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## Overview

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Who We Are

We are America’s Housing Partner.

Fannie Mae sits at the very heart of the housing industry.

We purchase qualifying mortgages from lenders, bundle them into bonds and sell to investors. Lenders use their replenished cash to originate new mortgages, and we use ours to start the process again. This continuous flow of money promotes a healthy housing market.

1 in 3 homes are financed by us.

We partner with lenders to create home purchase (single-family) and rental (multifamily) opportunities for millions of Americans across the country.
Our Single-Family Business

Providing liquidity to the housing market and investment options to rates and credit investors.

Lender
- Originates loans

Fannie Mae
- Creates guaranteed MBS & non-guaranteed credit risk securities

MBS
- Delivers loans
- Services loans
- Pays guaranty fee

Securitizes loans. Guarantees principal & interest on MBS in exchange for guaranty fee

Interest Rate Investor
- Purchases MBS & assumes interest rate risk

Credit Investor
- Purchases credit risk securities & assumes portion of credit risk

Proceeds from sale of MBS flow back to lender to fund new loans

Fannie Mae Single-Family Credit Risk Management.
Credit Risk Management is a Cornerstone of our Business

Participants in Credit Risk Transfer are investing in Fannie Mae as a credit risk manager – the largest in the mortgage industry.

Fannie Mae was the largest issuer of single-family mortgage securities in Q3 2018.

In Q3 2018, we provided $122 billion in single-family mortgage liquidity across the country.

Approximately 38%* of the loans in our single-family conventional guaranty book of business, measured by unpaid principal balance, were included in a reference pool for a credit risk transfer transaction.

* As of September 30, 2018
We set Standards for the Market

Dynamic risk management focused on sustainability as the industry evolves.

Underwriting, Eligibility and Quality Control

- Establish and enforce robust underwriting and eligibility standards to ensure sustainable homeownership
- Continuously monitor and revise policy guidelines to ensure quality and performance
- Review of loans early in the process, supported by data and analytics, to identify defects and drive seller and servicer improvements in loan manufacturing quality

Credit Loss Management

- Require contact with delinquent borrowers more quickly
- Provide flexible modification programs for qualified distressed borrowers
- Robust servicer training and oversight based on a framework of metrics, incentives, and remedies
- Industry’s largest platform for the marketing and sale of Real Estate Owned properties

Innovation

- Focus on data to improve loan manufacturing quality and identify defects earlier in the process
- Continue to create and deploy cutting-edge data driven tools to support underwriting, property valuation, quality control, servicing and real estate owned management

As one of the largest guarantors of U.S. mortgages, we play a major role in setting the standards for the housing finance market.

Fannie Mae Single-Family Credit Risk Management.
Our Single-Family Strategy and Digital Vision

Our Strategy

- Lenders
- Certainty
- Transparency
- Simplicity
- Servicers
- Investors

Our Digital Vision

- Legacy
- Future

Deliver a fully electronic and secure mortgage process – leading the industry's digital transformation
Responsibly Supporting Homeownership

Fannie Mae has a duty to serve the underserved, including expanding access to mortgage credit in nontraditional and common sense ways for creditworthy borrowers.

Our Overall Approach to Affordable Lending

- Credit Standards must support **sustainable** homeownership
- **Only** creditworthy borrowers can qualify
- Focus is on improving loan access by making loans **affordable** rather than compromising on our underwriting standards
- Pilots tailored to reach specific populations are leveraged to test **responsible** ways to address barriers to homeownership
- **HomeReady®** is Fannie Mae’s flagship affordable program
  - Underwritten to the same performance expectations as all other loans
  - Reduces mortgage costs for creditworthy low-to-moderate income borrowers

*High LTV share of Low/Moderate Income Borrowers*

*Share of Acquisition UPB for loans with original LTV >80% where borrower income is less than or equal to the Area Median Income (AMI)*
Our Credit Risk Management Strategy

Promote sustainable home ownership, and minimize losses and maximize recoveries for CRT investors and taxpayers.

- We actively manage our partners and the loans we buy throughout the loan lifecycle
- Our strategy is driven by strong policy, supported by robust data and unique analytical tools
- Our goal is to be transparent to our customers and partners
Our Risk Governance & Culture

Our credit risk management strategy is bolstered by a “three lines of defense” approach to managing risk.

### Responsibilities

**1st Line**
Business Units and Operations*

- Identify, assess, respond to, and monitor/report on risks
- Abide by risk appetite, policies, standards, and limits/thresholds

**2nd Line**
Enterprise Risk Management, Compliance, Support Functions

- Set standards for the first line of defense to manage and oversee risks
- Perform independent oversight and monitoring of risk management, and aggregate reporting on risk
- Develop and maintain the Company’s integrated risk management program

**3rd Line**
Internal Audit

- Perform independent systematic evaluation of the effectiveness of the internal controls systems employed by management to achieve objectives

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*The first line of defense is comprised of any group that generates risk from their business activities.*
Who We Do Business With
Counterparty Risk Management

We rate all of our seller/servicer counterparties on a quantitative and qualitative basis. This rating helps define our risk tolerance and maximum exposure for each counterparty. Our framework is composed of:

<table>
<thead>
<tr>
<th>Counterparty Ratings</th>
<th>Counterparty Limits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal ratings make assessments that cover the following areas:</td>
<td>Internal exposure limits tracked on a daily basis for all counterparties and are based on:</td>
</tr>
<tr>
<td>- Profitability</td>
<td>- Internal Ratings</td>
</tr>
<tr>
<td>- Asset Quality</td>
<td>- Financial Capacity</td>
</tr>
<tr>
<td>- Capitalization</td>
<td>- Liquidity / Funding</td>
</tr>
<tr>
<td>- Profitability</td>
<td>- Portfolio Concentration</td>
</tr>
<tr>
<td>- Asset Quality</td>
<td>- Management Quality</td>
</tr>
</tbody>
</table>

Risk mitigation strategies for troubled sellers/servicers include:

- guaranty of obligations by higher-rated entities;
- reduction or elimination of exposures and/or certain business activities;
- collateral to secure obligations; and/or
- suspension/termination of seller/servicer approval(s)
Becoming a Fannie Mae Seller/Servicer

A key strength of our credit loss mitigation strategy is our comprehensive management of sellers and servicers to assess readiness to do business with us and the continual evaluation of compliance with our guidelines.

Fannie Mae’s resources provide transparency into the onboarding process

✔ Typically a three-to-four month process.
✔ Seller/Servicer Requirements include(1):

- At least 24 months in the mortgage business
- Minimum net worth of at least $2.5M plus 0.25% of UPB of servicing portfolio and minimum capital and liquidity requirements
- Adequate facilities and experienced staff
- Quality control processes & procedures for loan products, servicing, and vendor management

✔ Potential servicers must also have written procedures in escrow management, general servicing, investor reporting, custodial funds, default management, QC, and audit.

Sellers and servicers must meet financial, organizational, staffing, process, and experience requirements.

