

Red Flags

This document is intended to be a tool to help you identify loans with red flags. These are loans that contain significant errors related to the loan program including parameters, data accuracy, necessary documentation and/or misrepresentation. Loans that contain a significant risk factor, layered risks or deviations from program guidelines not adequately offset with other compensating factors or documented within the underwriting decision.

Loan Category	Examples
- Applies to All Loans	
Assets	<ul style="list-style-type: none"> ▪ Insufficient asset documentation to verify sufficient funds to close. ▪ Large deposits not documented or addressed, and funds are needed to close. ▪ Funds for closing from unacceptable source (e.g., unacceptable unsecured loan). ▪ Escrow deposit clearing borrower's account has not been verified, resulting in insufficient funds to close.
Credit	<ul style="list-style-type: none"> ▪ All credit reports and/or supplements not included in file. ▪ Credit report data inconsistent with other file documentation. ▪ Judgements not paid off at closing – (e.g., \$10,000 judgement on credit report not addressed or paid off). ▪ Additional derogatory credit information not reflected in credit report.
Debt	<ul style="list-style-type: none"> ▪ All debts not included in ratios resulting in excessive ratios shifting the loan to a "refer" or manual underwrite. <ul style="list-style-type: none"> – Ratio impacts on a buydown. – Not including lease payment in debt when payment has less than 10 months remaining. – Not including deferred student loans when repayment begins in less than 12 months.
Employment	<ul style="list-style-type: none"> ▪ Employment not verified (i.e., missing VOE or pay stub). ▪ Employment not accurately identified (e.g., self-employed).
Gift	<ul style="list-style-type: none"> ▪ Evidence of gift funds (Gift Letter) missing. ▪ Evidence of availability and/or transfer of gift funds from the donor missing. ▪ Evidence containing proof of receipt or gift missing.
Income	<ul style="list-style-type: none"> ▪ Income documentation insufficient to determine income (e.g., missing pay stubs, W2s or tax returns when required). ▪ Income calculated incorrectly resulting in excessive ratios shifting the loan to a higher risk loan <ul style="list-style-type: none"> – Not averaging overtime income over sufficient timeframe per guidelines. – Rental income incorrectly calculated.
Misrepresentation	<ul style="list-style-type: none"> ▪ Borrower not employed at employer stated on application when validated at closing. ▪ Borrower using incorrect social security numbers.
Critical Documents Missing	<ul style="list-style-type: none"> ▪ Underwriting conditioned for proof of sale of present home and HUD1 not provided. ▪ Expired documentation in file.
Layered Risk	<ul style="list-style-type: none"> ▪ Derogatory credit quality (borrower's inability to manage credit), in addition to unstable employment (borrower's employment /income history); in addition to debt ratios outside of the recommended guidelines; all present in the transaction. ▪ Layered risks in categories such as; credit, capacity, assets, and collateral can impact the borrower's motivations/capacity to repay the mortgage. <p><i>Some examples include:</i></p> <ul style="list-style-type: none"> ▪ Unacceptable credit history on refers. ▪ Incomplete documentation to exclude debt resulting in excessive ratios on high risk loan.