Operational Risk Assessments

Freddie Mac Multifamily Asset Management and Operations

February 2020

Operational Classifications:	Commercial Mortgage Special Servicer and Commercial Mortgage Trust Advisor
Rankings:	Special Servicer: MOR CS2 (Affirmed) Trust Advisor: MOR TA3 (Affirmed)
Forecast:	Stable – Both Rankings
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Rationale

Morningstar Credit Ratings, LLC (DBRS Morningstar) affirmed its MOR CS2 commercial mortgage special-servicer ranking and MOR TA3 trust-advisor ranking for Freddie Mac Multifamily Asset Management and Operations (Freddie Mac).

DBRS Morningstar affirmed the special-servicer ranking based on Freddie Mac's highly experienced staff and strong operational depth; thorough internal-audit, governance, and compliance programs; and successful performance resolving a low volume of specially serviced multifamily assets. The ranking also considers Freddie Mac's proactive surveillance and asset-resolution practices as well as its timely processing of borrower request submissions. Both rankings acknowledge the company's effective technology applications and ongoing initiatives to streamline and enhance operations to improve the seller/servicer and investor experience. The multifamily asset management and operations unit continues to effectively address any senior manager turnover through internal promotions and maintains stability under the guidance of a well-tenured leadership team.

The affirmed trust-advisor ranking reflects Freddie Mac's well-established track record as a diligent overseer of both servicers and special servicers. It regularly conducts comprehensive operational reviews of seller/servicers to monitor their adherence to strict loan-administration and reporting standards. The ranking also considers the company's familiarity with the duties and reporting requirements of servicers and special servicers of commercial mortgage-backed securitizations.

As of June 30, 2019, Freddie Mac was the named special servicer on 13 of its K-Deal securitizations, which had 199 remaining loans with an aggregate $8.34 billion unpaid principal balance (UPB). Its active special-servicing volume (all contained in its balance-sheet portfolio) totaled $372.4 million by UPB and consisted of two nonperforming loans ($2.6 million) and 13 performing loans ($369.8 million) on heightened surveillance. During the first six months of 2019, the company resolved eight loans totaling $155.3 million, including seven full payoffs. The average resolution time was approximately nine months.

Freddie Mac is formally named as the operating trust advisor on the Impact Funding Affordable Multifamily Housing Mortgage Loan Trust 1015-2 and FREMF 2015-KPLB Mortgage Trust (the Park La Brea transaction) securitizations. It also serves informally as a trust advisor/servicing consultant on the Impact Funding Affordable Multifamily Housing Mortgage Loan Trust 2014-1 securitization. To date, these transactions have performed well and have not triggered any trust advisor activity.

Forecast

The forecast is Stable for both rankings. DBRS Morningstar expects Freddie Mac to remain an effective special servicer for its balance-sheet portfolio and to conduct proactive surveillance on its securitized transactions. DBRS Morningstar will continue to monitor Freddie Mac's ongoing technology initiatives and expect the company will realize greater efficiencies as it seeks to further integrate applications and eliminate stand-alone systems. The operation also is suitably positioned to perform the roles and responsibilities of a trust advisor in securitized transactions.

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Company Profile and Business Overview

Congress chartered Freddie Mac in 1970 as a government-sponsored enterprise with a public mission to expand the availability of homeownership to a broader range of the population, as well as increase the supply of affordable multifamily housing stock. Its statutory charge is to provide liquidity, stability, and affordability to the U.S. housing market. Freddie Mac carries out this mission by purchasing mortgage loans originated by its network of seller/servicers and pooling and then securitizing them. Freddie Mac provides guarantees of certain payments to investors and is prohibited from directly originating loans.

Freddie Mac's multifamily division contributes to the company's mission by providing affordable rental housing through the purchase of mortgages backed by rental properties containing five or more units. It conducts those purchases through a nationwide network of approved seller/servicers for its conventional and Targeted Affordable Housing (TAH) financing programs. Freddie Mac's multifamily products finance small-balance properties, manufactured housing, senior and assisted-living housing, and student housing. In 2016, it created its "green advantage" program to finance energy/resource efficiency-related capital improvements.

As of July 31, 2019, the multifamily division employed 785 people in four regional offices in New York City, Los Angeles, Chicago, and McLean, Virginia, where it also maintains its corporate headquarters. The division has nine field offices as well: Austin, Texas; Dallas; Houston; Irvine, California; Atlanta; Seattle, Washington; Denver; Fort Lauderdale, Florida; and Tampa, Florida.

On September 6, 2008, Freddie Mac was placed under conservatorship, with the Federal Housing Finance Agency (FHFA) as conservator. Under the conservatorship, which has no termination date, the FHFA assumed all powers of the board, management, and shareholders, and it directly controls some of the company's business activities and strategies. The FHFA has delegated certain authority to Freddie Mac's board of directors to oversee management's conduct of Freddie Mac's business operations so Freddie Mac can operate in the ordinary course. On September 7, 2008, the company, through the FHFA as conservator, entered into a purchase agreement with the U.S. Department of the Treasury. Under the terms of the purchase agreement, Freddie Mac issued senior preferred stock and a warrant to purchase shares of common stock as consideration for the Treasury to provide funding under certain terms and conditions.

