023 10. Present Position Manager 11. Probability of Continued Employment Good

12A. Current Gross Base Pay (Enter Amount and Check Period)
\$ 1,403.89 Annual Hourly Monthly Weekly Other (Specify)

12B. Gross Earnings

Type	Year To Date	Past Year 2020	Past Year 2021
Base Pay	\$	\$ 110,000.00	\$ 158,000.00
Overtime	\$	\$	\$
Commissions	\$	\$	\$
Bonus	\$	\$	\$
Total	\$ 0.00	\$ 110,000.00	\$ 158,000.00

13. For Military Personnel Only
Pay Grade _____ Type _____ Monthly Amount _____
Base Pay \$ _____
Flight or Hazard \$ _____
Clothing \$ _____
Quarters \$ _____
Pro Pay \$ _____
Overseas or Combat \$ _____
Variable Housing Allowance \$ _____

14. If Overtime or Bonus is Applicable, is its Continuance Likely?
Overtime Yes No
Bonus Yes No

15. If paid hourly — average hours per week _____

16. Date of applicant's next pay increase 02/06/2023

17. Projected amount of next pay increase 5%

18. Date of applicant's last pay increase 02/06/2022

19. Amount of last pay increase 5%

20. Remarks (If employee was off work for any length of time, please indicate time period and reason)

Part III — Verification of Previous Employment

21. Date Hired _____ 23. Salary/Wage at Termination Per (Year) (Month) (Week) _____
Base _____ Overtime _____ Commissions _____ Bonus _____

22. Date Terminated _____ 24. Reason for Leaving _____ 25. Position Held _____

Part IV — Authorized Signature - Federal statutes provide severe penalties for any fraud, intentional misrepresentation, or criminal connivance or conspiracy purposed to influence the issuance of any guaranty or insurance by the VA Secretary, the U.S.D.A., FmHA/FHA Commissioner, or the HUD/CPD Assistant Secretary.

26. Signature of Employer *Eileen Carnio* 27. Title (Please print or type) HR Specialist 28. Date 02/10/2023

29. Print or type name signed in item 26 Eileen Carnio 30. Phone No. _____



Red Flag Activity Three

Pay Stubs



Activity Three — Spot the RED Flags



Mechanical Engineering Inc. 10 Leigh Place, Boston MA									
Check No.	Emp No.	Employee Name	Soc Sec No.	Fed Ex	State Ex	MS	Period Ending		
00393	1222	Craig Johnson	026-28-4937	0	0	S	09-15-2023		
Earnings									
Description	Hours	Earnings	Description	Amount	Y.T.D.	Description	Amount	Y.T.D.	
HOURLY	40 00	700 00	F.I.T	139 82	3076 04				
			F.I.C.A	58 78	1249 16				
			STATE	42 04	924 88				
			CITY						
			OTHER						
Current	40 00	700 00	Total	238 64					
Total			Deductions						
Year To Date Earnings		15400 00	Net Pay		461 36	Detach and retain this statement			

Mechanical Engineering Inc. 10 Leigh Place, Boston MA									
Check No.	Emp No.	Employee Name	Soc Sec No.	Fed Ex	State Ex	MS	Period Ending		
00393	1222	Craig Johnson	026-28-4937	0	0	S	09-15-2023		
Earnings									
Description	Hours	Earnings	Description	Amount	Y.T.D.	Description	Amount	Y.T.D.	
HOURLY	40 00	700 00	F.I.T	139 82	3215 86				
			F.I.C.A	58 78	1305 94				
			STATE	42 04	966 92				
			CITY						
			OTHER						
Current	40 00	700 00	Total	238 64					
Total			Deductions						
Year To Date Earnings		16100 00	Net Pay		461 36	Detach and retain this statement			

