

# RED FLAGS OVERVIEW

Beginning May 1, 2008 all mortgage brokers/lenders must be fully compliant with the Red Flag rules as set for by the OCC, FRB, FDIC, OTS, NCUA and FTC to further aid in the prevention of fraud and identity theft.

## Who must comply:

Banks, thrifts, mortgage lenders, credit unions, US branches and agencies of foreign banks, US commercial lending companies of foreign banks, and certain “creditors” defined as “any person or business who arranges for the extension, renewal, or continuation of credit”.

## The regulation:

The ruling is based on two separate, but related provisions of the FACT ACT.

- Section 114 – establish reasonable procedures that:
  - Assist creditors and financial institutions in identifying identity theft.
  - Set for provisions specifically applicable to credit card issuers who receive notice of a consumer’s change of address.
- Section 315 – procedures to handle a notice of a consumer’s change of address

## What is a red flag?

“A pattern, practice or specific activity that indicates the possible existence of identity theft (fraud: made or attempted)”

## Mandatory new rules:

Requires users of credit reports to create, and keep updated, a written identity theft prevention program that outlines the steps it will take to detect and prevent identity theft.

Users of credit reports are required to confirm that the consumer reports they request from credit reporting agencies are related to the consumer with whom they are doing business.

## Users of credit reports must review discrepancies in addresses.

Requires users of credit reports to organize a Red Flag Team that learns and fully understands the Red Flag Rules and oversees the policies and procedures to:

- Identify Red Flags: Your program must identify possible red flags specific to your organization.
- Detect Red Flags: You must be able to detect Red Flags once you have identified them.
- Respond to Red Flags: You must have policies in place of how you will respond to red flags once they are detected.



Providing Superior Credit Reporting Services to Brokers,  
Mortgage Lenders, Banks and Credit Unions.

[www.advcredit.com](http://www.advcredit.com)

1-800-670-7993

32065 Castle Court Suite 300 Evergreen Co 80439

- Update the Red Flags Program: You must include a detailed process for periodically updating your Red Flags program as changes in certain risks may become greater or lesser or new Red Flags are identified.

**As defined by the ruling your Identity Theft Prevention Program must:**

- Obtain approval for the initial written Program from either your board of directors or an appropriate committee formed by the board of directors.
- Involve the board of directors, or an appropriate committee thereof, or a designated employee at the level of senior management in the oversight, development, implementation and administration of the Program.
- Include training staff, as necessary, to effectively implement the Program.
- Exercise appropriate and effective oversight of service provider arrangements.

**What steps should you take?**

- Organize your Red Flags Committee
- Identify and list your red flags that are specific to your industry.
- Decide what tools you should use to detect red flags
- Implement a plan for responding to red flags, when detected.
- Set a course of action for updating the plan on a periodic basis.

**Examples of Red Flags specific to the mortgage industry:**

- Address discrepancy notifications
- Multiple social security numbers for the same person
- Recent address changes
- Too many inquiries
- Fraud alerts on the consumer report
- Multiple new accounts opened in a short amount of time.
- Multiple accounts closed by a credit grantor
- Documents that appear to have been altered or forged.
- Identification information that is not consistent with the information provided to you by the borrower.
- Notification on a credit report that a SSN has not been issued or is for someone who is deceased



Providing Superior Credit Reporting Services to Brokers,  
Mortgage Lenders, Banks and Credit Unions.

[www.advcredit.com](http://www.advcredit.com)

1-800-670-7993

32065 Castle Court Suite 300 Evergreen Co 80439

## Detecting Red Flags – how we can help!

**Advantage Credit provides several services to help you detect your red flags:**

- **Tri-Merge Credit Reports**
  - Obtain accurate information from all three bureaus.
- **Fraud Alerts**
  - Notifies you of any address or social security number discrepancies, which is available on all three bureaus
- **OFAC**
  - Office of Foreign Assets Control – name matching service
- **Identity Verification (Trans Union search)**
  - Verifies and checks for contradictory information on the application
- **TotalTIN**
  - Verifies identity directly with the Social Security Administration and the IRS
- **Tax Return Verifications**
  - Verifies validity of borrowers income through the IRS

### **Appropriate Red Flag Responses:**

Once you have detected a red flag how should you respond? The regulation states that appropriate responses may include the following:

- Monitoring a covered account for evidence of identity theft
- Contacting the customer
- Changing any passwords, security codes, or other security devices that permit access to a covered file or account.
- Reopening a covered account with a new number.
- Not opening a new covered account
- Closing an existing covered account
- Not attempting to collect on a covered account or not selling a covered account to a debt collector.
- Notifying law enforcement
- Determining that no response is warranted under the particular circumstances.

**For questions and solutions on your Red Flags program please contact your sales representative.**



Providing Superior Credit Reporting Services to Brokers,  
Mortgage Lenders, Banks and Credit Unions.

[www.advcredit.com](http://www.advcredit.com)

1-800-670-7993

32065 Castle Court Suite 300 Evergreen Co 80439