

Lender Guidance on BSA/AML-Related Guide Update Requirements

Pursuant to the Financial Crimes Enforcement Network's (FinCEN) Final Rule effective April 2014, Fannie Mae is defined as a "financial institution" under the Bank Secrecy Act (BSA). As such, Fannie Mae has a formal anti-money laundering (AML) program in place and files Suspicious Activity Reports (SARs) with FinCEN. As an approved Multifamily Lender, you play an important role in supporting Fannie Mae's AML Program. Your due diligence and monitoring activities help Fannie Mae detect activity that may involve mortgage fraud or money laundering.

~~This guidance provides an overview of the Guide Update effective August 1, 2023. This Form Guide Update does not contain new requirements; rather provides expanded Fannie Mae is providing expanded guidance and reinforces reinforcing existing expectations. This includes Our previous money laundering indicators have been incorporated into providing specific red flags of potential mortgage fraud and money laundering other suspicious activity, that you are expected to of which you must be aware of, and alert to, throughout the Mortgage Loan lifecycle of the loan. You continue to be required to must have sufficient internal controls and processes in place to identify and escalate any potentially suspicious activity to Fannie Mae.~~

Updates include the addition of red flags indicative of potential mortgage loan fraud and money laundering for which you must be vigilant and monitor constantly throughout the entire Mortgage Loan lifecycle. You must maintain robust internal controls and processes designed to effectively identify, assess, and escalate any potentially suspicious activity to Fannie Mae. Proactive measures such as comprehensive staff training, regular audits, and the implementation of advanced detection technologies should be employed to enhance your ability to spot and respond to irregularities promptly. By fostering a culture of diligence and accountability, you not only protect your organization from financial crimes but also contribute to the integrity and stability of the broader financial system. Remember, the early detection and reporting of suspicious activities are crucial in safeguarding against potential risks and ensuring compliance with all regulatory requirements and standards.

Expectations of Multifamily Lenders

You are expected to establish and maintain effective processes, procedures, and controls (including employee training) to effectuate the identification and escalation of possible mortgage fraud or money laundering involving the transaction throughout the life of the Mortgage Loan. While red flags provide essential guidance for identifying potential issues, you should remain vigilant and proactive in your efforts to detect and prevent fraudulent or suspicious activities at all times. This includes appropriate due diligence on all Sponsors, Borrowers, Key Principals, Guarantors, and Principals. These expectations are outlined in Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals, Section 308: Compliance, and are required regardless of whether you are independently subject to the requirements of the BSA. The presence of one or more red flags that cannot be reasonably explained, as ~~described~~ discussed below, must be escalated to Fannie Mae. As always, any party (as defined in the Guide) appearing on the Office of Foreign Asset Control (OFAC) sanctions lists, or other applicable blocked parties' lists (i.e., FHFA's Suspended Counterparty List) are prohibited from engaging in any business dealing with Fannie Mae.



Identifying Red Flags of Potential Mortgage Fraud or Money Laundering and Other Suspicious Activity

All members of your staff engaged in Multifamily Mortgage Loan transactions with Fannie Mae must be aware of, and alert to, red flags of potential mortgage fraud and ~~money laundering~~ other suspicious activity. The red flags outlined below are also located in DUS Navigate. When a red flag is encountered, you must consider all relevant facts and undertake additional inquiry, as necessary, to determine if the existence of the red flag can be reasonably explained (see “Items for Consideration” in the following table below).

Category	Red Flags	Items for Consideration
Mortgage Fraud		
Appraisals	<p>Data is inconsistent within the Appraisal, or is inconsistent with other underwriting data, current market conditions or comparable data. <u>Valuation method used by the Appraiser is inconsistent with standard practices.</u></p> <p>Close relationship between the appraiser and Sponsor.</p> <p>Property’s Appraised Value <u>appraised value or third-party comparable data is significantly higher</u> greater than <u>the value per unit or per square foot of comparable properties, or the Appraiser</u> appraiser <u>selects inappropriate comparable properties overly relies on the Sponsor’s budget for the Property, or uses rent, expense, and sales comparisons from a different market or dissimilar property type without Property justification for the deviation.</u></p> <p><u>Significant discrepancies exist between the Appraisal Net Cash Flow and historical operating statements, or the Appraiser’s projections lack sufficient supporting evidence or documentation.</u></p> <p><u>Significant increase in the Property’s value since the most recent sale with limited interior inspections conducted, indicating potential misrepresentation of the Property’s condition.</u></p> <p><u>Absence of essential tenant details in rent rolls and lease audits, such as names and unit size, facilitates data fabrication and heightens the risk of misrepresentation.</u></p> <p><u>Vagueness and lack of justification in Appraisal assumptions, combined with numerous errors, indicate potential inaccuracies or fraudulent intent.</u></p>	<ul style="list-style-type: none"> • <u>Is there a reasonable explanation for the inconsistent data or the use of a valuation method by the Appraiser that is inconsistent with standard practices?</u> • <u>Is there any evidence of manipulation or bias in the Property’s Appraised Value? Does the Sponsor attempt to provide “new” or “updated” data without explanation for the difference?</u> • <u>Does the appraiser’s choice of comparables seem reasonable or explainable?</u> • <u>Does the Appraised Value per unit or per square foot significantly deviate from comparable properties in the same market?</u> • <u>Is there a reasonable explanation for the discrepancies between the Appraiser’s projections and actual financial statements?</u> • <u>Is the Appraisal based on appropriate, comparable, and local data to ensure it reflects current market conditions?</u> • <u>Has the Appraiser provided sufficient evidence or documentation to support its projections or adjustments?</u> • <u>Has the Appraiser consistently applied appropriate vacancy and collections figures compared to the Property’s actual vacancy, market vacancy, and industry standards?</u> • <u>Are additional “red flags” present, and if so, can they be reasonably explained?</u>



