**Disclaimers**

Copyright© 2021 by Fannie Mae.

**Forward-Looking Statements.** This presentation and the accompanying discussion contain a number of expectations and other forward-looking statements, which may include statements regarding Fannie Mae’s risk management activities and their impact and Fannie Mae’s future business innovations. These 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 “Executive Summary,” “Forward-Looking Statements” and “Risk Factors” in our annual report Form 10-K for the year ended December 31, 2020 and our quarterly report on Form 10-Q for the quarter ended June 30, 2021. 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.
# Overview

<table>
<thead>
<tr>
<th>Topic</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>About Fannie Mae</td>
<td>4</td>
</tr>
<tr>
<td>Multifamily Business Overview</td>
<td>9</td>
</tr>
<tr>
<td>DUS Risk Sharing Model</td>
<td>16</td>
</tr>
<tr>
<td>Multifamily Credit Risk Management</td>
<td>24</td>
</tr>
<tr>
<td>Underwriting Management</td>
<td>26</td>
</tr>
<tr>
<td>Performance Management</td>
<td>39</td>
</tr>
<tr>
<td>Mitigation Strategies</td>
<td>55</td>
</tr>
<tr>
<td>Appendix</td>
<td>72</td>
</tr>
</tbody>
</table>
About Fannie Mae
We Create Opportunities for People To Buy, Refinance, or Rent a Home

Fannie Mae is a leading source of mortgage financing in all markets and at all times. Our mission is to facilitate equitable and sustainable access to homeownership and quality affordable rental housing across America.

**Our Founding**

We are a Government Sponsored Enterprise (GSE), chartered by the U.S. Congress in 1938 to support America’s housing market. Our creation helped make possible the popular 30-year, fixed-rate mortgage, which provides homeowners with stable, predictable mortgage payments over the life of the loan.

**Our Customers**

We do not lend directly to consumers. Instead, we work with our lender and servicer partners to make sure homeowners, homebuyers, and renters across the country have access to affordable housing opportunities.

**Our Business**

We support the liquidity and stability of the U.S. mortgage market primarily by purchasing and securitizing mortgage loans originated by lenders into Fannie Mae mortgage-backed securities (MBS). We guarantee the underlying loans and manage the mortgage credit risk.
Two Primary Business Lines

Fannie Mae operates in the secondary mortgage market, through two primary business lines: Multifamily and Single-Family.

**Multifamily**

We provide financing for rental housing – an important segment of the housing market. This is a key component of Fannie Mae’s mission and business. We are a leading provider of financing for affordable multifamily properties, including specialized products.

- 5 or more residential units
- Individual and institutional owners
- Includes specialty housing, such as affordable, senior, student, military, and manufactured housing communities
- Includes innovative loan products such as Multifamily Green Financing Business

**Single-Family**

We are continuously working to improve the housing finance industry – from developing industry-leading tools and technology, to implementing new standards and solutions. We’re focused on improving the mortgage process for both homebuyers and lenders – while limiting risk.

- 1-4 residential units
- Generally homes or condominiums owned by individuals

About Us

Through our Multifamily and Single-Family business segments, we provided $1.4 trillion in liquidity to the mortgage market in 2020, which enabled financing to approximately 6 million home purchases, refinancings, or rental units.*

In 2020, Fannie Mae provided $76 billion in Multifamily financing.*

We estimate 1 in 3 homes are financed by Fannie Mae.*

*Source: Fannie Mae.
Multifamily vs. Single-Family
The Multifamily and Single-Family businesses are intrinsically different and each has unique characteristics.

<table>
<thead>
<tr>
<th>Number of Units</th>
<th>General Borrower</th>
<th>Collateral</th>
<th>Average Loan Size¹</th>
<th>Typical Term and Rate</th>
<th>UPB of Loans Acquired as of YE 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single-Family</td>
<td>1 to 4 residential units, generally homes or condominiums owned by individuals</td>
<td>Individual</td>
<td>Single-Family residential property</td>
<td>$185,047</td>
<td>30 years, fixed-rate fully amortizing. Other terms include 20, 15, 10 and other fixed-rate mortgages as well as ARMs²</td>
</tr>
<tr>
<td>Multifamily</td>
<td>5 or more residential units, including affordable, senior, student, military, and manufactured housing communities</td>
<td>Public or private owner / operator</td>
<td>Income-producing Multifamily rental property</td>
<td>$13 million</td>
<td>5, 7, 10, 12, 15, and 20 years, payable on a 25-, 30-, or 40-year amortization schedule with a balloon payment at maturity. Other terms include ARMs</td>
</tr>
</tbody>
</table>

¹As of December 31, 2020.
²As of December 31, 2020, less than 0.5% of Fannie Mae’s single-family conventional guaranty book of business was comprised of ARMs.

*Source: Fannie Mae.*
Proactive Defense Against Risks

Fannie Mae utilizes an industry standard “three lines of defense” approach to managing risk across all business segments to provide early recognition and to safeguard against sudden discovery of risk.

**3rd Line**
- Internal Audit
  - Perform independent systematic evaluation of the effectiveness of the internal controls systems employed by management to achieve objectives

**2nd Line**
- Enterprise Risk Management, Compliance, Support Functions
  - Set standards for the first line of defense to manage and oversee risks
  - Perform independent oversight and monitoring of risk management, and aggregate reporting on risk
  - Develop and maintain the Company’s integrated risk management program

**1st Line**
- Business Units and Operations*
  - Identify, assess, respond to, and monitor/report on risks
  - Abide by risk appetite, policies, standards, and limits/thresholds

**Board of Directors**
- Establish and maintain oversight of enterprise-wide risk management program in accordance with FHFA regulations.

* The first line of defense is comprised of any group that generates risk from their business activities.
Multifamily Business Overview
Multifamily’s Business Overview

Multifamily tackles access and affordability challenges in the housing market through our Workforce and Affordable Housing and Green and Healthy Housing Financing.

**Workforce and Affordable Housing**
Multifamily improves access to housing for families earning at or below 120% of the median income in their area, providing support for both workforce housing and affordable housing.

- **Lower interest rates**
  - We offer reduced interest rates to:
    - Developments that participate in local inclusionary zoning programs. These apartment communities agree to a set amount of affordable units in an otherwise market-rate development in exchange for a lower-than-market mortgage interest rate.
    - Developments of new affordable housing through the federal Low-Income Housing Tax Credit program.

- **Provide financial opportunities**
  - We provide more financing opportunities for the middle spectrum, between affordable and higher-end properties that traditionally have fewer options.

**Green and Healthy Housing Financing**
Multifamily Green Bond Business target positive, measurable impact to financial, environmental, and social outcomes and create affordable housing options for families and individuals.

- **Triple bottom line**
  - We launched our Multifamily Green Financing Business with a mission to target positive, measurable impacts to financial, social and environmental outcomes – also known as the "Triple Bottom Line."

- **Efficient financing solutions**
  - We created smart, innovative financing solutions that incorporate energy and water efficiency and energy-generation concepts into traditional mortgage lending and launched new capital market executions.

- **Affordable homes and cost-efficient properties**
  - We support the retrofitting of U.S. rental housing stock to become more energy- and water-efficient, resulting in more affordable homes for families and individuals and more cost-efficient properties.

---

*Source: Fannie Mae.*
Types of Multifamily Properties

As a reliable and affordable source of financing, Multifamily is committed to serving the spectrum of America’s housing needs.

A residential property composed of five or more dwelling units and in which generally no more than 20% of the net rentable area is rented to, or to be rented to non-residential tenants.

