Fannie Mae®

Single-Family Credit Risk Management

JULY 2024

Disclaimer

Forward-Looking Statements. This presentation and the accompanying discussion may contain a number of estimates, forecasts, expectations, beliefs, descriptions of business practices and other forward-looking statements, which may include statements regarding future benefits of investing in Fannie Mae products, future macroeconomic conditions, future actions by and plans of the Federal Reserve, Fannie Mae's future business plans or practices, strategies and activities and the impact of those plans, strategies and activities. These estimates, forecasts, expectations, beliefs and other forward-looking statements are based on the company's current assumptions regarding numerous factors and are subject to change. Actual outcomes may differ materially from those reflected in these forward-looking statements due to a variety of factors, including, but not limited to, those described in "Forward-Looking Statements" and "Risk Factors" in our annual report on Form 10-K for the year ended December 31, 2023, and our quarterly report on Form 10-Q for the quarter ended June 30, 2024. Any forward-looking statements made by Fannie Mae speak only as of the date on which they were made. Fannie Mae is under no obligation to, and expressly disclaims any obligation to, update or alter its forward-looking statements, whether as a result of new information, subsequent events, or otherwise.

No Offer or Solicitation Regarding Securities. This document is for general information purposes only. No part of this document may be duplicated, reproduced, distributed or displayed in public in any manner or by any means without the written permission of Fannie Mae. The document is neither an offer to sell nor a solicitation of an offer to buy any Fannie Mae security mentioned herein or any other Fannie Mae security. Fannie Mae securities are offered only in jurisdictions where permissible by offering documents available through qualified securities dealers or banks.

No Warranties; Opinions Subject to Change; Not Advice. This document is based upon information and assumptions (including financial, statistical, or historical data and computations based upon such data) that we consider reliable and reasonable, but we do not represent that such information and assumptions are accurate or complete, or appropriate or useful in any particular context, including the context of any investment decision, and it should not be relied upon as such. Opinions and estimates expressed herein constitute Fannie Mae's judgment as of the date indicated and are subject to change without notice. They should not be construed as either projections or predictions of value, performance, or results, nor as legal, tax, financial, or accounting advice. No representation is made that any strategy, performance, or result illustrated herein can or will be achieved or duplicated. The effect of factors other than those assumed, including factors not mentioned, considered or foreseen, by themselves or in conjunction with other factors, could produce dramatically different performance or results. We do not undertake to update any information, data or computations contained in this document, or to communicate any change in the opinions, limits, requirements and estimates expressed herein. Investors considering purchasing a Fannie Mae security should consult their own financial and legal advisors for information about such security, the risks and investment considerations arising from an investment in such security, the appropriate tools to analyze such investment, and the suitability of such investment in each investor's particular circumstances.

Fannie Mae securities, together with interest thereon, are not guaranteed by the United States and do not constitute a debt or obligation of the United States or of any agency or instrumentality thereof other than Fannie Mae.

Opinions, analyses, estimates, forecasts, and other views of Fannie Mae's Economic & Strategic Research (ESR) group included in these materials **should not be construed as indicating Fannie Mae's business prospects or expected results**, are based on a number of assumptions, and are subject to change without notice. How this information affects Fannie Mae will depend on many factors. Although the ESR group bases its opinions, analyses, estimates, forecasts, beliefs, and other views on information it considers reliable, it does not guarantee that the information provided in these materials is accurate, current, or suitable for any particular purpose. Changes in the assumptions or the information underlying these views could produce materially different results. The analyses, opinions, estimates, forecasts, beliefs, and other views published by the ESR group represent the views of that group as of the date indicated and do not necessarily represent the views of Fannie Mae or its management.

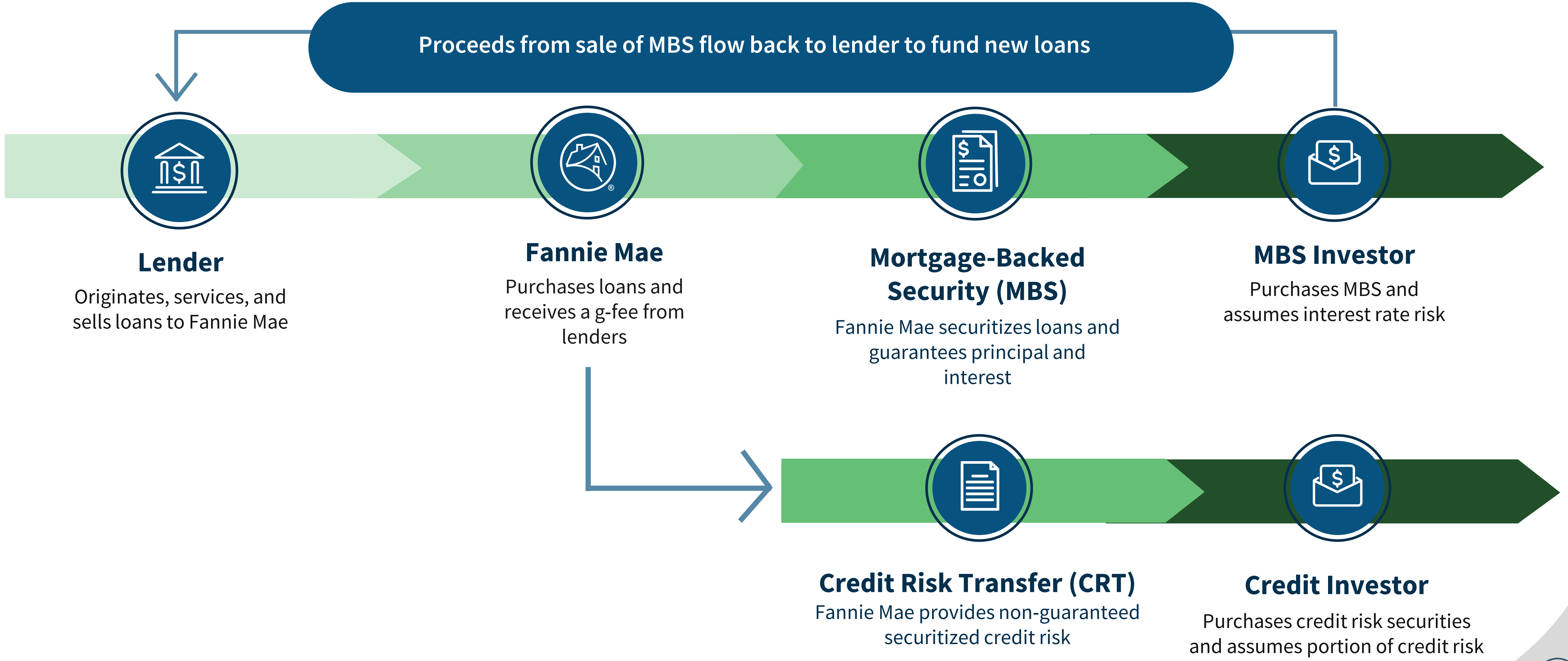
Fannie Mae

Table of Contents

Fannie Mae's Role in Housing

The Securitization Process

We provide liquidity to the housing market and investment options to fixed-income investors.



Our Size and Scale

Fannie Mae is one of the largest Single-Family credit risk managers in the mortgage industry.

$3.6T

Single-Family guaranty book of business[1]

1 in 4

Single-Family mortgage loans owned or guaranteed[2]

$86B

Single-Family mortgage liquidity provided[3]

28%

Single-Family Mortgage-Related Securities issuance share[3]

