Fannie Mae

Multifamily Credit Risk Transfer Program

August 2019

Fannie Mae®

Overview

Background

For over 30 years, we have successfully shared credit risk with our lender partners through the Delegated Underwriting and Servicing (DUS®) program, which requires our DUS lenders to retain a portion of credit risk on multifamily loans they deliver to us.

To complement the DUS program, we introduced the Multifamily Credit Insurance Risk Transfer (MCIRT) program in June 2016 to transfer a portion of the credit risk post acquisition on multifamily mortgages to reinsurer and insurer counterparties.

Introducing additional credit risk transfer capabilities further supports our focus on capital management.

We continue to evaluate new forms of credit risk transfer, including potentially issuing a multifamily security similar to our Single-Family Connecticut Avenue Securities® (CAS).

The resources we have made available support the programs we have in place today and prepare the market for any future enhancements in our credit risk transfer capabilities.

Submit questions: fixedincome_marketing@fanniemae.com

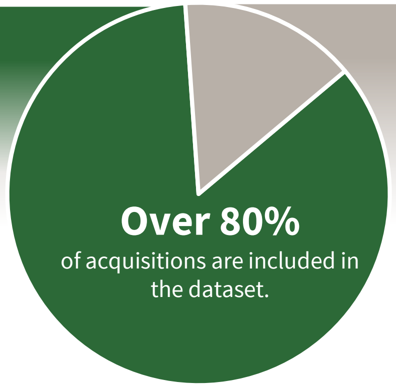
Multifamily Loan Performance Data

Overview of the Data

We are providing data to promote better understanding of the credit performance and give market participants information to further analyze our loan performance history.

What is Included

- Bulk Deliveries
- Credit Facilities
- DUS
- Non-DUS from Active Lenders



What is Excluded

- Aggregation
- Credit Enhancements
- DMBS
- Funded Forwards
- Negotiated Transactions
- New Prior Approval
- Whole Loan REMICs
- Inactive Non-DUS Lenders

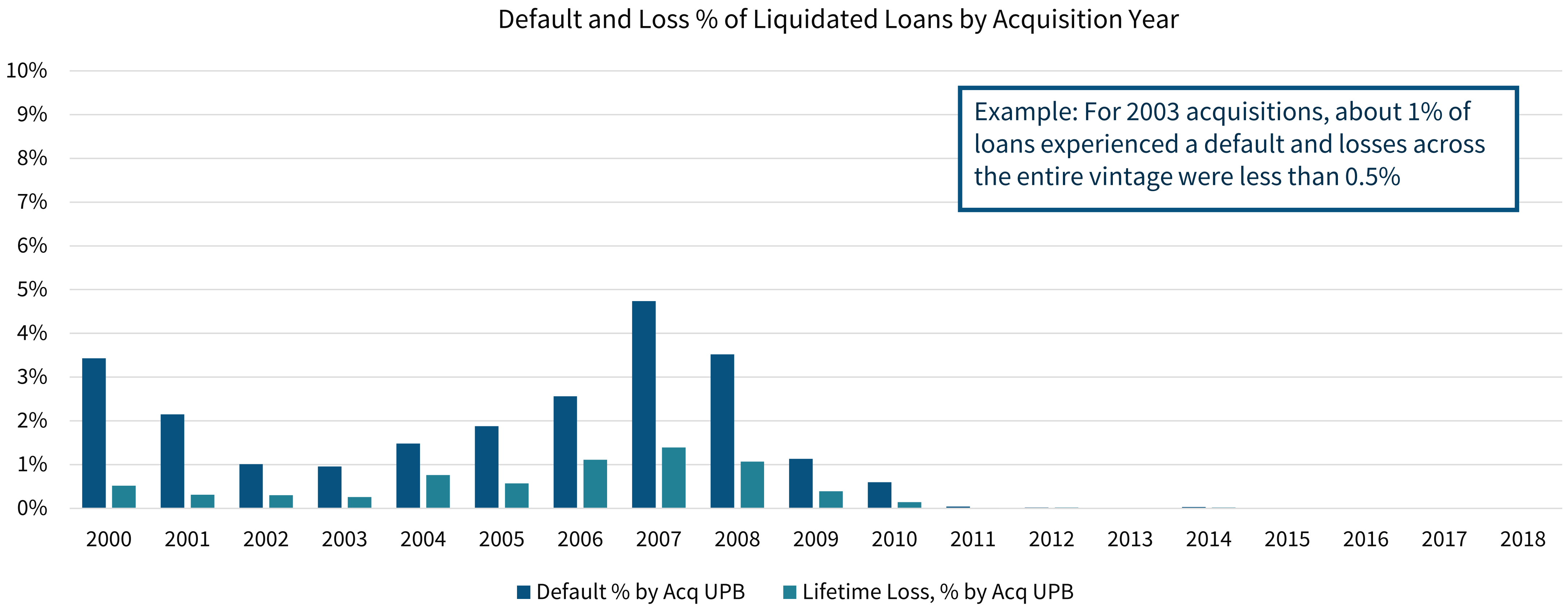
The initial population of the Multifamily Loan Performance Data includes Multifamily loans acquired on or after January 1, 2000, through December 31, 2018.