(1)See the Path to Approval Toolkit, our Selling Guide and our Servicing Guide for more information at www.fanniemae.com
Active Review of Seller/Servicer Before Approval

Encompasses both an offsite review and onsite review that includes:

**Pre-contract seller assessment**
- Organizational structure and governance
- Retail/wholesale/correspondent
- Underwriting
- Appraisal review and approval
- Quality control
- Site/system walkthrough

**Pre-contract servicer assessment**
- Organizational structure and governance
- General servicing
- Solution delivery\(^1\)
- Timeline management
- Subservicer selection protocols and oversight criteria

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Pre-contract assessments help us to determine the quality of seller/servicer processes and effectiveness of controls.

\(^1\) Includes loss mitigation and liquidation
## Our Representations & Warranties Framework

Fannie Mae relies on a delegated model – sellers providing representations & warranties that the loans they deliver to us meet our guidelines.

<table>
<thead>
<tr>
<th>Framework</th>
<th>Life of Loan Representations &amp; Warranties</th>
<th>Enhanced Quality Control</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sellers and servicers are jointly and severally responsible for breaches of selling reps and warranties.</td>
<td>Lenders may receive relief from certain underwriting reps for an individual loan based on that loan’s payment performance or completion of successful loan QC review. No relief for breaches of certain “life of loan” reps and warranties, including matters related to fraud, misrepresentation, clear title, legal compliance, eligibility, and our Charter.</td>
<td>Leveraging automation, applying advanced analytics and bringing key quality control processes upfront helping to avoid common manufacturing defects.</td>
</tr>
</tbody>
</table>
Customer Delivery Teams

Dedicated customer teams provide critical support in hands-on risk management:

<table>
<thead>
<tr>
<th>Sellers</th>
<th>Servicers</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Assess and monitor lender’s credit culture through ongoing interaction, regular onsite visits, and senior-level engagement</td>
<td>- Measure, monitor, and manage servicer performance commensurate with total delinquency (TDQ: 30+ days) and serious delinquency (SDQ: 90+ days) volume</td>
</tr>
<tr>
<td>- Monitor acquisition profile, performance, and lender’s overall book of business to ensure compliance with Fannie Mae’s requirements and corporate risk expectations and tolerance</td>
<td>- Provide regular performance goals to certain servicers</td>
</tr>
<tr>
<td>- Assess and monitor lender’s credit culture through ongoing interaction, regular onsite visits, and senior-level engagement</td>
<td>- Discuss performance against goals and track action items to improve</td>
</tr>
<tr>
<td>- Monitor acquisition profile, performance, and lender’s overall book of business to ensure compliance with Fannie Mae’s requirements and corporate risk expectations and tolerance</td>
<td>- Follow up on remediation of findings from servicer compliance reviews</td>
</tr>
<tr>
<td>- Lead remediation efforts to address performance/quality issues</td>
<td>- Work with single-family risk management to provide best practices and consultative support in collections, modifications, short sales/mortgage release, bankruptcy monitoring, foreclosure processing, and reporting</td>
</tr>
<tr>
<td>- Serve as lender’s contact for risk policy and interpretation</td>
<td></td>
</tr>
<tr>
<td>- Interact with lenders regarding loan quality and loan delivery, including anti-fraud measures</td>
<td></td>
</tr>
<tr>
<td>- Provide lenders with training, expertise, and assistance on risk related topics including credit quality issues</td>
<td></td>
</tr>
</tbody>
</table>

Customer Delivery Teams (CDTs) are the central point of contact to address lender/servicer questions and provide feedback.
What We Buy
Setting our Selling Policy

Fannie Mae’s selling philosophy considers all stages of the loan life cycle.

Single Family Selling Guide Policy Development Life Cycle

Monitor & Assess
- Book and acquisition profile, performance, volume
- Economic and housing market data
- Regulatory and legislative changes
- Market and competitive landscape

Research & Analyze
- Performance expectations
- Credit, operational, and legal risks
- Impact on housing market, liquidity, lenders, and borrowers

Communicate Policy Decisions
- Share updates and policy changes via the Selling Guide

Actively Engage
- Lenders
- Internal stakeholders
- External industry stakeholders

We closely monitor the performance and quality of acquisitions and make necessary policy and process changes to maintain strong performance of the book.
## Communicating our Policies

Fannie Mae’s communications are designed to be timely and transparent in order to keep lenders, and servicers informed of up-to-date policy and requirement changes.

<table>
<thead>
<tr>
<th>Source</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Selling Guide</td>
<td>Part of the legal contract; informs lenders about our policies and requirements for the origination, underwriting, and delivery of mortgages that Fannie Mae will purchase or securitize</td>
</tr>
<tr>
<td>The Servicing Guide</td>
<td>Part of the legal contract; informs servicers of the policies and requirements for performing servicing obligations</td>
</tr>
<tr>
<td>Announcements and Release Notes</td>
<td>Describe new, supplemental, or modified policies, procedures, and requirements, and amend the Selling Guide or Servicing Guide documents posted on <a href="http://www.FannieMae.com">www.FannieMae.com</a></td>
</tr>
<tr>
<td>Lender/Servicing Letters and Notices</td>
<td>Communicate new or modified policies and requirements that may be temporary in nature, reminders of existing policies, or advanced notice of policy changes with future effective dates to be included in future Selling Guide or Servicing Guide updates. Also provide information that lenders/servicers need but that does not require an update to Selling Guide or Servicing Guide text, such as an update to an exhibit on Fannie Mae’s website.</td>
</tr>
<tr>
<td>Exhibits and Forms Incorporated by Reference</td>
<td>Information about specific forms the servicer must use to fulfill the policies and requirements contained in the Servicing Guide.</td>
</tr>
<tr>
<td>Mortgage Selling &amp; Servicing Contract (MSSC)</td>
<td>Establishes the lender’s contractual relationship with Fannie Mae, and sets forth the terms and conditions for the lender to sell mortgages to Fannie Mae and incorporates the Selling Guide and Servicing Guide</td>
</tr>
<tr>
<td>Seller Negotiated Contracts</td>
<td>Establishes negotiated guideline exceptions that are acceptable due to alignment with our credit risk appetite and the lender’s overall control environment</td>
</tr>
</tbody>
</table>

Fannie Mae is focused on bringing transparency to its seller/servicer customers through policy communications, key to the success of our rep & warrant framework. We provide targeted announcements and commentaries to investors to support transparency into our programs.

*Selling Guide, Servicing Guide, Announcements, Lender Letters, Notices are available on Fanniemae.com and AllRegs® and constitute part of the contract between Fannie Mae and the lenders. News is pushed to external customers by subscribing to Fannie Mae’s email subscription services available on Fanniemae.com.*
Proprietary Tools Support Quality Underwriting

Desktop Underwriter®
Automates Fannie Mae's underwriting guidelines and credit policies by performing detailed analysis of credit and mortgage risk factors.

