

# Multifamily Seller/Servicer Guide

## Chapter 7

### Fraud Prevention, Detection and Reporting; Reporting Fraud and Suspicious Activity



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## 7.1 Prevention, detection and reporting (02/16/23)

The Seller/Servicer must have comprehensive prevention, detection and reporting practices and procedures in place to address Suspicious Activity and actual or possible fraud in connection with originating and selling a Mortgage to Freddie Mac and Servicing the Mortgage.

This section identifies basic fraud prevention and detection requirements related to:

- Employee hiring and training
- Origination and Servicing

### a. Hiring and training (08/26/21)

The Seller/Servicer must have screening and hiring practices in place to ensure the integrity of its employees. In addition, before any individual may be retained to work on Freddie Mac matters, the Seller/Servicer must do each of the following as required in Section 2.18:

- Search the Exclusionary List, and
- Ensure that any individual whose name is on the Exclusionary List is not employed by or contracted with the Seller/Servicer in connection with the origination, underwriting, asset management or Servicing of Freddie Mac Mortgages

Employees and any entity or individual engaged to handle or perform functions typically handled by employees, and in a position to notice or report Suspicious Activity and actual or possible fraud, must receive training in each applicable area of its mortgage business about:

- Common and emerging fraud schemes applicable to multifamily loans, multifamily properties, Borrowers, Borrower Principals, and any other individuals or entities associated with the origination, underwriting or Servicing of a Freddie Mac Mortgage
- Financial crimes (including fraud, money laundering, terrorist financing and OFAC violations) identification, reporting and risk mitigation
- Red flags applicable to multifamily loans, multifamily properties, Borrowers, Borrower Principals or any other individuals or entities associated with the origination, underwriting or Servicing of a Freddie Mac Mortgage, that may signal potential fraud and/or Suspicious Activity, which may require additional review
- The Seller/Servicer's written procedures (including requirements of this Chapter) for prevention, detection and reporting of Suspicious Activity and actual or possible fraud

Parties engaged to handle or perform functions typically performed by employees and in a position to notice or report Suspicious Activity and actual or possible fraud may include parties such as contract underwriters, contract processing service companies (including loan processors), contract quality control firms, Borrower outreach companies, loss mitigation services and collection companies.



The training must include periodic updates at least annually to ensure that employees and parties referenced above are aware of emerging fraud (including money laundering) scenarios.

The Seller/Servicer must provide the training directly, hire a third party to provide the training, or obtain an annual written verification from the engaged entity or individual confirming that the entity or individual has already received such training from another party in accordance with the requirements of this section.

**b. Origination and Servicing (02/16/23)**

The Seller/Servicer must take the following minimum steps to prevent and detect Suspicious Activity and actual or possible fraud in the areas of origination and Servicing:

- Maintain a log of Suspicious Activity and actual or possible fraud involving any Freddie Mac Mortgage that has been reported to and/or investigated by the Seller/Servicer and reported in accordance with Section 7.2. Seller/Servicers must provide the log to Freddie Mac upon request.
- Ensure that information indicating Suspicious Activity and actual or possible fraud that the Seller/Servicer receives from any source is reported immediately (within one Business Day after its discovery) and escalated internally and properly investigated.

This includes information received from sources involved with:

- The origination of a Mortgage and related real estate transactions, such as Borrowers, Borrower Principals and providers of third-party reports
- Servicing functions relating to a Mortgage or Real Estate Owned (REO)
- Investigate unusual patterns or discrepancies or other red flags, such as a sudden drop in operating income or occupancy or a sudden increase in expenses after origination or supplemental loan funding.
- Comply with Section 2.18 regarding screening against the Freddie Mac Exclusionary List.
- Comply with all other Guide provisions relating to prevention and detection of Suspicious Activity and actual or possible fraud.

It is also important for Seller/Servicers to know the parties with whom they do business.

Accordingly, Seller/Servicers must:

- Approve, evaluate and monitor appraisers, engineers, environmental consultants, providers of zoning reports and any other third party to whom Servicing functions relating to a Mortgage or REO are outsourced or assigned in accordance with the requirements in the Guide.
- Consult the [Multifamily Restricted Vendor List](#) (See Sections 60.4(c), 61.17(e) and 62.8(e) and 62SBL.17(e), as applicable).



