



Fannie Mae®

# Single-Family Credit Risk Management

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March 2021

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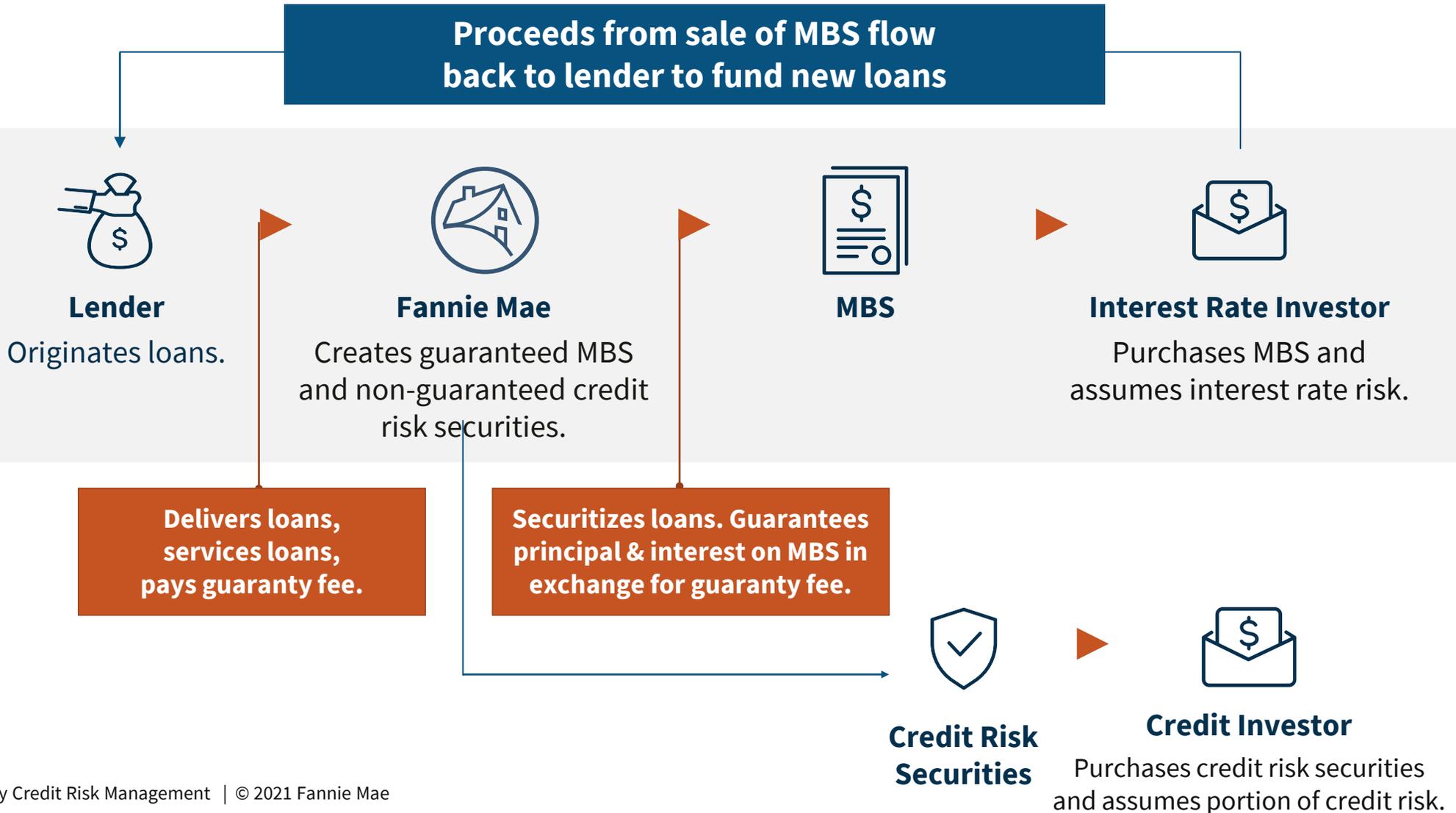


# Credit Risk Management Strategy



# Our Single-Family Business

Providing liquidity to the housing market and investment options to rates and credit investors.

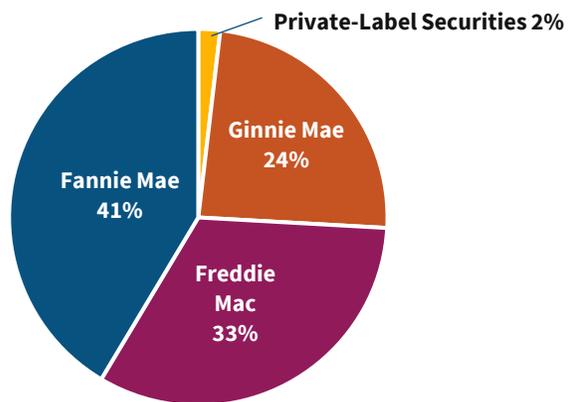


# Credit Risk Management Is a Cornerstone of Our Business

Participants in Credit Risk Transfer are investing in Fannie Mae as a credit risk manager – the largest in the U.S. mortgage industry.

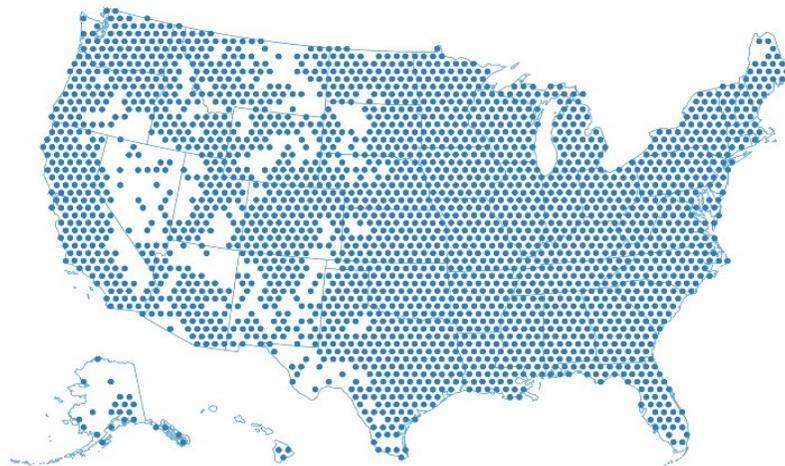
**Fannie Mae was the largest issuer of single-family mortgage securities in 2020\*.**

2020 Market Share:  
New Single-Family Mortgage-Related Securities Issuances



*\*Mortgage-related Securities Issuances Market Share*

**We provided close to \$1.4 billion in Single-Family mortgage liquidity across the country through 2020.**



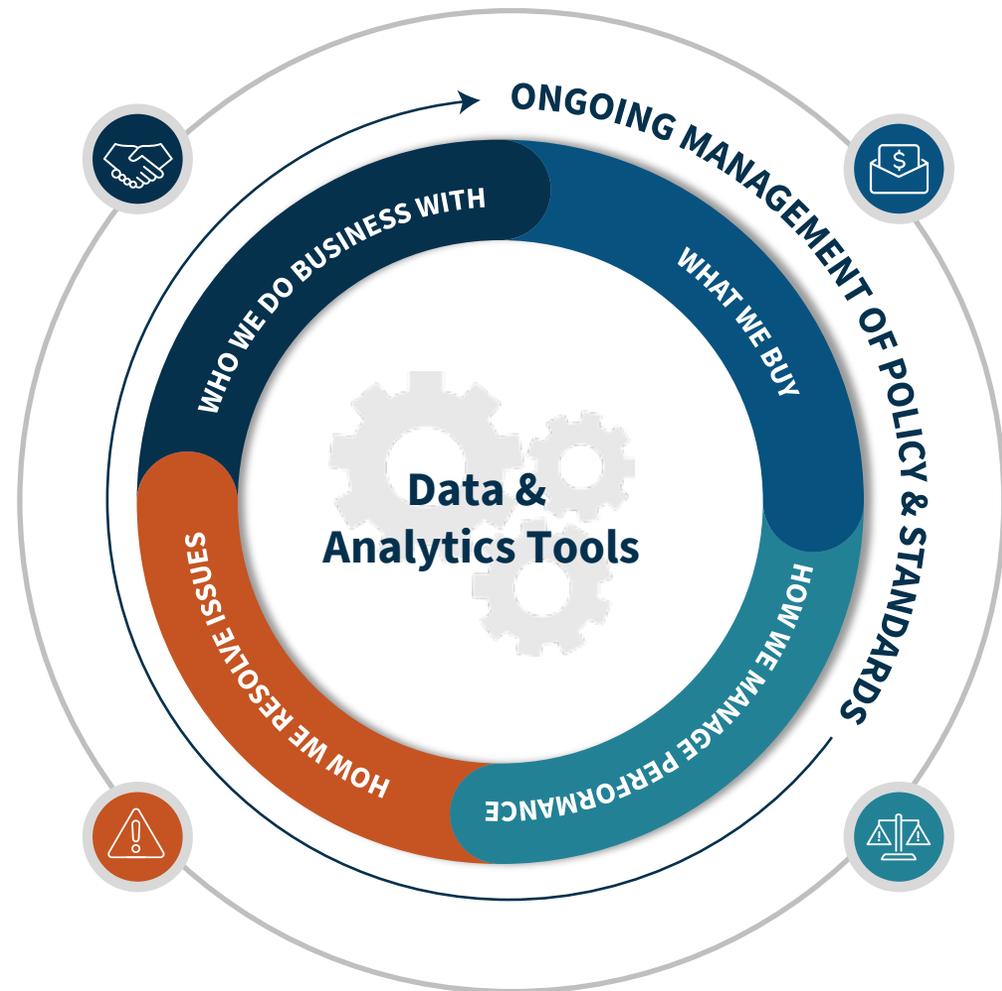
Approximately 42% of the loans in our single-family conventional guaranty book of business, measured by unpaid principal balance, were included in a reference pool for a credit risk transfer transaction as of December 31, 2020.



# Our Credit Risk Management Strategy

Promote sustainable homeownership, minimize losses and maximize recoveries, and continuously improve our risk management capabilities.

- We actively manage our seller/servicers and the loans we buy throughout the loan lifecycle.
- Our strategy is driven by strong policy, supported by robust data and unique analytical tools.
- We are leading the industry's digital transformation to a fully electronic and secure mortgage process.
- Our goal is to provide transparency and more certainty to our customers and partners.



# Dynamic Risk Management

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

<b>Underwriting standards</b>	Strong credit standards have produced a portfolio of higher quality loans that are less likely to default in a downturn.
<b>Loan quality</b>	Moving quality control to the front of the process drives down loan defect rates — better loan quality supports improved loan performance.
<b>Counterparty oversight</b>	Strong counterparty requirements provide greater assurance of compliance and the reliability of credit enhancement. Oversight frameworks provide confidence in our lenders' and servicers' operational capabilities and enable proactive performance management.
<b>Problem loan management</b>	We leverage a comprehensive system to manage loans and real estate owned (REO) properties through the entire default cycle, which enables us to achieve better credit loss outcomes and reduce severities.
<b>Technological advances</b>	Tools are embedded in our lenders' and servicers' processes to improve our ability to assess credit and collateral risks prior to loan acquisition, make it easier to comply with our requirements, drive consistency and quality, rapidly assist delinquent borrowers, and mitigate our credit losses.



# Enabling Rapid COVID-19 Response

Our dynamic strategy allowed us to quickly respond to the impacts of the COVID-19 pandemic through a number of activities.

## Support the Market

Provided prudent underwriting and appraisal flexibilities to support continued operation of the origination market in the face of pandemic impacts on in-person interactions.

## Help Impacted Homeowners

Implemented forbearance relief options and the new COVID-19 Payment Deferral solution, deployed foreclosure and eviction moratoria, and launched marketing and educational campaigns to support homeowners impacted by COVID-19.

