

RED FLAGS AND RISK FACTORS FOR MORTGAGE BROKERS AND LENDERS

COMMON RED FLAGS FOR MORTGAGE LOANS

Red flags can be considered as examples of potential suspicious activity. However, it is important to note that just because you may identify a red flag, it does not necessarily mean that criminal activity has occurred. What it does mean is that further scrutiny may be necessary. Your responsibility is simply to report the suspicious activity as per your organization's procedures. More than likely, the compliance officer will determine if a SAR should be filed.

The following instances of misinformation are considered common red flags and may trigger a staff member report to the compliance officer:

- Self-employment discrepancies
- Employment/income documentation discrepancies
- Source of funds for closing discrepancies – certificate of deposits, money orders, large cash deposits, large deposits/wire transfers
- Frequent and repeated problem loan payoff(s)
- Change of employment or incurring additional debts after application, but before closing
- Occupancy misrepresentation to conceal owner-occupied, investment or second home status
- Handwriting/signature discrepancies
- Excessive real estate commission
- Non-arms-length transaction

COMMON RISK FACTORS FOR MORTGAGE LOANS

The compliance officer should develop a risk assessment to measure the level of AML compliance risk for the company.

The following loan types may result in a greater risk for potential fraud when compared to other types of loans:

- Reverse Mortgages
- Cash-out Refinances
- 100% LTV Mortgages
- Investment (NOO) Mortgages
- Low-Doc, No-Doc, Stated Income Mortgages
- HELOCs

The following loan aspects may result in a greater risk for potential fraud when compared to loans without the same features:

- Self-employed borrowers
- Mortgages leasing the current home
- Mortgages using all gift funds/DPA

OTHER RESOURCES:

Fannie Mae – Mortgage Fraud Prevention Page and Common Red Flags:

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

<https://singlefamily.fanniemae.com/media/18531/display>

Based on the FFIEC BSA/AML Examination Manual, Appendix F, here are examples of higher level red flags of which you need to be aware as you work with customers and/or process loan requests:

Customers Who Provide Insufficient or Suspicious Information

- A customer uses unusual or suspicious identification documents that cannot be readily verified.
- A customer provides an individual taxpayer identification number after having previously used a Social Security number.
- A customer uses different taxpayer identification numbers with variations of his or her name.
- A business is reluctant, when establishing a new account, to provide complete information about the nature and purpose of its business, anticipated account activity, prior banking relationships, the names of its officers and directors, or information on its business location.
- A customer's home or business telephone is disconnected, not found on the internet or by other research resources.
- The customer's background differs from that which would be expected based on his or her business activities.
- A customer makes frequent or large transactions and has no record of past or present employment experience.
- A customer is a trust, shell company, or Private Investment Company that is reluctant to provide information on controlling parties and underlying beneficiaries. Beneficial owners may hire nominee incorporation services to establish shell companies and open bank accounts for those shell companies while shielding the owner's identity.

Funds Transfers

- The customer has unexplained or sudden extensive money service activity, especially when they had little or no previous activity.
- The customer has many wire transfers to unrelated third parties inconsistent with the customer's legitimate business purpose.
- Many funds transfers are sent in large, round dollar, hundred, or thousand-dollar amounts.
- Many small, incoming transfers of funds are received, or deposits are made using checks or money orders. Almost immediately, all or most of the transfers or deposits are wired to another city or country in a manner inconsistent with the customer's business or history.
- Funds transfer activity is unexplained, repetitive, or shows unusual patterns.
- Funds transfers are sent or received from the same person to or from different accounts.
- Funds transfers contain limited content and lack related party information.

Activity Inconsistent with the Customer's Business if customer holds ownership in a business entity and documentation is required to open the account)

- A business or customer asked to be exempted from reporting or recordkeeping requirements.
- The currency transaction patterns of a business show a sudden change inconsistent with normal activities.
- A retail business has dramatically different patterns of currency deposits from similar businesses in the same general location.
- Unusual transfers of funds occur among related accounts or among accounts that involve the same or related principals.
- Goods and services purchased by the business do not match the customer's stated line of business.
- Payments for goods or services made by checks, money orders, or bank drafts not drawn from the account of the entity that made the purchase.

Lending Activity

- Loans secured by pledged assets held by third parties unrelated to the borrower.
- Loan secured by deposits or other readily marketable assets, such as securities, particularly when owned by apparently unrelated third parties.
- Borrower defaults on a cash-secured loan or any loan that is secured by assets which are readily convertible into currency.
- Loans are made for, or are paid on behalf of, a third party with no reasonable explanation.
- To secure a loan, the customer purchases a certificate of deposit using an unknown source of funds, particularly when funds are provided via currency or multiple monetary instruments.
- Loans that lack a legitimate business purpose, provide the bank with significant fees for assuming little or no risk, or tend to obscure the movement of funds (e.g., loans made to a borrower and immediately sold to an entity related to the borrower).
- Funds are sent or received via international transfers from or to higher-risk locations.

Employees

- Employee exhibits a lavish lifestyle that cannot be supported by his or her salary.
- Employee fails to conform to recognized policies, procedures, and processes, particularly in private banking.
- Employee is reluctant to take a vacation.
- Employee overrides a hold placed on an account identified as suspicious so that transactions can occur in the account.

Other Unusual or Suspicious Customer Activity

- Customer repeatedly uses a bank or branch location that is geographically distant from the customer's home or office without enough business purpose.
- The stated occupation of the customer is not commensurate with the type or level of activity.
- A customer obtains a credit instrument or engages in commercial financial transactions involving the movement of funds to or from higher-risk locations when there appear to be no logical business reasons for dealing with those locations.
- Customer makes high-value transactions not commensurate with the customer's known incomes.