



Multifamily Mortgage Fraud Overview

Understanding risks and your role in prevention

September 2026

By the end of this session you should be able to:

1

Understand the definition of fraud and your fraud reporting obligations.

2

Explain your role in identifying and reporting suspicious activity.

3

Identify applicable mortgage fraud schemes throughout the multifamily loan cycle.

4

Know what to include in a fraud tip.



Agenda

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| 01 | Mortgage Fraud Overview |
| 02 | Mortgage Fraud Prevention |
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| 04 | Mortgage Fraud Investigation Case Studies |
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Mortgage Fraud Overview

Mortgage Fraud Overview | Definitions and Impact

Understanding fraud and its far-reaching financial, legal, and reputational impacts will support you in strengthening the security of our partnership.

What is Fraud?

Fannie Mae defines **fraud** broadly as any **intentional act or omission** affecting or involving Fannie Mae, that is committed or attempted for the purpose of securing an improper or unlawful gain or benefit for Fannie Mae or any other individual or entity, regardless of whether the benefit is actually realized.

What is Mortgage Fraud?

Fannie Mae defines **mortgage fraud** as a **misstatement, misrepresentation, or omission** that cannot be corrected and is relied upon by Fannie Mae and Lenders to purchase, sell, or service a loan, or to dispose of Real Estate Owned (REO) property.

The Impact of Mortgage Fraud



Financial Impacts

Financial losses and asset maintenance costs due to loan defaults.



Reputation and Market Impacts

Negative publicity erodes the public's trust in mortgage and financial markets and damages business relationships.



Legal and Regulatory Impacts

Mortgage fraud and other financial crimes can lead to investigations, increased oversight by regulatory bodies and costly legal proceedings.



Other Criminal Behavior

Mortgage fraud may occur alongside other criminal activities, including money laundering.

Required Reporting



As a Lender, you are expected to report any instances of suspected fraud and other suspicious activity to Fannie Mae, and Fannie Mae has regulatory obligations to report to law enforcement and U.S. Federal Housing (FHFA).



Mortgage Fraud Overview | Reporting Requirements

Your timely reporting of any suspected fraud and other criminal activity supports Fannie Mae's regulatory reporting obligations.

Fannie Mae's Reporting Obligations		
Regulatory Requirement	FHFA Notification	Suspicious Activity Reports
	• Reporting of Fraudulent Financial Instruments: 12 CFR Part 1731 • 2026-OR-FNMA-4: Order on Enterprise Fraud Reporting	Anti-Money Laundering Program and Suspicious Activity Report Filing Requirements for Housing Government Sponsored Enterprises: 31 CFR Parts 1010 and 1030
What It Is	• Fannie Mae must notify FHFA when we become aware of actual or possible fraud that could have a significant impact on the Enterprise. • FHFA has established a time frame of two weeks or less for Fannie Mae to make a notification after becoming aware of the activity.	• Fannie Mae is required to file suspicious activity reports (SARs) with FinCEN. SAR filings are part of Fannie Mae's compliance with the Bank Secrecy Act (BSA), and they provide helpful information to law enforcement. • Fannie Mae has 30 days from initial detection of potentially suspicious activity to file a SAR. • SAR filing decisions are confidential; Lenders with SAR filing obligations may share information relevant to suspicious activity with Fannie Mae, but the existence or non-existence of a SAR filing must remain confidential.
If you see suspicious activity or indications of fraud, you should you should submit a <u>Mortgage Fraud Report</u> .		



Mortgage Fraud Prevention



Fannie Mae®

Mortgage Fraud Prevention | What are Red Flags?

Red Flags are essential to identifying possible mortgage fraud or other suspicious activity.

Definition	Purpose	What to look for:
 Red Flags serve as a potential indicator or warning sign of potential fraudulent / suspicious activity.	 To alert you, the lender, of the need for further review or verification.	Tip-offs can include: • Inconsistent documents in loan files • Deteriorating property conditions • Inaccurate rent-rolls • Artificially inflated sales prices • Hiring related vendors or contractors

The presence of one or more Red Flags does not necessarily indicate fraudulent intent; however, unresolved Red Flags may signal a potential fraudulent transaction.