- Available to all Fannie Mae Sellers and certain other originators
- Allows us to make a risk recommendation of the loans
- Continually innovate ways to enhance loan quality
- DU validation service uses designated third-party data vendors to independently validate borrower income, assets, and employment data
- Piloting capability to verify borrower income, employment, assets directly from a single source, a borrower’s bank account transaction history
- Enables us to provide representation and warranty relief on eligible components when validated through the service

Collateral Underwriter®
Proprietary appraisal analytics tool for measuring appraisal risk using electronic appraisal records to improve loan quality.

- Incorporated into DU and available to all Fannie Mae Sellers
- Drives quality improvements across the industry.
- Proprietary appraisal risk assessment tool, unique to the industry
- Inclusive of over 32 million appraisals
- Used by more than 1,900 lenders
- Scores appraisal quality
- Enables us to provide value representation and warranty relief on eligible transactions
- The underlying collateral data enables us to provide Appraisal Waivers on eligible transactions

Our tools are some of the most widely used in the industry supporting comprehensive credit risk management.
Desktop Underwriter (DU®) – Industry’s Most Widely used Automated Underwriting System

Used by 1,900+ lenders, with over 90% of delivered loans\(^{(1)}\) evaluated through DU in 2018

- Automates underwriting eligibility guidelines and assesses risk of the loan through a comprehensive examination of primary and contributory risk factors
- Improves efficiency of loan origination process and enables efficient deployment of new policies, standards, and products to lenders
- Provides lender with underwriting and eligibility recommendations and a list of conditions/verifications that must be fulfilled in order to sell the loan to Fannie Mae
- DU validation service – Enables source validation of income, assets, and employment through third-party data vendors

DU connects with proprietary tools for detailed analysis of credit and mortgage risk factors.

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\(^{(1)}\) Excluding Refi Plus and DU Refi Plus

Fannie Mae Single-Family Credit Risk Management.
DU’s Comprehensive Risk Evaluation

Performs a detailed analysis of each borrower’s credit profile and other mortgage risk factors, weighing each based on the amount of risk and its importance to the recommendation.

<table>
<thead>
<tr>
<th>Credit Profile Risk Factors</th>
<th>Additional Risk Factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Full review of credit history</td>
<td>- Borrower’s equity and loan-to-value ratio</td>
</tr>
<tr>
<td>- Delinquent accounts</td>
<td>- Liquid reserves</td>
</tr>
<tr>
<td>- Installment loans</td>
<td>- Loan purpose</td>
</tr>
<tr>
<td>- Revolving credit utilization</td>
<td>- Loan term</td>
</tr>
<tr>
<td>- Public records</td>
<td>- Loan amortization type</td>
</tr>
<tr>
<td>- Foreclosures and collections</td>
<td>- Occupancy type</td>
</tr>
<tr>
<td>- Credit inquiries</td>
<td>- Debt-to-income ratio</td>
</tr>
<tr>
<td>- Trended credit data</td>
<td>- Housing expense ratio</td>
</tr>
<tr>
<td></td>
<td>- Property type</td>
</tr>
<tr>
<td></td>
<td>- Co-borrowers</td>
</tr>
<tr>
<td></td>
<td>- Self-employment</td>
</tr>
</tbody>
</table>

DU does not rely on credit scores. Rather, it performs a detailed analysis of credit and mortgage risk factors to assess creditworthiness.
HomeReady

HomeReady is aimed at making homeownership more affordable for creditworthy low- and moderate-income borrowers:

- Borrower’s income must be less than or equal to 100% of area median income (AMI), or
- The property must be located in a low income census tract (31% of census tracts as of 2017)

HomeReady reduces borrower costs:

- Reduced MI requirements for LTV>90 result in lower monthly payment
- Lower loan-level price adjustments (LLPAs) help to reduce the rate and/or fees charged to the borrower

HomeReady loans are underwritten through DU to the same performance expectations as all other Fannie Mae loans

Since rollout in late 2015, HomeReady has captured an increasing share of our low/mod loan acquisitions

- Previous community lending programs required lenders to manually identify low/mod borrowers
- With HomeReady, DU proactively identifies eligible borrowers, simplifying the process for lenders
- This automation allows more eligible borrowers to receive a HomeReady offer
- Because of the lower monthly payments, lenders can offer eligible borrowers more competitive pricing than under a non-HomeReady loan

Low/Mod income lending has consistently been a significant share of Fannie Mae’s business

Source: Fannie Mae
Appraisal Data Delivery and Strategy

Uniform data standards and collection together with Fannie Mae’s advanced analytics are transforming the industry by identifying higher risk appraisals earlier in the lending process.

**Robust appraisal analytics improve assessment of collateral risk:**

- Appraisal data quality and eligibility issues identified by automated data checks at time of submission
- Additional messaging generated by CU gives lenders real-time feedback on critical valuation risks
- CU provides context behind messages along with additional validation data and tools to assist in managing risks
- Fannie Mae leverages CU analytics in our post-purchase QC process to uncover valuation defects and enhance our discretionary QC sampling
- Appraiser Quality Monitoring framework detects and manages collateral risk issues at the appraiser level

Advanced data helps to inform policy enhancement leading to more effective appraisal policies and enabling modernization of appraisal processes.
Collateral Underwriter

CU is Fannie Mae’s flagship product of appraisal data innovation, driving greater digitization in the mortgage industry

<table>
<thead>
<tr>
<th>Appraisal analysis</th>
<th>Data integrity</th>
<th>Comparable selection</th>
<th>Local market analytics</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ CU Risk Score rates risk on a scale of 1-5 where 5 is highest risk</td>
<td>▪ Helps to identify when an appraiser has reported potentially incorrect property or transaction characteristics</td>
<td>▪ CU shows pertinent property and transaction characteristics for the subject and comparable properties</td>
<td>▪ Provides analytics like median sales price or price per square foot at a Census Block Group level</td>
</tr>
<tr>
<td>▪ Appraisal quality flag notes potential issues with the appraiser’s methodology</td>
<td>▪ Compares specific data fields on the appraisal against previously reported data to identify discrepancies</td>
<td>▪ Appraiser-provided comparables are analyzed by CU and ranked against a pool of available sales based on physical characteristics, location, and sale date</td>
<td>▪ Overlays prior and current transactions of the subject property on a plot of market trends at the zip code level from the Fannie Mae Home Price Index</td>
</tr>
<tr>
<td>▪ Overvaluation flag notes potentially unsupported appraised values</td>
<td>▪ Identifies inconsistencies within an appraiser’s body of work and relative to peers</td>
<td>▪ Statistically-derived, market-specific adjustments for differences in physical features, time, and location estimated by the model</td>
<td></td>
</tr>
<tr>
<td>▪ Messages provide specific feedback to lenders so that potential issues can be addressed prior to loan delivery to Fannie Mae</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Advanced data-driven analytics support collateral appraisal quality – a key risk attribute.
Spotlight on Innovation

Data and technology enable us to drive innovation throughout the mortgage process.

Control framework supports innovation and incorporates enhanced vendor management.
Innovation through DU

Asset, income, and employment validation are important components of the underwriting process, critical to understanding a borrower’s ability to repay a mortgage loan.

