

# **Preventing Mortgage Fraud**

**Take a Closer Look**



**MGIC**

# Legal disclaimer

The information presented in this presentation is provided “AS IS” for general informational purposes only and is based on guidelines and practices generally accepted within the mortgage finance industry and is not intended to be all-inclusive. MGIC makes no representations or warranties of any kind with respect to the accuracy, completeness or suitability for any purpose of the information contained in this presentation. MGIC expressly disclaims any and all warranties, express or implied, including without limitation warranties of merchantability and fitness for a particular purpose regarding these materials and this presentation. In no event will MGIC be liable for any direct, indirect, incidental, punitive or consequential damages of any kind with respect to the presentation or materials provided. All examples are hypothetical and are for illustrative purposes only and not for reliance. This presentation is not intended and should not be interpreted or relied upon as legal or financial advice. We encourage you to seek advice from a qualified professional. Any opinions expressed in this presentation are solely those of the presenter and do not necessarily reflect the views and opinions of MGIC.

# In the news!

## PRESS RELEASE

### New York Men Sentenced for Mortgage Fraud Scheme Involving Hartford Apartment Buildings

Monday, January 8, 2024

Share >

#### For Immediate Release

U.S. Attorney's Office, District of Connecticut

Vanessa Roberts Avery, United States Attorney for the District of Connecticut, announced that two New York men were sentenced today by U.S. District Judge Omar A. Williams in Hartford for engaging in a wide-ranging mortgage fraud scheme involving 24 mortgage loans on numerous multifamily housing properties in Hartford totaling nearly \$50 million. **JACOB DEUTSCH**, 58, of Brooklyn, was sentenced to 62 months of imprisonment and four years of supervised release, and was ordered to pay a \$10,000 fine, and **ARON DEUTSCH**, 63, of Monsey, was sentenced to five years of probation and ordered to pay a \$1 million fine.

According to court documents and statements in court proceedings, Jacob Deutsch and Aron Deutsch work at B H Property Management, LLC ("BHPM"), a property management company that manages numerous multifamily housing properties in Hartford. From September 2016 through May 2021, Jacob Deutsch, who ran the day-to-day operations BHPM, and Aron Deutsch engaged in a scheme to defraud several financial institutions, government-sponsored enterprises Federal Home Loan Mortgage Company ("Freddie Mac") and the Federal National Mortgage Association ("Fannie Mae"), and the U.S. Department of Housing and Urban Development ("HUD") by providing them with false information overstating the value of multifamily housing properties managed by BHPM in connection with loans secured by those properties.

As part of the scheme, Jacob Deutsch provided false rent rolls and falsified leases to the victim financial institutions and their appraisers, which either overstated the number of renters by listing fictitious renters or others not actually living there, or falsely inflated the amount of rent paid by occupants. Jacob Deutsch deceived inspectors into believing that unoccupied apartments were occupied by staging the apartments with furniture and by requiring BHPM employees to falsely tell inspectors they lived there and to lie to inspectors if asked whether there were vacancies. For instance, a rent roll and income and expense summary submitted by Jacob Deutsch to CBRE Capital Markets, Inc. ("CBRE") in June 2018 falsely represented that 16 Evergreen Avenue was 100 percent occupied when, in fact, not a single tenant resided there at the time. Later, Jacob Deutsch e-mailed CBRE pictures of money orders and checks purporting to reflect rent payments from fake tenants on the falsified rent rolls for 16 Evergreen Avenue to show proof of payment of rent when, in fact, the money orders and checks had been purchased by Aron Deutsch or BHPM employees at Aron Deutsch's direction.

## PRESS RELEASE

### Former Suffolk County Legislator And Co-Conspirator Convicted Of Defrauding Mortgage Lender Out Of More Than A Quarter Of A Million Dollars

Wednesday, January 25, 2023

Share >

#### For Immediate Release

U.S. Attorney's Office, Southern District of New York

Damian Williams, the United States Attorney for the Southern District of New York, announced the convictions of **GEORGE GULDI**, a former Suffolk County legislator and disbarred attorney, and **VICTORIA DAVIDSON** for defrauding Ditech Financial LLC, a mortgage lender, out of more than a quarter of a million dollars. The jury convicted GULDI and DAVIDSON of all counts following an approximately two-week trial before U.S. District Judge Alvin K. Hellerstein.

U.S. Attorney Damian Williams said: "George Guld, while in prison, concocted and conducted a scheme along with his co-conspirator, Victoria Davidson, to brazenly steal more than \$250,000 through blatant lies. Today, a jury held them accountable for their scheme, and they will both face justice for their shameless misconduct."

According to the Complaint, the Superseding Indictment, court filings, evidence presented during the trial, and public information:

In February 2017, Ditech Financial LLC ("Ditech"), a mortgage lender, received a payment of approximately \$250,000 from JPMorgan Chase in connection with the settlement of a civil lawsuit between several financial institutions. Ditech mistakenly treated the funds as a payment from GULDI toward his own mortgage, and it sent a letter to GULDI in March 2017 stating that it would not credit the payment because he owed more than the payment.

## PRESS RELEASE

### Former title agent sentenced to 36 months in prison for \$6.6 million mortgage fraud scheme

Thursday, May 23, 2024

Share >

#### For Immediate Release

U.S. Attorney's Office, Southern District of Florida

MIAMI – On May 22, a former title agent was sentenced to 36 months in federal prison and ordered to pay \$6,634,750.00 in forfeiture for carrying out a \$6.6 million mortgage fraud scheme. A restitution hearing is scheduled for Aug. 16.

Dora Ameneiro Martinez, 45, Haines City, Florida, was a licensed title agent in the State of Florida. She owned Apex Title Agency Incorporated (Apex Title), a title company in Haines City. Between June 2019 and July 2022, Martinez participated in approximately 30 fraudulent real estate transactions. Martinez made false and fraudulent statements to a Federal Deposit Insurance Corporation (FDIC) insured financial institution and to various non-FDIC insured private mortgage lenders to defraud them into approving mortgages and lending money. The fraudulent real estate transactions totaled \$6,634,750 in fraudulent proceeds.

As part of her scheme, Martinez prepared false and fraudulent mortgage applications and other related documents on her behalf. Apex Title, other companies she owned and other homeowners. The mortgage documents submitted to lenders contained false and fraudulent statements and representations relating to existing mortgages on the properties and other information necessary for the lenders to assess the qualifications of the homeowners to borrow money.

The title paperwork and Closing Disclosures falsely stated that there were no existing mortgages on properties, inducing the lenders to fund mortgage loans on properties in the Southern District of Florida and elsewhere. In reality, the properties were encumbered by existing mortgages that were not disclosed to the lenders in the title paperwork and Closing Disclosures, causing the new lenders to be placed in an inferior lien position to the existing lenders. Relying on these misrepresentations, the financial institution and private mortgage lenders lent money to the homeowners, believing that they were in first position and the mortgage was secured by a property that was unencumbered. Then, the financial institution and private mortgage lenders wired the loan proceeds to Martinez or Apex Title.

# **Fraud topics**

**What is it and what are its effects?**

**Numbers & geography**

**Fraud types, schemes & red flags**

**What are you seeing?**

**Steps you can take**

**Industry alerts**

**Resources**



# “Mortgage fraud” is defined as...

**Falsification** of any information that is given in order to receive a mortgage on real estate property

## **FBI definition:**

A **crime** characterized by a material misstatement, misrepresentation or omission in relation to a mortgage loan, which is then relied upon by a lender

A **lie** that influences a bank's decision to approve a loan, accept a reduced payoff amount or agree to certain repayment terms