Over 3M
records for the initial published dataset.

46,000+
loans comprise the dataset.

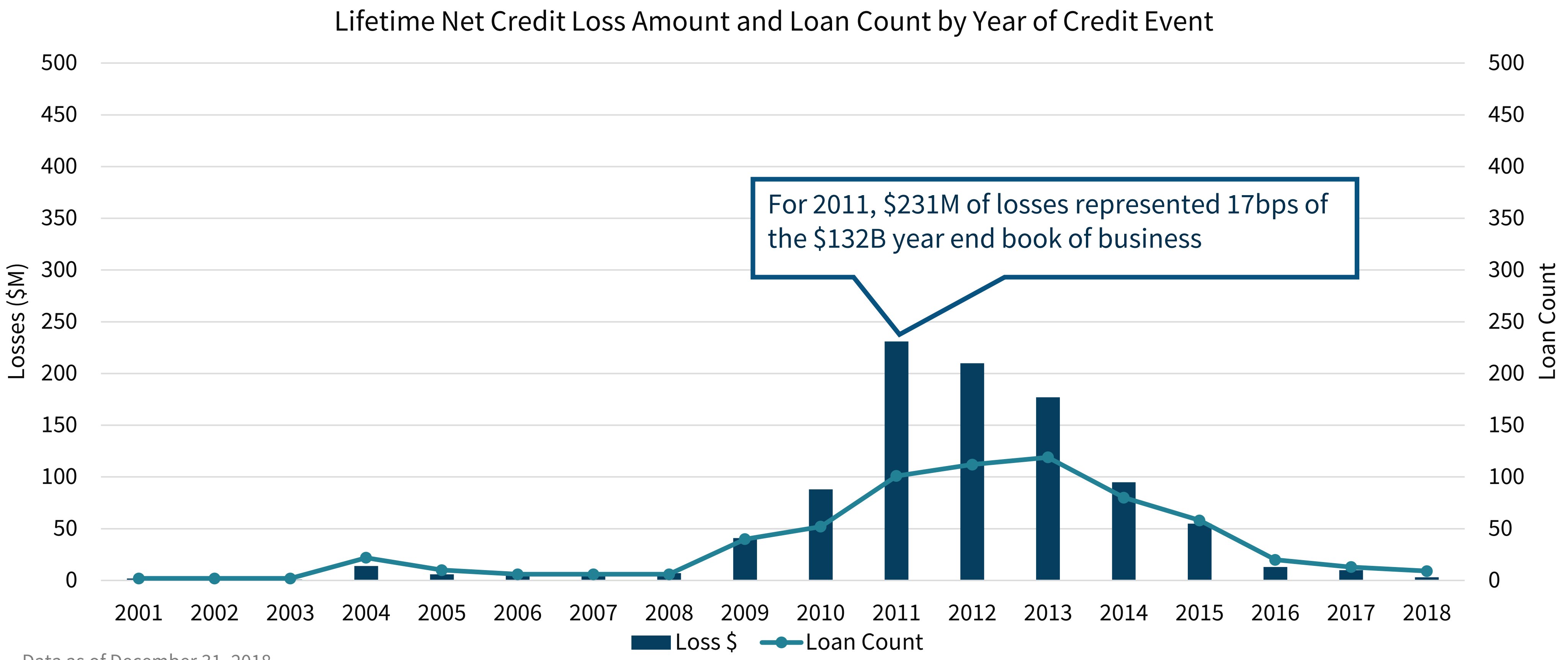
54
loan data attributes are included in the dataset.