### Traditional Validation
- Requires seller to collect and verify income and asset documentation from borrower to satisfy underwriting requirements
- Manual and paper intensive process
- Seller provides a representation and warranty that the information is accurate

### DU Validation Service
- Validates income, employment, and assets through source data rather than relying on borrower
- Reduces loan processing time by relying on data provided by third party vendors who are connected to employer, tax and bank data
- If validated, and lender meets the terms of obtaining relief, lender receives representation and warranty relief on a component level (e.g. per-borrower, income type, or employer basis)

### Single Source Validation (in pilot)
- Goal of pilot is to expand capabilities to validate borrower income and employment through source data
- Over 80% of borrowers are paid via direct deposit on a recurring basis (1)
- Through DU, we can leverage paycheck direct deposit data to validate income for certain types of borrowers (wage earners, retirement/social security income)
- If validated, seller receives representation and warranty relief on a per-borrower or employer basis

DU enables Fannie Mae to test innovative ways to improve the mortgage process.

Innovation with CU

Fannie Mae’s appraisal waiver, formerly known as Property Inspection Waiver, leverages DU and CU in an integrated fashion to offer appraisal waivers for certain lower-risk eligible loans

- The subject property must have a prior appraisal that was previously submitted through CU
- CU will evaluate the quality of the prior appraisal, including a review for overvaluation issues. If the prior appraisal had an overvaluation flag, a waiver will not be offered
- If the estimated property value is reasonably supported, the loan may be eligible for a waiver, subject to additional eligibility requirements
- The majority of transactions will continue to require an appraisal
- Advanced data collection techniques along with CU drive future collateral innovation

Part of Fannie Mae’s commitment to simplifying the complexity of mortgage origination by creating efficiencies and delivering innovations, leveraging data.
Day 1 Certainty®

By leveraging borrower and property data, applying advanced analytics, and bringing key quality control processes up front, Fannie Mae is helping to improve the loan origination process.

1. Direct source validation of borrower income, employment, and assets through DU reduces **paperwork, loan process time and exposure to borrower fraud**. Fannie Mae provides relief from enforcement of representations and warranties on validated components.

2. By combining DU with the industry-leading analytics provided by Collateral Underwriter to leverage our database of **more than 32 million appraisals**, Fannie Mae can offer appraisal waivers for certain eligible transactions. We provide relief from enforcement of representations and warranties on the value of the appraisal.

3. Potential valuation issues are identified during the underwriting process, **before loans are delivered**. This allows lenders to correct potential valuation errors upfront, and also allows us to monitor behavior across appraisers. CU has been effective in identifying loans with appraisal defects. Fannie Mae provides relief from enforcement of representations and warranties on the value of the appraisal when the CU risk score is 2.5 or lower.

We’re improving quality and reducing risk by leveraging automation to help lenders avoid common loan manufacturing defects.
Control Framework that Supports Innovation

Robust risk assessment evaluates vendors based on unique characteristics. Thorough testing of vendor is conducted during the pilot phase before going into production.

**Ongoing review**
- Reassess vendors on their one-year anniversary of the Risk Framework
- Continue to develop on-going QC regimen at the loan level
- Working to align with industry-determined best practices for protecting consumer financial data
How We Manage Performance

- Loan-Level Quality Control Review
- Seller/Servicer Oversight & Management
  - Seller Quality Monitoring
  - Servicer Review & Oversight
## Post-Purchase Loan Quality Review Processes

Fannie Mae conducts rigorous loan quality control reviews on new acquisitions and non-performing loans.

### New acquisitions

#### Random Selections
- Determine overall loan defect rate and trends
- Monthly random loan file selections of statistically valid sample of Fannie Mae’s acquisitions
- Lender stratified sample and comparisons help drive improved quality control in lenders’ processes
- Random selections to ensure every lender with at least ten loans delivered to us in a year has loan files selected for review

#### Discretionary / Targeted Selections
- Discretionary loan selection driven by automated data and analysis tools
- Additional discretionary selections target new and emerging risk lenders

**Enforce remedies before loan defaults**

**Drive policy and lender-level action to reduce defect rate**

### Non-performing loans

#### All non-performing loans *
- Undergo predictive model-driven analysis that assigns a repurchase risk score
- Any loan above the prescribed risk score is selected for hands-on review
- Non-performing loan review volumes have dropped in recent years due to sharp reduction in defaulted loans

**Enforce representations and warranties and mitigate losses**

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Reviews of performing loans measure the quality of new acquisitions and target potential problem loans. Reviews of non-performing loans aim to mitigate potential credit losses.

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* Excluding loans acquired under Fannie Mae’s RefiPlus program
Loan Quality Review Process

Ensures compliance and provides lenders with actionable data and feedback about loan origination quality

**Post Purchase File Review Process**

- Validates that loans Fannie Mae purchases were originated in accordance with applicable requirements
- Uses proprietary underwriting risk assessment forensics tool in quality control reviews, and finds data anomalies that may impact eligibility
- Full underwriting review of the loan is completed when a loan file is requested from a lender

**Loan Defect Remedies**

Remedies enforce contractual rights and motivate the lender to correct their manufacturing processes.

<table>
<thead>
<tr>
<th>Defect Type</th>
<th>Defect Description</th>
<th>Remedies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finding</td>
<td>Defect does not necessitate a change in the price of the loan or result in the loan being ineligible for delivery</td>
<td>Lender submits data correction - Could trigger CAS Reference Pool removal, depending on nature of data change</td>
</tr>
<tr>
<td>Price Adjusted Loan</td>
<td>Loan was otherwise eligible for delivery had the correct loan-level price adjustment (LLPA) been paid to Fannie Mae by the lender</td>
<td>Lender submits data correction, and pays the applicable LLPA - Could trigger CAS Reference Pool removal, depending on nature of data change</td>
</tr>
<tr>
<td>Significant Defect</td>
<td>Defect that either necessitates a change to the price on which the loan was acquired or results in the loan being ineligible for purchase</td>
<td>Loan repurchase, or repurchase alternative, which may include payment of a fee and/or an agreement by the lender to provide recourse on the loan - Repurchases and repurchase alternatives are treated as CAS Reference Pool removals</td>
</tr>
</tbody>
</table>

Fannie Mae’s loan review process pairs analytical tools with human reviews to ensure compliance.
Post-Purchase Loan Review Findings

Fannie Mae’s focus on improving lender quality control processes and providing upfront tools to enhance loan quality have helped improve the loan manufacturing process and drive down defect rates.

Eligibility Defect Rates from 2005-2017 Acquisitions based on Random Post Purchase Reviews

![Graph of Eligibility Defect Rates from 2005-2017 Acquisitions](image)

*Review data as of December 31, 2018*
Loan Quality Connect™

Connecting Fannie Mae and our lenders in an ongoing partnership to drive loan quality.

Loan Quality Connect is an interactive loan quality management system that is the hub for collaboration.