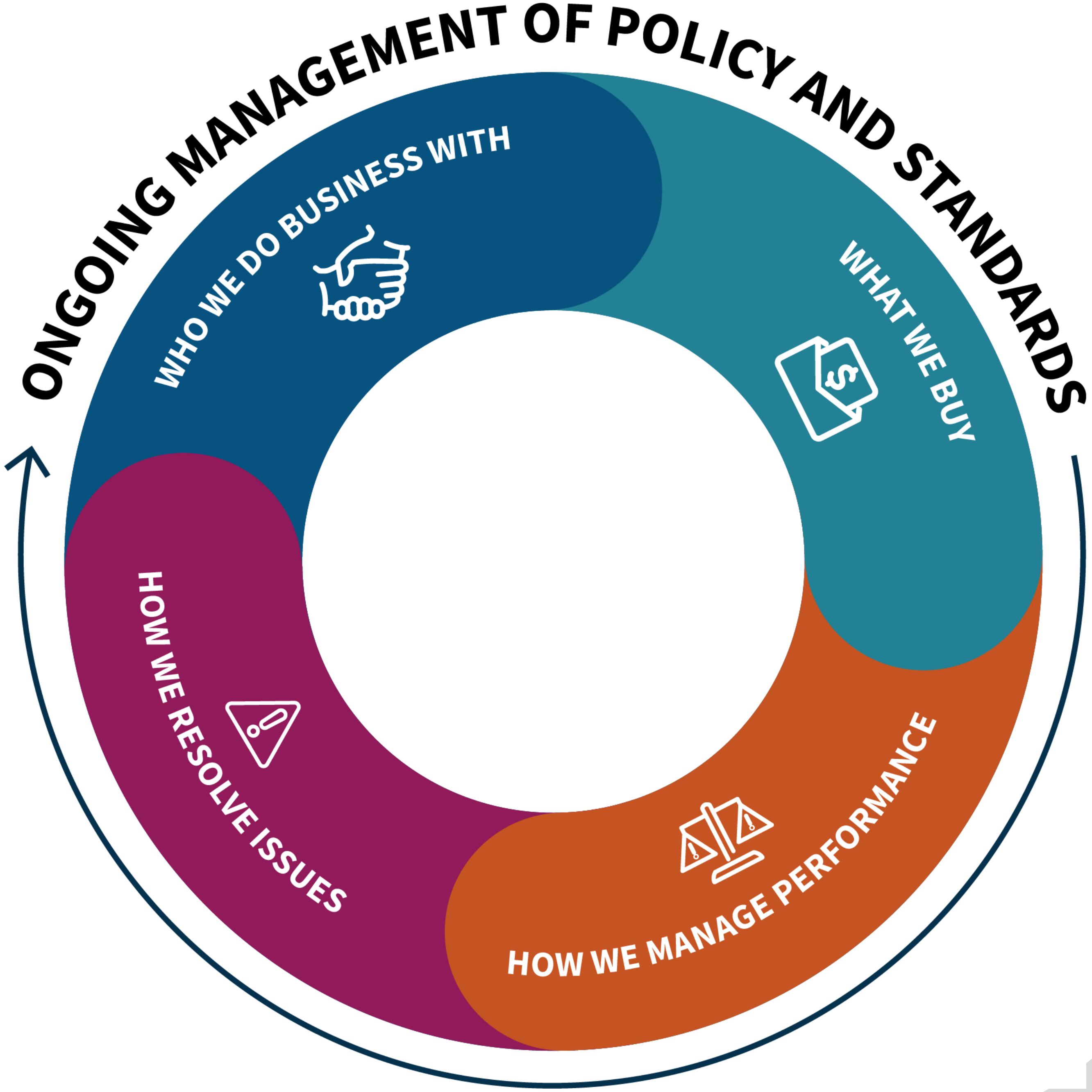
[1] As of June 30, 2024
[2] As of March 31, 2024
[3] In Q2 2024

 |

Credit Risk Management Strategy

Our Credit Risk Management Strategy

Fannie Mae's credit risk management philosophy considers all stages of the loan life cycle and is focused on leveraging data and analytics to support sustainable homeownership.



Dynamic Risk Management

Enhancements across the entire loan life cycle make us better prepared to manage through an economic downturn and mitigate our losses.

Underwriting standards	Strong credit standards have produced a portfolio of higher-quality loans that are likely to perform better in a downturn than loans acquired prior to 2009.
Loan quality	Moving quality control (QC) to the front of the process drives down loan defect rates — better loan quality supports improved loan performance.
Counterparty oversight	Strong counterparty requirements and oversight frameworks provide confidence in our sellers' and servicers' operational capabilities and enable proactive performance management.
Loss mitigation	Servicing Management Default Underwriter™ (SMDU™) delivers our workout hierarchy to achieve optimal default loan solutions for homeowners experiencing a hardship while mitigating Fannie Mae's credit losses.
Real Estate Owned (REO) Properties	Our comprehensive agent & property preservation network and repair strategy enable us to optimize owner-occupant sales while managing our loss severities.
Technology	Our advanced technology, embedded in our sellers' and servicers' processes, ensures consistency in compliance and improves our ability to assess credit and collateral risks early in the process.

 |

Advanced Technology

Our proprietary digital solutions support comprehensive credit risk management.

Desktop Underwriter® (DU®)

- Automated underwriting system that deploys Fannie Mae's underwriting guidelines and credit policies to the market.
- Helps lenders establish a loan's eligibility for sale and delivery to Fannie Mae.

Collateral Underwriter® (CU®)

- Platform for collateral risk assessment, providing sellers greater certainty on property values.
- Provides robust analytics and confidence in collateral valuation – a key indicator of loan performance.

Servicing Management Default Underwriter™ (SMDU™)

- Platform for delivering automated loss mitigation eligibility decisions.
- Simplifies the loss mitigation process enabling servicers to save time, reduce risk, and enhance their service to homeowners.

 |

Improved Risk Position

We have drastically improved the risk position of the company since the 2008 financial crisis.

Certain Credit Characteristics of Single-Family Conventional Guaranty Book of Business by Origination Year and Loan Features[4][19]								
As of June 30, 2024		Origination Year						
Categories are not mutually exclusive	Overall Book	2008 & Earlier	2009-2019	2020	2021	2022	2023	2024
Total UPB (Dollars in billions)	$3,624.0	$60.7	$799.4	$828.8	$1,047.6	$476.8	$288.0	$122.7
Average UPB	$208,482	$76,210	$131,614	$238,682	$256,780	$287,211	$311,430	$326,555
Share of SF Conventional Guaranty Book	100%	2%	22%	23%	29%	13%	8%	3%
Share of Loans with Credit Enhancement[20]	47%	8%	42%	30%	52%	65%	66%	40%
Serious Delinquency Rate[21]	0.48%	1.76%	0.58%	0.24%	0.35%	0.63%	0.23%	0.01%
Weighted-Average Mark-to-Market LTV Ratio[22]	50%	28%	33%	44%	51%	66%	73%	76%
Weighted-Average FICO Credit Score[16]	753	696	746	762	755	747	755	758
FICO Credit Score < 680[16]	8%	39%	11%	4%	6%	9%	5%	5%

Footnotes found in the Financial Supplement.

Improving Access to Housing

In support of Fannie Mae's mission, we seek to responsibly improve homeownership access while maintaining our strong credit standards and without expanding our credit box.

Two affordable housing obstacles we're focused on addressing…

1 Seeing more credit-invisible borrowers

EXAMPLES:

Positive Rent Payment History

- Recurring rent payments from a borrowers' bank statement data incorporated into the Desktop Underwriter (DU) credit risk assessment.
- Helps borrowers with limited credit profiles, but a strong history of on-time rent payments.

Cash Flow Assessment

Bank statement data can be used to assess cash flow activity for borrowers with no credit scores and inform the DU credit risk assessment.

2 Reducing upfront costs

EXAMPLES:

HomeReady®

Enhancement to our flagship affordable housing product, HomeReady®, to include $2,500 towards down payment or closing costs for very-low-income purchase borrowers (≤50% of AMI).

Appraisal Modernization

When certain conditions are met, we offer lenders the option to waive a traditional appraisal. Appraisal alternatives expand the population of homebuyers who can benefit from appraisal cost savings.

These offerings are developed within the parameters of our credit box, so we are not taking on additional credit risk.

Credit Policy and Acquisitions

Setting Our Selling Policy

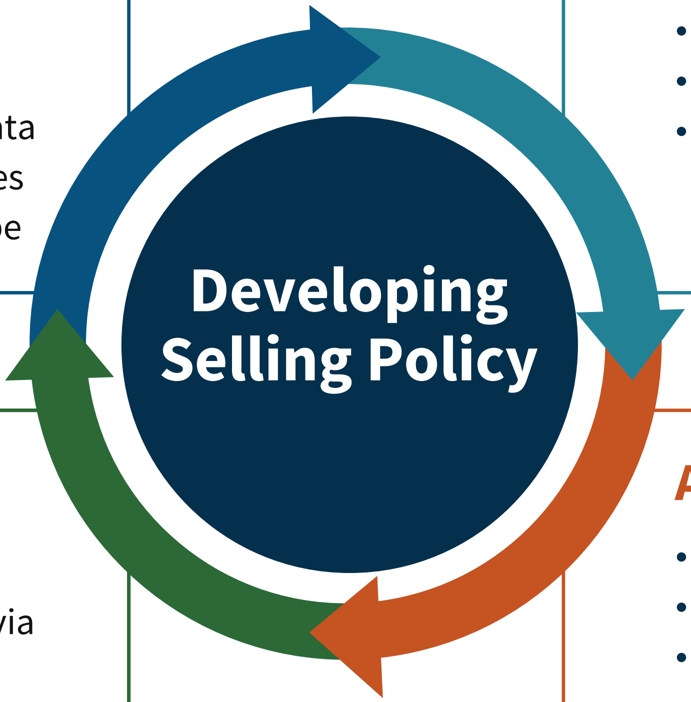
Our Single-Family book of business is backed by high-quality loans due to our holistic approach to identifying, assessing and mitigating risk, which results in strong underwriting standards set forth in our *Selling Guide* and via DU.

