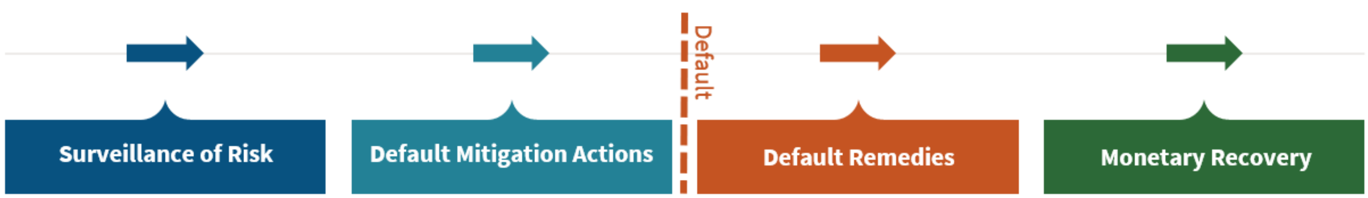
Multifamily Credit Risk Management: The Loss Mitigation Journey

Fannie Mae's Multifamily Business is committed to safeguarding investor interests against risks and potential losses. We implement rigorous underwriting standards to assess the credit quality of the loans we guarantee and ensure that principal and interest payments on our multifamily mortgage-backed securities (MBS) are made on time.

Our proactive Multifamily Credit Risk Management approach includes underwriting management, performance tracking, and innovative loss mitigation tactics. This overview highlights our loss mitigation program, including strategies to identify and manage default risks before they escalate – minimizing losses for our business and investors.

Loss Mitigation Program

We identify and minimize the likelihood of default through effective communication, accountability, and delinquency management. Specialized teams constantly monitor for potential loan defaults, internally communicate on loans exhibiting deteriorating risk profiles, and take action on workout options in the event of a defaulted loan.



Surveillance of Risk

Fannie Mae's Risk Rating Analytics Platform (RRAP) is our main risk assessment and intervention tool for multifamily delinquencies and risk factors that lead to potential losses. When a loan is rated Substandard in RRAP, it is downgraded and added to our Watchlist loan portfolio, which we monitor for loans with underperforming operational ratings such as debt service coverage ratio (DSCR) under 1.0X and other financial conditions. We collaborate with our Delegated Underwriting and Servicing (DUS®) lenders – typically on a quarterly basis – to obtain communications and updates on risk issues and collateral conditions as needed to evaluate the risk profile of our securitized loans. We also conduct reviews of lender inspections and perform and analyze third-party vendor property inspections to prevent asset-specific risks.

Watchlist Management and Inspection Review

The following table details the ongoing surveillance that we perform on our Watchlist portfolio.

	Portfolio Surveillance	Loan Surveillance	Inspection Surveillance
Overview	Identifies and assesses risks within the entire Watchlist loan portfolio, reviewing trends and analyzing performance across varying sectors.	Reviews required loan level action plans provided by the lenders for loans on the Watchlist that are rated Substandard.	Conducts ongoing reviews of lender inspections supplemented with actual re-inspection and by including third-party vendors of properties for a sample of loans.
Action	Risks are identified through: • RRAP • Delinquency reporting (DEWS) • Lender communications Loans can be adversely rated for reasons including, but not limited to: • Property operations (e.g., DSCR under 1.0x) • Property condition • Sponsors • Market changes • Suspected fraud	Lenders provide an Action Plan on a given loan biannually to identify and address the following factors: • Sponsor capacity, commitment, and exposure • Risk rating history • Property level operating information/analysis • Market data and asset valuation • Inspection and operating summary • Overall strengths and weakness • Asset management conclusions and strategy	• Conduct lender calibration meetings as needed • Calibrate rating criteria with lenders • Provide best practice observations and training to mitigate asset specific and ongoing risk • Further investigate any risk trends
Results	Identify loans that require a higher level of attention due to an identified risk and are placed on the Watchlist.	Review the lender's submitted Action Plans and mutually agree with the risk and loss mitigation strategies.	Increase oversight on loans with a property inspection rating of 4 and 5 for additional engagement to prevent default. (1=Excellent, 2=Very Good/Good, 3=Average/Fair, 4=Deteriorated, 5=Unacceptable)

Identification of Potential Default

We monitor our Watchlist loan portfolio to prevent risk escalation and potential defaults. If a lender becomes aware of a potential default, they must inform Fannie Mae within five business days. Additionally, we review non-monetary default notices to decide whether to escalate the loan within Fannie Mae or to delegate it to the servicer for asset management.