Mortgage Fraud Prevention | Multifamily Mortgage Fraud Red Flag List

The Potential Red Flags for Mortgage Fraud and Other Suspicious Activity List¹ features 37 distinct red flags spanning five key categories, equipping Fannie Mae employees and lenders with a consistent approach to identifying potential fraud risks.

To assist lenders and Fannie Mae employees in identifying potential red flags, Fannie Mae has developed a **list of Potential Red Flags for Mortgage Fraud and Other Suspicious Activity**.

This list is housed in the Fannie Mae Multifamily Selling and Servicing Guide.

Red Flags Categories		Red Flags Count (#)
Appraisal Red Flag (ARF)	Includes valuation discrepancies, unsupported assumptions, inconsistencies in comparable selection, deviations from standard practices.	6
Financial Statement and Finance Structure (FSFS)	Discrepancies between reported and actual financial performance, unusual trends in income or expenses, monetary default.	9
Property Condition and Inspection (PCI)	Includes capital improvements, code violations, or discrepancies between reported and observed property conditions.	11
Sales and Transaction History (STH)	Includes unexplained changes in ownership, inconsistencies in sale prices, and closing funds sourced through unrelated parties or non-arm's length transactions.	6
Other (O)	Other miscellaneous indicators that do not fall within the categories above but may still warrant further review based on their potential impact.	5

¹ [Potential Red Flags for Mortgage Fraud and Other Suspicious Activity List](#) available on DUS Navigate and our [Multifamily Mortgage Fraud Prevention webpage](#).



Mortgage Fraud Prevention | Lender Expectations

Fannie Mae's Program Rules establish expectations for lenders to maintain a comprehensive Fraud Risk Management Program and effectively identify, perform due diligence, and escalate mortgage fraud Red Flags.

Lender Expectations

Fannie Mae expects lenders to review loan applications for Red Flags and report to Fannie Mae the presence of any Red Flags you cannot reasonably resolve as part of your regular process.



Maintain Effective Internal Controls



Perform Due Diligence



Identify & Report Potentially Suspicious Activity

Expectations are set by the Program Rules

Lenders must maintain a **comprehensive Fraud Risk Management program** that covers all aspects of the Mortgage Loan Lifecycle and includes the following elements.

- Formal Policy
- Training
- Verification & Assessment
- Property Valuation & Operations
- Arms-Length Transaction
- Red Flag Review & Due Diligence
- Escalation of Possible Fraud

Review **Part A, Section 8** of the program rules for more details

Unresolved Red Flags must be reported to Fannie Mae via a [Mortgage Fraud Report](#).



Mortgage Fraud Prevention | Program Rules for Fraud Risk Management

Fraud Risk Management requirements apply throughout the Mortgage Loan lifecycle.

Lender's Foundational Governance Elements

Policy and Training

- Formal written fraud risk management policy
- Annual staff training with periodic review and update

Lender's Fraud Evaluation Overview

1 Identify and Assess¹

Loan Participant Requirement

- Verify identities and ownership
- Conduct risk-based assessment

Property Requirement

- Validate property

Transaction Requirement

- Validate transaction



2 Review & Document

- Perform due diligence for each identified red flag
- Review supporting documentation
- Record evidence and rationale
- Determine whether it is explained



Yes

No

Document the resolution and
continue monitoring

3 Escalate

- Notify Fannie Mae by submitting a Mortgage Fraud Report within 1 business day
- Do not wait for conclusive proof

¹ If red flags surface during the identify and assess phase, they should be escalated to the Mortgage Fraud Investigations team.