A property owned by a corporation or other legal entity in which each shareholder or equity owner is granted the right to occupy a unit or units in the property under a proprietary lease or other occupancy agreement.

A property that is intended to be used for older residents for whom the owner or operator provides special services that are typically associated with either “independent living” or “assisted living.”

A property in which college or graduate students make up at least 80% of the tenants.

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, playground, swimming pool, and tennis and/or sports courts are also included.

Affordable population is a subset of all multifamily property types

<table>
<thead>
<tr>
<th>Property Type</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard Conventional</td>
<td>87%</td>
</tr>
<tr>
<td>Cooperatives</td>
<td>5%</td>
</tr>
<tr>
<td>Seniors Housing</td>
<td>4%</td>
</tr>
<tr>
<td>Dedicated Student Housing</td>
<td>4%</td>
</tr>
<tr>
<td>Manufactured Housing Community</td>
<td>4%</td>
</tr>
</tbody>
</table>

*Source: Fannie Mae Book of Business, as of year end 2020. Book of Business percentages are approximations, and the total may not equal 100.
Multifamily’s Size and Scale

For over 30 years our Multifamily business has relied on its Delegated Underwriting and Servicing (DUS®) program to finance quality, sustainable, and affordable rental housing.

As of Q4 2020, U.S. multifamily mortgage debt outstanding totaled $1.75 trillion. Fannie Mae’s share stood at approximately $375 billion, representing a 21% share of the market. *

Fannie Mae is a consistent source of liquidity in the multifamily market including through the financial crisis when liquidity generally evaporated. Fannie Mae issued $76 billion in multifamily MBS in 2020, comprising 25% of the market. **

*Source: Federal Reserve’s Flow of Funds.

** Mortgage-related Securities Issuances Market Share from Federal Reserve’s Flow of Funds.

Other Multifamily Market includes Life insurance companies, state and local credit agencies, banks and thrifts, CMBS, Ginnie Mae, and Freddie Mac.
Deep Industry Experience

Our multifamily team’s experience and longevity through a variety of market cycles enables us to develop strong practices and standards for managing risk.

<table>
<thead>
<tr>
<th></th>
<th>Underwriting</th>
<th>Asset Management</th>
<th>Loss Mitigation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>VP/ Directors</strong></td>
<td>Count</td>
<td>Average Tenure</td>
<td>Average Industry Experience</td>
</tr>
<tr>
<td></td>
<td>8</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>4</td>
<td>16</td>
<td>13</td>
</tr>
<tr>
<td></td>
<td>21</td>
<td>34</td>
<td>29</td>
</tr>
<tr>
<td><strong>Managers/Asset Managers</strong></td>
<td>Count</td>
<td>Average Tenure</td>
<td>Average Industry Experience</td>
</tr>
<tr>
<td></td>
<td>30</td>
<td>31</td>
<td>21</td>
</tr>
<tr>
<td></td>
<td>5</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td></td>
<td>23</td>
<td>23</td>
<td>24</td>
</tr>
<tr>
<td><strong>Analysts / Professional</strong></td>
<td>Count</td>
<td>Average Tenure</td>
<td>Average Industry Experience</td>
</tr>
<tr>
<td></td>
<td>5</td>
<td>2</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>5</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td>7</td>
<td>14</td>
<td>13</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>Count</td>
<td>Average Tenure</td>
<td>Average Industry Experience</td>
</tr>
<tr>
<td></td>
<td>43</td>
<td>37</td>
<td>34</td>
</tr>
<tr>
<td></td>
<td>4</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td></td>
<td>21</td>
<td>24</td>
<td>21</td>
</tr>
</tbody>
</table>

*Source: Fannie Mae.*
Multifamily Resiliency

Our depth of industry experience combined with strong practices and standards kept our delinquency rates low in the face of pandemic-related volatility.

**Seriously Delinquent (SDQ) Rate**

0.03%

of Multifamily’s book of business is seriously delinquent excluding loans that have received a forbearance as of December 31, 2020.

*Sources: Fannie Mae Multifamily Mortgage Business Information, FRE Volumes Summary, FDIC, American Council of Life Insurers (ACLI), and Trepp. FDIC bank data reflects 90+day delinquency rates; CMBS includes foreclosures & REO and reflects 30+ day delinquency rates. Fannie Mae and Freddie Mac multifamily delinquencies exclude loans in forbearance.*

**MF Delinquency Comparison as of Q4 2020***
Key Elements of Multifamily Business

Our Delegated and Servicing (DUS®) model is the cornerstone of our business and supports our credit risk management activities throughout the loan lifecycle.

DUS Model
Multifamily's business is executed primarily through 25 approved DUS lenders.

Credit Risk Management
Multifamily has an advanced credit risk management framework that underpins all aspects of our business.
DUS Risk Sharing Model
Launched in 1988, the DUS program delegates to approved lenders the ability to underwrite, close, and sell loans on multifamily properties to Fannie Mae Multifamily without prior review. The DUS model is based on three key principles:

- **Prudent Standards**: Multifamily requires DUS lenders to abide by rigorous credit and underwriting criteria and they are subject to ongoing credit review and monitoring.

- **Risk Sharing**: Multifamily requires borrowers to maintain equity in financed properties and requires DUS lenders to share in any credit losses. This aligns interests so all parties maintain a stake in each loan.

- **Lender Delegation**: Multifamily business is primarily executed through our partnership with the DUS lender network of 25 financial institutions and independent mortgage lenders. DUS lenders retain servicing responsibilities through the life of loan under Multifamily oversight. In the event of a default, Multifamily takes lead on the workout options through disposition.
Selling and Servicing Guide

The Multifamily Selling and Servicing Guide ("Guide") is organized by requirements, guidance, and operating procedures to maximize effectiveness of lender delegated authority by simplifying the process, providing certainty around requirements, and enabling faster processing.

Part I: Mortgage Loan
Provides an overview of how to use the Guide and information relevant for all mortgage loans, borrowers, and sponsors.

Part II: Property
Provides criteria relevant for all properties, including eligibility characteristics; determining value, income, and legal compliance; and information related to inspections, reserves, insurance, and environmental considerations.

Part III: Products and Features
Provides underwriting information for specific property types and transaction structures.

Part IV: Committing and Delivery
Provides information related to pricing, fees, committing, delivery, purchase, and conversions for all mortgage loans.

Part V: Servicing and Asset Management
Provides requirements relevant to servicing, asset management, and loss mitigation activities.

DUS Navigate
DUS Navigate is your one stop portal for the Guide and related documents. It enables users to easily search and navigate through the Guide and provides the information clearly and simply.
An Actively Managed Guide

Multifamily works with our stakeholders to systematically manage updates to the Guide to ensure it reflects Fannie Mae’s current risk appetite and broader market conditions.

1. Assess Market Factors
Multifamily identifies the need to update the Guide based on changes to the market, internal risk appetite, and regulatory directives.

2. Review Impact of Updates
Multifamily subject matter experts (business, credit, legal, etc.) draft clean, clear, and concise updates to the Guide. The updates are reviewed for consistency with other Guide requirements and potential impact to the acquisition and book of business profile.

3. Solicit Market Feedback
Multifamily facilitates internal stakeholder reviews and obtains lender and regulator feedback, as applicable.

4. Communicate Updates to the Market
Multifamily approves the updates, publishes the Guide, and communicates to all lenders.

In 2020, Fannie Mae made 19 Guide updates, an example of our flexibility to respond to market conditions.
DUS Risk Sharing

The Multifamily DUS model requires lenders to share the risk of losses with Fannie Mae throughout the life of the loan.