- Transforms how we work with lenders - simplified technology replacing the Quality Assurance System and File Transfer Portal
- More importantly, it provides the tools to support seamless collaboration and drive increased certainty

**Simplified Technology**

- One-stop shop for loan file submissions and status updates
- Save time and money with simplified doc management
- No integration required

**Seamless Collaboration**

- Instant communication tools for process efficiencies
- No email or spreadsheets—all documents and communications stay within the system

**Increased Certainty**

- Instant status updates
- Real-time loan quality feedback
- Self-serve reporting and data visualization
Management and Monitoring of our Sellers

Mortgage Origination Risk Assessment
- In-depth reviews of a lender’s origination processes
- Assess the quality of a lender’s manufacturing process, and the effectiveness of its controls

Targeted Lender Oversight
- Internal monitoring through the use of proprietary tools quickly assesses risk associated with new lenders and/or lenders that may have emerging growth and/or potentially elevated risk

Data Validation Center
- Review and respond to the potential data changes that are identified from Fannie Mae’s models
- Analyzes data changes that do not rise to the level of a repurchase and determines next steps

Lender Loan Quality Monitoring and Control
- Quality control system allows real time engagement with lenders on manufacturing quality to drive faster improvement in lender process
- Testing to determine the adequacy and effectiveness of lender’s quality control processes and procedures

Rigorous monitoring conducted through an integrated framework to ensure sellers have effective controls in place to meet eligibility, operational, QC, and data quality guidelines
Seller Oversight

The mortgage origination risk assessment process assesses lenders’ operational risks.

- A key component of review is process evaluation – a review of policies, procedures, management reports, and file-level testing. Validates adherence to Fannie Mae requirements and assesses operational capabilities
- All reviews produce a final assessment – findings, applicable corrective actions, and any recommendations based on tests, interviews, and ratings
- If remediation is needed, lenders have 30 days from date of report delivery to submit a proposed Action Plan to the Single Family Remediation team. This team tracks findings, confirms completion of corrective actions, and/or retests to evidence effectiveness of the correction
LEOPARD Overview

Our proprietary lender monitoring tool, LEOPARD measures and rank orders our 1,200+ sellers, providing a holistic view across operations, risk, profitability and execution:

- Empowering the Customer Delivery Teams to make decisions with more certainty, clarity and speed
- Simplifying metrics to focus on critical risk while setting thresholds that are aligned with Board Risk Limits and Triggers
- Allowing the Single Family Risk team to quickly identify meaningful and persistent anomalous trends through established risk tiers

Benefits:

- A more nimble and user-friendly interface
- New metrics covering additional important risk areas such as counterparty, loan quality and collateral
- A new methodology used to categorize lenders by leveraging visual management and aligning with other customer-facing tools

LEOPARD, an innovative dashboard, was developed to provide enhanced lender monitoring reports to support Fannie Mae’s risk management processes.
Fannie Mae QC specialists

- Dedicated Fannie Mae QC specialists interface directly with our lenders
- Support lender with action planning to address top findings and defects
- Provide analysis and recommendations related to loan manufacturing quality
- When loans with significant defects are found, Loan Quality Control (LQC) and QC specialists work with lenders to assess if repurchase or repurchase alternatives are appropriate

Seller Training Provides Industry Value

Effective, fully integrated quality control program provides value to the lenders’ businesses, and the overall industry.

“Beyond the Guide” offers best practices for a comprehensive Risk Control Framework

Training designed to foster loan quality and reduce defects

- Training resource catalog offers comprehensive collection of resources available to lenders
- Quality control self-assessment tool enables quality control managers to analyze the state of their programs
- Annual Risk Management and QC boot camp provides intensive live training on underwriting and quality control requirements
- Beyond the Guide offers ideas for enhancing quality control efforts

Validating Application
Data Internal/Third-Party Data & Fraud Tools

Underwriting & Eligibility

Appraisal & Collateral Assessment

Prefunding Quality Control *Inform compliance

Pre-Closing Document Review

A Culture of Quality
Senior Management Accountability

Audit of the QC function
Audit of the QC vendor

Action Plan to Prevent Future Defects

Reporting

Post-Closing Quality Control *Inform compliance

Post-Closing Document Review

Feedback

Control Point
Stop Loan
Remediate
Setting our Servicing Policy

Ensures that Fannie Mae’s servicing, insurance, and expense reimbursement policies are appropriate to preserve homeownership and manage credit losses.

Single Family Servicing Guide Policy Development Life Cycle

- **Monitor & Assess**
  - Book and acquisition profile, performance, volume
  - Economic and housing market data
  - Regulatory and legislative changes
  - Market and competitive landscape

- **Research & Analyze**
  - Performance expectations
  - Need for servicing industry alignment
  - Credit, operational, and legal risks
  - Impact on housing market, liquidity, servicers, borrowers

- **Communicate Policy Decisions**
  - Share updates and policy changes via the Servicing Guide

- **Actively Engage**
  - Servicers
  - Internal stakeholders
  - External industry stakeholders

We closely monitor the performance and quality of acquisitions and make necessary policy and process changes to maintain strong performance of the book.
Fannie Mae’s Servicer Total Achievement and Rewards™ (STAR™) Program is one of the primary ways that we monitor servicers. The framework gauges relative performance across servicers and provides benchmarks to drive better performance.

The program seeks to:

- Align servicer performance with Fannie Mae’s expectations to reduce our credit losses.
- Provide a consistent methodology for measuring servicer performance on the STAR Scorecard.
- Understand and communicate leading practices across the servicing industry using operational assessments.
- Identify and recognize our highest performing servicers.

The STAR Performance Scorecard whitepaper is available at https://www.fanniemae.com/content/job-aid/star-white-paper/topic/welcomenew.htm
**STAR Performance Scorecard**

Servicers are evaluated across distinct business processes that measure performance in terms of a servicer’s ability to prevent credit losses for Fannie Mae leveraging scorecard metrics and operational assessments.

<table>
<thead>
<tr>
<th>General Servicing</th>
<th>Solution Delivery</th>
<th>Timeline Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Measured on managing early term roll rates, call center management, and investor reporting and custodial accounting.</td>
<td>Measured on their ability to resolve delinquent loans and effectiveness in providing the appropriate loss mitigation or liquidation product.</td>
<td>Measured on their ability to resolve or liquidate loans beyond the allowable foreclosure time frames, timely reporting of new REO inventory, and ensuring property is marketable.</td>
</tr>
<tr>
<td>Measured on their general servicing functions that include loan payment processing, escrow account management and loan boarding practices are managed consistently.</td>
<td>Measured on their standard practices for borrower outreach, loan modification and liquidation practices meet Fannie Mae requirements.</td>
<td>Measured on their foreclosure proceedings conducted appropriately by participating in foreclosure initiation, timeline management and reporting, and process management including mortgage default law firm management.</td>
</tr>
</tbody>
</table>

Our servicers’ success is essential in achieving Fannie Mae’s goal of preserving home ownership and reducing taxpayers’ and investors’ exposure to credit losses.
Incentives To Drive Performance

Incentives are leveraged to motivate servicers to deliver improved performance.

