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Servicer Evaluation: Freddie Mac

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Servicer Evaluation: Freddie Mac

Ranking Overview

		Subrankings		
Servicing category	**Overall ranking**	**Management and organization**	**Loan administration**	**Outlook ranking**
Commercial master	ABOVE AVERAGE	ABOVE AVERAGE	ABOVE AVERAGE	Stable

Financial position
SUFFICIENT

Rationale

S&P Global Ratings' ranking on Freddie Mac Multifamily Asset Management and Operations (AMO) is ABOVE AVERAGE as a commercial mortgage loan master servicer. On Oct. 21, 2022 we affirmed the ranking (please see "Freddie Mac ABOVE AVERAGE Commercial Mortgage Loan Master Servicer Ranking Affirmed; The Ranking Outlook Is Stable," published Oct. 21, 2022). The outlook for the ranking is stable.

Our ranking reflects AMO's:

- Experienced and tenured senior management team, despite a recent change in leadership;
- Effective and comprehensive employee training and development program;
- Continued low levels of multifamily mortgage loan delinquency rates;
- Integrated and effective technology systems;
- Comprehensive subservicer (seller/servicer) oversight program;
- Sound audit and control environment, although it has a longer-than-average internal audit cycle than that of most servicers;
- Homogenous multifamily property portfolio, with limited exposure to other commercial property types;
- Financial support and implicit guarantee from the U.S. government; and
- Continued position under the conservatorship of the Federal Housing Finance Agency (FHFA) limiting the ability to control its future.

Since our prior review (see "Servicer Evaluation: Freddie Mac," published Jun. 9, 2021), certain changes and/or developments have occurred:

- In November 2021, FHFA issued its annual Conservatorship Scorecard for 2022, which provided for a $78 billion cap on the multifamily purchase volume for Freddie Mac. The 2022 scorecard requires that a minimum of 50% of the multifamily loan purchases be "mission-driven": i.e., loans in affordable and underserved market segments.
- The "serviced by others" portfolio decreased to $97 billion as of June 30, 2022, from $102 billion as of Dec. 31, 2020, the date of our last review, and the traditional K-Deal (i.e., capital market execution) portfolio balance increased to approximately $329 billion as of June 30, 2022, from nearly $295 billion as of Dec. 31, 2020.

- Freddie Mac hired a new CEO with extensive industry experience in June 2021. He replaced a board member who served as the interim CEO after the departure of the prior CEO in January 2021.
- In September 2022, Freddie Mac named a new senior vice president (SVP) and chief compliance officer.
- In July 2022, the VP of risk distribution and credit departed the company, and the position's responsibilities have been absorbed by other staff members while the company looks to fill the position.
- In June 2022, the multifamily AMO SVP transitioned to a new role as the SVP in enterprise operations and technology. The VP of multifamily asset management is leading the department until a permanent replacement is determined.
- In May 2022, the senior director of customer compliance management was promoted to VP of multifamily counterparty risk management.
- In April 2022, Freddie Mac appointed an SVP and chief diversity and inclusion officer.
- In February 2022, an interim head of underwriting and credit was named after the departure of the previous head. In August 2022, the interim tag was removed.
- In February 2022, a new executive VP and general counsel was hired.
- In September 2021, a new SVP and chief human resources officer was hired.
- In November 2021, the head of multifamily departed the company and was replaced in May 2022 by a long-tenured executive who was previously the SVP of single family portfolio management.
- The head of multifamily production and sales retired in May 2022, and an interim head was named while the company searches for a replacement.
- The company continues to invest in its 2018 five-year digital transformation plan (which has been expanded and extended), including increasing responsiveness, optimizing data, providing portable access, and easing the user experience.
- After experiencing operating success during the COVID-19 pandemic with the majority of its employees working from home, Freddie Mac has migrated to a hybrid model where employees come to the office on two set days per week and work the rest of the week either at the office or home based on employee's discretion.

The ranking outlook is stable. While there have been numerous changes across Freddie Mac's multifamily division as well as a new CEO since our last review, the operational core leadership of AMO (outside of the aforementioned multifamily AMO SVP) has remained stable and has extensive experience and tenure with the company. The company continues to invest in systems with streamlining and automating of their procedures on a routine basis.

In addition to conducting a remote meeting with servicing management, our review includes current and historical Servicer Evaluation Analytical Methodology data through June 30, 2022, as well as other supporting documentation provided by the company.

Profile

Servicer Profile	
Servicer name	**Federal Home Loan Mortgage Corp. (d/b/a Freddie Mac)**
Primary servicing location	McLean, Va.
Parent holding company(i)	Federal Housing Financing Agency (September 2008)
Loan servicing system	Multiple (see the Systems And Technology section)

(i)Federal Housing Financing Agency is the conservator of Freddie Mac (not a parent holding company). d/b/a--Doing business as.

Freddie Mac was chartered by the U.S. Congress in 1970 with a mission to provide liquidity, stability, and affordability to the U.S. housing market. Freddie Mac does not make loans directly. Rather, the company fulfills its mission by purchasing single family and multifamily mortgage loans originated by lenders. In most instances, these loans are packaged into guaranteed mortgage-related securities, which are sold in the global capital markets.

