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:

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

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 Mortgage Fraud Prevention web page.

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).

<table>
<thead>
<tr>
<th>Borrower</th>
<th>Co-Borrower</th>
<th>Total</th>
<th>Present</th>
<th>Proposed</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1,672.00</td>
<td>$8,978.00</td>
<td>$10,650.00</td>
<td>$2,115.57</td>
<td>$3,248.85</td>
</tr>
<tr>
<td>Overtime</td>
<td>First Mortgage (P&amp;I)</td>
<td></td>
<td>$3,248.85</td>
<td></td>
</tr>
<tr>
<td>Bonuses</td>
<td>Other Financing (P&amp;I)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commissions</td>
<td>Hazard Insurance</td>
<td></td>
<td>$80.00</td>
<td></td>
</tr>
<tr>
<td>Dividends/Interest</td>
<td>Real Estate Taxes</td>
<td></td>
<td>$739.58</td>
<td></td>
</tr>
<tr>
<td>Net Rental Income</td>
<td>Mortgage Insurance</td>
<td></td>
<td>$315.95</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>Homeowner Assn. Dues</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>Other</td>
<td></td>
<td>$2,115.57</td>
<td>$4,384.38</td>
</tr>
</tbody>
</table>

Gross Monthly Income

V. MONTHLY INCOME AND COMBINED HOUSING EXPENSE INFORMATION
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.
<table>
<thead>
<tr>
<th>EARNING TYPE</th>
<th>HOURS</th>
<th>RATE</th>
<th>CURRENT</th>
<th>YEAR TO DATE</th>
</tr>
</thead>
<tbody>
<tr>
<td>SALARY</td>
<td>4489.29</td>
<td>36935.74</td>
<td>550.55</td>
<td>20503.30</td>
</tr>
<tr>
<td>REIMBURSEMENTS</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
</tbody>
</table>

**REIMBURSEMENTS**

<table>
<thead>
<tr>
<th>CHECK NUMBER</th>
<th>CHECK DATE</th>
<th>NET PAY</th>
</tr>
</thead>
<tbody>
<tr>
<td>00551068</td>
<td>11/01/17</td>
<td>3378.88</td>
</tr>
</tbody>
</table>

Same Employer, No Medical Withholdings
Exhibit C: Gift Letters

Note on the below employment documentation:

- Substantial gift letters for down payment

**GIFT LETTER**

Applicant(s): [Redacted]

Loan Number: [Redacted]

I, [Redacted], do hereby certify the following:

(1) I have made a gift of $36,000 to [Redacted].

Whose relationship is: [Redacted].

**GIFT LETTER**

Applicant(s): [Redacted]

Loan Number: [Redacted]

I, [Redacted], do hereby certify the following:

(1) I have made a gift of $36,000 to Lusine [Redacted].

Whose relationship is: Cousin [Redacted].

**GIFT LETTER**

Applicant(s): [Redacted]

Loan Number: [Redacted]

I, [Redacted], do hereby certify the following:

(1) I have made a gift of $22,000 to Lusine [Redacted].

Whose relationship is: Cousin [Redacted].

(2) This gift is to be applied toward the purchase of the property located at: [Redacted].