Encourage earlier borrower contact and faster solution delivery to distressed borrowers:

- Improve outreach and service to borrowers
- Achieve better post-mod performance
- Align investor and servicer benefits
- Increase value returned to Fannie Mae, taxpayers and investors

Monetary incentives tied to timing of solution delivery

- Incentives as high as $1,600 for eligible modifications occurring for loans that are less than or equal to 120 days delinquent
- Incentives as high as $2,500 for short sale and mortgage release closings that are less than or equal to 210 days delinquent

Faster solution delivery supports improved performance metrics measured as part of STAR
Remediation and Escalation

STAR program prescribes corrective actions as needed and escalates to leadership if remediation is not completed as agreed.

Findings and Remediation

- Final Reports are issued with prescribed corrective actions and expected resolution due dates for each finding tracked in an action plan
- Dedicated analysts are assigned to assist the servicer through their remediation efforts to ensure compliance as each finding is cleared
- If remediation is not completed by the agreed upon due date or if a servicer is unable to clear a finding, the issue is escalated to cross-functional leadership

Escalation

- Monthly reports are reviewed to maintain awareness of all open findings and the current status
- Quarterly status updates and recommended actions are provided for servicers with overall ratings of Needs Significant Improvement or Unsatisfactory, and if remediation efforts are stalled or unacceptable to resolve the finding
- Guidance is issued by leadership for required action
We generally follow a waterfall approach to pursuing remedies for servicing defects:

- Opportunity to Cure – Servicers typically are given an opportunity to correct a servicing defect
- Repurchase Alternative – If the servicer is unable to correct the servicing defect, Fannie Mae’s primary remedy generally is a repurchase alternative such as an indemnification for any loss
- Repurchase – A remedy whereby the servicer repurchases either the mortgage loan or the property that was securing the mortgage loan

Fannie Mae also assesses compensatory fees in certain circumstances to compensate Fannie Mae for losses caused by poor performance by the servicer.

Servicing remedies help us recover losses and emphasize compliance with our Servicing Guide.
How We Resolve Issues
Borrower Outreach

Quality Right Party Contact (QRPC), a uniform standard for communicating with borrower, co-borrower, or trusted advisor supports resolution of mortgage loan delinquency. The servicer must make every attempt to achieve this uniform standard.

**Quality Right Party Contact aims to:**
- Determine reason for delinquency and whether it is temporary or permanent
- Assess whether borrower has ability to repay mortgage loan debt
- Educate borrower on available workout options, as appropriate
- Obtain commitment from borrower to resolve the delinquency

**Helps servicers to help their borrowers. Benefits include:**

<table>
<thead>
<tr>
<th>Fannie Mae</th>
<th>Servicers</th>
<th>Homeowners</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Reduction in credit losses saves taxpayer dollars</td>
<td>- Set industry standard of customer service excellence</td>
<td>- Options to avoid foreclosure discussed early, increasing likelihood of maintaining homeownership</td>
</tr>
<tr>
<td>- Reduction in foreclosures and SDQ</td>
<td>- Improved response rates and take-up rates</td>
<td>- Early engagement builds relationships and homeowner advocacy</td>
</tr>
<tr>
<td>- Suite of solutions available to homeowners earlier in delinquency cycle results in better loan performance</td>
<td>- Improved STAR performance</td>
<td>- Increased incentives for earlier loss mitigation resolution</td>
</tr>
<tr>
<td></td>
<td>- Increased satisfaction with loss mitigation experience</td>
<td></td>
</tr>
</tbody>
</table>
Borrower Outreach Timelines

Prescriptive borrower outreach sets standards for timely resolution of loss mitigation activities.

Day

- **17**: For first-lien mortgage loans, servicer must send a payment reminder notice to borrower no later than 17th day of delinquency if payment has not been received.
- **36**: No later than 36th day of delinquency, calls made every seven days until QRPC is made, borrower response package is received, or delinquency status is resolved.
- **45**: If QRPC or resolution has not been achieved by 45th day of delinquency, servicer must send either a Borrower Solicitation Letter or a Borrower Solicitation Package.
- **60**: On or after 60th day of delinquency, the first inspection takes place.
- **106**: If property is a first lien and is not vacant or abandoned, servicer must issue a breach letter no later than 75th day of delinquency.
- **121**: Days 106 – 120, within 15 days prior to foreclosure referral date: Pre-referral account review. Day 121+, referral to foreclosure if complete Borrower Response Package is not received.

**Modification related activities**

Once a complete borrower response package is received, servicer has 30 days to evaluate borrower for a workout option and must provide an Evaluation Notice to borrower within 5 days after making the decision.

If granted a modification, borrower enters a trial period plan, which has a duration of 3-4 months depending on the delinquency at start of trial.

**Foreclosure related activities**

Days 106 – 120, within 15 days prior to foreclosure referral date: Pre-referral account review.

Day 121+, referral to foreclosure if complete Borrower Response Package is not received.
## Comprehensive Disaster Response

Through policies and guidance in our *Selling* and *Servicing Guides*, as well as recently introduced solutions, Fannie Mae provides a comprehensive disaster response.

### Homeowner Support
- Suspend late charges
- Short-term foreclosure and eviction moratorium to determine disaster impact to homeowners and property
- Fannie Mae’s Disaster Response Network™, a comprehensive case-management service for disaster-affected homeowners whose mortgage loans are owned by Fannie Mae

### Customer Support
- In some cases, reimburse seller/servicers for costs of inspecting impacted properties
- Extend allowable age of credit and appraisal documentation for new lending
- Update representations and warranties relief framework to address loans in disaster forbearance

### Loss Mitigation Solutions
Servicers are authorized to offer eligible borrowers forbearance plans for up to 12 months. Once those expire, loss mitigation options may include:
- The borrower resumes making mortgage payments and brings their loan current through reinstatement
- The borrower is approved for another workout option, including a repayment plan, Extend Modification for Disaster relief, Cap and Extend Modification for Disaster Relief, or Flex Modification

### Property Preservation
- Conduct damage assessments on active and REO properties using mobile technology and aerial photography
- Timely distribution of insurance proceeds to homeowners and servicers
- Balanced servicer delegation for preservation expenses

### Neighborhood Stabilization
- REO Sales – provide owner occupants with a First Look
- Neighborhood Stabilization Initiative expansion to support sales to non-profits*

*Ideas under consideration

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Fannie Mae’s robust disaster response provides assistance to servicers to work with their homeowners in times of crisis.
Servicing Management Default Underwriter

SMDU is Fannie Mae’s proprietary, groundbreaking, and real-time workout decisioning tool for servicers that delivers certainty, speed, and savings in loss mitigation.

**Overview**

- Only tool of its kind in the industry
- Uses a standardized data set for auto decisioning and delinquency reporting to Fannie Mae
- Available to *all* of Fannie Mae’s servicers, covering all delinquent loans
  - B2B Integration (servicer’s proprietary default management system or via leading mortgage technology providers)
  - SMDU User Interface

See SMDU in action [link to video]
Automated Loss Mitigation Decisioning System

SMDU determines whether a loan is eligible for a modification per Fannie Mae policy, provides borrowers with different temporary or permanent options for their delinquency, simplifies the execution of these options, and responds quickly to changing market conditions (like disaster payment relief).

