Seller/ Servicer Education
Asset Management Surveillance

June 18, 2013
Asset Management Surveillance – Agenda

- **Who We Are?**
  - Organization Structure
  - Triple A – Aggregate, Analyze and Apply
  - Roles and Responsibilities
  - Team Profile

- **Portfolio Surveillance**
  - Risk Ratings & criteria
  - Activities - Assessment requirements and Reviews

- **Pre-Securitization Surveillance**
  - Reporting requirements and reviews

- **Post-Securitization Surveillance**
  - Reporting requirements and reviews

- **K-deal Performance**
Freddie Mac continues to hold the borrower experience as one of its key priorities and we continue to develop the “Servicing Standard” in 2013

- Aggregate
- Analyze
- Apply
Asset Management – Triple A

Surveillance

Aggregate

Analyze

Apply

Freddie Mac Economic Loan Loss Model

Key Analytical Output
- Risk Ratings
- Values
- Impairments decisions
- Portfolio Risk Identification

PRS

SMART
- Review Activity
- Financial reviews
- Business Plans
- Inspection reviews
- Freddie Mac Site Visits
- Regional Asset and Market Reviews

Assessments
- AIE
- QIE
- AIF
- LMF

DMS

Business and Financial Impact
- Loan Loss Reserves
- Credit Loss Estimates
- Resource Allocations
- Portfolio Management
- Loan Pricing and Valuation
- New Business Activities

Freddie Mac Economic Loan Loss Model

Regional Asset and Market Reviews

Financial reviews

Business Plans

Inspection reviews

Freddie Mac Site Visits

Regional Asset and Market Reviews
Surveillance – Roles & Responsibilities

- **The Analyze and Apply of the Triple A**

- The Surveillance Group monitors the credit quality and performance of the Multifamily loan portfolios and guarantees on our bond and securitization programs.
  - Balances as of December 31, 2012 totaled $128 billion
    - $63 B Held for Investment Loan Portfolio
    - $14 B Held for Sale Loan Portfolio
    - $37 B K-deal Guarantees
    - $14 B Other Guarantees (Affordable, Tax exempt)

- Informs the organization and key stakeholders of risks and issues in the portfolio
  - External and Internal Auditors, Corporate Finance, Regulators (e.g., FHFA), Enterprise Risk Management (ERM), Credit Policy, Production and Underwriting, Portfolio Management

- Provides the basis to drive better decision making for new and existing business
Surveillance – Team Profile

- 22 member team
  - 10 members assigned responsibility for the highest risk rated loans
    - As of March 2013, an average of 30-40 high risk loans assigned to each analyst based on geography
  - 9 members assigned responsibility for the moderate and low risk rated loans
    - As of March 2013, an average of 60-75 moderate risk loans and 1,000-1,200 low risk loans assigned to each analyst by Seller/Servicer
  - 2 people are assigned to monitor the performance of Freddie Mac K-Deal securitizations
    - As of March 2013, there were 44 transactions and 2,600 loans
- During 2012, the analysts reviewed approximately 2,400 property financials and over 4,500 physical inspections and loan management forms.
Portfolio Surveillance – Risk Ratings

- New Risk Rating methodology has been in place for one year

- New methodology has allowed for:
  - Common terminology for regulators and auditors (1-10 risk scoring)
  - Consistent view of risk across Freddie Mac
  - Markets and individual loan performance
  - Robust econometric credit loss model
  - Ability to consume many factors into a rigorous process

- Benefits of new Risk Rating process:
  - More timely consumption of data
  - Immediate update of risk based on available data
  - Improved auditability and controls
Portfolio Surveillance – Risk Rating Criteria

- **Risk Rating buckets 1-6 (considered low risk loans):**
  - Lowest achievable rating for MF loans is a 3 for defeased loans; 4 for RE loans
  - Reviews will be based on significant risk rating changes
  - Reviews will also be triggered by key risks identified from assessments submitted

- **Risk Rating of 7:**
  - Loan that displays some element of heightened risk, but default and loss is not expected
  - Subject to business plans, annual financial and physical inspection reviews
  - Higher risk loans will warrant a valuation