# **Why is mortgage fraud awareness important?**

**Damages communities**

**Leads to riskier lending**

**Is affiliated with money-laundering  
and other criminal behavior**

**Creates greater losses due to  
higher defaults**

# 1 in 123

Mortgage applications estimated  
to have indications of fraud in Q2  
2024

**1 in 111** Purchase applications

**1 in 171** Refinance applications

# ↑ 8.3%

Mortgage Application Fraud Risk  
Index

Q2 2024  
compared to  
Q2 2023

## 2 main types of fraud



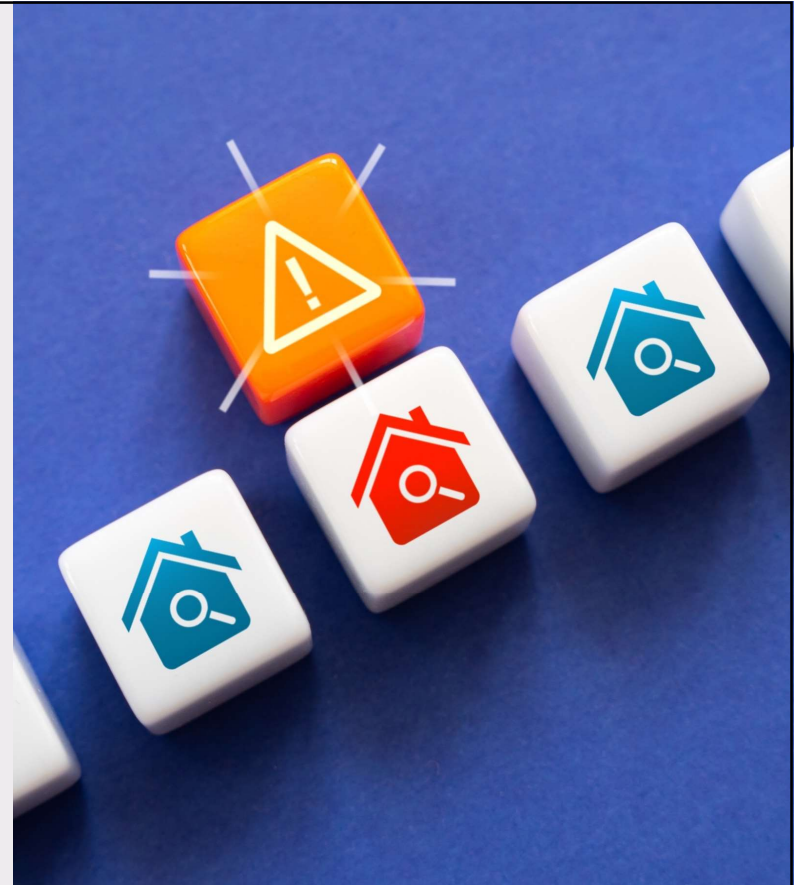
**FRAUD FOR HOUSING**



**FRAUD FOR PROFIT**

## Fraud for housing (property)

- Primary motivation = own a home
- Borrower intends to:
  - Occupy home and repay; or
  - Help family as front buyer by “co-signing”
- Borrower misrepresents self to own property
- Usually involves 1 loan



# Fraud for profit

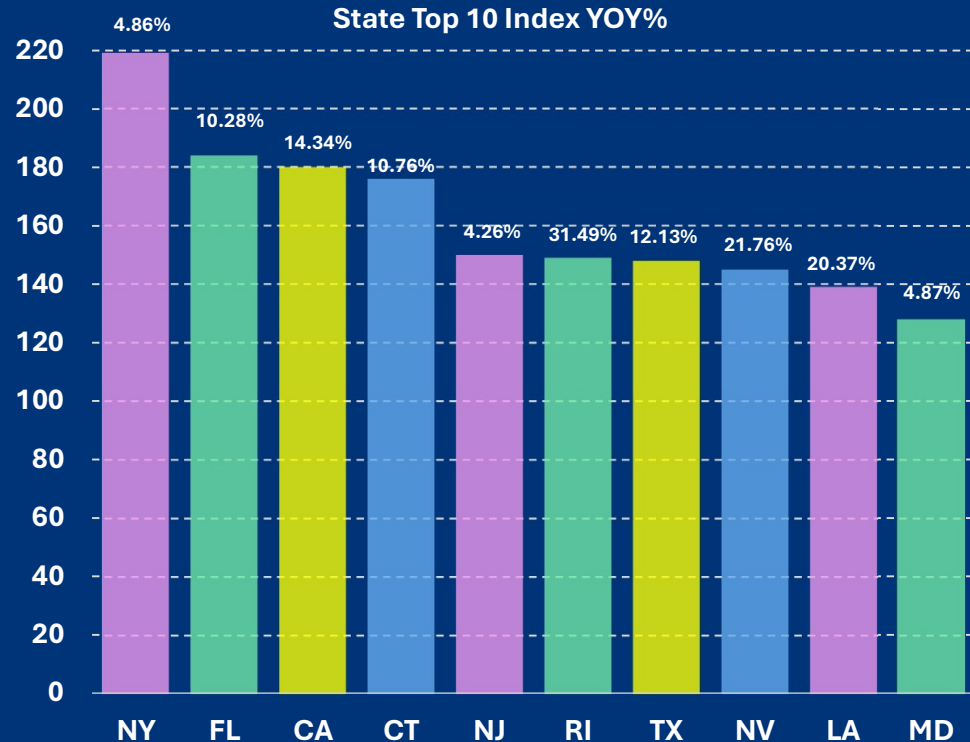
- Primary motivation = financial gain
- Involves multiple:
  - Misrepresentations
  - Participants (borrower, loan originator, appraiser, attorney, closing agent, real estate agent)
  - Loans and properties worth significant amounts of money
- Participants are often paid



# Mortgage fraud risk highlights by state

## Top 10 states with the highest application fraud risk

New York and Florida retain the top 2 spots, despite decreases in risk in both states. Connecticut moved into the top 3, thanks to an over 7% increase in risk. Maryland, Illinois and Massachusetts are new to the top 10 for 2023.

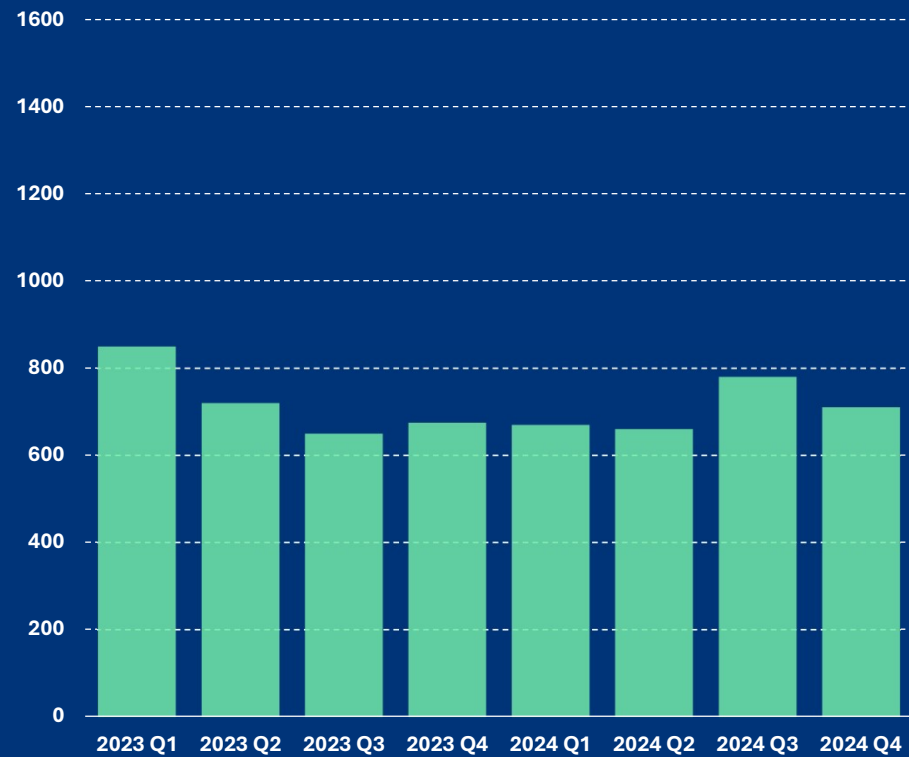


CoreLogic 2023 Mortgage Fraud Report

MORTGAGE GUARANTY  
INSURANCE CORPORATION

# Fraud tip volumes have stabilized

Fraud tips received Q3 2023 – Q4 2024



Source: Fannie Mae, August 2024

MORTGAGE GUARANTY  
INSURANCE CORPORATION



**Pop quiz**

# Top fraud finding

What was the top fraud finding from files that were investigated by Fannie Mae from 2020 to 2024?

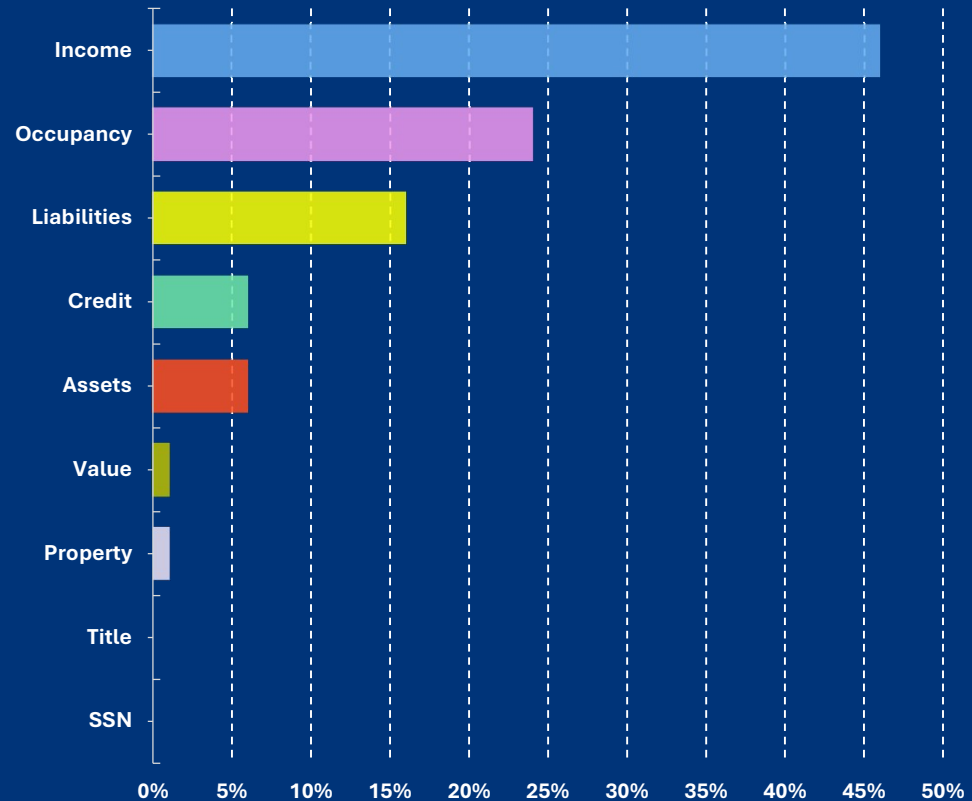
**Answers:**

- a) Occupancy fraud
- b) Asset fraud
- c) Undisclosed liabilities
- d) Income fraud
- e) Appraisal fraud
- f) Identity fraud