Monitor and assess

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

Research and analyze

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



Communicate & deploy policy decisions

- Publish new and updated policy via the *Selling Guide*
- Deploy policy changes and credit risk assessment updates through DU

Actively engage

- Lenders
- Internal stakeholders
- External industry stakeholders

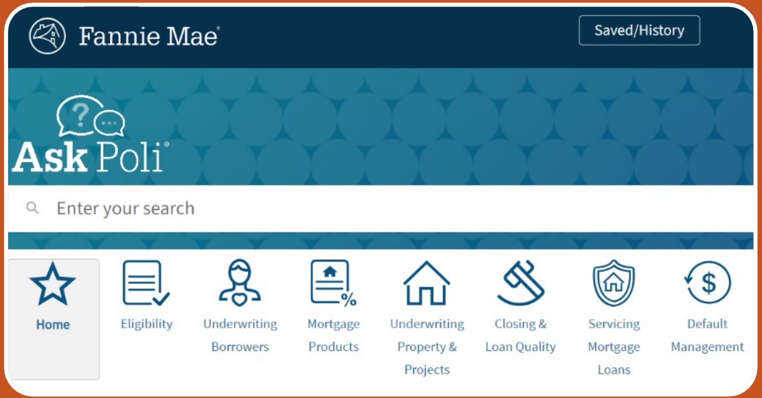
 |

Communicating Our Policies

We provide clear guidance on our selling and servicing policies.

Resources	Purpose
Mortgage Selling & Servicing Contract	Establishes the lender's contractual relationship with Fannie Mae, sets forth the terms and conditions for the lender to sell mortgages to and servicers to service mortgage loans for Fannie Mae and incorporates by reference the *Selling Guide* and *Servicing Guide*.
The *Selling Guide*	Informs sellers about our policies and requirements for the origination, underwriting, and delivery of mortgages that Fannie Mae will purchase or securitize. Also includes contractual obligations and information about maintaining seller eligibility.
The *Servicing Guide*	Informs servicers of the policies and requirements for performing servicing obligations and includes contractual obligations and information about maintaining servicer eligibility.
Lender Letters and Selling and Servicing Notices	Communicates new or modified policies and requirements that may be temporary, 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.

*Our **AI-powered search tool, Ask Poli®**, answers sellers' and servicers' policy-related questions with quick results that are specific and accurate.*



Desktop Underwriter

Fannie Mae's *Selling Guide* underwriting requirements, credit policies, and credit risk assessment are deployed to the market through our proprietary automated underwriting system, Desktop Underwriter (DU).

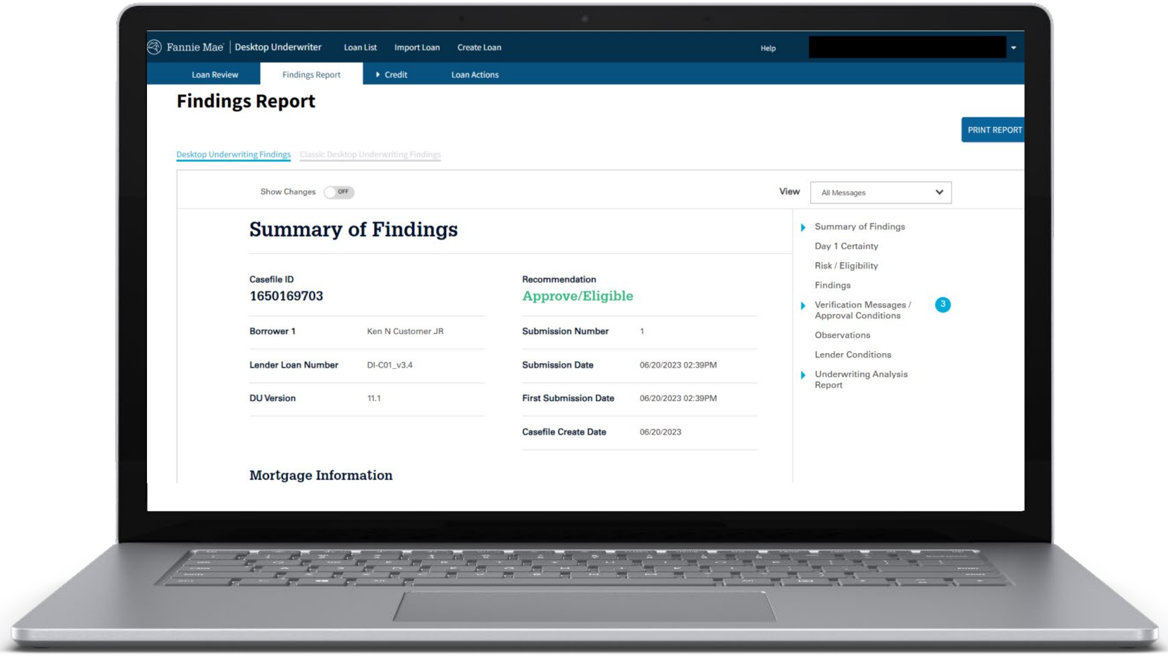
Performs a comprehensive **assessment of a borrower's credit history** and other **mortgage risk factors**.

Produces an underwriting recommendation to inform a lender whether a loan, if closed, would be eligible for sale to Fannie Mae.

Designed to be dynamic, allowing Fannie Mae to **quickly deploy updates** to address changing market and economic conditions.

Enables us to deliver innovative ways to **support access to sustainable homeownership within our established risk tolerance** (e.g., positive rent payment history, cash flow assessment).

Leverages DU Validation Service (DVS) to automate the validation of borrower income, employment and assets.



DU is the industry's most widely used automated underwriting system, used by ~1,800 lenders, with over 96% of loans sold to Fannie Mae evaluated through DU.

Risk Factors Evaluated by DU

DU analyzes credit risk factors from a borrower's credit report and non-credit risk factors from the loan application to arrive at an underwriting recommendation.

Credit risk factors

- Credit history
- Delinquent accounts
- Installment loans
- Rent payment history
- Revolving credit utilization
- Public records
- Foreclosures and collections
- Credit inquiries

Additional risk factors

- Borrower equity and loan-to-value ratio
- Liquid reserves
- Loan purpose
- Loan term
- Loan amortization type
- Occupancy type
- Debt-to-income ratio
- Housing expense ratio
- Property type
- Variable income

DU does not rely on credit scores in its risk assessment. However, DU does apply minimum credit score eligibility requirements as part of its eligibility assessment.

 |

DU Validation Service

Validation of borrower income, employment and assets through the DU Validation Service improves loan quality and reduces defects by leveraging Fannie Mae-approved automated calculations.

Through DU, lenders can access Fannie Mae's DU Validation Service, which:

Automates the validation of borrower **income, employment** and **assets** using automated Fannie Mae-approved calculations, reducing misinterpretation of our guidelines.

Improves loan quality by leveraging employer, tax, or bank statement data sources.

Reduces repurchase risk by providing relief from representation and warranties when income, employment and/or asset information is validated.

Effective March 2024, **lenders can now validate asset, income, and employment using a single asset verification report** (containing at least 12-months of data) from a borrower's checking and/or savings account(s).

This same bank statement report can also be leveraged by DU to **consider positive rent payment** and **cash flow history** for borrowers with limited or no credit history.

 |

Collateral Risk Management

Collateral Risk Management

By having a centralized focus on collateral risk management across origination, servicing, and REO, Fannie Mae can more effectively create leading practice methods for analyzing collateral risk, improve efficiencies across a myriad of valuation processes, and optimize liquidation results.

Use more data

Improve tools

Optimize decisions

1 More comprehensive origination risk assessment

Using data, we can improve our overall risk assessment, and increase certainty around collateral value and eligibility for single-family properties (including condos).

2 Improve valuation process

Focus on process improvements for analyzing value, specifically:

- Cost
- Assurance
- Speed

3 Improved delinquent loan/REO decisioning

Improve our ability to set prices for the collateral and sell properties. Examples:

- Short sale strike price
- Foreclosure auction bidding strategy
- REO list price and rehab decisions

Goal:

1	2	3
Improve risk assessment	Drive process improvements	Reduce severity, cost, time

Fannie Mae's execution on its strategic collateral risk management priorities allows for a greater understanding and more effective management of collateral risk throughout all stages of a loan.

The Modern Valuation Spectrum

Expanding the use of data, models, technology, and appraisal alternatives will help to reduce costs for borrowers, align the risk of the transaction to the appropriate valuation offering, and reduce the risk of mis-valuation.

VALUATION MODERNIZATION HAS TWO KEY OBJECTIVES:

1 Shifting left reduces the interaction between the appraiser and the homeowner and limits discretion in the process.

2 For options that are appraiser-dependent, improving the process creates better quality and more consistency.

Value Acceptance Data, model, and technology driven		Value Determination Appraisal driven		
Value Acceptance *(Appraisal waiver)*	Value Acceptance + Property data	Hybrid	Desktop	Traditional
Automatic value certainty with rep and warrant relief		Value certainty with rep and warrant relief from a CU® score of 2.5 or lower		

By shifting left in the spectrum and increasing the quality of appraiser-driven products, we will decrease costs for borrowers, alleviate appraiser capacity, reduce the risk of mis-valuation, and more effectively align products to transactional risk.

Collateral Underwriter

Collateral Underwriter® (CU®) is Fannie Mae's flagship platform for collateral risk assessment, providing greater certainty on property values and supporting collateral appraisal quality – a key risk attribute.

