

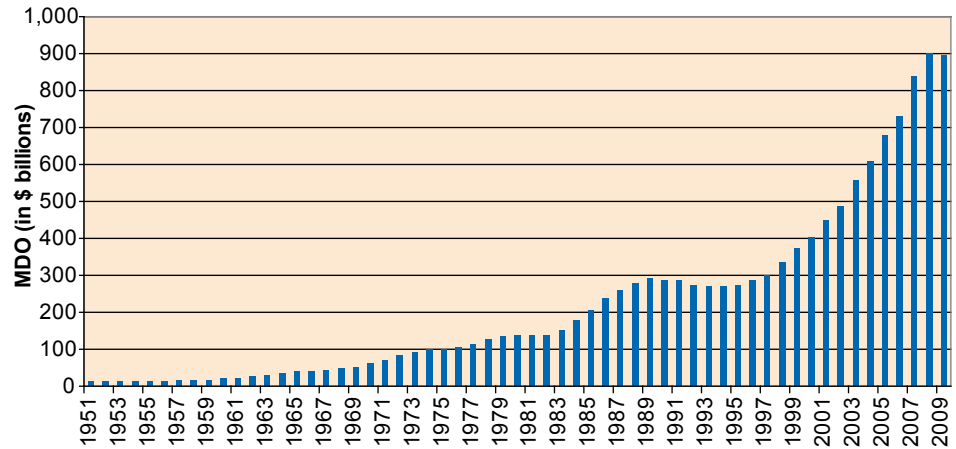
Twenty Years of Multifamily Mortgage Financing Through Fannie Mae's Delegated Underwriting and Servicing (DUS®) Program

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According to the Mortgage Banker's Association's (MBA) analysis of the Federal Reserve Board Flow of Funds data for the fourth quarter of 2009, multifamily mortgage debt outstanding (MDO) accounted for approximately 8.0 percent of the \$11.7 trillion total MDO, or \$897.5 billion. In the consistently growing market for multifamily financing, as displayed in **Exhibit 1**, Fannie Mae has been the multifamily market leader.

Exhibit 1: Multifamily MDO from 1951 to Fourth Quarter 2009



Source: Federal Reserve Flow of Funds

Fannie Mae, the largest government-sponsored enterprise provider of financing for the multifamily market, supports affordable multifamily housing through investments in individual properties or groups of properties, as well as through securitization of loans underlying these properties. Furthermore, Fannie Mae provides financing for apartment buildings, manufactured housing communities, and cooperatives with five or more individual units through a nationwide network of Delegated Underwriting and Servicing (DUS) lenders and other lenders. In 2009, Fannie Mae's multifamily business volume*, totaled \$19.8 billion, of which 94 percent was delivered by DUS lenders.

More than 20 years ago, in 1988, Fannie Mae began purchasing multifamily loans through the DUS program and held these loans in portfolio. In August 1994, the company began securitizing DUS loans and cre-

* Includes debt and commercial mortgage-backed securities.

ated DUS Mortgage-Backed Securities (MBS/DUS), thereby expanding the suite of its multifamily MBS. In the last decade, 1999-2009, Fannie Mae DUS lenders issued over \$64.8 billion of MBS/DUS, including Discount MBS (DMBS). MBS/DUS offer investors AAA-rated credit strength due to Fannie Mae's guaranty of timely payment of principal and interest; lower spread volatility relative to other products; liquidity enhanced by the large number of dealers engaged in market making; stable cash flows that are easy to model; and superior call protection. As of December 31, 2009, Fannie Mae's multifamily mortgage credit book of business was \$220.7 billion, an increase of 72.6 percent since December 31, 2004.

This edition of *MBSenger* details the growth and development of Fannie Mae's DUS program over the years. Specifically, we review the notable characteristics of Fannie Mae's DUS program, highlighting the MBS/DUS product and exploring the performance features of these securities that fixed-income inves-

tors find beneficial. We also examine the key aspects of other types of Fannie Mae Multifamily MBS.

The DUS Program

Initiated in 1988, the DUS program grants approved lenders the ability to underwrite, close, and sell loans on multifamily properties without prior Fannie Mae review. However, these DUS lenders must abide by rigorous credit and underwriting criteria and are continuously subject to ongoing credit review and monitoring. Additionally, DUS lenders usually retain a risk position of the loans that they sell to Fannie Mae. Under the DUS program, approved lenders can originate: fixed-rate; adjustable-rate; balloon; fully-amortizing; partial and full-term interest-only multifamily mortgage loans. These DUS loans can be financed through Cash, MBS, DMBS, or Bond Credit Enhancement¹ execution. The DMBS product is discussed later. **Exhibit 2** identifies the types of multifamily properties used as collateral for loans that may be securitized into MBS/DUS.

Exhibit 2: Types of Multifamily Mortgaged Properties Eligible for DUS/MBS

Property Type	Description
Standard Conventional Multifamily	A multifamily loan secured by a residential property composed of five or more dwelling units and in which generally no more than 20 percent of the net rentable area is rented to, or to be rented to non-residential tenants.
Multifamily Affordable Housing and Low-Income Housing Tax Credit	A multifamily loan on a mortgaged property encumbered by a regulatory agreement or recorded restriction that limits rents, imposes income restrictions on tenants or places other restrictions on the use of the property.
Seniors Housing	A multifamily loan secured by a mortgaged property that is intended to be used for elderly residents for whom the owner or operator provides special services that are typically associated with either "independent living" or "assisted living." Some Alzheimer's and skilled nursing capabilities are permitted.
Manufactured Housing Community	A multifamily loan secured by a residential development that consists of sites for manufactured homes and includes utilities, roads and other infrastructure. In some cases, landscaping and various other amenities such as a clubhouse, swimming pool, and tennis and/or sports courts are also included.
Cooperative Blanket	A multifamily loan made to a cooperative housing corporation and secured by a first or subordinate lien on a cooperative multifamily housing project that contains five or more units.
Student Housing/ Dedicated Student Housing	Multifamily loans secured by multifamily properties in which college or graduate students make up a significant portion of the tenants.
Military Housing	A multifamily loan secured by a multifamily property in which more than 20% of the units are occupied by persons serving in or employed by the military or which is located in an area where military and military-related employment accounts for 20% or more of the local employment base.
Rural Rental Housing	A multifamily loan secured by an affordable multifamily property located within specified rural areas designated by the Rural Rental Housing Guaranteed Loan Program of the USDA. The USDA guarantees up to 90% of any loss incurred upon liquidation of loans it has approved, provided that the loan was underwritten and serviced in accordance with the USDA requirements.