Activity Three — Answer

Mechanical Engineering Inc. 10 Leigh Place, Boston MA									
Check No.	Emp No.	Employee Name	Soc Sec No.	Fed Ex	State Ex	MS	Period Ending		
00393	1222	Craig Johnson	026-28-4937	0	0	S	09-15-2023		
Earnings									
Description	Hours	Earnings	Description	Amount	Y.T.D.	Description	Amount	Y.T.D.	
HOURLY	40 00	700 00	F.I.T	139 82	3076 04				
			F.I.C.A	58 78	1249 16				
			STATE	42 04	924 88				
			CITY						
			OTHER						
Current	40 00	700 00	Total	238 64					
Total			Deductions						
Year To Date Earnings		15400 00	Net Pay		461 36	Detach and retain this statement			

Mechanical Engineering Inc. 10 Leigh Place, Boston MA									
Check No.	Emp No.	Employee Name	Soc Sec No.	Fed Ex	State Ex	MS	Period Ending		
00393	1222	Craig Johnson	026-28-4937	0	0	S	09-15-2023		
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Description	Hours	Earnings	Description	Amount	Y.T.D.	Description	Amount	Y.T.D.	
HOURLY	40 00	700 00	F.I.T	139 82	3215 86				
			F.I.C.A	58 78	1305 94				
			STATE	42 04	966 92				
			CITY						
			OTHER						
Current	40 00	700 00	Total	238 64					
Total			Deductions						
Year To Date Earnings		16100 00	Net Pay		461 36	Detach and retain this statement			



Red Flag Activity Four

W-2 Wage and Tax Statement




Activity Four — Spot the RED Flags

		a Employee's social security number 222-11-1243		OMB No. 1545-0008		This information is being furnished to the Internal Revenue Service. If you are required to file a tax return, a negligence penalty or other sanction may be imposed on you if this income is taxable and you fail to report it.	
b Employer identification number (EIN) 113-13389			1 Wages, tips, other compensation 133926.51		2 Federal income tax withheld 24957.70		
c Employer's name, address, and ZIP code Hurricane Hunters LLC 788 East 46 th Street Greensboro, NC 27401			3 Social security wages 133926.51		4 Social security tax withheld 7960.80		
			5 Medicare wages and tips 135062.59		6 Medicare tax withheld 1958.41		
			7 Social security tips		8 Allocated tips		
d Control number			9 Verification code af23-d2fe-a1dd-924n		10 Dependent care benefits		
e Employee's first name and initial Stacey Cover		Last name 18 Haven Place		Virginia Beach, VA 23454		11 Nonqualified plans	
						12a See instructions for box 12 D 1136.08	
						12b DD 9080.40	
						12c	
						12d	
f Employee's address and ZIP code							
15 State VA	Employer's state ID number 3046195025R008	16 State wages, tips, etc. 133926.51	17 State income tax 7199.68	18 Local wages, tips, etc.	19 Local income tax	20 Locality name	

Department of the Treasury—Internal Revenue Service

Form **W-2** Wage and Tax Statement

Copy C—For EMPLOYEE'S RECORDS (See Notice to Employee on the back of Copy B.)

Safe, accurate, FAST! Use 


Activity Four — Answer

		a Employee's social security number 222-11-1243		OMB No. 1545-0008 This information is being furnished to the Internal Revenue Service. If you are required to file a tax return, a negligence penalty or other sanction may be imposed on you if this income is taxable and you fail to report it.		
b Employer identification number (EIN) 113-13389		1 Wages, tips, other compensation 133926.51		2 Federal income tax withheld 24957.70		
c Employer's name, address, and ZIP code Hurricane Hunters LLC 788 East 46 th Street Greensboro, NC 27401		3 Social security wages 133926.51		4 Social security tax withheld 7960.80		
		5 Medicare wages and tips 135062.59		6 Medicare tax withheld 1958.41		
		7 Social security tips		8 Allocated tips		
d Control number		9 Verification code af23-d2fe-a1dd-924n		10 Dependent care benefits		
e Employee's first name and initial Stacey Cover		Last name 18 Haven Place		Virginia Beach, VA 23454		
f Employee's address and ZIP code		11 Nonqualified plans		12a See instructions for box 12 D 1136.08		
		13 Statutory employee <input type="checkbox"/> Retirement plan <input type="checkbox"/> Third-party sick pay <input type="checkbox"/>		12b DD 9080.40		
		14 Other		12c		
				12d		
15 State	Employer's state ID number VA 3046195025R008	16 State wages, tips, etc. 133926.51	17 State income tax 7199.68	18 Local wages, tips, etc.	19 Local income tax	20 Locality name

Department of the Treasury—Internal Revenue Service

Form **W-2** Wage and Tax Statement

Copy C—For EMPLOYEE'S RECORDS (See Notice to Employee on the back of Copy B.)