# Fraud findings: Income continues to be the most prevalent finding

Percentage based on loans with  
mortgage fraud

Investigative findings 2020 – 2023



Source: Fannie Mae, August 2024

MORTGAGE GUARANTY  
INSURANCE CORPORATION

**Affinity**

**Air loan**

**Builder bailout**

**Buy and bail**

**Double sale**

**Foreclosure rescue**

**Property flip or flop**

**Reverse occupancy**

**Short sale**

**Straw buyer**

**Synthetic identity**

## **Fraud schemes**

# **What are “red flags”?**

**Inconsistencies in a loan file**

**Tip-off file contains  
misrepresentations**

**Not always fraud**

**Several red flags may signal  
a fraudulent transaction**

# Fraud scheme – Straw buyer



**Fraud scheme****Straw buyer**

- Used to disguise true buyer or nature of transaction
- Allow someone else to use their credit to obtain mortgage
- May be paid for their involvement; loan is part of a bigger scheme
- Lender qualifies straw buyer:
  - Mortgage loan closes in straw buyer's name
  - Straw buyer doesn't intend to occupy property
  - Straw buyer doesn't intend to repay mortgage loan
- Mortgage payments are made by another entity



### Red flags

## Straw buyers

- First-time homebuyer with substantial increase in housing expense
- Income, savings and/or credit history are inconsistent with applicant's overall profile
- Unrealistic commute, size or condition of property
- Gift funds used for down payment and/or closing costs, minimum borrower contribution
- No real estate agent involved (non-arm's length transaction)
- Names added/deleted from sales contract or inconsistent signatures

**Affinity**

**Air loan**

**Builder bailout**

**Buy and bail**

**Double sale**

**Foreclosure rescue**

**Property flip or flop**

**Short sale**

**Synthetic identity**

**Pick a scheme**



**What are you seeing?**



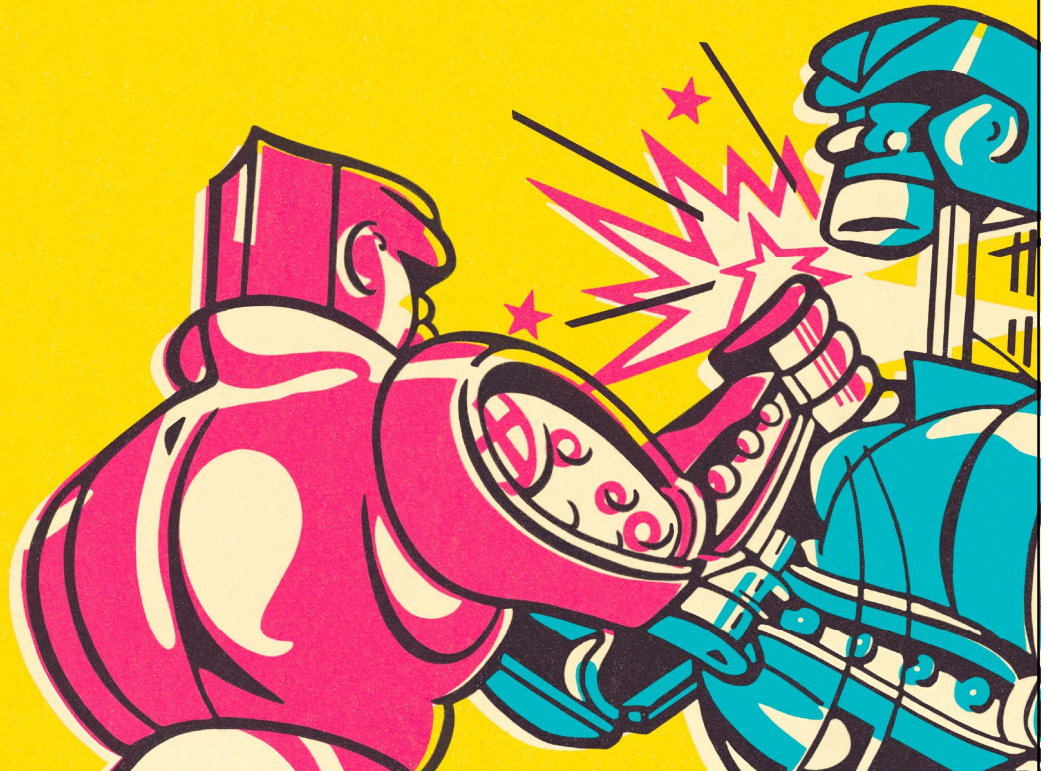
MORTGAGE GUARANTY  
INSURANCE CORPORATION

# Combat fraud





**So ... what  
can I do?**



MORTGAGE GUARANTY  
INSURANCE CORPORATION

**Pop quiz**

# Combat fraud

**Tyas niofmrde  
Uedceta  
Eb wraae  
Reash**

**Answers:**

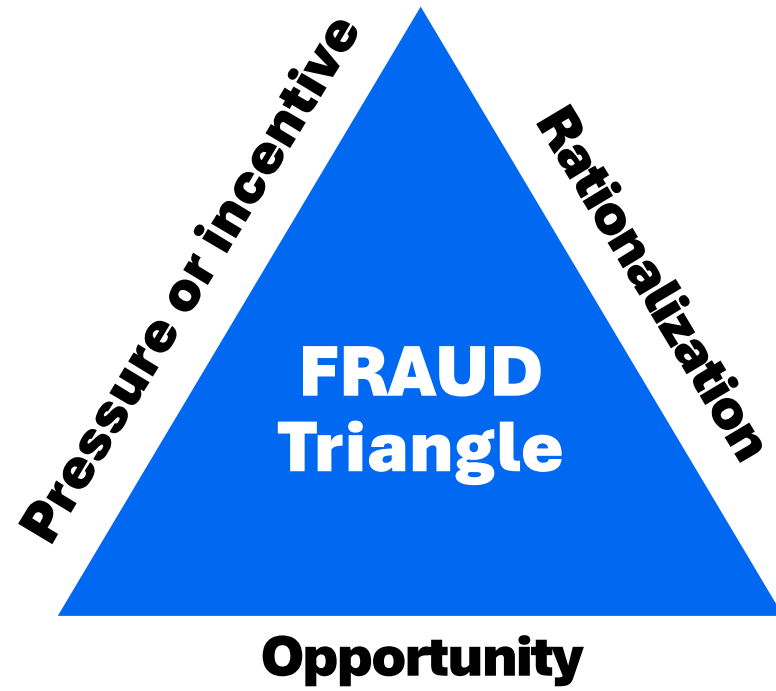
**Stay informed  
Educate  
Be aware  
Share**



**Sharpen your  
sleuthing skills**

**You can make a  
difference**

# Motivation to commit fraud





## 4 steps to sharpen your review skills

**F****Focus on problem areas****A****Acknowledge red flags****K****Know where to look to verify****E****Escalate to management**

**Top problem area**

# **Avoiding 1003 misrepresentation**

**Misrepresentation of occupancy**



# Why occupancy matters

- Different occupancies have different risks and different eligibility rules
- Lower risk transactions allow for higher LTVs and lower interest rates
- Occupancy affects pricing
- Some borrowers are incentivized to misrepresent their occupancy intention

## Principal residence

Borrower intends to occupy subject property as their primary residence

**The lowest risk**

## Second home

Borrower intends to occupy subject property for part of the year

**Higher risk than a principal residence**

## Investment property

Borrower rents out subject property & does not intend to occupy

**The highest level of risk**

**Pop quiz**

## On the move

Your borrower currently works in the construction industry for a family-owned company in the state of GA. His position is listed as “Field Operations Manager.” The transaction is for a purchase of a new primary residence in the state of PA.

Employer email explanation: “The borrower will be able to work remotely after his move to PA.”