To review specific details of each multifamily mortgaged property type, please refer to <http://www.fanniemae.com/mbs/documents/mbs/prospectus/index.jhtml?p=Mortgage-Backed+Securities&s=Prospectuses+%26+Related+Documents&t=MBS&q=Prospectuses>.

¹ Bond Credit Enhancement product: provides credit enhancement for tax-exempt bonds issued by state and local housing finance agencies and is often used to finance Low Income Housing Tax Credit (LIHTC) properties and preserve older HUD-assisted properties.

The fixed-rate multifamily mortgage loans usually have final balloon maturities of 5, 7, 10, 15, 18, 25, or 30 years, while adjustable-rate mortgage loans usually have final balloon maturities of 5, 7 or 10 years. The most common MBS/DUS is a 10/9.5 (a 10-year balloon with 9.5 years of yield maintenance), followed by the 7/6.5 (a 7-year balloon with 6.5 years of yield maintenance).

DUS Lenders

As of April 30, 2010, Fannie Mae had 25 approved DUS lenders in the program. **Exhibit 3** lists these lenders.

Exhibit 3: List of DUS Lenders

Alliant Capital Finance, LLC
AmeriSphere Multifamily Finance, LLC
Arbor Commercial Funding, LLC
Beech Street Capital, LLC
Berkadia Commercial Mortgage LLC
Bulls Capital Partners, LLC
CBRE Multifamily Capital, Inc
Centerline Mortgage Capital, Inc.
Citibank, N.A.
CWCcapital LLC
Deutsche Bank Berkshire Mortgage, Inc
(DB Mortgage Services, LLC)
Dougherty Mortgage, LLC
Grandbridge Real Estate Capital, LLC
Greystone Servicing Corporation, Inc.
HomeStreet Capital Corporation
HSBC Bank USA, N.A.
JP Morgan Chase Bank, N.A.
KeyCorp Real Estate Capital Markets, Inc
M&T Realty Capital Corporation
Oak Grove Commercial Mortgage, LLC
PNC Multifamily Mortgage, LLC
Prudential Multifamily Mortgage, Inc.
Red Mortgage Capital, Inc.
Walker & Dunlop, LLC
Wells Fargo Bank, N.A.

Admission qualifications are stringent for consideration as a DUS lender. Each lender must maintain acceptable levels of capital and liquidity in relation to their Fannie Mae obligations. Generally, each lender must demonstrate real growth in its net worth and improvement in its liquidity as the size of its Fannie Mae servicing portfolio and its exposure relating to any other business activities increase. Lenders must also:

- Maintain an established business of origination and servicing of multifamily mortgage loans;
- Hold a license or other authority to do business in each jurisdiction where required, and the license or other authority must not be suspended or revoked by any governmental body or regulatory entity;
- Employ qualified underwriting, originating, and servicing personnel if it is the Lender's responsibility for underwriting or servicing the mortgage loans it sells to Fannie Mae;
- Continue adequate internal audit and management control systems to evaluate and monitor the overall quality of its multifamily loan production and servicing activities;
- Possess a financial condition acceptable to Fannie Mae; and,
- Sustain fidelity/surety bonds with errors and omissions insurance in amounts acceptable to Fannie Mae.

Furthermore, DUS lenders are subject to quarterly and/or annual reviews to ensure that they continue to meet Fannie Mae's DUS lender eligibility requirements.

Credit Quality of DUS Mortgage Loans

Eligible multifamily properties must be income-producing multifamily rental properties or cooperatives with a minimum of five individual units. These multifamily properties must be existing, recently completed, or in need of moderate rehabilitation. A majority of the properties qualify for 30-year amortization schedules. A DUS mortgage loan for the underlying property tends to range in size from \$1 million to \$50 million and is generally 'non-recourse'² to the borrower. Additionally, DUS loans are generally assumable after a review of the loan process, although a one-percent transfer fee payable to Fannie Mae is commonly charged, which is not passed on to the investor.

² Non-recourse: In the event of default, the lender agrees to take the pledged property as satisfaction for the debt and have no claim on any other assets of the borrower.

Each mortgage is underwritten to a three-tier credit structure. The most favorable interest rates are available for loans with higher debt service coverage ratios³ (DSCR) and lower loan-to-value (LTV) ratios. **Exhibit 4** summarizes the LTV and DSCR values for each Tier for standard conventional multifamily loans. DSCR and LTV requirements are subject to change based on market conditions. More strict underwriting standards apply to other asset classes such as Seniors Housing, Student Housing, and Manufactured Housing. Various asset classes are described in the associated Multifamily MBS Prospectus.

Exhibit 4: Tier Level Credit Characteristics

Rating	Minimum DSCR	Maximum LTV Ratio
Tier 2	1.25	80
Tier 3	1.35	65
Tier 4	1.55	55

* Tier 1 is not available.

In addition to tier assignments, each property underlying the multifamily MBS is subject to three assessments.

1. An appraisal of the property is performed by a licensed appraiser selected by the DUS lender. Appraisals must conform to Uniform Standards of Professional Appraisal Practice (USPAP) standards. Fannie Mae does not approve specific appraisers. The DUS lender is responsible for selecting the appraiser and is solely accountable for their performance.
2. An environmental assessment is mandatory and an ongoing operations and maintenance plan may be required to ensure the property is operated in an environmentally sound manner. However, small loans only require an American Society for Testing and Materials (ASTM) screen and borrower questionnaire.
3. A physical needs assessment must be completed by a qualified evaluator designated by the DUS lender. If tenant safety, marketability, or property conditions are compromised by unacceptable circumstances, repairs may be ordered. Generally, if the repairs are not completed by the time of closing, a reserve fund for payment of the repairs may be established.