Safe, accurate, FAST! Use 

Types of Fraud (Continued)



What Is Liabilities Fraud?

Undisclosed

Disclosed



Liabilities Fraud Example

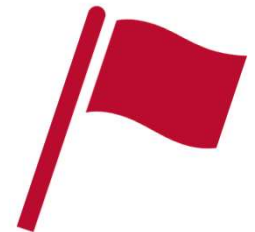
- Car loan for XYZ Company is on the credit report.
- Borrower did not disclose XYZ Company car loan on the loan application.
- When you add the undisclosed XY Company car loan liability causing the ratios to increase.



IMPORTANT!
The borrower may no longer qualify after adding the undisclosed debt.

Liabilities Fraud — Red Flag Examples

- Liabilities are shown on the credit report that are not on the mortgage application.
- Length of established liabilities shown on credit report is not consistent with the applicant's age.
- Liability patterns shown on the credit report are inconsistent with income and lifestyle.
- All tradelines opened at the same time.
- Significant liability differences between original and new or supplemental credit reports.
- Recent credit inquiries by non-mortgage loan companies, student loan lenders, auto loan finance companies, etc.
- Deposits to bank accounts that appear to be loan proceeds from another financial institution.
- Undisclosed, recurring payments on bank statements, such as IRS payments or family support payments.



Source: <https://singlefamily.fanniemae.com/mortgage-fraud-prevention>

What Is Occupancy Fraud?

- A borrower obtains a mortgage for a second home or an investment property, but states on the loan application that the property will be their primary residence.

Borrowers typically do this for a lower interest rate and/or to bypass larger down payment requirements.



What Is Reverse Occupancy Fraud?

- A borrower claims to use a property as an investment to generate more qualifying income.
- Can occur when occupancy is primary residence or second home.
- Common characteristics:
 - Subject property is sold as an investment property.
 - Borrowers are first-time homebuyers with minimal or no established credit.
 - Borrowers have low income but significant assets.
 - Borrowers present “rent-free” letters stating they are not paying rent to live in their primary residence.



Occupancy Fraud Example

- Loan application indicates subject property occupancy is primary residence.
- Borrower indicates current residence will be used as a rental.
- Subject property is located on same street as borrower's three other investment properties.

IMPORTANT!
If it doesn't make sense,
question it.

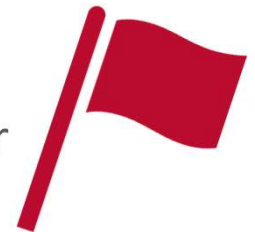


Occupancy Fraud — Red Flag Examples



Purchase Transactions

- Real estate is listed on application, yet the applicant is a renter.
- Applicant intends to lease current residence.
- 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 declarations page is for a rental property.
- Subject property is located on the same street as the borrower's three other investment properties.

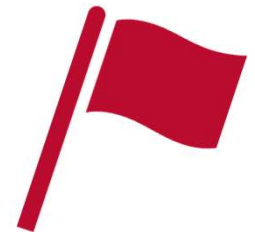


Source: <https://singlefamily.fanniemae.com/mortgage-fraud-prevention>

Occupancy Fraud — Red Flag Examples

Refinance Transactions

- Rental property listed on the application is more expensive than subject property.
- Different mailing addresses on applicant's bank statements, pay advices, etc.
- Different addresses reported on credit report.
- Appraisal reflects vacant or tenant occupancy.
- Occupancy affidavits reflect applicant does not intend to occupy.