Performance by Acquisition Year



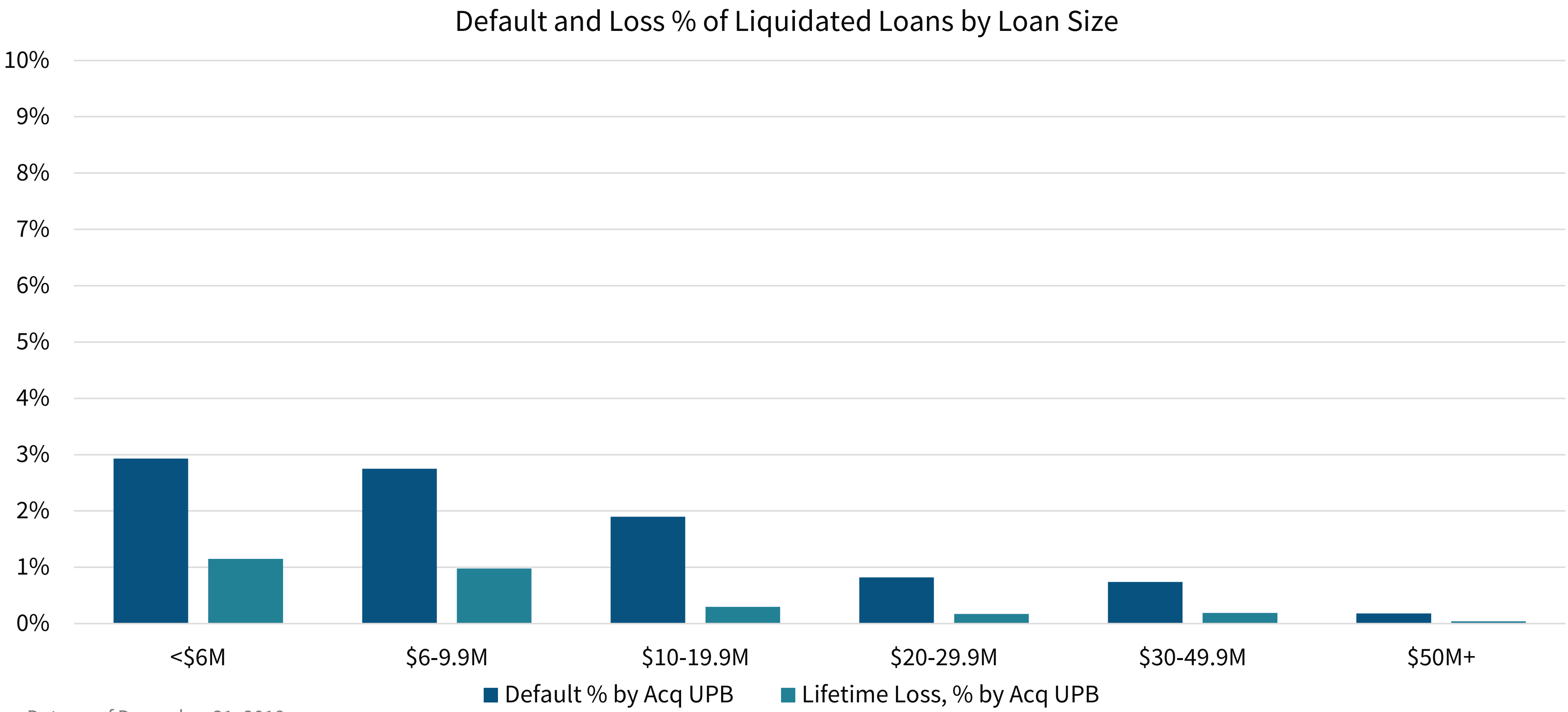
Data as of December 31, 2018

Credit Event Losses by Year



Data as of December 31, 2018

Performance by Loan Size



Data as of December 31, 2018

Strong Practices and Standards

Multifamily continually enhances its business practices and underwriting standards to enable it to weather economic downturns, guided by our team's experience and longevity through a variety of market cycles.

Highly Experienced Management Team

- ✓ Average 20+ years of industry experience
- ✓ Experience in servicing through the housing crisis
- ✓ Average 8+ years of experience at Fannie Mae

CONTINUOUS ENHANCEMENT OF BUSINESS PRACTICES SINCE 2008

- Developed quarterly Metropolitan Statistical Area review to proactively monitor market trends
- Instituted a collaborative quarterly impairment review process across the business
- Created a dedicated Maturity Management team to proactively monitor maturing loans for refinance risk

CONTINUOUS ENHANCEMENT OF UNDERWRITING STANDARDS SINCE 2008

	Before Crisis	After Crisis
Conventional DSCR Floor	Minimum 1.20x DSCR	Minimum 1.25x DSCR
Underwriting Floors*	No underwriting floors	Introduced underwriting floors with a quarterly review
Team Organization	Organized credit teams around DUS lenders	Organized credit teams regionally with subject matter experts for each property type

*The lowest interest rate that may be used by the lender in determining loan amount.

