

UNDERWRITING RED FLAGS

There are many items in a loan file that could cause an underwriter to become concerned with the type of documentation or the quality of the file. The following are common “red flags” underwriters look for when underwriting a file. As you process the file, look for some of the same “flags” so you may adequately document the file and improve underwriting times.

LOAN APPLICATION:

- Significant increase in commute distance
- New housing not large enough to accommodate all occupants
- Buyer is down-grading from larger to smaller home (except empty-nesters)
- Buyer currently resides in property (purchasing from landlord)
- Buyer intends to rent/sell current residence with no documentation
- Down payment other than cash
- Stocks, bonds (liquid assets) not publicly traded (may be closely held corporation)
- Face (not cash surrender) value of life insurance policy shown as liquid asset
- Personal property value exceeds one year's salary or high income buyer has no personal property
- New housing expense exceeds 50% of current housing expense
- Inappropriate salary with respect to amount of loan
- Invalid social security number
- High income/no credit
- High income, no other real estate owned and renter for substantial period of time
- Stock broker who does not own stock
- High income/finance company, furniture rental debt
- Self-employed but no entertainment – type credit cards
- Low income or young buyer with substantial cash in bank
- High income/little or no cash in bank
- Buyer has checking account but says source of funds is “cash on hand” due to not believing in banks
- Handwritten application shows no debt but typed application does
- Information on application inconsistent with other loan documents --- credit report vs VOE vs VOD, etc.
- Inconsistent buyer signature or handwriting throughout file

- Same person appearing throughout file such as landlord, seller, buyer, employer the same
- Excessive cash deposit

VERIFICATION OF EMPLOYMENT (VOE):

- Current and prior employment overlap
- Round – dollar amount
- Date of hire is weekend or holiday (per perpetual calendar)
- Income is primarily commissions (self employed)
- Employer uses mail drop or Post Office Box address
- Borrower changed profession from previous to current employer
- Illegible signature with no further identification
- Business entity not in good standing or registered with applicable regulatory agencies
- Co-borrower maiden name same as signature of employer (self employed)
- VOE completed same day as ordered
- VOE says company car and application shows auto loan
- Whiteouts, crosscuts
- “Squeezed – in” numbers
- If VOE not creased (folded), may have been hand carried
- Income out of line with type of employment

VERIFICATION OF DEPOSIT (VOD):

- Cash in bank not sufficient to close
- New bank account (verify previous)
- Round dollar amounts (especially on interest – bearing accounts)
- Gift letter which is not backed up by VOE's
- Closing check drawn on different bank
- Buyer has no accounts (doesn't believe in banks) but VOD in file
- IRA shown as liquid asset
- Loan secured by checking or savings account
- Illegible signature with no further identification
- Significant changes in balance from prior two months to date of verification
- Source of funds consists of (unverified) note, equity exchange, sale of residence
- Excessive balance in checking account

- Date of verification by bank is weekend or holiday (per perpetual calendar)
- VOD completed same day as ordered
- Whiteouts, crosscuts
- "Squeezed – in" numbers
- If VOD not creased (folded), may have been hand carried
- Post Office Box for depository if not typical for area or company
- Checking accounts with average two – month balance exactly equal to present balance

APPRAISAL:

- Ordered by any party to transaction (Buyer, Seller, Realtor)
- Comps not verified as recorded (data source MLS, Sales Office, Real Estate Agent, etc.)
- Tenant shown to be occupant on owner-occupant application
- Income approach not used on tenant-occupied SFD's
- Excessive adjustment in urban or suburban area where marketing time is under six months.
- Distance of comps
- Comparison of square footage to value
- Photos do not match description of property
- High land value in urban areas
- Undesignated appraiser
- Appreciation in stable or declining area
- "For Sale" or "For Rent" signs in yard or windows
- Appraiser located outside of subject property

TITLE SEARCH:

- Tax or similar liens against buyer
- Delinquent property tax

CREDIT REPORT:

- No credit (possible use of alias)
- Variance in employment or residence data

- Several recent inquiries from credit card companies or other mortgage lenders
- Invalid social security number (see attached)
- Length of time on file inconsistent with buyer's age
- Co-buyer's maiden name shows data different from application
- Age over 25 years with no credit history
- Personal data not consistent with handwritten application
- If late pays due to unemployment because of illness or layoff, is VOE income less during this period?

CLOSING INSTRUCTIONS:

- Cash paid outside escrow
- Down payment paid into escrow upon opening
- Reference to another (double) escrow
- Related parties
- Unusual credits with no economic substance
- Right of Assignment
- Power of Attorney
- Seller is corporate (except for developers, RELO Companies, or REO)

SALES CONTRACT:

- Seller is Realtor, relative, or employer
- No Realtor
- Lease-option
- Price substantially below market value
- Second Mortgage
- Deposit checks have inconsistent dates
- Check #1324 dated July 20th
- Check #1323 dated August 24th
- Name and address on deposit check different from buyer
- Deposit check not cashed

PAYROLL CHECKSTUBS:

- Debts reflected as deduction from pay (credit union loans, etc. not disclosed on loan application)

MISCELLANEOUS:

- Require all borrowers to sign release of tax information form
- Do not accept incomplete handwritten applications
- Call borrower at work and at home at least once during loan processing
- Call employer on closing date to verify still employed
- Run in-file credit report on closing date to check for additional incurred debt

TAX RETURNS:

- Real estate taxes and/or interest paid buy no rental or owner-occupied property on application (or vice-versa)
- Amount of source of income disagrees with other information in loan file
- No dividends on stock
- Substantial cash in bank with no related interest income
- Gross income does not agree with total income on W-2's or 1099's
- Buyer shows interest expense but no related liability (business loans with personal liability)
- Buyer takes depreciation deduction for Real Estate not disclosed (or vice-versa)
- Net income from rents plus depreciation does not equal cash flow as submitted by buyer
- Additional properties listed but not on loan application
- Buyer shows partnership income (may be liable as general partner for partnership's debts)
- Invalid employer ID # on W-2's
- FICA and local taxes (where applicable) exceed ceilings
- Copy submitted is not "employee's copy"
- Different tax preparer each year
- Low income employee used tax preparer for 1040 short form
- If previous year shows preparer, is fee paid deducted on following year's return?

- Paid preparer hand-writes tax return
- No interest expense; however, credit outstanding
- Dependents on loan application but not on tax return or vice-versa
- No salaries paid on non-service self-employed P & L
- No cost of goods sold on retail or similar operations
- Address and occupation differs from application
- W-2 from large corporation hand-written
- Social security number on return different from application or credit report