**Is this sufficient?**

**Answers:**

- a) Yes
- b) No



# **Sleuthing skills**

## **Occupancy review**

Occupancy review

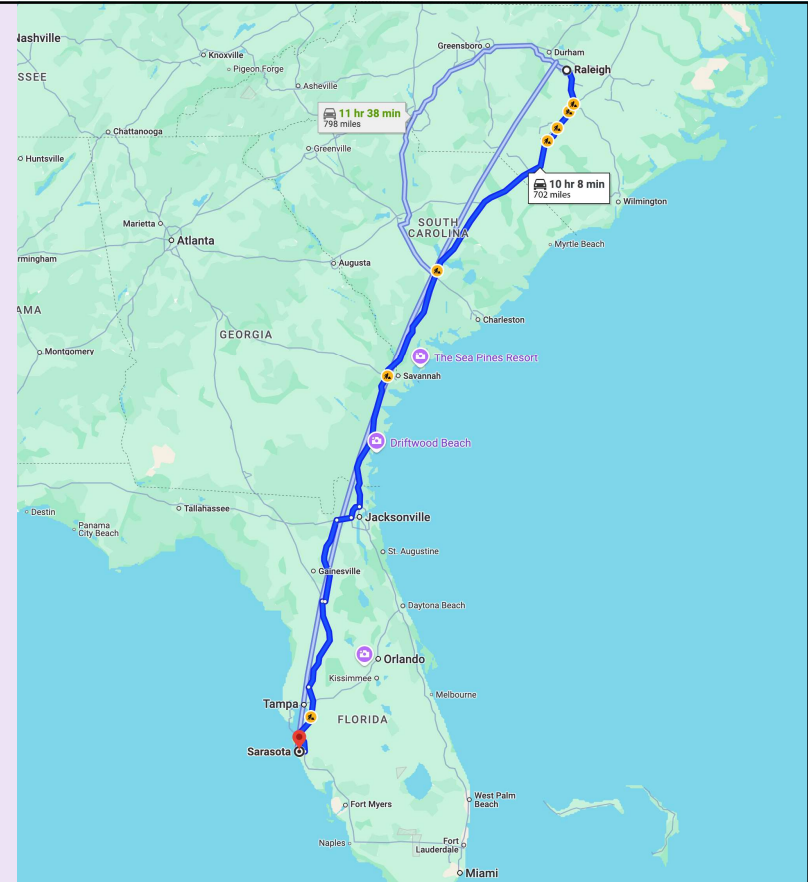
**Will they occupy  
the Florida  
condominium?**



## Occupancy review

# Understand transaction

- 1003 indicates that the current home will be converted to a rental
- Distance from current primary residence in Raleigh, NC, to Sarasota, FL, is 702 miles
- LOE explains that the borrowers will be retiring and moving to FL





## Occupancy review

# Review property

- Appraisal indicates that the condo project has a high ratio of rental units
- Subject property is a 1 bedroom, 1 bath contemporary TURNKEY furnished beach condo in the highly coveted ABC Beach Club
- Booking site for ABC Beach Club was found online



## Occupancy review

# Review HOI dec page

- Insured address was borrower's current home
- Fair rental income coverage was noted



Occupancy review

**Did they occupy  
the Florida  
condominium?**





**Fraud scheme**

## Reverse occupancy

- Borrower buys home as an investment property
- Rental income is used to help qualify the borrower for the loan
- Instead of renting, the borrower occupies the home (or one of its units)
- Borrower does not receive the amount of rental income used for loan qualification

**Freddie Mac**  
Single-Family



**True Lies: Reigning in Reverse Occupancy**



### Red flags

## Reverse occupancy

- Borrower:
  - Is a first-time homebuyer
  - Has little or no established credit
  - Has low income
  - Has a large down payment
  - Currently lives “rent-free”
- Hazard insurance is for owner-occupied property

## Fraud is a crime

PRESS RELEASE

### Two Former Employees of New Jersey Mortgage Lending Business Charged for Roles in Mortgage Fraud Scheme

According to documents filed in this case and statements made in court:

Gallo and Elmas were previously employed by a New Jersey-based, privately owned licensed residential mortgage lending business. Gallo was employed as a senior loan officer and Elmas was a mortgage loan officer and Gallo's assistant. From 2018 through October 2023, Gallo and Elmas used their positions to conspire and engage in a fraudulent scheme to falsify loan origination documents sent to mortgage lenders in New Jersey and elsewhere, including their former employer, to fraudulently obtain mortgage loans. Gallo and Elmas routinely mislead mortgage lenders about the intended use of properties to fraudulently secure lower mortgage interest rates. Gallo and Elmas often submitted loan applications falsely stating that the listed borrowers were the primary residents of certain properties when, in fact, those properties were intended to be used as rental or investment properties.

By fraudulently misleading lenders about the true intended use of the properties, Gallo and Elmas secured and profited from mortgage loans that were approved at lower interest rates. The conspiracy also included falsifying property records, including building safety and financial information of prospective borrowers to facilitate mortgage loan approval. Between 2018 through October 2023, Gallo originated more than \$1.4 billion in loans.

**The conspiracy to commit bank fraud charge carries a maximum potential penalty of 30 years in prison and a \$1 million fine, or twice the gross gain or loss from the offense, whichever is greatest.**

The conspiracy to commit bank fraud charge carries a maximum potential penalty of 30 years in prison and a \$1 million fine, or twice the gross gain or loss from the offense, whichever is greatest.



## Lender due diligence

# Occupancy

### Review

- Other documentation to validate address
- Insurance policy to confirm if coverage includes contents, rental loss, or tenant coverage
- Sales contract for intended occupancy and/or current tenancies
- Appraisal for any indication of tenancy
- Lease agreements, especially with primary conversions

40



### Getting It Right – Reverification of Occupancy

Minimize risk and originate high-quality loans by implementing effective processes and procedures during loan origination and quality control (QC). A strong QC environment can help lenders detect red flags and uncover discrepancies during the reverification of occupancy. When lenders discover discrepancies, they should validate the data used to determine the borrower's eligibility was accurate. The validation can spark insights related to potential gaps across their internal control environment.

#### Ask yourself:

- Are you aware of the associated risks on loans with inaccurate occupancy status?
- Do you have established processes to spot occupancy red flags during origination and underwriting?
- Do you train every person in the manufacturing process on evolving trends in potential occupancy fraud for housing and for profit?
- Is your QC team well-versed on how to investigate occupancy red flags?

#### Occupancy type – why it matters

The Fannie Mae Selling Guide B2-1.1-01, Occupancy Types, describes three types of occupancy and each poses a different level of risk:

- **Principal residence** – The subject property will be occupied by the borrower as their primary residence. This occupancy type represents the least amount of risk, as borrowers are less likely to default on a mortgage loan for the home that they occupy.

- **Second home** – The subject property will be occupied by the borrower for some portion of the year, such as a summer or vacation home. This occupancy type represents a higher risk than a principal residence.
- **Investment** – An investment property is owned but not occupied by the borrower and is rented out to others. This occupancy type represents the highest level of risk.

As a result of the varying levels of risk, there are different eligibility rules based on the occupancy type. Lower-risk transactions often allow for higher loan-to-value ratios and lower interest rates for the borrower. This cost differential could potentially incentivize the borrower to misrepresent an investment property as a primary residence so they can borrow more at a lower cost. Occupancy risk is one of the variables that secondary market investors, such as Fannie Mae, consider when pricing loans. For example, when a primary residence is discovered to be an investment property, the higher risk profile can result in financial losses for the stakeholders.

Reverse occupancy is a type of occupancy misrepresentation in which the borrower purchases a home as an investment property and claims rental income to qualify for the mortgage loan. Instead of renting the home out, the borrower moves in and occupies it as a primary residence, thereby not receiving the rental income that was used to qualify for the mortgage.

A strong QC environment can help lenders detect red flags and uncover discrepancies during the reverification of occupancy.



# The Four Cs

**Credit**

Borrower's willingness to repay a loan

**Capacity**

Borrower's ability to repay based on the amount & stability of income

**Capital**

Borrower's investment in the property from savings & other sources

**Collateral**

Property's value & marketability to provide adequate security for the loan based on the appraisal



**Top problem area**

# **Avoiding credit misrepresentation**

**Undisclosed liabilities**

**Pop quiz**

## Undisclosed auto loan:

Undisclosed auto loans can significantly increase a borrower debt-to-income ratio.

The average auto loan today has a balance of \$34,000, with a monthly payment of \$\_\_\_\_\_.

**Answers:**

- a) \$385
- b) \$428
- c) \$515
- d) \$594
- e) \$623

## Why undisclosed debt matters

- Undisclosed debt results in calculated DTI ratio inaccuracy
- Lender is then unable to evaluate a borrower's ability to repay the loan
- Inclusion of the undisclosed debt could result in the loan failing to meet guidelines

**A high percentage of undisclosed debt is for new auto loans**

**The average auto loan is \$34,000, with a monthly payment of \$594**

**70% of undisclosed debt is opened more than 14 days before closing**

**81% of undisclosed debt is reported by all 3 credit bureaus**

**An inquiry that can be associated with the new debt is often present on the credit report**





# **Sleuthing skills**

## **Credit review**

# Credit review

## Uniform Residential Loan Application

Verify and complete the information on this application. If you are applying for this loan with others, each additional Borrower must provide information as directed by your Lender.

**Section 1: Borrower Information.** This section asks about your personal information and your income from employment and other sources, such as retirement, that you want considered to qualify for this loan.

### 1a. Personal Information

Name (First, Middle, Last, Suffix)

SAMPLE BORROWER

Social Security Number XXX - XX - XXXX  
(or Individual Taxpayer Identification Number)

**Section 3: Financial Information — Real Estate.** This section asks you to list all properties you currently own and what you owe on them. ☒ I do not own any real estate

### 3a. Property You Own If you are refinancing, list the property you are refinancing FIRST.

Address		Street	City	State	ZIP	Unit #	Country
Property Value	Status: Sold, Pending Sale, or Retained	Intended Occupancy: Investment, Primary Residence, Second Home, Other	Monthly Insurance, Taxes, Association Dues, etc. if not included in Monthly Mortgage Payment	For 2-4 Unit Primary or Investment Property			
				Monthly Rental Income	For LENDER to calculate: Net Monthly Rental Income		
\$			\$	\$	\$		

### Current Address

Street 123 Any Street

City

State VA

ZIP 22222

Unit #

Country

How Long at Current Address? 4 Years Months Housing ☐ No primary housing expense ☐ Own ☒ Rent (\$ 2500 /month)

# Credit review

Sample Borrower  
123 Any Street  
City, VA 22222

## Your consolidated statement For 4/10/20XX

Contact us  
Truist.com (844) 4TRUIST or (844) 487-8478

If you are traveling outside of the USA and have concerns about accessing your account while you are traveling, please contact your Branch Banker or call us at 844-4TRUIST.