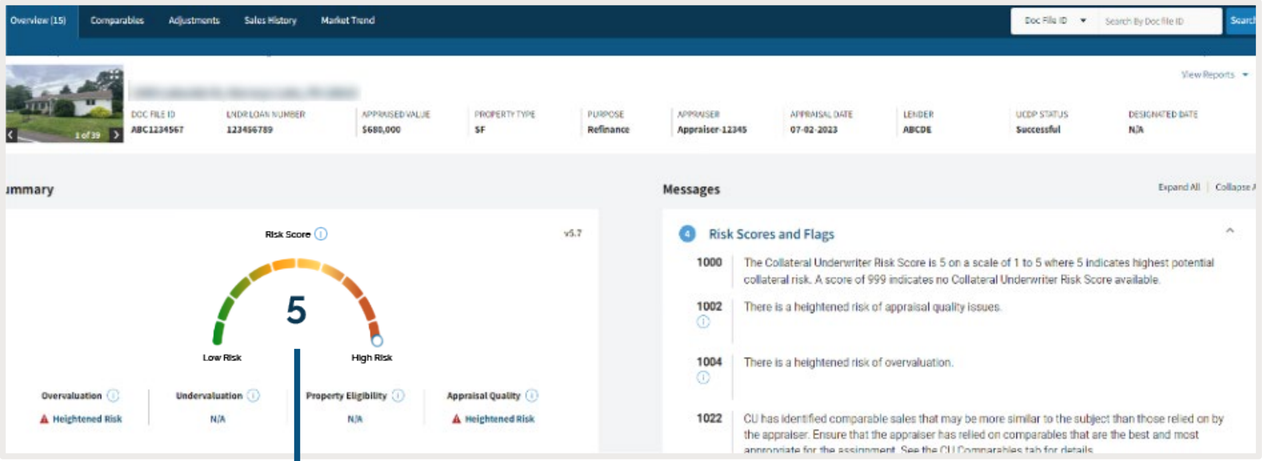
Uses appraisal data and advanced analytics to **issue risk scores, risk flags, and messages.**

Identifies appraisals with **overvaluation**, **undervaluation**, **property eligibility**, and **appraisal quality** issues.

Enables lenders to address potential issues and **improve the quality of loans** delivered to Fannie Mae.

Includes:

- **Comparable sales data**
- Mapping with **aerial imagery**
- Zip code & MSA-level **market trends**



CU rates the risk of each appraisal on a scale of 1-5, with 5 indicating highest risk.

Appraisals with a risk score ≤ 2.5 qualify the seller for rep and warrant relief.

There are ~80 million appraisals in CU with thousands of new appraisals added daily.

 |

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** with additional validation data and tools to assist in managing risks.

Uniform Appraisal Dataset (UAD)

- **Standardized electronic industry dataset** for appraisal information providing consistent data standards for originations.
- **New UAD standard*,** updated in collaboration with Freddie Mac & FHFA and leveraging extensive stakeholder input, will include additional property types, **improved data and modeling**, **more appraisal alternatives**, and yield **more rep and warrant relief**.

**New UAD standard will be rolled out in limited production in H2 2025, and broader production beginning in 2026.*

Value Acceptance (Appraisal Waiver)

Fannie Mae uses data, modeling and a technology-driven approach, combining the capabilities of DU and CU, to offer value acceptance (appraisal waivers) for certain lower-risk loans. The majority of transactions continue to require an appraisal, especially in a purchase money market.

STEP 01: DU eligibility exclusion checks

Once a loan is submitted by the lender to DU, **DU checks for initial eligibility** for value acceptance. For example, **generally the subject property must have a prior appraisal in CU** and it must meet an LTV threshold.

STEP 02: CU eligibility exclusion checks

Then, CU checks the eligibility of the prior appraisal; not all are acceptable. For example, if the prior appraisal had overvaluation or property eligibility flags, it is ineligible for value acceptance.

If the prior appraisal is acceptable, CU **assesses the reasonableness of the lender-provided property value** using the prior appraised value and Fannie Mae's Home Price Index. In certain circumstances when there is no prior appraised value, we will use our proprietary AVM.

STEP 03: Value acceptance and Value Acceptance plus Property Data

If the **lender-provided property value is reasonably supported, value acceptance is offered** to the lender through DU.

Sometimes when there is no qualified prior appraisal observation, we may still have high confidence in our value benchmark. In this instance, **we may offer value acceptance contingent upon the lender obtaining property data** ("value acceptance plus property data" or "VA + PD").

 |

Counterparty Risk Management

Becoming an Approved Seller or Servicer

Our rigorous eligibility guidelines for prospective sellers and servicers ensure only strong counterparties are approved. Entities must meet financial, organizational, staffing, process, and experience requirements.

Minimum requirements include:

- At least 24 months in the mortgage business.
- Minimum net worth, capital ratio, and liquidity requirements based on volume by servicer remittance types and agency and non-agency.
- Adequate facilities and experienced staff.
- Prospective sellers must have QC processes and procedures for data quality products, servicing, and vendor and third-party management identifying all delivery channels.
- Prospective servicers must have written procedures in general servicing, escrow management, investor reporting, custodial funds, default management, QC, and audit and hold the required level of Fidelity Bond and Errors and Omissions insurance.

 |

Financial Eligibility Monitoring

We assign internal ratings measuring financial capacity of our seller/servicer counterparties. These ratings reflect our assessment of counterparty strength and maximum risk appetite for each counterparty.

Counterparty ratings

Internal ratings assessed regularly consider:

- Profitability
- Asset quality
- Capitalization
- Liquidity/funding
- Portfolio concentration
- Management quality

Counterparty limits

Counterparty exposure limits are tracked daily for all counterparties and are based on:

- Internal ratings
- Net worth

Possible counterparty risk mitigation

- Guaranty of obligations by higher-rated entities;
- Reduction or elimination of exposures and/or certain business activities;
- Collateral to secure obligations;
- Suspension/termination of seller/servicer approval(s);
- Heightened minimum financial eligibility requirements (above *Guide* requirements); and/or
- More frequent financial reporting (monthly financial statements).

Operational Risk Monitoring

Ongoing monitoring and rigorous oversight of our sellers and servicers ensure they have effective controls in place.

Mortgage Origination Risk Assessment (MORA)

- In-depth reviews of a seller's origination processes.
- Assesses the quality of a seller's underwriting and quality control processes and the effectiveness of its controls.

Servicer Total Achievement and Rewards™ (STAR™)

- In-depth procedural and loan-level evaluation of a servicer's operation.
- Monthly scorecard of servicer's performance metrics.

Targeted Seller/ Servicer Oversight

- Internal monitoring using proprietary tools quickly assesses risks associated with new sellers and servicers, or existing sellers and servicers that may have emerging growth and/or potentially elevated risk.

Risk Monitoring, Evaluations & Escalations

- Develop and manage performance metrics and escalation triggers/thresholds for selling and servicing through dashboards.
- Consistent escalation protocols to address ongoing performance concerns.

 |

Compliance Oversight and Performance Management

Fannie Mae evaluates compliance with our guidelines and assesses operational risks through regular reviews: Mortgage Origination Risk Assessment (MORA) for sellers and the Servicer Total Achievement and Rewards (STAR) program for servicers.

MORA and STAR review process

Step 1: Organization selection

Seller/Servicer selected based on risk-based criteria.

Step 2: Confirmation and engagement

Step 3: Documentation request and receipt

Kick-off communication with each organization.

Step 4: Process evaluation

Review of policies, procedures, management reports and file-level testing to validate adherence to Fannie Mae requirements and assess operational capabilities.

Step 5: Interviews

Interviews regarding documented processes and any questions.

Step 6: Final assessment

Final report includes findings, corrective actions and process area ratings of either Acceptable, Needs Improvement, or Unsatisfactory.

Step 7: Remediation

If needed, an Action Plan with corrective actions is created with the support of the Fannie Mae Remediation team.

Fannie Mae MORA Review

The Mortgage Origination Risk Assessment (MORA) program assesses operational risks and evaluates seller compliance with Fannie Mae Selling Guidelines.

Selling Process Controls

Review and assessment of controls related to key Fannie Mae *Selling Guide* requirements including secondary marketing and loan delivery, underwriting and appraisal review processes, loan origination execution including retail, broker and correspondent channels, closing and post-closing activities, and pre-funding and post-closing quality control.

Organizational Governance

Review and assessment of controls related to key organizational and shared processes including enterprise risk management, internal audit, processes to ensure compliance with laws, vendor approval and management, people management, program and process change management, information security, and business continuity and disaster recovery.

Sellers are selected for a MORA Review through a risk-based inclusion methodology using key performance and profile information.

 |

Fannie Mae's STAR Program

Servicer Total Achievement and Rewards (STAR), our servicer performance management program, uses scorecard metrics* and operational assessments to measure servicers' performances in terms of their ability to reduce credit losses for Fannie Mae.

Servicers are assessed in any or all of the following three categories based on volume and credit risk exposure:

General servicing

Metrics: early term roll rates, call center management, investor reporting, and custodial accounting.

Business processes: loan payment processing, early-stage delinquency including offering forbearance, escrow account management, and loan boarding practices.