As of June 30, 2019, the company maintained a positive net worth of $4.8 billion, which has resulted in no additional funds being drawn on under the purchase agreement. Based on Freddie Mac's net worth and applicable $20 billion capital reserve, there was no dividend to Treasury in September 2019. As of June 30, 2019, the company has paid aggregate dividends of $119.7 billion to Treasury on the senior preferred stock.

On October 28, 2019, FHFA released its 2019 Strategic Plan for the Conservatorships of Freddie Mac and Fannie Mae (the Strategic Plan) and the 2020 Conservatorship Scorecard outlining specific conservatorship priorities for Freddie Mac and Fannie Mae (the Enterprises) and their joint venture, Common Securitization Solutions, LLC (CSS). The Strategic Plan provides a framework for how FHFA will guide the Enterprises to fulfill their statutory missions, focus on safety and soundness, and prepare for a responsible end to the conservatorships. The 2020 Conservatorship Scorecard aligns the Strategic Plan with the Enterprises' tactical priorities and operations, serving as an essential tool to hold the Enterprises accountable for the effective implementation of the Strategic Plan. The three objectives of the Strategic Plan are to ensure that the Enterprises:

- Focus on their core mission responsibilities to foster competitive, liquid, efficient, and resilient (CLEAR) national housing finance markets that support sustainable homeownership and affordable rental housing;
- Operate in a safe and sound manner appropriate for entities in conservatorships; and
- Prepare for their eventual exits from the conservatorships.

In September 2019, FHFA announced that the multifamily loan purchase caps will be $100 billion for each Enterprise for the five-quarter period from Q4 2019 through Q4 2020. The caps apply to all multifamily business, with no exclusions. To ensure a strong focus on affordable housing and traditionally underserved markets, FHFA directed that at least 37.5% of the multifamily business be mission-driven, affordable housing.

In keeping with its mission to support housing affordability, the agency launched a lending program for manufactured housing developments and one for small-balance loans in 2014. As of January 2020, it had approved 12 seller/servicers to originate and service for the small-balance program.

Since 2016, Freddie Mac has launched several other financing products. It expanded its multifamily investment fund to facilitate financing options for loans not meeting securitization parameters, established a workforce housing program offering preferred terms of senior and mezzanine debt, and fully funded a $1.3 billion single-family rental securitization pilot in 2018. As of August 2019, Freddie Mac planned to re-securitize previously guaranteed bonds and issue new securities off a newly created Multifamily-specific Multiclass Certificate shelf.

Through the first half of 2019, the company funded approximately $31.2 billion in new multifamily business volume, which provided financing for approximately 2,400 multifamily properties representing more than 342,000 apartment units. Approximately 55% of this funded dollar volume was excluded from FHFA's lending cap. It also securitized approximately $30.5 billion of multifamily loans into its K-Deals and SB-Deals (small-balance program).

As of June 30, 2019, Freddie Mac had a multifamily non-securitized loan portfolio of $21.89 billion, a multifamily investment securities portfolio of $9.68 billion, and a multifamily guarantee portfolio of $248.9 billion. The 60+ day loan delinquency rate for the entire multifamily portfolio was approximately 3 basis points.

Table 1 – Freddie Mac Historical Special-Servicing Portfolio Volume*

	June 30, 2019		December 31, 2018		December 31, 2017	
	UPB ($ Mil)	Assets (#)	UPB ($ Mil)	Assets (#)	UPB ($ Mil)	Assets (#)
Loan Portfolio	372.4	15	281.7	15	307.6	18
REO Portfolio	0.0	0	0.0	0	16.0	2
Total Portfolio Volume	372.4	15	281.7	15	323.6	20

*All held on balance sheet.

Operational Infrastructure

Organizational Structure

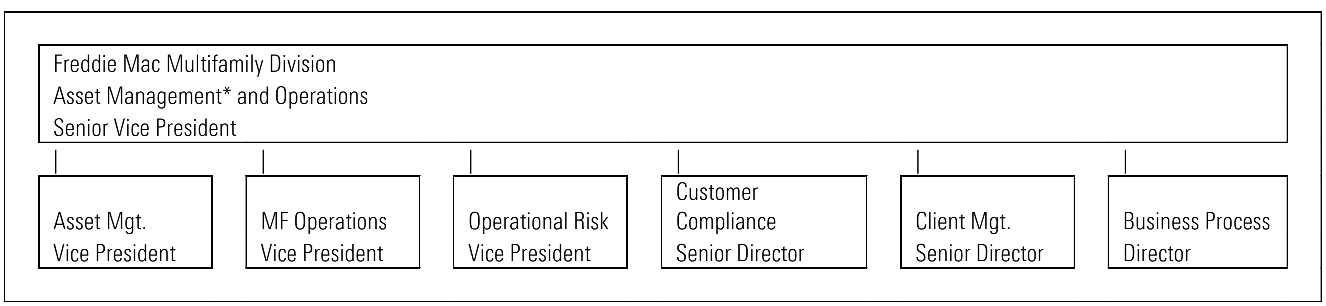
Freddie Mac's Multifamily Division oversees all production, asset management, strategic planning, and risk management for the multifamily line of business. The division is further supported by the company's legal, finance, human resources, information technology, communications, enterprise risk-management, and internal-audit departments. Functional groups within the Multifamily Division are listed in Table 2 below:

Table 2 – Freddie Mac Multifamily – Functional Breakout With Headcount*

Functional Area	Headcount*
On Board Personnel for Multifamily Division	
Multifamily Executive	3
Underwriting & Credit	239
Chief Market Risk	9
Capital Markets	83
Production and Sales	116
Asset Management & Operations	262
Affordable Sales & Investments	28
Strategy, Marketing & Offerings	32
Strategic Transformation	13
Subtotal - On Board Personnel	785
Personnel Allocated to Multifamily Division	
Finance	42
Technology	85
Legal	56
ERM/Credit	13
Human Resources	6
Subtotal - Personnel Allocated	202
Total Multifamily Division - Line of Business	987

* As of July 31, 2019.