Each DUS lender selects one of the loss sharing approaches below, and all loans from that lender are delivered using the selected loss sharing approach.

**Pari Passu**

Lender assumes 33.33% of the loss and Fannie Mae assumes 66.67%.

**Standard**

Lender assumes credit losses as follows:
- All losses up to the first 5% of actual UPB
- Plus 25% of the next 20% of actual UPB
- Plus 10% of the remaining losses
- Maximum potential loss of 20% of original UPB

![Lender Loss Sharing Approach](image)

The majority of lenders select the Pari Passu loss sharing calculation.*

*Source: Fannie Mae.
Our Delegated Lender Partners

The vast majority of Fannie Mae Multifamily business is transacted through our partners – 23 DUS Lenders and 7 specialty lenders – who undergo a rigorous readiness assessment and ongoing compliance monitoring.

**Delegated Lenders***
- Arbor Commercial Funding I, LLC
- Bellwether Enterprise Real Estate Capital, LLC
- Berkadia Commercial Mortgage, LLC
- Capital One, National Association
- CBRE Multifamily Capital, Inc.
- Citibank, N.A.
- Colliers Mortgage LLC
- Grandbridge Real Estate Capital, LLC
- Greystone Servicing Company LLC
- HomeStreet Bank
- Jones Lang LaSalle Multifamily, LLC
- JPMorgan Chase Bank, National Association
- KeyBank National Association
- M&T Realty Capital Corporation
- Newmark Knight Frank
- NewPoint Real Estate Capital LLC
- NorthMarq Capital
- Lument Capital, LLC
- PGIM Real Estate Finance
- PNC Bank, National Association
- Regions Bank
- Walker & Dunlop, LLC
- Wells Fargo Multifamily Capital

**Specialty Lenders***
- Cinnaire Corporation
- Community Development Trust
- CPC Mortgage Company, LLC
- Massachusetts Housing Partnership
- Merchants Capital Corp.
- National Cooperative Bank
- Sabal Capital Partners

*Delegated and Specialty Lenders as of February 2021.
Select DUS lenders must demonstrate and maintain financial health, possess extensive Multifamily underwriting and servicing experience, and show sustained portfolio performance.

DUS Lender Requirements

Financial Condition
- Acceptable net worth
- Operational liquidity
- Restricted liquidity*

Organizational Documents
- Articles of incorporation
- Articles of organization
- Good standing certificate
- Organizational chart
- Financial statements

Portfolio
- Quality
- Performance
- Geographical distribution
- Types
- Volumes

Past Experience
Working with:
- Fannie Mae
- Government sponsored enterprises
- Federal agencies

Business Activities
- Business plan
- Marketing plan
- Description of loan applicant process
- Procedures manual
- Fidelity/surety bond

Personnel Experience
Review and approval of all Chief Underwriters at each of our lender partners

*Fannie Mae decreases the Lender Liquidity Requirements for a lender that is rated investment grade or is a subsidiary or affiliate of a company rated investment grade, so long as the rated company has provided to Fannie Mae a full and unconditional guaranty of all of the lender’s Fannie Mae Multifamily obligations or has provided to Fannie Mae a full and unconditional guaranty of all of the lender’s Fannie Mae Multifamily obligations from a company that is rated investment grade.
Dedicated Lender Management

The success of our DUS risk-sharing model for over 30 years is testament to the strength of our dedicated relationship management with our DUS lenders.

A customer management team is the face of the company to the lender and consists of National Account Managers and various levels of Associates. Each team, led by Multifamily Officers, provides dedicated support through a variety of methods to meet their needs.

Dedicated Training & Resources

- **Training**
  Regular trainings designed to provide in-depth best practice tips and product information.

- **Multifamily LIVE!**
  In-person business update, training on our most flexible products, and reception.

- **Digital Resources**
  Online resources designed to provide self-help (e.g., online training and job aids).

Account Team Interaction

- **Weekly Pipeline**
  Recurring calls with answers on an array of topics from transactional to systemic issues.

- **Daily Connections**
  Daily interaction with the market driven by feedback from the lenders.

- **Regular Communications**
  Touch-points through market meetings with the borrowers deepens relationships.

Proactive Publications

- **Multifamily Minute**
  Communications quickly summarizing updates to the Guide, market, and technology.

- **Multifamily Credit Update**
  Periodic update to all DUS Chief Underwriters regarding various credit topics in collaboration with our credit team.
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 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.
Underwriting Management
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.

Regionally Based Market Experts

- Northeast
- Southeast
- Central
- Midwest
- West

Regional % UPB of 2020 Acquisitions*

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

*Approximately 13% attributed to multiple regions; numbers may not foot due to rounding
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

<table>
<thead>
<tr>
<th>Typical Fixed-Rate Mortgage Underwriting Limits</th>
<th>Typical Adjustable-Rate Mortgage (ARM) Underwriting Limits</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Minimum 1.25x debt-service coverage ratio (DSCR)</td>
<td>• Loan amount governed by the lower of the comparable fixed-rate loan or the built up adjustable rate, which includes current index(^2) plus a baseline 300 bps stress</td>
</tr>
<tr>
<td>• Maximum 80% loan-to-value (LTV) ratio</td>
<td>• 75% max loan-to-value (LTV)</td>
</tr>
<tr>
<td><strong>2020 Multifamily Acquisition UPB by Note Type(^1)</strong></td>
<td>• Purchase of an external interest rate cap</td>
</tr>
<tr>
<td>93% Fixed Rate</td>
<td>• Optional conversion to fixed rate</td>
</tr>
<tr>
<td>7% Adjustable Rate</td>
<td></td>
</tr>
</tbody>
</table>

**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 additional 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 online.

---

*Underwriting standards for individual convention loans and specialty products may differ from our core underwriting standards. Please see the [Guide](#) for full underwriting requirements.

\(^1\) SOFR-indexed ARMs accepted as of October 1, 2020. LIBOR-indexed ARM loan no longer accepted after September 30, 2020.

*Source: Fannie Mae.*
Applicant Experience Check

Multifamily uses Applicant Experience Check (ACheck®) to identify and monitor entities who represent potential risk exposure. We factor ACheck® history into our decision to acquire a loan, thus creating a deterrent to adverse risk behavior.

**RISK MONITORING TOOL**

The DUS lender must perform an ACheck® search for borrowers, key principals, principals, and investment partners for initial applications and transfers/assumptions of mortgage loans.

<table>
<thead>
<tr>
<th>INPUTS</th>
<th>FUNCTIONS</th>
<th>OUTPUTS</th>
</tr>
</thead>
</table>
| Information identifying applicant entities such as borrowers, key principals, principals, and investment partners, is entered into ACheck®:  
- Employer identification, Social Security, or Tax Identification numbers  
- Applicant name and role  
- Risk issue(s) | Multifamily may add, reclassify, and remove applicants from ACheck® for various risk-related concerns throughout the loan lifecycle, and thereafter. Risk issues include, but are not limited to:  
- Events of Default:  
  - Monetary  
  - Non-monetary  
- Exposure Level:  
- Unacceptable Risks:  
  - Fraud/Misrepresentation  
  - Bankruptcy | When a lender searches for a borrower in ACheck®, the system instantaneously provides one of two electronic responses:  
- **Continue Processing:** Lender may proceed with the loan application.  
- **Do Not Continue Processing:** Lender may not proceed with a loan application without engaging in direct communication with Multifamily and receiving next steps, as coordinated by the ACheck® administrator. |
Proven Flexibility in Changing Markets
Multifamily continually enhances its business practices and underwriting standards to enable it to weather economic downturns.