- **Risk Rating 8-10:**
  - Loan deemed to be higher risk of default and losses are more probable
  - Subject to valuation, impairment recommendations, business plans and quarterly reviews
## Multifamily Portfolio By Risk Rating

### Risk Rating by Quarter

<table>
<thead>
<tr>
<th>Risk Rating</th>
<th>1Q13 Risk Rating</th>
<th>4Q12 Risk Rating</th>
<th>3Q12 Risk Rating</th>
<th>2Q12 Risk Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>3 Safest</td>
<td>14</td>
<td>14</td>
<td>13</td>
<td>13</td>
</tr>
<tr>
<td>4</td>
<td>3,369</td>
<td>3,177</td>
<td>3,223</td>
<td>3,192</td>
</tr>
<tr>
<td>5</td>
<td>2,610</td>
<td>2,782</td>
<td>3,345</td>
<td>3,488</td>
</tr>
<tr>
<td>6</td>
<td>633</td>
<td>736</td>
<td>735</td>
<td>740</td>
</tr>
<tr>
<td>7</td>
<td>375</td>
<td>387</td>
<td>381</td>
<td>397</td>
</tr>
<tr>
<td>8</td>
<td>116</td>
<td>172</td>
<td>168</td>
<td>160</td>
</tr>
<tr>
<td>9</td>
<td>174</td>
<td>193</td>
<td>206</td>
<td>120</td>
</tr>
<tr>
<td>10 Riskiest</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

### Loan Count: Risk Rating (RR) 7 - 10

- **1Q12 RR:** 1,184
- **2Q12 RR:** 766
- **3Q12 RR:** 755
- **4Q12 RR:** 752
- **1Q13 RR:** 665

Legend:
- **RR 7**
- **RR 8**
- **RR 9**
- **RR 10**

The bar chart shows the distribution of loans across different risk ratings by quarter.
Our mortgage portfolio credit quality trends remained relatively consistent period over period, reflecting positive multifamily fundamentals.

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>9</td>
<td>2%</td>
<td>174</td>
<td>$1,647</td>
<td>$1,517</td>
<td>$190</td>
<td>0.93</td>
</tr>
<tr>
<td>8</td>
<td>1%</td>
<td>116</td>
<td>1,054</td>
<td>73</td>
<td>(3)</td>
<td>1.11</td>
</tr>
<tr>
<td>7</td>
<td>5%</td>
<td>375</td>
<td>4,338</td>
<td>271</td>
<td>(0)</td>
<td>1.44</td>
</tr>
</tbody>
</table>

Subtotal 7-9: 8% 665 $7,039 $1,861 (193) 1.27

| 6                | 7%    | 633     | 6,508        | 19           | -            | 1.37              |
| 5                | 31%   | 2,610   | 27,286       | 49           | -            | 1.62              |
| 4                | 37%   | 3,369   | 32,762       | 45           | -            | 2.15              |
| 3                | 0%    | 14      | 106          | -            | -            | 2.10              |

New Funding: 15% 747 $13,433 12 - 2.08
Forwards: 1% 38 $465 - - 2.00

Total: 100% 8,076 $87,600 $1,987 (193) 1.85

Loan counts and UPB balances are as of:
1Q13 – Mar. 31, 2013

1) Risk rating as of 1Q13. Risk rating is on a quarterly basis. Excludes HFA and K-deals.
2) Construction forwards and new fundings (less than six months old) were not included in the risk rating analysis.
3) Specific Reserves includes bond on-top reserves.
Portfolio Surveillance Activities – Higher Risk Loans

- Performing loans Risk Rated 7 (Moderate Risk Loans)
  
  Activities include:
  
  » Develop annual rolling business plans
  » Perform annual rolling valuations on selected loans (internal)
  » Review of servicer annual property inspections
  » Annual review of year-end financial statements
  » Complete risk rating reviews

- Performing loans Risk Rated 8-10 (Highest Risk Loans)
  