Freddie Mac's Multifamily Division provides liquidity and support to the multifamily mortgage market through a variety of activities that include the purchase, securitization, and guarantee of mortgage loans on multifamily residences with five or more units. Freddie Mac has been funding and servicing multifamily mortgages since 1993 and as of June 30, 2022, it cumulatively financed $863 billion for more than 12.3 million multifamily units.

Freddie Mac purchases multifamily mortgages from a network of approved seller servicers and targeted affordable housing correspondents according to internal guidelines. The multifamily division employs approximately 1,000 people, and is supported by more than 200 other company employees across the finance, enterprise operations and technology, legal, enterprise risk management, and human resources divisions. Most Freddie Mac Multifamily employees are based out of the McLean, Va., campus with additional multifamily staff in four regional offices (Arlington, Va., Chicago, Los Angeles, and New York), along with nine field offices.

Since Sept. 2008, Freddie Mac (and Fannie Mae) have been operating in conservatorship, with FHFA as its conservator. Upon its appointment, the conservator immediately succeeded to all rights, titles and powers, and privileges of Freddie Mac and of any stockholder officer, or director of Freddie Mac with respect to Freddie Mac and its assets. During conservatorship, FHFA has tried to distinguish the government-sponsored enterprise's (GSE's) multifamily division from the single-family business, which suffered losses during the housing crisis. The multifamily division weathered the crisis and continued to generate positive cash flow while providing liquidity to the multifamily mortgage industry. The goals of conservatorship were to restore confidence in this and the other GSEs, enhance their capacity to fulfill their missions, and mitigate the systemic risk that contributed to the previous market instability.

The conservatorship will end when policymakers determine that the plan to restore both GSEs to a safe and solvent condition is complete, as well completing several other conditions. While there have been various well-publicized discussions and proposals toward ending FHFA conservatorship, there is no specificity to that end.

In November 2021, FHFA issued its annual Conservatorship Scorecard for 2022, providing a $78 billion cap on the multifamily purchase volume for Freddie Mac. The 2022 scorecard requires a minimum of 50% of the multifamily loan purchases be "mission-driven", i.e., loans in affordable and underserved market segments.

Freddie Mac Multifamily sources its loans from approximately 26 approved seller/servicers (an additional 22 are approved for servicing only or negotiated transactions), which are licensed in either conventional, small-balance, or targeted affordable housing loan products. The seller/servicers must meet Freddie Mac's standards for both origination and servicing of multifamily loans, including maintaining minimum financial requirements and satisfactory annual audit results. After Freddie Mac Multifamily purchases a loan from a seller/servicer, the servicer typically maintains the loan servicing and asset management duties. The servicer's roles and responsibilities are defined in the Freddie Mac Multifamily Seller/Servicer Guide (SSG). In the event of a loan default, the servicer prepares an initial package for Freddie Mac to review; Freddie Mac then controls the resolution process.

Freddie Mac Multifamily uses a securitization model, which was adopted in 2009, as the primary vehicle to transfer credit risk. K-Deals are Freddie Mac's primary securitization method for transferring credit risk, representing over 50% of its portfolio by loan count. In addition to its securitization model, Freddie Mac Multifamily has various other product types that make up its approximately $415 billion portfolio (see table 1) as of June 30, 2022 (for more information about all portfolio and product types, see the Appendix of this report). Consistent with the goal to migrate to a securitization model, the percentage of securitized UPB in the portfolio has increased since our last review (96.1% of UPB as of June 30, 2022, compared with 91.4% as of Dec. 31, 2020).

Table 1

Multifamily Portfolio (i)

As of June 30, 2022

Product type	Loan/bond count	Loan/bond count (%)	Unpaid principal balance (mil. $)	Unpaid principal balance (%)
Participation certificates (45 & 75 Day)	144	0.5	97.6	0.0
Participation certificates (55 Day)	1,186	4.0	23,609.1	5.7
TEBS	556	1.9	5,741.6	1.4
Bond credit enhancements	377	1.3	10,191.3	2.5
Retained portfolio (for sale)	728	2.4	9,301.8	2.2
Retained portfolio (for investment)	759	2.5	6,968.6	1.7
K-Deals(ii)	15,433	51.6	328,504.1	79.1
Q-Deals	1,092	3.7	2,832.2	0.7
SB-Deals	9,581	32.0	24,738.7	6.0
R-Deals	43	0.1	3,069.4	0.7
Total	29,899	100.0	415,054.4	100.0

(i)Includes loans where Freddie Mac is guarantor or the master servicer. (ii) K-Deal info also includes ML deals (securitized tax-exempt loans (TEL's)). TEBS - Tax-exempt bond securitization.

Management And Organization

The management and organization subranking is ABOVE AVERAGE.

Organizational structure, staff, and turnover

The SVP and head of the multifamily division oversees a staff of over 950, including employees within operations, investments, strategic planning, data management, and business support operations and execution. There are six departments (headcounts as of June 30, 2022).:

- Production and sales (137);
- Technology (222);
- Underwriting and credit (233);
- Capital markets (99);
- Business management (31); and
- AMO (244).

The multifamily division is further supported by in-house legal, accounting, finance, technology, enterprise risk management, human resources, and communications staff.