Solution delivery

Metrics: delinquent loan resolution and effectiveness in providing the appropriate loss mitigation or liquidation product.

Business processes: standard practices for borrower outreach, loss mitigation, and liquidation practices.

Timeline management

Metrics: resolve or liquidate loans within the allowable foreclosure time frames, timely reporting of new REO inventory, and ensuring property is marketable.

Business processes: ensure foreclosure proceedings are conducted in a timely manner, including foreclosure initiation, timeline management and reporting, and process management, including mortgage default law firm management.

Servicers are selected to participate in the STAR program primarily based on total Fannie Mae servicing loan volume and the portfolio composition. Servicers in the STAR program represent the majority of Fannie Mae's total servicing portfolio.

**In addition to compliance with our Servicing Guide requirements.*

Remediation and Escalation

If deficiencies are identified during a MORA or STAR review, then corrective actions are prescribed as needed. If remediation is not completed as agreed, escalation to leadership at both Fannie Mae and the counterparty may be required.

Remediation

- At the end of MORA/STAR reviews, final reports are issued with prescribed corrective actions for compliance deficiencies.
- Dedicated analysts are assigned to assist the seller or servicer in establishing an approved action plan with required due dates to ensure compliance as each finding is cleared.
- Daily reports are reviewed to maintain awareness of all open findings and their current statuses.
- Guidance is issued by leadership for required action to remediate findings timely.

Escalation

- If remediation is not completed by the agreed-upon due date or if a seller or servicer is unable to clear a finding, the issue is escalated to leadership for further analysis and determination of next steps.
- Heightened monitoring is applied for sellers/servicers with a significant number of high-risk findings or Unsatisfactory process area results.
- Escalation due to continued noncompliance with the Fannie Mae *Guides* may result in additional contractual remedies being applied.

Business Account Management Solutions Teams

Dedicated Fannie Mae Business Account Management Solutions (BAMS) teams provide critical support in hands-on risk management and serve as the central point of contact for sellers and servicers.

Support provided to Sellers

- Monitor acquisition profiles, performances, and sellers' overall books of business to ensure compliance with Fannie Mae's requirements and corporate risk expectations and tolerance.
- Interact with sellers regarding loan quality and delivery, including anti-fraud measures.
- Provide sellers with training, expertise, and assistance on risk-related topics including credit quality issues.

Support provided to Servicers

- Measure, monitor, and manage servicer performance of performing, total delinquency (TDQ: 30+ days) and serious delinquency (SDQ: 90+ days) portfolio volume.
- Work with single-family risk management to provide leading practices and consultative support in collections and loss mitigation, short sales/mortgage release, bankruptcy monitoring, foreclosure processing, and reporting.

Loan Quality

Our Representations & Warranties Framework

Fannie Mae relies on a delegated model — sellers providing reps & warrants that the loans they sell to us meet our guidelines.

- Sellers and servicers are jointly responsible for selling reps & warrants.

- Violation of any rep & warrant entitles Fannie Mae to pursue remedies, including repurchase.

- Sellers and servicers may receive rep & warrant relief for:
  - Borrower income, employment or asset data validated through DU validation service
  - Property value, condition and marketability for loans that exercise the value acceptance (appraisal waiver) option
  - Property value when the CU risk score is 2.5 or less, or when the lender executes a value acceptance plus property data offer
  - Certain underwriting reps for an individual loan based on that loan's payment performance or completion of successful loan QC review

- Rep & warrant relief is <u>not</u> provided for certain "life of loan" reps & warrants, which include matters related to fraud, pattern of misrepresentation, data inaccuracies, clear title, property insurance, legal compliance, or Charter violations.

Managing Loan Quality Throughout the Loan Life Cycle

Our commitment to loan quality helps foster sustainable homeownership and a resilient mortgage industry.

Loan Life Cycle

Application to Close

Loan Application → Value Property → Underwrite Loan → Close Loan

Loan Delivery

Deliver Loan

Performing Loans

Onboard Loan & Disclosure → Loan Activity Reporting → Loan Servicing Accounts Payable / Receivable

Non-Performing Loans

Loss Mitigation → Loan Liquidation

Loan Quality Controls

Application to Close

- Fannie Mae's *Selling Guide* establishes seller QC requirements (e.g, seller pre- and post-funding, quality standards and measures)
- Sellers are required to perform pre-funding QC reviews on a portion of their monthly origination volume
- Sellers are required to conduct a post-closing QC review within 90 days of closing date on a designated portion of their monthly origination volume

Loan Delivery

The loan delivery system contains edits developed from post-funding QC controls that prevents the delivery of loans with eligibility errors including loans that do not meet Qualified Mortgage (QM) requirements.

Performing Loans

- Fannie Mae conducts QC reviews on:
  - A statistically valid random sample of loans to identify eligibility errors
  - A targeted sample of loans selected by proprietary analytical models (i.e., TAU – Trusted Appraisal & Underwriting) to identify loans with a high likelihood of a credit, collateral, or data errors
- For select sellers, Fannie Mae independently reviews a sample of loans that the seller's QC team has previously reviewed to validate effectiveness of the seller's QC outcomes.

Non-Performing Loans

- Early payment default and seriously delinquent loans are reviewed to determine if poor loan quality contributed to the default. Loan selections are based on a predictive model-driven analysis, which assigns a repurchase risk score. The focus is on capital reduction.
- Liquidated loans are selected for review using a similar predictive model-driven analysis, focusing on loss mitigation.

Loan Quality Management Sampling Strategies

Loan quality review sampling strategies are designed to manage three levels of risk.

PORTFOLIO RISK:

Manage overall level of Fannie Mae loan quality

- Monthly statistically valid random sample of Fannie Mae's acquisitions determines overall loan defect rate and trends.
- Discretionary loan selection driven by automated data and analysis tools that evaluate new loan acquisitions for credit, collateral and data defects.

SELLER RISK:

Manage seller-specific loan quality performance and trends

- Seller stratification of random sample provides statistically valid defect rate for top sellers and allows for easy comparison across sellers to drive seller action planning.
- Discretionary selections target new sellers and emerging risks.
- Supplemental random selections to ensure every seller with an average of 10 loans sold to us per month in the prior year is subject to a loan-level QC review.

TAIL RISK:

Manage loan-level outliers and mitigate losses

- Loans that experience early payment defaults are reviewed to determine if poor loan quality contributed to early delinquency. Selections are based on a predictive model-driven analysis, which assigns a repurchase risk score. The focus is on capital reduction.
- Liquidated loans are selected for review using a similar predictive model-driven analysis, with a focus on loss mitigation.

 |

Loan Quality Management Post-Purchase Review Processes

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

Post-purchase file review process

- Validates that loans Fannie Mae purchased were originated in accordance with applicable requirements.
- Uses proprietary underwriting risk assessment forensics tool in QC reviews and finds data anomalies that may impact eligibility.
- Full underwriting review of random and some discretionary selections are completed when a loan file is requested from a lender.
- Component reviews are performed on some targeted reviews as a supplement.

Fannie Mae's loan review process pairs analytical tools with human reviews to ensure compliance.

Loan defect remedies

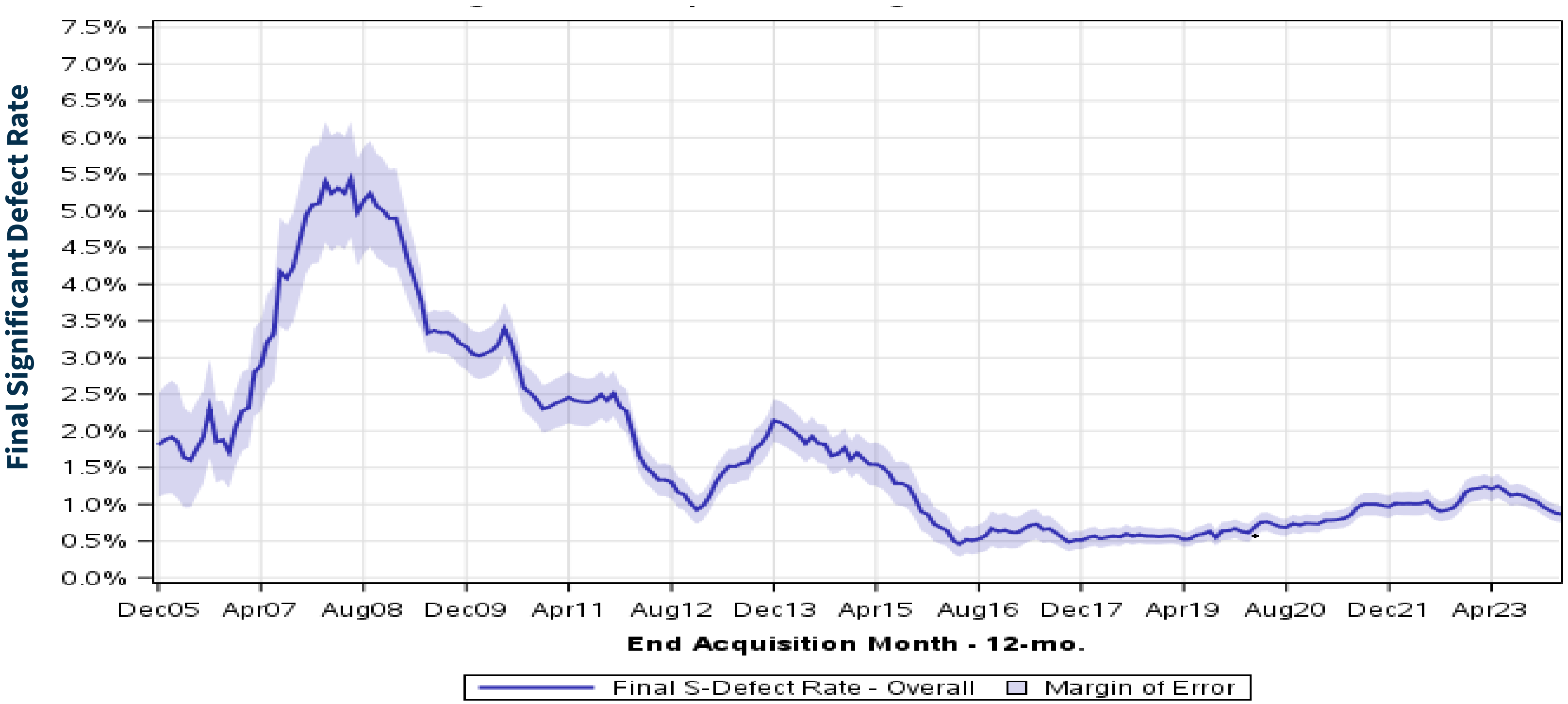
Remedies enforce contractual rights and motivate the lender to correct its manufacturing processes.

