



How to Avoid Potential Underwriting Pitfalls

PROBLEM/SITUATION

UNDERWRITER'S BEST COURSE OF ACTION

Borrower Not Employed at Time of Loan Closing

- Check Verbal VOE obtained prior to close for additional comments that indicate borrower is leaving position.
- Verbal VOE within 10 days is not always enough. Reconfirm employment again on the closing date. Automated VOEs (e.g., The Work Number) do not always reflect up-to-date employee records; they may be up to two months old.

Income Continuity Not Acceptable

- If borrower's income comes from a variety of sources or employers, ensure that the aggregate income trend is reasonable.
- Assess how borrower's income history may have been impacted by COVID-19.
- Carefully validate large increases in salary that occur just before loan application or in new tax year.

Unacceptable Income Documentation

- Watch for manually completed VOE forms from employers who typically verify through The Work Number or other third-party verification services.
- Review for signs of undisclosed self-employment such as lack of withholdings on paystubs or rounded year-to-date income figures.
- Carefully review documentation for signs of employment by family members.
- Investigate borrowers who recently transitioned from self-employment to being a wage earner.

Potentially False Lease Agreements

- These impact qualifying Debt-to-Income ratio (DTI) and Occupancy.
- Ensure other documents support the validity of lease and the actual receipt of lease income.

Occupancy Not Supported

- Pursue all Occupancy red flags.
- Look for inconsistencies in documentation.
- Obtain and carefully scrutinize motivation letters.
- Ask whether the move to a new home makes sense.
- Carefully scrutinize documentation on leases for departing residences. Use due diligence tools to identify if lessee is somehow related to the borrower. Review homeowner insurance documents to confirm borrower intends to occupy.

PROBLEM/SITUATION**UNDERWRITER'S BEST COURSE OF ACTION****Undisclosed Debts**

- Run a supplemental credit report.
- Check for outstanding tax liens and other civil judgments that likely will not appear on borrower's credit report.
- Obtain a fraud detection report (from DataVerify, CoreLogic® or others), which can provide alerts for new debts.

Undisclosed Significant Derogatory Credit History

- Obtain fraud reports through aggregate data providers such as DataVerify or CoreLogic.

Property Not Complete

- If Appraisal is "subject to" completion or repairs, obtain 1004D confirming completion.

Property Condition Not Acceptable

- C5 and C6 Condition ratings are not acceptable.
- Read Appraiser comments for potential issues regarding property's safety and soundness.
- Review sales contract for potential issues or conditions related to property's safety, soundness and structural integrity.

Undocumented Large Deposit

- Obtain documentation from borrower that explains all large deposits.

Unacceptable Gift

- Carefully scrutinize all gift documentation to ensure consistency.
- Question donor's relationship to borrower, seller or other parties in transaction.

Potential Asset Fraud

- Carefully scrutinize all asset documentation to ensure consistency.
- Bank statements are easily altered; look for inconsistencies, not only in the balances but in the statement verbiage and individual transactions.
- Assess whether account balances are consistent with borrower's profile.

Legal U.S. Residency Not Confirmed

- If borrower does not claim to be a U.S. citizen, obtain all documents required to prove borrower is legally permitted to own a home in the U.S.

Social Security Number Not Validated

- Confirm Social Security Number (SSN) is valid.
- Investigate all other SSNs that may be tied to the borrower on the credit report.

Non-Arm's Length Transactions

- When the borrower has a relationship (either personal or professional) with another party in the transaction, additional scrutiny and due diligence are required to determine if the transaction is legitimate.

General Due Diligence

- Invest in due diligence reports to confirm any discrepancies not disclosed by borrowers. Liens, foreclosures, bankruptcies are not reported on credit reports but are on due diligence reports.
- Use social media to investigate discrepancies. Facebook, LinkedIn and other social media sites offer many clues when doubts exist. Even a simple Google search of the borrower may reveal additional information to assist in your investigation.