Chart 1 – Freddie Mac Multifamily Division: Asset Management and Operations Organizational Structure



* Headcount of 80 as of June 30, 2019.

Management and Staff Experience

During 2018, Freddie Mac reclassified certain positions as staff and management for purposes of reporting average experience and tenure. As a result, this lowered the average experience relative to previously reported levels. However, the average experience for management and asset managers is strong. The average experience of the three most senior special-servicing managers also exceeds 30 years.

Table 3 – Special Servicing/Surveillance Management and Staff: Average Years of Experience as of June 30, 2019

	June 30, 2019		December 31, 2018	
	Industry	Freddie Mac Tenure	Industry	Freddie Mac Tenure
Senior Management	28	16	22	15
Middle Management	21	9	11	7
Associates, New College Hires, Administrative	9	5	2	2
Asset Managers	35	7	18	8

Management and Staff Turnover

Employee turnover for 2018 through June 2019 was moderate and departures in the first half of 2019 consisted of two managers and three staff members. Since DBRS Morningstar's last review, David Brickman was appointed president and CEO of Freddie Mac, and a veteran Freddie Mac employee was promoted to head the Multifamily Division. Other noteworthy transitions include new managers for Strategic Transformation (managing all facets of a wide-ranging digital initiative) as well as for Asset Performance and Compliance.

Table 4 – Management and Staff Turnover

	First-Half 2019		2018	
	Personnel (#)	Turnover Rate (%)	Personnel (#)	Turnover Rate (%)
Employees - Beginning of Period	63		53	
Management Departures (all voluntary)	2	3.2	2	3.8
Staff Departures – voluntary	3	4.7	4	7.5
Staff Departures – involuntary	0	0.0	2	3.8
Total Turnover	5	7.9	8	15.1
Turnover Excluding Intracompany Transfers	5	7.9	6	11.3
New Management Hires	4		2	
New Staff Hires	18		12	
Other Adjustments	0		4	
Employees - End of Period	80		63	

Asset-Manager Workload Ratios

As of June 30, 2019, Freddie Mac had two asset managers with 15 unresolved loans and no REO properties for an approximate 7.5/1 ratio of assets to asset manager.

> **Assessment:** Freddie Mac has a comprehensive and suitably designed organizational structure for its multifamily surveillance, special-servicing, and trust-advisory work. The organizational structure remains soundly designed to address the company's special-servicing requirements for its multifamily portfolio. The operation also has addressed some employee turnover, which has generally been moderate, through internal promotions and transfers. The operation continues to demonstrate overall stability and a well-tenured and experienced leadership team and professional staff. The company, which expects to add additional positions in certain areas, should have enough capacity and asset manager expertise to handle an increase in special-servicing volume.

Training

A seven-person talent-development team oversees Freddie Mac's training function. Senior management annually assesses employee needs to determine appropriate curriculum offerings that a course developer designs for implementation. Aside from team-based mentoring, Freddie Mac expects employees to complete at least 40 hours of formal training annually and reviews progress quarterly to ensure employees are meeting this target. For the first six months of 2019, employees averaged roughly 28 hours of Freddie Mac-sponsored training specific to multifamily asset management and operations. Hours at conferences can count toward the 40-hour goal.

A proprietary application called FMYou tracks training events, scheduling, and individuals' completed sessions and hours. This application offers training and development courses in four distinct categories called knowledge centers: business expertise, managing people, personal effectiveness, and tools and technology. Each category offers a variety of web-based and instructor-led courses, resources, and recommended reading related to that topic. FMYou offers more than 150 instructor-led and more than 400 web-based courses. A dedicated webpage for the asset-management and operations group communicates training objectives, curriculum planning, course offerings, and class materials.

> **Assessment:** Freddie Mac has a well-designed and effective training regimen based on its curriculum, resources, and tracking technology to help staff hone job-related skills and stay abreast of industry information.

Audit, Compliance, and Procedural Completeness

An outside auditing firm examines Freddie Mac's financial condition as a public company. FHFA also audits the company annually for soundness risk. In addition to these outside audits, the company has an internal-audit division with a direct reporting line to the audit committee of its board of directors and a dotted line to the company's CEO.

At least annually, the internal-audit group, in conjunction with the governance and business services department, develops its scope and schedule for each division and functional area. Based on a scoring matrix, the internal-audit group examines most Multifamily departments every two to four years depending on the functional area. Special servicing was most recently covered in the MF Asset Management Special Servicing audit performed in 2018 and received a Satisfactory rating. As part of the most recent annual planning, the special-servicing auditable entity was combined with surveillance into the MF Asset Management – Surveillance and Special Servicing. The audit is rated as medium risk, translating into a three-year cycle. The next audit cycle is schedule for 2021.

The internal-audit division had conducted three audits of the Multifamily division in the year to date as of September 2019. They covered servicing (Satisfactory), loan sourcing and underwriting (Needs Strengthening), and loan pricing and securitization (Satisfactory). The two remaining audits cover valuation and loan purchase operations.