Identity Theft

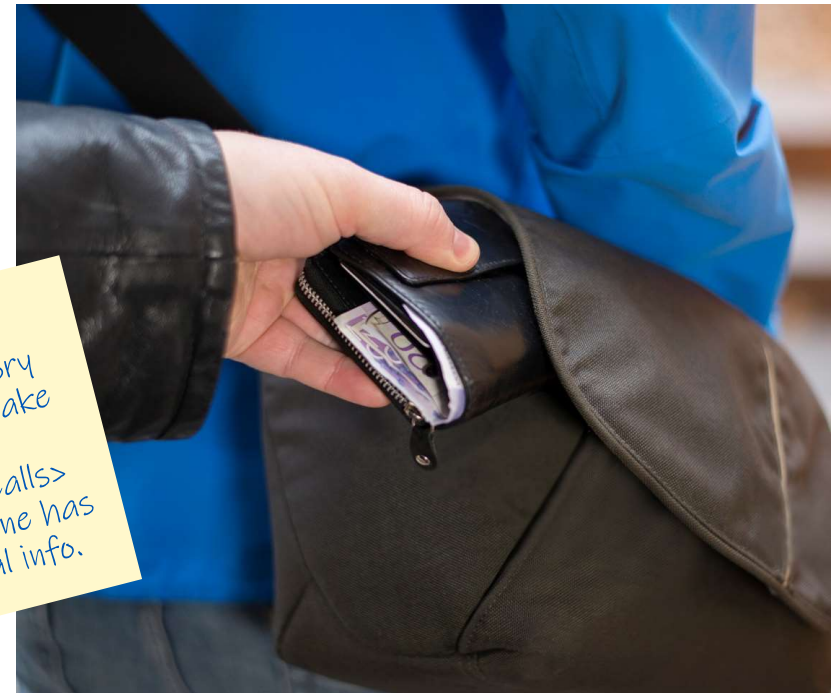


What Is Identity Theft?

- Borrower identity theft is the act of unlawfully using one or more pieces of another individual's personal identifying information to obtain a mortgage.

Examples:

1. Borrower with negative credit history uses deceased father's personal info, fake income/job docs.
2. Person starts receiving collection calls > checks credit report > discovers someone has loans/mortgage using their personal info.



What Can Identity Theft Look Like?

Account Takeover:

- Court records.
- Quitclaim.
- Assumes identity.
- Refinance.

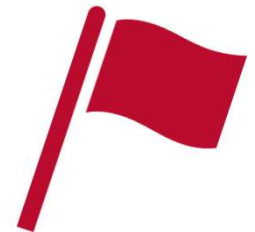
Application:

- True name.
- Credit application.



Identify Theft — Red Flag Examples

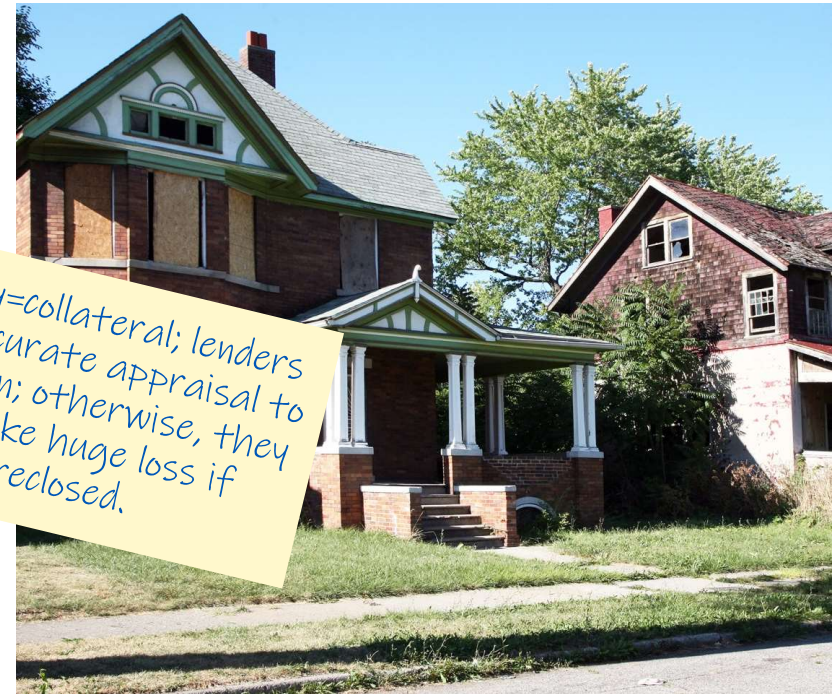
- A fraud alert, notification or warning, included with a consumer report/credit report.
- Credit freeze notice in response to request for a consumer report/credit report.
- Address discrepancy notice received from consumer/credit reporting agency.
- Unusual activity in credit report, unlike historical pattern of activity.
- Forged or altered identification documents.
- Personal description, birthdate, name, address, signature does not match information on other documents.
- Social Security Number is not yet issued, on the SSA Death Master File, belongs to someone else, or is otherwise invalid.
- Mail sent to borrower repeatedly returned as undeliverable.
- Notice from borrower, lender, or other entity of possible identity theft.