Defect type	Defect description	Remedies
Finding	Defect does not necessitate a change in the price of the loan or result in the loan being ineligible for sale.	None, but Fannie Mae provides lender education and feedback.
Price-adjusted loan	Loan was otherwise eligible for sale had the correct loan-level price adjustment (LLPA) been paid to Fannie Mae by the lender.	Seller submits data correction and pays the applicable LLPA. *Could trigger CRT Reference Pool removal, depending on nature of data change.*
Significant defect	Defect that either necessitates a change to the price on which the loan was acquired or results in the loan being ineligible for purchase.	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 CRT Reference Pool removals.*

Post Purchase Loan Review Outcomes

Fannie Mae's loan quality risk management efforts have helped reduce defect rates and improve the level of loan manufacturing quality over time.

Eligibility defect rates for Single-Family loan acquisitions based on random post purchase review outcomes



Rolling 12-month acquisition vintage (HARP excluded). Review data as of August 31, 2024; acquisitions through January 2024.

Seller Training and Education

Education and training help raise the level of loan manufacturing across the industry.

Seller-Specific Training

- Dedicated Fannie Mae Quality Control (QC) Specialists assigned to specific sellers regularly review loan quality results, provide feedback on areas for improvement and share industry leading practices.
- QC Specialists provide analysis and recommendations on structure of seller internal quality controls and assist seller with action planning to address seller-specific quality trends and defects.

Broad Based Education

- Annual risk management boot camp provides intensive training on underwriting and QC requirements.
- **Quality Insider** publication provides updates and actionable insights on timely quality risk management topics to help sellers and QC vendors strengthen quality controls.
- **Beyond the Guide** provides sellers with a leading practices manual for establishing and maintaining a robust QC framework.

Seller-specific training and leading practice sharing combined with broad-based education focused on QC fundamentals are key components of quality risk management.

Loss Mitigation and Default Management

Borrower Outreach During Delinquency

Engagement between servicers and borrowers early in a delinquency results in better loan performance. Achieving Quality Right Party Contact (QRPC) is key in determining the best solution for resolving mortgage delinquency.

QRPC[1] occurs when a Servicer establishes contact with the delinquent borrower in order 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**.

Benefits of QRPC include:

Homeowners	• Options to avoid foreclosure discussed early, increasing likelihood of maintaining homeownership. • Early engagement builds relationships and homeowners' advocacy.
Servicers	• Improved call response and workout take-up rates. • Improved STAR performance.
Fannie Mae	• Reduction in SDQ and foreclosures. • Reduction in credit losses.

[1] QRPC is the uniform standard governing servicers' communication with borrowers about resolution of a delinquency.

Comprehensive Disaster Response

Through policies and guidance in our *Selling* and *Servicing Guides,* Fannie Mae provides a comprehensive disaster response.

Homeowner Support

- Fannie Mae's disaster recovery counseling for disaster-affected homeowners whose mortgage loans are owned by Fannie Mae.
- Fannie Mae's consumer website provides help for homeowners and renters impacted by hardship, including "Here to Help".

Seller/Servicer Support

- In some cases, provide updated underwriting and appraisal flexibilities based on the disaster or hardship scenario.
- Update reps & warrants relief framework to address loans in disaster forbearance.
- In some cases, reimburse seller/servicers for costs of inspecting impacted properties.

Home Retention Solutions

Servicers are authorized to offer eligible borrowers forbearance plans for up to 12 months. When the forbearance plan expires, 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, payment deferral, or loan modification.

Fannie Mae REO Properties

- Local field team at-the-ready to provide preventative preservation action for REO properties as needed.
- Conduct damage assessments on properties securing active and REOs using mobile technology and aerial photography as needed.
- REO properties are maintained to protect neighborhoods and value.

 |

Workout Hierarchy

Fannie Mae offers a suite of workout options to manage delinquent loans and avoid foreclosure.

Retention Options	Forbearance Plan	Agreement between servicer and homeowner to temporarily pause or reduce monthly mortgage payments.
	Reinstatement	Pay the total missed amount all at once.
	Repayment Plan	Repayment of the missed amounts over a fixed period (e.g., 6 months) in addition to their monthly mortgage payment.
	Payment Deferral	Missed payments deferred into a non-interest-bearing balance due at the end of the loan term (or earlier if the home is sold, property is transferred, or the loan is refinanced or otherwise paid off).
	Fannie Mae Flex Modification	Change to the terms of the existing loan: offers payment reduction through a potential combination of interest rate reduction, term extension, and possible principal forbearance. **Only interest rate reduction/principal forbearance resulting from a Flex Modification may entail modification losses.**
Liquidation Options	Credit Events	When home retention is not a viable option, liquidation options include short sale, or Mortgage Release™ (Deed-in-Lieu of Foreclosure); or the loan is liquidated after the servicer refers the mortgage loan to foreclosure in accordance with applicable law.

*CAS: Payment deferrals are currently not treated as modification events in the structure.
*CIRT: Beginning with CIRT 2023-1, Payment Deferral is a covered modification expense in the CIRT structure. Losses associated with payment deferrals are a covered modification loss in the CIRT structure.

Servicing Management Default Underwriter

Fannie Mae's Servicing Management Default Underwriter™ (SMDU™) delivers servicers automated loss mitigation eligibility evaluations to support struggling homeowners.

Simplifies and streamlines workout evaluations, enabling servicers to save time, reduce risk, and enhance their service to homeowners.

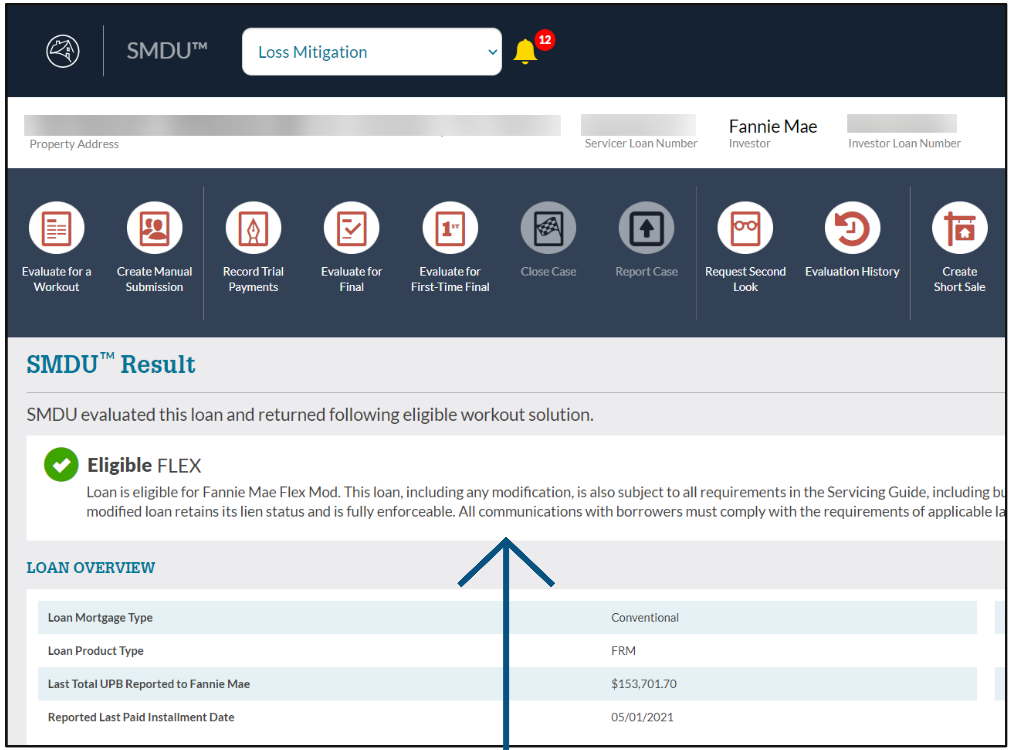
Ensures compliance with **Fannie Mae servicing policy**.