### Summary of your accounts

Account Name	Account Number	Balance
TRUIST BRIGHT CHECKING	123XXXX	\$14,103.42
TRUIST ONLINE SAVINGS	321XXXX	\$ 9,509.50

### Checking and money market savings accounts

#### TRUIST BRIGHT CHECKING 123XXXX

Account summary	
Your previous balance as of 3/12/20XX	\$11,147.00
Checks	-0.00
Other withdrawals, debits and service charges	\$ 3,735.40
Deposits, credits and interest	\$ 6,691.82
Your new balance as of 4/10/20XX	\$14,103.42

#### Other withdrawals, debits and service charges

DATE	DESCRIPTION	AMOUNT
3/13	DEBIT CARD PURCHASE - KROGER	64.12
3/18	DEBIT CARD PURCHASE - FOOD LION	212.66
3/25	DEBIT CARD PURCHASE - MCDONALDS	32.15
4/01	DEBIT CARD PURCHASE - SHELL OIL	75.25
4/04	CONVERTED CHECK - ARC CHECKPYMT AMERICAN ELECTRIC	425.00
4/10	RECURRING INTERNET PAYMENT MTG PYMT - FLAGSTAR	2,510.16
4/10	RECURRING PAYMENT - MOBILE	347.00
Total other withdrawals, debits and service charges		3,735.40

#### Deposits, credits and interest

DATE	DESCRIPTION	AMOUNT
3/22	PAYROLL ANY JOB - SAMPLE BORROWER	3,345.91
4/05	PAYROLL ANY JOB - SAMPLE BORROWER	3,345.91
Total deposits, credits and interest		6,691.82

## Section 5: Declarations. This section asks you specific questions about the property, your funding, and your past financial history.

### 5a. About this Property and Your Money for this Loan

1. If YES, have you had an ownership interest in another property in the last three years?	<input checked="" type="radio"/> NO <input type="radio"/> YES
(1) What type of property did you own: primary residence (PR), FHA secondary residence (SR), second home (SH), or investment property (IP)?	
(2) How did you hold title to the property: by yourself (S), jointly with your spouse (SP), or jointly with another person (O)?	
B. If this is a Purchase Transaction: Do you have a family relationship or business affiliation with the seller of the property?	<input checked="" type="radio"/> NO <input type="radio"/> YES
C. Are you borrowing any money for this real estate transaction (e.g., money for your closing costs or down payment) or obtaining any money from another party, such as the seller or realtor, that you have not disclosed on this loan application? If YES, what is the amount of this money?	<input checked="" type="radio"/> NO <input type="radio"/> YES \$
D. 1. Have you or will you be applying for a mortgage loan on another property (not the property securing this loan) on or before closing this transaction that is not disclosed on this loan application?	<input checked="" type="radio"/> NO <input type="radio"/> YES
2. Have you or will you be applying for any new credit (e.g., installment loan, credit card, etc.) on or before closing this loan that is not disclosed on this application?	<input checked="" type="radio"/> NO <input type="radio"/> YES
E. Will this property be subject to a lien that could take priority over the first mortgage lien, such as a clean energy lien paid through your property taxes (e.g., the Property Assessed Clean Energy Program)?	<input checked="" type="radio"/> NO <input type="radio"/> YES

F. Are you a co-signer or guarantor on any debt or loan that is not disclosed on this application?	<input type="radio"/> NO <input checked="" type="radio"/> YES
G. Are there any outstanding judgments against you?	<input checked="" type="radio"/> NO <input type="radio"/> YES
H. Are you currently delinquent or in default on a Federal debt?	<input checked="" type="radio"/> NO <input type="radio"/> YES
I. Are you a party to a lawsuit in which you potentially have any personal financial liability?	<input checked="" type="radio"/> NO <input type="radio"/> YES
J. Have you conveyed title to any property in lieu of foreclosure in the past 7 years?	<input checked="" type="radio"/> NO <input type="radio"/> YES
K. Within the past 7 years, have you completed a pre-foreclosure sale or short sale, whereby the property was sold to a third party and the Lender agreed to accept less than the outstanding mortgage balance due?	<input checked="" type="radio"/> NO <input type="radio"/> YES
L. Have you had property foreclosed upon in the last 7 years?	<input checked="" type="radio"/> NO <input type="radio"/> YES
M. Have you declared bankruptcy within the past 7 years? If YES, identify the type(s) of bankruptcy: <input type="checkbox"/> Chapter 7 <input type="checkbox"/> Chapter 11 <input type="checkbox"/> Chapter 12 <input type="checkbox"/> Chapter 13	<input checked="" type="radio"/> NO <input type="radio"/> YES

**Lender due diligence**

# Credit

**Review**

- Credit reports for discrepancies, omissions, inquiries & SSN/fraud alerts
- Loans with a DTI ratio above a certain threshold, where an average payment could result in an ineligible loan
- Loans with auto loan inquires for additional review
- Asset statements that might indicate new or undisclosed debt
- Pay stubs for garnishments

**Additional steps**

- Utilize an undisclosed-debt monitoring service to review for new debt as well as inquiries during the application process
- Have the borrowers sign a certification addressing all inquiries & verifying no new debt
- Require that borrowers provide a mortgage statement for all other properties owned, including departure residence. Provide documentation of HOA dues, if applicable
- Pull a new, tri-merged credit report 3 days prior to closing to identify any new debts or inquiries

**Pop quiz**

## Frozen credit

Your borrower has frozen their account with one of the credit repositories. No data from that repository was used in underwriting the file through DU®.

*DU message: Based on credit data received – borrower has frozen their account with one of the credit repositories. No data from that repository was used in underwriting the file.*

**What is required?**

### Answers:

- a) The borrower must unfreeze their account
- b) Lender should independently verify borrower's identity
- c) Borrower must sign a credit affidavit
- d) Lender should review the loan application and validate accounts with file documentation
- e) B & D

**Top problem area**

# **Avoiding income misrepresentation**

**Overstated income**

## Why overstated income matters

- Overstated income results in calculated DTI ratio inaccuracy
- Lender is then unable to evaluate a borrower's ability to repay the loan
- Use of actual income could result in the loan failing to meet guidelines

**A high percentage of income miscalculations were associated with new employment**

**Misrepresentation of rental income from a departure property is a trending defect**

**Borrower not being employed continues to be one of the significant defects**

**Child support misrepresentation is being reported as a finding by both GSEs**

**Self-employed with unstable earning trends were masked with improper documentation**



**Beware of  
recent  
changes**

**Change in compensation**  
**Change in position**  
**Change in employment**  
**Change in pay structure**



# **Sleuthing skills**

## **Income review**

**Pop quiz**

## Recent raise:

Your borrower is paid on an hourly basis. They have indicated that they recently received a raise from \$32.00 per hour to \$38.00 per hour.

A written confirmation was obtained from the employer that the borrower did, in fact, receive this raise.

**Is this sufficient?**

### Answers:

- a) Yes
- b) No

# Income review



## 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 borrower 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 mortgage borrower may be delayed or rejected. The information requested in this form is authorized by Title 38, USC, Chapter 37 (if VA); by 12 USC, Section 1701 et. seq. (if HUD/FHA); by 42 USC, Section 1462b (if HUD/CFO); and Title 42 USC, 1471 et. seq. or 7 USC, 1621 et. seq. (if USDA/FHIA).

**Instructions:** Lender — Complete items 1 through 7. Have applicant complete item 8. Forward directly to employer named in item 1.  
Employer — Please complete either Part II or Part III as applicable. Complete Part IV and return directly to lender named in item 2.  
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) Exceptional Employer 123 Main Commerce Street Any Town, PA 12345	2. From (Name and address of lender) Trusted Lender 555 Loan Lane Any Town, PA 12345
--	---

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	4. Title Busy Processor	5. Date 06/18/2024	6. Lender's Number (Optional) 123456789
------------------------	----------------------------	-----------------------	--

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) Sample Borrower	8. Signature of Applicant See Attached
--	---

### Part II — Verification of Present Employment

9. Applicant's Date of Employment 05/06/2020	10. Present Position Executive Assistant	11. Probability of Continued Employment Good
12A. Current Gross Base Pay (Enter Amount and Check Period) <input type="checkbox"/> Annual <input checked="" type="checkbox"/> Hourly <input type="checkbox"/> Monthly <input type="checkbox"/> Other (Specify) \$ 38.00		
13. For Military Personnel Only Pay Grade _____ Type _____ Monthly Amount \$ _____ Base Pay \$ _____ 14. If Overtime or Bonus is Applicable, Is Its Continuation Likely? Overtime <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No Bonus <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No		
15. If paid hourly — average hours per week 40		
16. Date of applicant's next pay increase		
17. Projected amount of next pay increase		
18. Date of applicant's last pay increase 05/01/2024		
19. Amount of last pay increase \$6.00 per hour		
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	22. Salary/Wage at Termination Per (Year) (Month) (Week)
23. Date Terminated	24. Reason for Leaving
25. Position Held	26. 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., FHIA/FHA Commissioner, or the HUD/CFO Assistant Secretary.