The long-tenured previous head of the AMO group transitioned to a new enterprise level role within Freddie Mac in June 2022. The VP of asset management in the AMO organization has been named interim head while Freddie Mac searches for a permanent replacement. The interim head has more than 20 years of industry experience and 11 years of tenure with Freddie Mac. She reports to the aforementioned SVP and head of the multifamily division, a long-tenured executive who was named to this position in May 2022 after previously serving as the SVP of Single-Family Portfolio Management.

As of August 2022, AMO is organized into three distinct areas with tenured executives managing each area as described below – with the operational risk group recently moved into multifamily from AMO:

- Asset Management – headed by a VP with more than 10 years of experience with the company and significant prior work in the industry with a servicer as well as a rating agency. Her group manages and monitors asset resolutions and REO, borrower transactions, structured transactions, and risk ratings, and performs master servicing asset management and reporting. The unit also oversees investor support, insurance, physical risk guidance, loan boarding, and compliance and property assessments collections.
- Loan Servicing and Multifamily Operations – headed by a VP with more than 21 years of work at the company and prior industry experience in banking. His group manages and reconciles servicer reporting and remittance, the Multifamily (MF) cash desk, monthly operational closing activities, retained portfolio servicing and master servicing (post securitization), and fund administration. The unit also authorizes loan and bond purchases, performs loan sales and securitization document activities, handles the MF data program, and manages the document custody process.
- Counterparty Risk Management and Customer Compliance – headed by a VP who has worked almost 20 years with the company along with prior industry experience. Her group monitors the MF servicers' eligibility and compliance, performs audits of MF seller/servicers and primary servicers, and assesses counterparty risk of seller/servicers and other non-borrowers. The unit also manages the SSG and interfaces with rating agencies for master, special, and operating advisor ratings. It is also the main channel for seller/servicer communications and relationships.

As of June 30, 2022, there were 204 employees in the AMO group who had roles in master servicing with the majority based out of the McLean, Va. office. AMO's organizational structure provides appropriate oversight and accountability, while supporting the master servicing duties and requirements associated with the various Freddie Mac Multifamily product portfolios. AMO continues to utilize outsourcing for assistance when volumes are high, but it does not outsource any remitting or reporting functions.

For the first half of 2022, AMO reported 9% overall turnover, which if annualized would be largely similar to the 17% and 21% levels reported during 2021 and 2020, respectively. We note that these turnover figures are slightly higher than when they were at pre-pandemic levels but are comparable to other servicers we rank during respective time frames.

Table 2

Years of Industry Experience/Company Tenure(i)

	Senior managers		Middle managers		Asset managers		Staff	
	Industry experience	**Company tenure**	**Industry experience**	**Company tenure**	**Industry experience**	**Company tenure**	**Industry experience**	**Company tenure**
Master	21	13	12	8	N/A	N/A	4	2

(i)As of June 30, 2022

Training

Freddie Mac provides its management and staff with a diverse array of ongoing, formal internal and external training programs. Other training highlights include the following:

- Freddie Mac employs full-time dedicated training personnel, and employee participation hours are formally tracked.
- AMO utilizes a training task force to develop on-site training opportunities and provide resources for individual training opportunities. This includes department-specific education and preparing in-depth sessions on certain MF loan product types and the securitization process for employees.
- An AMO employee's commercial real estate experience is the basis for an annual training target. Annual requirements range from 40 hours for those with less than five years' experience, 30 hours for individuals with 5-10 years' experience, and 20 hours for those with more than 11 years in the industry.
- Through the first half of 2022, all experience levels averaged 11 hours of training. In 2021, the combined average was 38 training hours per employee.
- Freddie Mac University (FMYou) is an integrated learning platform where employees can search and register for development opportunities in any of the four general knowledge centers: business expertise, managing people, personal effectiveness, and tools and technology. FMYou also offers employee performance management resources, multifamily divisional training, certification curriculums, and advanced programs.
- External industry training opportunities are made available to AMO employees, including from the MBA School of Multifamily Mortgage Banking (MBA). Internal training is provided by various MF groups, including capital markets and legal.
- Training includes web-based and instructor-led courses. Employees also have access to LinkedIn learning, on-campus MBA classes, and learning management TED Talks.

Systems and technology

Freddie Mac has solid and effective technology to meet its master servicing requirements. The company has well-designed data backup routines and disaster recovery preparedness. According to management, they continue to make updates as necessary, including enhancements to technology systems, providing staff with effective up-to-date tools, improving and streamlining efficiencies, and helping investors access information on the K-Deals.