Enables rapid distribution of new products or policy changes in response to changing market conditions (e.g., COVID-19).

Leverages **Fannie Mae data** including originations data, property valuations, and workout option history.

Offers servicers **rep and warrant relief** when using SMDU decision.

Over 1,300 servicers use SMDU, covering 99% of delinquencies.



Recommended workout solution clearly displayed

Foreclosure Management

Servicers ensure foreclosure proceedings are conducted appropriately by participating in timeline and process management. Foreclosure management policies and metrics are key to avoiding protracted foreclosure timelines and reducing loss severities.

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.

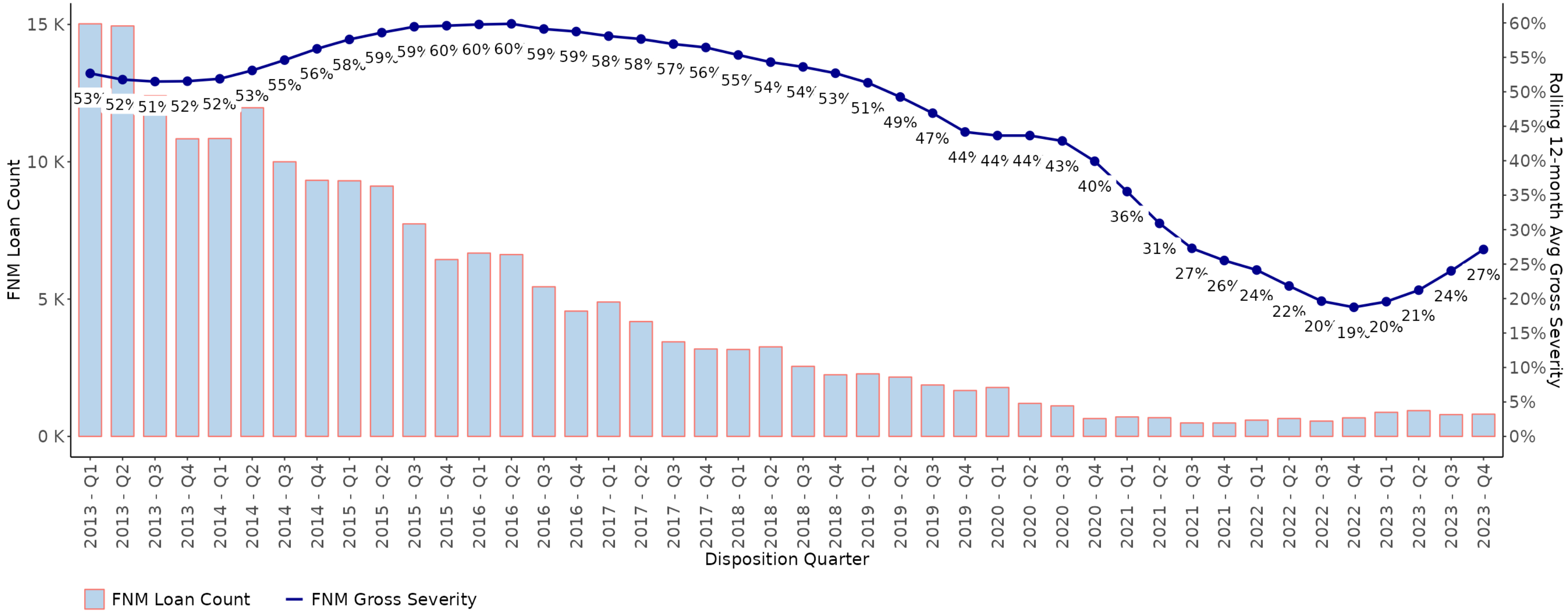
STAR timeline management key metrics:

- Transition to beyond time frame
- 180 days delinquent not in foreclosure
- Motion for relief referred timely
- Early warning notices submitted timely as prescribed by law or the *Servicing Guide*.

Property Disposition Strategies

Our Best-in-Class Loss Mitigation Platform Reduces Loss Severity

Fannie Mae 12-month Rolling Gross Severity by Disposition Quarter



Source: Fannie Mae Single Family Historical Standard Loan Performance Dataset. Population limited to loans disposed via short sale, third-party sale, and foreclosure sale, and having original amortization term > 300 month, excluding repurchase/makewhole loans, HARP loans and loans sold via note sale. Also excluded 2023 dispositions with $0 revenue in the public data for which internal data has positive revenue.

June 30, 2024

Estimated mark-to-market LTV ratio:	% Book Outstanding	% of SDQ Loans*	Serious Delinquency Rate
<=60% LTV	70%	71%	.43%
60.01% to 70% LTV	13%	14%	.75%
70.01% to 80% LTV	9%	8%	.68%
80.01% to 90% LTV	6%	5%	.77%
90.01% to 100% LTV	2%	2%	.57%
>100% LTV	*	*	3.34%

*Calculated based on the number of single-family loans that were seriously delinquent for each category divided by the total number of Single-family conventional loans that were seriously delinquent.

Over the last 10 years, Fannie Mae's combined REO disposition channels have executed, on average, at 95% of value.

Property Disposition Design

We offer a full range of credit risk management capabilities including valuations, sales strategy, and fulfillment operations to maintain and ready properties for sale.

Valuation	Utilizes a full range of distressed loan and real estate disposition capabilities for management of the portfolio. **Disposed of over 1.85 million properties since 2009.** Disposition capabilities include Mortgage Releases (Deed-in-Lieu of Foreclosures), Short Sales, Foreclosure Auction sales, REO Retail sales, REO Auction sales, and Community First 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	100% in-house REO sales/asset management team that leverages an **~800-member nationwide real estate agent network.**
Fulfillment	HomePath.com® used to market our REO properties and provide a streamlined offer management process including digital signing capabilities. Ranked among industry leaders in REO disposition based on publicly available severity levels and MLS data.

Our real estate strategy is to create affordable supply and maximize opportunities for owner occupants.

Collateral Valuations

Our robust collateral valuation process focuses on ensuring the most accurate values are determined and loss severities are minimized.

Why are we different?

1. **Best-in-class staff** — Experienced and extensively trained reviewers; field reps in key markets providing inspections and local market knowledge.
2. **Data & tools** — Collateral Underwriter & MLS; market leading valuation volume (>4M since 2008) creating trending analyses.
3. **Vendor performance** — Highly trained valuation product vendor panel; vendor scorecards continually refine vendor panels and performance drives future volume.

Obtain value products
Appraisers (800+), BPO & alternative product providers (5)

Provides property condition and comparables.

Risk-based value triage

Leveraging Collateral Underwriter and other industry tools, AVMs, MLS, trending/ execution data.

Reconcile higher-risk value products & data

Market value determined

As is value, as repaired value, repair estimate.

Refine analyst knowledge
Market & value trending, QC reviews & training.

Manage vendor performance
Market & value trending, scorecards, local market field reviews & training.