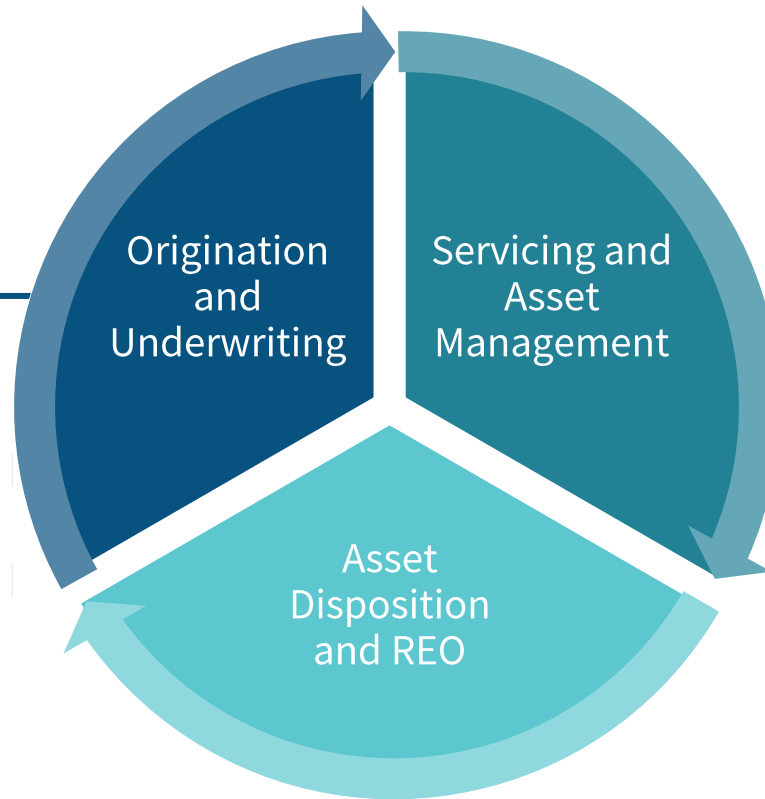
Fraud in the Loan Life Cycle

Fraud in the Loan Life Cycle | Origination & Underwriting

Fraud can occur during any of the phases of the Loan Lifecycle.

Examples

- Falsifying rent rolls
- Overstating non-rental income
- Expense manipulation
- Appraisal manipulation



According to Fannie Mae data, **almost half** of substantiated Multifamily mortgage fraud cases included fraud schemes involving loan origination and underwriting processes, including both initial financing and refinancing.

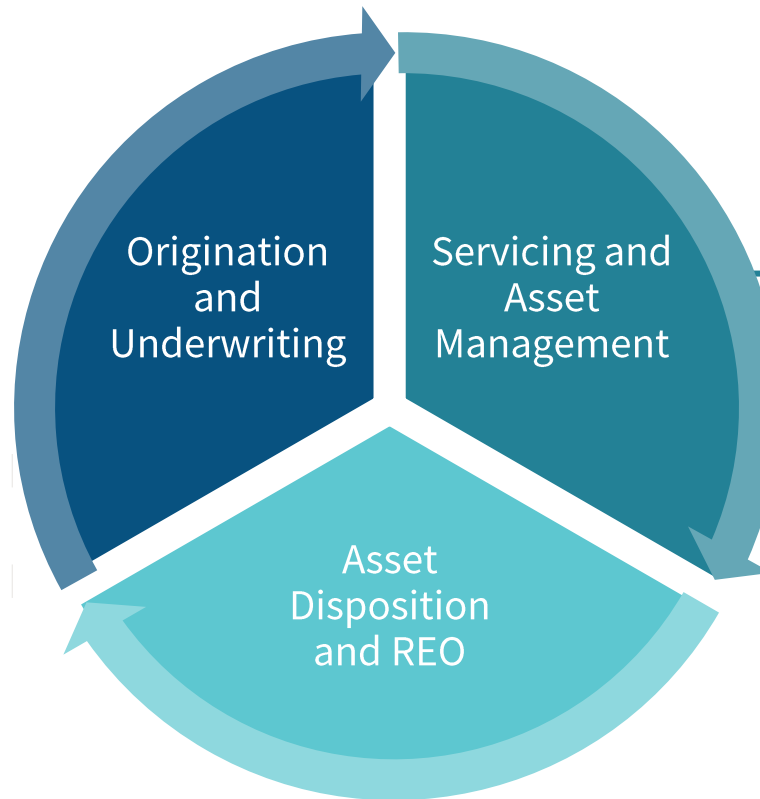
Not surprisingly, the primary motive at this stage is to **induce lenders to provide financing for properties and borrowers that would not otherwise qualify.**



Fraud in the Loan Life Cycle | Servicing and Asset Management

Fraud can occur during any of the phases of the Loan Lifecycle.

Loan funding is often the primary objective of Multifamily mortgage fraud schemes, **but additional opportunities for fraud can arise during the servicing and asset management phase** of the loan lifecycle.