26. Signature of Employer <i>Laura McDonald</i>	27. Title (Please print or type) Vice President	28. Date 06/26/2024
29. Print or type name signed in item 26 Laura McDonald	30. Print or type name signed in item 27 Laura McDonald	

Borrower Name:	Sample Borrower	Employer Name:	Exceptional Employer
Base Pay			
Select to include:	Pay Frequency (select from drop down)	Hours Worked Weekly	Monthly Earnings
<input type="checkbox"/>	Rate of Pay \$ 38.00	Hourly (H) 40.00	\$ 6,586.67
<input checked="" type="checkbox"/>	Date Paid	Date From: Through:	Total Earnings: # of Months: Monthly Earnings: % Change:
<input checked="" type="checkbox"/>	YTD 2024	1/1/2024 6/15/2024	\$ 31,251.00 5.50 \$ 5,682.00 +1.77%
<input checked="" type="checkbox"/>	Year 2023	1/1/2023 12/31/2023	\$ 67,000.00 12.00 \$ 5,583.33 +2.29%
<input checked="" type="checkbox"/>	Year 2022	1/1/2022 12/31/2022	\$ 65,500.00 12.00 \$ 5,458.33 -
Qualifying Base Pay:			\$ 5,550.88

# Income review



## 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 borrower 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 mortgage borrower may be delayed or rejected. The information requested in this form is authorized by Title 38, USC, Chapter 37 (if VA); by 12 USC, Section 1701 et seq. (if HUD/FHA); by 42 USC, Section 1462 (if HUD/CFO); and Title 42 USC, 1471 et seq., or 7 USC, 1621 et seq. (if USDA/FmHA).

**Instructions:** Lender — Complete items 1 through 7. Have applicant complete item 8. Forward directly to employer named in item 1.  
Employer — Please complete either Part II or Part III as applicable. Complete Part IV and return directly to lender named in item 2.  
The form is to be transmitted directly to the lender and is not to be transmitted through the applicant or any other party.

<b>Part I — Request</b>	
1. To (Name and address of employer) Exceptional Employer 123 Main Commerce Street Any Town, PA 12345	2. From (Name and address of lender) Trusted Lender 555 Loan Lane Any Town, PA 12345

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	4. Title Busy Processor
5. Date 06/18/2024	6. Lender's Number (Optional) 123456789

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) Sample Borrower	8. Signature of Applicant See Attached
--	---

<b>Part II — Verification of Present Employment</b>	
9. Applicant's Date of Employment 05/06/2020	10. Present Position Executive Assistant
11. Probability of Continued Employment Good	

12A. Current Gross Base Pay (Enter Amount and Check Period)				13. For Military Personnel Only		14. If Overtime or Bonus is Applicable, Is Its Continuation Likely?	
<input type="checkbox"/> Annual <input checked="" type="checkbox"/> Hourly <input type="checkbox"/> Monthly <input type="checkbox"/> Other (Specify) _____ \$ 38.00				Pay Grade _____ Type _____ Monthly Amount _____ Base Pay \$ _____		Overtime <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No Bonus <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
12B. Gross Earnings				15. If paid hourly — average hours per week 40		16. Date of applicant's next pay increase	
Type	Year To Date	Past Year 2023	Past Year 2022	Rations	\$	17. Projected amount of next pay increase	
Base Pay	Thu 12/13/23	\$ 31,251.00	\$ 67,000.00	Flight or Hazard	\$	18. Date of applicant's last pay increase 05/01/2024	
Overtime	\$	\$	\$	Clothing	\$	19. Amount of last pay increase	
Commissions	\$	\$	\$	Quarters	\$	\$6.00 per hour	
Bonus	\$	\$	\$	Pro Pay	\$		
Total	\$ 31,251.00	\$ 67,000.00	\$ 65,500.00	Overseas or Combat	\$		
				Variable Housing Allowance	\$		

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

<b>Part III — Verification of Previous Employment</b>				
21. Date Hired	23. Salary/Wage at Termination Per (Year) (Month) (Week)			
22. Date Terminated	Base	Overtime	Commissions	Bonus
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/CFO Assistant Secretary.

26. Signature of Employer <i>Laura McDonald</i>	27. Title (Please print or type) Vice President	28. Date 06/26/2024
29. Print or type name and address of Employer Laura McDonald		30. Phone No.

Fannie Mae  
Form 1006 July 96

## Gift Letter

I, Laura McDonald, hereby certify that I/We given/will give a gift of  
 \$ 20000 to Sample Borrower my Cousin  
 for the premises located at 123 Happy Trails  
 on 6/25/24

I/We certify that this is a bona fide gift and there is no obligation, expressed or implied, to repay this sum in cash or other services of any kind now or in the future.

I/We understand that this gift will require documentation, including proof I/We have given the gift from the account listed below, and proof that the funds have been received by the applicant or the applicant's attorney prior to settlement.

THE LENDER may confirm that the funds came from the account listed below:

Name of Depository or other Source: Depository


Address of Same: \_\_\_\_\_

Account Number: #1230947589

I/We Certify that the funds given to the applicant were not made available to the donor from any person or entity with an interest in the sale of the property including the seller, real estate agent, builder, loan officer, or any entity associated with them.

*Laura McDonald*  
 12345 Main Street

# Income review

 **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 borrower 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 mortgage borrower may be delayed or rejected. The information requested in this form is authorized by Title 38, USC, Chapter 37 (if VA); by 12 USC, Section 1701 et. seq. (if HUD/CFO); by 42 USC, Section 1462b (if HUD/CFO); and Title 42 USC, 1471 et. seq. or 7 USC, 1621 et. seq. (if USDA/FNHSA).

Instructions: Lender - Complete items 1 through 7. Have applicant complete item 8. Forward directly to employer named in item 1.  
Employer - Please complete either Part II or Part III as applicable. Complete Part IV and return directly to lender named in item 2.  
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)  
Exceptional Employer  
123 Main Commerce Street  
Any Town, PA 12345

2. From (Name and address of lender)  
Trusted Lender  
555 Loan Lane  
Any Town, PA 12345

3. Signature of Lender \_\_\_\_\_

4. Title  
Busy Processor

5. Date  
06/18/2024

6. Lender's Number (Optional)  
123456789

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.

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)  
Sample Borrower

8. Signature of Applicant  
See Attached

**Part II - Verification of Present Employment**

9. Applicant's Date of Employment  
05/06/2020

10. Present Position  
Executive Assistant

11. Probability of Continued Employment  
Good

12A. Current Gross Base Pay (Enter Amount and Check Period)  
☐ Annual ☒ Hourly ☐ Monthly ☐ Other (Specify) \_\_\_\_\_  
 \$ 38.00

13. For Military Personnel Only  
 Pay Grade \_\_\_\_\_  
 Type \_\_\_\_\_ Monthly Amount \$ \_\_\_\_\_  
 Base Pay \$ \_\_\_\_\_  
 Rations \$ \_\_\_\_\_  
 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  
40

16. Date of applicant's next pay increase \_\_\_\_\_

17. Projected amount of next pay increase \_\_\_\_\_

18. Date of applicant's last pay increase  
05/01/2024

19. Amount of last pay increase  
\$6.00 per hour

12B. Gross Earnings

Type	Year To Date	Past Year 2023	Past Year 2022
Through 05/01/2024	\$ 31,251.00	\$ 67,000.00	\$ 65,500.00
Base Pay	\$	\$	\$
Overtime	\$	\$	\$
Commissions	\$	\$	\$
Bonus	\$	\$	\$
Total	\$ 31,251.00	\$ 67,000.00	\$ 65,500.00

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 \_\_\_\_\_

22. Date Terminated \_\_\_\_\_

23. Salary/Wage at Termination Per (Year) (Month) (Week)  
 Base \_\_\_\_\_ Overtime \_\_\_\_\_ Commissions \_\_\_\_\_ Bonus \_\_\_\_\_

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., FHFA/FHA Commissioner, or the HUD/CFO Assistant Secretary.

26. Signature of Employer  
*Laura McDonald*

27. Title (Please print or type)  
Vice President

28. Date  
06/26/2024

29. Print or type name signed in item 26  
Laura McDonald

30. Phone No. \_\_\_\_\_

Fannie Mae  
Form 1005 July 96

Deposits, credit and interest

DATE	DESCRIPTION	AMOUNT
4/01	EXCEPTIONAL EMPLOYER DIRECT DEPOSIT	\$4215.46
4/15	EXCEPTIONAL EMPLOYER DIRECT DEPOSIT	\$4215.46
4/29	EXCEPTIONAL EMPLOYER DIRECT DEPOSIT	\$4215.46
5/13	EXCEPTIONAL EMPLOYER DIRECT DEPOSIT	\$4215.46
5/27	EXCEPTIONAL EMPLOYER DIRECT DEPOSIT	\$4215.46



**Lender due diligence**

# Income

**Review**

- Address & SSN; cross-verify with other documentation
- Consistency in employment indicated on credit report as well as social media sources, such as LinkedIn
- Consistency in font type/size and alignment of decimals
- Rounded numbers & typos
- Incorrect totals, balances & deductions
- Asset documents for direct deposit amounts

**Additional steps**

- Verify directly with the employer that the borrower is able to work remotely with no change to role or income
- Re-verify any employment changes or new employment contracts
- Independently obtain telephone numbers before conducting reverification or VVOE as close to closing as possible
- Execute IRS Form 4506-C
- Consider use of automated risk and data-screening tools

**Pop quiz**

## Growing fraud trend:

Which of the following has been reported by CoreLogic as a current 2024 trend in income falsification?