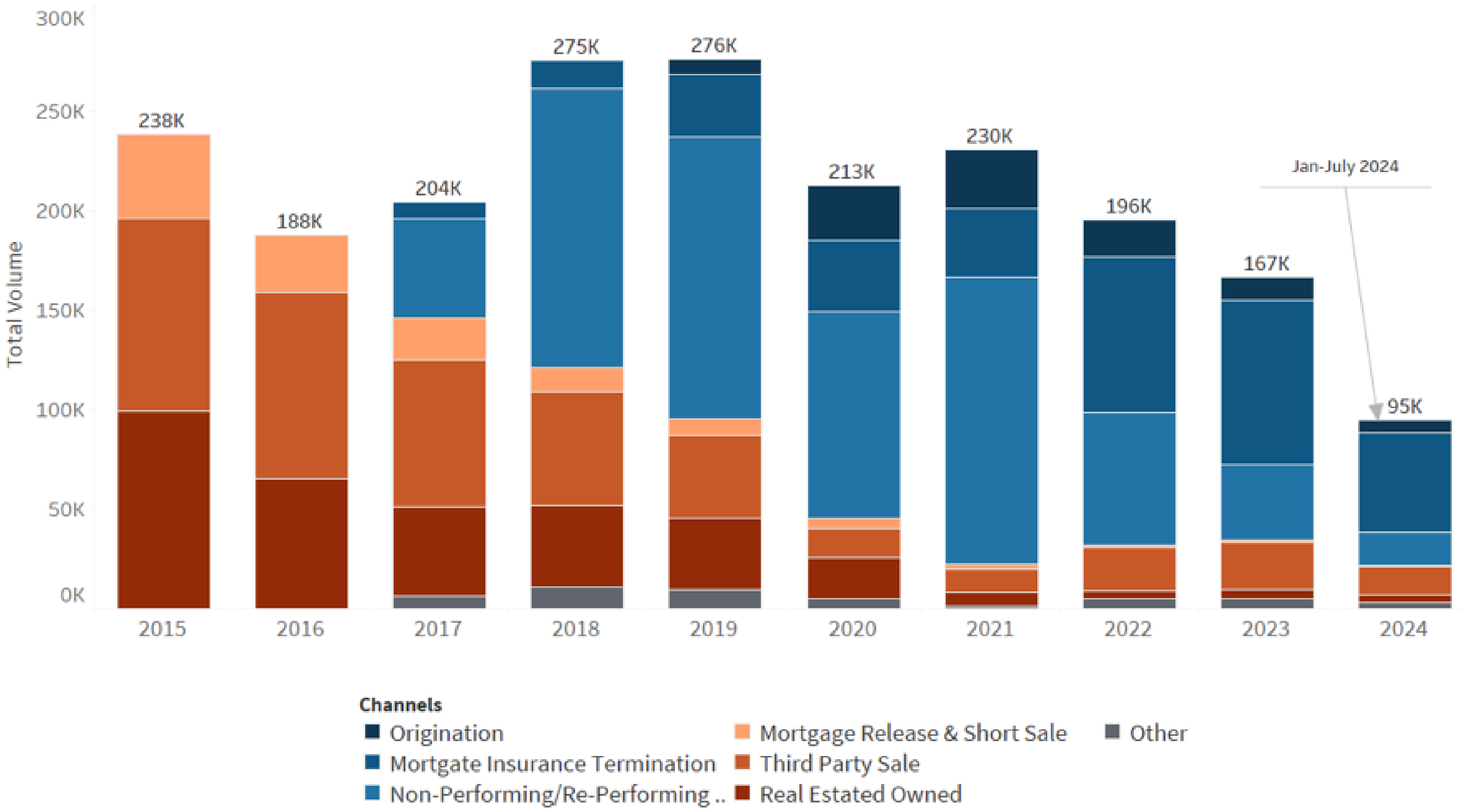
 |

Single-Family Valuations Historical Look

In 2015, we had four property disposition channels: REO, Short Sales, Third-Party Sales, and Mortgage Release.

Since then, we have enhanced our credit risk management capabilities throughout the life of a loan to help borrowers avoid foreclosure, which, in combination with market conditions, have reduced our distressed asset volume.

Now, the wide variety of valuation channels enables stronger quality control, more accurate valuations, and better outcomes for borrowers and risk investors alike.



 |

Pre-Foreclosure Disposition Options

Fannie Mae offers avenues to help homeowners avoid foreclosure.

Short Sales

- Fannie Mae manages offer negotiation process in-house.
- Pricing determined in conjunction with our valuations team; borrowers negotiate through listing 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.

Agent	Fannie Mae	Servicer
Requests listing guidance.	Provides listing guidance.	Intake of borrower documents.
Submits all offers to HomePath.com.	Negotiates to maximize price, minimize loss.	Management of transaction closing activities per the direction of Fannie Mae.
Engages directly with Fannie Mae.	Advises servicer of approval terms.	

Mortgage Release™ (also known as a Deed-in-Lieu of Foreclosure)

- The borrower deeds collateral property to Fannie Mae in exchange for release of repayment obligations under the mortgage.
- Upon completion of a Mortgage Release, the borrower receives a deficiency waiver.
- Borrower may choose between three options upon Mortgage Release: immediate vacancy, a 3-month transition or a 12-month transition.
- Mortgage Release option contributes to an average net present value savings over foreclosure.

Property Management Overview

Our property management efforts seek to protect the value of our properties and enhance the marketability 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, third-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
- Introduced title modernization to alleviate the obstacle of high relative closing costs for underserved consumers

Before **After**

Initial/routine services


Curb appeal


Clear boarding


 |

Repair Strategy

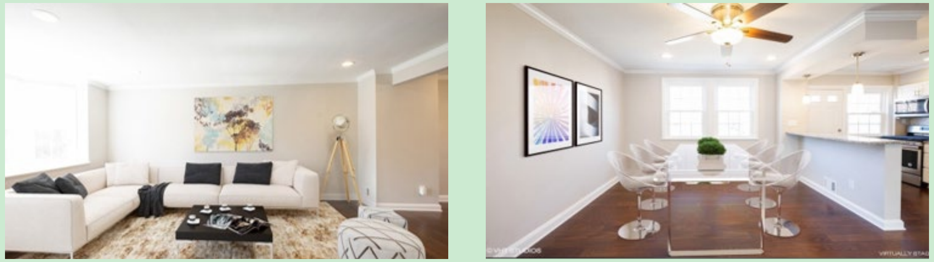
Our REO repair strategy invests in local communities, increasing homeownership opportunities for owner-occupant buyers.

- Since 2010 Fannie Mae has repaired more than 280k properties.
- Seasoned local and regional repair vendors.
- Proprietary modeling tool (RHINO) provides net present value monitoring.
- Negotiated material/labor pricing for roofing, plumbing, carpentry, electrical, flooring, etc.
- Specialized products and supplier alliances.

Fannie Mae's repair strategy has had a significant impact on loss severity management and community stabilization, evolving over time to fit the unique needs of the company's mission and affordable housing objectives.

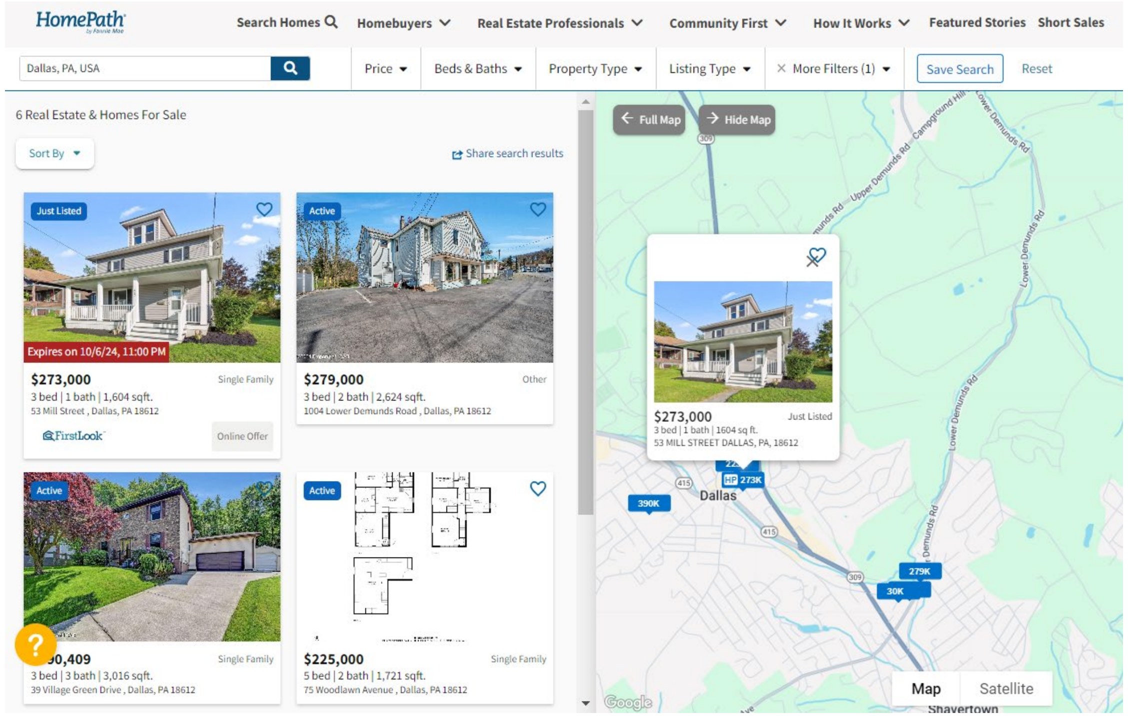
Before | **After**

Virtual staging



HomePath® by Fannie Mae

Fannie Mae's real estate marketing website, HomePath, provides homebuyers and real estate agents direct access to search for Fannie Mae-owned properties available for sale and information on programs supporting opportunity for homeownership.



Enhanced Marketing

Professional photographs on all repaired properties including virtual staging & aerial view capabilities.

Offer Management

Platform provides online offer experience and transparency to buyers and real estate agents throughout offer negotiations.

DocuSign® Integration

Electronic contract execution providing simple, fast, and secure process.

Closing Cost Credits*

Owner-occupant buyers may be eligible for a 3% credit toward closing or $500 lender credit to cover the cost of the borrower's appraisal.

30-Day First Look™

Exclusive access to owner-occupant and community-minded purchasers for newly listed properties.

Community First

Platform for approved mission-based organizations to help support neighborhood stabilization and affordable housing.

*Credits may be combined subject to lender restrictions

Thank you

Sign up for Fannie Mae communications:
fanniemae.com/CMsignup

Contact us:
fanniemae.com/AskCM

Fannie Mae