

Emerging fraud trends – false stated income

Becoming increasingly more common in the mortgage industry are the stories of borrowers losing their homes and, in some cases, their financial stability due to various types of fraud schemes taking place in today's market. Take, for example, the case of a husband and wife qualifying for multiple investment properties using false stated income. In this instance, their incomes did not appear to be reasonable for their respective employment positions, and further investigation revealed that the incomes used for qualifying purposes were indeed false. In an interview, the borrowers insisted that the incomes stated were true and accurate.

What is false stated income fraud?

A stated income loan is a loan where the income that is put on Form 65, *Uniform Loan Application*, is not fully verified. A falsely stated income loan is any loan originated under a program in which the borrower's income has been misstated for qualification purposes.

The borrower may or may not be aware of the fraudulent income on their Form 65. In other instances, the borrower may know he is being qualified for a stated income loan, but does not thoroughly inspect the final Form 65 at closing to ensure the accuracy of the information on it.

Protecting all parties involved in a false stated income fraud

Stated income loans can be problematic if it is later determined that the stated income was misstated and that the originator knew or should have known about it earlier in the process. Operationally, this program requires the originator to take the borrower's word that the income stated on Form 65 is true and accurate. Ordinarily, the employment or source of income will be the only item verified with respect to income. Institutions that fund and purchase stated income loans, including Freddie Mac, have guidelines addressing these types of loans. Strict adherence to these guidelines is important.

The following suggestions are offered to protect all parties engaged in the origination of stated income loans:

- › Ensure the most seasoned underwriters on your team underwrite stated income loans.
- › Review the borrower's age, education, experience and position, against the income listed on Form 65. Ask yourself, if given these characteristics, does the borrower's stated income make sense?
- › Evaluate the borrower's accumulation of assets. Do the assets mesh with borrower's earnings history? Is a company CEO earning \$20,000 per month driving a high-end model Mercedes or an 80's model Chevrolet?
- › Consider the borrower's debt. Does the stated income make sense with the borrower's monthly obligations as well as previous financial obligations?
- › When in doubt, refer to online tools and databases that provide income and employment data by zip code. While not definitive, these types of tools can indicate whether the stated income is at least in the range for the position held. For example, it may not make sense for a borrower with minimal experience who works in a particular field to already be earning more than 85% of what others earn working in the same field in the given zip code.
- › If a W-2 wage earner is qualifying under a stated program because he or she has additional income that is not documented, Form 65 should specifically state which portions of the borrower's income are earned from which source.
- › If the borrower does not qualify based upon traditional income documentation (W-2's, pay stubs, etc.), the originator may not then place the borrower into a stated income loan program.
- › The income of a non-qualifying spouse or partner should never be added to the borrower's income for qualifying purposes under a stated income program.

None of these underwriting practices are a perfect solution, and none will catch everything that a false stated income fraud scheme entails. However, the most important thing you can do is educate yourself and your staff so that you are able to recognize some of this particular scheme's 'red flags' and inform your borrowers about what to look for to avoid this type of mortgage fraud.