What Is Appraisal Fraud?

- Appraisal fraud is when a property's appraisal is over or understated.
- If overstated, money can be obtained:
 - By borrower with cash-out refinance.
 - By seller in purchase transaction.
- If understated:
 - Allows borrower to a lower price on a foreclosed home.

Property=collateral; lenders rely on accurate appraisal to secure loan; otherwise, they could take huge loss if foreclosed.



Appraisal Fraud



Appraisal Fraud

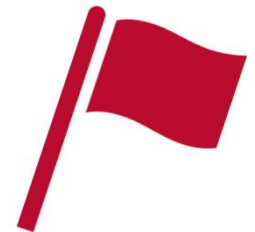


Appraisal Fraud



Appraisal Fraud — Red Flag Examples

- “For Rent” sign appears in photographs.
- Weather conditions in photos inconsistent with the date of appraisal.
- Owner is someone other than the seller shown on the sales contact.
- Purchase price is substantially lower or higher than the predominant market value.
- Dated sales are used as comparable sales.
- Appraisal dated before sale contract.
- Significant appreciation in a short period of time.
- Comparable sales do not bracket the subject’s adjusted value.
- Comparable properties are a significant distance from the subject.
- Address reflected in the photos does not match the property address.



Appraiser Identify Theft

Fannie Mae **Fraud Alert:**

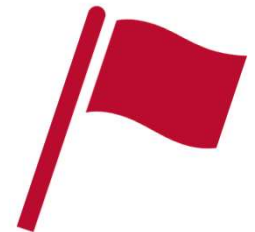
- Significant number of loans involving appraisals were completed by an unlicensed appraiser unlawfully using the identities of other actively licensed appraisers.
 - Identified loans were originated between 2021-2023.
 - No evidence that the appraisers whose identities were used were aware of or involved in the activity.



Source: <https://singlefamily.fanniemae.com/media/37806/display>

Appraiser Identify Theft — Red Flag Examples

- The unlicensed appraiser's name and signature are not found in any capacity within the appraisals (or loan files).
- The company name, phone number, and address listed under "contact information" on page six of Form 1004 will be different from that of the licensed appraiser.
- Email contact information reflects a name other than the name of the appraiser who is listed as having performed the appraisal.
- The signatures of the "victim" appraisers appear forged and/or cut and pasted to the identified appraisals.
- Appraisal fees for the appraisals were paid with proceeds going directly to the mailing address of the unlicensed appraiser, not to the address of the purported appraisers.



Source: <https://singlefamily.fanniemae.com/media/37806/display>

Appraiser Identify Theft — What Can Lenders Do?



- Perform thorough due diligence when retaining services of appraisers and other outside vendors.
- Utilize all available public records and licensing agencies in determining the validity of third-party documentation (including addresses) within loan files.
- Know your third-party originators/brokers.
- Be “fraud smart” by educating your staff.
- Establish a zero-tolerance fraud policy.
- Share information within your organization.
- If the loan doesn’t make sense, don’t do it!
- Report any suspicious activity through established channels.