**Answers:**

- a) Verification of income from fabricated employers
- b) Income inflated by a new, high-wage job after previously being self-employed
- c) Altered employment verifications
- d) Falsified public records involving child support

**Top problem area**

# **Avoiding asset misrepresentation**

**Improper sourcing of large deposits**

# Why sourcing of assets matters

- We rely on bank statements to tell the borrower's financial story
- Funds that are sourced and seasoned demonstrate the borrower's ability to pay the down payment & closing costs
- Inclusion of unsourced funds could result in the loan failing to meet guidelines

**Gift funds are prevalent in many fraud schemes**

**Undocumented large deposits can be an indication of undisclosed debts**

**Large, undocumented deposits can be a sign of illegal activity**

**Pop quiz**

# What is asset rental?

Asset rental is a type of fraud scheme characterized by...

**Answers:**

- a) A rental lease that requires an exorbitant security deposit
- b) Fabricated asset documentation using bank statements of assets owned by another individual
- c) Equipment that is leased to others requiring upfront fees
- d) Borrowers “renting” money and not disclosing that the funds must be paid back

## Fraud is a crime

PRESS RELEASE

### Federal Jury Convicts Former Baltimore City State's Attorney Marilyn Mosby

Tuesday, February 6, 2024

Share



For Immediate Release

U.S. Attorney's Office, District of Maryland

"Ms. Mosby's conduct undermines the confidence the public deserves to have in their government officials," said Acting Special Agent in Charge R. Joseph Rothrock of the FBI's Baltimore Field Office. "The jury's decision holds Ms. Mosby accountable for disregarding the laws she swore to uphold. The FBI works diligently to ensure that anyone who engages in fraud and corruption will be held accountable for their bad acts."

According to the evidence presented at trial, in February 2021, Mosby made a false statement in an application for a \$428,400 mortgage to purchase a condominium in Long Boat Key, Florida. As part of the application, Mosby falsely stated that she had received a \$5,000 gift from her husband to be applied to the purchase of the property. According to the evidence presented at trial, Mosby made this statement in order to secure a lower interest rate. According to the evidence presented at trial, Mosby did not receive a \$5,000 gift from her husband, but rather transferred \$5,000 to him, and he then transferred the \$5,000 back to her.

Mosby faces a maximum of 30 years in federal prison for making a false mortgage application.





**Lender due diligence**

# Assets

**Review**

- Financial institution statement layout & logo for accuracy
- Consistency in font type/size and alignment of decimals
- Rounded numbers & typos
- Incorrect totals & balances
- Pay stubs for direct deposit amounts
- Ending balances and date ranges from prior statements

**Additional steps**

- Contact the financial institution directly to confirm the authenticity of the statement
- Re-verify with the account holder that the account number corresponds to the individual
- Request a completed VOD
- Consider use of automated risk and data-screening tools
- Define a clear escalation path

**Top problem area**

# **Avoiding appraisal misrepresentation**

**Report completed by unlicensed individual**

# Why insuring the authenticity of an appraiser matters

- The lender is responsible for ensuring that the subject property provides adequate collateral for the mortgage
- Appraisal fraud occurs when a home is given a value below or above its appropriate market value

**Appraisal fraud can lead to financial losses once the true value of the property is revealed**

**Appraisal fraud erodes trust within the real estate ecosystem**

**Widespread appraisal fraud can contribute to market instability**

# Fannie Mae



Fannie Mae

## Appraiser Identity Theft

Fannie Mae's Mortgage Fraud Investigations (MFI) team alerts the industry to potential and active mortgage fraud scenarios.

Fannie Mae has identified a significant number of loans involving appraisals that were completed by an unlicensed appraiser unlawfully using the identities of other actively licensed appraisers. The identified loans were originated between 2021-2023. There is no evidence that the appraisers whose identities were used were aware of or involved in the activity.



### Red Flags:

- ❑ 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.

### 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.

### If suspicion of fraud exists

- ❑ Follow established policies and procedures within your organization and the [Fannie Mae Selling Guide](#)
- ❑ Complete and submit the [Suspected Mortgage Fraud Report](#) on the [Mortgage Fraud Prevention web page](#)

### More general steps lenders can take to detect and prevent fraud

- ❑ 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

Watch for further "Fraud Alerts" and potential updates to this fraud alert by monitoring the

[Mortgage Fraud Prevention web page](#)

© 2024 Fannie Mae 1.4.2024 Page 1 of 1

## Appraiser Identity Theft (January 2024)

This alert involves a significant number of loans with appraisals that were completed by an unlicensed appraiser unlawfully using the identities of other actively licensed appraisers.

[Learn more >](#)

**Pop quiz**

# Streamline appraisal review

**True or false?**

If the appraisal has received a score of 2.5 or lower from Fannie Mae's Collateral Underwriter®, then the lender does not need to review the appraisal report.

**Answers:**

- a) True
- b) False

# Value Acceptance + Property Data & ACE + PDR



## Value Acceptance + Property Data Fact Sheet

Value acceptance + property data extends value acceptance (appraisal waiver) benefits to more borrowers while identifying current subject property characteristics including condition.

### Value Acceptance Steps

1. Lender receives value acceptance + property data offer from Desktop Underwriter (DU)
2. Lender arranges for property data collection
3. Lender or service provider submits the results to Fannie Mae's Property Data Application Programming Interface (API)
4. Lender resubmits loan to DU

\*See flowchart on page 4 for more details.

### Resources

- [Valuation Modernization web page](#)
- [Selling Guide announcement](#)
- [Uniform Property Dataset web page](#)
- [Selling Guide topics:](#)
  - B4-1.1-02, Lender Responsibilities
  - B4-1.4-11, Value Acceptance + Property Data
  - A2-4.1-01, Establishing Loan Files
  - B4-1.2-03, Hybrid Appraisals

### Benefits

- Reduces origination cycle time and may reduce borrower costs
- Promotes safety / soundness by obtaining current observation of the subject property
- Provides operational simplicity and certainty at application

**Note:** Fannie Mae estimates that value acceptance (appraisal waivers) on loans sold to us saved mortgage borrowers over \$2.1 billion in 2020-2022.<sup>1</sup>

### What lenders can expect

- Lenders can expect to see a reduction in value acceptance (appraisal waiver) offers.
- The percentage of loans receiving value acceptance or value acceptance + property data offers will exceed the original value acceptance percentage for most lenders.

### Exercising value acceptance + property data

A lender may only exercise value acceptance + property data when

- the final submission of the loan casefile to DU resulted in an eligibility message for value acceptance + property data,
- property data collection is submitted to the Property Data API prior to the note date,
- an appraisal is not obtained for the transaction, and
- the offer is not more than four months old on the date of the note and mortgage.

If the value acceptance + property data offer is lost due to changes in qualifying loan characteristics after the property data was obtained, in some cases it may be possible for the lender to submit the property data to an appraiser to perform a hybrid appraisal assignment. See [Selling Guide B4-1.2-03, Hybrid Appraisals](#) for specific requirements. Alternatively, the lender may obtain a desktop or traditional appraisal report as specified by DU.

<sup>1</sup> Fannie Mae analysis based on loan delivery data from January 2020 through December 2022 using \$500 as the average appraisal cost savings.

February 2024 | 1

**FreddieMac** Loan Product Advisor® Feedback Certificate

**Assessment Summary**

Details		Affordable Product Information	
BORROWER NAME	NUMBER OF SUBMISSIONS	LP KEY NUMBER	AREA MEDIAN INCOME
MARY FREDDIE	2		\$113,700.00
			132.99%

**Assessment Summary**

PURCHASE ELIGIBILITY	RISK CLASS	Representation & Warranty Relief	COLLATERAL RISK RELIEF	INCOME RISK RELIEF	ASSET RISK RELIEF
ELIGIBLE	ACCEPT	ELIGIBLE	ACE + Property Data Report	NOT ELIGIBLE	ELIGIBLE

**Property and Appraisal Messages**

CODE	MESSAGE
PPAC167	Loan is eligible for collateral representation and warranty relief with a property data report (ACE + PDR) through 05/14/2024. The submitted value estimate or purchase price is accepted as the value of the subject property; therefore, an appraisal is not required and Seller will be relieved of representations and warranties related to value.

**Pop quiz**

## Property Data Collector Independence Requirements (PDCIR)

Who is NOT considered to be a “Restricted Party” and therefore not prohibited from having any involvement in the operations of the lender’s property data collection functions?