CONTINUOUS ENHANCEMENT OF BUSINESS PRACTICES THROUGH TWO CRISES

**2008 FINANCIAL CRISIS**
- Updated underwriting standards for small loan borrowers
- Organized credit teams/underwriting by geographic markets
- 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

**2020-21 GLOBAL HEALTH PANDEMIC**
- During underwriting process, increased reserve requirements to provide additional support at the peak of the pandemic
- Added certain markets and property types to pre-review for areas with heightened concern
- Developed forbearance program to alleviate hardship on borrowers and provide certain tenant protections while ensuring appropriate credit protection
- Used various technological platforms (e.g. Facetime) to assess property conditions during underwriting, thus helping to ensure the health and safety of all parties involved.
Exceptions Meet Our Risk Appetite

Multifamily conducts a stringent review of any loan that has pre-review conditions or requested waivers.

**PRE-REVIEW**

Pre-review is the requirement that the lender obtain approval from Multifamily for a loan that does not qualify for delegated underwriting based on one or more factors. The lender must obtain approval prior to requesting a loan commitment.

**Examples of pre-review loan factors:**

- DSCR and LTV calculations differ from Guide requirements
- Designated markets
- Borrower, key principal, principal eligibility and requirements, and borrower structures
- Financing structures, e.g., subordinate debt, special programs
- Specialty housing types
- Loan size

**BUSINESS WAIVERS**

For any loan that is not a pre-review loan, but which varies from our standard pricing position, loan documentation requirements, or property inspection requirements, the lender must obtain an approval from Multifamily.

**Examples of business waiver categories:**

- Pricing waiver
- Loan document changes
- Property inspection waiver (primarily referring to refinancing properties already on the book of business that have acceptable recent inspections)

**Reduced Delegation**

During the COVID-19 pandemic, Fannie Mae removed delegated ability from certain geographic regions and specialty products considered economically at-risk to increase oversight capabilities.
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.*
Loan Size

Multifamily analyzes the size of a loan to determine the level of risk in acquisition decisions.

*Excludes credit facilities and loans with properties in more than one state

Average Loan Size

Multifamily’s average loan size nationwide is approximately $13 million.*

Property Quality

Multifamily sets lender requirements and reviews the quality of properties based on income and expenses, third-party appraisals, physical needs assessments, titles and surveys, and environmental assessments.

**INCOME AND EXPENSES**

**What?** Underwritten net cash flow

**Requirements?** Determine the net cash flow using the appropriate calculation in the Guide based on the product type

In 2020 with the onset of the COVID-19 pandemic, Fannie Mae continued to underwrite to economic occupancy rather than physical occupancy, assessing credit-worthiness based on paying renters.

---

**THIRD-PARTY APPRAISAL**

**What?** Independent assessment of property value

**Requirements?**
- Performed by a licensed appraiser selected by the DUS lender
- Meets Uniform Standards of Professional Appraisal Practice

---

**SURVEY AND TITLE**

**What?** A survey and acceptable title insurance policy for each collateral property

**Requirements?** Insured amount is not less than the original principal amount of the loan

---

**PROPERTY CONDITION ASSESSMENT**

**What?** Independent assessment of the current physical condition and historical operation of the property

**Requirements?**
- Cost estimates for immediate repairs and replacement of capital items
- Description of systems and observations

- Seismic and catastrophic event considerations
- Compliance with zoning, building, and fire code regulations

- Historical capital repairs

---

**ENVIRONMENTAL SITE ASSESSMENT**

**What?** Independent assessment to identify existing or potential recognized environmental conditions in connection with the property

**Requirements?** Report on asbestos, radon, lead-based paint, lead in drinking water, wetlands, regulatory compliance, health and safety, indoor air quality, biological agents, and mold
Property Inspection

Multifamily sets specific requirements to lenders for the physical inspection of properties and reserves the right to accompany lenders on property inspections, including those of occupied units.

The lender must complete and submit the Mortgage Bankers Association (MBA) Master Inspection Form* for all inspections. Inspection requirements include, but are not limited to:

- Unit inspections, including occupied units
- Overview of property information
- Neighborhood and site comparison data
- Management company information and interview
- Physical condition
- Deferred maintenance
- Trends
- Life safety
- Routine maintenance
- Capital needs
- Level/volume of issues noted and appropriate follow-up recommendations
- Photos

If an issue is found during the inspection of the property, such as deferred maintenance, Multifamily requires identified repair costs to be paid by the borrower and escrowed with the lender.

Sponsor Review

Multifamily monitors sponsor exposure regularly through sponsor reviews primarily focusing on sponsors exhibiting elevated risks and/or representing large portfolios. Multifamily produces monthly and quarterly reports that track related metrics.

Who is a sponsor?
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).

What factors are reviewed?
- Aggregate exposure to a single sponsor
- Financial strength (e.g., balance sheet, income statement, etc.)
- Real estate portfolio (e.g., how is the portfolio performing?)
- Property condition (e.g., are properties being kept up to date?)
- Comparison of various sponsor metrics against Fannie Mae’s overall book of business.

Are any actions taken?
Multifamily makes recommendations based on the Sponsor Reviews including:
- Addition of sponsors to ACheck to increase monitoring
- Curtailment of certain business activities or future exposure

How are findings communicated?
If findings are identified during the Sponsor Review, a meeting is set up with stakeholders (e.g., Multifamily Customer Engagement team, sponsors, and lenders) to discuss the challenges and determine next steps as needed.
Market Analysis

Additional tools and market analyses are used to acquire timely information and monitor developments in the economic and real estate markets to inform pre-review and Guide requirements.

**MARKET ANALYSIS TOOLS**

**DUS Insights™** is an internal database that provides Multifamily with a resource for research and analysis of the U.S. mortgage market, including assessing trends and systemic risks in local areas based on real-time reporting on the world’s largest multifamily database.

**CoStar™, REIS®, and Axiometrics®** are external real estate data platforms that equip Multifamily with a combination of tools, resources, and deep understanding of commercial real estate properties in today’s market.

**MARKET ANALYSIS**

Multifamily leverages its market analysis to inform underwriting pre-review and delegation market requirements.

**Multifamily Market Outlooks and Commentaries** are proprietary analyses and forecasts produced by Fannie Mae multifamily economists who closely follow national and local market conditions.

**Multifamily Credit Managers** are subject matter experts and assigned to their respective market for oversight. Credit Managers physically travel to their markets for observation one to two times per year.
Baseline Exit Analysis

Multifamily requires lenders to perform an exit analysis at underwriting, based on standard assumptions, to mitigate the risk of maturity default.

### A Conventional Loan Example

#### ASSUMPTIONS

<table>
<thead>
<tr>
<th>Category</th>
<th>Assumption</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income Growth Rate</td>
<td>2% annual growth rate</td>
</tr>
<tr>
<td>Expense Growth Rate</td>
<td>3% annual growth rate</td>
</tr>
<tr>
<td>Economic Vacancy</td>
<td>Maintain underwritten economic vacancy during life of loan</td>
</tr>
<tr>
<td>Capitalization Rate</td>
<td>Underwritten capitalization rate plus 2.0%</td>
</tr>
<tr>
<td>Refinance Interest Rate</td>
<td>Underwritten floor rate plus 2.25%</td>
</tr>
<tr>
<td>Amortization</td>
<td>Lesser of underwritten term or 30 years</td>
</tr>
</tbody>
</table>

#### METRICS

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>DSCR</td>
<td>The higher of 1.25x or the calculated DSCR based on assumptions.</td>
</tr>
<tr>
<td>LTV</td>
<td>The lower of 80% or the calculated LTV based on assumptions.</td>
</tr>
</tbody>
</table>

#### RESULT

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exit Interest Rate</td>
<td>The exit interest rate is compared to acceptable levels for a given market/submarket.</td>
</tr>
</tbody>
</table>
Performance Management: Credit Asset Management
Operations Lifecycle

Multifamily works closely with our DUS business partners to ensure accurate documentation and payment transactions.

