

# 2016 GREFPAC Conference

## HUD Overview and Fraud Updates

- The Quality Assurance Division (QAD) reports all suspected cases of fraud/misrepresentation discovered during any type of loan file or lender review to HUD's Office of Inspector General (OIG).
- Unless a request to hold is made by the OIG, QAD will continue to evaluate the loan for compliance, determine if the lender is accountable, and if warranted, pursue administrative action.
- Accountability means, "Knew or should have known" the fraud/misrepresentation 'Red Flags' that are in the file.
- Review – Question – Compare – Clarify – Document
- Cross Check and Double Check to Resolve Inconsistency, Irregularity and Contradiction
- Prime areas for fraudulent information include: Occupancy, Appraisal, Assets, Credit, Income
- Occupancy
  - No real estate agent involved in the transaction;
  - Borrower's address varies from earnest money check to other documents;
  - Borrower on application is not the same as on the sales contract;
  - Commuting distance from the employment to subject property is excessive;
  - Indicates no ownership in real estate but income tax returns reveal real estate taxes and mortgage interest paid.
- Appraisal
  - Large subjective adjustments without adequate support;
  - Adjustments are inconsistent, not logical, not market supported;
  - As evidenced by photos, repairs were overlooked;
  - Appreciation in value is substantial in a short period of time;
  - Subject photos show a 'for rent' or 'for sale' sign in a refinance
- Assets
  - Bank statements appear altered, squeezed in numbers, whiteouts, cross-outs, variation in font type;
  - VOD completed same day it was sent to the depository, on a legal holiday or weekend. Unless faxed to the depository and returned to the lender by fax, the VOD can't be completed the same day considering mail time.
    - ❖ Examples
      - Borrower gifted funds from company to herself. Bank statement showed multiple transfers from an unidentified account to a CDC that the borrower is CEO and then transferred to borrower's personal account;
      - Borrower's LOX for large deposits from AT&T payable to apartment complexes, state they were commission checks, but no commission income shown on pay stubs or VOE. Why would commission checks be made out to an apartment complex?
- Credit
  - Credit report dated prior to the loan application;
  - No credit history on borrower of the age to have a credit history;
  - Does credit history make sense?
  - Recently issued SSN – validate with SSA;
  - Undisclosed debt typically discovered in the re-verification;

- Remember to check all sections of FraudGuard report not just the alerts.
- Income
  - Whiteouts, cross-outs, and alterations of information;
  - Paystubs or W-2s appear altered or fabricated. Different font, size, shading, handwritten, unusual marks/lines, no name/address of employer, dates don't match pay schedule, bank statement doesn't reflect any deposits that match pay stubs, net pay figure incorrect when total deductions are subtracted from gross pay;
  - Calculation (including FICA and Medicare) are incorrect – spot check;
  - W-2 income significantly different than pay stub or VOE;
  - VVOE obtained using phone number provided by borrower, which was not confirmed by an independent source;
  - VVOE falsified by loan officer or loan processor;
  - Would a paid tax preparer hand write the return?
  - If interest income is claimed, is it in line with assets?

#### Servicing 'Red Flags'

- Loan Modification – becoming the most prevalent fraud being self-reported by lenders
  - Employment/income misrepresentation – Co-borrower claimed to be unemployed, yet there were payroll deposits;
  - Understated income- YTD figures not adding up;
  - Asset misrepresentation;
  - Occupancy misrepresentation – borrower claimed to be living in subject property, however, credit report and pay stubs support borrower wasn't living in subject when he applied for loan modification;
  - Third party cut and paste borrower's signature on loan modification request
- Credit repair scheme – borrower claimed identity theft and demanded loan be removed from credit report. Lender contacted police department and was advised the police report had not been issued. Similar signature on police report as on original loan documents and documents provided on claim.

The Quality Assurance Divisions sees all kinds of fraud/misrepresentation. We find out a lot through re-verifying documents and contacting borrowers.

Although the borrower is complicit in misrepresenting facts, the lender is the professional and shouldn't continuously get blindsided by the borrower. Lenders should not accept documents at face value without validating. Pre-closing verbal verification of employment may be the answer to the borrower who will falsely certify on the final URLA that everything on the application is accurate, knowing full well they quit their job before closing on the loan.

Lenders must be held responsible for the actions of their employees, including the loan officer/processor who signs documents to save time, instead of waiting for the borrower to come in to sign the documents.