New Loan Performance Webpage

Visit the new multifamily loan performance webpage to access the data as well as review additional resources to assist with understanding certain disclosed attributes.

A link to the **Loan Performance Data site,** which has been updated to include a tab for multifamily data

Published **Quick Reference Guides** for the following topics:

- Underwritten DSCR
- Credit Event and Loss Sharing

A **statistical summary** has been provided to ensure users have captured all data in the file

A **combined glossary and file layout** and **FAQs** are available to assist user with navigating the file and disclosed data

Multifamily Credit Risk Management

Multifamily Credit Risk Management

Multifamily employs an advanced credit risk management framework to actively manage credit risk throughout the loan lifecycle, which is underpinned by the Selling & Servicing Guide.

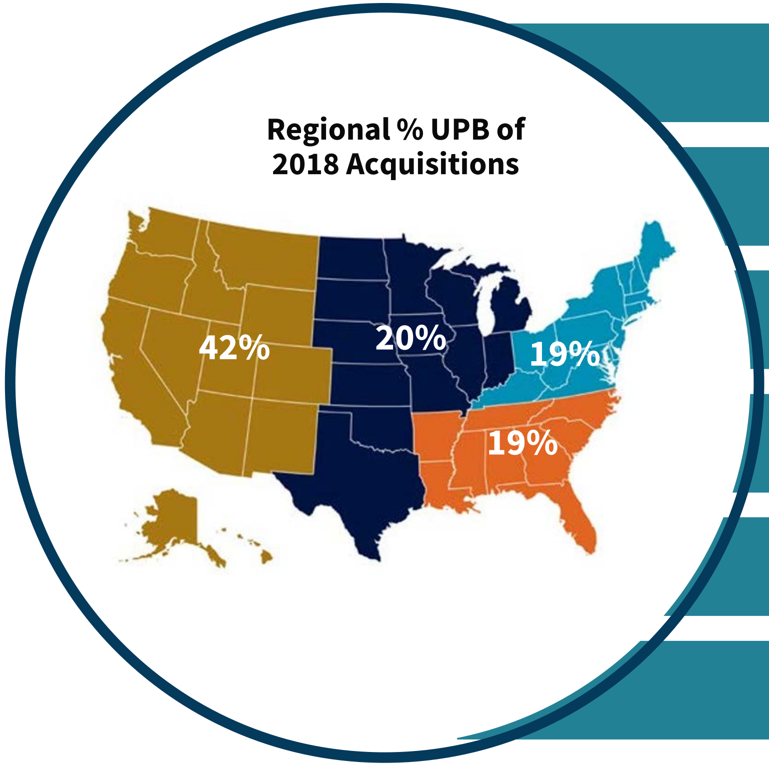
Underwriting Management
Multifamily sets prudent underwriting standards and regularly reevaluates them as necessary to address credit tolerances relative to the current market and economic conditions.

Performance Management
Multifamily reviews credit decisions to determine if credit risk is appropriately underwritten and deploys multiple methods of surveillance to gauge loan performance and the ability to provide orderly repayment or refinance of a loan.

Mitigation Strategies
Multifamily's loss mitigation teams aim to identify risks early and develop mitigation actions to minimize the potential default losses.

Market and Product Expertise

Multifamily's underwriting teams are regionally based to foster expertise within each market. The teams are also staffed with subject matter experts for each mortgaged property type.



- Standard Conventional
- Affordable Housing and Low Income Housing Tax Credit
- Seniors Housing
- Cooperatives
- Dedicated Student Housing
- Manufactured Housing Community

Regionally Based Market Experts

Northeast	Central
West	Southeast

*Source: Fannie Mae Acquisitions.

Conventional Underwriting

Multifamily delegates to our DUS lenders the authority to underwrite loans that meet the Guide requirements.

CORE UNDERWRITING STANDARDS*

- Receipt of satisfactory third-party reports (e.g., appraisals, environmental reports, physical needs assessments, borrower financial statements, etc.)
- 100% of properties are inspected before closing

Typical Fixed-Rate Mortgage Underwriting Limits

- Minimum 1.25x debt-service coverage ratio (DSCR)
- Maximum 80% loan-to-value (LTV) ratio

2018 Multifamily Acquisition UPB by Interest Type**

89%
Fixed Rate

11%
Adjustable Rate

Typical Adjustable-Rate Mortgage (ARM) Underwriting Limits

- Loan amount governed by the lower of the comparable fixed-rate loan or the built up adjustable rate, which includes current LIBOR plus a baseline 300 bps stress
- 75% max loan-to-value (LTV)
- Purchase of an external interest rate cap
- Optional conversion to fixed rate

UNDERWRITING TOOLS

Applicant Experience Check (ACheck®) enables Multifamily to flag and archive applicants and companies based on performance concerns (e.g., foreclosure, physical condition issues, etc.) providing Multifamily the ability to search its database for unhealthy risk when considering a new transaction.