Financial Statements and Financing Structure	<u>Appraiser applied inappropriate vacancies and/or collections compared to the Property’s actual vacancies, market vacancies, and industry standards. Additionally, unexplained income, asset, or expense variances (e.g., a sudden decline in operating income or increases in expenses after funding or significant differences in income, expenses, and values from comparable properties) indicate potential inaccuracies or manipulations. These discrepancies undermine the reliability of the valuation and signal a risk of financial misrepresentation or fraud. Income or expenses differ significantly from comparable properties.</u>	<ul style="list-style-type: none"> • <u>Is there a valid explanation for the Appraiser’s vacancy/collection figures compared to the Property’s actual vacancy/collection figures?</u> • <u>Is there a valid reasonable explanation for <u>any</u> variances related to assets, income, or—and expenses to differ from comparable properties and/or to have unexpected changes?</u> • <u>Are missing/late financial statements a one-off, explainable event, —or part of an ongoing pattern?</u> • <u>Do the financial statements have different formats?</u> • <u>Is there a justifiable reason for a non-standard financing arrangement?</u> • <u>Is there a valid explanation for the frequent buying and selling of the Property? Could the successive cash-out refinances be considered excessive when compared to other similar transactions with other Sponsors?</u> • <u>Is there a justifiable reason for inconsistencies in data across multiple aged receivable reports for overlapping time periods?</u> • <u>Is there a valid explanation for discrepancies between statements submitted to Underwriting versus Asset Management?</u> • <u>Are additional “red flags” present, and if so, can they be reasonably explained?</u>
	<u>Unexplained income or expense variances (e.g., sudden decline in operating income or increases in expenses after funding).</u>	
	<u>Missing, or late or extremely vague financial statements, or documents that are altered and not originally generated from property management software. Discrepancies in font styles, misspellings, unusual spacing, or sections that appear to be copied and pasted are present in any of the provided financial statements or documents.</u>	
	<u>Loans with financing terms not standard with industry practice. Any deviation from the market norm should be flagged and investigated.</u>	
	<u>Multiple successive cash-out refinances across a Sponsor’s portfolio. Buying and selling properties or ownership interests in properties frequently, particularly:</u> <ul style="list-style-type: none"> • <u>during the last 18 months, or</u> • <u>at prices that seem artificially high or low.</u> 	
	<u>Inconsistent data across multiple aged receivable reports for overlapping time periods, or reports showing prolonged delinquencies without corresponding bad debt write-offs. Additionally, the removal or reclassification of recurring monthly expenses below Net Operating Income (NOI) suggests potential financial misrepresentation. These discrepancies can artificially inflate NOI and obscure the Property’s true financial health, increasing the risk of inaccurate financial assessments and potential fraud.</u>	
	<u>Financial statements prepared by the Broker or another affiliated third party.</u>	
	<u>For a refinance of a Fannie Mae Portfolio Mortgage Loan, discrepancies in Property operating statements submitted to Underwriting compared to those for the same period submitted to Asset Management. For Mortgage Loans previously quoted, inconsistencies found between operating statements for the same period across different submissions.</u>	



