Cap Escrow Adjustment
Process Changes

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Agenda

- Rationale for Change
- Benefits of New Process
  - Overview of Current Process
- About Kensington Capital Advisors, LLC (“Kensington” or “KCA”)
- Sample Kensington Cap Escrow Adjustment Form
- Overview of New Mandatory Process
- When will the new process take effect?
- Resources
Rationale for Change – We Heard Your Concerns

- Why are we changing the Cap Escrow Adjustment process?
  » Feedback from Primary and Master Servicers
  » Automate and streamline the process through third party vendor, Kensington
  » Bring consistency and reliability to the process in order to eliminate the need for Master Servicer approval

- New process applies to all variable rate loans with hedges – Portfolio, Bonds, Warehouse and Securitized
Benefits of New Process

- Automation
  - System generated emails and lists provided by Kensington
  - Primary Servicer ability to upload data directly to Kensington portal
  - Less time for all parties to complete Form (saves man hours)

- Consistency and timeliness
  - Adjustments consistent across all servicers
  - Turnaround time from Kensington within 2 business days

- Cost effective
  - Service is provided at no cost to Primary or Master Servicers
    - Freddie Mac assumes all costs associated with the service provided by Kensington
Benefits of New Process (Cont’d)

- **Eliminates** the following:
  - Errors based on valuations
  - Master Servicer review and approval
  - The need to create record in CRT (Consent Request Tracker)
    - Kensington will provide reports to Freddie Mac

- Freddie Mac has contracted with Kensington to provide ALL cap fee escrow adjustment calculations for all Freddie Mac multifamily variable rate loans with hedges
Kensington Capital Advisors LLC is an independent financial advisory firm specializing in the analysis, structuring and execution of derivatives products and structured financing solutions.

Kensington is registered under the following:
- MSRB (Municipal Securities Rulemaking Board) Registered Municipal Advisor (K0153)
- SEC (Securities and Exchange Commission) CIK#0001610556
- CFTC (U.S. Commodity Futures Trading Commission) Commodity Trading Advisor
- NFA (National Futures Association) Swap Member Firm (0451942)

Kensington is subject to various regulations as a result of its registrations outlined above including, but not limited to, those involving supervisory procedures, regulatory compliance, preservation of records and professional qualification.
Kensington prioritizes systems and information security, and its practices comply with regulatory guidance and Freddie Mac contractual obligations.

Kensington has data backup and disaster recovery plans in place to ensure the ability to provide client services without significant interruption.

Kensington utilizes Frame Financial Systems software and a Force.com database to input, value and store information relating to its cap escrow processes.

- Force.com (salesforce.com) utilizes some of the most advanced data and information security technology available, which can be explored using the following link: https://trust.salesforce.com/en/

Kensington has been under contract with Freddie Mac for the last 3 years maintaining a database of Freddie Mac’s hedges (caps and swaps) and their daily values.
Freddie Mac recently expanded Kensington’s role under its contract to include ALL cap escrow adjustments.

The new streamlined cap escrow adjustment process uses Kensington to price the replacement cap and calculate the new monthly cap escrow payment using its proprietary automated system.

Kensington will retain completed forms, historical calculations, escrow adjustments, emails, CSV formatted file submissions, etc., in its database for each loan.
Primary Servicer (PS) is now only required to complete the sections identified on the sample form above.
Overview of New Mandatory Process

» Upon loan closing, Primary Servicer calculates the monthly cap escrow payment based on the purchase price of the rate cap agreement per its usual process

» **Within 30 days of loan closing**, Primary Servicer sends the following to Kensington at capinfo@kensington-advisors.com:
  - Kensington Cap Escrow Adjustment Form (“Kensington Form”), which has been completed by the Primary Servicer
  - Either (i) the Rate Cap Rider from the Loan Agreement OR (ii) pertinent pages from the Reimbursement and Security Agreement

  ▪ **FOR EXISTING CAPS, PRIMARY SERVICER WILL NEED TO TAKE THIS STEP FOR ALL ESCROW ADJUSTMENTS COMING DUE THROUGH THE END OF 2017** (i.e., send the completed Kensington Form and the relevant loan documents to Kensington for each adjustment that Kensington will perform for the first time under this new process)

» Upon receipt, Kensington stores the data provided by the Primary Servicer in its database

» Thirty days prior to the due date of each cap escrow adjustment, Kensington will send an automated email to Primary Servicer containing a list of all loans requiring cap escrow adjustments
A spreadsheet attached to the email will include the list of loans with both Freddie Mac and Primary Servicer loan numbers and will have open cells to input both:

- Anticipated UPB of the loan at the time of cap renewal or anticipated notional amount of the existing hedge at the time of cap renewal
- Current balance in cap escrow account

The loan list and email are both system generated and automated to ensure consistency

The email can be delivered to multiple individuals within a Primary Servicer organization with copies to external parties (i.e., Freddie Mac)
Primary Servicer reviews the loan list to verify that the population of loans requiring adjustments is accurate.

The email will provide detailed instructions for uploading the spreadsheet to Kensington’s portal, or alternatively, will provide an email address to forward the spreadsheet.

Kensington will send an email to Primary Servicer regarding any loan for which revaluation is due within 30 days and the Primary Servicer has not yet uploaded the required information to the Kensington portal.

Using the information previously stored in its database along with the current balances provided by the Primary Servicer, Kensington calculates the new monthly cap escrow payment.

The new monthly cap escrow payment is communicated to the Primary Servicer via the completed Kensington Form.

Primary Servicer reviews and approves the calculation.
If this is the first cap escrow adjustment for a portfolio, bond or warehouse loan, Primary Servicer submits Kensington Form to Freddie Mac for review and approval

- Freddie Mac reviews Kensington Form and returns it to Primary Servicer with its approval
- Upon receipt of Freddie Mac’s approval, Primary Servicer relays new monthly cap escrow payment amount to Borrower

If cap escrow adjustment is:

- For a securitized loan or
- Not the first cap escrow adjustment for a portfolio, bond or warehouse loan

- Neither Freddie Mac nor Master Servicer’s approval is required
- The Primary Servicer reviews calculation from Kensington, approves the adjustment and relays the new monthly cap escrow payment amount to Borrower
Beginning immediately:

» This is the new mandatory process
» Kensington is the only vendor providing ALL cap escrow adjustments going forward
» The Kensington Cap Escrow Adjustment Form is available on Freddie Mac’s website (www.freddiemac.com).
  – Primary Servicers are required to use the Kensington Cap Escrow Adjustment Form upon funding of all Freddie Mac loans and bond credit enhancements going forward
» The old Cap Escrow Adjustment Request Form is retired and no longer available on Freddie Mac’s website
» Primary Servicer should provide to Kensington via email a list of names and email addresses of anyone who should receive the email reminders from Kensington. Primary Servicer may add as many recipients as they wish to the email reminders (either on a loan-by-loan basis or by having all recipients receive all email reminders)
Resources to support the new cap escrow adjustment process:

» Section 28.18 (bond credit enhancements) and Section 43.22 (cash loans) of Freddie Mac Multifamily Seller/Servicer Guide will be revised to reflect the new process (December 15 is anticipated delivery date)

» Kensington Cap Escrow Adjustment Form is available at www.freddiemac.com under Multifamily/Asset Management/Guide and Forms/Non-Guide Forms/Asset Management: Servicing/Kensington Cap Escrow Adjustment Form

– OR

» www.freddiemac.com under Multifamily/Asset Management/Servicer Special Request Forms/Kensington Cap Escrow Adjustment Form
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