DUS Gateway® enables lenders to register and submit deals to Multifamily for consideration, track pipelines, and receive Multifamily responses via the web.

*Underwriting standards for certain loans and specialty products may differ from our core underwriting standards. Please see the Guide for full underwriting requirements.
**Source: Fannie Mae.

Analysis Powers Our Decisions

Our DUS lenders are required to evaluate all loans on the below components to ensure they meet our risk tolerances as outlined in the Guide.

LOAN SIZE

Perform different levels of review based on loan size.

PROPERTY QUALITY

Review quality of the property based on:

- Income and expenses
- Third-party appraisal
- Physical needs assessment
- Title and survey
- Environmental site assessment

PROPERTY INSPECTION

Gain insight into the condition of the property through a tour of the property and amenities, meeting with management staff, walkthrough of the surrounding property, and review of the inspection report.

SPONSOR REVIEW*

Attain an understanding of the sponsor through a portfolio analysis (e.g., historical performance, outstanding loans, property condition, etc.).

MARKET ANALYSIS

Acquire knowledge of the market by leveraging our economists to analyze fundamental data to identify concentration or economic issues.

BASELINE EXIT ANALYSIS

Perform an exit analysis on each loan to provide reasonable assurance that repayment is possible at loan maturity.

*A sponsor is a principal equity owner and/or the primary decision maker of the borrower (often the key principal or the person controlling the key principal). The key principal is the person or persons that controls the borrower or property and is critical to successful management.

Asset Quality Control

Multifamily routinely performs quality control assessments of property financial and inspection submissions, as well as catastrophe monitoring to ensure underlying assets are performing.

Property Operating Statements

Operating statements are collected on a regular basis to monitor the financial condition of the property.

A random selection of 3.5% of each lender's submitted data on property operating statements is reviewed.

Inspections

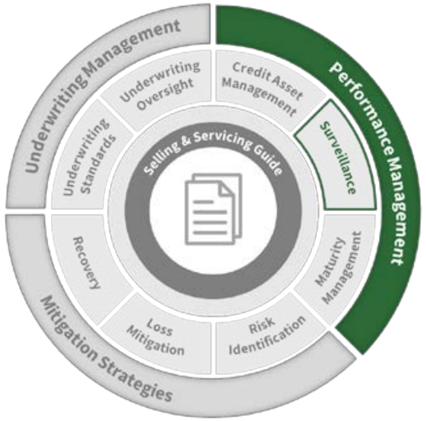
Regular property inspection reports are collected for a risk-based, desktop review to ensure the physical quality of the assets has not deteriorated.

The review is based on various risk factors.

Catastrophe Monitoring

Fannie Mae's Incident Management Center (IMC) monitors disasters and potential impacts. When a disaster unfolds, IMC deploys a cross-functional working group to direct overall disaster response.

After IMC identifies impacted properties, Multifamily manages impacts through resolution which includes a number of assessments.



Performance Management

Multifamily samples loans on an ongoing basis to determine their compliance with established underwriting risk parameters and assess lenders to ensure performance and mitigate potential risk.

Post Purchase Review

Multifamily samples recently purchased loans on an ongoing basis to determine their compliance with established underwriting risk parameters.

Reviews against 8 underwriting categories and 2 compliance categories to determine if the lender meets expectations.

Helps to identify any lender trends and enables the risk team to intervene early to correct any issues.

Breach Review

Multifamily conducts a breach review to detect loans with potential inconsistencies with risk tolerance levels.

If a breach is detected, may review prior loans acquired from the lender or serviced by the lender to assess if a trend exists.

Pursues certain remedies as appropriate based on violation of any representation or warranty.

Lender Assessment

Multifamily conducts an annual desktop operational assessment and a bi-annual onsite assessment of DUS lenders and vendors (e.g., third-party collateral custodian and REO Vendors) for compliance.

Evaluates 10 areas to determine if there are any material weaknesses, financial risks, or missing requirements.

As a result of the lender assessment, recommends or requires specific actions to mitigate adverse impacts and monitors them through to resolution.

Loss Mitigation Journey

Under the four specialized teams that make up our loss mitigation program, Multifamily carefully monitors for risk, and at default takes the lead on workout options to disposition.