## Support Servicers

Updated Servicing Management Default Underwriter™ (SMDU™) to deliver an automated path for payment deferral; provided tools and process flexibilities, training and materials to support servicers in managing high volumes of delinquent loans, and increased oversight of servicer performance.

## Protect Fannie Mae

Implemented changes to Desktop Underwriter® (DU®) and adjusted underwriting policies to respond to a more pessimistic economic outlook and significant uncertainty about the ultimate impacts of the pandemic on the economy, employment, and mortgage market.



# Desktop Underwriter (DU) Model Updates

## DU Timeline

### July 2017: DU 10.1

- Enabled loans with DTI ratios above 45% (up to 50%) to rely on DU's comprehensive risk assessment.
- Removed DU model overlays with set maximum LTV ratio and minimum reserves requirements for those loans.

## Dynamic Credit Management

### March 2018: DU 10.2

- Revised DU's risk assessment to limit risk layering.
- Fewer DU Approve recommendations on loans that have multiple higher-risk characteristics.

### December 2018: DU 10.3

- Enhanced DU's management of multiple risk layers.
- Six months of reserves for cash-out refinances with DTI over 45% to address increase in high DTI acquisitions.

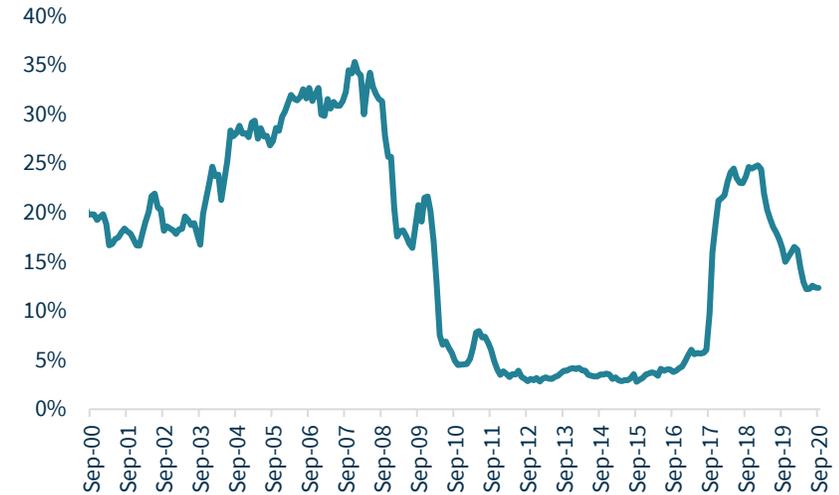
### July 2019

- Certain new loan casefiles submitted to DU will receive an Ineligible recommendation when multiple high-risk factors are present.
- We have updated the DU eligibility assessment to better align the mix of business delivered to Fannie Mae with the composition of business in the overall market.

### April 2020

- Revised DU's risk and eligibility assessments to result in modest reduction of loan casefiles with high-risk factors receiving an Approve/Eligible recommendation.

**DTI<sup>1</sup>**  
**% > 45**



**% > 50\***



1. Debt-to-income ratio: refers to the ratio of a borrower's outstanding debt obligations (including both mortgage debt and certain other long-term and significant short-term debts) to that borrower's reported or calculated monthly income, to the extent the income is used to qualify for the mortgage.

\*Rounded to the nearest integer.



# Improved Risk Position

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

Metric name		Pre-crisis	Crisis peak	Today*
Increased loan quality	Eligibility defect rate for acquisitions	<b>1.72%</b> (Jan 2005 – Dec 2005)	<b>5.875%</b> (Jul 2007 – Jun 2008)	<b>0.73%</b> (April 2019 – March 2020)*
	Technological advances			
	Data points on collateral	<b>2</b>	<b>2</b>	<b>~600</b>
	# of appraisals available in UAD	<b>0</b>	<b>0</b>	<b>51.2 M</b> (Dec 2020)
Improved problem loan management	Seriously Delinquent Loan (SDQ) rate	<b>0.58%</b> (Aug 2003)	<b>5.59%</b> (Feb 2010)	<b>0.66 %**</b> (Dec 2020)
	SDQ count	<b>85,770</b> (Aug 2003)	<b>1,018,984</b> (Feb 2010)	<b>111,170**</b> (Dec 2020)
	SDQ monthly new additions	<b>16,514</b> (12-month avg Sep 2002 – Aug 2003)	<b>90,556</b> (12-month avg Mar 2009 – Feb 2010)	<b>69,447</b> (12-month avg Jan 2020 – Dec 2020)
	REO inventory count	<b>13,749</b> (Dec 2003)	<b>171,283</b> (Oct 2010)	<b>7,973</b> (Dec 2020)
	REO monthly net acquisitions	<b>2,541</b> (Dec 2003)	<b>31,012</b> (Sep 2010)	<b>193</b> (Dec 2020)

\*\*Excludes Refi Plus

\*\*Excludes COVID-19 related forbearance

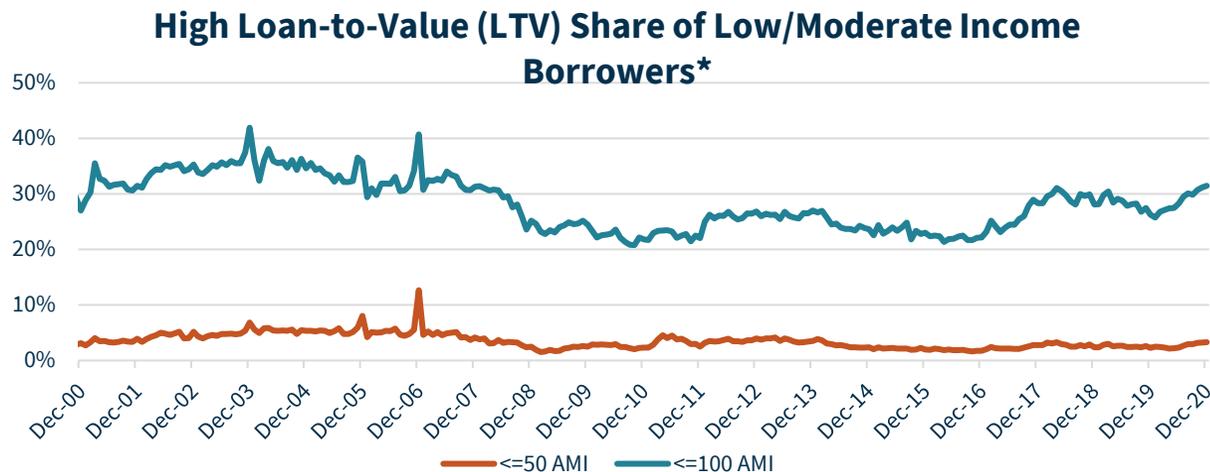


# Responsible and Affordable Home Lending

Fannie Mae has a duty to serve the underserved, including providing responsible access to mortgage credit for **creditworthy** low- and moderate-income borrowers in common sense ways.

## Our overall approach to affordable lending:

- Credit standards must support **sustainable** homeownership.
- **Only** creditworthy borrowers can qualify.
- Improve loan access by making loans **affordable** rather than compromising underwriting standards.



**Low/mod income lending has consistently been a significant share of Fannie Mae's business**

\*Share of Acquisition UPB for loans with original LTV ratios >80% where borrower income is less than or equal to the Area Median Income (AMI).

## HomeReady®

- Borrower's income must be less than or equal to 80% of Area Median Income (AMI)\*

## HomeReady reduces borrower costs:

- Reduced mortgage insurance requirements for LTV ratio >90% results in lower monthly payment.
- Lower loan-level price adjustments (LLPAs) help to reduce the rate and/or fees charged to the borrower.

\*Prior to July 20, 2019, borrower's income must have been less than or equal to 100% of area median income (AMI), or the property must have been located in a low-income census tract.



# Credit Policy and Acquisitions



# Setting Our Selling Policy

Fannie Mae's credit risk management philosophy considers all stages of the loan life cycle and is focused on leveraging data and analytics to support a simple, certain, digital experience for our customers.

## Single-Family Selling Guide Policy Development Life Cycle

### Monitor and assess

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

### Research and analyze

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

### Communicate and deploy policy decisions and updates

- Publish new and updated policy via the ***Selling Guide***
- Deploy policy changes through automated systems

### Developing Selling Policy

### Actively engage

- Lenders
- Internal stakeholders
- External industry stakeholders

We closely monitor the performance and quality of acquisitions and market conditions and, as appropriate, make policy and process changes to ensure the loans we acquire are consistent with our risk appetite and FHFA guidance.



# Communicating Our Policies

Fannie Mae’s communications are designed to be timely and transparent in order to keep lenders and servicers informed of up-to-date policy and requirement changes.

Source	Description
<b>The <i>Selling Guide</i></b>	Informs lenders about our policies and requirements for the origination, underwriting, and delivery of mortgages that Fannie Mae will purchase or securitize.
<b>The <i>Servicing Guide</i></b>	Informs servicers of the policies and requirements for performing servicing obligations.
<b>Announcements and Release Notes</b>	Describe new, supplemental, or modified policies, procedures, and requirements, and amend the <i>Selling Guide</i> or <i>Servicing Guide</i> documents posted on fanniemae.com.
<b>Lender/Servicing Letters and Notices</b>	Communicate new or modified policies and requirements that may be temporary in nature, reminders of existing policies, or advanced notice of policy changes with future effective dates to be included in future <i>Selling Guide</i> or <i>Servicing Guide</i> updates. Also provide information that lenders/servicers need but that does not require an update to <i>Selling Guide</i> or <i>Servicing Guide</i> text, such as an update to an exhibit on Fannie Mae’s website.
<b>Exhibits and Forms Incorporated by Reference</b>	Information about specific forms the servicer must use to fulfill the policies and requirements contained in the <i>Servicing Guide</i> .
<b>Mortgage Selling &amp; Servicing Contract (MSSC)</b>	Establishes the lender’s contractual relationship with Fannie Mae and sets forth the terms and conditions for the lender to sell mortgages to Fannie Mae and incorporates the <i>Selling Guide</i> and <i>Servicing Guide</i> .
<b>Seller Negotiated Contracts</b>	Establishes negotiated guideline exceptions that are acceptable due to alignment with our credit risk appetite and the lender’s overall control environment.

Fannie Mae is focused on bringing transparency to its seller/servicer customers through policy communications, key to the success of our rep & warrant framework. We provide targeted announcements and commentaries to investors to support transparency into our programs.

*Selling Guide, Servicing Guide, Announcements, Lender Letters, Notices* are available on [fanniemae.com](https://www.fanniemae.com) and AllRegs® and constitute part of the contract between Fannie Mae and the lenders. News is pushed to external customers by subscribing to Fannie Mae’s email subscription services available on [fanniemae.com](https://www.fanniemae.com).



# Communicating Our Policies – COVID-19 Spotlight

Fannie Mae published over 70 Lender Letters<sup>1</sup> to provide critical information to our seller/servicer partners in response to COVID-19, including but not limited to:



## Origination Updates

- Verbal verification of employment & other employment-related clarifications, including furloughed borrowers
- Continuity of income guidance
- Notes, electronic records, and signatures
- Lender quality control requirements



## Appraisal Updates

- Flexibilities to appraisal inspection and report requirements
- Permitted desktop and exterior appraisals for purchase transactions
- Permitted exterior appraisals for Fannie Mae-owned rate and term refinances



## Forbearance Updates

- For a period of time, enabled delivery to Fannie Mae of loans in active forbearance as a result of financial hardship related to the COVID-19 pandemic



## Servicing Updates

- Flexibilities to borrowers who may have difficulty making payments due to COVID-19
- Forbearance plan eligibility
- Evaluating borrowers for workout options after forbearance
- Credit bureau reporting requirements
- Suspension of foreclosure sales



## COVID-19 Payment Deferral

- Introduced a new workout option to help borrowers impacted by COVID-19 to return to current status after up to 18 months of missed payments

<sup>1</sup> As of December 31, 2020



# Communicating Our Policies

Fannie Mae

Business Partners Homeowners & Renters About Us Research & Insights Newsroom Careers Contact Us Login

SINGLE FAMILY Originating & Underwriting Pricing & Execution Delivering Servicing Learning Center Apps & Technology News & Events

Single-Family's COVID-19 response

Home / Originating & Underwriting

## Originating & Underwriting

**Innovation starts here**

[Policy information for originators on the impact of COVID-19](#)

Solutions that help meet tomorrow's mortgage needs today.