Streamlined underwriting and messaging provides clarity and certainty
- Simplified view for different loss mitigation options
- Streamlined experience on loan modification full life cycle
- Standardized messaging helps servicers and borrowers
- Decreases servicers costs associated with implementing/maintaining Fannie Mae loss mitigation policy

Rapid delivery of new products, policy and eligibility criteria
- Fully integrated (through B2B API or UI) with all leading vendors
- Available for use 24 hours a day, 7 days a week
- Automated Rules engine and Agile squads for rapid delivery

Standardized data set allows for increased consistency
- Leverages Fannie Mae provided data including originations data, property valuations, modification history, etc.
- Ensures borrowers receive a consistent evaluation from servicer to servicer
- Data views and messages can be leveraged by servicers for borrower communications
- R&W relief to servicers on all decisions and execution performed in SMDU
### Servicing Management Default Underwriter

![Servicing Management Default Underwriter Interface](image)

#### OVERVIEW OF PROPOSED TERMS

<table>
<thead>
<tr>
<th>Loan Unpaid Principal Balance</th>
<th>Amortization Term</th>
<th>Monthly Principal &amp; Interest</th>
<th>Scheduled Trial Payment Amount</th>
<th>Payment Reduction Percent (P &amp; S)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$210,478.40</td>
<td>480</td>
<td>$896.10</td>
<td>$1,265.27</td>
<td>36.46%</td>
</tr>
</tbody>
</table>

#### RECORD PAYMENTS

<table>
<thead>
<tr>
<th>Number</th>
<th>Scheduled Trial Payment Due Date</th>
<th>Scheduled Trial Payment Amount</th>
<th>Actual Payment Date</th>
<th>Actual Payment Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>08/01/2017</td>
<td>$1,265.27</td>
<td>08/11/2017</td>
<td>$1,265.27</td>
</tr>
<tr>
<td>2</td>
<td>09/01/2017</td>
<td>$1,265.27</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>3</td>
<td>10/01/2017</td>
<td>$1,265.27</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

*Extend Trial Payments?*

#### SERVICER INFORMATION

- **Servicer Contact Name**: Sam Servicer
- **Servicer Contact Email Address**: sam.servicer@servicer.com
- **Servicer Contact Phone Number**: 703-833-1000
- **Servicer Contact Phone Number Extension**: 4321
- **Servicer Contact Fax Number**: 800-123-4567

#### ADDITIONAL INFORMATION

- **Trial Plan Agreement Date**: 08/01/2017
- **Servicer’s General Comments**: 

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53  Fannie Mae Single-Family Credit Risk Management.
**SMDU Assists Borrowers in Hardship**

Fannie Mae’s available workout options, provided to servicers by SMDU, assist borrowers in states of both temporary hardship or permanent hardship.

<table>
<thead>
<tr>
<th>Hardship</th>
<th>Temporary</th>
<th>Permanent</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Borrower experiencing a hardship that has resulted in a short-term decrease in income or increase in expenses</td>
<td>Borrower experiencing hardship that resulted in a permanent or long-term decrease in income or increase in expenses</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Option</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Forbearance Plan</strong></td>
<td>Servicer must consider a payment forbearance plan when the borrower has a temporary unresolved hardship</td>
</tr>
<tr>
<td><strong>Repayment Plan</strong></td>
<td>Servicer must consider a repayment plan when the borrower has resolved the hardship and does not have the ability to reinstate the loan</td>
</tr>
<tr>
<td><strong>Cap &amp; Extend Modification</strong></td>
<td>Servicer may modify loan when borrower has resolved hardship but needs additional help with long-term affordability and does not have ability to reinstate loan</td>
</tr>
<tr>
<td><strong>Disaster Relief Extend Mod</strong></td>
<td>Servicer may extend the original maturity date up to 12 months for borrowers located in a disaster zone and meets the program requirements.</td>
</tr>
<tr>
<td><strong>Disaster Relief Cap &amp; Ext Mod</strong></td>
<td>Servicer may modify loan when borrower needs additional help with long-term affordability for borrowers located in a disaster zone and meet program requirements.</td>
</tr>
<tr>
<td><strong>Flex Modification</strong></td>
<td>Lowsers mortgage payment. Past due amount added to UPB. Makes home loan current and allows owner to avoid foreclosure</td>
</tr>
<tr>
<td><strong>Short Sale</strong></td>
<td>Pre-foreclosure sale is when owner sells home for less than balance remaining on mortgage. Fannie Mae must agree to terms</td>
</tr>
<tr>
<td><strong>Mortgage Release</strong></td>
<td>Voluntary transfer of property by owner to mortgage company in exchange for release from mortgage loans and payments</td>
</tr>
</tbody>
</table>

Fannie Mae’s simplified loss mitigation solutions are designed to provide the most appropriate workout option to a borrower while minimizing credit losses to Fannie Mae.
Foreclosure Management

Servicers ensure foreclosure proceedings are conducted appropriately by participating in foreclosure initiation, timeline management and reporting, and process management.

- **Foreclosure Initiation**: Timely and complete review of loans that are determined eligible for foreclosure prior to referral.
- **Timeline Management and Reporting**: Maintain an accurate foreclosure timeline and status tracking system as well as all related foreclosure documentation.
- **Process Management**: Processes that monitor and manage MDC law firm performance related to foreclosure and bankruptcy.

### Key Metrics

- STAR Timeline Management Metrics
- Transition to Beyond Time Frame
- Motion for Relief Referred Timely
- REOGrams Submitted within Timeline
- Title Issues Resolved within 45 Days

Servicers play a key role in ensuring that foreclosure proceedings are conducted appropriately. Metrics track their performance and influence their STAR rating.
High Loan-to-Value Refinance

The High LTV refinance option provides limited cash-out refinance opportunities to borrowers with existing Fannie Mae mortgages who are making their mortgage payments on time, but whose LTV ratio for a new mortgage exceeds 97% for a one-unit principal residence\(^{(1)}\).

Without the high LTV refinance option, borrowers generally may not otherwise have the ability to refinance. The option also provides benefits from a credit risk perspective, placing borrowers in a better equity position in order to support their mortgage payments.

- The option applies to mortgage loans owned by Fannie Mae that were originated on or after October 1, 2017
- At least 15 months must have passed from the Note Date of the loan being refinanced to the Note Date of the new loan for the loan to be eligible for the option.

### The refinance must provide one or more of these borrower benefits

- Reduced monthly payment
- Lower interest rate
- Shorter amortization term
- More stable mortgage product, such as moving from an adjustable-rate mortgage to a fixed-rate mortgage

\(^{(1)}\) or exceeds the maximum allowable LTV ratio for a limited cash-out refinance for other segments as listed in Fannie Mae’s Eligibility Matrix.
How We Manage Property Disposition
Real Estate Functional Capabilities

Our full range of credit risk management capabilities includes our valuation, sales strategy, and fulfillment operations to maintain and improve properties for sale.