	<p><u>Significant discrepancies identified between the Property’s reported and actual financial Underwritten NCF across overlapping reporting periods. Instances may include the Borrower defaulting on loan payments, inaccuracies in reported occupancy rates, and overall Property performance not aligning with financial statements provided at Mortgage Loan closing.</u></p> <p><u>Monetary default within a short period post-Mortgage Loan Origination Date, indicating potential financial instability or misrepresentation.</u></p>	
<p>Property Condition and Inspections</p>	<p><u>Property Condition Assessment results are inconsistent with expectations for a property of the same age, use, and profile. Discrepancies discovered between the rent roll occupancy and the observations made during Lender or third-party inspections:</u></p> <ul style="list-style-type: none"> • <u>Rent roll appears to be modified and/or incomplete.</u> • <u>Rent rolls list units as occupied, yet these same units are advertised as available for lease/rent (e.g., on platforms like StreetEasy and Airbnb).</u> • <u>Inspection reports indicate several corporate units with leases commencing shortly before underwriting. Alternatively, the unit count observed during inspection does not correspond with the figures represented at underwriting.</u> • <u>Rent roll indicates a significant number of leases commencing before or during underwriting.</u> • <u>Tenants marked as "Under Eviction" on the rent roll have vacated their units or their units were inaccessible during inspection.</u> • <u>A higher-than-expected number of tenants listed with month-to-month agreements on the rent roll</u> • <u>Origination rent rolls differ from post-Mortgage Loan Origination Dates rent rolls or other overlapping rent rolls, or rent rolls have same move-in or move-out dates for multiple tenants, unless common in the market.</u> <p><u>Significant maintenance issues or code violations, indicating the Property is not being adequately maintained.</u></p> <p><u>Property is performing strongly, despite its location in a market experiencing significant downturns or lack of demand.</u></p> <p><u>Rushed inspections by the management company or Borrower representative, refusing access to empty units, keys that do not work or are unavailable, or staff redirecting inspections to other units.</u></p>	<ul style="list-style-type: none"> • <u>Is there a reasonable explanation for inconsistent Property Condition Assessment results among the Property Condition Assessment, photos, the Appraisal, any Fannie Mae or Lender inspection, or other underwriting data?</u> • <u>When questioned about the Property Condition Assessment results, does the Sponsor attempt to provide “corrected” supporting documentation?</u> • <u>Are missing/late inspections a one-off explainable event, or part of an ongoing pattern?</u> • <u>Are there valid reasons for discrepancies between rent roll occupancy and observations made during inspections?</u> • <u>Is there a valid reason why the Property is performing strongly if located in a market experiencing significant downturn or lack of demand?</u> • <u>Are there legitimate reasons for the rushed inspection or a redirection to inspect other units?</u> • <u>Is there a justifiable reason for a change in the property management company?</u> • <u>Is there a satisfactory explanation for any discrepancies between reported capital improvements and onsite observations?</u> • <u>Is there a valid reason for swapping out 10% or more of the units selected by Fannie Mae, the Lender, or vendor?</u> • <u>Is there a reasonable explanation for frequent changes in the property management company or the onsite property management company differing from the one on record or reported during underwriting?</u> • <u>Are tenant complaints consistent with the Property Condition Assessment results?</u> • <u>Are additional “red flags” present, and if so,</u>



<p><u>Inability to verify the identity or tenure of the person showing you around as a representative of the management company, owner, or proposed owner.</u></p>	can they be reasonably explained?
<p><u>10% or more of the units selected by Fannie Mae, the Lender, or vendor are swapped out by the Sponsor or management company</u></p>	
<p><u>Onsite Property management company differs from the manager on record or reported during underwriting, or frequent changes in the Property management company. The management company structure must be reviewed to determine any Borrower affiliation.</u></p>	
<p><u>Numerous units remain vacant and require turnover despite claims of a long waiting list, or a unit reported as vacant is found in poor condition needing extensive preparation. Additionally, high tenant turnover, constant vacancies, and signs of “staged units” (e.g., having identical furniture, lack of personal items, and unused appliances).</u></p>	
<p><u>Reported capital improvements are not evident based on onsite observations and conditions, or lack supporting documentation such as building permits.</u></p>	
<p><u>Sponsor’s portfolio consistently reflects low rated Property condition, indicating potential risks.</u></p>	
<p><u>Property Condition Assessment results are inconsistent with attached photos, the Appraisal, any Fannie Mae or Lender Inspection, or other underwriting data. Property Condition Assessment results are inconsistent with expectations of a comparable property of similar age, use, location, and profile.</u></p>	
<p><u>Missing or late inspections.</u></p>	
<p><u>Tenant complaints about Property condition that are inconsistent with representations about the Property condition, improvements or capital expenses reported.</u></p>	