On an annual basis, the property's operating statement, which includes DSCR and Net Operating Income (NOI), is collected by Fannie Mae and subject to review. The rigorous reviews, both at-acquisition and ongoing, on the properties underlying DUS loans further enhance their credit quality and performance.

It is important to note that the underwriting guidelines in the DUS Guide are guidelines and not rigid requirements. A waiver or exception may be granted if it is deemed to be prudent given the applicable circumstances.

DUS Loss Sharing Arrangements

In return for Fannie Mae's delegation of the responsibility for underwriting and servicing DUS loans, the DUS lenders enter into loss sharing agreements with Fannie Mae that specify the method of sharing any losses on the loans that they deliver and/or service. These arrangements vary among transactions, ranging from the DUS lender bearing a specified first loss percentage for a transaction to the DUS lender having no loss sharing obligation for a transaction. The most common loss sharing of DUS loans is pari-passu, in which the lender bears one-third of the losses and Fannie Mae is responsible for the remaining two-thirds.

This loss-sharing element is an incentive for DUS lenders to monitor and manage credit exposure on an active basis, leading to lower loss and delinquency levels, which has resulted in superior credit performance. Manifesting these rigorous standards, the Fannie Mae multifamily serious delinquency rate⁴ as of December 31, 2009 was 0.63 percent.

MBS/DUS Securities

MBS/DUS securities possess AAA-rated credit strength due to Fannie Mae's guaranty⁵ of timely payment of principal and interest in which it will supplement amounts received by the MBS trust as required to permit timely payments of principal and interest on the certificates. Principal and interest payments are remitted monthly on the 25th calendar day (if the 25th calendar day is not a business day, then the next business day). The 54-day delay of payment is consistent with Fannie Mae's Single-Family MBS. Upon maturity, the entire outstanding unpaid principal

³ Debt Service Coverage Ratio (DSCR): Net Annual Operating Income (NOI) divided by Annual Debt Service (Monthly Mortgage Payment * 12)

⁴ Includes multifamily loans and securities 60 days or more past due and is calculated based on the UPB or delinquent multifamily loans owned by Fannie Mae or underlying Fannie Mae guaranteed securities, divided by the UPB of multifamily loans owned by Fannie Mae or underlying Fannie Mae guaranteed securities.

⁵ The guaranty is made to the trust by Fannie Mae, corporate, as guarantor.

balance is paid to the investor as a balloon payment due on the stated maturity date of the mortgage loan, along with accrued interest. In the event of foreclosure, Fannie Mae will pay the outstanding principal balance at par to investors regardless of recovery from the mortgagor. The Fannie Mae guaranty on MBS/DUS mirrors that provided for single-family Fannie Mae MBS. Fannie Mae has never missed a scheduled payment of principal and interest on any of its mortgage-backed securities, single-family or multifamily. It is important to note that Fannie Mae MBS/DUS are not guaranteed by the United States and do not constitute a debt or obligation of the United States or any of its agencies or instrumentalities other than Fannie Mae. Fannie Mae alone is responsible for making payments under its guaranty.

MBS/DUS are classified by a multifamily prefix to identify the type of multifamily mortgage loans that are included in a specific pool. **Exhibit 5** lists the top five most commonly assigned multifamily pool prefixes over the past ten years, 1999-2009.

DUS pools are not restricted to a minimum or maximum unpaid principal balance nor is there a restriction on the number of loans allowed into a single DUS pool at issuance. Typically, each DUS pool contains one DUS loan, but can incorporate multiple DUS loans made by the same lender to the same or affiliated borrowers. In 2008, 93.4 percent of DUS pools consisted of one DUS loan and 6.6 percent had two or more DUS loans.

Day Count Conventions for Payment of Interest

The day count describes the method in which accrued interest and coupon payments are calculated. MBS/DUS have one of two day count conventions: 1) count the actual days per month and use a 360-day calendar year, Actual/360; or 2) count 30 days for each month and 360 days per year, 30/360. Calculation of the total monthly principal and interest payment for a loan using the 30/360 method is the same as the calculation for a loan using the Actual/360 method. The difference between the two methods is that the amount of each monthly payment that is allocated to interest will be based on 30 days in amount for the 30/360 method and on the actual number of calendar days during the month for the Actual/360 method. In a 31-day month, more of the monthly payment amount will be allocated toward interest using the Actual/360 method than will be allocated toward interest using the 30/360 method. Because there are actually 365 or 366 days in a year, loans using the Actual/360 method amortize more slowly and generate more interest than a loan at the same note rate using the 30/360 method. As a result, a fully-amortizing loan accruing interest on the Actual/360 basis is likely to have an outstanding principal balance on the stated maturity date of the loan.

Exhibit 5: Top Five Fannie Mae MBS/DUS Pool Prefixes Assigned from 1999-2009

Prefix	Definition	Total At-Issuance UPB (in \$ billions)	% of Total MBS/DUS
HY*	Conventional, Balloon, Actual/360 interest day basis calculation; Multifamily; maturing or due in seven years or more.	\$38.7	49%
MY*	Conventional Balloon, Level-Payment Mortgages; Multifamily; maturing or due in seven years or more.	\$9.7	12%
MD	Conventional; Multifamily; Non-interest bearing (discounted) securities backed by pools of one or more loans; Maturity dates vary between 1 and 12 months.	\$8.5	11%
MX	Conventional Level-Payment, Balloon Mortgages; Multifamily; maturity dates may vary.	\$8.4	11%
HX	Conventional Short-Term, Balloon, Level-Payment Mortgages; Actual/360 interest day basis calculation; Multifamily; maturing or due in seven years or less.	\$5.4	7%

* = The HY prefix included 80.2 percent of MBS/DUS 10/9.5 and the MY prefix included 75.6 percent of MBS/DUS 10/9.5.

The Federal Reserve operates on a 30/360 day count convention. Therefore, for those pools backed by loans with Actual/360 day count, the interest rate calculation has to be converted prior to remittance to the investor. For both day count convention methods, the investor is paid principal and interest on the 25th calendar day of each month. If the 25th calendar is not a business day, the interest will be paid on the next business day.

