

Misrepresentation of Borrower Employment Scheme (July 2018)

Fannie Mae's Mortgage Fraud Program (MFP) alerts the industry to potential and active mortgage fraud scenarios. This Alert addresses a scheme containing borrower profiles and Red Flags common to our previous Fraud Alert. The primary difference is a geographic expansion of the fraudulent activity to *Northern* California. Contained in this alert you will find:

- 10 new purported employers
- Northern California venues
- A commonality to those loans addressed in the Fraud Alert released May 24, 2018 (updated June 28, 2018)

Loan common denominators / characteristics

Fannie Mae's Mortgage Fraud Program has identified several entities listed on loan applications as places of employment that appear to be fictitious.

The following list of employers contains 10 entities / businesses that were listed as the borrower's purported place(s) of employment but whose existence Fannie Mae could not confirm.



This list is as of July 31, 2018, and is subject to change:

		1	1
Collins Software Engineering	Redwood Highway	San Rafael	CA
Modern RF Circuits	Oakland Road	San Jose	CA
Periodic Network Systems	Scotts Valley Drive	Scotts Valley	CA
Solo Welding and A/C Repair Co.	W. Larch Road	Tracy	CA
Wyntron Micro Systems	G Street, Suite E	Merced	CA
Metroniks Wire Technologies	W. Olive Street, Suite 1	Madera	CA
Salam Imports Bay Area	Old Glory Street	Gilroy	CA
Lucero Pro Systems	Hellyer Avenue	San Jose	CA
Argo Physical Med Devices	Leveroni Court	Novato	CA
Advanced Pacific Cardiology Systems	Lincoln Avenue	Calistoga	CA

Red flags

- TPO / broker loans
- Originated 2015–2018 (present)
- Employment (occupation) does not "sensibly" coincide with borrower's profile (age or experience)
- Northern California (geographic common denominator)
- Borrower on current job for short period of time
- Prior borrower employment shows "Student"
- Starting salary appears high
- Purported employer does not exist



- Employer's purported location cannot be ascertained
- Paystub templates are similar for various employers across other (involved) loan files
- Paystubs sometimes lack typical withholdings (health, medical, 401(k), etc.)
- Gift letters are substantial and are not (or cannot be) supported through re-verification

What can lenders do?

Prudent origination, processing, and underwriting practices should include looking for red flags in the loan documents that raise questions about the transaction. Verify that the borrower's place of employment actually exists and obtain supporting documentation. If one of these entities is disclosed as the borrower's place of employment, exercise due diligence in reviewing the entire loan file. Lenders must exercise caution in these situations and take appropriate steps to prevent the institution from being the victim of fraud.

If suspicion of fraud exists

- Follow established policies and procedures within your organization and the Fannie Mae Selling Guide.
- Follow the "Report Mortgage Fraud" instructions 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.
- 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 ring by monitoring the <u>Mortgage Fraud Prevention web page</u>.

See Red Flag exhibits on next page.



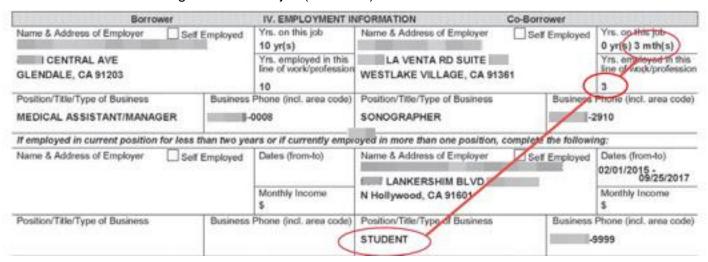
Misrepresentation of Borrower Employment Scheme: Exhibits

The following exhibits provide examples of red flags that may indicate fraudulent documentation.

Exhibit A: Non-sequential Employment Timeline

Note on the below employment documentation:

- Employer and place of employment do not exist (section IV).
- Prior employment is listed as student (section IV).
- Employment timeline does not make sense (section IV).
- Income does not align with time on job (section V).