Servicing system applications

Highlights of AMO's systems and technology include the following:

- Freddie Mac uses Enterprise! v.20220.1.21.24 as a secure repository for loan-level master servicing and investment fund processing.
- Multifamily processing system (MPS) is an internal Freddie Mac system that processes the purchase and accounting of multifamily loans.
- MPS Loan Accounting is the system of record for all loans.
- MPS Cash Management provides accounting for funds due and received by Freddie Mac for all multifamily products (excluding CMBS, which uses an external banking application), the application interfaces with the corporate treasury group.
- MultiSuite for Bonds is the system of record for active bonds; it monitors Freddie Mac credit-enhanced bonds.
- MultiSuite for Bonds Tax-Exempt Bond Securitization (TEBS) is the system of record for active TEBS bonds.
- MultiSuite for Bond Wires is used to submit trustees' draw requests; it is integrated with MPS to capture approval of the wire requests.
- Enhanced payoff quote functionality in Enterprise! increases efficiencies in the payoff approval process.
- Integrated Loan Servicing (ILS) provides seller/servicers with a consolidated loan servicing portfolio in a single-platform experience.
- In December 2021, Multifamily Eligibility System (MES) Release 8 was deployed, which updated the annual certification questions and added enhanced functionality for internal Freddie Mac users of the internal control questionnaire (ICQ).
- The Property Reporting System (PRS) is used by seller/servicers to submit annual property assessment data, including operating statements, property inspections, and borrower compliance analyses. PRS updates in 2021 focused on improving watchlist process efficiencies and the 2022 release will add a dashboard of deliverables.
- The Insurance Compliance Tool submits and tracks insurance compliance and waiver requests.
- Multifamily Securities Investor Access is a web-based interface providing investor access for K-Deals, including Commercial Real Estate Finance Council Investor Reporting Package and select deal documents.
- The Consent Request Tracker (CRT) is a web-based tool that tracks and monitors primary, master, and special servicer performance on borrower requests (i.e., loan assumptions and property management changes).
- The Streamlined Management Analytical and Reporting Tool (SMART) is used for loan and portfolio surveillance to develop business plans and assign loan risk ratings.
- The Document Management System is a web-based solution that enables electronic and paperless transmitting and sharing of documents for mortgage originations, underwriting, post-closing loan activity (i.e., servicing documentation), and investor delivery.

In the fall of 2018, the company initiated a five-year multifamily digital transformation project. This project is facilitating a move forward with modernization and automation of processes and systems to increase responsiveness, optimize data processes, allow for portable access, and simplify the user experience. The project was on target and in its final year when management decided to expand the scope and continue with the project by including additional process automation.

Overall, we believe AMO has a solid integrated technology platform to effectively analyze, monitor, and report on loans, collateral properties, and seller/servicers.

Business continuity and disaster recovery

Freddie Mac's enterprise business continuity group works with the business lines to mitigate the risk and impact of business disruptions. It is responsible for identifying recovery solutions consistent with Freddie Mac's recovery time objectives (RTOs). Notable features include the following:

- Freddie Mac performs disaster recovery testing quarterly, which is more frequently than most ranked servicers.
- Each Freddie Mac Multifamily department, including AMO, maintains their own business continuity plan. Written updates to the plan are made at least annually and must comply with corporate policy.
- The annual full business continuity test was completed in May 2022, with no significant issues identified.
- Each department has a documented business impact analysis along with a systematic assessment of the potential financial, reputational, and operational impacts caused by critical incidents and disruptions. The plan identifies recovery timeframes and requirements and helps allocate resources during an event. Updates are conducted at least annually.
- Freddie Mac's RTO is two hours for cash remittance processing and four hours for investor reporting. RTO for all other servicing functions is three days, which is greater than most other ranked servicers.
- Freddie Mac stores their backup data tapes in several locations across the U.S. Physical papers are stored in Sterling, VA and other regional locations. The disaster recovery data is housed on an AWS Cloud site.

Cybersecurity

Freddie Mac keeps up a formal cybersecurity protection plan. Features include the following:

- The company maintains a stand-alone cybersecurity insurance policy and makes access to specialized cybersecurity legal counsel readily available.
- Employees are sent phishing emails monthly to enhance cyber threat awareness, an increase from quarterly at the time of our last review.
- Multi-factor authentication (MFA) is employed to access the company systems.
- Updates are continually made to the network perimeter firewalls and intrusion detection. A layered network protects critical assets with anti-malware for incoming emails and desktops.
- Security risk testing is performed and patches are installed regularly to address vulnerabilities as needed.
- Sensitive data is encrypted and masked to ensure its protection and confidentiality.
- A third-party vendor performs penetration testing annually to evaluate potential cybersecurity risk. The company also performs quarterly internal penetration testing. The last penetration test was conducted in spring 2022, with no material issues identified.

Internal controls

Freddie Mac's risk management efforts, including its policies and procedures and audit processes, demonstrate a comprehensive and sound approach to maintaining a controlled servicing environment. Freddie Mac's governance and business services group provides a range of services to support AMO. A centralized operational risk management area assists AMO with crisis management, business continuity, fraud prevention, information security, risk assessment and testing, and Sarbanes-Oxley-related compliance. They also provide the SVP and head of multifamily and the president of Freddie Mac an executive summary covering the aforementioned areas as the risk assessments are completed. We view this level of reporting favorably and believe it provides an additional level of control.

Policies and procedures

Freddie Mac's policies and procedures are extensive, thorough, well-organized, and reviewed annually for potential updates or changes.

- The Multifamily Credit Policy department makes policy for the division. The business unit approves procedure changes and updates.
- Credit policy governance updates are also captured and approved electronically through SharePoint Workflow.
- Procedures are available online to all staff via SharePoint and AllRegs® software.

Compliance and quality control

Freddie Mac employs three lines of defense to manage its operational risk. The first line of defense includes leaders from the revenue-producing business units and IT. The second line includes leaders from the enterprise risk management and compliance departments, as well as the chief risk officer, providing oversight of the first line of defense. Internal audit (discussed below) is the third line of defense, providing independent oversight of both the other lines of defense.