  Activities in addition to those done for those Risk Rated 7
  
  » Perform annual rolling valuations or order appraisals on all loans
  » Perform select annual property inspections and site visits
  » Quarterly financial review
  » Quarterly impairment decisions
Portfolio Surveillance Activities – Risk Rating Reviews

- Assessments are critical for the analysis of risk of each loan
  » All recent assessments are reviewed in full prior to completion of a risk rating review

- Risk Rating reviews, business plans and valuations depend on the information
  » 3,926 Risk Rating Reviews were performed in 2012
  » 600 business plans
  » 397 internal valuations
  » 110 appraisals

- Criteria for Risk Rating Reviews
  » Moving in and out of moderate and high risk buckets
  » Loans with Risk Rating 8-10 which did not change over last 12 months
  » Loans with significant changes in risk whether lower or high risk loans
Portfolio Surveillance – Types of Assessments

Freddie Mac requires the following types of assessments:

- The **Annual Income and Expense Assessment (AIE)** is a year-end operating statement analysis. In the AIE, the Servicer reviews the Property’s financial condition for the most recent calendar year.

- The **Quarterly Income and Expense Assessment (QIE)** is a quarterly operating statement analysis. The QIE consists of a review of the Property’s financial condition for the most recent quarter.

- The **Loan Management Form (LMF)** is an analysis of the Borrower’s compliance with the Loan Documents intended to highlight any potential problems associated with the Borrower or the loan.

- The Freddie Mac **Annual Inspection Form (AIF)** consists of the physical inspection and documentation of the condition of the Property.
Portfolio Surveillance Activities – AIF & LMF Reviews

- **Annual Inspection Form (AIF)**
  - An AIF review consists of a full review of the Seller/Servicer submission package by Freddie Mac
  - 29 individual exception review criteria can cause an AIF review
  - 9 out of 29 criteria have a direct impact on a loan’s Risk Rating

- **Loan Management Form (LMF)**
  - An LMF review consists of a full review of the Seller/Servicer submission package by Freddie Mac
  - 11 individual exception review criteria plus comments cause an LMF review
  - All 11 exception review criteria have a direct impact on a loan’s Risk Rating
Portfolio Surveillance – Assessments Reviewed in 2012

SMART Reviews

<table>
<thead>
<tr>
<th></th>
<th>Loan Count</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>AIE</strong></td>
<td>84%</td>
</tr>
<tr>
<td><strong>QIE</strong></td>
<td>89%</td>
</tr>
<tr>
<td><strong>AIF</strong></td>
<td>53%</td>
</tr>
<tr>
<td><strong>LMF</strong></td>
<td>76%</td>
</tr>
<tr>
<td><strong>Additional Manual Review</strong></td>
<td>1,045</td>
</tr>
<tr>
<td><strong>Automated Review Only</strong></td>
<td>5,627</td>
</tr>
<tr>
<td><strong>QIE</strong></td>
<td>1,135</td>
</tr>
<tr>
<td><strong>Automated Review Only</strong></td>
<td>9,624</td>
</tr>
<tr>
<td><strong>AIF</strong></td>
<td>2,939</td>
</tr>
<tr>
<td><strong>Automated Review Only</strong></td>
<td>3,269</td>
</tr>
<tr>
<td><strong>LMF</strong></td>
<td>1,510</td>
</tr>
<tr>
<td><strong>Automated Review Only</strong></td>
<td>4,829</td>
</tr>
</tbody>
</table>

*All submitted assessments are consumed & reviewed by our system. The system identifies the key risks which triggers additional manual reviews completed by the Surveillance team.*
Surveillance – CME Pre-Securitization

- **Financial Statements and Rent Roll Collection**
  - Trailing 12 month Financial Statements due one month following every quarter end
  - Rent Roll dated no earlier than 5 days prior to quarter end
  - Submit both documents into DMS

- **Loan Compliance**
  - Monthly requests for updates on Repair Agreements, Radon, Violations, etc. that have a due date in the upcoming few months
  - Submit Borrower Certification of Completion into DMS

- **Site Inspection Contact Information**
  - Each property could be inspected by representatives of the B-Buyer and two Rating Agencies
  - As a loan is nearing designation for a specific loan pool, the site contact information is requested
  - As the B-Buyer and Rating Agencies are determined, Servicers are asked to confirm the contacts and inform the Borrower contacts of the entities that may be contacting them
Loan level questions

» We often have questions from investors or the rating agencies that we need the Servicer to assist in answering.