Knowledge Check Three

- Is the following True or False?
 - Reverse Occupancy occurs when a borrower claims that they will use a property as an investment in order to generate more qualifying income.



Check Your Understanding Three

- The correct answer is *True*.
 - Reverse Occupancy occurs when a borrower claims that they will use a property as an investment in order to generate more qualifying income.



Fraud Players

Buyer

Realtor

Lender

Appraiser

Fraud Schemes



Straw Buyer



Fraudulent Property Flip

What Are Straw Buyers?

- Individuals (loan applicants) working with fraud perpetrators to obtain mortgages by disguising the true buyer or the true nature of the transaction.
- Straw buyers have no intention of occupying the home.



Why Would Someone Use a Straw Buyer?

- No intention of taking responsibility for the property or mortgage obligation.
- True purchaser:
 - Does not enough have income/assets to qualify.
 - Purchased many properties and over-extended assets.
 - Has liens/collectors seeking bank assets.
 - Using illegally obtained funds.
 - Is unqualified to buy U.S. property (e.g., U.S. blocked persons list).

Acts as a "front" to disguise the true buyer/nature of transaction; either a fictitious person or a real person completely unaware of transaction.



Why Would Someone Be a Straw Buyer?

- Offered payment for use of their name and credit.
- Income and assets are also often misrepresented.



Straw Buyer – Red Flag Examples

- Mortgage payments are made by an entity other than the borrower.
- The loan is usually an early payment default.
- First-time home buyer with a substantial increase in housing expense.
- Buyer does not intend to occupy (due to 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.
- “Boiler plate” contract with limited insertions not reflective of a true negotiation.
- Income, savings, and/or credit patterns are inconsistent with the applicant's overall profile.
- High loan-to-value (LTV) ratio, limited reserves, and/or seller-paid concessions.
- Inconsistent signatures found throughout the file.
- Use of gift funds for down payment and/or closing costs, minimum borrower contribution.
- Title to the property is transferred after the sale closes.



What is a Fraudulent Property Flip?

- A property is purchased and resold quickly at an artificially inflated price, using a fraudulently inflated appraisal.