With industry leading mortgage technologies, we enable lenders to successfully originate and underwrite loans with speed and efficiency. Our products are designed to:

- Help grow your business and support your borrower's needs
- Deliver speedy and efficient underwriting recommendations intuitively aligned to your process and loan origination systems
- Provide comprehensive credit risk assessment with fewer touchpoints and corresponding financial and operational impacts

Lenders also can receive freedom from certain representations and warranties and help reduce manual processes and cycle times through [Day 1 Certainty](#)<sup>®</sup>.

If you are not yet a Fannie Mae Seller, click here to [learn more](#) about the process to become one.

[Selling Guide](#)

[Guide Communications & Forms](#)

[Mortgage Products](#)

[Technology Solutions](#)

[Help & Training](#)

Ask Poli<sup>®</sup> (an Artificial Intelligence powered search tool) provides answers to policy questions straight from the source.

# Proprietary Tools Support Quality Underwriting

## Desktop Underwriter® (DU®)

Automates Fannie Mae's underwriting guidelines and credit policies by performing detailed analysis of credit and mortgage risk factors.

- Available to all Fannie Mae Sellers and certain other originators.
- Allows us to make a risk recommendation for the loans.\*
- Continually innovate ways to enhance loan quality.
- DU validation service uses designated third-party data vendors to independently validate borrower income, assets, and employment data.

\*DU risk recommendations inform Sellers whether a loan — if closed — would be eligible for sale to Fannie Mae. Credit decisions are made by Fannie Mae Sellers only.

## Collateral Underwriter® (CU®)

Proprietary appraisal analytics tool for measuring appraisal risk using electronic appraisal records to improve loan quality.

- Incorporated into DU and available to all Fannie Mae Sellers.
- Drives quality improvements across the industry.
- Proprietary appraisal risk assessment tool, unique to the industry.
- Enables us to provide value representation and warranty relief on eligible transactions.
- The underlying collateral data enables us to provide Appraisal Waivers on eligible transactions.

Our tools are some of the most widely used in the industry supporting comprehensive credit risk management.

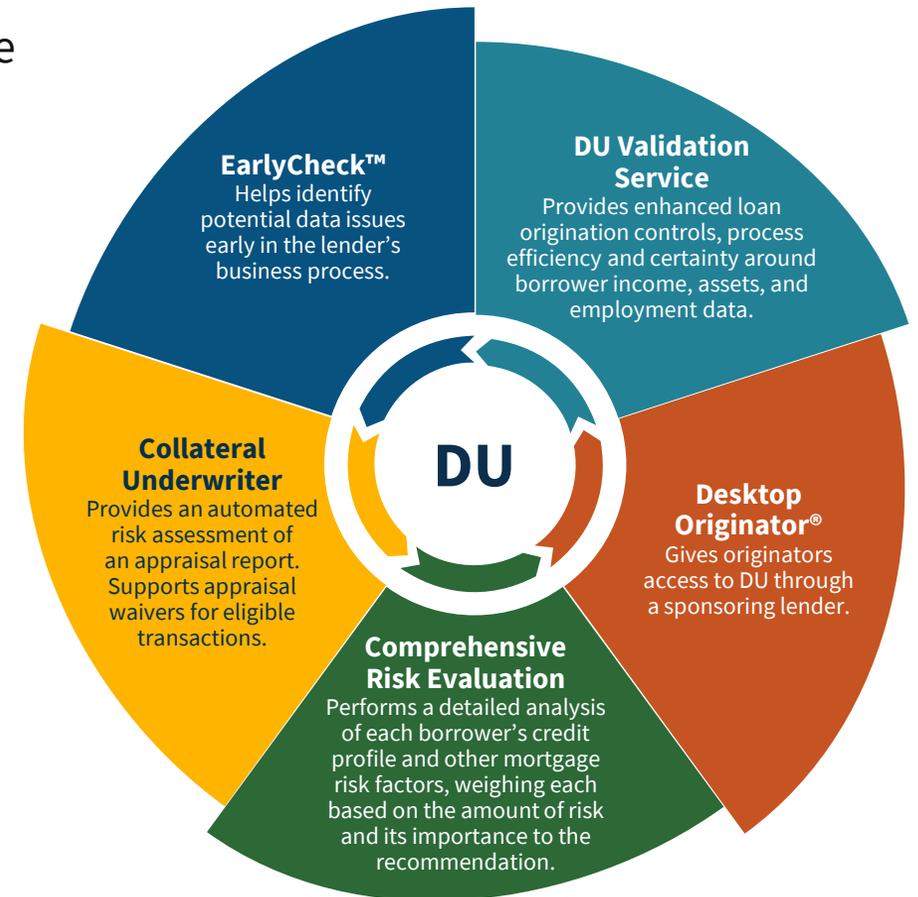


# DU: The Industry's Most Widely Used Automated Underwriting System

Used by 1,900 lenders/agents, with over 90% of loans delivered to Fannie Mae evaluated through DU.

- Automates underwriting eligibility guidelines and assesses risk of the loan through a comprehensive examination of primary and contributory risk factors.
- Improves efficiency of loan origination process and enables efficient deployment of new policies, standards, and products to lenders.
- Provides lender with underwriting and eligibility recommendations and a list of conditions/verifications that must be fulfilled in order to sell the loan to Fannie Mae.
- DU validation service enables source validation of income, assets, and employment through third-party data vendors

DU connects with proprietary tools for detailed analysis of credit and mortgage risk factors.



# DU's Comprehensive Risk Evaluation

Performs a detailed analysis of each borrower's credit profile and other mortgage risk factors, weighing each based on the amount of risk and its importance to the recommendation.

## Credit profile risk factors

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

## Additional risk factors

- Borrower's equity and loan-to-value ratio
- Liquid reserves
- Loan purpose
- Loan term
- Loan amortization type
- Occupancy type
- Debt-to-income ratio
- Housing expense ratio
- Property type
- Co-borrowers
- Self-employment

DU does not rely on credit scores. Rather, it performs a detailed analysis of credit and mortgage risk factors.



# Innovation Through DU

Asset, income, and employment validation are important components of the underwriting process, critical to assessing a borrower's ability to repay a mortgage loan.

## Traditional validation

- Requires originator to collect and verify income and asset documentation from borrower to satisfy underwriting requirements.
- Manual and paper-intensive process.
- Seller provides a representation and warranty that the information is accurate.

## DU validation service

- Validates income, employment, and assets through source data rather than relying on paper documentation.
- Reduces loan processing time by relying on data provided by third-party vendors who are connected to employer, tax, and bank data.
- If validated and other terms of obtaining relief are met, seller receives representation and warranty relief on a component level (e.g., per borrower, income type, or employer basis).<sup>2</sup>

## Single-source validation (in pilot)

- Goal of pilot is to expand capabilities to validate borrower income and employment through source data.
- Over 80% of borrowers are paid via direct deposit on a recurring basis.<sup>1</sup>
- Through DU, we can leverage paycheck direct deposit data to validate income for certain types of borrowers (wage earners, retirement/social security income).
- If validated, seller receives representation and warranty relief on a per-borrower or employer basis.

<sup>1</sup> [nacha.org/news/new-nacha-survey-shows-adoption-and-awareness-direct-deposit-ach-continues-build](https://nacha.org/news/new-nacha-survey-shows-adoption-and-awareness-direct-deposit-ach-continues-build).

<sup>2</sup> Fannie Mae has temporarily suspended representation and warranty relief for employment validation through the DU validation service due to the pandemic.

DU enables Fannie Mae to test innovative ways to improve the mortgage process.



# Day 1 Certainty

Through Day 1 Certainty®, Fannie Mae is leveraging borrower and property data, applying advanced analytics, and bringing key quality control processes up front, to improve the loan origination process.

- 1 Direct source validation of borrower income, employment, and assets through DU reduces **paperwork, loan process time, and exposure to borrower fraud**. If requirements are met, Fannie Mae provides relief from enforcement of representations & warranties on validated components.
- 2 By combining DU with the industry-leading analytics provided by CU to leverage our database of **more than 50 million appraisals**, Fannie Mae can offer appraisal waivers for certain eligible transactions. We provide relief from enforcement of representations & warranties on the value of the appraisal.
- 3 Potential valuation issues are identified during the underwriting process, **before loans are delivered**. This allows originators to correct potential valuation errors upfront and allows us to monitor behavior across appraisers. CU has been effective in identifying loans with appraisal defects. Fannie Mae provides relief from enforcement of representations & warranties on the value of the appraisal when the CU risk score is 2.5 or lower.

Our digital innovation allows us to quickly deploy new policies to address changing market and economic conditions during the COVID pandemic. We're improving quality and reducing risk by leveraging automation to help lenders avoid common loan manufacturing defects.



# Collateral Risk Management



# Collateral Risk Management

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



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



# Collateral Underwriter

CU is Fannie Mae's flagship product of collateral risk assessment innovation, driving greater digitization in the mortgage industry

✓ Appraisal Analysis

✓ Data Integrity

✓ Comparable Selection

✓ Local Market Analytics

Advanced data-driven analytics support collateral appraisal quality – a key risk attribute.



# Appraisal Data Delivery and Strategy

Uniform data standards and collection together with Fannie Mae's advanced analytics are transforming the industry by identifying higher risk appraisals earlier in the lending process.

## **Robust appraisal analytics improve assessment of collateral risk:**

- Appraisal data quality and eligibility issues identified by automated data checks at time of submission.
- Additional messaging generated by CU gives lenders real-time feedback on critical valuation risks.
- CU provides context behind messages along with additional validation data and tools to assist in managing risks.
- Fannie Mae leverages CU analytics in our post-purchase quality control (QC) process to uncover valuation defects and enhance our discretionary QC sampling.
- Appraiser Quality Monitoring framework detects and manages collateral risk issues at the appraiser level.

Advanced data helps to inform policy enhancement, leading to more effective appraisal policies and enabling modernization of appraisal processes.



# Innovation with Collateral Underwriter

Fannie Mae leverages DU and CU in an integrated fashion to offer appraisal waivers for certain lower-risk eligible loans.



- The subject property generally has a prior appraisal that was analyzed by CU.
  - CU will evaluate the prior appraisal for overvaluation or property eligibility issues. If any of these issues exist, an appraisal waiver will not be granted.
  - CU will use the prior appraised value along with Fannie Mae’s Home Price Index to assess the reasonableness of the estimated property value provided by the lender in DU.
  - If estimated property value is reasonably supported, the loan may be eligible for a waiver, subject to additional eligibility requirements.
- The majority of transactions will continue to require an appraisal.
- Advanced data collection techniques along with CU drive future collateral innovation.

Part of Fannie Mae’s commitment to simplifying the complexity of mortgage origination by creating efficiencies and delivering innovations, leveraging data.