The governance and business services department coordinates and populates the multifamily division's policies and procedures on a shared drive. In addition, it provides security access to that drive based on defined user roles. Directors and above in the multifamily division ensure procedures related to processes they manage are reviewed and approved annually or changed as needed according to a delegated authority matrix. The multifamily credit policy department approves all divisional procedures to ensure alignment with credit policies.

> **Assessment:** Freddie Mac's asset-management and operations department continues to have a thorough audit and compliance regimen. Although the internal audits for asset management and operations are less frequent than industry norms, the company's composite review and control practices are sound when factoring its governance and business services' activities and external firms examining Freddie Mac's operational and financial risks. In addition, Freddie Mac's extensive policies and procedures, combined with its compliance protocols embedded in its technology applications, further support the company's efforts to ensure controlled asset management.

Legal Liability and Corporate Insurance

The company reported that it is not involved as a defendant in any material lawsuits involving its special-servicing general practices and operations. Furthermore, it reported that it has directors and officers, and general liability coverage for multifamily REO properties in amounts that appear more than adequate. Freddie Mac also has procured a separate policy for data protection coverage. The company stated it does not carry errors and omissions coverage because it does not provide professional advice or consultation in the course of its business.

> **Assessment:** Freddie Mac, based on its representations, effectively addresses its corporate insurance needs and DBRS Morningstar is not aware of any outstanding material servicing lawsuits that could impair its operations.

Technology and Disaster Recovery

The 80-plus person multifamily business technology officer (BTO) team oversees user support, project development, and data security for all business lines. The asset-management and operations group relies primarily on a suite of legacy applications and databases called Multifamily Processing System and MultiSuite to support its core business processes and serve as a system of record for its loan portfolios. The company's proprietary SMART system serves as the principal analytics tool for surveillance and special servicing at the property, loan, and portfolio level for both retained and securitized assets. Within this application, asset managers can prepare and store resolution plans and request management approvals. SMART also houses loan risk-rating activity, maps risk ratings to established FHFA classifications, and integrates the company's net present value asset-recovery modeling tool. Freddie Mac uses a central data repository that receives feeds from SMART and other applications for various reporting and portfolio analysis. Freddie Mac's applications include:

- Property Reporting System (PRS) – enables seller/servicers and Freddie Mac to submit property operating data and inspections.
- Insurance Compliance Tool – provides a mechanism for submission of insurance coverage data and waivers, and contains review, approval, and tracking mechanisms.
- Multifamily Securities Investor Access – provides investors and asset managers with securities and underlying collateral data.

- Consent Request Tracker – enables monitoring of a servicer's and Freddie Mac's performance on borrower requests on portfolio, warehoused, and securitized pools.
- PCS Surveillance Workstation – a private client services workstation that supports surveillance for K-Deal transactions.
- Document Management System (DMS) – a web-based application supported by IBM that enables electronic imaging of all loan documentation.
- Resource – an application that stores and provides access to appraisal data for validation purposes.
- Multifamily Eligibility System (MES) – stores seller/servicers' annual and other required business certifications plus their submitted organizational changes, custodial account information, and contact information.

The company has a business-to-business portal, which provides seller/servicers with a single access point to exchange information and data between their systems and multiple Freddie Mac multifamily applications.

Freddie Mac has made other technology improvements in the past few years and has more in process. For example, it expanded the consent tracker application to include borrower experience reports, top-five request types reports, and aging transfer reports. It enhanced the Multifamily Securities Investor Access to meet master-servicing obligations and support new transaction types. It made several functionality upgrades to the property reporting system. The SMART system moved to an improved technology architecture for better scalability and leverages another application that integrates Google Maps functionality for all loans boarded within the past five years and offers a filtering data-query capability. The maps application is available on desktops, tablets, and smartphones and results can be downloaded to Excel.

As a longer-term plan, the company has embarked on a "digital transformation" initiative intended to further streamline the technology platform with more straight-through processing capabilities and other enhancements to simplify and improve the seller/servicer, investor, and borrower experience.

Within the multifamily division, each department has its own business-continuity plan containing information needed to recover its business during a disruption. These plans are updated as needed and at least annually and must comply with Freddie Mac's corporate policy. In addition, each department maintains a documented business-impact analysis assessing the potential financial, operational, and reputational impacts to the company's multifamily business resulting from any potential disruption. It must include a projection of recovery timeframes and resource allocation necessary to either mitigate risks or support recovery efforts during an event. These are also updated at least annually.