Transparency and Communication

Multifamily credit risk transfer investors receive a list of loans within a transaction's reference pool on the Watchlist in the applicable Monthly Servicing Reports as part of our Multifamily Connecticut Avenue Securities (MCAS™) disclosure information, which is available here. Additionally, DUS Disclose®, our multifamily disclosure platform, provides monthly information on the delinquency status of loans backing our multifamily mortgage-backed securities, property condition ratings based on the most recent inspection result, and property operating financials.

Default Mitigation Actions

If payment delinquency or property condition issues escalate, Fannie Mae issues a 'Notice of Default' or 'Demand for Cure'. We engage borrowers and lenders to prevent default, and the borrowers are required to provide a monetary commitment for a resolution. If a resolution is not reached through the loan servicer in the case of monetary or non-monetary defaults, loans will accelerate to our special asset management portfolio where Fannie Mae serves as a special servicer to manage our defaulted multifamily loan portfolio. Loans that have been delinquent for more than 120 days are subject to potential repurchase from the MBS pool. When a repurchase occurs, the MBS investor receives principal at par without any prepayment premium.

Due Diligence

All defaulted Borrowers are added to Fannie Mae's ACheck® list, pausing any potential additional exposure to that Borrower (any existing exposure with the Borrower may receive increased oversight). ACheck enables Multifamily to flag and archive applicants and companies based on performance concerns such as previous foreclosure and physical condition issues. For all new loans, our DUS lenders must perform a search in the ACheck system to ensure they can proceed with a loan application.

Default Remedies

Dual-Track Approach

Fannie Mae manages loans that are in default through a dual-track approach, simultaneously engaging in negotiations with borrowers while initiating foreclosure processes to achieve optimal outcomes.

Loan Workout Solutions

In some instances, we may implement a remedy for distressed loans such as forbearance and repayment plans. As part of our forbearance agreements, we provide borrowers facing financial challenges with reduced payment plans or temporarily suspend borrower payments, allowing borrowers to catch up on missed payments through structured repayment plans. Loans in MBS that are subject to a forbearance or repayment plan may in some cases remain in the MBS, which allows for continued scheduled payments to investors during the forbearance/repayment period and is generally disclosed through DUS Disclose.

Additionally, we may modify the terms of distressed loans in alignment with our trust guidelines and approval. Loan modifications may involve revising original loan terms, such as adjusting interest rates, amortization, or extending maturity dates. If a modified loan stays in the pool, details are disclosed on DUS Disclose and MBS investor payments remain unaffected. Loan forbearances and modifications are also included in multifamily credit risk transfer (MCRT) disclosures.

If a loan is subject to a modification, it is considered a defaulted loan and is subject to repurchase per the terms of our Multifamily MBS Trust Agreement. No prepayment premium is distributed to investors as a result of repurchases due to default.

Dual-Track Results

Loans in default generally result in either a workout resolution with the borrower or are resolved through foreclosure, after which a dedicated team is responsible for maximizing recoveries on foreclosed properties. In 2023, 61% of workout resolutions resulted in the reinstatement or payoff of loans. The total credit loss over the past decade totals $277 million.

		2013		2014		2015		2016		2017		2018		2019		2020		2021		2022		2023	
		% of Total Resolutions	# of Loans	% of Total Resolutions	# of Loans	% of Total Resolutions	# of Loans	% of Total Resolutions	# of Loans	% of Total Resolutions	# of Loans	% of Total Resolutions	# of Loans	% of Total Resolutions	# of Loans	% of Total Resolutions	# of Loans	% of Total Resolutions	# of Loans	% of Total Resolutions	# of Loans	% of Total Resolutions	# of Loans
Workout Solutions	**Reinstatement**	35%	96	30%	49	40%	37	40%	43	38%	30	38%	27	24%	20	65%	85	48%	102	35%	39	37%	88
	Payoff	10%	29	26%	43	34%	31	32%	35	49%	38	45%	32	54%	45	26%	34	38%	82	56%	63	24%	57
	Modification	6%	18	5%	8	2%	2	2%	2	1%	1	0%	0	4%	3	0%	10	4%	9	2%	2	19%	46
	Note Sale	9%	25	10%	17	0%	0	6%	7	0%	0	3%	2	13%	11	1%	1	0%	1	0%	0	2%	5
	Deed-in-Lieu/ Discounted Payoff	5%	13	0%	0	0%	0	0%	0	1%	1	0%	0	0%	0	1%	1	0%	1	0%	0	0%	0
	Third Party Sale	1%	3	3%	5	0%	0	1%	1	1%	1	3%	2	1%	1	1%	1	0%	1	1%	1	2%	4
	Credit Loss (Profit) ($M)	48		8		0		2		-3		1		-2		0		33		1		-1	
Foreclosure		34%	94	26%	42	24%	22	19%	20	9%	7	11%	8	4%	3	6%	8	8%	17	7%	8	16%	39
	Credit Loss (Profit) ($M)	91		23		5		3		1		4		6		26		27		4		0	