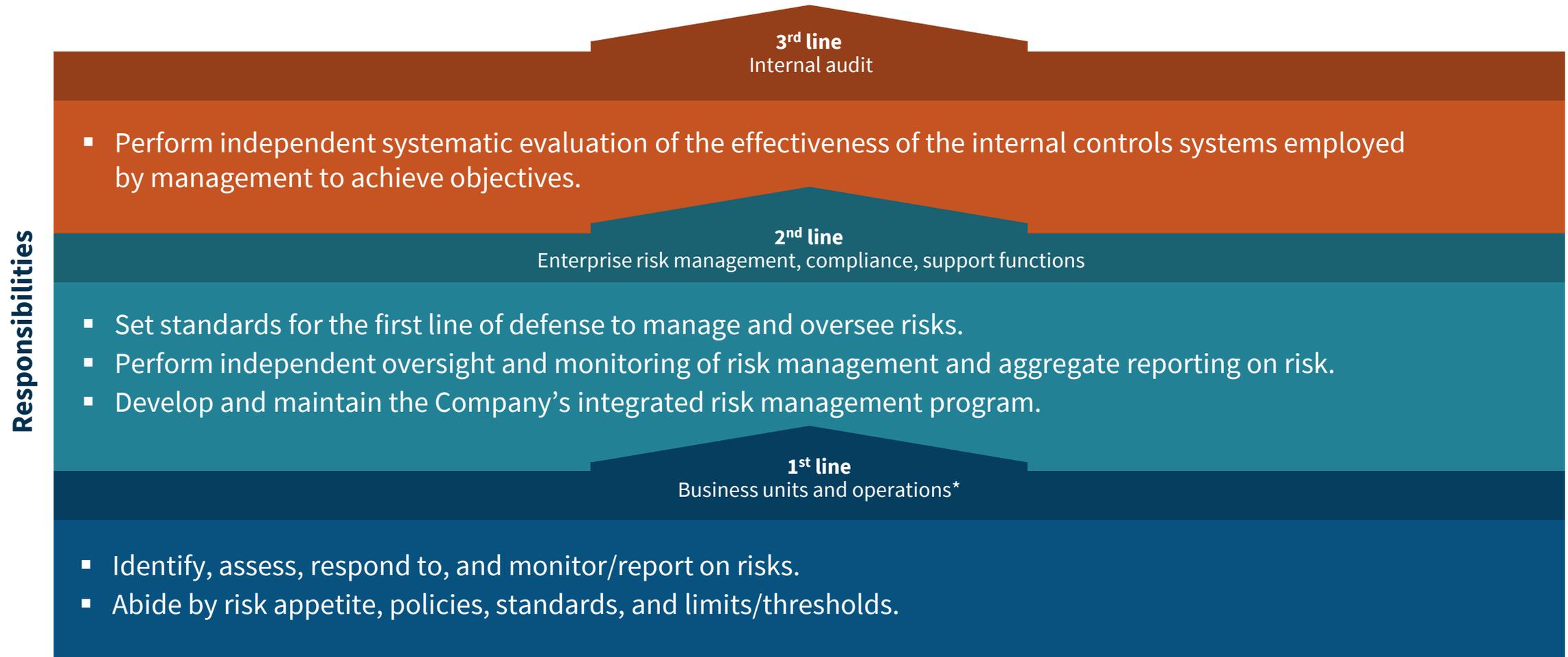


# Managing Seller/Servicer and Loan Performance



# Our Risk Governance and Culture

Our credit risk management strategy is bolstered by a “three lines of defense” approach to managing risk.



\*The first line of defense is comprised of any group that generates risk from their business activities.



# Counterparty Risk Management

We rate our seller/servicer counterparties on a quantitative and qualitative basis. This rating helps define our risk tolerance and maximum exposure for each counterparty. Our framework is composed of:

## Counterparty ratings

Internal ratings make assessments that cover the following areas:

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

## Counterparty limits

Internal exposure limits tracked on a daily basis for all counterparties and are based on:

- Internal ratings
- Financial capacity

## Risk mitigation strategies for troubled sellers/servicers include:

- Guaranty of obligations by higher-rated entities;
- Reduction or elimination of exposures and/or certain business activities;
- Collateral to secure obligations; and/or
- Suspension/termination of seller/servicer approval(s).

Our enterprise counterparty framework supports management of our seller/servicer counterparties.



# Becoming a Fannie Mae Seller/Servicer

A key strength of our credit loss mitigation strategy is our comprehensive management of sellers and servicers to assess readiness to do business with us and quarterly review of financials to ensure compliance with our guidelines.

## Fannie Mae's resources provide transparency into the onboarding process

- Typically a three-to-four-month process.
- Seller/servicer requirements generally include:<sup>1</sup>



At least 24 months in the mortgage business.



Minimum net worth of at least \$2.5M plus 0.25% of UPB of servicing portfolio and minimum capital and liquidity requirements.



Adequate facilities and experienced staff.



Quality control processes and procedures for loan products, servicing, and vendor management.

- Potential servicers must also have written procedures in escrow management, investor reporting, custodial funds, default management, QC, and audit.

Sellers and servicers must meet financial, organizational, staffing, process, and experience requirements.

<sup>1</sup> See the Path to Approval Toolkit, our Selling Guide and our Servicing Guide, for more information at [fanniemae.com](https://www.fanniemae.com).



# Active Review of Seller/Servicer Before Approval

An offsite review that includes:

## Pre-contract seller assessment

- Organizational structure and governance.
- Retail/wholesale/correspondent.
- Underwriting.
- Appraisal review and approval.
- Quality control.
- Site/system walkthroughs, which are temporarily virtual and offsite due to COVID-19.

## Pre-contract servicer assessment

- Organizational structure and governance.
- General servicing.
- Solution delivery.<sup>1</sup>
- Timeline management.
- Subservicer selection protocols and oversight criteria.

Pre-contract assessments help us to determine the quality of seller/servicer processes and effectiveness of controls.

<sup>1</sup> Includes loss mitigation and liquidation.



# Our Representations & Warranties Framework

Fannie Mae relies on a delegated model — sellers providing representations & warranties that the loans they deliver to us meet our guidelines.

## Framework

Sellers and servicers are jointly and severally responsible for breaches of selling reps & warranties.

## Life of loan representations & warranties

Lenders may receive relief from certain underwriting reps for an individual loan based on that loan's payment performance or completion of successful loan QC review.

No relief for breaches of certain “life of loan” reps & warranties, including matters related to fraud, pattern of misrepresentation, clear title, legal compliance, and our Charter.

## Enhanced quality control

Leveraging automation, applying advanced analytics, and bringing key quality control processes upfront, helping to avoid common manufacturing defects.



# Customer Management Solutions Teams

Dedicated customer teams provide critical support in hands-on risk management.

## Sellers

- Assess and monitor lender's credit culture through ongoing interaction, and senior-level engagement.
- Monitor acquisition profile, performance, and lender's overall book of business to ensure compliance with Fannie Mae's requirements and corporate risk expectations and tolerance.
- Lead remediation efforts to address performance/quality issues.
- Serve as lender's contact for risk policy and interpretation.
- Interact with lenders regarding loan quality and loan delivery, including anti-fraud measures.
- Provide lenders with training, expertise, and assistance on risk-related topics including credit quality issues.

## Servicers

- Measure, monitor, and manage servicer performance commensurate with total delinquency (TDQ: 30+ days) and serious delinquency (SDQ: 90+ days) volume.
  - Provide regular performance goals to certain servicers.
  - Discuss performance against goals and track action items to improve.
  - Follow up on remediation of findings from servicer compliance reviews.
- Work with single-family risk management to provide best practices and consultative support in collections, modifications, short sales/mortgage release, bankruptcy monitoring, foreclosure processing, and reporting.

Customer Management Solutions Teams (CMST) are the central point of contact to address lender/servicer questions and provide feedback.



# Management and Monitoring of Our Sellers/Serviceers

## 1 Mortgage Origination Risk Assessment

- In-depth reviews of a lender's origination processes.
- Assess the quality of a lender's manufacturing process and the effectiveness of its controls.

## 2 Loan-level data validation center

- Review and respond to the potential data changes that are identified from Fannie Mae's models.
- Analyze data changes that do not rise to the level of a repurchase and determine next steps.

## 3 Risk monitoring, evaluations & escalations

- Develop and manage performance metrics and escalation triggers/thresholds for selling & servicing through dashboards like LEOPARD.
- Monitor and report on selling and servicing variances and other risk matters.

## 4 Targeted seller/serviceer oversight

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

## 5 Lender loan quality monitoring and control

- Quality control system allows real-time engagement with lenders on manufacturing quality to drive faster improvement in lender process.
- Testing to determine the adequacy and effectiveness of lender's quality control processes and procedures.

Rigorous monitoring conducted through an integrated framework to ensure lenders have effective controls in place to meet eligibility, operational, QC, and data quality guidelines.



# LEOPARD Overview

Our proprietary lender monitoring dashboard, LEOPARD, measures and rank orders our 1,200+ sellers, providing a holistic view across operations, risk, profitability, and execution:

- Empowering the CMSTs to quickly identify lenders warranting further review with more certainty, clarity, and speed.
- Simplifying metrics to focus on critical risk while setting thresholds that are aligned with Board Risk Limits and Triggers.
- Allowing the Single-Family Risk team to quickly identify meaningful and persistent anomalous trends through established risk tiers.

LEOPARD, an innovative dashboard, was developed to provide enhanced lender monitoring to support Fannie Mae's risk management processes.

## Benefits:

- A nimble and user-friendly interface.
- Metrics covering important risk areas such as counterparty, loan quality, and collateral.
- Lenders categorized by leveraging visual management and aligning with other customer-facing tools.



# Post-Purchase Loan Review Processes

## New acquisitions

### Random selections

- Determine overall loan defect rate and trends.
- Monthly random loan file selections of statistically valid sample of Fannie Mae's acquisitions.
- Lender-stratified sample and comparisons help drive improved quality control in lenders' processes.
- Random selections to ensure every lender with at least 10 loans delivered to us in a year has loan files selected for review.

**Drive policy and lender-level action to reduce defect rate.**

### Discretionary/targeted selections

- Discretionary loan selection driven by automated data and analysis tools.
- Additional discretionary selections target new lenders and emerging risks.

**Enforce remedies before loan defaults.**

## Delinquent loans

### Delinquent/liquidated loans

- Loans that become early payment defaults are selected based on business rules.
- Seriously delinquent & liquidated loans undergo predictive model-driven analysis, which assigns a repurchase risk score. Loans above the prescribed risk score are selected for hands-on review.

**Enforce representations and warranties and mitigate losses.**

Reviews of performing loans measure the quality of new acquisitions and target potential problem loans. Reviews of non-performing loans aim to mitigate potential credit losses.