Collect Acquisition Dataset
Multifamily inspects and develops a baseline from the acquisition documents (e.g., loan terms, borrower participants, property data) to ensure completeness and accuracy of the lender submitted data.

Safeguard Documents
After ensuring document information matches the data provided by the lender in Multifamily's system, the documents are safeguarded and held in a central repository.

Periodic Review
Multifamily monitors all lender transactions throughout the life of the loan to ensure the performance of the loan matches expectations set in the terms of the loan documents.

Payoff and Release of Documents
Multifamily approves payoff amount and release of the lien and loan documents back to the lender or appropriate receiving party.

Prepayment
When due, Multifamily ensures prepayment premiums are calculated correctly and communicated to the lender.

Payoff calculation
1. Borrower provides Lender notice of payoff request in writing
2. Lender submits payoff quote into Fannie Mae Payoff Calculator for review
3. Multifamily Operations team approves payoff
4. Lender provides Borrower full payoff amount, including any payoff payments due
5. Borrower makes full payoff payment

Maturity Payment
Final payment is made by the borrower by the maturity date.

Prepayment?
No
Yes
Credit Asset Management

Multifamily actively monitors post-purchase lender requests by reviewing credit decisions and insurance for compliance with the Guide.

Post-Purchase Credit Decisions

For most post-purchase requests, the lender completes a Delegated Transaction Form, which includes risk-based questions, to determine if the lender has authority to approve the request or if it needs Multifamily approval. Requests include:

- Easements
- Transfers/assumptions
- Commercial leases
- Property management changes
- Use conversions

All other borrower non-servicing requests require Multifamily approval.

Insurance Requirements

Insurance policies and records are reviewed once a year by lenders to ensure Multifamily requirements are met.

- Coverage for Property including Business Income (Business Interruption) and Liability Insurance required for the life of the loan
- Properties in a Special Flood Hazard Area require flood insurance
- Insurance company has an A.M. Best Company rating of “A-“ or better on a scale of D- to A++ and a financial performance rating of “VI” or better on a scale of I to VIII; or a Financial Stability Rating of “A” or better by Demotech Inc., and have a policyholder surplus of at least $40 million
- Standard cancellation provisions requiring Fannie Mae to be notified of cancellation
- Names Fannie Mae as Mortgagee and Loss Payee on Property and Additional Insured on General Liability and Umbrella
- Lender is required to review the policy within 90-days of closing or policy renewal
- Lender is required to obtain or “force-place” insurance coverage if borrower does not provide coverage
- Non-delegated exceptions or waivers to Fannie Mae requirements must be approved by Fannie Mae
- Fannie Mae audits lender insurance files and procedures during the Lender Assessment
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.

- Random selection of 3.5% of each lender’s submitted data on property operating statements
  - Re-analyze, normalize, and compare statements to the lender submitted data
  - Exceptions are reconciled with the lender and presented in an annual report to encourage continuous reporting improvement

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 including, but not limited to:

- Income and expense trends
-Deferred maintenance and life safety sub-scores
- Low capital reinvestment
- Inspection history

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 by:

- Assessing for overall portfolio, market, lender, and sponsor risks;
- Reviewing initial property damage assessments from lenders and inspecting properties based on damage thresholds;
- Transferring loans with increased property condition or operational risk to special servicing; and
- Structuring forbearance agreements or modifications for loans with significant cash flow interruptions where appropriate.
Asset Management Portal

Multifamily enables our partners to electronically submit documents, request modifications, and receive timely answers to questions through the Asset Management Portal to simplify the process.

ASSET MANAGEMENT TOOL

Multifamily Asset Management Portal (MAMP)

- Enables and stores lender submissions of financials, inspections, lender risk ratings, action plans, and catastrophic event tracking and reporting
- Rules engine determines due dates and work items lenders need to submit based on Guide protocols
- Generates management reports
- Tracks outstanding completion of property repair agreements and tracks completion repair status

Value Add

- Creates data consistency across all lender submissions
- Ability to conduct a review of delegated requests to aid in the identification of risks or trends
- Easy identification of past due financial statements and property inspections
- Ability to track request status throughout the entire process
- Ability to systematically receive approval letters or notification of incorrect or incomplete request
- Receive real time email notifications
## Risk Rating Analytics Platform

Multifamily’s web-based Risk Rating Analytics Platform (RRAP) serves as our primary risk rating engine for secondary surveillance and enables us to intervene early to keep delinquencies and losses to a minimum.

### RISK RATING TOOL

RRAP provides ratings throughout the lifecycle of each loan and pulls data directly from Multifamily systems on a monthly basis.

<table>
<thead>
<tr>
<th>INPUTS</th>
<th>RRAP FUNCTIONS</th>
<th>OUTPUTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lender data is automatically uploaded and evaluated against the following factors:</td>
<td>RRAP rates risk on every asset on a monthly basis and a detailed analysis of ratings are provided to business teams every month.</td>
<td>RRAP rates the risk of each loan using a numerical rating that is aligned with FHFA’s regulatory credit risk classification.* The scale is as follows:</td>
</tr>
<tr>
<td>✓ Cash Flow</td>
<td>✓ Leverage and Equity</td>
<td>✓ Pass</td>
</tr>
<tr>
<td>✓ Market and Project Factors</td>
<td>✓ Management and Controls</td>
<td>✓ Special Mention*</td>
</tr>
<tr>
<td>✓ Financial Flexibility</td>
<td>✓ Financial Flexibility</td>
<td>✓ Substandard</td>
</tr>
</tbody>
</table>

### Manual Overrides

Asset managers may provide manual risk rating overrides based on most current information. All manual overrides are performed in accordance with Fannie Mae delegations of authority.

RRAP methodology is reviewed on a routine basis.

RRAP is audited by Internal Audit, ERM, FHFA, and external audit.

### Risk Scores

Lenders can view the FHFA regulatory credit risk classification of each loan through MAMP. Multifamily calibrates RRAP ratings with the lender’s risk ratings on a routine basis.

*Source: [FHFA Credit Risk Management](https://www.fannie Mae.com), July 2013.

*Special Mention and Doubtful are applied through a manual process.*

---

*Source: FHFA Credit Risk Management, July 2013.*
Risk Rating Influences Actions

RRAP risk ratings drive stakeholder actions throughout the asset’s life from acquisition to disposition.