Source: Fannie Mae book of business as of December 31, 2023. Forbearances are not considered a modification as modifications constitute a resolution.

Monetary Recovery

Fannie Mae emphasizes maximizing recovery for loans where foreclosures have occurred. In the event of foreclosure, we entrust management functions to third-party vendors who operate under defined responsibilities outlined in agreements approved by our procurement and third-party risk management teams. These vendors conduct thorough property inspections to assess safety, capital needs, maintenance, and other operational concerns. They then develop property operating plans verified by Fannie Mae that align with inspection findings and our policies.

Vendors prepare detailed marketing and sales cases outlining marketing and disposition strategies, pricing, timelines, and assigning sales brokers. We review these plans before implementation and provide ongoing oversight and audits – including periodic reviews and third-party audits – to ensure compliance with budgets, plans, and operational strategies.

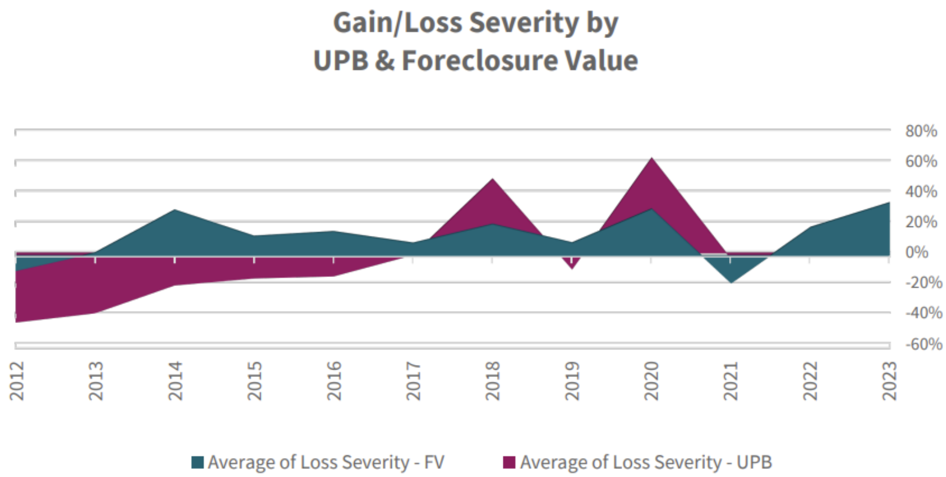
The management of these disposition strategies for loans where foreclosures have occurred – our "Real Estate Owned" assets – aims to add value post-foreclosure and capitalize on favorable market conditions to maximize foreclosure gains while minimizing losses, ultimately benefiting our multifamily credit risk investors.

2011-2023
Real Estate Owned

793 Properties	**$2.4B** Sales Price
$3B UPB	**$2B** Foreclosure Value

Average Gain/Loss Severity

-23% UPB	**13%** Foreclosure Value



Source: Fannie Mae book of business as of December 31, 2023.

Additional Resources

For a more detailed understanding of how we prevent, monitor, and minimize credit risks associated with multifamily loans, please refer to our Multifamily Credit Risk Management deck. Other useful resources are linked below:

- DUS Disclose
- Multifamily DUS Prepayment History
- Multifamily Loan Performance Data
- Multifamily Credit Risk Transfer

For questions, please contact the Fannie Mae Fixed Income Investor Helpline at 1-800-2FANNIE, Option 3 or by email.