Examples

- Diversion of cash receipts and capital equipment away from failing properties
- Hiring related vendors or contractors
- Misrepresentation of property condition

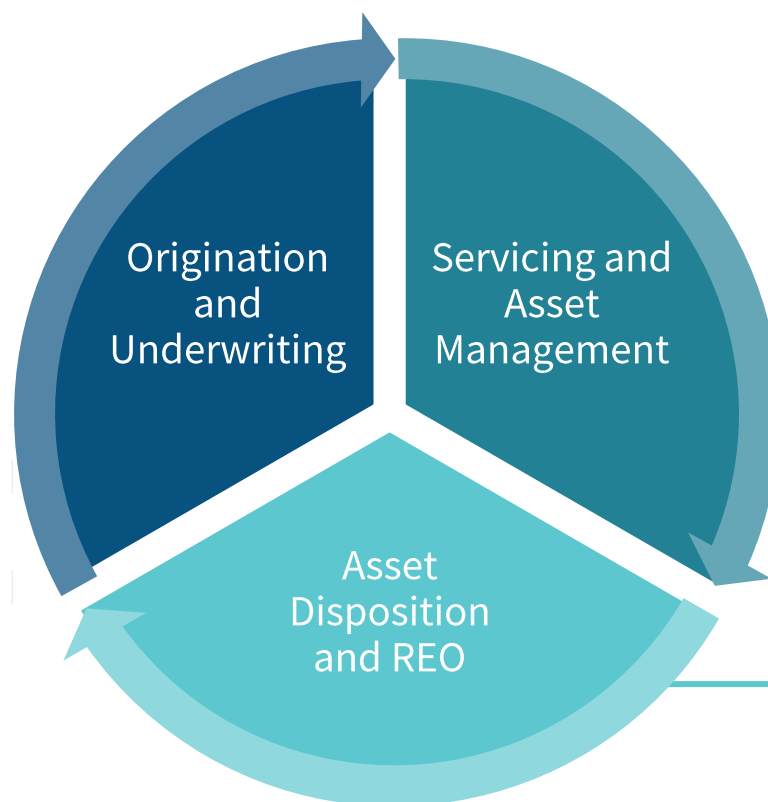


Fraud in the Loan Life Cycle | Asset Disposition and REO

Fraud can occur during any of the phases of the Loan Lifecycle.

Finally, schemes occurring at the **property disposition stage** are often related to manipulation of the property's sale price.

As in schemes at earlier stages, these schemes also **involve manipulating property income and expense information, or appraisals** in order to obtain a higher sale price than would otherwise be justified.



Examples

- Artificially inflated sales prices
- Related party sales
- REO purchases involving illicit funds or sanctioned parties



Investigation Case Studies

Investigation Case Studies | Investigation 1: Ongoing Monitoring

PREMISE

A Red Flag was escalated involving two loans with **unexplained income or expense variances** and noted that the **borrower did not make repairs as required during underwriting.**

THE RED FLAG IDENTIFIED

FSFS.1 Unexplained income or expense variances indicate potential inaccuracies or manipulations. These discrepancies signal a risk of financial misrepresentation or fraud.

PCI.9 Reported capital improvements are not evident based on onsite observations and conditions or lack supporting documentation such as building permits.

THE INVESTIGATION

Upon further investigation, **MFI was able to confirm that the appraisers' projections for vacancies, bad debt, leasing and expenses did not align with prior financial statements.**

Additionally, the **appraisers misrepresented the condition of one of the properties**, stating it was “average” and “well-maintained,” when in fact Property Condition Reports stated there was substantial deferred maintenance, and repairs required under the loan terms had not been made.



Investigation Case Studies | Investigation 2: Property Condition

PREMISE

A concern was escalated that a multifamily property exhibited **Red Flags** related to **property condition**.

THE RED FLAG IDENTIFIED

PCI.2 Significant maintenance issues or code violations, indicating the Property is not being adequately maintained.

THE INVESTIGATION

According to the tip, when the loan closed, the underwritten Property Condition Report identified ~\$300K in immediate repairs, most of which was for one item.

When Fannie Mae subsequently obtained a new PCA, over \$1M in immediate repairs were identified.

