

# Multifamily Seller/Servicer Guide

## Chapter 7

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

#### 7.1 Prevention, detection and reporting (02/28/18)

The Seller/Servicer must have comprehensive prevention, detection and reporting practices and procedures in place to address potential fraud and Suspicious Activity 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
- Seller/Servicer's in-house quality control program

Freddie Mac encourages Seller/Servicers to implement those practices and procedures, as deemed necessary by the Seller/Servicer, in order to address potential fraud and Suspicious Activity.

##### a. Hiring and training (02/15/21)

The Seller/Servicer must have screening and hiring practices in place to ensure the integrity of its employees. Employees and any entity or individual engaged to handle or perform functions typically handled by employees, and in a position to notice or report potential fraud and Suspicious Activity, must receive training in each applicable area of its mortgage business about:

- Common and emerging fraud schemes applicable to multifamily properties and Borrowers)
- Financial crimes (including money laundering, terrorist financing and OFAC violations)
- Red flags applicable to multifamily properties and Borrowers that may signal potential fraud and suspicious activity, which require additional review

Also, the Seller/Servicer must communicate its written procedures (including requirements of this chapter) for prevention, detection and reporting of potential fraud and Suspicious Activity to employees as well as entities and individuals referenced above.

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

The training must include periodic updates no less frequently than on an annual basis to ensure that employees and parties referenced above are aware of emerging fraud (including money laundering) scenarios.

The Seller/Servicer must either 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 training has already been received from another party in accordance with the requirements of this section.

**b. Origination and Servicing (02/15/21)**

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

- Maintain a log of Suspicious Activity involving any Freddie Mac Mortgage that has been investigated by the Seller/Servicer and reported in accordance with Section 7.2 of the Guide. Seller/Servicers must provide the log to Freddie Mac upon request.
- Ensure that information indicating potential fraud or Suspicious Activity that is received from any source, including Borrowers, Borrower Principals and providers of third-party reports with respect to the Mortgage and related real estate transactions, is escalated internally and properly investigated
- Ensure that information indicating potential fraud or Suspicious Activity that is received from any source in connection with Servicing functions relating to a Mortgage or Real Estate Owned (REO), is escalated internally and properly investigated
- 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 through the Freddie Mac Exclusionary List
- Comply with all other Guide provisions relating to fraud prevention and detection and Suspicious Activity

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

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
- Consult the [Multifamily Restricted Vendor List](#) (See Sections 60.4(c), 61.18(e) and 62.8(e) and 62SBL.17(e), as applicable).

## 7.2 Reporting requirements

### a. Procedures for reporting and what to report (02/28/18)

The Seller/Servicer must have written procedures for reporting potential fraud or Suspicious Activity in connection with a Mortgage sold to, or serviced for, Freddie Mac and discovered at any time, including during origination, Servicing activities or loss mitigation efforts.

Specifically, a Seller/Servicer must report to Freddie Mac when the Seller/Servicer has a reasonable belief that one of the following is occurring or has occurred during origination or Servicing of a Mortgage, including any loss mitigation activity:

- 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
- 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
- Suspected money laundering or terrorist financing

### b. Reporting within 60 days (02/28/18)

The Seller/Servicer must report the information identified in Section 7.2(a) to Freddie Mac in writing within 60 days after its discovery, except suspected money laundering or terrorist financing, which must be reported to Freddie Mac immediately in accordance with Section 7.2(c).

The Seller/Servicer must report the information either by submitting Freddie Mac’s Mortgage Fraud Reporting Form - Origination or Freddie Mac’s Mortgage Fraud Reporting Form - Servicing, as appropriate, located on FreddieMac.com, or by submitting the information required in the Form via e-mail to the MF Asset Management Operations Fraud Investigation Unit at [MF\\_Mortgage\\_Fraud\\_Reporting@FreddieMac.com](mailto:MF_Mortgage_Fraud_Reporting@FreddieMac.com).

### c. Immediate notification and reporting (10/01/14)

Notwithstanding the requirements of Section 7.2(b), the Seller/Servicer must notify Freddie Mac immediately of the following circumstances:

- Theft of custodial funds or lack of collateral
- A substantial likelihood that the fraud, suspected fraud or Suspicious Activity will receive significant public exposure or publicity
- 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
- Actual or possible terrorist financing or ongoing or possible money laundering schemes or activity

Seller/Servicers are not required 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 would otherwise be prohibited by law.

To notify Freddie Mac immediately, the Seller/Servicer must call the Freddie Mac fraud hotline at 800-4FRAUD8 (800-437-2838).

The Seller/Servicer must also follow the immediate notification with a written report as required by Section 7.2(b) above.

### **7.3 Cooperation requirements (10/01/14)**

The Seller/Servicer must cooperate with Freddie Mac to prevent and investigate fraud and, where permitted by law, other Suspicious Activity. 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 and re-verifications of occupancy and assets. 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.