# Loan Quality Review Process

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

## Post-purchase file review process

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

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

## Loan defect remedies

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

Defect type	Defect description	Remedies
Finding	Defect does not necessitate a change in the price of the loan or result in the loan being ineligible for delivery.	Lender submits data correction. <ul style="list-style-type: none"><li>• Could trigger CRT Reference Pool removal, depending on nature of data change.</li></ul>
Price-adjusted loan	Loan was otherwise eligible for delivery had the correct loan-level price adjustment (LLPA) been paid to Fannie Mae by the lender.	Lender submits data correction and pays the applicable LLPA. <ul style="list-style-type: none"><li>• Could trigger CRT Reference Pool removal, depending on nature of data change.</li></ul>
Significant defect	Defect that either necessitates a change to the price on which the loan was acquired or results in the loan being ineligible for purchase.	Loan repurchase, or repurchase alternative, which may include payment of a fee and/or an agreement by the lender to provide recourse on the loan. <ul style="list-style-type: none"><li>• Repurchases and repurchase alternatives are treated as CRT Reference Pool removals.</li></ul>

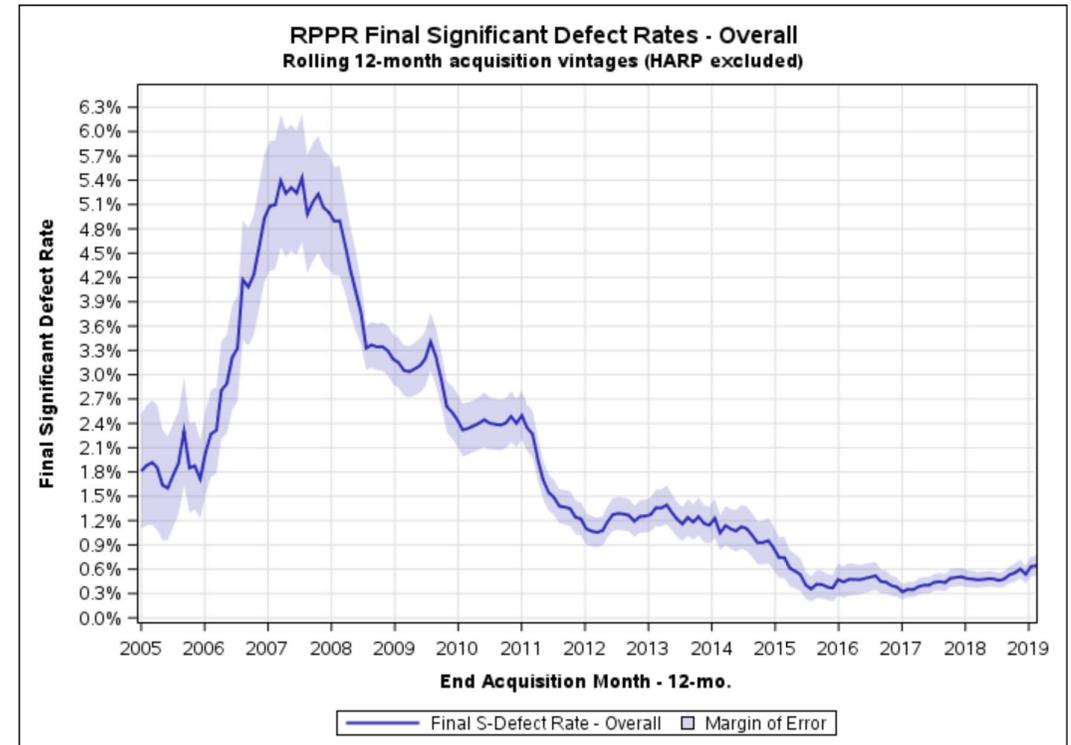


# Post-Purchase Loan Review Findings

Fannie Mae's digital vision over time should reduce manual errors that result in loan defects:

- Income — incorrect calculation (self-employed or rental income).
- Property — inappropriate/dissimilar comparable sales.
- Undisclosed liabilities.

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



Review data as of December 31, 2020



# Loan Quality Connect

Connecting Fannie Mae and our lenders in an ongoing partnership to drive loan quality.

Loan Quality Connect™ is an interactive loan quality management system that is the hub for collaboration.

- Transforms how we work with lenders — simplified technology replacing the Quality Assurance System and File Transfer Portal.
- More importantly, it provides the tools to support seamless collaboration and drive increased certainty.



## Simplified technology

- One-stop shop for loan file submissions and status updates.
- Save time and money with simplified doc management.
- No integration required.



## Seamless collaboration

- Instant communication tools for process efficiencies.
- No email or spreadsheets — all documents and communications stay within the system.



## Increased certainty

- Instant status updates.
- Real-time loan quality feedback.
- Self-serve reporting and data visualization.



## Fannie Mae QC specialists

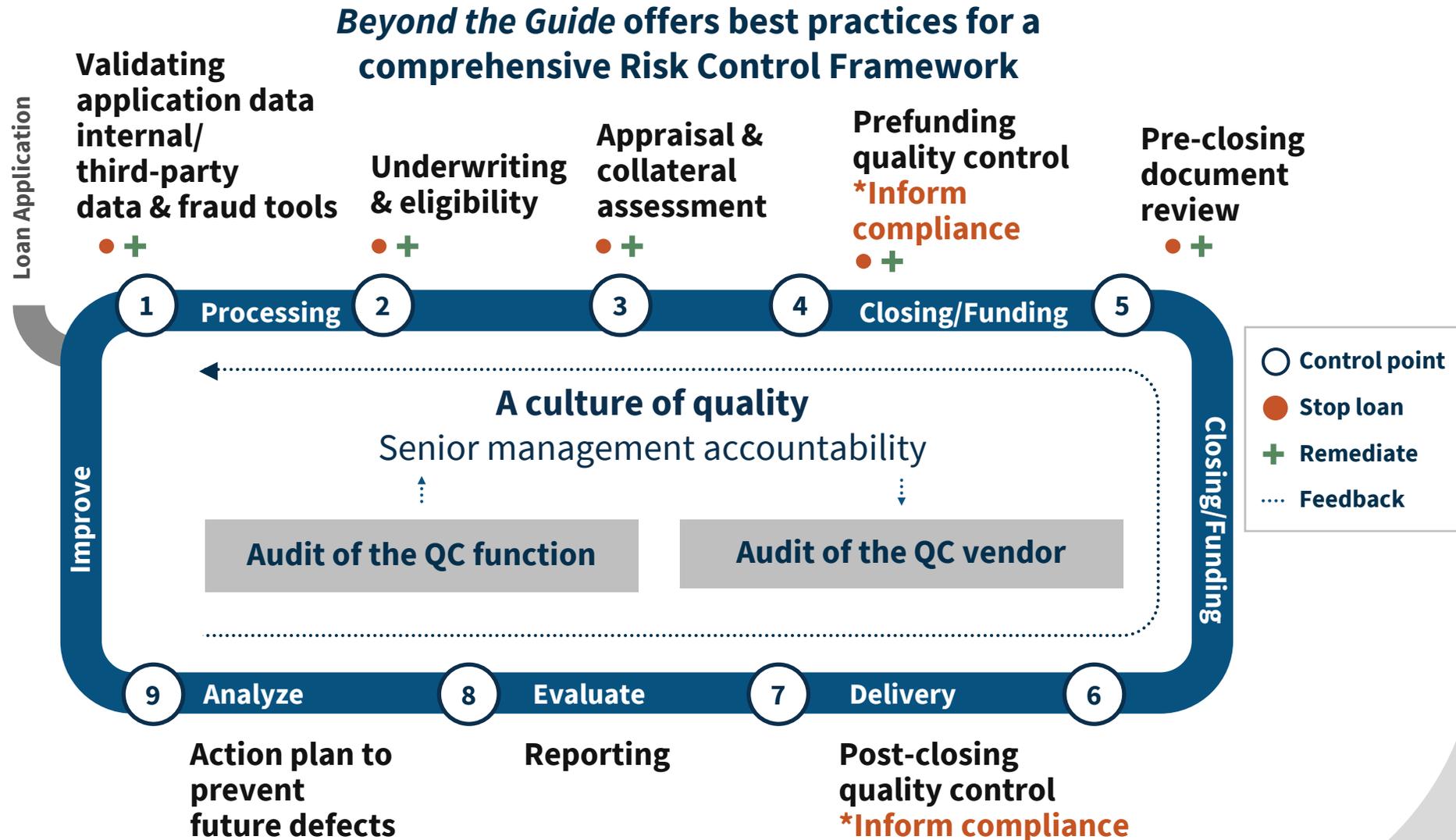
- Dedicated Fannie Mae QC specialists interface directly with our lenders.
- Support lender with action planning to address top findings and defects.
- Provide analysis and recommendations related to loan manufacturing quality.
- When loans with significant defects are found, Loan Quality Control (LQC) and QC specialists work with lenders to assess if repurchase or repurchase alternatives are appropriate.

## Training designed to foster loan quality and reduce defects

- Training resource catalog offers comprehensive collection of resources available to lenders.
- Quality control self-assessment tool enables quality control managers to analyze the state of their programs.
- Annual risk management and QC boot camp provides intensive live training on underwriting and quality control requirements.
- *Beyond the Guide* offers ideas for enhancing quality control efforts.

# Seller Training Provides Industry Value

Effective, fully integrated quality control program provides value to the lenders' businesses and the overall industry.



# Evaluating Compliance with Our Guidelines

The Mortgage Origination Risk Assessment (MORA) assesses lenders' operational risks, and the Servicing Total Achievement and Rewards™ (STAR™) operational review assesses servicers' operational risks.

- A key component of each review is process evaluation — a review of policies, procedures, management reports, and file-level testing. Validates adherence to Fannie Mae requirements and assesses operational capabilities.
- All reviews produce a final assessment — findings, applicable corrective actions, and any recommendations based on tests, interviews, and ratings.
- If remediation is needed, lenders and servicers have 30 days from date of report delivery to submit a proposed Action Plan to the Single-Family Remediation team. This team tracks findings, confirms completion of corrective actions, and/or retests to evidence effectiveness of the correction.



# Fannie Mae's STAR Program

## The program seeks to:

- Align servicer performance with Fannie Mae's expectations to reduce our credit losses.
- Provide a consistent methodology for measuring servicer performance on the STAR Scorecard.
- Understand and communicate leading practices across the servicing industry using operational assessments.
- Identify and recognize our highest performing servicers.

The STAR Performance Scorecard White Paper is available at <https://singlefamily.fanniemae.com/job-aid/star-white-paper/topic/welcomenew.htm>

Fannie Mae's STAR program is one of the primary ways that we monitor servicers. The framework gauges relative performance across servicers and provides benchmarks to drive better performance.



# STAR Performance Scorecard

Servicers are evaluated across distinct business processes that measure performance in terms of a servicer's ability to prevent credit losses for Fannie Mae by leveraging scorecard metrics and operational assessments.

## General servicing

Measured on managing early term roll rates, call center management, and investor reporting and custodial accounting.

Measured on their general servicing functions that include loan payment processing, early-stage delinquency including offering forbearance, escrow account management, and ensuring that loan boarding practices are managed consistently.

## Solution delivery

Measured on their ability to resolve delinquent loans and effectiveness in providing the appropriate loss mitigation or liquidation product.

Measured on their standard practices for borrower outreach, loss mitigation, and liquidation practices in order to meet Fannie Mae requirements.

## Timeline management

Measured on their ability to resolve or liquidate loans beyond the allowable foreclosure time frames, timely reporting of new REO inventory, and ensuring property is marketable.

Measured on their foreclosure proceedings conducted appropriately by participating in foreclosure initiation, timeline management and reporting, and process management, including mortgage default law firm management.

Our servicers' success is essential in achieving Fannie Mae's goal of preserving home ownership and reducing taxpayers' and investors' exposure to credit losses.





# Administrative Fees for Solution Delivery

Fees are paid to compensate servicers for the administrative costs of delivering a workout solution.

## Administrative fees for solution delivery:

- A \$500 administrative fee for a Repayment Plan workout option for eligible loans that are 60 days or more delinquent.
- A \$500 administrative fee for a completed Payment Deferral, COVID-19 Payment Deferral, and Disaster Payment Deferral workout options for eligible mortgages.
- For eligible mortgages, a \$1,000 administrative fee for a Fannie Mae Flex Modification.
- Depending on the number of days delinquent, administrative fees range from \$750 to \$2,500 for both short sale and mortgage release closings.
- For home retention workout options, the administrative fees are cumulatively capped at a total of \$1,000 per mortgage loan without regard to whether the initial retention workout option and any subsequent retention workout option were as a result of the same hardship.
- For more details, view [Servicing Guide F-2-02: Incentive Fees for Workout Options](#).



# Remediation and Escalation

STAR program prescribes corrective actions as needed and escalates to leadership if remediation is not completed as agreed.

## Findings and remediation

- Final reports are issued with prescribed corrective actions and expected resolution due dates for each finding tracked in an action plan.
- Dedicated analysts are assigned to assist the servicer through its remediation efforts to ensure compliance as each finding is cleared.
- If remediation is not completed by the agreed-upon due date or if a servicer is unable to clear a finding, the issue is escalated to a higher level of the company for further analysis and determination of next steps.