The tip led to a broader MFI investigation of the sponsors' portfolio, which **identified four additional loans with potential fraud findings including forgery, appraisal misrepresentation, rent roll fraud and property condition misrepresentation.**



Investigation Case Studies | Investigation 3: Appraisals

PREMISE

Red Flags associated with inappropriate comparables selected for the appraisal, as well as concerns regarding the sponsor's background were escalated.

THE RED FLAG IDENTIFIED

ARF.1 Data is inconsistent within the Appraisal, or is inconsistent with other underwriting data, current market conditions or comparable data. Valuation method used by the Appraiser is inconsistent with standard practices.

O.4 Involvement of Sponsor, Borrower or management company in legal actions or regulatory charges related to unfair, deceptive, or abusive trade practices, or operating without required licenses, as reported by federal, state, or local authorities, as well as involvement of Sponsor, Borrower, or management company in illegal activity or business practices identified through internet searches may impact the Mortgage Loans' credit risk.

THE INVESTIGATION

The investigation resulted in findings of potential appraisal fraud and title impairment.

Specifically, appraisers, in collusion with the sponsor and broker, reported that the property had recently sold for ~\$5.9M, when an investigation of public records found the purchase price had been ~\$4.4M.

Additionally, the appraiser's valuation relied primarily on documents provided by the broker without reviewing the property's actual financial statements.



Receiving Notifications about the Red Flag List

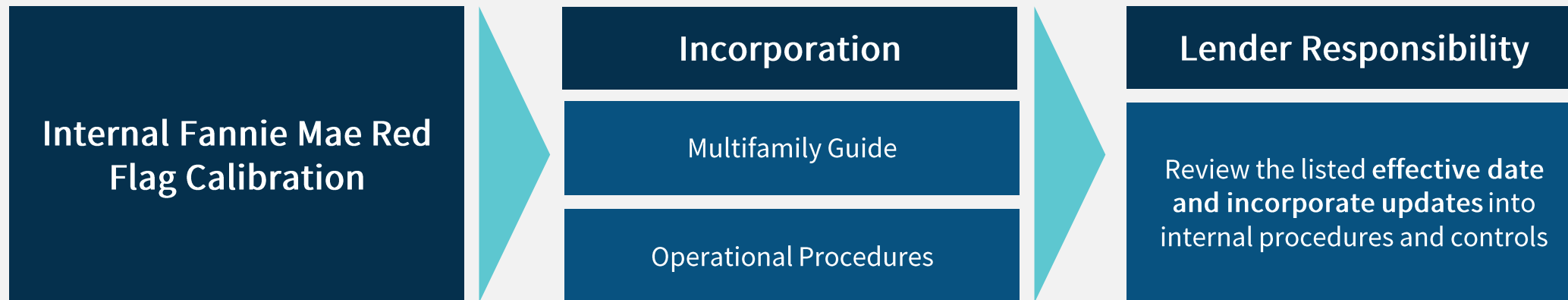


Receiving Notifications on the Red Flag List

Through DUS Navigate notifications, lenders will be informed of Red Flag updates and are expected to evaluate, incorporate, and maintain those changes within their operational procedures and fraud risk controls.



Newly identified potential red flags for mortgage fraud and other suspicious activity will be added to the Red Flag List and BSA-AML Lender Guidance, forms which are published on DUS Navigate to be used in conjunction with the Guide.



DUS Navigate provides announcements on updates to the red flag list and lenders will be notified when updates are released.



Best Practices for Reporting Fraud

Elements of a Good Tip

A comprehensively reported tip will aid Fannie Mae's review and minimize follow up questions; use the items below as a checklist when escalating issues.



Parties Involved



Transaction Details



Loan Information



Unresolved Red Flags



Supporting Documentation



Pending Transactions



Effective escalation begins with you; timely reporting and the provision of complete information facilitates a seamless investigation.

Lenders may be contacted to provide additional documentation, if needed by the Multifamily Fraud Investigations team.

