



# How to Avoid Potential Underwriting Pitfalls

## PROBLEM/SITUATION

## UNDERWRITER'S BEST COURSE OF ACTION

### Member Not Employed at Time of Loan Closing

- Check Verbal VOE obtained prior to close for additional comments that indicate member 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 member's income comes from a variety of sources or employers, ensure that the aggregate income trend is reasonable.
- Assess how member'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 members 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 member.
- Review homeowner insurance documents to confirm member 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 member that explains all large deposits.

**Unacceptable Gift**

- Carefully scrutinize all gift documentation to ensure consistency.
- Question donor's relationship to member, 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 member's profile.

**Legal U.S. Residency Not Confirmed**

- If member does not claim to be a U.S. citizen, obtain all documents required to prove member 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 member on the credit report.

**Non-Arm's Length Transactions**

- When the member 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 members. 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 member may reveal additional information to assist in your investigation.