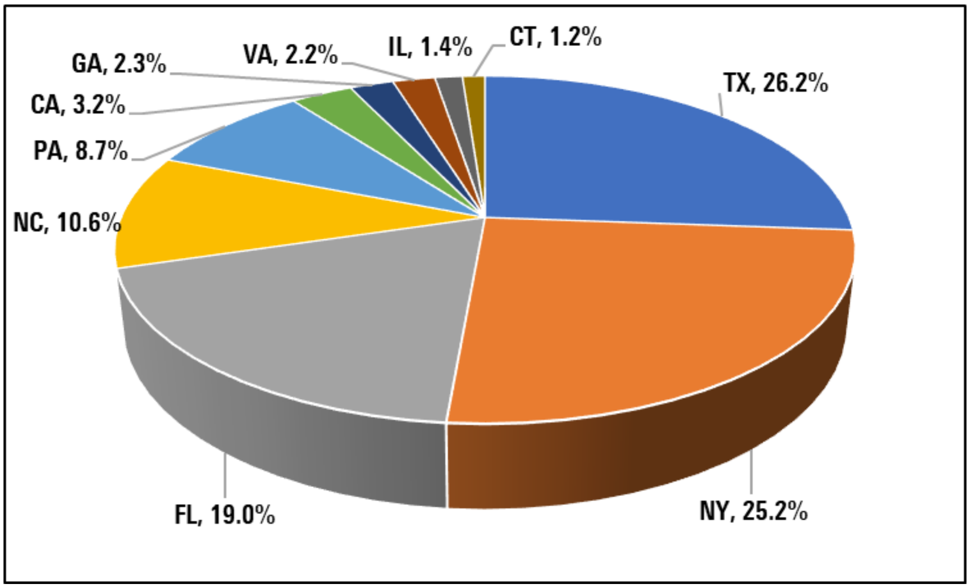
In recent years, Freddie Mac improved its disaster-recovery and business-resumption capabilities by establishing a secondary data center in Colorado through a technology services vendor. It also designated a hot site in Chicago to relocate key employees in the event of a disaster. Daily, the technology team backs up application and network data and transfers the data backups to a national vendor's storage facility. Freddie Mac noted that it also performs real time backups to its alternate servers. Additionally, the company has cross-trained some employees at its hot site location, who are not normally working within asset management and operations, to assume specific tasks if needed. In 2014, the company lowered its targeted recovery time for key functions, most notably processes involving cash processing and investor reporting, which requires a maximum four-hour restoration delay. However, for other asset-management and transactional functions, the maximum permitted recovery time is one week. Furthermore, for internal-facing functions involving the company's balance sheet portfolio, the permitted recovery time is longer. The company follows a quarterly testing cycle for business-continuity/disaster-recovery readiness and test results have been satisfactory.

Assessment: The company has an effective and strengthened technology platform based on its implementation of application-specific and broader enhancements in the past few years. We will also monitor the company's progress with its longer-term "digital transformation" initiative. We also observe that the company has steadily improved its data backup routines and has established sound disaster-recovery/business-resumption protocols. However, the company's stated allowable maximum timeframes to recover some noncash functions still exceed industry norms. Freddie Mac acceptably addresses cybersecurity risk mitigation and awareness through increased employee-training exercises and system-penetration testing.

Special-Servicing Portfolio Administration

As of June 30, 2019, Freddie Mac's total active special-servicing portfolio contained 15 loans with a combined UPB of $372.4 million. Of the 15 loans, all but two, with a combined UPB of $2.6 million, were performing.

Chart 2 – Active Special-Servicing Asset Count by Geographic Concentration*



*As of June 30, 2019. Figures may not sum to 100% because they are rounded.

Asset-Review Process

Upon the transfer of a loan to special servicing, asset managers contact the borrower and require the borrower to sign a pre-negotiation letter before workout discussions. Asset managers prepare asset plans for all loans regardless of size. The asset business plans, which are performed on the SMART system, also incorporate NPV analyses, as applicable, which are calculated through Excel-based models. SMART also contains embedded guidelines with checklists to ensure that asset cases contain all necessary data and analysis.

Internal guidelines require loan asset managers to complete and submit initial business plans for approval within 90 days of transfer if the loan is in default and 120 days if it is not. REO asset managers must complete and submit initial business plans within 90 days of transfer or the loan becoming an REO. There is no committee approval process; instead, all business plans, and subsequent cases containing specific resolution parameters and terms not covered in the original plan, are approved through a delegated authority matrix. Freddie Mac reported that it generally takes one to three business days from closing to deliver fully executed loan modification documents to corresponding seller/servicers.

As a master servicer and guarantor for its portfolio-held loans and several of its securitized transactions, Freddie Mac has the authority to advance funds on delinquent loans. To deliberate, document, and control such decisions, a senior-management advancing committee monthly reviews loan risk profiles, advances to date, and recoverability relative to estimated collateral values.

> **Assessment:** Freddie Mac has proactive and controlled asset analysis and recovery practices based on its stated policies and procedures governing approvals, timeframes for completing resolution plans, and sample cases. The asset-management system serves as an effective tool to track asset-resolution activities. The company's stated average time to deliver transaction closing files to servicers is quite short. However, the expected timeframe for completing loan business plans is somewhat longer compared with that of other special servicers. Although Freddie Mac has acceptable controls through its authority delegations for deliberating and approving asset resolutions, a committee approval process is a generally accepted best practice in most cases.

REO Property Management

The company uses nationally qualified property-management companies, all of which are subject to annual review and recertification. Each property manager receives a standard engagement contract, which includes a policies and procedures manual. Freddie Mac has strict guidelines for qualifying property managers to its approved list. The prospective property manager must provide its geographic coverage, relevant experience, assets, properties or units under management, financial statements, policies and procedures, insurance, and qualifications and certifications and must reference any past work with Freddie Mac. Special-servicing staff also meet with the principals and local managers of the company. In addition, Freddie Mac inspects the property-management company's assets under management as part of the review. Freddie Mac requires three approval levels before adding property-management companies to the approved vendor list.