Exhibit 6: Actual/360 Day Count Converted to 30/360 Day Count

If a \$1,000,000 MBS/DUS security pays 5%, then, in August (a month with 31 days), the Actual/360 day count interest for the month would be:

$$\$1,000,000 \times 0.05 \times (31/360) = \$4,305.56$$

To convert the interest payment into the 30/360 day count convention, the effective MBS/DUS pass-through rate (PTR) would be:

$$\$1,000,000 \times \text{Effective PTR} \times (30/360) = \$4,305.56$$

$$\text{Effective PTR} = 5.167\%$$

The **Effective PTR** of 5.167% is the accrual rate disclosed in August and the PTR disclosed in September.

Multifamily Megas

To further improve the liquidity of MBS/DUS pools, and to facilitate additional geographic and borrower diversity as well as ease of operational administration, Fannie Mae introduced the MBS/DUS Mega program in August 1996. In a MBS/DUS Mega, MBS/DUS securities with the same prefix and same fixed-rate coupon or a combination of Fannie Mae MBS coupons can be pooled together. The combination of Fannie Mae MBS coupons typically will be restricted to an inclusive 100 basis point range from the highest to lowest Fannie Mae MBS coupon. Fannie Mae's fee schedule for multifamily Megas is similar to the fee schedule for creating single-family Megas.

Prepayment Protection

As part of the DUS program, each DUS loan has one of the following voluntary prepayment protection provisions: (I) Yield Maintenance⁶; (II) Defeasance; (III) Prepayment Fee; or, (IV) Prepayment Lock-Out. Most often, yield maintenance is the prepayment protection selected on multifamily DUS loans.

I. Yield maintenance, the most common form of prepayment protection, allows for full prepayments along with a yield maintenance prepayment fee payable by the borrower. The yield maintenance prepayment fee for each mortgage loan is payable during a period of time, the yield maintenance period. If a borrower voluntarily prepays a mortgage loan during the yield maintenance period, the yield maintenance prepayment fee equals the greater of (a) or (b):

(a) 1% of the amount of principal being prepaid;

OR

(b) the product obtained by multiplying:

1. the amount of principal being prepaid,

by

2. the result of

a. the interest rate on the mortgage loan **minus** the yield rate on the U.S. Treasury security

by

b. the present value factor calculated by using the present value formula, as shown in **Exhibit 7**.

The borrower is required to pay a yield maintenance prepayment fee equal to the **greater** of the amount calculated in clause (a) or clause (b). Fannie Mae will pass through to the investor a portion of the yield maintenance prepayment fee actually received from the servicer of the prepaid loan. Fannie Mae calculates the share of the prepayment fee to be retained by the company and the share of prepayment fee to be passed on to the investor. The investor portion will equal the following:

(1) the amount of principal being prepaid, **times**

(2) the difference between the pass-through rate on the certificates and the yield rate, **times**

(3) the present value factor.

⁶ The yield maintenance formula changed for all Fannie Mae multifamily mortgage loans committed on or after September 1, 2009. See Addendum at the end of this issue for detailed information.

Fannie Mae will pass the yield maintenance prepayment fee to the investor only to the extent that collected premiums remain after the company has deducted its full portion. Fannie Mae does not guarantee to the trust the payment of any prepayment fees. If a borrower prepays a mortgage loan on or after the yield maintenance end date, Fannie Mae will not pay any portion of the prepayment fee to the investor.

Exhibit 7 details the calculation of the yield maintenance prepayment fee on a loan whose yield maintenance period is 9.5 years of the 10-year loan term. The **Exhibit** further calculates the amount of the yield maintenance prepayment fee that is payable to the investor.

Exhibit 7: Yield Maintenance on a 10 year DUS loan with 9.5 years of Yield Maintenance

Date of Note: 10/6/2003

Loan Maturity Date: 11/1/2013

Prepayment Period End Date
(end of Yield Maintenance period): 04/30/2013

Date of prepayment (last day of the month in which the prepayment is made): 10/31/2008

UPB of loan as of the date of prepayment:
\$1,118,222.29

Original Note Rate: 5.610%

MBS Pass-Through Rate: 4.810%

Yield on the specified U.S. Treasury Security: 2.956%

If a borrower voluntarily prepays a mortgage loan

during the yield maintenance period, the yield maintenance prepayment premium equals the greater of (a) or (b) below:

(a) 1% of the amount of principal being prepaid:
= 1% x \$1,118,222.29 = \$11,182.22

(b) The product obtained by multiplying the following:

(i) The amount of principal being repaid:
= \$1,118,222.29

by

(ii) The result of:

(1) the Original Note Rate on the mortgage loan minus (2) the yield rate on the specified U.S. Treasury security on the twenty-fifth business day before the intended prepayment date, as reported in *The Wall Street Journal*.

= 5.610% - 2.956%
= 2.654%

by

(iii) The present value factor calculated using the following formula:

$$= \frac{1 - (1+r)^{(-n/12)}}{r}$$

where **r** = yield rate on the specified U.S. Treasury Security **and**

where **n** = number of months remaining between (A) the date of prepayment, **and** (B) the prepayment period end date

$$= 1 - \frac{(1 + 2.956\%)^{(-54/12)}}{2.956\%}$$

$$= 1 - \frac{(1 + 2.956\%)^{-4.5}}{2.956\%}$$

= 4.1563874

Total (b) = \$1,118,222.29 x 2.654% x 4.1563874

= \$123,351.68

The total yield maintenance prepayment fee paid by the borrower in this example is \$123,351.68.

The investor's share of the yield maintenance prepayment fee will equal the following:

- (1) the amount of principal being repaid (*UPB at the date of prepayment*), **times**
- (2) the difference between (A) the MBS Pass Through Rate and (B) the Yield on the specified Treasury Security, **times**
- (3) the present value factor (as calculated in (b)(iii) above)
= \$1,118,222.29 x (4.810% - 2.956%) x 4.1563874
= \$86,169.56

In this example, the investor receives **\$86,169.56** as compensation for prepayment.

The Treasury reference note used to compute the yield maintenance prepayment fee effectively increases this fee by the present value of the spread differential between a MBS/DUS and Treasuries. The yield maintenance protection tends to create positive convexity, as the value of the security increases when Treasury yields decrease.