Surveillance of Risk

Actions to Mitigate Default

Default

Foreclosure/ Borrower Negotiations

Monetary Recovery

Watchlist Management Group (WMG)

WMG works closely with lenders to identify and monitor risk. Loans classified as Special Mention or Substandard loans are placed on the watchlist for further surveillance.

556 Loans
($4.8B UPB; 1.5% of Book)

Special Credits (SC)

SC manages loans with the highest potential for default through direct engagement with borrowers and lenders to remedy property concerns and other default issues.

655 Loans
($11.9B UPB; 3.8% of Book)

Special Asset Management (SAM)

SAM manages loans in monetary default* through a dual track approach, which initiates the foreclosure process and borrower negotiations simultaneously.

71 Loans
($461M UPB; 0.1% of Book)

Real Estate Owned and Dispositions (REO)

REO is responsible for maximizing recoveries on foreclosed properties and provides direct oversight of third party vendors engaged in the management, marketing, and disposition of assets.

16 Properties
($85M UPB; 0.0% of Book)

Data as of December 31, 2018

*A monetary default includes any amount that is delinquent and remains due 30 days after the due date including principal and interest, real estate taxes, and insurance.
**Source: Fannie Mae.

Watchlist Management Group

WMG performs ongoing surveillance of its assigned loan portfolio to assess and understand the risk profile, confirm risk ratings, and review lender-provided action plans and loss mitigation strategies.

Portfolio Surveillance

WMG identifies and assesses various risks within the entire loan portfolio, reviewing trends, and analyzing performance across varying sectors.

Actions

Risks are identified through:

- ✓ Automated Risk Rating Engine (RRAP)
- ✓ Delinquency reporting (DEWS)
- ✓ Lender communications

Loans can be adversely rated for numerous reasons including:

- ✓ Property operations (e.g., DSCR under 1.0x)
- ✓ Property condition
- ✓ Sponsors
- ✓ Markets

Results

Loans that require a higher level of attention due to an identified risk are placed on the Watchlist.

Loan Surveillance

WMG reviews required loan level action plans provided by the lenders for loans on the Watchlist that are rated Substandard (by RRAP or the assigned Asset Manager).

Actions

Lenders provide an action plan on a given loan twice a year to identify and address the following factors:

- ✓ Sponsor capacity, commitment, and exposure
- ✓ Risk rating history
- ✓ Property level operating information/analysis
- ✓ Market data and asset valuation
- ✓ Inspection and operating summary
- ✓ Overall strengths and weakness
- ✓ Asset management conclusions and strategy

Results

WMG reviews the lender's submitted action plans and communicates with the lenders to ensure WMG's understanding of the risk and loss mitigation strategies.

Inspection Surveillance

WMG conducts ongoing desktop reviews of lender inspections supplemented with actual re-inspection by Multifamily employees of properties for a sample of loans.

Actions

- ✓ Communicate results with primary lenders, typically two lenders per month
- ✓ Calibrate rating criteria with lenders
- ✓ Provide best practice observations and training to mitigate asset specific and ongoing risk
- ✓ Report out any risk trends to Fannie Mae senior management

Results

Loans with an inspection rating of 4 and 5 are transferred to SC for additional engagement (1=Excellent, 2=Very Good/Good, 3=Average/Fair, 4=Deteriorated, 5=Unacceptable).

Special Credits

Loans requiring asset-specific attention are transferred to Special Credits (SC). SC engages borrowers and lenders to prevent default. Borrowers are required to provide a monetary commitment for a resolution.

	Causes	Actions	Resolutions
Property Issues	• Deferred maintenance • Code or zoning violations • Catastrophic events • Structural concerns • Casualty losses • Significant property renovation	• Inspect properties with lenders and/or borrowers • Obtain a Property Condition Assessment (PCA) if necessary • Review borrower repair plans and ensure execution of repairs	• When a PCA is required, identified repair costs must be paid by the borrower and escrowed with the lender • If the borrower refuses to fund the repair cost, this results in a monetary default and the loan is transferred to SAM
Non-Monetary Issues	• Unauthorized borrower transfers • Liens • Litigation	• In-depth interaction with lenders, who provide loan and borrower background, and documentation of risk issues • Assess the materiality of non-compliance with the loan agreement and overall risk	• Issuance of reservation of rights letters • Demand for cure letters
Monetary Issues	• Borrower relief requests • Catastrophic events	• Negotiate default resolution and relief requests from borrowers	Execute a forbearance, extension, or loan modification, which may include: • Interest rate reductions • Extension of interest only periods • Maturity date extensions • Right sizing (principal pay downs)

Special Asset Management

If a resolution is not negotiated, loans are transferred to Special Asset Management (SAM). SAM manages Multifamily's portfolio of defaulted loans, acting as special servicer and employing a dual track methodology that engages in borrower negotiations while simultaneously proceeding with foreclosure to minimize losses from loans that are in default.