In general, the company's property-management policies require a single trust account for receiving rental income and disbursing operating expenses for REO property management and accounting. The assigned REO asset manager reviews monthly operating-statement packages from property-management companies. The asset managers also are responsible for reconciling the bank accounts. Policies and procedures delineate the responsibilities of property-management companies and address property preservation projects, which may involve asset managers engaging and overseeing other third-party vendors. Freddie Mac also maintains its own property and liability coverage for REO assets. Having acquired only a few REO properties in recent years, Freddie Mac has not conducted any property-management company audits.

Freddie Mac has not held REO properties for long periods given that its policies dictate liquidation within nine to 12 months and that capital investments must be made only to address life-safety issues or if the expenditure can be recouped within 90 days.

> **Assessment:** For its regularly low volume of REO activity, Freddie Mac has acceptable property manager oversight controls and reporting practices. The regimen for vetting and approving new property management companies is thorough. Although Freddie Mac noted that its REO properties have generally not involved significant cash management, the company does not follow the customary industry practice of having accounting staff independently reconcile property operating bank accounts.

Vendor Oversight

The company maintains a centralized list of approved service providers for needs such as appraisals, engineering and environmental assessments, property management, brokerage, and legal. Typically, vendors are either drawn from the approved list or recommended by the asset manager for inclusion based on the vendor's submitted application. The team leader and head of special servicing approve recommendations for property-management companies based on their delegated authority. For appraisal firm engagements, the asset manager works in consultation with governance and business services' internal valuation unit. This team, consisting of MAI-certified appraisers, identifies the appropriate appraiser, manages the engagement agreement, tracks the pending job for completion, and reviews the report before delivery to asset management. Qualified brokers must submit marketing proposals to be considered for engagement. The surveillance unit manages the selection of environmental and engineering firms. The multifamily division's in-house legal staff controls the engagement process for retaining outside counsel and reviews legal invoices for payment in consultation with the asset manager.

> **Assessment:** Freddie Mac demonstrates sound controls for vendor engagements and oversight. The company's vendor performance tracking process through the asset-management system also strengthens this function.

Borrower Consent Requests

The Freddie Mac Servicing Standard

Since 2014, the asset-management and operations group operated under a standard, as set forth in its seller/servicer guide, to prioritize the borrower experience in its securitized transactions. The standard, which it incorporates into its PSA agreements, supports transparency and communication among all involved parties and, in turn, protects the Freddie Mac brand by emphasizing the company's postsecuritization oversight. The effort focuses especially on streamlining the consent approval process. It established new underwriting guidelines, required each seller/servicer to designate a chief servicing officer to certify consent submissions, and revised fee structures among transaction participants to provide added incentive for servicers to enhance their quality levels. Freddie Mac also created for itself the role of servicing consultant and added the concept to its PSAs aiming to increase transparency into its credit and servicing philosophy and methodology.

Consent-Request Management

To support the special-servicing team with underwriting borrower consent requests received through seller/servicers, the company uses two vendors although neither has credit-decision authority. As noted, Freddie Mac's consent request tracker application operates with a business-to-business portal for seller/servicers' submissions and it is intended to make the tracking of borrower consent requests more efficient, timely and transparent.

Freddie Mac maintains a 15-day internal approval timeline for most consents and a 30-day timeline for complex cases. The company measures completion rates from the time the seller/servicer receives the complete borrower consent request package to its issuance of an approval letter to the borrower. This method helps Freddie Mac measure timeliness from the borrowers' perspective and assess servicers' performance meeting the timeline standard.

Table 5 – Borrower-Consent Requests Processing Volume

	First-Half 2019	% of Total	Full-Year 2018	% of Total
Repair-Escrow Releases	793	34.6	1,388	30.1
Transfer of Ownership/Assumption	357	15.6	953	20.7
Property Management Change	290	12.6	639	13.9
Easement/Partial Release	158	6.9	326	7.1
Defeasance	124	5.4	325	7.1
Late Charge Waiver	94	4.1	79	1.7
All Other	478	20.8	896	19.4
Total	2,294	100.0	4,606	100.0

Assessment: The company has sound and proactive procedures, along with requisite staffing resources and tracking tools, to analyze and approve borrower-consent requests in a timely, yet thorough manner.

Managing Conflicts of Interest

Freddie Mac is not the named special servicer on its standard K or SB securitizations, nor does it retain any of the first loss or unguaranteed tranches in those transactions. Furthermore, it is not affiliated with property-management, brokerage, or appraisal firms. The company acts as a special servicer only for select K-deals, its own book of business and for certain other securitizations or transactions principally involving single assets or sponsors, revolving trust and tax-exempt loans, and aggregated loans not yet eligible for K securitization inclusion.

Assessment: Freddie Mac is not the owner of the B-piece in any of the securitizations on which it is the named special servicer and is without some discernible conflicts of interests, such as those that may appear with other special servicers that may hold interests in lower-rated tranches of a security and/or use affiliates for property managers, brokers, or valuation providers.

Asset-Resolution and Recovery Performance

Freddie Mac's asset-resolution activity has been light and all on the balance-sheet portfolio. Most special-servicing has constituted extra-intensive monitoring, combined with some degree of intervention in many cases, of higher-risk rated performing loans and especially those with upcoming maturities. In most loan liquidation cases, Freddie Mac has achieved full payoffs. However, the company has modified several loans and executed forbearances, including situations granting payment relief to hurricane-affected borrowers.