<p><u>Sale and Transaction History</u></p>	<p><u>Mortgage Loan closing funds are coming from a:</u></p> <ul style="list-style-type: none"> <u>party unrelated to the transaction, or</u> <u>non-arm's length transaction.</u> <p><u>Parties signing underwriting documentation (e.g., the Purchase and Sales Agreement (PSA), management agreement, Borrower Certification, etc.) are inconsistent with the specified buyer, seller, or their representatives.</u></p> <p><u>PSA's property-level financial information is inconsistent with the information provided to Underwriting.</u></p> <p><u>PSA is redacted or missing key information.</u></p> <p><u>Establishment of a new property management company shortly before the Mortgage Loan closing, or inconsistencies in the property management fee agreements compared to those underwritten, indicating potential misrepresentation.</u></p> <p><u>Involvement of legal counsel or other key parties with known connections to previous fraudulent schemes, necessitating expedited flagging and restriction processes. Review and action should particularly focus on those listed on the Restricted Vendor List (RVL) or ACheck.</u></p>	<ul style="list-style-type: none"> <u>Are the sources of funds for the closing well documented and traceable to credible, legitimate origins?</u> <u>What is the relationship between the parties providing the funds to close and the parties involved in the transaction?</u> <u>Are individuals signing the underwriting documentation properly vetted and identified as authorized representatives of the buyer or seller?</u> <u>Why do financials in the PSA not correspond with what was provided to Underwriting?</u> <u>Why was a new property management company established shortly before the Mortgage Loan Origination Date? Are there valid reasons for any inconsistencies in property management fees?</u> <u>Are there any discrepancies in the dates or sequences of signed documents that raise questions about authenticity?</u> <u>Do the operational metrics such as occupancy rates, rent rolls, and maintenance costs align with industry norms and published data for similar properties?</u> <u>Have any key parties been involved in other transactions with unusual terms, rapid turnovers, or legal disputes?</u>
<p><u>Other</u></p>	<p><u>Inadequate insurance coverage in comparison to properties of comparable size and type. Sponsor litigation is not adequately addressed.</u></p> <p><u>Sponsor did not provide all required information, or does not own the assets listed on its Schedule of Real Estate Owned, or discrepancies exist between historical statements and asset management records versus information presented during underwriting. Documents appear to be altered.</u></p> <p><u>Conflicting Property ownership data across multiple sources, suggesting potential misrepresentation or fraudulent activity.</u></p> <p><u>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.</u></p> <p><u>Borrower failure to notify the Servicer of an insurance loss and subsequent non-remittance of insurance proceeds.</u></p>	<ul style="list-style-type: none"> <u>What is the nature of the litigation? Is it fraud related? Why has it not been addressed?</u> <u>Is there a reasonable explanation for the appearance of altered documents?</u> <u>Are additional "red flags" present, and if so, can they be reasonably explained?</u>



Money Laundering		
Counterparty to the Transaction	Counterparty provides suspicious identification or contact information.	<ul style="list-style-type: none"> Is the individual / entity known in the industry? Is the individual's / entity's involvement consistent with their background and/or previous transactions? Is the individual willing to entertain questions about, and provide supporting documentation outlining, the beneficial ownership of the shell companies? Are additional "red flags" present, and if so, can they be reasonably explained?
	Counterparty asks/exhibits concern about Fannie Mae's Anti Money Laundering obligations and/or inquires if a certain transaction will be reported.	
	Counterparty is domiciled outside of the United States.	
	Counterparty is a shell company, and the beneficial owners are not readily apparent.	
	Counterparty has not typically engaged in the multifamily business, and has no prior experience with multifamily transactions.	
Funds	Funds used in the transaction originate from a foreign jurisdiction.	<ul style="list-style-type: none"> Is there a reasonable explanation for the deviation in funds expected versus received?
	Borrower funds used in the transaction originate from multiple sources, or from unrelated third parties.	
	Funds wired at closing are materially more than would be expected based on the closing statement.	<ul style="list-style-type: none"> Is there a reasonable explanation for payments coming from multiple sources and/or foreign jurisdictions? Are additional "red flags" present, and if so, can they be reasonably explained?
Change of Ownership	Unexpected or unapproved change of an LLC Borrower's ownership shortly after funding.	<ul style="list-style-type: none"> Is there a reasonable explanation for the change, and why it was unapproved? Is the new ownership straightforward, or overly complex? Does the new ownership exhibit any of the counterparty red flags listed above?

Escalating to Fannie Mae

Should you encounter a red flag that cannot be reasonably explained, this information must be escalated to Fannie Mae via <https://fims.my.salesforce-sites.com/MortgageFraudReport>. This applies even to transactions that ultimately do not move forward. If the red flag escalation occurs during the origination or underwriting process, you must contact ~~Lender Risk Management~~ your Fannie Mae Deal Team for guidance on how to proceed. When escalating information regarding possible fraud or other suspicious activity, do not inform the Borrower, Borrower affiliate(s), Key Principal, Principal, or Guarantor of your escalation. Furthermore, do not provide Fannie Mae with any information that would reveal the existence of a Suspicious Activity Report you independently file on the activity in question.

Questions

Should you have any questions on this expanded guidance, or the specific AML-related Guide Update, please contact ~~the Fannie Mae Deal Team or lender_risk_management@fanniemae.com~~ AML Compliance at aml_compliance@fanniemae.com. Thank you for helping Fannie Mae fulfill its AML obligations and combat financial crime in the multifamily mortgage market.