**PORTFOLIO SURVEILLANCE**

**Actions**
- Lender and sponsor portfolio quality evaluated relative to Multifamily’s overall performance and to other lender and sponsor portfolios
- Asset quality by market may be evaluated relative to Multifamily’s overall performance
- Asset Managers may use the ratings to identify trends in ratings
- Loans approaching maturity are tested to determine whether each is likely to qualify for refinance at market terms

**LOSS MITIGATION**

**Actions**
- Watchlist Management Group* uses the ratings as the basis for monitoring/communication with servicer on risk
- Loan level action plans are required of lenders for Substandard rated loans

*Watchlist Management Group 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.
Performance Management: Surveillance
Post-Purchase Review

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

What loan categories are reviewed?
For each loan, Multifamily reviews the following categories:

<table>
<thead>
<tr>
<th>Underwriting</th>
<th>Compliance</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓ Income / Expense</td>
<td>✓ Guide Requirements</td>
</tr>
<tr>
<td>✓ Appraisal Valuation</td>
<td>✓ Documentation Requirements</td>
</tr>
<tr>
<td>✓ Physical Condition</td>
<td></td>
</tr>
<tr>
<td>✓ Environmental / Seismic</td>
<td></td>
</tr>
<tr>
<td> Market Support</td>
<td></td>
</tr>
<tr>
<td> Borrower Financials/ Loan Sponsor Analysis</td>
<td></td>
</tr>
<tr>
<td> Property Management</td>
<td></td>
</tr>
</tbody>
</table>

How is it measured?
We measure each loan in the sample to determine if the lender is generally meeting expectations.

Measures

1 – Fully Meets and exceeds Requirements and Standards.
2 – Meets Requirements and Standards; potential variances identified and mitigated.
3 – Meets or Minor variance to Requirements or Standards; potential variances may impact compliance with Standards.
4 – Does not meet Requirements and/or Standards, potential variances may be resolved with additional due diligence and follow up.
5 – Does not meet Requirements and/or Standards, unable to resolve with additional due diligence and follow up.

What are the benefits?

- This review helps to identify any lender trends and enables the risk team to intervene early to correct any issues.
- Multifamily calibrates lender scores quarterly to ensure findings are not only independent, but also consistent across lenders.

How are findings communicated?

- Multifamily provides lenders with regular progress reports throughout the year, including opportunities to meet to receive feedback.
- An annual report is provided to each lender that contains:
  - Summary page showing the aggregate results
  - Lender scoring relative to the scores for all DUS lenders
  - Detailed information for each reviewed loan, which includes:
    1. Scores for each category
    2. Scores for each loan
    3. Comments for categories with issues
Sponsor Surveillance

Multifamily monitors sponsor exposure regularly through sponsor reviews primarily focusing on sponsors exhibiting elevated risks and/or representing large portfolios. Multifamily produces monthly and quarterly reports that track related metrics.

Who is a sponsor?

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).

What factors are reviewed?

- Aggregate exposure to a single sponsor
- Financial strength (e.g., balance sheet, income statement, etc.)
- Real estate portfolio (e.g., how is the portfolio performing?)
- Property condition (e.g., are properties being kept up to date?)
- Comparison of various sponsor metrics against Fannie Mae’s overall book of business.

Are any actions taken?

Multifamily makes recommendations based on the Sponsor Reviews including:

- Addition of sponsors to ACheck to increase monitoring
- Curtailment of certain business activities or future exposure

How are findings communicated?

If findings are identified during the Sponsor Review, a meeting is set up with stakeholders (e.g., Multifamily Customer Engagement team, sponsors, and lenders) to discuss the challenges and determine next steps as needed.
Breach Review

Multifamily conducts a breach review to detect loans with potential inconsistencies with our risk tolerance or Guide requirements.

What causes a breach review?

- A referral for a breach review occurs when Multifamily identifies a potential inconsistency with Fannie Mae’s risk tolerance or Guide requirements.
- A breach review can happen at any time throughout the lifecycle of a loan (e.g., delivery or servicing breach).
- Acquisitions that are 60 days delinquent within the first 12 months are subject to review.

What are potential remedies?

If a material breach is identified, Multifamily may impose a remedy on the lender at the loan level, which may include:

- Adjusting the loss sharing level
- Indemnifying Fannie Mae for losses
- Requiring repurchase of the mortgage loan

What actions are taken?

- Violation of any representation or warranty is a breach of the lender contract, which may entitle us to pursue certain remedies.
- If a breach is detected, Multifamily has the ability to review prior loans acquired from the lender or serviced by the lender to assess if a trend exists.

How are findings communicated?

Multifamily communication to the lender depends on the findings in the Breach Review:

- For all material breaches, there is direct communication with the lender.
- For non-material breaches Multifamily determines the most appropriate and effective way to address the breach with the lender.

438
Completed DUS Breach Reviews (2009 - Q2 2021)

17% of DUS Breach Reviews resulted in remedies.
**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.

### What areas are reviewed?

For each lender, Multifamily evaluates the following areas:

- Corporate Governance
- Production and Origination
- Credit and Underwriting
- Committing and Delivering
- Servicing
- Asset Management
- Loss Mitigation / Special Asset Management
- Legal
- Financial Management
- Insurance

### How is it measured?

<table>
<thead>
<tr>
<th>Level</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exceptional</td>
<td>No material process weaknesses, financial risks, or missing Fannie Mae requirements</td>
</tr>
<tr>
<td>Good</td>
<td>No material process weaknesses, financial risks, or missing Fannie Mae requirements, with minor process/control improvements</td>
</tr>
<tr>
<td>Average</td>
<td>No financial risks or missing Fannie Mae requirements with material process improvement recommendations</td>
</tr>
<tr>
<td>Substandard</td>
<td>Material process weaknesses, financial risks, and missing Fannie Mae requirements</td>
</tr>
<tr>
<td>Poor</td>
<td>Significant process weaknesses, financial risks, and missing Fannie Mae requirements</td>
</tr>
</tbody>
</table>

### What other assessments are included?

- When evaluating each lender, Multifamily leverages findings from other internal assessments.
- Multifamily compares each Lender Assessment to those conducted in the past to identify any changes or trends.

### How are findings communicated?

Multifamily provides lenders with a Lender Assessment Report that documents its findings. The report includes:

- Overall score
- Summary of assessment findings for each of the ten evaluated areas, which includes:
  - Overall opinion
  - Best practice observations
  - Requirements
  - Recommendations
Lender Assessment Actions

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

Are requirements monitored?

- Requirements identified in the Lender Assessment are implemented by the lender. Fannie Mae monitors to resolution.
- All significant risks that result in an issue are reported to Fannie Mae’s Enterprise Risk Management (ERM) and Third Party Risk Management (TPRM).

Are any further actions taken?

If a Lender Assessment indicates negative trends, Multifamily has a number of strategies to manage potential risk:

- Restrict types of business a lender may conduct
- Suspend the lender’s selling rights
- Place the lender on pre-review so that all transactions are no longer delegated and are reviewed by Fannie Mae prior to purchase
- Require removal and replacement of a lender’s chief underwriter
- Require repurchase of loans, additional collateral, increased loss sharing or indemnification of losses for breaches of underwriting, servicing, or other requirements
- Increase frequency of reporting and communication with lender’s senior management, including in-depth loan portfolio reviews
- Require action plan from lender to remediate risk and liquidity concerns
- Require additional capital, operational liquidity or restricted liquidity
Performance Management:

Maturity Management
Maturity Management

Multifamily monitors loans that are nearing maturity to ensure their orderly repayment or refinancing by the borrower.

Proactive Maturity Planning

**Identify Maturing Loans**

Lenders identify performing balloon payment loans within 24 months of maturity.

**Conduct a Risk Analysis**

Fannie Mae and lenders must conduct a risk analysis for a market rate refinance to demonstrate that the borrower will maintain a positive equity position and remain committed to the property.

**Develop a Maturity Plan**

Lenders must work with borrower to prepare a plan to refinance or pay-off the loan in full on (or before) the scheduled maturity date.