» We include our timing need on each request and ask that Servicers work closely with Borrowers to obtain full responses as quickly as possible.

» Questions typically relate to borrower completion of open items and financial statement or occupancy variances.
Securitization – Post-Securitization Activities

- **Importance of ongoing surveillance**
  - Freddie Mac guarantees 85% of the balance on a typical K-deal
  - Quarterly reserving process
  - Freddie Mac typically has minimal consent rights while the pools are doing well but the brand is important

- **CRE Financial Council – IRP Reporting**
  - Freddie Mac has adopted the use of CRE Financial Council reporting requirements to monitor the securitized loans
  - Working on greater integration with portfolio surveillance process

- **Freddie Mac Reviews**
  - Monthly review of watchlist loans
    - Review financial and property inspections
    - Perform our own due diligence site inspection on select loans
  - Follow closely all specially serviced and delinquent loans and work out activity
  - Track borrower consents
K-Deal Performance

- **UPB and Loan Count by Region**

<table>
<thead>
<tr>
<th>Region</th>
<th># Loans</th>
<th>UPB</th>
<th>% Total</th>
<th>% Issuance</th>
</tr>
</thead>
<tbody>
<tr>
<td>NE</td>
<td>10</td>
<td>$380,592,057</td>
<td>30%</td>
<td>16%</td>
</tr>
<tr>
<td>CE</td>
<td>23</td>
<td>$314,512,813</td>
<td>25%</td>
<td>24%</td>
</tr>
<tr>
<td>SE</td>
<td>15</td>
<td>$294,148,190</td>
<td>23%</td>
<td>34%</td>
</tr>
<tr>
<td>WE</td>
<td>24</td>
<td>$266,618,498</td>
<td>21%</td>
<td>26%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>72</td>
<td><strong>$1,255,871,558</strong></td>
<td><strong>100%</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

- **Watchlist does not mean credit risk**

<table>
<thead>
<tr>
<th>Risk Level</th>
<th># Loans</th>
<th>Sum of UPB</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>39</td>
<td>$775,979,123</td>
</tr>
<tr>
<td>Moderate</td>
<td>26</td>
<td>$421,662,314</td>
</tr>
<tr>
<td>High</td>
<td>7</td>
<td>$58,230,121</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>72</td>
<td><strong>$1,255,871,558</strong></td>
</tr>
</tbody>
</table>

- **$43.7MM Total Specially Serviced Loans (2 Loans)**
- **$26.0MM Total Delinquency (3 Loans)**
## Contacts – Surveillance, Insurance & Servicer and Asset Management Mailboxes

### Surveillance
- **MF_Surveillance@freddiemac.com**
  - Risk Rating related questions
  - Assessment (AIE/QIE, AIF, LMF) completion questions
  - Paid off loan notifications
  - FM in-house inspection inquiries (if unavailable in PRS/DMS)
  - In-house inspector requirements waiver
- **MF_Securitization_Notices@freddiemac.com**
  - Notices regarding K-deal loans post-securitization

### Servicer and Asset Management
- **MF_Asset_Performance@freddiemac.com**
  - PRS related (upload, download) issues.
  - Hazard Loss notifications & updates (upload to DMS first)
  - Natural Disaster notifications
  - Servicer contact updates
  - Property specific data change (name, units, etc.)
  - DMS document delete requests
- **MF_CMEServicing@freddiemac.com**
  - Repair Agreement Updates / Radon / Termite / etc
  - Borrower Certificates (upload in DMS first)
  - CME Site inspection contact information
  - CME Financial updates (upload to DMS first)

### Insurance Compliance
- **MF_InsuranceCompliance@freddiemac.com**
  - Business related questions on Insurance
- **1133-TechHelp.freddiemac@cmservicing.com**
  - Technical related questions regarding ICT
QUESTIONS?