- **Valuation**
  - Full range of distressed loan and real estate disposition capabilities utilized for management of the portfolio. **Disposed over 1.6 million properties since 2009**
  - Disposition capabilities include Non-performing Loan (NPL) Sales, Mortgage Releases, Short Sales, Foreclosure Auction Sales, REO Retail Sales, and REO Auction Sales. Operational capabilities to support these various channels include Valuations, Property Preservation, Repairs, Title/HOA/Tax, Rental/Cash for Keys/Eviction, and Vendor Management.

- **Sales**
  - Fannie Mae utilizes a 100% In-House REO Sales team leveraging a **1,100 member nationwide Realtor network**. Sales teams are assigned geographically based on volumes.
  - Fannie Mae leverages our Homepath.com website which had **13.3M visits in 2017** to market our REO properties, provide information to the public, and as a short sale portal for real estate agents.
  - Peer performance based on publicly available severity levels and MLS data shows placement among the industry leaders.

- **Fulfillment**

Our real estate strategy is to minimize loss severities by maximizing sales prices, supporting neighborhood stabilization, and minimizing carrying costs.
Our Best-in-Class Loss Mitigation Platform Reduces Loss Severity

Source: Fannie Mae and Freddie Mac Single Family Historical Loan Performance Datasets. Population limited to loans disposed via short sale, third-party sale, and foreclosure sale and having an original amortization term > 300 months. Excludes repurchased loans and loans sold via note sale. **Loans where Net Sales Proceeds are not reported are excluded.**

Fannie Mae Real Estate executes, on average, at 98% of sales price to established value across retail and auction platforms.
Pre-Foreclosure Loan Disposition Options

Short Sales

- Fannie Mae manages offer negotiation process in-house
- Pricing determined in conjunction with our valuations team and negotiated directly with buyer’s agent
- All borrower direct communications are distributed through the servicer
- By managing process in-house, Fannie Mae achieves lower severity, reducing credit losses over a delegated model

Mortgage Release™

- Mortgage Release provides borrowers an expedited deed-in-lieu of foreclosure option to resolve their delinquency and avoid foreclosure
- The borrower deeds collateral property to Fannie Mae in exchange for release of repayment obligations under the mortgage
- Once Mortgage Release agreement is reached, Fannie Mae will not pursue a deficiency judgment against borrower
- Borrower may choose between three options upon Mortgage Release: immediate vacancy, a 3-month, or 12-month transition
  - 3-Month: Borrower permitted to live in the property rent free for 90-day period
  - 12-Month: Borrower leases for 12 months after mortgage release with rent determined through a review of former owner's financial ability in conjunction with a market value review
- Mortgage Release option contributes to an average net present value savings over REO
Fannie Mae maintains an in-house property valuation team to determine property values.

- A team of Fannie Mae employees, including representatives throughout the country in Fannie Mae’s top markets who provide local market intelligence and inspect properties that have been valued
- Leverage multiple third-party vendors, including appraisers and national Broker Price Opinion (BPO) and alternative value product providers, for property condition and value information

See our Property Valuation and Analytics demo: fanniemae.com/portal/funding-the-market/credit-risk/credit-risk-management.html
## Property Management Overview

Our property management services seek to enhance the marketability of our properties while supporting neighborhood stabilization.

### Maintenance & Field Quality Control
- National and regional supplier mix providing initial and on-going services
- Multiple layers of QC (broker sign-off, 3rd party inspections, and in-house field reviews)
- Diverse inspection products (vacant, occupied, repair, and rental)
- Code Compliance and Vacant Property Registration Teams

### Occupied Property Management
- Relocation assistance program
- Occupied sales via auction strategy
- “Eviction as a Last Resort” framework
- Multiple lease products offered
- Hybrid in-/out-sourced model for eviction/redemption follow-up

### Title, Closing, HOA/Tax Operations
- Curative and closing functions leveraging local & national attorneys and suppliers
- Flexible capacity model for title follow-ups and closings
- HOA, COA, tax identification, negotiation, and payment facilitation
- Multiple disposition channel support including digital closings

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<table>
<thead>
<tr>
<th>Before</th>
<th>After</th>
</tr>
</thead>
<tbody>
<tr>
<td><img src="image1" alt="Initial/Routine Services" /></td>
<td><img src="image2" alt="Initial/Routine Services" /></td>
</tr>
<tr>
<td><img src="image3" alt="Curb Appeal" /></td>
<td><img src="image4" alt="Curb Appeal" /></td>
</tr>
<tr>
<td><img src="image5" alt="Clear Boarding" /></td>
<td><img src="image6" alt="Clear Boarding" /></td>
</tr>
</tbody>
</table>

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Disaster Support

In addition to policy and process changes to support disaster events and recovery, property oversight capabilities have been expanded to include the use of drones and aerial imagery.

- Process/Policy adjustments to provide support for disaster recovery activities include:
  - Use of temporary repairs prior to bid approval during insurance claim process to protect collateral
  - Allow and reimburse for current loan inspections
  - Leverage data and analytics to narrow the population needed for traditional inspections
- Mobile disaster inspection capabilities
- Aerial imagery combined with weather/damage data services to assess portfolio risk/exposure
Repair Strategy

Current capabilities afford full suite of repair options for all value bands and conditions.

- Seasoned local and national Repair Contractor Network
- Proprietary return on investment modeling tool (RHINO) to determine net present value of repair decision
- Quality assurance of repairs
- Negotiated material/labor pricing for roofing, plumbing, carpentry, electrical, flooring, etc.
- Specialized products and supplier alliances

High-definition professional photography and virtual staging for repaired properties

Fannie Mae employs a robust quality control process and leverages a national network of repair contractors to maximize cost savings and efficiency.
HomePath is Fannie Mae’s Brand for Marketing REO

Over 5 million users and nearly 64 million page views

- **Custom search functionality**
- **First Look** program for owners and non-profits
- **Payment calculators and Rent Range** information per property
- Feature repaired properties with **HD photos**
- **Marketing resources** available for agent network
- **Online offer** for easy submission
- **Syndication** to other websites (such as Zillow®, Realtor®, etc.)
Additional Resources
## Additional Resources

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<tr>
<th>Resource</th>
<th>URL</th>
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<tr>
<td>Data Dynamics®</td>
<td><a href="http://www.fanniemae.com/datadynamics">www.fanniemae.com/datadynamics</a></td>
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<tr>
<td>Loan Performance Data</td>
<td><a href="http://www.fanniemae.com/loanperformance">www.fanniemae.com/loanperformance</a></td>
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Contact Us

Information is available for investors and potential investors about Fannie Mae's products, the company's financial performance, and disciplined management of credit risk and interest rate risk.

For more information, please contact us:

- Credit_Securities@fanniemae.com
- 800-2FANNIE (800-232-6643)
- @fanniemae
- www.facebook.com/fanniemae
- @fanniemae.com

By Mail:

Fannie Mae
c/o Treasurer’s Office, Fixed-Income Securities Marketing,
1100 15th Street NW
Washington, DC 20005

Fannie Mae is headquartered in Washington DC and operates regional offices in Atlanta, Chicago, Plano, Los Angeles, and Philadelphia.

Headquarters
1100 15th Street NW
Washington, DC 20005