Table 6 – Special-Servicing Loan Portfolio Activity (First-Half 2019)

	Total Vol ($ Mil)	Total Loans	Total Properties	CMBS Vol ($ Mil)	CMBS Loans	CMBS Properties
Loan Portfolio at Beginning of Period	281.7	15	15	0.0	0	0
Loans Transferred into Portfolio:						
New Nonmonetary/Imminent Default Transfers	0.0	0	0	0.0	0	0
New Monetary Default Transfers	245.1	8	8	0.0	0	0
Total Transfers into Special Servicing	245.1	8	8	0.0	0	0
Loans Fully Resolved:						
Modified or Corrected Loans	0.0	0	0	0.0	0	0
Individual Note Sales	0.0	0	0	0.0	0	0
Discounted Payoffs	0.0	0	0	0.0	0	0
Loans Paid Off at Foreclosure Sale Action	0.0	0	0	0.0	0	0
Full Payoffs	(131.3)	(7)	(7)	0.0	0	0
Total Loan Resolutions	(131.3)	(7)	(7)	0.0	0	0
Net Adjustments and Other Loans Transferred Out	(23.1)	(1)	(1)	0.0	0	0
Loan Portfolio at End of Period	372.4	15	15	0.0	0	0
Average Loan Size at End of Period	24.8			0.0		

Table 7 – Special-Servicing Loan Portfolio Activity (Full-Year 2018)

	Total Vol ($ Mil)	Total Loans	Total Properties	CMBS Vol ($ Mil)	CMBS Loans	CMBS Properties
Loan Portfolio at Beginning of Period	633.8	24	24	0.0	0	0
Loans Transferred into Portfolio:						
New Nonmonetary/Imminent Default Transfers	0.0	0	0	0.0	0	0
New Monetary Default Transfers	318.7	11	11	0.0	0	0
Total Transfers into Special Servicing	318.7	11	11	0.0	0	0
Loans Fully Resolved:						
Modified or Corrected Loans	0.0	0	0	0.0	0	0
Individual Note Sales	0.0	0	0	0.0	0	0
Discounted Payoffs	0.0	0	0	0.0	0	0
Loans Paid Off at Foreclosure Sale Action	0.0	0	0	0.0	0	0
Full Payoffs	(669.0)	(20)	(20)	0.0	0	0
Total Loan Resolutions	(669.0)	(20)	(20)	0.0	0	0
Net Adjustments and Other Loans Transferred Out	(1.8)	0	0	0.0	0	0
Loan Portfolio at End of Period	281.7	15	15	0.0	0	0
Average Loan Size at End of Period	18.8			0.0		

Table 8 – REO Portfolio Activity (All Held on Balance Sheet)

	June 30, 2019		December 31, 2018		December 31, 2017	
	UPB ($ Mil)	Properties (#)	UPB ($ Mil)	Properties (#)	UPB ($ Mil)	Properties (#)
Portfolio Volume - Beginning of Period	0.0	0	16.1	2	0.0	0
Completed Foreclosures	0.0	0	0.0	0	26.9	3
Sold Properties	0.0	0	(7.0)	(2)	(10.8)	(1)
Other Adjustments	0.0	0	(9.1)	0	0.0	0
Portfolio Volume - End of Period	0.0	0	0.0	0	16.1	2
Sold REO - Net Proceeds/Value (%)	N/A		109.2		111.7	
Average Time as REO (months)	N/A		8.7		1.0	

Assessment: Freddie Mac achieved successful multifamily asset recovery results during the first half of 2019 and for the full year 2018. All resolutions were via full payoffs reflecting Freddie Mac's policy of placing imminently maturing loans into special servicing several months ahead of their maturity dates. While it has managed only a few REO properties in recent years, average hold times have been relatively short and recovery proceeds have exceeded estimated collateral values in most cases.

Investor and Master-Servicer Reporting

As of June 30, 2019, Freddie Mac was a named special servicer on 13 K-Deal transactions with a total servicing UPB of $8.34 billion. To date, there have been no loans in these transactions officially transferred into special servicing. Nevertheless, in large part because of the company's financial interest in these transactions by virtue of its guarantee portion, it does obtain the CREFC Investor Reporting Package from the transactions having external master servicers. The surveillance unit performs quarterly risk ratings on all loans as well. CREFC's IRPs are downloaded into the unit's external-facing multifamily securities investor access application. In addition, the surveillance team also reconciles monthly bond-level data for internal reporting and bond guarantee payments. The surveillance unit's breadth of duties is covered in more detail below in our assessment of Freddie Mac as a trust advisor.

Assessment: Freddie Mac demonstrates effective capabilities and is well-experienced with special servicer-related reporting for its securitized multifamily transactions.

Trust-Advisor Administration

Freddie Mac is formally named as the operating trust advisor on three deals including Impact Funding Affordable Multifamily Housing Mortgage Loan Trust 2015-2 (Q-001 and Q-002) and FREMF 2015-KPLB Mortgage Trust securitizations. It also serves informally as a trust advisor/servicing consultant with similar duties on the Impact Funding Affordable Multifamily Housing Mortgage Loan Trust 2014-1 (Q-001) securitization. To date, these transactions have performed well and not triggered any trust advisor activity.

While not a named trust advisor in any other transactions, Freddie Mac performs functions that would be required of a CMBS named trust advisor on its own portfolio, and more informally on K-Deal transactions where it retains an economic interest by virtue of its guarantees. Because of such economic interest, the company, principally through its surveillance and compliance-management teams, tends to be proactive in its surveillance and servicer review protocols. While the company would not be able to possess a direct economic interest in a transaction for which it is the named trust advisor, its surveillance work, as a guarantor and brand manager, establishes the framework for it to serve as a trust advisor on a purely third-party basis.