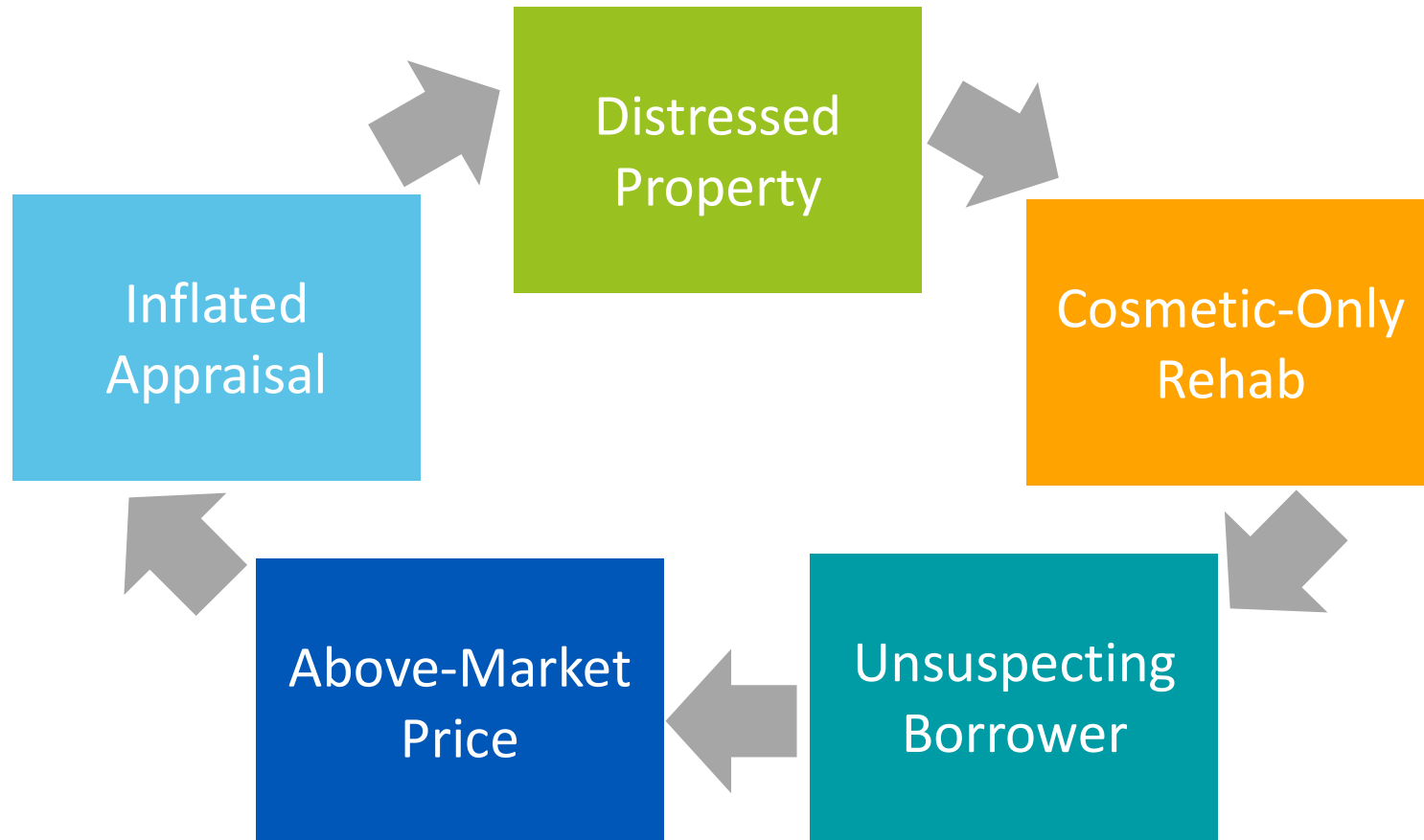


Property Flip – Red Flag Examples

- Flips typically involve straw buyers (refer to “Straw Buyer Characteristics” section).
- Flips sometimes involve naïve purchasers.
- Seller very recently acquired title or is acquiring title concurrent with the subject transaction.
- No real estate agent is employed (non-arm’s length transaction).
- Property was recently in foreclosure or acquired at real estate owned (REO) sale at low sales price.
- The appraised value is fraudulently inflated.
- The appraiser frequently uses other property flips as comparables (examine comparable properties’ sales histories).
- Owner listed on appraisal and/or title may not match the seller on the sales contract.
- Refinance transaction used to pay off private short-term financing.