The borrower is also required to pay a prepayment premium equal to one percent of the amount of principal being prepaid any time **after** the yield maintenance period and three months **prior** to the maturity of the loan. The 3-month window allows the borrower to refinance a maturing DUS loan. Fannie Mae may, but is not required to, waive the imposition of the one percent prepayment premium. Prepayment premiums paid in connection with prepayments occurring after the yield maintenance end date are not passed through to investors.

- II. Defeasance is an alternative prepayment option selected at the time of origination that allows a property to be released from the mortgage lien prior to maturity in exchange for Fannie Mae or U.S. Treasury securities. Defeasance reduces the risk of reinvesting prepayment proceeds in an uncertain interest rate environment, since the property release does not interrupt the original expected cash flow to investors in securities backed by loans with defeasance.

- III. The prepayment fee option is a variable fee schedule known as a declining premium. With a declining premium, the fee is based on a percentage of the current unpaid principal balance which percentage declines with the passage of time. For example, a prepayment fee schedule may reflect the following:

- a five percent prepayment fee if prepaid in the first year;
- then, a four percent prepayment fee if prepaid in the next year;
- and so forth.

The investor receives a calculated share of the prepayment fee as described in the base prospectus. The borrower is also required to pay a prepayment premium equal to one percent of the amount of principal being prepaid any time **after** the prepayment period and three months **prior** to the maturity of the loan. The 3-month window allows the borrower to refinance a maturing DUS loan.

- IV. Prepayment lock-outs legally prohibit the borrower from prepaying a DUS loan for any reason, except for payments resulting from casualty or condemnation where prepayment could occur.

The various prepayment protection methods on DUS loans provide considerable compensation to investors and reduce the incentive for a DUS loan to be repaid during its yield maintenance period due to the yield maintenance prepayment fee. Furthermore, voluntary partial prepayments, also known as curtailments, are prohibited on DUS loans, except in cases of condemnation awards or insurance proceeds. Investors can identify loans with curtailment permissibility, as these loans have special disclosure language in the base prospectus and prospectus supplement. **Exhibit 8** summarizes the investor benefits during various prepayment events.

Exhibit 8: Summary of Prepayment Events

Prepayment Event	Prepayment Fee	Amount Passed to Investor
Borrower prepays <i>during</i> the Yield Maintenance Period.	The greater of: (a) 1% of the amount of principal being prepaid OR (b) the product obtained by multiplying (1) the amount of principal being repaid by (2) the result of a. the interest rate on the mortgage loan minus the yield rate on the U.S. Treasury security <i>by</i> b. the present value factor calculated by using the present value formula.	The investor portion will equal the following: (1) the amount of principal being prepaid, times (2) the difference between the pass-through rate on the certificates and the yield rate, times (3) the present value factor. Investor receives unpaid principal balance at par.
Borrower prepays <i>during</i> the Prepayment Period.	Dependent upon the variable fee schedule.	Calculated share of the prepayment fee as described in the base prospectus. Investor receives unpaid principal balance at par.
Borrower prepays <i>after</i> the yield maintenance period ends AND <i>prior</i> to three months before maturity.	1%	No Prepayment Fee to the investor. Investor receives unpaid principal balance at par.
DUS loan is in default and is removed from the DUS pool or in condemnation proceedings against the property or casualty losses during the loan term.	Not Applicable.	No Prepayment Fee to the investor. Investor receives unpaid principal balance at par.

MBS/DUS Investor Benefits

A wide range of investors, including insurance companies, money managers, commercial banks, and state and local governments find Fannie Mae MBS/DUS an attractive investment. MBS/DUS offer investors AAA-rated credit strength due to Fannie Mae's guaranty of timely payment of principal and interest; lower spread volatility relative to other products; liquidity enhanced by the large number of dealers engaged in market making; stable cash flows that are easy to model; and positive advantages related to prepayment protection. These benefits have resulted in diverse participation among a wide variety of investor segments in MBS/DUS.

Insurance companies, as well as pension funds, appreciate that MBS/DUS provide certain stable cash flow features that allow these institutions to more easily match their liabilities. Money managers find the positive convexity of multifamily MBS to be useful in mitigating somewhat their exposure to negatively convex single-family MBS. Traditional corporate bond investors find that MBS/DUS offer a mortgage security with strong prepayment stability and higher yields over comparable duration high-grade corporate securities. For commercial banks, MBS/DUS share

the same weighting of 20 percent for bank risk-based capital requirements as is the case with single-family Fannie Mae MBS. State and local governments enjoy the excellent credit quality of MBS/DUS, the prepayment stability, and the definitive final maturities of 5, 7, and 10 years that match maturity restrictions in their investment guidelines.

Other Fannie Mae Multifamily MBS

Fixed+1 DUS Product

Fannie Mae also offers the Fixed+1 product, which is geared towards borrowers seeking a combination of an attractive fixed rate for an initial term of 5 to 15 years followed by a one-year adjustable rate term during which the loan may be prepaid without a prepayment fee. Fixed+1 loans are most often amortized on a 30-year schedule, with terms of 6-, 8-, 10-, 11-, or 16-years and day count conventions of either Actual/360 or 30/360. To identify a Fixed+1 product, the Schedule A will have two unique fields, 'fixed-rate end date' and 'adjustable-rate term'.

The most popular Fixed+1 DUS product is the 9+1. These 9+1 DUS mortgages have a 10-year maturity, where the loan has a fixed-rate for the first nine years and then the interest rate automatically converts to

an adjustable rate on a monthly basis during the final tenth year. In the final year, the interest rate adjusts each month and is set at a gross margin, currently 240 basis points to 300 basis points, over 1-month LIBOR. If the borrower prepays the mortgage loan in years one through nine, yield maintenance prepayment fees apply. MBS investors will receive a portion of any yield maintenance collected. In the final tenth year of the mortgage loan, the borrower may fully prepay without incurring any prepayment fees.

Multifamily DUS Structured Transactions

Commonly executed with large REIT customers, multifamily Structured Transactions (credit facilities) provide both long-term and short-term flexible financing for a single pool of cross-collateralized and cross-defaulted multifamily mortgage loans. The properties within the pool may be substituted, added, or released based on certain criteria, and additional borrowing on existing properties may be permitted if certain conditions are met. Structured transactions are typically \$50 million and over in size, have a minimum term of five years, and may consist of both a fixed-rate portion and/or an adjustable-rate portion. Structured transactions also provide for payment of prepayment premiums, typically yield maintenance for the fixed-rate portion of the facility, or other options on a negotiated basis. It is very important for investors to read and understand the associated disclosure documents, including the base prospectus, prospectus supplement, and Schedule A.