Loans transferred to SAM's portfolio are identified by internal and external sources:

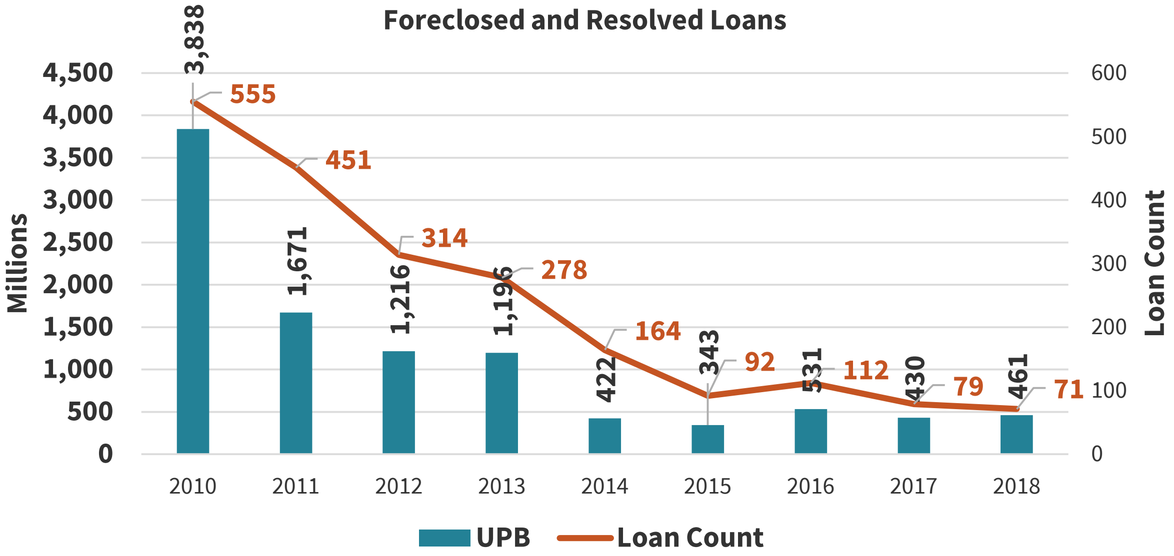
Lender Communication
Lenders notify SAM of loans in default and potential defaults with supporting information (e.g., borrower communication, collateral condition, etc.). Communication is frequent and ongoing.

Internal Communication
Internal Fannie Mae Multifamily groups (e.g., WMG, SC, Maturity Management, etc.) notify SAM of loans in default and potential defaults. Communication is frequent and ongoing.

Delinquency Early Warning Servicing
Loans in monetary default (30 days delinquent or more) are reported monthly by each lender. SAM and the lender discuss the default to determine next steps for resolution.

SAM Portfolio By Year

Foreclosed and Resolved Loans



Since 2010, SAM's portfolio size decreased significantly due to positive market changes, higher rental rates, lower interest rates, and increased debt sources.

*Source: Fannie Mae.

Dual Track Approach

SAM employs a dual track methodology that engages in borrower negotiations while simultaneously proceeding with foreclosure to minimize losses from loans that are in default.

Borrower Negotiations

Execute Pre-Negotiation Letter

Borrowers are required to execute a pre-negotiation letter prior to discussing workout options.

Discuss Modifications

All parties engage in ongoing negotiations for alternative resolutions (e.g., modifications, pay-offs, reinstatements, etc.).

Viable Workout Agreement

A viable workout agreement is entered into by all parties.

Workout Resolution

Resolution strategies include reinstatement, full payoff, or loan modification.

Foreclosure

Engage Legal Counsel

Multifamily engages outside legal counsel to draft a default letter to discuss the default and acceleration. The lender and SAM agree upon the proposed action and SAM sends the letter to borrowers.

Receivership

In conjunction with the foreclosure action, Multifamily files for receivership, if applicable, coordinating the selection with REO.