Resources

Escalation and Resources

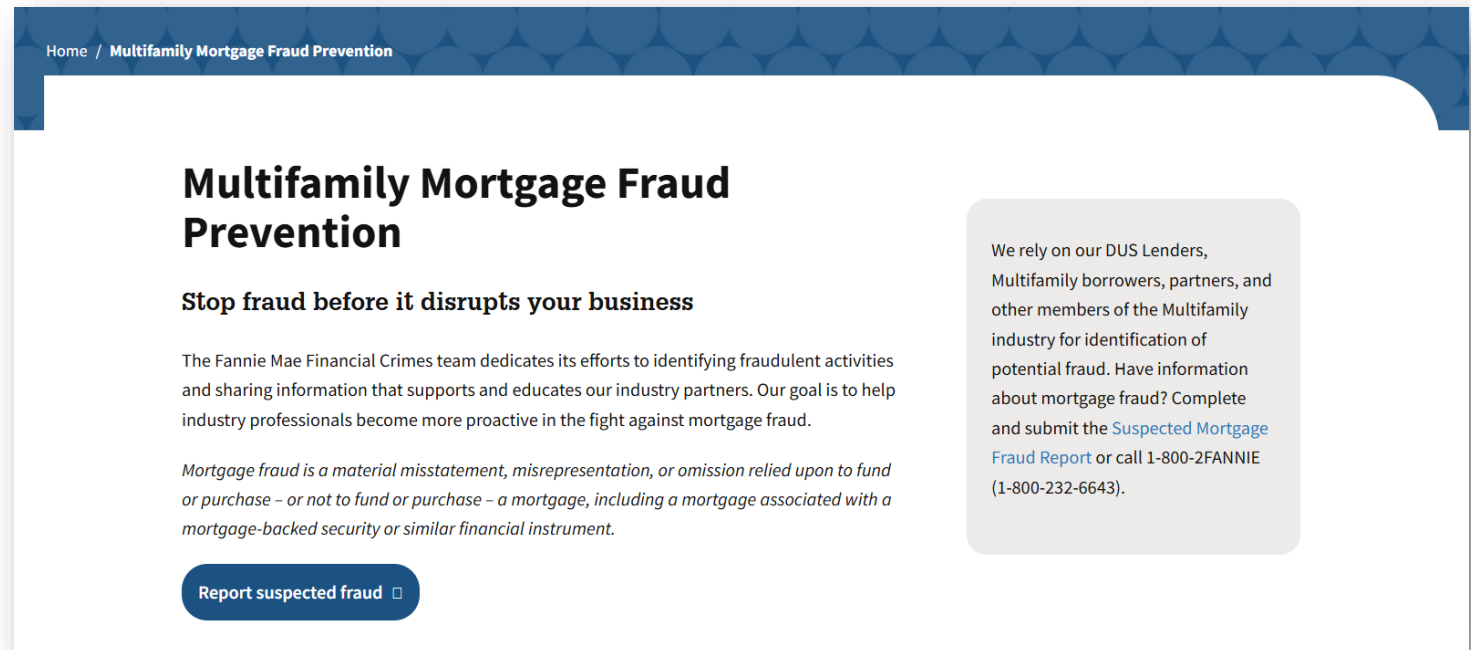
Escalation Paths

Any matters of potential fraud or unexplained suspicious activity must be promptly escalated:

- Mortgage Fraud Tip intake portal: <https://fims.my.salesforce-sites.com/MortgageFraudReport>
- Mortgage Fraud Tip Intake mailbox: mortgagefraud_tips@fanniemae.com

More Information

- Multifamily Mortgage Fraud Prevention Webpage @ [Multifamily Mortgage Fraud Prevention | Fannie Mae](#)



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Multifamily Mortgage Fraud Prevention

Stop fraud before it disrupts your business

The Fannie Mae Financial Crimes team dedicates its efforts to identifying fraudulent activities and sharing information that supports and educates our industry partners. Our goal is to help industry professionals become more proactive in the fight against mortgage fraud.

Mortgage fraud is a material misstatement, misrepresentation, or omission relied upon to fund or purchase – or not to fund or purchase – a mortgage, including a mortgage associated with a mortgage-backed security or similar financial instrument.

[Report suspected fraud](#)

We rely on our DUS Lenders, Multifamily borrowers, partners, and other members of the Multifamily industry for identification of potential fraud. Have information about mortgage fraud? Complete and submit the [Suspected Mortgage Fraud Report](#) or call 1-800-2FANNIE (1-800-232-6643).



