

Potential Mortgage Fraud Red Flags

Category	Red Flag
Appraisals	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.
	Property's Appraised Value or third-party comparable data is significantly higher than the value per unit or per square foot of comparable properties, or the Appraiser overly relies on the Sponsor's budget for the Property, or uses rent and sales comparisons from a different market or dissimilar property types.
	Significant discrepancies exist between the Appraisal Net Cash Flow and historical operating statements, or the Appraiser's projections lack sufficient supporting evidence or documentation.
	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.
	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.
	Vagueness and lack of justification in Appraisal assumptions, combined with numerous errors, indicate potential inaccuracies or fraudulent intent.
Financial Statements and Financing Structure	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.
	Missing, 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.
	Loans with financing terms not standard with industry practice. Any deviation from the market norm should be flagged and investigated.
	<u>Financing terms that deviate from the Fannie Mae Multifamily issued quote(s) without a documented and supportable rationale.</u>
	Buying and selling properties or ownership interests in properties frequently, particularly: - during the last 18 months, or - at prices that seem artificially high or low.
	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.
	Financial statements prepared by the Broker or another affiliated third party.
	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.
	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.
	Monetary default within a short period post-Mortgage Loan Origination Date, indicating potential financial instability or misrepresentation.
Property Condition and Inspections	Discrepancies discovered between the rent roll occupancy and the observations made during Lender or third-party inspections: • Rent roll appears to be modified and/or incomplete. • 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). • 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. • Rent roll indicates a significant number of leases commencing before or during underwriting. • Tenants marked as "Under Eviction" on the rent roll have vacated their units or their units were inaccessible during inspection. • A higher-than-expected number of tenants listed with month-to-month agreements on the rent roll • 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.
	Significant maintenance issues or code violations, indicating the Property is not being adequately maintained.
	Property is performing strongly, despite its location in a market experiencing significant downturns or lack of demand.
	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.
	Inability to verify the identity or tenure of the person showing you around as a representative of the management company, owner, or proposed owner.
	10% or more of the units selected by Fannie Mae, the Lender, or vendor are swapped out by the Sponsor or management company.
	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.
	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).
	Reported capital improvements are not evident based on onsite observations and conditions, or lack supporting documentation such as building permits.
	Sponsor's portfolio consistently reflects low rated Property condition, indicating potential risks.



	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.
Sale and Transaction History	Mortgage Loan closing funds are coming from a: • party unrelated to the transaction, or • non-arm's length transaction.
	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.
	PSA's property-level financial information is inconsistent with the information provided to Underwriting.
	PSA is redacted or missing key information.
	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.
	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 ACCheck.
Other	Inadequate insurance coverage in comparison to properties of comparable size and type. Insurance coverage for the subject collateral does not satisfy the Guide's minimum requirements, without an approved variance, nor align with applicable third-party reports, including insurable value benchmarks.
	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.
	Conflicting Property ownership data across multiple sources, suggesting potential misrepresentation or fraudulent activity.
	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.
	Borrower failure to notify the Servicer of an insurance loss and <u>/or</u> subsequent non-remittance of insurance proceeds.