Order Reports

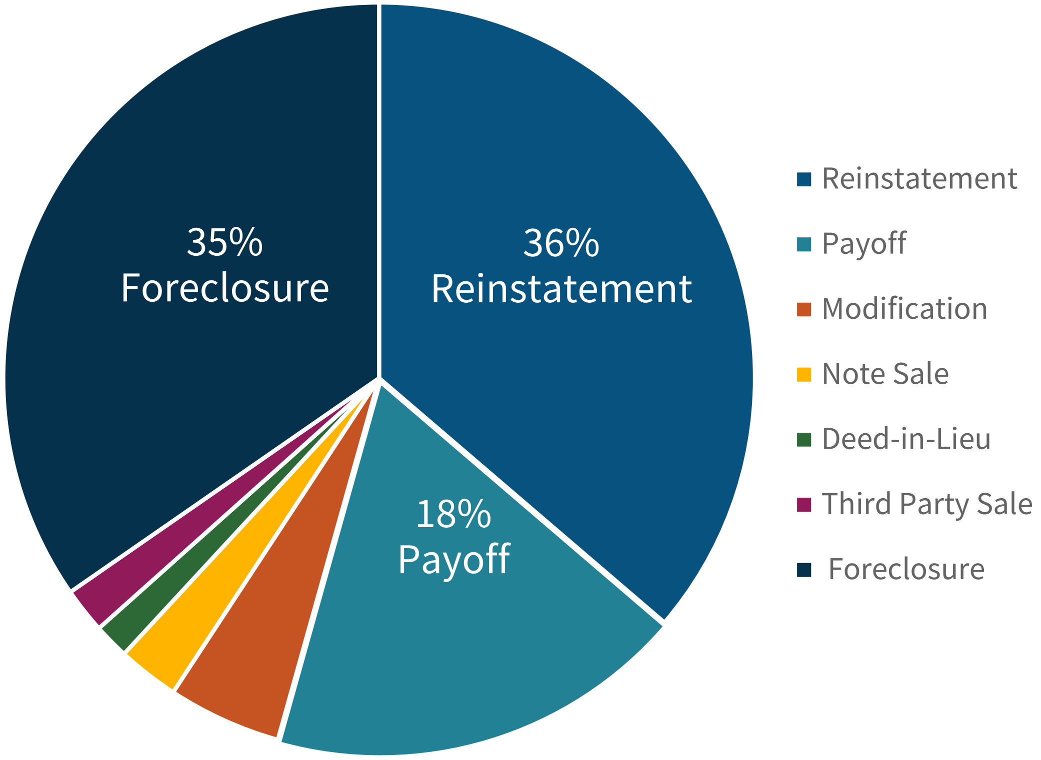
Multifamily orders third-party reports (e.g., Broker Price Opinion, Appraisal, Environmental Site Assessment, or Property Condition Assessment) in anticipation of foreclosure.

Conduct Foreclosure

SAM notifies REO of an anticipated foreclosure date and provides REO with asset background information. Outside counsel conducts the foreclosure sale in accordance with Multifamily instructions.

Dual Track Approach Results

Distribution of Total Resolution from 2008 – 2018 (Book of Business as of December 31, 2018)



*Source: Fannie Mae book of business as of December 31, 2018.

Real Estate Owned

Multifamily outsources REO functions to third-party vendors to manage, market, and sell foreclosed assets to maximize monetary recovery.

All third-party contracts are reviewed and approved by Fannie Mae Procurement and Third Party Risk Management. Each vendor operates under Asset Management Agreements that define their responsibilities in the management and disposition of assets.

Property Inspections

The vendor inspects all REO properties to assess life safety issues, capital needs, deferred maintenance, and operational concerns.

Property Operating Plans (POP)

The vendor develops a POP within 75 days of foreclosure. Multifamily REO verifies the POP is consistent with the property inspection findings and requirements of all Fannie Mae policies. The POP includes:

- Annual line item budget
- Capital expenditures plan
- Leasing plan with rental rates
- Quarterly budget variance reporting

Marketing and Sales Case

The vendor prepares a marketing and sales case that is verified by Multifamily and includes:

- Marketing strategy
- Disposition strategy (e.g., conventional, auction, or non-profit)
- Proposed sales broker or auction company
- Recommended list price and brokerage commission structure
- Estimated timelines

Multifamily Oversight

Multifamily conducts periodic reviews to monitor asset management functions of the REO vendors, which include an analysis of:

- Portfolio-level operations, marketing, and sales strategies
- Compliance with approved property-level budgets and capital plans
- Management company operations and training
- Bank account oversight

Third Party Vendor External Audit

Multifamily engages a third-party audit firm to conduct periodic reviews of the REO vendors and property management companies. The scope of the audit includes a review of:

- Adherence to the Master Services Agreement, REO Statement of Work , Property Management Agreements, and all banking-related requirements
- Internal controls to ensure compliance with management requirements
- Master Funding Account reports and bank statements
- Property-level funding requests
- Funding process for the transfer for sales proceeds

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:

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

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