Internal and external audits

The internal audit group is an independent oversight function established by Freddie Mac's board. The general auditor functionally reports to the board's audit committee and administratively to the CEO. A Uniform Single Attestation Program (USAP) audit is conducted annually by an external auditor. Additionally:

- Internal audit uses a risk-based planning approach and completes a comprehensive risk assessment of the inherent risks related to each auditable line of business while independently evaluating how the first and second lines achieve risk management and control objectives.
- Risk is scored based on operational, credit, and market risks, as well as strategic, reputation, regulatory, and legal issues. The resulting risk ranking then determines the audit frequency based on a cycle between one and four years.
- The risk rankings for the MF auditable entities are reviewed this year in the annual planning cycle.
- Audit risk assessment opinions are expressed in one of four categories: very high, high, medium, or low, based on the likelihood of a risk event occurring.

Management reported that its 2022 multifamily audit universe encompassed 14 auditable entities, of which eight were risk-rated high (two-year audit cycle), and six were risk-rated medium (three-year audit cycle). Of the 14 auditable entities, five are scheduled to be audited in 2022, six in 2023, and the remaining three in 2024. Six audits were completed in 2021, all receiving satisfactory results with only a few minor issues. At the time of our review, four of the five scheduled audits in 2022 have been completed with three receiving satisfactory results and one receiving a needs strengthening result which management is remediating.

Details of the five audits scheduled for 2022 are:

- The MF market risk management and spread volatility impact audit has been completed (satisfactory) with only a few minor issues regarding performance monitoring and control enhancements.
- The MF operational risk governance audit has been completed (satisfactory) with only one minor issue regarding mapping of internal controls.
- The MF cash desk operations audit has been completed (satisfactory) with only one minor issue regarding wire approvals.
- The MF loan sourcing and pricing audit has been completed (needs strengthening) with two major issues, both of which are self-reported. One issue surrounds a lack of fair lending framework and the other highlights the national staffing difficulties, and the people risk associated with same.
- The MF loan purchase operations audit is scheduled to be issued in September 2022.

The USAP audit report for year-end 2021 performed by a well-known outside firm noted no issues. Freddie Mac is not subject to, nor does it perform, a Regulation AB review.

While the internal audit cycle of AMO is somewhat less frequent than those of similarly ranked peers, we believe the overall audit plan is rigorous and suitable given the well-designed three lines of defense that Freddie Mac utilizes under a highly regulated regime. Further, the internal controls and compliance framework at AMO appears to be robust and effective.

Vendor management

Freddie Mac engages and monitors outsourced service providers (i.e., systems, tax administration, etc.) and third-party vendors--which may include appraisers, property managers, and environmental engineers--in a controlled manner.

- All vendors are subject to a competitive bid process and stringent corporate procurement requirements.
- Business units provide a quarterly quality score based on a five-point scale to assess performance for each of the vendors.
- Vendor contracts are tracked for compliance with terms and expiration to ensure timely renewal where appropriate.
- Freddie Mac performs risk assessments on vendor security practices as they relate to the procurement of services.
- As part of the vendor risk assessment, vendors undergo a review of their cyber hygiene; with their System and Organization Controls 2 (SOC 2) audits reviewed, if applicable.
- AMO targets staffing levels to ensure that core business operations can be performed by its employees and it occasionally utilizes service providers for overflow capacity in processing borrower consent requests.

Insurance and legal proceedings The company has represented that it maintains adequate directors and officer's coverage that is in line with the requirements of its portfolio size. It does not maintain an errors and omissions policy because it does not provide professional advice or opinions. Although the company faces a broad array of litigation from its ordinary course of business, as of the date of this report, there were no material servicing-related pending litigation items.

Loan Administration

The loan administration subranking is ABOVE AVERAGE.

AMO performs servicing and asset management activities for the Freddie Mac Multifamily portfolio (see table 3). It has established processes and systems designed to complete the following traditional master servicing functions:

- Boarding and tracking each loan on MPS;
- Aggregating and reconciling loan data and funds from subservicers;
- Portfolio accounting;
- Advance tracking and recovery;
- Investor reporting and remittance;
- Collateral, loan, and portfolio-level surveillance;
- Subservicer performance and compliance monitoring; and
- Credit-related borrower consent requests management.

Table 3

Total Servicing Portfolio

	UPB (mil. $)	YOY change (%)(i)	No. of assets	YOY change (%)(i)	No. of staff	YOY change (%)(i)
Master servicing						
June 30, 2022	97,149.3	(3.0)	15,573	(1.7)	219	4.8
Dec. 31, 2021	100,181.3	(1.5)	15,843	0.6	209	3.5
Dec. 31, 2020	101,754.8	16.5	15,744	8.9	202	(0.5)
Dec. 31, 2019	87,380.0	7.1	14,456	12.5	203	6.8
Dec. 31, 2018	81,591.3	11.8	12,848	20.9	190	5.0

(i) June 30, 2022 YOY change based on the prior year end. YOY--Year-over-year. UPB--Unpaid principal balance.