The surveillance department has five units: portfolio surveillance; master servicing/reporting; guarantor risk and external relations; rehab/preservation, valuation, and physical risk; single-family rental; and LIHTC equity (low-income housing tax credit). Through these teams of asset managers and analysts, the department monitors balance-sheet and securitized-loan performance and manages related seller/servicer reporting and the risk-rating process.

As of June 2019, Freddie Mac monitored 271 K deals with a total UPB of $239.34 billion, up from 223 transactions representing $216.41 billion as of July 2018. It also monitored 63 SB deals with a total UPB of $19.52 billion, up from 51 transactions representing $13.58 billion from the year before. Including balance-sheet and other transaction types, Freddie Mac's surveillance universe contained more than 25,000 loans.

Freddie Mac risk rates all loans on a scale ranging from 1 to 10, with loans rated from 1 to 6 representing low risk, 7 classified as moderate risk, and 8 to 10 considered high-risk loans. Loans with a rating of 8 are evaluated quarterly for impairment and those with a rating of 9 are considered already impaired. Asset managers and analysts are assigned portfolios primarily by seller/servicer so that each monitors a mixture of high-risk, moderate-risk, and low-risk loans.

The surveillance department performs the following key functions:

- Monitors the credit quality and performance of the multifamily loan portfolio, guarantees, and the K-Deal securitization program, including property financial statement inspection reviews;
- Performs quarterly risk rating and classifications on all loans and guarantee obligations for internal, financial, and regulatory reporting;
- Informs the organization and key stakeholders of risks and issues in the portfolio and K-Deal/SB-Deal securitizations;
- Identifies market and segment trends and borrower activity to drive new and existing business strategies;
- Supports stakeholder relationship management and facilitates the information flow among all parties; and
- Manages the criteria and guidelines on physical risk, including environmental and engineering assessments and property inspections.

The company notes that because analysts perform the above-listed functions and the surveillance team for securitizations conducts a monthly review and prepares a compilation of trustee reports and seller/servicers' CREFC IRP submissions, they are familiar with the IRP content. Through the Multifamily Securities Investor Access application, securitization investors receive monthly deal performance results.

As part of this review, the team researches issues causing delinquent loans and monitors specially serviced loans. Surveillance analysts will personally conduct site inspections of properties collateralizing high-risk loans or in portfolios where the servicer elects not to conduct the inspections. In addition, the surveillance team reviews and reconciles language in the various PSA agreements to trustee and servicer actions and bond cash flows. Freddie Mac reported that it will remit payments to the trust if a servicer erroneously passes through an inadmissible or wrongly calculated fee, and then seek reimbursement from the servicer. Loans approaching maturity within six months are automatically transferred within Freddie Mac's system to special-servicing status for heightened management.

The servicer and client-management group assists the surveillance team to collect seller/servicers' quarterly and year-end operating statement analyses, loan management forms that analyze borrowers' compliance with the loan documents and highlight any potential problems, and annual inspection reports. Freddie Mac receives this information through its Property Reporting System on a predetermined schedule. The information is then downloaded to the SMART system for surveillance analysis. If errors are detected on the submitted information, the analysts notify the servicers and request corrected versions be resubmitted through PRS. Freddie Mac tracks servicer performance with assessment submissions and provides feedback to the servicer.

The customer compliance management unit performs regularly scheduled seller/servicer audits with frequency based on a documented methodology that considers previous audit results and the performance of each seller/servicer on the various assessment forms. In addition, each year Freddie Mac conducts a performance review of each conventional, TAH, and Small Balance Loans seller/servicer. The review encompasses feedback from the production, underwriting, and asset-management units, as well as audit findings. Freddie Mac maintains a regimen of weekly dashboard and system reports to display loan monitoring, insurance, and assessment collection activities. An Asset Management and Operations Advisory Council, which includes eight representative seller/servicers, meets quarterly to address topics such as Freddie Mac's seller/servicer guide requirements, servicing issues, securitization, strategy and business processes and plans.

Assessment: Freddie Mac is a qualified trust advisor based on its rigorous oversight practices of its seller/servicers and special servicers and the fact that it soundly performs many of the functions required of named trust advisors in securitized transactions. The company has thorough protocols and the expertise to monitor servicer/special servicer performance both for its own book of business and for its securitized transactions. Its robust surveillance practices and strict seller/servicer reporting regimen, combined with its personnel and technology resources, further support Freddie Mac's ability to serve as an effective trust advisor on transactions where it is currently named and for future ones.

Ranking Definitions

The numerical scales of MOR CS1 to MOR CS4 for commercial mortgage special servicers and MOR TA1 to MOR TA4 for commercial mortgage trust advisors are defined, respectively, as follows:

1	Exceeds prudent standards in key areas of risk
2	Demonstrates proficiency in key areas of risk
3	Demonstrates compliance in key areas of risk
4	Demonstrates lack of compliance in one or more key areas of risk

A company assigned a ranking of at least MOR CS3/TA3 is deemed to comply with what we view as the minimum prudent standards and requirements for the company's operational category and role. DBRS Morningstar's operational risk assessments methodology and all published reports are available at www.morningstarcreditratings.com.

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