

Section 1.05a – Occupancy Misrepresentation – Red Flags

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Overview

General

- This section provides tools to help identify potential fraudulent indicators for borrower occupancy misrepresentation. The red flags provided will assist in identifying a leading fraud category that is used to conceal a borrower's occupancy intent.
 - Inconsistencies in the loan file are often indicators that the file contains misrepresentations. One or more of these "red flags" does not necessarily indicate fraudulent intent; however, several red flags may signal a fraudulent transaction.
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Related Bulletins

General

Related bulletins are provided below in PDF format. To view the list of published bulletins, select the applicable year below.

- [2020](#)
- [2018](#)
- [2015](#)
- 2014

Note: There were no related bulletins published in 2014, 2016, 2017, and 2019.

Occupancy Misrepresentation – Red Flags

General

- Occupancy misrepresentation is a leading fraud category used to conceal a borrower's intent to finance investment property. It involves the misrepresentation and/or concealment of specific facts, by the borrower, to qualify for the loan on an investment property and/or obtain better loan terms typically associated with a primary residence or second home. The borrower intends to repay the loan, but typically does not occupy the property as a primary residence or second home, as represented.
 - Inconsistencies in the loan file are often indicators that the file contains misrepresentations. One or more "red flags" does not necessarily indicate fraudulent intent, however, several red flags may signal a fraudulent transaction.
 - All parties are responsible for diligence in identifying and resolving red flags within the loan file.
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Occupancy Red Flags – Purchase Transactions

- Unrealistic commute from subject property to employment (owner occupied transaction – distance too far).
 - If relocation, continued employment is unreasonable.
 - Downgrading to a smaller or less expensive home yet retaining current residence as a rental property (no evidence of empty nest).
 - Borrower is purchasing property from landlord, family member, or employer.
 - Contract is not consistent with 1003 (Purpose or Declarations).
 - Homeowner's insurance is a rental policy (see declarations page).
 - Loan purpose is second home purchase yet borrower does not own a current residence.
 - Loan purpose is a second home, yet the borrower is utilizing gift funds to purchase.
 - The borrower has no prior homeownership experience, is purchasing an investment property, and will be relying on future rents to qualify.
 - Loan purpose is a second home, yet there is evidence the borrower may not have exclusive control of the subject property's occupancy.
 - Loan purpose is a second home, yet the borrower's profile (to include income and assets) indicates a probably financial strain with the expected upkeep of a second home.
 - Unrealistic distance from current residence to subject property second home (distance too close).
 - Sales contract is subject to an existing lease or property management agreement.
 - Evidence the buyer information was changed or altered on the sales contract.
 - Homeowner's insurance does not include personal property/contents coverage or the insured property and mailing address are different.
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Occupancy Misrepresentation – Red Flags, Continued

Occupancy Red Flags – Refinance Transactions

- Borrower's credit documents (i.e., tax returns, pay stub, bank statements, credit report, etc.) reflect a different address.
 - Borrower's tax returns reflect the subject property as a rental property on the Schedule E of the IRS tax return.
 - Appraisal report and associated photos indicates that occupant is "tenant" or "vacant."
 - Homeowners insurance does not include personal property/contents coverage or the insured property and mailing address are different.
 - Loan purpose is a second home, yet there is independent evidence other parties reside at the subject property, or that the subject property is available for rent.
 - Homeowners insurance is a rental policy (see declarations page).
 - Loan purpose is refinance, but property is listed for sale.
 - The borrower uses a PO Box for a mailing address.
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How to Prevent Misrepresentation

- Clearly communicate to all loan applicant(s) that the information on the loan application must be accurate.
 - Insure all loan applicant(s) understand and answer all questions on the loan application, including the declarations sections.
 - Utilize owner occupancy affidavits, where applicable.
 - Be aware of common red flags.
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