Table 4

Master Servicing Portfolio

	June 30, 2022		Dec. 31, 2021		Dec. 31, 2020		Dec. 31, 2019		Dec. 31, 2018	
	UPB (mil. $)	No.	UPB (mil. $)	No.	UPB (mil. $)	No.	UPB (mil. $)	No.	UPB (mil. $)	No.
Master (SBO) loans	97,149.3	15,573	100,181.3	15,843	101,754.8	15,744	87,380.0	14,456	81,591.3	12,848
Subservicers	--	34	--	34	--	33	--	36	--	34
Average loan size	6.2	--	6.3	--	6.5	--	6.0	--	6.4	--

Table 4

Master Servicing Portfolio (cont.)										
	June 30, 2022		Dec. 31, 2021		Dec. 31, 2020		Dec. 31, 2019		Dec. 31, 2018	
	UPB (mil. $)	No.	UPB (mil. $)	No.	UPB (mil. $)	No.	UPB (mil. $)	No.	UPB (mil. $)	No.
Delinquent (%)										
30 days	0.02		0.05		0.06		0.02		0.01	
60 days	0.03		0.01		0.03		0.04		0.00	
90+ days	0.21		0.27		0.41		0.18		0.04	
Total	0.26		0.33		0.50		0.24		0.04	

Totals may not add due to rounding. SBO--Serviced by others. UPB--Unpaid principal balance.

As of June 30, 2022, Freddie Mac's loans had a delinquency rate of 0.26% on loans subserviced by its licensed seller/servicers (see table 4). This is a decrease of almost half of the delinquency rate at the height of the COVID pandemic.

In March 2020, Freddie Mac released a relief plan for borrowers impacted by the COVID-19 pandemic. Shortly after Congress passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act, to which Freddie Mac further aligned its relief program. Freddie Mac encouraged borrowers to only enter into a standard forbearance agreement if needed to continue business operations. As of June 30, 2022, management reported fewer than 150 loans remaining in forbearance, which is down from the peak of nearly 1500 forbearances.

Subservicer oversight

The Customer Compliance Management (CCM) team manages the seller/servicer assessments. Seller/servicers are expected to adhere to the servicing protocols and standards set forth in the SSG. Freddie Mac has made the borrower experience one of its key priorities, and it believes compliance with the SSG is one way to drive high service levels. Highlights include the following:

- The SSG is incorporated into the pooling and servicing agreements' definition of the "servicing standard", to which seller/servicers must adhere.
- CCM updates the SSG as needed; changes and updates are communicated to all key parties (including seller/servicers, CMBS servicers, and investors via the AllRegs® subscription site) and bulletins are sent to the servicing community from Freddie Mac.
- Including portfolio, structured transactions, and securitized loans, Freddie Mac oversees approximately 50 seller/servicers. CCM performs periodic reviews of seller/servicers, the frequency of which is determined by the level of counterparty risk the seller/servicer poses to Freddie Mac.
- The audits assess the business operations, financial strength, and compliance with the SSG. CCM is responsible for reviewing annual seller/servicer certifications and monitoring ongoing program compliance and eligibility to service Freddie Mac loans.
- After Freddie Mac held a successful inaugural Compliance Forum in January 2020, it began hosting the event virtually semi-annually or annually. The last session was held in May 2022.
- CCM is also responsible for systems and applications associated with counterparty-level exposure tracking and

monitoring, and it regularly adds new monitoring capabilities.

- Counterparty exposure calculation framework was updated to match the Enterprise Regulatory Capital Framework in early 2022, following FHFA's requirement and the corporate schedule to retire the prior capital framework.
- Since our last review, CCM developed an internal departmental procedure on its cybersecurity incident response with its seller/servicers.
- CCM performs full-scope reviews of seller/servicers considered "moderate risk" or "high risk" at least once every three years, covering all operational areas, controls, and financial stability.
- Limited-scope audits utilize prior audit results and internal feedback to determine the audit scope.
- During 2022, the company plans to conduct 33 audits, including 10 full-scope and 23 limited-scope audits. Of the 33 audits, all have either been completed or initiated through the first three quarters, with three occurring in the fourth quarter. Current audits are a hybrid of on-site and remote based on client office preference (while during the pandemic all audits were conducted remotely).
- The audit program tests the seller/servicers' overall control environment, underwriting, closing, loan administration, asset management, loan accounting, investor reporting, and compliance with documents and specific loan regulations.
- Audit findings are classified as critical, major, or minor. Each seller/servicer is given an audit assessment score of satisfactory compliance, somewhat weak compliance, or weak compliance.
- CCM prepares and delivers detailed servicer reviews to senior management and the seller/servicer. Those who score below satisfactory compliance on their review go through full scope audits more frequently, and may be subjected to targeted reviews between annual audits.
- CCM additionally reviews annual certifications submitted by seller/servicers for adherence to servicing standards.
- The certification package includes audited financial statements, internal control structures, evidence of insurance, an external auditor's opinion, and net worth statement, to verify seller/servicers' compliance with Freddie Mac's eligibility requirements.