Multifamily and our lenders closely collaborate to manage maturity risk, with a focus on identifying and reacting to potential issues well before they develop into problems.
Management Through Resolution

Refinance eligibility forecasts are created for loans 24 months prior to maturity. In the event that a borrower is not eligible to refinance the loan, our loss mitigation team takes action to prevent foreclosure and reduce the severity of potential loss.

### Refinance Eligibility Forecast*

<table>
<thead>
<tr>
<th>%</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>93%</td>
<td>93% of maturing loans meet refinance eligibility criteria (Maturity LTV &lt; 80% or DSCR &gt; 1.25)</td>
</tr>
<tr>
<td>2%</td>
<td>2% of maturing loans nearly meet refinance eligibility criteria (Maturity LTV 80-85% or DSCR 1.10-1.25)</td>
</tr>
<tr>
<td>5%</td>
<td>5% of maturing loans may not meet refinance eligibility criteria (Maturity LTV &gt; 85% or DSCR &lt; 1.10)</td>
</tr>
</tbody>
</table>

Eligibility status may change as loans move through the 24 month period before maturity.  

---

Loans that nearly meet or may not meet refinance eligibility criteria may be evaluated for the following responses:

**Determine New Structure**
Lender recommends a new structure (e.g., extension, defensive refinance, forbearance, or other modification) and Multifamily conducts an economic and financial analysis to evaluate if it is a viable solution to mitigate any potential loss.

**Transfer to Loss Mitigation**
If a loan is not expected to meet repayment obligations upon maturity, management of the loan is formally transferred to Special Asset Management.

---

*Source: Fannie Mae as of March 31, 2021.*
Mitigation Strategies

Loss Mitigation
Loss Mitigation Credit Philosophy

Multifamily’s loss mitigation program works through early risk detection, communication, accountability, and management of delinquencies to minimize the probability of default.

**Early risk identification:**
Improved risk identification provides opportunities to minimize potential losses

**Communication:**
Internal communication within our credit group and calibration with our lender loss sharing partners is essential

**Accountability:**
If a borrower creates a loss for Fannie Mae, higher scrutiny is applied to that borrower prior to underwriting another loan (ACheck®)

**Mitigation of Loss:**
We manage our SDQ loans to mitigate losses

Our proactive loss mitigation philosophy enables us to maintain sound credit performance through all economic cycles. Fannie Mae’s credit losses peaked in 2010 at 27 bps compared to 123 bps for all FDIC Institutions in 2010 and 130 bps for all CMBS in 2011.*

*Fannie Mae credit loss to book is shown net of loss sharing benefit.
**FDIC bank data reflects net charge-offs to book.
***CMBS data is only available through Q4 2014. Multifamily Credit Losses

Source: Fannie Mae as of December 31, 2020. Multifamily Credit Risk Management

56
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.

- **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 ($5.8B 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.
  - 170 Loans ($2.03B UPB; 0.5% 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.
  - 388 Loans ($5.6B UPB; 1.50% 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.
  - 14 Properties ($141M UPB; 0% of Book)

---

*Source: Fannie Mae.

**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.
Watchlist Management Group

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

<table>
<thead>
<tr>
<th>Portfolio Surveillance</th>
<th>Loan Surveillance</th>
<th>Inspection Surveillance</th>
</tr>
</thead>
<tbody>
<tr>
<td>WMG identifies and assesses various risks within the entire loan portfolio, reviewing trends and analyzing performance across varying sectors.</td>
<td>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).</td>
<td>WMG conducts ongoing desktop reviews of lender inspections supplemented with actual re-inspection by Multifamily employees and third-party vendors of properties for a sample of loans.</td>
</tr>
</tbody>
</table>

**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)
- Sponsors
- Property condition
- Markets

**Results**

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

- Property operations (e.g. DSCR under 1.0x)
- 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

- 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

- Property operations (e.g. DSCR under 1.0x)
- 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

- 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).
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.

### Property Issues
- Deferred maintenance
- Code or zoning violations
- Catastrophic events
- Structural concerns
- Casualty losses
- Significant property renovation

### Non-Monetary Issues
- Unauthorized borrower transfers
- Liens
- Litigation

### Monetary Issues
- Borrower Relief Requests
- Catastrophic Events

### Causes
- Inspect properties with lenders and/or borrowers
- Obtain a Property Condition Assessment (PCA) if necessary
- Review borrower repair plans and ensure execution of repairs

### Actions
- 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

### Resolutions
- Issuance of reservation of rights letters
- Demand for cure letters

- 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)

In response to the pandemic, WMG has taken point to manage non-monetary default matters and SC has provided resources to assist SAM with the increased number of forbearances and monetary defaults.
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.

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.

*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 engaged conducts the foreclosure sale in accordance with Multifamily instructions.
Dual Track Approach Results

Due to SAM’s proactive approach, on average 67% of all workout resolutions resulted in the reinstatement or payoff of loans. The significant increase in 2020 was due to COVID forbearance reinstatements.

### Workout Resolutions

<table>
<thead>
<tr>
<th>Year</th>
<th>Reinstatement</th>
<th>Payoff</th>
<th>Modification</th>
<th>Note Sale</th>
<th>Deed-in-Lieu/Discounted Payoff</th>
<th>Third Party Sale</th>
<th>Credit Loss (Profit) ($M)</th>
<th>Foreclosure</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>23%</td>
<td>13%</td>
<td>6%</td>
<td>1%</td>
<td>2%</td>
<td>2%</td>
<td>16</td>
<td>54%</td>
</tr>
<tr>
<td>2012</td>
<td>26%</td>
<td>15%</td>
<td>5%</td>
<td>2%</td>
<td>1%</td>
<td>2%</td>
<td>6</td>
<td>50%</td>
</tr>
<tr>
<td>2013</td>
<td>35%</td>
<td>10%</td>
<td>6%</td>
<td>4%</td>
<td>3%</td>
<td>1%</td>
<td>8</td>
<td>34%</td>
</tr>
<tr>
<td>2014</td>
<td>30%</td>
<td>26%</td>
<td>8%</td>
<td>5%</td>
<td>1%</td>
<td>2%</td>
<td>0</td>
<td>26%</td>
</tr>
<tr>
<td>2015</td>
<td>40%</td>
<td>34%</td>
<td>2%</td>
<td>0%</td>
<td>0%</td>
<td>2%</td>
<td>2</td>
<td>0%</td>
</tr>
<tr>
<td>2016</td>
<td>38%</td>
<td>32%</td>
<td>2%</td>
<td>0%</td>
<td>0%</td>
<td>2%</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>2017</td>
<td>30%</td>
<td>35%</td>
<td>1%</td>
<td>0%</td>
<td>0%</td>
<td>2%</td>
<td>2</td>
<td>0%</td>
</tr>
<tr>
<td>2018</td>
<td>39%</td>
<td>46%</td>
<td>1%</td>
<td>0%</td>
<td>0%</td>
<td>2%</td>
<td>4</td>
<td>5%</td>
</tr>
<tr>
<td>2019</td>
<td>30%</td>
<td>45%</td>
<td>1%</td>
<td>0%</td>
<td>0%</td>
<td>2%</td>
<td>1</td>
<td>1%</td>
</tr>
<tr>
<td>2020</td>
<td>65%</td>
<td>26%</td>
<td>4%</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
<td>8</td>
<td>1%</td>
</tr>
</tbody>
</table>

### Credit Loss 2011-2020

- **Foreclosure**
  - 2011: $16M
  - 2012: $6M
  - 2013: $48M
  - 2014: $8M
  - 2015: $0
  - 2016: $2
  - 2017: $-3
  - 2018: $1
  - 2019: $-2
  - 2020: $0
  - Total: $769M

- **Other Workout Resolutions**
  - 2011: $1M
  - 2012: $5M
  - 2013: $12M
  - 2014: $23M
  - 2015: $311M
  - 2016: $223M
  - 2017: $91M
  - 2018: $23M
  - 2019: $5M
  - 2020: $4M
  - Total: $534M

- **Total Credit Loss**
  - 2011: $311M
  - 2012: $223M
  - 2013: $91M
  - 2014: $23M
  - 2015: $5M
  - 2016: $1M
  - 2017: $23M
  - 2018: $4M
  - 2019: $5M
  - 2020: $4M
  - Total: $769M

Mitigation Strategies

Recovery
Real Estate Owned

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

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 that 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 includes 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
Real Estate Owned Results

We economically manage the disposition strategy for our REO assets by evaluating market conditions to identify the optimal timing for property sales. This ensures we are maximizing our foreclosure gains while minimizing UPB losses.