**Answers:**

- a) Sales production manager
- b) Loan originator
- c) Selling agent
- d) Listing agent
- e) Lender’s in-house appraiser



**Lender due diligence**

# Appraisal

**Review**

- Appraisals with high-risk characteristics (high LTVs, valuation flags, high risk scores)
- Accuracy of the data obtained
- Appropriateness of comparables selection due to location, site or physical characteristics
- Comparables for inadequate adjustments or failure to adjust
- Compliance to AIR, UAD, PDCIR & ROV

**Additional steps**

- Utilize Collateral Underwriter® or Loan Collateral Advisor® in your review
- Utilize third-party tools to identify areas of inaccuracy
- Prescribe corrective actions for defects identified
- Obtain desk review or field review
- Escalate appraisal reports found to contain unresolved unacceptable appraisal practices



## Best practices

- Maintain a zero-tolerance fraud policy for all employees, third-party lenders & vendors
- Perform an overall assessment of the file, taking into consideration the transaction at hand to ensure the loan makes sense
- Address all discrepancies
- Carefully scrutinize documentation received to resolve discrepancies
- Track findings and look for patterns
- Escalate unresolved findings to management for further investigation
- Report fraud once confirmed



# **Industry alerts**

**Be aware of  
current trends**

# Freddie Mac



## True Lies: The Lies Caught Up With Her

Liars will go to great lengths to deny wrongdoing. So what do you do when someone vehemently claims innocence, yet your suspicions remain?

[LEARN MORE →](#)

## FRAUDCAST

### PODCAST



## Fraudcast Episode 2: Investigating Suspicious IRS Transcripts

Even with trusted sources like tax returns, what you see isn't always what you get.

[→](#)



## Fraud Prevention and Best Practices

Be aware of these types of scams and schemes.

[→](#)

# Fannie Mae



Originating & Underwriting Pricing & Execution Delivering Servicing Learning Center Apps & Technology News & Events

## Learn more about mortgage fraud

### Anti-fraud partnership training series

#### Types of mortgage fraud

#### External resources

### Anti-fraud partnership training series

Our anti-fraud training tutorials offer preventative measures to keep your team informed and able to detect and prevent fraud. The tutorials can support existing policies, processes, and procedures and encourage new and more effective approaches.

- Affinity Fraud Tutorial
- Basics of Mortgage Fraud Tutorial
- Foreclosure Rescue Fraud Tutorial
- Identifying Sovereign Citizen Mortgage Fraud Tutorial
- Investment Club & Ponzi Schemes Fraud Tutorial
- Multifamily Mortgage Fraud Tutorial
- Property Flipping Schemes Fraud Tutorial
- Reverse Mortgage Fraud Tutorial
- Short Sale Fraud Tutorial
- Silent Second Loan Fraud Tutorial
- Straw Buyers Tutorial



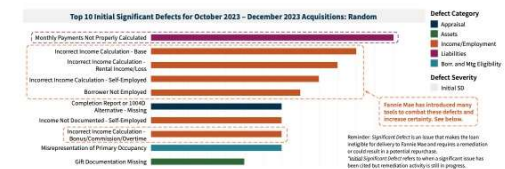
## Understand Top Defects to Help Strengthen Loan Quality

What are the top defects and trends Fannie Mae is seeing in our post-purchase loan file reviews? Understand the industry's top quality control defects and defect trends to help strengthen loan quality and support sustainable homeownership.

As you review this information ask yourself:

- **Are you taking a strategic approach to discretionary/ targeted sampling?** Is there an opportunity to use this information to enhance your discretionary/targeted sampling in both pre-funding and post-closing quality control (QC) reviews?
- **Are you leveraging defect trends to develop training opportunities for your staff?** Can your QC team get ahead of the trending defects? Develop training to prevent these defects from occurring.
- **Are you staff aware of the risks being identified in the industry?** Lenders often face many of the same challenges. Being aware of the defect trends across the industry allows for more dynamic QC, better action planning, and prevention of similar defects in your organization.

Below are Fannie Mae's top 10 **initial**\* significant defects identified in a random sampling of loans acquired in Q4 2023.



© 2024 Fannie Mae

May 2024

1

# Federal Housing Finance Agency



## FEDERAL HOUSING FINANCE AGENCY

[ABOUT](#)
[POLICY & PROGRAMS](#)
[DATA & RESEARCH](#)
[RESOURCES](#)
[NEWS](#)
[SEARCH](#)

### [For Individuals Working in the Mortgage Industry.](#)

#### Be Alert:

FHFA encourages individuals working in the mortgage industry to be alert to possible fraud schemes such as:

- Appraisal fraud by individuals misusing flexible appraisal alternatives;
- Application fraud by individuals exploiting borrower employment verification flexibility;
- Forbearance and foreclosure-rescue related fraud;
- Fraud related to property inspection and maintenance for delinquent properties; and
- Possible misappropriation of escrow funds.

#### Report Possible Fraud:

In addition to regulatory and contractual reporting requirements, individuals involved in the mortgage industry should report possible mortgage fraud to FHFA's Office of Inspector General [online](#) or at 800-793-7724.

Fannie Mae and Freddie Mac have posted additional fraud-prevention resources for individuals in the mortgage industry that are available online from:

- [Fannie Mae – Mortgage Fraud Prevention](#)
- [Freddie Mac – Client Resource Center](#)

Page Last Updated: November 1, 2023


[Contact Us](#)


### How Can We Help You

[Leave a comment](#)
[Trouble With Your Mortgage?](#)

### Want to Subscribe?

Email Address



# CoreLogic Annual Mortgage Fraud Report

## National Fraud Trends

### National Mortgage Fraud Index

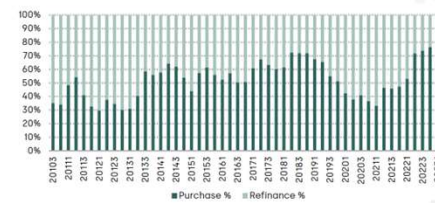
#### Risk Overview

High interest rates resulted in a second year of depressed mortgage loan levels, with 2023 Q2 application volume down 32% year-over-year. MBA's August 2023 Finance Forecast estimates closed loan originations are down 39%. Refinance volume decreased by 45% compared to a 27% decrease for purchases.

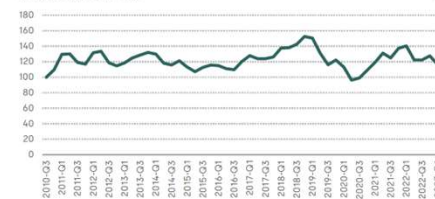
To analyze the national index, we trend the risk levels and volumes of distinguishing loan segments. Year-over-year the overall index was fairly stable, but there were interesting changes within the distinguishing segments.

- Purchase transactions as a share of overall volume have grown from 70% in Q2 2022 to 76% in Q2 2023. Purchase segments showed higher risk than refinances.
- There was a volume shift from conforming purchases (down 24%) to FHA purchases (up 14%). Both segments showed small risk decreases year-over-year, but risk levels are consistently 20% higher for FHA purchases. FHA purchase applications had a large increase in volume (over 40%) from Q1 to Q2 2023.
- Segments with increasing risk since Q2 2022 include 2- to 4-unit purchases (up 23%), 2- to 4-unit refinances (up 20%), jumbo refinances (up 7%), and jumbo purchases (up 3%).

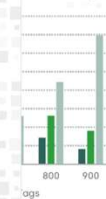
Purchase/Refinance Mix



National Fraud Index



vs Fraud Tags





**Help is available**

## **Fraud prevention resources**

**Consumer Financial Protection Bureau – Fraud and Scams**

**Federal Bureau of Investigation – Financial Institution/Mortgage Fraud**

**Federal Trade Commission – Home Loans**

**Fannie Mae – Mortgage Fraud Prevention**

**Freddie Mac – Fraud Prevention**

**Department of Housing and Urban Development – Prevent Loan Scams**

**For existing mortgages – Contact your mortgage services provider**



**Help stop fraud**

**Report findings**

**Why should I get involved?**

MORTGAGE GUARANTY  
INSURANCE CORPORATION

# Reporting mortgage fraud



**Federal Bureau of Investigation (FBI)**  
1-800-CALLFBI  
<https://tips.fbi.gov>



**Federal Trade Commission (FTC)**  
(877) FTC-HELP



**Federal Housing Finance Agency (FHFA)**  
1-800-793-7724



**Fannie Mae**  
1-800-232-6643



**Freddie Mac**  
1-800-4FRAUD8

**Pop quiz**

## What is the timeframe to complete a SAR?

Financial institutions should prepare and file a Suspicious Activity Report (SAR) with the Financial Crimes Enforcement Network (FinCEN) within \_\_\_\_\_ calendar days of initial detection.

**Answers:**

- a) 15
- b) 30
- c) 45
- d) 60
- e) 90

**Let us  
earn your  
business**

**Obtain an MI quote**

[mgic.com/MIQ](https://mgic.com/MIQ)

**Contact your MGIC account manager**

[mgic.com/contact](https://mgic.com/contact)

**Sign up for special training events**

[mgic.com/training](https://mgic.com/training)



**Thanks for  
teaming up  
with us!**

**Obtain an MI quote**

[mgic.com/MIQ](https://mgic.com/MIQ)

**Contact your MGIC account manager**

[mgic.com/contact](https://mgic.com/contact)

**Sign up for special training events**

[mgic.com/training](https://mgic.com/training)