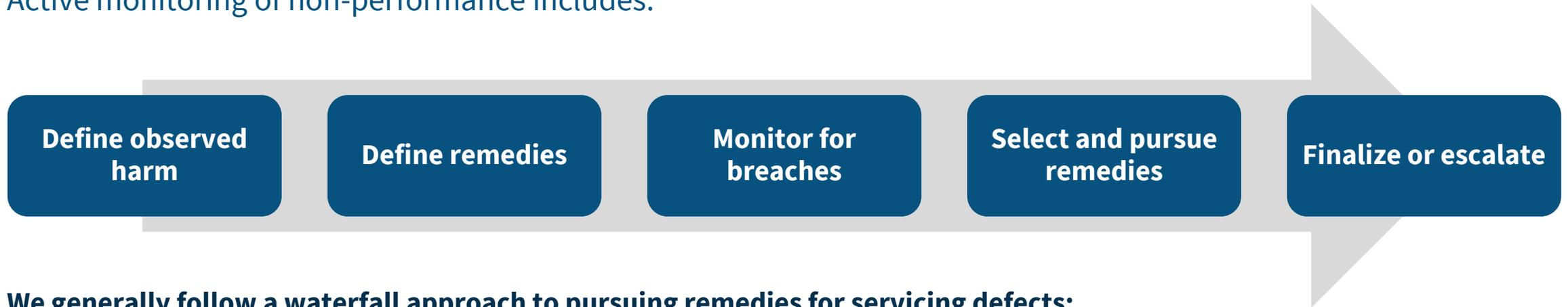
## Escalation

- Monthly reports are reviewed to maintain awareness of all open findings and the current status.
- Quarterly status updates and recommended actions are provided for servicers with overall ratings of Needs Significant Improvement or Unsatisfactory and if remediation efforts are stalled or unacceptable to resolve the finding.
- Guidance is issued by leadership for required action.



# Remedies for Non-Performance

Active monitoring of non-performance includes:



**We generally follow a waterfall approach to pursuing remedies for servicing defects:**

- Opportunity to Cure — Servicers typically are given an opportunity to correct a servicing defect.
- Repurchase Alternative — If the servicer is unable to correct the servicing defect, Fannie Mae’s primary remedy generally is a repurchase alternative such as an indemnification for any loss.
- Repurchase — A remedy whereby the servicer repurchases either the mortgage loan or the property that was securing the mortgage loan.

Fannie Mae also assesses compensatory fees in certain circumstances to compensate Fannie Mae for losses caused by poor performance by the servicer.

Servicing remedies help us recover losses and emphasize compliance with our *Servicing Guide*.



# Servicing Policies



# Borrower Outreach

Quality Right Party Contact (QRPC), a uniform standard for communicating with borrower, co-borrower, or trusted advisor, supports resolution of mortgage loan delinquency. The servicer must make every attempt to achieve this uniform standard.

**KNOWYOUROPTIONS**

*By Fannie Mae*

## Quality Right Party Contact aims to:

- Determine reason for delinquency and whether it is temporary or permanent.
- Assess whether borrower has ability to repay mortgage loan debt.
- Educate borrower on available workout options, as appropriate.
- Obtain commitment from borrower to resolve the delinquency.

Fannie Mae establishes, and monitors servicers' progress against, transparent outreach timelines in order to assist borrowers with foreclosure prevention options quickly and effectively.

## Helps servicers to help their borrowers. Benefits include:



### Fannie Mae

- Reduction in credit losses.
- Reduction in foreclosures and SDQ.
- Suite of solutions available to homeowners earlier in delinquency cycle results in better loan performance.



### Servicers

- Set industry standard of customer service excellence.
- Improved response rates and take-up rates.
- Improved STAR performance.
- Increased incentives for earlier loss mitigation resolution.



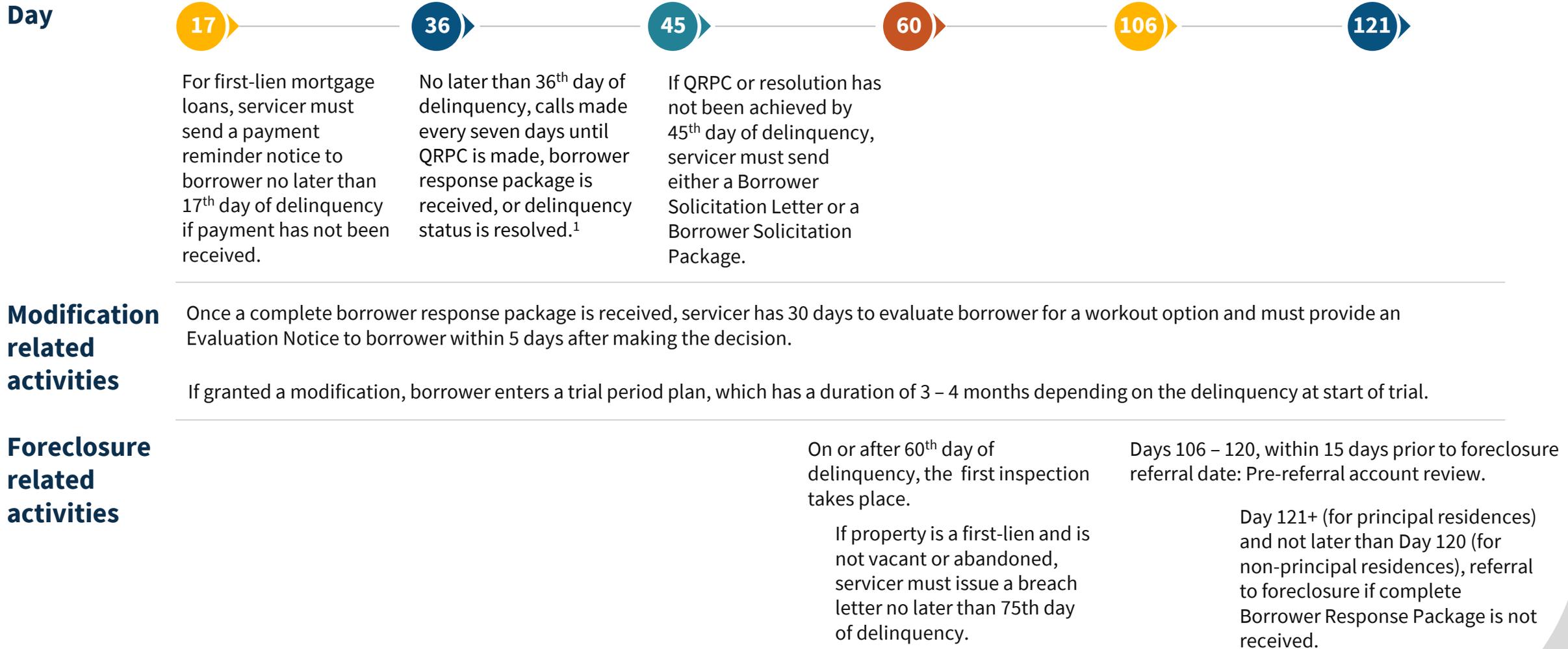
### Homeowners

- Options to avoid foreclosure discussed early, increasing likelihood of maintaining homeownership.
- Early engagement builds relationships and homeowner advocacy.
- Increased satisfaction with loss mitigation experience.



# Borrower Outreach Timelines

Prescriptive borrower outreach sets standards for timely resolution of loss mitigation activities.



## Modification related activities

Once a complete borrower response package is received, servicer has 30 days to evaluate borrower for a workout option and must provide an Evaluation Notice to borrower within 5 days after making the decision.

If granted a modification, borrower enters a trial period plan, which has a duration of 3 – 4 months depending on the delinquency at start of trial.

## Foreclosure related activities

<sup>1</sup> The servicer is authorized to continue contact attempts beyond the 210<sup>th</sup> day of the delinquency until Quality Right Party Contact is achieved, borrower response package is received, or delinquency status is resolved.



# Comprehensive Disaster and Hardship Response

Through policies and guidance in our *Selling* and *Servicing Guides*, as well as recently-introduced solutions, Fannie Mae provides a comprehensive disaster and hardship response.

Homeowner support	Customer support	Loss mitigation solutions	Property preservation	Neighborhood stabilization
<ul style="list-style-type: none"><li>▪ Suspend late charges.</li><li>▪ Fannie Mae’s Disaster Response Network™, a comprehensive case-management service for disaster-affected homeowners whose mortgage loans are owned by Fannie Mae.</li><li>▪ Fannie Mae’s Know Your Options provides help for homeowners and renters impacted by hardship, including “Here to Help” in response to COVID-19.</li></ul>	<ul style="list-style-type: none"><li>▪ In some cases, reimburse seller/servicers for costs of inspecting impacted properties.</li><li>▪ In some cases, provide updated underwriting and appraisal flexibilities based on the disaster or hardship scenario.</li><li>▪ Update representations and warranties relief framework to address loans in disaster forbearance.</li></ul>	<p>Servicers are authorized to offer eligible borrowers forbearance plans for up to 12 months. Once those expire, loss mitigation options may include:</p> <ul style="list-style-type: none"><li>▪ The borrower resumes making mortgage payments and brings their loan current through reinstatement.</li><li>▪ The borrower is approved for another workout option, including a repayment plan, payment deferral, or modification option.</li></ul>	<ul style="list-style-type: none"><li>▪ Conduct damage assessments on active and REO properties using mobile technology and aerial photography.</li><li>▪ Timely distribution of insurance proceeds to homeowners and servicers.</li><li>▪ Balanced servicer delegation for preservation expenses.</li></ul>	<ul style="list-style-type: none"><li>▪ REO Sales — provide owner occupants with a First Look™.</li><li>▪ Neighborhood Stabilization Initiative expansion to support sales to nonprofits.</li><li>▪ Fannie Mae’s robust REO repair strategy helps to provide additional affordable housing for owner occupant purchasers.</li></ul>

Fannie Mae’s robust disaster and hardship response provides assistance to servicers to work with their homeowners in times of crisis.



# Automated Loss Mitigation Decisioning System

Servicing Management Default Underwriter™ (SMDU™) determines whether a loan is eligible for a workout per Fannie Mae policy, provides borrowers with different temporary or permanent options for their delinquency, simplifies the execution of these options, and responds quickly to changing market conditions (like disaster payment relief).



## Superior risk assessment and messaging

### Streamlined underwriting and messaging provides clarity and certainty

- Simplified view for different loss mitigation options.
- Streamlined experience on loan workout full life cycle.
- Standardized messaging helps servicers and borrowers.
- Decreases servicers' costs associated with implementing/maintaining Fannie Mae loss mitigation policy.



## Rapid distribution of policies and product guidelines

### Rapid delivery of new products, policy and eligibility criteria

- Fully integrated (through B2B API or UI) with all leading vendors.
- Available for use 24 hours a day, 7 days a week.
- Automated Rules engine and Agile squads for rapid delivery of new workout options + policy in response to changing market conditions (e.g., COVID-19).



## Greater certainty and consistency

### Standardized data set allows for increased consistency

- Leverages Fannie Mae-provided data, including originations data, property valuations, modification history, etc.
- Ensures borrowers receive a consistent evaluation from servicer to servicer.
- Data views and messages can be leveraged by servicers for borrower communications.
- R&W relief to servicers on all decisions and execution performed in SMDU.



