# WHOLESALE ANNOUNCEMENT 2024-73

## November 20, 2024

## Fannie Mae Updates

a Mortgage Boutique is a division of first community mortgage

### Effective Date

Application date on or after December 3, 2024

### Guideline Update:

**Mitigating subjective statements in appraisal reports**

- In continued efforts to mitigate the risk of prohibited or subjective terminology used in appraisal reports, Fannie Mae updated the appraisal practices policies as follows:
  - Refined terminology by:
    - removing the term "employment stability,"
    - adding the term "fact-based and objective," and
    - replacing the term "judgment" with "analysis."
  - Added a requirement for lenders to establish policies and procedures to monitor appraisals for prohibited language to mitigate the risk of discriminatory practices and appraisal bias.
  - Provided a hyperlink to the topic on Unacceptable Appraisal Practices for multiple sections of the *Selling Guide* when that topic is relevant.

### Effective Date

Effective Immediately

### Guideline Update:

**Preventing, detecting and reporting mortgage fraud**

- Fannie Mae updated the Guides to clarify that both sellers and servicers are responsible for preventing, detecting, and reporting mortgage fraud. Sellers and servicers are reminded to have policies and procedures in place to ensure the integrity of information and processes at every stage in the life of a mortgage, from application through servicing.

### Best Practices:

**Rental Income Verifications**

Prudent origination, processing, and underwriting practices on all loans should include looking for conflicting and contradictory information in the loan documents that raise questions about the transaction and working to resolve them when identified.

This document describes common red flags related to falsified rental income derived from the lease agreement for the departure property that is needed to qualify the borrower. The rental income is needed to show sufficient income or offset the mortgage payment on the departure property. In cases where the borrower has debt-to-income (DTI) ratio sensitivities, verifiable rental income is often the determining factor in qualifying.

If red flags indicate discrepancies, then Lender due diligence is required to investigate and resolve. Fannie Mae does not prescribe specific methods to investigate red flags, but the suggestions in this document are common best practices in the industry. Rental income documentation may reveal one or more discrepancies, and while each borrower scenario is unique, the information should be viewed holistically.

**Rental income – common red flag characteristics**

- Public records don't show the departure property was listed for rent.
- Interested party (i.e., lender, broker, real estate agent) sent the lease to alleged tenant or maintains an interest in managing the departure property.
- Lease is electronically signed without other supporting evidence, such as rental listing, receipt showing email sent to alleged tenant, or inability to provide copies of security deposit, rental payments, or rental receipts.
- Borrower will be a first-time landlord in leasing the departure property.
- Rental payment amounts appear inflated compared to market rental rates.
- Monthly rental payments used to offset the PITIA for the departure property.
- Alleged tenant has a pre-existing relationship with the borrower (i.e., same employer, nearby neighbor) or is a relative (non-borrowing spouse, parent, sibling, other).
- Alleged tenant already occupies or owns the departure property prior to the lease date.
- Alleged tenant already owns real estate that they presently occupy.
- Alleged tenant is a gift donor to the borrower.
- Bank statements show alleged tenant is paying both rental and mortgage on departure property.
- Leases provided for multiple rental properties that disclose the same alleged tenant for each lease.
- Rent payment amounts appear to be altered on lease agreement.
- Inability to validate lease terms with the alleged tenant.
- Effective date or occupancy date of the lease agreement is unreasonable when compared to the lease execution date or anticipated closing date of the subject property.
- Excessive Desktop Underwriter® (DU® ) submissions with rental income added or adjusted until Approve / Eligible was obtained.
- Supporting documents for first two rental payments show deposits on the same day or payment by money order.
- Departure property has significant equity, yet source of funds for new purchase money loan is a substantial gift.
- Lender has previously financed mortgage loans for borrower, then sees unreconciled discrepancies on new loan application (occupancy misrepresentation, flags for terms not fulfilled, extenuating circumstances not met).
- Credit reports reflect mortgage loan on a recently acquired property was sold to a GSE; loan terms suggest borrower is obligated to maintain occupancy for 12 months, which means borrower is ineligible for a new primary residence for a period per Guidelines (rate, LTV, MI, withdrawals for down payment, etc.)

**What lender due diligence looks like**

- Use publicly available information (i.e., Zillow/Redfin/Realtor.com/ Trulia) to assess the departure property status:
  - Is the departure property listed for sale before the Note date of the subject property?
  - Does the monthly rental amount appear reasonable for the size/style of home or other nearby rental listings?
- Do all the relevant dates line up or are some dates illogical?
  - Compare the departure property listing date, lease date, occupancy date, closing date, and Note date.
  - Did the sales contract for the subject property include a "contingency clause" for sale of the departure property which was removed prior to closing?
  - Does occupancy date on the lease for the departure property give the borrower time to move out after closing?
- Look at other information in the loan file to see if the transaction makes sense:
  - Do bank statements show security deposit checks and rental payment checks were deposited?
  - Do amounts and dates on the bank statements align with amounts and dates on the lease agreement?
  - Reconcile dates and amounts bank statements, check copies, or receipts to help identify "fake" or altered documents.
- Look for possible pre-existing relationships with the alleged tenant.
  - Does the alleged tenant appear to be an interested party to the transaction or a relative, co-worker or neighbor?

- Obtain a copy of the Property Insurance policy on the departure property and see if it supports tenant occupancy.
  - Has the policy been converted to a landlord policy, or does it include rental or tenant coverage?
  - Is the mailing address of the insured (the landlord) different than the departure property?

**What lenders can do everyday**

- Know your third-party originators/brokers by ensuring they are properly vetted during your approval process.
- Use industry fraud tools.
- Utilize owner occupancy affidavits, where applicable.
- Perform targeted quality control (QC) selections on transactions with “red flag” characteristics, including reverification of lease agreements, continuation of rental payments, or looking to see if the departure property gets listed for sale after closing.
- Target loans with unresolved red flags as of the closing date for post-closing occupancy validation.
- Track your reverification responses – lack of response for a particular loan officer, branch, or regional office may indicate that closer scrutiny is warranted.
- Learn about common red flags involving rental income and monitor evolving trends.
  - Update requirements for supporting documentation to verify information (i.e., canceled checks, fully executed lease agreements, capture screen shots of information on publicly available sites)
- Train your staff and share information with them regularly, favoring written guides to promote consistency and reducing reliance on experience or memory.
- If the loan doesn’t make sense, don’t do it!
- If you see something – say something. Issues identified need to be self-reported to Fannie Mae as required by the *Selling Guide* D1-3-06, Lender Post-Closing Quality Control Reporting, Record Retention, and Audit **|** Fannie Mae.

**Should you have any questions, please reach out to your Account Executive or Client Manager**