Borrower requests

The asset management group is responsible for overseeing borrower consent requests submitted by the servicer on the borrower's behalf. Seller/servicers perform initial reviews and produce a credit case that includes a recommendation on the transactions they submit to AMO either for acknowledgement or consent. Other notable aspects include the following:

- There were 6,813 consent requests processed during 2021, consisting of 2,755 collateral releases, 1,308 repair escrow extensions and modifications, 745 transfer of ownership and loan assumptions, 467 defeasance, 369 property management changes, and 1,169 various other requests. In the first half of 2022 Freddie Mac processed 3,576 consent requests, about half of which were collateral releases.
- Freddie Mac has established challenging goals for their seller/servicers of 30-day and 15-day turnaround times for assumptions and other types of borrower consents, respectively.
- Servicers completed these requests at a 61% on-time rate in 2021, lower than the previous year (70%) because of a higher volume of repair escrow extension and modifications requests.
- Each borrower request is evaluated for compliance with governing documents and credit policy, and any impact on

collateral and associated risk (e.g., credit, interest rate, reputational, or operational). The goal is to preserve, protect and, if possible, improve Freddie Mac's risk position while providing outstanding customer service.

- Delegated authority within AMO to approve the borrower consent requests is generally based on loan size and risk rating.
- Freddie Mac's CRT system tracks and monitors borrower requests processed by the seller/servicers. The system gives AMO visibility into the status of the process and allows them enhanced reporting and monitoring.

Asset and portfolio administration

AMO takes a proactive approach to portfolio surveillance and has effective processes for identifying and managing high-risk loans. The loan surveillance group, functionally included in the asset management department, monitors loan portfolios' credit quality, overall loan performance, and guarantees relating to the Freddie Mac bond and securitization programs. It uses information from the seller/servicers (e.g., operating statements and property inspections) along with internal and external models to:

- Risk-rate each loan and guarantee;
- Revalue collateral properties;
- Develop risk plans for higher-risk loans;
- Coordinate with enterprise risk management and finance groups to establish adequate reserve levels;
- Monitor equity investments and capital calls for LIHTC loans; and
- Perform data analytics related to all portfolios.

In the surveillance group, the team is broken out among K-Deal master servicing, small-balance loan master servicing, and other reporting responsibilities. The group allows for annual inspection submissions via their Optigo portal for the MBA excel inspection form.

The risk-rating process starts with an internally generated loan score, representing the "life loss number" associated with the loan. The SMART system further incorporates property-specific criteria such as inspection results, net operating income, debt-service coverage ratio trends, loan-to-value, compliance issues, borrower payment trends, vacancy factors, and pending maturities. Based on this information, a risk rating of one to 10 is assigned; ratings of six and below are considered low risk. A risk rating of seven means the loan has some element of heightened risk, but default or loss is not expected. Nonetheless, these loans require business plans from the seller/servicer and revaluation. Risk ratings from eight to 10 indicate a higher risk of default and losses are probable; loans in these categories are subject to revaluation, impairment recommendations, business plans, quarterly reviews, and possibly increased inspection frequency.

Freddie Mac Multifamily securitized $63.5 billion in UPB of multifamily loans in K-Deal transactions during 2021 and $26.5 billion through the first half of 2022. K-Deals in Freddie Mac's total portfolio have grown to nearly $329 billion of UPB and approximately 15,400 loans as of June 30, 2022. We note that Freddie Mac is the master servicer on only $6.5 billion (192 loans) of these assets as it is not the appointed master servicer on most K-Deals, with those primarily handled by three large bank servicers.

Overall, where Freddie Mac is named master servicer, 1,734 securitized loans were on the watchlist, totaling $6.1 billion in UPB, or 14.4% of the outstanding securitized balance. Of the securitized loans, the small-balance loans represent the highest amount of loans (80%) on the watchlist as well as by UPB (58%) (see table 5). Historically, 953 investors have participated in K-Deal transactions, with 191 currently participating in 2022. As of June 30, 2022, 141 balance sheet (portfolio) loans were on the various servicer's watchlist, totaling $3.6 billion in UPB, or 7% of the outstanding loan balance of $54.6 billion.

Table 5

Master Servicing

As of June 30, 2022

Product type	Loan count	UPB (mil. $)	Watchlist loan count	Watchlist UPB (mil. $)	Watchlist % by UPB
SB-deal	9,584	24,745.6	1,401	3,561.8	14.4
K-J	1,034	5,128.4	80	332.2	6.5
K-deal	192	6,548.2	56	1,272.5	19.4
Other	1,114	6,020.9	197	958.4	15.9
Total	11,924	42,443.1	1,734	6,124.9	14.4
Portfolio	3,649	54,616.2	141	3,585.1	6.6

UPB-unpaid principal balance

Investor reporting and special servicer interaction The investor reporting and special servicer interaction processes include the following notable features:

- Servicer investor reporting and remittances are reconciled to the principal, interest, and fee amounts that Freddie Mac is expecting.
- Remittance reports are reviewed and approved by the MF loan accounting manager.
- The company has separate staff to handle reporting and remitting duties.
- Custodial bank credit ratings used by seller/servicers are tracked for compliance.
- MF loan accounting does not have dedicated custodial accounts. The MF loan administration group reconciles amounts submitted by seller/servicers to what was reported each month.
- Improved data quality checks and final review of the CREFC IRP packages.
- Reconciliations are automated through Enterprise! for cash remittances to individual trustees. Additionally, as reconciliations are completed, an automated file is generated.
- New loan documents contain references to the secured overnight financing rate (SOFR) and an alternative index.
- Calls may be held as needed with special servicers in the case of loans not performing before an official transfer to special servicing is triggered.