# Servicing Management Default Underwriter

Servicing Management  
Default Underwriter™

🔍

SMDU User (a9545tnt) [Logout](#)

914 SMDU Circle, MS 97535

NPI text  
Servicer Loan Number
Fannie Mae  
Investor
1702227756  
Investor Loan Number

Modified: Sep 11, 2017 4:44 pm ET

☰ Record Trial Payments

Latest Request  
Jul 14, 2017  
6:23 pm ET
✖ CMOD
✔ FLEX
? DIL
? PFS

➡ Record Payment

OVERVIEW OF PROPOSED TERMS

Loan Unpaid Principal Balance	Amortization Term	Monthly Principal & Interest	Scheduled Trial Payment Amount	Payment Reduction Percent (P & I)
\$210,478.40	480	\$896.10	\$1,265.27	36.46167%

RECORD PAYMENTS

Number	Scheduled Trial Payment Due Date	Scheduled Trial Payment Amount	Actual Payment Date	Actual Payment Amount
1	08/01/2017	\$1,265.27	08/11/2017 <span style="font-size: 10px;">📅</span>	\$1,265.27
2	09/01/2017	\$1,265.27	-	-
3	10/01/2017	\$1,265.27	-	-

[+ Extend Trial Plan by one month?](#)

SERVICER INFORMATION

Servicer Contact Name

Servicer Contact Email Address

Servicer Contact Phone Number

Servicer Contact Phone Number Extension

Servicer Contact Fax Number

ADDITIONAL INFORMATION

Trial Plan Agreement Date  📅

Servicer's General Comments



# Foreclosure Management

Servicers ensure foreclosure proceedings are conducted appropriately by participating in foreclosure initiation, timeline management and reporting, and process management.

## Foreclosure initiation

Timely and complete review of loans that are determined eligible for foreclosure prior to referral.

## Timeline management and reporting

Maintain an accurate foreclosure timeline and status tracking system as well as all related foreclosure documentation.

## Process management

Processes that monitor and manage MDC law firm performance related to foreclosure and bankruptcy.

## Key metrics

---

- STAR timeline management metrics.
- Transition to beyond time frame.
- Motion for relief referred timely.
- Early warning notices (REOGRAM™) submitted within timeline.
- Title issues resolved within 45 Days.

Servicers play a key role in ensuring that foreclosure proceedings are conducted appropriately. Metrics track their performance and influence their STAR rating.



# Property Disposition Strategies



# Real Estate Functional Capabilities

Our full range of credit risk management capabilities includes our valuation, sales strategy, and fulfillment operations to maintain and ready properties for sale.

## Valuation

- Full range of distressed loan and real estate disposition capabilities utilized for management of the portfolio. **Disposed of over 1.8 million properties since 2009.**

## Sales

- Disposition capabilities include Non-performing Loan (NPL) & Re-performing Loan (RPL) Sales, Mortgage Releases (Deed-in-Lieu of Foreclosures), Short Sales, Foreclosure Auction Sales, REO Retail Sales, REO Auction Sales, and NSI Sales. Operational capabilities to support these various channels include Valuations, Property Preservation, Repairs, Title/HOA/Tax, Rental/Cash for Keys/Eviction, and Vendor Management.
- Fannie Mae utilizes a 100% in-house REO sales team leveraging a **~900-member nationwide realtor network**. Sales teams are assigned geographically based on volumes.

## Fulfillment

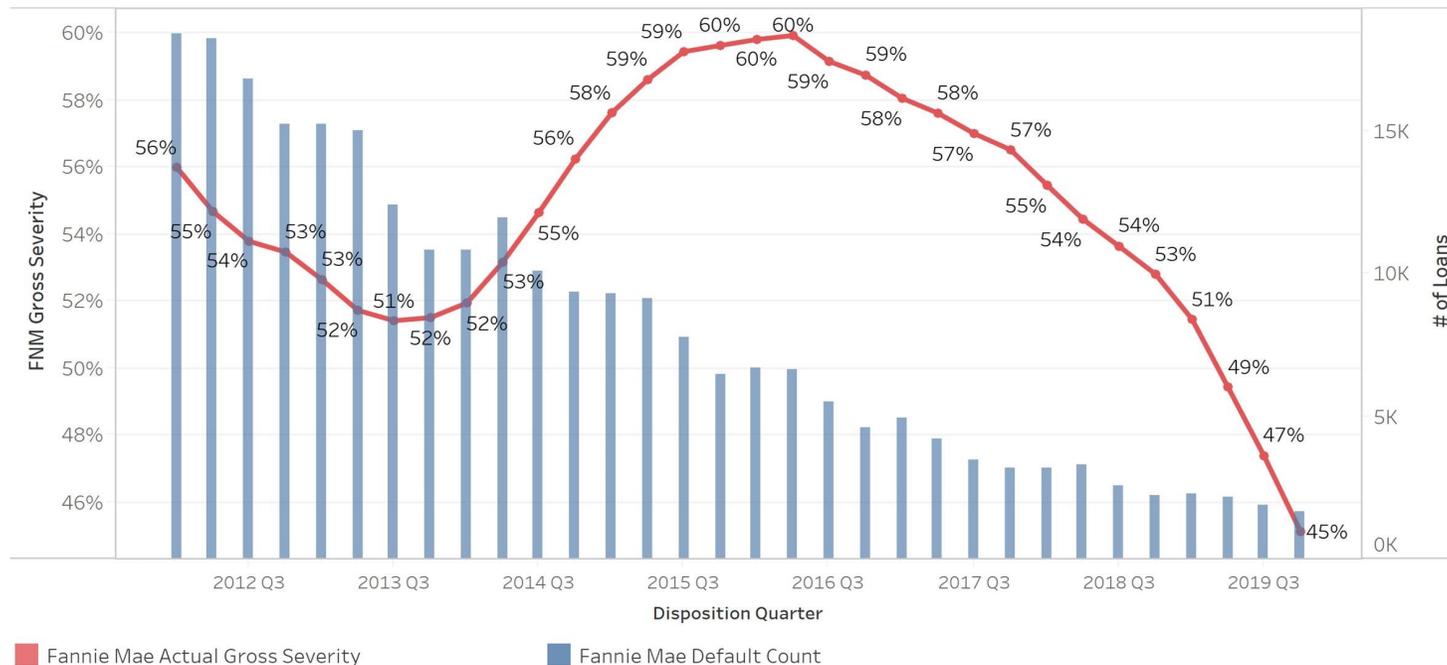
- Fannie Mae leverages our HomePath.com website, which has had **more than 73 million unique visitors since inception**, to market our REO properties, provide information to the public, and as a short sale portal for real estate agents.
- Fannie Mae's peer performance as an REO disposition seller shows placement among industry leaders based on publicly available severity levels and MLS data.

Our real estate strategy is to minimize loss severities by maximizing sales prices, supporting neighborhood stabilization, and minimizing carrying costs.



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

Fannie Mae 12-month Rolling Gross Severity by Disposition Quarter



Source: Fannie Mae Single Family Historical Loan Performance Dataset. Population limited to loans disposed via short sale, third-party sale, and foreclosure sale and having an original amortization term >300 month, excluding repurchase/makewhole loans and loans sold via note sale.

Data from 2012 Q1 through 2019 Q4

Over the last 10 years, Fannie Mae REO disposition channels executed, on average, at 94% of value.



# Collateral Valuations

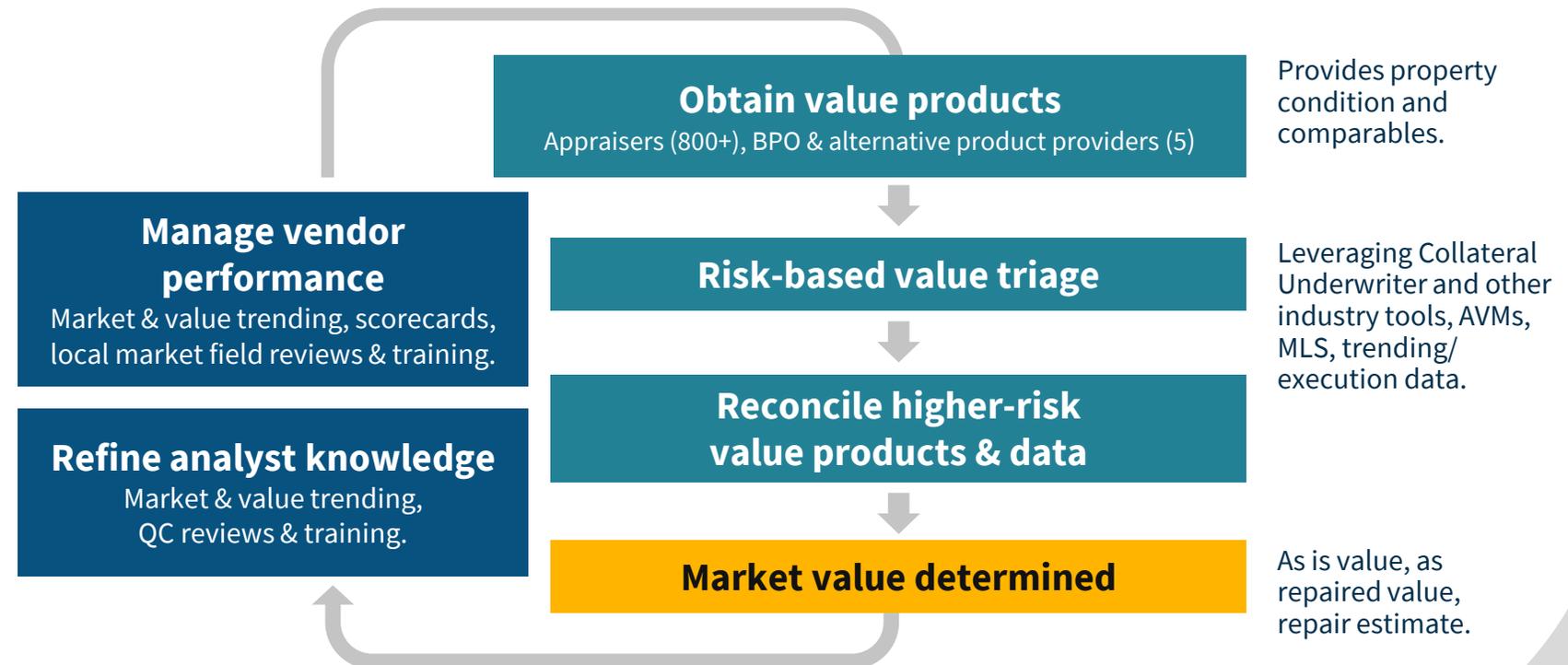
The Single-Family Collateral Valuations team determine property values to support REO sales, short sales, foreclosure sale bidding, MI terminations, and NPL/RPL sales.

Fannie Mae maintains an in-house property valuation team to determine property values supporting internal business decisions.

- A team of Fannie Mae employees, including representatives throughout the country in Fannie Mae’s top markets who provide market intelligence and inspect properties that have been valued
- Leverage a panel of 800+ third-party appraisers and five national Broker Price Opinion (BPO) and alternative value vendors providing property condition and value information.