DMBS

In addition to Fannie Mae MBS/DUS, Fannie Mae also issues DMBS. DMBS are short-term securities typically issued with maturities of one month, three months, six months or nine months. Investors purchase these securities at a discount and are repaid par on the security at maturity. These securities carry no prepayment risk as they are locked out for the full term. The interest rate used to establish the amount of the discount is determined at issuance of the initial DMBS and is reset on each subsequent DMBS rollover through a competitive capital markets bid process. These securities allow borrowers to obtain a loan that mimics variable rate financing. Standard DUS loans and specialty products including Senior Housing, Student Housing, Manufactured Housing Communities and others can be used as collateral for DMBS and both single-asset structures (backed by

loans collateralized by one property) or multiple-asset structures (backed by loans collateralized by more than one property) are available. Upon maturity, multifamily borrowers may roll the DMBS over into a new DMBS or convert to a fixed-rate loan. Since 2004, Fannie Mae has issued nearly \$10 billion of DMBS as of December 31, 2009.

Multifamily Negotiated Transactions

For investors looking for potentially higher yields, Fannie Mae multifamily MBS issued through negotiated transactions (NT) can be attractive investment alternatives. The multifamily negotiated MBS have maturities of up to 480 months, although the majority of these MBS have a maturity of 360 months or less. Multifamily NT MBS may be fixed-rate or adjustable-rate securities with specific properties defined by the security's prefix and subtype⁷. These MBS have characteristics that vary by security, including governing lender loss sharing arrangements. Sellers delivering NT loans may, dependent upon the terms of the purchase, share with Fannie Mae in all or part of any losses that result when NT loans become delinquent. It is very important for investors to read and understand the associated disclosure documents, including the base prospectus, prospectus supplement, and Schedule of Pool and Loan Information.

Multifamily MBS Disclosures

Fannie Mae continuously strives to provide multifamily MBS/DUS investors with meaningful at-issuance and ongoing disclosure information intended to assist in the analysis and evaluation of MBS/DUS and the underlying loans. Highlighted below are some useful tools that investors can use to obtain detailed information about our multifamily MBS and the collateral backing these securities.

New Multifamily Master Trust Agreement and Base Prospectus

Effective February 1, 2009, all Fannie Mae fixed-rate and adjustable-rate multifamily MBS will be issued under the new 2009 Multifamily Master Trust Agreement and a new 2009 Multifamily MBS Prospectus. Additionally, Fannie Mae released an Amended and Restated 2007 Multifamily Master Trust Agreement, effective February 1, 2009, clarifying the September 1, 2007 Multifamily Master Trust Agreement for multifamily pools issued between September 1, 2007 and January 31, 2009.

⁷ ARM subtypes are alphanumeric codes that identify the ARM product characteristics such as index, initial fixed-rate period, rate and payment adjustment frequency, caps, convertibility and other features. In addition, customized prepayment lock-out and prepayment fee restrictions can be included in these securities.

A Fannie Mae Master Trust Agreement, together with its exhibits and supplements, is the principal authority that defines the rights and responsibilities of Fannie Mae and of the certificate holders in relation to an MBS trust created under that particular master document. In general, it sets forth the terms related to the MBS issuance; the loans or participation interests in the MBS pool; and the payment terms for the MBS certificates. MBS issued under a specific Trust Agreement are offered to investors through a corresponding Multifamily MBS Prospectus, which describes the general terms of the MBS program, the general characteristics of the MBS being offered, the policies for purchasing delinquent loans out of MBS trusts, and other important aspects of its MBS program. The Master Trust Agreement, applicable Multifamily MBS Prospectus (or DMBS Prospectus), the related prospectus supplement narratives and schedules and other Fannie Mae disclosure documents are accessible on the company's web site, www.fanniemae.com at the following links:

Trust Agreements

<http://www.fanniemae.com/mbs/documents/mbs/trust-indentures/index.jhtml?p=Mortgage-Backed+Securities&s=Prospectuses+%26+Related+Documents&t=MS&q=Trust+Documents>

Prospectus Documents

<http://www.fanniemae.com/mbs/documents/mbs/prospectus/index.jhtml?p=Mortgage-Backed+Securities&s=Prospectuses+%26+Related+Documents&t=MBS&q=Prospectuses>

The new 2009 Multifamily Master Trust Agreement and the new 2009 Multifamily MBS Prospectus, as well as the Amended and Restated 2007 Multifamily Master Trust Agreement, increases flexibility in managing defaulted loans, without requiring a repurchase of the affected loans or a change to the MBS investor's cash flows. Even though the new Trust Agreements permit certain flexibilities, at this time, Fannie Mae has elected not to change its current loss mitigation practices.

Multifamily Securities Locator Service

Investors can obtain comprehensive information about collateral backing multifamily MBS and related delinquency statistics via our Multifamily Securities Locator Service which is available online at the following link: <http://www.fanniemae.com/mbs/tools/multifamily/msls.jhtml?p=Mortgage-Backed+Securities&s=Search+Tools+%26+Resources&t=Multifamily+Securities+Locator+Service#>.

By entering the multifamily pool number or searching for a security by type of pool, issue date, pass-through rate, or pool prefix, an investor can quickly obtain at-issuance disclosure documents for a specific security such as the Multifamily Master Trust Agreement, the Multifamily MBS Prospectus as well as prospectus supplement information. Extensive pool information, such as factors, loan details and weighted-average statistics can also be quickly obtained via the Multifamily Securities Locator Service. Available via our Multifamily Securities Locator Services, **Exhibit 9** shows the loan information backing the multifamily MBS/DUS 10/9.5 pool 957873.