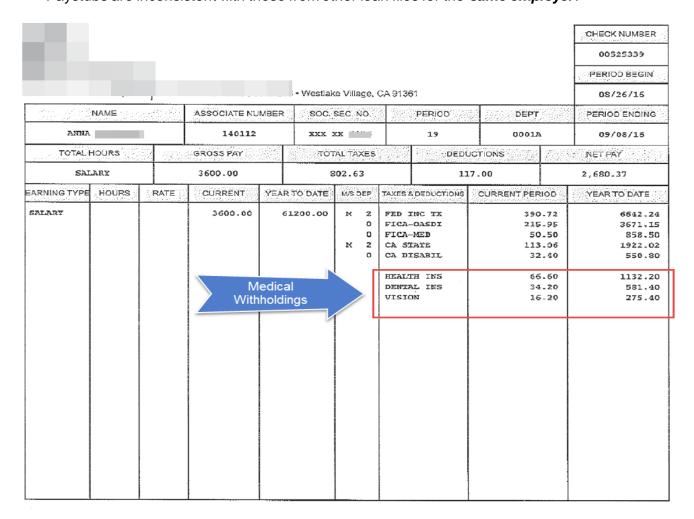
Gross Monthly Income	Borrower	0	o-Borrower		Total	Combined Monthly Housing Expense	2/5	Present	Proposed
Base Empl. Income*	\$ 1,672.00	\$ (8,978.00	\$	10,650.00	Rent	\$	2,115.57	
Overtime						First Mortgage (P&I)			\$ 3,248.85
Bonuses						Other Financing (P&I)			
Commissions						Hazard Insurance			80.00
Dividends/Interest						Real Estate Taxes			739.58
Net Rental Income	23.00			3	23.00	Mortgage Insurance			315.95
Other(before completing,						Homeowner Assn. Dues			
see the notice in "describe other income," below)						Other:			
Total	\$ 1,695.00	\$	8,978.00	\$	10,673.00	Total	\$	2,115.57	\$ 4,384.38



Exhibit B: Generic Paystubs

Note on the below employment documentation:

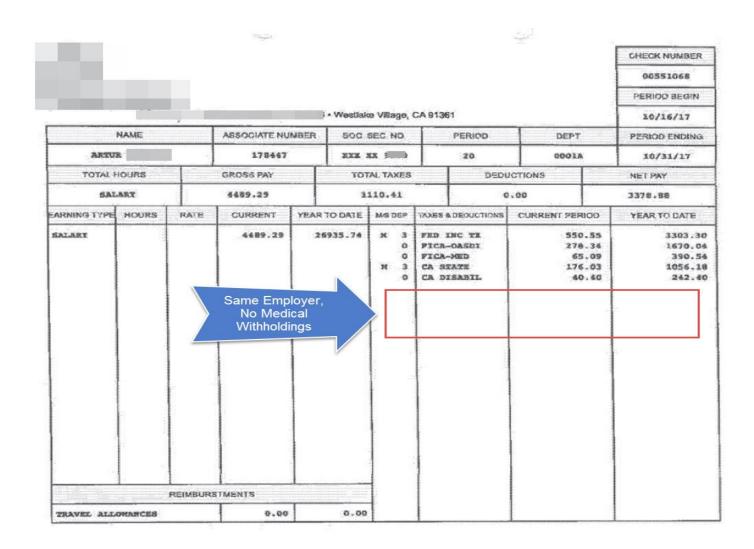
- Paystubs are generic.
- Paystubs are inconsistent with those from other loan files for the same employer.





CHECK NUMBER	CHECKDATE
00525339	09/16/16
	NET PAY
	2680.37







CHECK NUMBER	CHECK DATE	NET PAY
00551068	11/01/17	3378.88
		CHECK AMOUNT
		3378.88



Exhibit C: Gift Letters

Note on the below employment documentation:

Substantial gift letters for down payment

CIET I ETTER

I, (Donor) (1) I have made a gift of \$ 30,000 (Recipient) Whose relationship is: RROTHER Applicant(s): Applicant(s): Loan Number: LUSINE
(1) I have made a gift of \$ 30,000 (Recipient) Whose relationship is: BROTHER (Relationship) GIFT LETTER
Whose relationship is: BROTHER (Relationship) GIFT LETTER
Applicant(s): Loan Number: LUSINE
I, do hereby certify the following:
No. 400001
(1) I have made a gift of \$ 36,000 to LUSINE
Whose relationship is COUSIN (Relationship)
GIFT LETTER
Applicant(s): N Loan Number: LUSINE
I, TIGRAN, do hereby certify the following:
(1) I have made a gift of \$ 22,000 (Amount) to LUSINE (Recipient)
Whose relationship is: COUSIN (Relationship) (2) This gift is to be applied toward the purchase of the property located at:

RESEDA, CA 91335 (Property Address)