## Why are we different?

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



See our Property Valuation and Analytics demo:

<https://capitalmarkets.fanniemae.com/credit-risk-transfer/single-family-credit-risk-transfer/credit-risk-management>



# Valuation Channels

NPL/RPL	<ul style="list-style-type: none"><li>▪ ~19,000 every other month.</li><li>▪ Utilize exterior BPOs with multiple model validations; 15% review.</li></ul>
Mortgage Insurance Termination (MIT)	<ul style="list-style-type: none"><li>▪ ~2,800 monthly.</li><li>▪ Utilize interior BPOs or alternative appraisals on MI Cancellation.</li></ul>
Short Sale	<ul style="list-style-type: none"><li>▪ ~300 monthly.</li><li>▪ Utilize interior appraisal and BPO; 100% review.</li></ul>
Foreclosure Bidding (TPS)	<ul style="list-style-type: none"><li>▪ ~1,000 monthly.</li><li>▪ Utilize exterior BPOs; ~65% review.</li></ul>
REO & Mortgage Release	<ul style="list-style-type: none"><li>▪ ~1,200 monthly.</li><li>▪ REO: Utilize interior appraisals and listing agent BPOs; ~85% review.</li><li>▪ Mortgage Release: 96% auto-designated vs 4% manual review.</li></ul>
Hybrid Appraisal Reviews	<ul style="list-style-type: none"><li>▪ ~ 1,200 PDC submissions</li><li>▪ Total manual reviews of ~970 per month (15.2%)</li></ul>

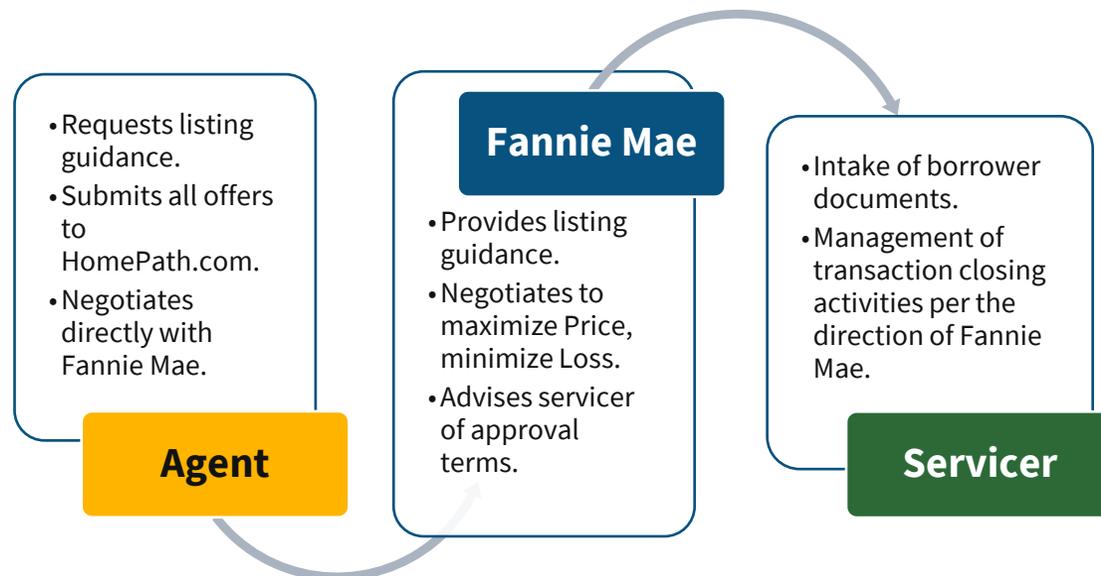
All figures as of December 2020.



# Pre-Foreclosure Disposition Options

## Short sales

- Fannie Mae manages offer negotiation process in-house.
- Pricing determined in conjunction with our valuations team and negotiated directly with buyer's agent.
- All borrower direct communications are distributed through the servicer.
- By managing process in-house, Fannie Mae achieves lower severity, reducing credit losses over a delegated model.



## Mortgage Release™

- Mortgage Release (also known as a Deed-in-Lieu of Foreclosure) provides borrowers an expedited option to resolve their delinquency and avoid foreclosure.
- The borrower deeds collateral property to Fannie Mae in exchange for release of repayment obligations under the mortgage.
- Upon completion of a Mortgage Release, the borrower receives a deficiency waiver.
- Borrower may choose between three options upon Mortgage Release: immediate vacancy, a 3-month, or 12-month transition.
  - 3-month: Borrower permitted to live in the property rent free for 90-day period.
  - 12-month: Borrower leases for 12 months after Mortgage Release with rent determined through a review of former owner's financial ability in conjunction with a market value review.
- Mortgage Release option contributes to an average net present value savings over REO.



# Property Management Overview

Our property management services seek to enhance the marketability of our properties while supporting neighborhood stabilization.

## Maintenance & field quality control

- National and regional supplier mix providing initial and on-going services
- Multiple layers of QC (broker sign-off, third-party inspections, and in-house field reviews)
- Diverse inspection products (vacant, occupied, repair, and rental)
- Code compliance and vacant property registration teams

## Occupied Property Management

- Relocation assistance program
- Occupied sales via auction strategy
- “Eviction as a Last Resort” framework
- Multiple lease products offered
- Hybrid in-/out-sourced model for eviction/redemption follow-up

## Title, closing, HOA/tax operations

- Curative and closing functions leveraging local & national attorneys and suppliers
- Flexible capacity model for title follow-ups and closings
- HOA, COA, tax identification, negotiation, and payment facilitation
- Multiple disposition channel support including digital closings



# Disaster Support

In addition to policy and process changes to support disaster events and recovery, property oversight capabilities have been expanded to include the use of drones, aerial imagery, and Geographic Information Systems (GIS).

- Process/policy adjustments to provide support for disaster recovery activities include:
  - Use of temporary repairs prior to bid approval during insurance claim process to protect collateral.
  - Allow and reimburse for current loan inspections.
  - Leverage data and analytics to narrow the population needed for traditional inspections.
- Mobile disaster inspection capabilities.
- Aerial imagery combined with weather/damage data services to assess portfolio risk/exposure.
- Using GIS to map disaster impacted areas to Fannie Mae owned properties.



**Disaster heat map highlighting damage severity zone**



**Aerial view of properties damaged by Hurricane Maria**



# Repair Strategy

Current capabilities afford full suite of repair options for all property types and conditions.

- Since 2010 Fannie Mae has repaired more than 277k properties.
- Seasoned local and national Repair Contractor Network.
- Proprietary return on investment modeling tool (RHINO) to determine net present value of repair decision.
- Mobile scoping capabilities & quality assurance of repairs.
- Negotiated material/labor pricing for roofing, plumbing, carpentry, electrical, flooring, etc.
- Specialized products and supplier alliances.
- Energy-efficient and water-saving products.



Before



After



Before



After



Fannie Mae employs a robust quality control process and leverages a national network of repair contractors to maximize cost savings and efficiency.



Virtual staging



# New Construction

Creating affordable housing opportunities.

## Target Population

- Vacant land & C6 REO inventory.
- Site-built, manufactured, modular, and MH Advantage homes.

## Progress

- 11 projects fully approved and under construction.
- Two projects completed and currently on the market.
- One property sold, which sold to an owner occupant purchaser utilizing conforming financing, which was eventually delivered to Fannie Mae.
- Leverage learnings from in-flight cases to scale process.

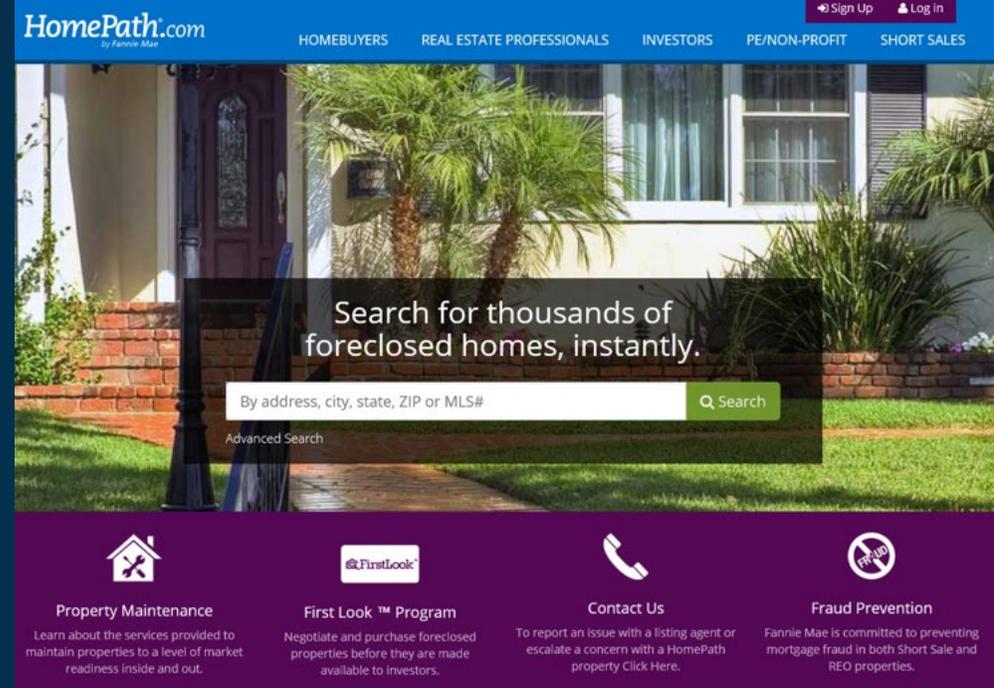
## Disaster Reinvestment Efforts

- Focus on Paradise and Magalia rebuilding efforts which were devastated by the 2018 Camp Fire.



# HomePath is Fannie Mae's brand for marketing REO

More than 73 million unique visitors since inception



**Custom search** functionality



**First Look** program for owners and non-profits



**Payment calculators** and **Rent Range** information per property



Feature repaired properties with **HD photos**



**Marketing resources** available for agent network

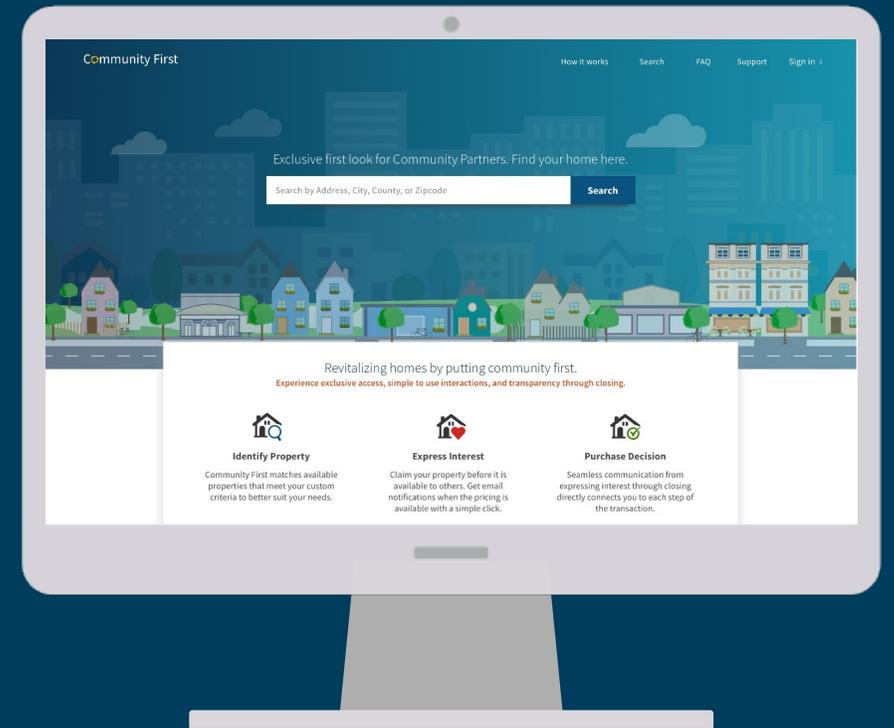


**Online offer** for easy submission



**Syndication** to other websites (such as Zillow®, Realtor®, etc.)

# Community First by Fannie Mae™ Provides Access for Nonprofits, Community Partners, and Public Entity Purchasers across the nation. Over 500 registered users



## Community First - Benefits

Qualified **non-profits**, **community partners**, and **public entities** like you can enjoy special access and pricing. The simple and straight forward process will help you close on the right property in your area.



### Custom Alerts

Based on your needs, criteria, and area of interest, e-mail notifications will be sent daily to alert you of new properties.



### Unique Pricing

Early access to properties creates for cost savings and gives you a competitive edge.



### Transparency

Keep track of purchases in your neighborhood and see which other properties are under contract.



Fannie Mae®

# Thank you

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