Exhibit 9: Multifamily Securities Locator Service – MBS/DUS 10/9.5 Pool 957873

Multifamily Securities Locator Service

Home | Register | Settings | Contact Us | Log In | Help | Privacy

Search: Pool Number

Return to Search Results

Pool #: 957873

Click here to display/hide updates

Pool Information | Loan Information | Collateral Information | All Issuance Documents

Loan level information is as of the MBS payment date occurring two months prior to the most recent MBS payment date.

Loan Number

Summary

Loan Number	Original Loan Term (Months)	Maturity Date	Issuance Rate Rate	Issuance PTR	First Payment Date	Delinquency Status (Days)
420798406	120	10/1/2018	4.9500%	\$1,350,000.00	01/01/2009	0

Details

Loan Information

Seller:	Greystone Servicing Corporation Inc.
Service:	Greystone Servicing Corporation Inc.
Tier:	2
Tier Drop Rights:	No
Loan Position:	1st
CDO:	1-29
LTW:	58.1%
Saloon:	Yes
Additional Loans:	No
Assurance Financing:	No
Prepayment Premium:	Yes

Asset Rate Details

Rate Date:	11/1/2008
Issuance Pass-through Rate:	3.5000%

Substance Details

Issuance PTR:	\$1,350,000.00
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Prepayment Details

First Payment Date:	2/01/2009
Payment Date:	Delinquency Status (Days)
No report on file found.	No report on file found.

Amortization Details

Original Amortization Term (Months):	360
Interest Type:	Fixed
Interest Adjust:	30-000
Interest Only Indicator:	No
Interest Only Period (Months):	Not Applicable
Last Interest Only Payment Date:	Not Applicable

Prepayment Premium Details

Lockout Term (Months):	Not Applicable
Lockout End Date:	Not Applicable
Prepayment Premium Option:	Yield Maintenance
Prepayment Premium Term (Months):	114
Prepayment Premium Set Date:	05/01/2010
Yield Maintenance Security Rate:	3.8750%
Security Due Date:	05/01/2018

Investors can determine a DUS 10/9.5 pool if:

1. Original Loan Term (Months) = 120

AND

2. Prepayment Premium Term (Months) = 114

New Issue Pool Statistics

Investors looking for daily issuance information about multifamily MBS can locate this information on the New Issues Pools Statistics File (NIPS) that is available on our web site at the following link:

<http://www.fanniemae.com/mbs/data/mbs/newisspoolstats.jhtml?p=Mortgage-Backed+Securities&s=Monthly+Reporting+Data&t=MBS&q=New+Issues+Pool+Statistics>.

For pools closed the previous day, the NIPS file contains useful information for investors that includes, but is not limited to, the pool number, CUSIP, issue date, Fannie Mae pool prefix, pass-through rate (PTR), weighted-average coupon (WAC) weighted-average maturity (WAM), maturity date, unpaid principal balance (UPB), and loan-to-value ratio.

MBS/DUS 10/9.5 Performance Data

Since December 2007, Fannie Mae has published quarterly performance data aimed solely at the most common MBS/DUS product, which are backed by 10/9.5 multifamily mortgage loans. The performance data provides information often requested by multifamily investors. Investors can obtain comprehensive issuance and prepayment performance data on outstanding multifamily DUS loans since 2002 with an

initial term of 10 years and 9.5 years of yield maintenance backing Fannie Mae MBS on our web site at the following link:

<http://www.fanniemae.com/mbs/data/multifamily/dus-performancedata.jhtml?p=Mortgage-Backed+Securities&s=Monthly+Reporting+Data&t=Multifamily&q=DUS+Performance+Data>.

This report is updated quarterly, approximately 45 days following the end of the quarter. The MBS/DUS 10/9.5 Performance Data report discloses:

1. Issuance: Annual issuance and other data for 10/9.5 multifamily mortgage loans backing Fannie Mae MBS;
2. Scheduled Payoffs and Prepayments with Yield Maintenance: Data for 10/9.5 multifamily mortgage loans backing Fannie Mae MBS that have been paid in full including, in the case of prepayments, payment of any yield maintenance amounts due; and,
3. Prepayments Without Yield Maintenance: Data for 10/9.5 multifamily mortgage loans backing Fannie Mae MBS that were repurchased from the applicable MBS pool prior to maturity for any reason, including a default, casualty or breach of lender representation or warranty and for which no prepayment premium was collected.

Monthly Yield Maintenance Factor Report

Investors can obtain monthly factor information for use in calculating the amount of yield maintenance that will be passed through to the investor in the current month at the following link:

<http://www.fanniemae.com/mbs/data/multifamily/yield-maintenance.jhtml?p=Mortgage-Backed+Securities&s=Monthly+Reporting+Data&t=Multifamily&q=Yield+Maintenance>.

To calculate yield maintenance, an investor should multiply the factor published in the Monthly Yield Maintenance Factor Report by the original unpaid principal balance of the MBS that they hold in order to determine their portion of the yield maintenance prepayment fee. This information is published on or around the fifth business day each month and contains the record date, payment date, CUSIP, pool prefix, pool number, and yield maintenance factor for each applicable multifamily MBS.

MBS Loan Level Delinquency 60-Plus Days Report

Investors can obtain a list of multifamily loans backing an MBS that are at least 60 days delinquent in payment of monthly principal and interest, as reported by the servicer, at the link below.

<http://www.fanniemae.com/mbs/data/multifamily/delinquencyreport.jhtml?p=Mortgage-Backed+Securities&s=Monthly+Reporting+Data&t=Multifamily&q=MBS+Loan+Level+Delinquency+60-Plus+Days>

As of November 10, 2008, Fannie Mae began publishing the delinquency data around the sixth business day of the month and reports data as of the prior month, in an effort to provide delinquency information on a more real-time basis to investors within one month of the company being notified by the servicer that a loan is 60 days delinquent. For example, a current month report dated December 2008 would be posted on or around January 10, 2009 and would display delinquency data with a November 1, 2008 "as of date". If the borrower made a monthly principal and interest payment on September 1, 2008, but failed to make monthly principal and interest payments due on October 1, and November 1, the report would list the loan as being 60 days delinquent in December 2008.