### 2009-2020 Real Estate Owned

- **932** Properties
- **$2.6B** Sales Price
- **$3.5B** UPB
- **$2.4B** Foreclosure Value

### Average Gain/Loss Severity

- **-11%** UPB
- **4%** Foreclosure Value

Mitigation Strategies

Extraordinary Circumstances
COVID-19 Pandemic Risk Measures

At the onset of the COVID-19 pandemic, Loss Mitigation expected to see substantial stress within the Multifamily Book of Business, possibly to a level that could eclipse internal asset management capacity. The following steps were taken to effectively manage the potential increase in volume.

**Organization**

The SAM team was reorganized to provide focus on loan workouts, primarily in the Seniors and Student loan portfolios, which are believed the most prone to pandemic related risk. In addition, WMG took point to manage non-monetary matters and Special Credits provided resources to assist SAM with the increased number of forbearance and monetary defaults.

**Training**

The SAM and Special Credits team developed a comprehensive training program for each of the 3rd Party Vendors. Although each of the new Vendors has extensive experience in commercial real estate, Asset Management and Special Servicing, FM’s process is new to them outside of the REO space.

**Relationship Management Team**

This team was formed to provide Servicers with a FM single point of contact to answer questions related to risk issues resulting from COVID-19 and to provide guidance on issues related to enactment of the CARES Act and the Delegated Forbearance programs.

**3rd Party Vendor Management**

Utilizing additional 3rd Party Vendors to manage any significant increases in loan defaults as we believe they have the capacity to expand their staffing and can handle managing an anticipated increasing level of defaults.

**Engage Seniors Advisor and Asset Management**

Utilizing a specialized Seniors Housing Asset Management company to consult on higher risk Seniors deals and to handle Loss Mitigation asset management and REO asset management work.
COVID-19 Forbearance Strategy

Fannie Mae offers temporary payment forbearance for loans backed by properties impacted by the economic effects of the COVID-19 pandemic.

Forbearance Instituted

- Offered up to three months forbearance relief to multifamily borrowers and to provide certain tenant protections, beginning with the first missed monthly payment occurring after February 1, 2020.
- Delegated to our lenders the authority to execute a forbearance agreement with a multifamily borrower experiencing a documented financial hardship due to the global health pandemic.

Forbearance Extensions*

- Beginning July 1, 2020, delegated to our lenders the ability to extend forbearance for up to three additional monthly payments for most loan types.
- For certain types of loans**, Fannie Mae determines whether to extend forbearance relief.
- For any forbearance request extending beyond six months, Fannie Mae does not delegate the decision and will determine itself whether to extend relief.

*On September 24, 2021, Fannie Mae extended its multifamily COVID-19 forbearance program indefinitely.

**Such as seniors housing loan and loans with unpaid principal balances above $50 million.

Repayment Structure

- Require borrowers to bring the loan current within a time period determined by multiplying the number of months of forbearance by four for forbearance of any duration after July 1st.
- Offer borrowers to repay missed payments in a lump sum at any time.
- Require borrowers to remit any excess cash flow on a monthly basis, to be held until the end of the forbearance period and then applied to missed mortgage payments.

- Require borrowers to remit any excess cash flow on a monthly basis, to be held until the end of the forbearance period and then applied to missed mortgage payments.
Multifamily Credit Risk Management

Multifamily Forbearance Activity

- At the peak of forbearance activity, less than 1.3% of our book was in forbearance
- Since July 2020, the Multifamily forbearance population has declined 85%

The Multifamily forbearance population is comprised of loans actively in forbearance or pending an extension to the original forbearance period. Loans with the forbearance status of "In Repayment" are not included in this chart.

The percentage decline value is based on the current unpaid principal balance of the Multifamily forbearance population.

*Source: Fannie Mae*
Multifamily Forbearance Performance

• Of all loans that entered a forbearance, **87%** are current (i.e. fully repaid) or in repayment*

• The 13% defaulted forbearances equate to **14 bps** of our book volume. As with all defaulted Borrowers, these borrowers have been added to the ACheck™ list, pausing any potential additional exposure to that borrower

Percentages are based on Unpaid Principal Balance at the time of forbearance.

*In Repayment* refers to loans currently in the repayment period.
*Resolved/Withdrawn* entails loans in which the forbearance has been cured and the loan is now current.
*Defaulted FB* refers to a loan in which the borrower defaulted on the forbearance agreement and loss mitigation remedies are being pursued.

*As of August 2021. Source: Fannie Mae*
Natural Disaster Management

Fannie Mae is well prepared to address natural disasters that may occur, to mitigate unforeseen risk to affected multifamily properties.

1. Incident Management Center (IMC)

At the enterprise level, Fannie Mae has a dedicated 24x7 team to actively monitor all natural disasters.

2. Natural Disaster Assessment

Once a natural disaster occurs, the IMC works with NOAA*, FEMA**, and other governmental agencies to map the impacted geographical area.

3. Communication with Impacted Borrowers

For loans identified in the impact zone, Servicers contact the applicable Borrowers to assess any damage caused by the natural disaster.

4. Risk Resolution Initiated

If damage is noted, the Fannie Mae Loss Mitigation team works with the applicable Servicers and Borrowers to inspect and estimate damage to the properties, and develop a plan to repair the damage as appropriate.

*NOAA: National Oceanic and Atmospheric Agency
**FEMA: Federal Emergency Management Agency
Appendix
<table>
<thead>
<tr>
<th>Additional Resources</th>
<th>URL</th>
</tr>
</thead>
<tbody>
<tr>
<td>DUS Disclose®</td>
<td><a href="https://mfdusdisclose.fanniemae.com/#/home">https://mfdusdisclose.fanniemae.com/#/home</a></td>
</tr>
<tr>
<td>Sign-up for News and Commentary</td>
<td><a href="https://capitalmarkets.fanniemae.com/form/notification-sign-up">https://capitalmarkets.fanniemae.com/form/notification-sign-up</a></td>
</tr>
<tr>
<td>DUS Navigate™</td>
<td><a href="https://mfguide.fanniemae.com/">https://mfguide.fanniemae.com/</a></td>
</tr>
<tr>
<td>Multifamily Products</td>
<td><a href="https://multifamily.fanniemae.com/financing-options/products">https://multifamily.fanniemae.com/financing-options/products</a></td>
</tr>
</tbody>
</table>
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:

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

By Mail:

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

Headquarters
1100 15th Street NW
Washington, DC 20005

Fannie Mae also operates regional offices in Chicago, Plano, and Philadelphia.