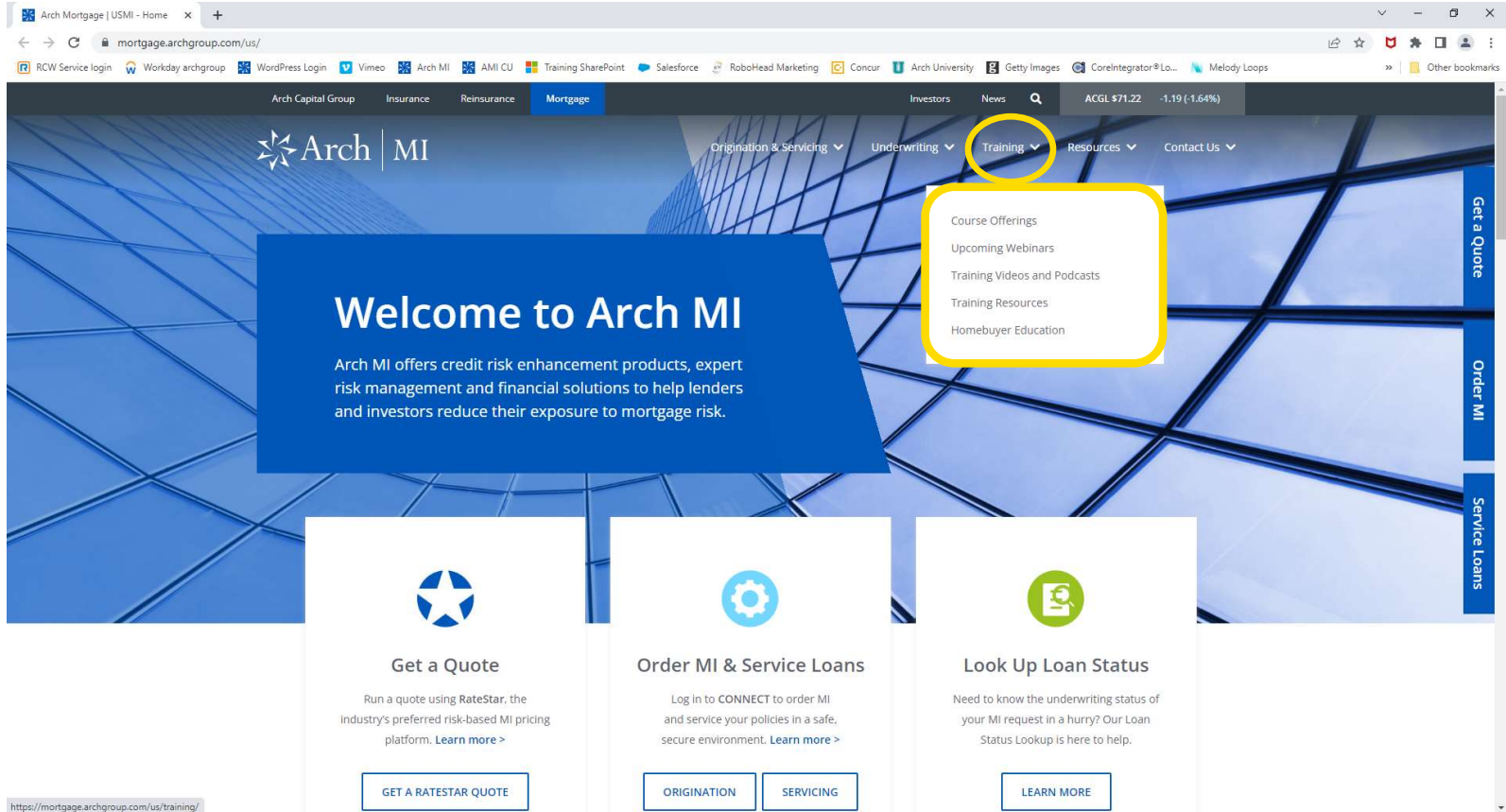


Example: Fraudulent Property Flipping



Resources





The screenshot shows the Arch MI website interface. The navigation bar includes 'Arch Capital Group', 'Insurance', 'Reinsurance', 'Mortgage', 'Investors', and 'News'. A 'Training' dropdown menu is open, listing: 'Course Offerings', 'Upcoming Webinars', 'Training Videos and Podcasts', 'Training Resources', and 'Homebuyer Education'. The main content area features a 'Welcome to Arch MI' banner with a description of credit risk enhancement products. Below the banner are three service cards: 'Get a Quote' (with a star icon), 'Order MI & Service Loans' (with a gear icon), and 'Look Up Loan Status' (with a document icon). Each card includes a brief description and a 'Learn more' link. A vertical sidebar on the right contains 'Get a Quote', 'Order MI', and 'Service Loans' buttons.

<https://mortgage.archgroup.com/us/training/>



THANK YOU

FOLLOW US ON:



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X (@archmi_us)

Facebook.com (Facebook.com/Arch-Mortgage-Insurance)

Instagram (archmi_us)

Vimeo (archmi_us)

ARCH MORTGAGE INSURANCE COMPANY® | 230 NORTH ELM STREET GREENSBORO NC 27401 | **ARCHMI.COM**

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Diana Swift

Senior National Trainer
and Instructional Designer

dswift@archmi.com