## 7.2 Reporting requirements (06/15/23)

### a. Procedures for reporting and what to report (06/15/23)

The Seller/Servicer must have written procedures for reporting Suspicious Activity and actual or possible fraud in connection with a Mortgage offered to, sold to, or serviced for, Freddie Mac and discovered at any time, including during origination or Servicing activities. A Seller/Servicer must also maintain all records evidencing Suspicious Activity and actual or possible fraud in accordance with its standard records retention policies.

A Seller/Servicer must report to Freddie Mac within 1 Business Day after the Seller/Servicer obtains information, receives allegations, or otherwise learns that one of the following may be occurring or may have occurred during origination or Servicing of a Mortgage:

- Misrepresentation, misstatement or omission related to the Borrower or Borrower Principals including sources of funds, other indebtedness and other assets
- Misrepresentation, misstatement or omission related to the Property, including property valuation, property value, occupancy, income and property use
- Misrepresentation, misstatement or omission of any other information related to a Mortgage or related real estate transaction, including, undisclosed seller or other third-party incentives, loan performance, mortgage purpose, kickbacks, an undisclosed relationship between parties to the transaction when Freddie Mac requires that the transaction be an “arm’s length” transaction
- Falsification or destruction of documents or records by the Borrower, Borrower Principal or any party involved in the origination, underwriting or Servicing of the Mortgage
- False statements, misrepresentation, making false claims
- In connection with a Borrower or Key Borrower Principal, the failure to accurately or completely report in [Form 1115, Borrower Certificate](#), [Form 1115, Key Borrower Principal Certificate](#), [Form 1115SBL - SBL, Borrower Certificate](#), and [Form 1115SBL – SBL, Key Borrower Principal Certificate](#), as applicable, or in other required Freddie Mac documentation
- Theft of custodial funds or non-remitted payoff funds
- The involvement of a person or entity on the Freddie Mac Exclusionary List in the origination, sale or Servicing of the Mortgage or in the related real estate transactions in violation of Section 2.18
- Actual or possible terrorist financing or ongoing or possible money laundering schemes or activity
- Notification of the entry of a civil judgment, guilty plea or criminal conviction indicating lack of integrity and relating to a participant in a Mortgage transaction or related real estate transaction, or relating to a board member, officer, employee or contractor of the



Seller/Servicer

- Notification by law enforcement or another governmental authority that such authority is conducting an investigation or prosecution of fraud relating to Mortgages owned by, or serviced for, Freddie Mac or relating to a board member, officer, employee or contractor of the Seller/Servicer

**b. Immediate notification and reporting (08/26/21)**

The Seller/Servicer must immediately (within one Business Day after its discovery) report the information identified in Section 7.2(a) to Freddie Mac in writing by e-mail to the Multifamily Fraud Investigation Unit at [MF\\_Mortgage\\_Fraud\\_Reporting@freddiemac.com](mailto:MF_Mortgage_Fraud_Reporting@freddiemac.com).

The Seller/Servicer must, within five Business Days following the immediate notification, provide additional information as may be requested in writing to the Multifamily Fraud Investigation Unit at [MF\\_Mortgage\\_Fraud\\_Reporting@freddiemac.com](mailto:MF_Mortgage_Fraud_Reporting@freddiemac.com).

Seller/Servicers are not required to and must not disclose to Freddie Mac any Financial Crimes Enforcement Network Suspicious Activity Reports (SARs) or draft SARs, documents or information revealing the existence of a SAR or indicating whether or not a SAR has been filed, or where disclosure of Suspicious Activity and actual or possible fraud to Freddie Mac would otherwise be prohibited by law.

**7.3 Cooperation requirements (08/26/21)**

The Seller/Servicer must cooperate with Freddie Mac to prevent and investigate, where permitted by law, Suspicious Activity and actual or possible fraud. Cooperation includes:

- Making available to Freddie Mac individuals with knowledge of relevant facts
- Providing, and assisting Freddie Mac, when permitted by law, in obtaining all information, documentation and records requested by Freddie Mac relating to a Mortgage and related real estate transactions, including closing or settlement agent files, Mortgage files, Borrower payment records, re-verifications of occupancy and assets and any internal or external communications
- The Seller/Servicer must comply with the deadlines specified by Freddie Mac for providing information, documentation, records, access to individuals or any other requested assistance

Failure to cooperate with Freddie Mac or to comply with any other requirements in this Chapter 7 may result in Freddie Mac taking any disciplinary actions set forth in Section 4.1(b) or exercising any other rights and remedies available under the Guide, at law or in equity.