Multifamily Loan Level Detail Information

Fannie Mae provides a loan level detail report on a monthly basis, which contains data related to certain loans backing specified currently outstanding multifamily Fannie Mae MBS. For each loan backing Fannie Mae multifamily MBS, this report provides the pool

number, the city, state, and zip code of the properties' address, the current unpaid principal balance and the initial interest rate. This report is generally made available during the first to fifth business day of the following month and can be found on our web site at the following link:

<http://www.fanniemae.com/mbs/data/multifamily/loan-leveldetail.jhtml?p=Mortgage-Backed+Securities&s=Monthly+Reporting+Data&t=Multifamily&q=Loan+Level+Detail>.

Other Multifamily MBS Resources for Market Participants

Information about Fannie Mae multifamily MBS is easily obtainable from a number of other sources as well:

On the Web: www.fanniemae.com

By email at: fixedincome_marketing@fanniemae.com

By Investor Helpline: 1-800-237-8627

By fax: 202.752.4624

By mail: Fannie Mae

c/o Fixed-Income Securities Marketing,

Mailstop 2H-3S/17

3900 Wisconsin Avenue, NW

Washington, DC 20016-2892

Additionally, the [Multifamily Mortgage-Backed Securities Abstract](#) provides quarterly information regarding MBS volumes over the past two quarters; recent MBS/DUS spread to swaps; the multifamily serious delinquency rate over the years; and an MBS highlights section, which features news from Fannie Mae's multifamily business activities.

Conclusion

Fannie Mae, the leader in the multifamily market, supports the financing of affordable multifamily housing in the United States. Fannie Mae's MBS/DUS allows investors to earn potentially attractive yields on multifamily backed securities that carry Fannie Mae's guaranty of timely payment of principal and interest, often with prepayment protection provisions. In this *MBSenger*, we describe the DUS program; the structural and performance characteristics of MBS/DUS backed by these loans; and also discuss other Fannie Mae multifamily MBS products and identify important multifamily MBS at-issuance and ongoing disclosures, which are critical for the analysis and valuation of these securities. Going forward, Fannie Mae will work to further enhance its multifamily MBS offerings and expand the available information on its suite of multifamily MBS products.

Top Fannie Mae Multifamily Disclosure Web Site Links

Multifamily Securities Locator Service

Provides pool information, loan information, collateral information, and at-issuance documents (including the Schedule A, Base Prospectus, Prospectus Supplement Narrative, and Pool Statistics) for a specific pool or CUSIP.

<http://www.fanniemae.com/mbs/tools/multifamily/msls.jhtml?p=Mortgage-Backed+Securities&s=Search+Tools+%26+Resources&t=Multifamily+Securities+Locator+Service#>

New Issues Pool Statistics (NIPS)

Provides daily issuance information, including the pool number, CUSIP, issue date, Fannie Mae pool prefix, pass-through rate (PTR), weighted-average coupon (WAC) weighted-average maturity (WAM), maturity date, unpaid principal balance (UPB), and loan-to-value ratio.

<http://www.fanniemae.com/mbs/data/mbs/newisspoolstats.jhtml?p=Mortgage-Backed+Securities&s=Monthly+Reporting+Data&t=MBS&q=New+Issues+Pool+Statistics>

MBS/DUS 10/9.5 Performance Data

Provides comprehensive issuance and prepayment performance data on outstanding multifamily DUS loans since 2002 with an initial term of 10 years and 9.5 years of yield maintenance backing Fannie Mae MBS.

<http://www.fanniemae.com/mbs/data/multifamily/dusperformancedata.jhtml?p=Mortgage-Backed+Securities&s=Monthly+Reporting+Data&t=Multifamily&q=DUS+Performance+Data>

Yield Maintenance Factor File

Provides monthly factor information for use in calculating the amount of yield maintenance that will be passed through to investors in the current month.

<http://www.fanniemae.com/mbs/data/multifamily/yieldmaintenance.jhtml?p=Mortgage-Backed+Securities&s=Monthly+Reporting+Data&t=Multifamily&q=Yield+Maintenance>

MBS Loan Level Delinquency 60-Plus Days Report

Provides a list of multifamily loans backing an MBS that are at least 60 days delinquent in payment of monthly principal and interest.

<http://www.fanniemae.com/mbs/data/multifamily/delinquencyreport.jhtml?p=Mortgage-Backed+Securities&s=Monthly+Reporting+Data&t=Multifamily&q=MBS+Loan+Level+Delinquency+60-Plus+Days>

Multifamily Loan Level Detail Report

Provides data related to certain loans backing specified currently outstanding multifamily Fannie Mae MBS. For each loan backing Fannie Mae multifamily MBS, this report provides the pool number, the city, state, and zip code of the properties' address, the current unpaid principal balance and the initial interest rate.

<http://www.fanniemae.com/mbs/data/multifamily/loanleveldetail.jhtml?p=Mortgage-Backed+Securities&s=Monthly+Reporting+Data&t=Multifamily&q=Loan+Level+Detail>

Pool Data Direct

Provides monthly disclosure information about Fannie Mae MBS. Nine files, four of which include multifamily MBS, are available for downloading purposes.

<http://www.fanniemae.com/mbs/tools/pooldatadirect.jhtml?p=Mortgage-Backed+Securities&s=Search+Tools+%26+Resources&t=Pool+Data+Direct>

Multifamily Master Trust Agreement

Provides a link to the Trust Indentures for Fannie Mae MBS, both single-family and multifamily.

<http://www.fanniemae.com/mbs/documents/mbs/trustindentures/index.jhtml?p=Mortgage-Backed+Securities&s=Prospectuses+%26+Related+Documents&t=MBS&q=Trust+Indentures>

Multifamily Prospectuses

Provides a link to all Fannie Mae MBS Prospectuses, both single-family and multifamily.

<http://www.fanniemae.com/mbs/documents/mbs/prospectus/index.jhtml?p=Mortgage-Backed+Securities&s=Prospectuses+%26+Related+Documents&t=MBS&q=Prospectuses>

DMBS Trades

Provides historical data on discount mortgage-backed security trades, including the delivery date, number of days in the term, date of the trade, UPB, discount from par, price (% of par), simple interest yield, comparable LIBOR (%), and spread to LIBOR (%).

<http://www.fanniemae.com/mbs/data/multifamily/index.jhtml?p=Mortgage-Backed+Securities&s=Monthly+Reporting+Data&t=Multifamily>

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