Advancing

Depending on the product, AMO may advance funds for scheduled principal and interest payments, liquidity advances, credit enhancements, swap payments, full UPB payments at payoff, and other operating and property protection advances. Notable features include the following:

- Freddie Mac has a formalized advancing committee process. On deals where Freddie Mac is the appointed master servicer, the AMO executive team, including AMO VPs and directors, meet monthly to review the status of all loans with outstanding advances.
- Advance monitoring and recovery procedures are documented and all advances are tracked in Enterprise! by the loan accounting group.
- The AMO special servicing group (with input from the third-party special servicer as well as the lender regarding property valuation) prepares an advance determination memo addressing the likelihood of recoverability, which is then provided to the advancing committee.
- The memo to the AMO executive team includes, at a minimum, the advances to date, occupancy status, appraisal values, broker opinions of value, future capital expenses, and an estimated timeline for recovery.
- The committee then makes the recoverability determination.

Financial Position

The financial position is SUFFICIENT.

Appendix: Freddie Mac Multifamily Portfolios/Product Types

Participation certificates (PC)

A seller delivers a pool of multifamily mortgages and receives a Freddie Mac Multifamily PC with a principal amount equal to the aggregate principal of the delivered mortgages. The PCs are mortgage pass-through securities issued and guaranteed by Freddie Mac. While the 45- and 75-day products are no longer offered in the marketplace, Freddie Mac offers a 55-day product. Master servicing functions include reconciling servicer reports and payments, along with advancing funds.

Bond credit enhancements

Freddie Mac provides a credit enhancement for fixed- or variable-rate tax-exempt and taxable housing revenue bonds. The bonds that are credit-enhanced by Freddie Mac are secured by multifamily mortgages. Master servicing functions include advancing bond principal and interest (P&I), aggregating monthly bond draw requests for the bond trustee, aggregating all reporting and remittance data from servicers, and providing liquidity advances.

Retained portfolio

The retained portfolio consists of loans held for investment that were originated before the introduction of the K-Deals, and loans held for sale in the warehouse awaiting securitization. Master servicing functions include reconciling payments and servicer reports, delinquency monitoring, assessing loan risk ratings, maintaining watchlists, and making property protection advances.

TEBS

TEBS is a proprietary execution through which a sponsor transfers tax-exempt multifamily housing revenue bonds and related taxable bonds or mortgages to Freddie Mac, and Freddie Mac issues senior class A certificates that are sold to investors and subordinate class B certificates that are privately placed with the sponsor and pledged to Freddie Mac.

Master servicing functions include aggregating reports and payments, reconciling bonds and P&I payments, along with confirming and allocating funds.

Freddie Mac K-Deals

Freddie Mac aggregates mortgage loans acquired from seller/servicers and sells them to a third-party depositor, which places the loans in a real estate mortgage investment conduit (REMIC) trust, which in turn issues various classes of bonds. Freddie Mac purchases and guarantees the senior bonds and certain subordinate interest-only bonds. The remaining bonds are purchased by third-party investors. Freddie Mac then deposits the guaranteed bonds into a structured pass-through certificate (SPC) trust and issues guaranteed SPCs backed by the guaranteed bonds. Freddie Mac performs administrator functions (for the SPC trust, not the REMIC trust) including remitting funds to senior bond investors and bond-level reporting.

Freddie Mac SB-Deals

Freddie Mac aggregates small-balance mortgage loans purchased from seller/servicers and sells them to a third-party depositor, which places the loans in a REMIC trust, which in turn issues various classes of bonds. Freddie Mac guarantees the senior securities issued by the REMIC trust, which are then publicly offered. The unguaranteed securities issued by the third-party trust are privately offered to third-party investors. In some cases, a third party may act as a loan seller and Freddie Mac may issue SPCs.

Freddie Mac Q-Deals

Similar to K-Deals, with the loans held in a REMIC trust, the key differences are as follows: individual loans are never purchased onto Freddie Mac's balance sheet (rather, Freddie Mac purchases and insures senior bonds, which are sold to investors) and the underlying loans are not underwritten by Freddie Mac at origination (rather, they contain seasoned loans that are presented to Freddie Mac and an underwriting plan is crafted based on the pool's risk profile). Master servicing functions performed are similar to K-Deals.

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Freddie Mac ABOVE AVERAGE Commercial Mortgage Loan Master Servicer Ranking Affirmed; The Ranking Outlook Is Stable, Oct. 21, 2022
- Select Servicer List , Oct. 13, 2022
- Research Update: U.S. 'AA+/A-1+' Sovereign Ratings Affirmed; Outlook Remains Stable, March 8, 2022
- Servicer Category Descriptions Expanded and Revised, Feb. 28, 2022
- Servicer Evaluation: Freddie Mac, June 9, 2021
- Servicer Evaluation Spotlight Report™: Environmental, Social, And Governance Factors Have Consistently Powered Our Servicer Evaluation Rankings, Nov. 16, 2020
- Analytical Approach: Global Servicer Evaluations Rankings , Jan. 7, 2019

This report does not constitute a rating action.