## Conflict of Interest Rules for Fannie Mae and Freddie Mac REOs

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REALTORS® have raised questions about the conflict of interest rules that apply to REO properties acquired by Fannie Mae and Freddie Mac pursuant to foreclosure (or a deed-in-lieu of foreclosure). Violation of these rules can result in the broker losing current and future REO listings, so it is vital that brokers and agents (and anyone else affected) understand the rules and comply with them. Brokers would be well-advised to be sure that everyone covered by the policies is trained on these limitations and to retain documentation related to the training, including attendees and content.

## Freddie Mac/HomeSteps

Freddie Mac, through its HomeSteps unit that handles its REO inventory, has stringent rules to prevent conflicts of interest. HomeSteps requires any "supplier" (including real estate companies and their officers, directors, agents, employees, and contractors) to disclose to HomeSteps "situations that could be construed as a potential conflict of interest." Based on the 2011 HomeSteps Supplier Code of Conduct:

- Suppliers may not retain or permit family members, employees, or entities that they own or are controlled or owned by suppliers to provide ancillary services for HomeSteps such as, but not limited to, lawn care, property cleanings, or repairs.
- Unless disclosed to HomeSteps and approved in writing, the following may not purchase a HomeSteps property: (1) a supplier, (2) a member of the supplier's family, (3) an employee of the supplier (or a member of the employee's family), or (4) a company owned or affiliated (in whole or in part) by anyone covered by (1), (2), or (3).
- HomeSteps will not approve purchase of a HomeSteps property by any related party that:
  - Has access to specific company details (including the property's valuation and/or analysis through company records).
  - Provides ancillary services, such as trash removal, maintenance, lawn care, or repairs.
  - Participates or has participated in managing the property at any time.
  - Has family members employed by HomeSteps.
- HomeSteps reserves the right to refuse to sell to a related party of a supplier, even if the relationship has been disclosed.

Family members include spouse, domestic partner, parents, siblings, children, stepchildren, grandparents, or any person in a relationship with a supplier where there would be a conflict of interest. If there is a question, check with "Supplier Services" at HomeSteps for advice.

HomeSteps has advised that independent franchises are not considered related parties to other independent real estate franchises where there is not shared ownership or other financial interest. In other words, the conflict of interest rules do not apply if the only relationship is that both real estate firms are part of the same franchise family.

## Fannie Mae/HomePath

Fannie Mae's position on Real Estate Broker conflicts of interest and potential fraudulent activity are outlined in its Master Listing Agreement, in the Core Performance Expectations section of its REO Sales Guide, and in periodic communications that are sent to Fannie Mae vendors from the Fannie Mae Vendor Desk. The following excerpt from a recent communication to brokers summarizes Fannie Mae's expectations.



As a Fannie Mae listing broker, your roles and responsibilities as outlined in the REO Sales Guide and the Master Listing Agreement include:

- Providing the highest possible standards of business ethics and professional courtesy.
- Consistently and accurately following both the letter and spirit of all Fannie Mae policies, procedures, functions, guidelines and philosophies.
- Complying with all applicable laws and regulations.
- Immediately reporting any issues or activities that may lead to a detection of fraud by calling 800-7-Fannie.

The following are examples of potential fraudulent activities. This is not an exhaustive list, but rather a reminder of some of the activities you as a listing broker or agent must report:

- Potential conflicts of interest that do not have Fannie Mae's express, prior written consent:
  - A broker or agent representing a related party (examples of related parties include family, equity ownership, debt or credit arrangements, or partnership affiliations).
  - A broker or agent permitting a related party to perform services or receive compensation of any kind in connection with their Fannie Mae assigned properties.
- Participating in flipping of Fannie Mae REO properties involving misrepresentations (including omission) of material facts such as property condition, value, parties to the transaction, occupancy, or terms of the transaction.
- Failure to submit all offers to Fannie Mae.
- Failure to disclose known or suspected misrepresentations by buyers or their agents, including the intent to occupy the property to avoid FirstLook restrictions.
- Misrepresenting available options for tenants as outlined in Fannie Mae's Know Your Options flyer.
- Manufacturing false offer activity or exaggerating property condition in an attempt to support a lower value or price.
- Entering false or misleading information into the MLS regarding the status of a Fannie Mae listing.
- Offering bribes to Fannie Mae employees for property assignments.
- Invoicing Fannie Mae for services not rendered.

The communication also included a variety of resources to aid in the detection and prevention of mortgage fraud including materials found on the National Association of REALTORS® site at <u>www.realtor.org</u> and the sites of local real estate boards or state licensing authorities. For more information or to report possible mortgage fraud, contact Fannie Mae at 800-732-6643 or via e-mail at <u>mortgagefraud tips@fanniemae.com</u>.

