S&P Global Ratings

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Servicer Evaluation: Freddie Mac

Servicer Analyst:
Marilyn D Cline, Dallas + 1 (972) 367 3339; marilyn.cline@spglobal.com

Secondary Contact:
Adam J Dykstra, Columbia + 1 (303) 721 4368; adam.dykstra@spglobal.com

Analytical Manager:
Robert J Radziul, New York + 1 (212) 438 1051; robert.radziul@spglobal.com

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Servicer Evaluation: Freddie Mac

Ranking overview

		Subrankings		
Servicing category	**Overall ranking**	**Management and organization**	**Loan administration**	**Ranking outlook**
Commercial mortgage loan master servicer	ABOVE AVERAGE	ABOVE AVERAGE	ABOVE AVERAGE	Stable

Financial position
SUFFICIENT

Rationale

S&P Global Ratings' ranking on Freddie Mac Multifamily Asset Management and Operations (Freddie Mac AMO) is ABOVE AVERAGE as a commercial mortgage loan master servicer. On June 27, 2024, we affirmed the ranking (please see "Freddie Mac ABOVE AVERAGE Commercial Mortgage Loan Master Servicer Ranking Affirmed; Ranking Outlook Stable," published June 27, 2024). The ranking outlook is stable.

Our ranking reflects Freddie Mac 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 Nov. 7, 2022), the following changes and/or developments have occurred:

- The "serviced by others" portfolio increased to $131 billion as of Dec. 31, 2023, from $97 billion as of June 30, 2022.
- The traditional K-Deal/ML-Deal portfolio balance was relatively flat at $326 billion as of Dec. 31, 2023, compared to $329 billion as of June 30, 2022.
- The FHFA issued its annual Conservatorship Scorecard, which provides for a $70 billion cap on the multifamily purchase volume for Freddie Mac in calendar year 2024 (down from $75 billion in 2023). Within this cap, certain

loans in affordable and underserved market segments are considered "mission driven." The 2024 scorecard requires that a minimum of 50% of Freddie Mac's multifamily loan purchases, based on unpaid principal balance (UPB), be mission driven. Certain loans designed to preserve workforce housing affordability and forward conversions are exempt from the 2024 loan purchase cap.

- The Freddie Mac CEO retired on March 15, 2024. The president of the company was appointed as interim CEO while a search for a new CEO is ongoing.
- The chief financial officer announced his resignation and left his position the end of June 2024. The senior vice president (SVP) and CEO of the single-family division was appointed as interim CFO and head of finance division while a search for a new CFO is ongoing.
- An long-tenured internal employee, with over 20 years experience, was promoted to a newly created role as SVP, multifamily chief operating officer. This SVP role oversees the combined responsibilities of asset management, operations, and business management, and also includes loan administration and servicing, counterparty risk management, marketing, employee engagement, business strategy, and management reporting. He reports to the head of multifamily.
- An industry experienced candidate was hired as vice president (VP) of multifamily portfolio surveillance. This position was created from a restructuring in the asset management team.
- The company hired an experienced industry candidate to fill the multifamily loan servicing director position, which became available due to a retirement.
- A 22-year internal candidate was promoted to VP multifamily operational risk. He reports to the VP of technology and operational risk.
- Multifamily operational risk and technology functions were combined into a new role. An internal promotion filled this position also serving as the multifamily divisional risk officer (DRO).
- An internal candidate was promoted to SVP of multifamily production and sales. As a 22-year veteran of the company, he will also continue with his responsibilities in small balance lending and with targeted affordable housing initiatives.
- The company continues to invest in its strategic transformation (started in 2018 as a five-year digital plan and since expanded), including increasing responsiveness, optimizing data, providing portable access, and easing the user experience.

The ranking outlook is stable. The outlook reflects our view of the company's continued ability to handle its extensive master servicing portfolio in a proactive manner. Freddie Mac AMO's experienced staff demonstrates commitment to conduct its servicing operations in a well-controlled manner while handling the portfolio's growth. The company continues to promote and hire staff as needed. The company has an extensive audit regime and well-written policies and procedures. Freddie Mac AMO maintains ongoing investments in upgrading systems while streamlining their procedures on a routine basis.

In addition to conducting an onsite meeting with servicing management, our review includes current and historical Servicer Evaluation Analytical Methodology data through Dec. 31, 2023, 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 Dec. 31, 2023, it cumulatively financed over $954 billion for nearly 13.2 million multifamily units.

Freddie Mac AMO purchases multifamily mortgages from a network of approved seller servicers and targeted affordable housing correspondents according to internal guidelines. The multifamily division employs approximately 990 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 AMO employees are based out of the McLean, Va., campus with additional staff in six regional offices (Arlington, Va.; Atlanta; Chicago; Los Angeles; New York; and Plano, Texas), along with four field offices (Austin, Texas; Denver; Irvine, Calif.; and Tampa, Fla.)

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 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 as 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.

Freddie Mac 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 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, under the SSG, the servicer prepares an initial package for Freddie Mac AMO to review; Freddie Mac then controls the resolution process.

Freddie Mac uses a securitization model, which was adopted in 2009, as the primary vehicle to transfer interest rate and credit risk. K-Deals are Freddie Mac's primary securitization method for transferring credit risk, representing approximately 50% of its portfolio by loan count. Freddie Mac multifamily division has various product types that comprise its approximately $441 billion multifamily mortgage portfolio (see table 1) as of Dec. 31, 2023 (for more information about all portfolio and product types, see the Appendix of this report).

Table 1

Multifamily portfolio(i)

As of Dec. 31, 2023

Product type	Loan/bond count	Loan/bond count (%)	Unpaid principal balance (mil. $)	Unpaid principal balance (%)
Participation certificates (45 and 75 day)	122	0.4	58.7	0.0
Participation certificates (55 day)	1,972	6.6	44,182.2	10.0
TEBS	458	1.5	5,120.0	1.2
Bond credit enhancements	334	1.1	10,761.2	2.4
Unsecuritized held-for-sale loans	884	2.9	11,770.0	2.7
Unsecuriized held-for-investement loans	736	2.5	9,905.4	2.2
K-Deals(ii)	14,821	49.5	327,362.2	74.3
Q-Deals	1,011	3.4	3,931.3	0.9
SB-Deals	9,587	32.0	24,717.8	5.6
R-Deals	43	0.1	2,987.8	0.7
Total	29,968	100.0	440,796.6	100.0

(i)Includes mortgage loans and credit enhancements, either held on-balance sheet or included in securitization trust where Freddie Mac acts as guarantor. Includes loans where Freddie Mac is guarantor or master servicer. (ii)K-Deal data and information includes mortgage loan deals (securitized tax-exempt loans). 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 within Freddie Mac oversees a staff of approximately 1,000, including employees within operations, investments, strategic planning, data management, and business support operations and execution. The six departments in the multifamily division (headcounts as of Dec. 31, 2023) are technology (286), asset management and operations (247), underwriting and credit (231), production and sales (131), capital markets (98), and business management (31). The multifamily division is further supported by in-house legal, accounting, finance, technology, enterprise risk management, human resources, and communications staff that reside at the Freddie Mac corporate level.

Freddie Mac AMO is headed by the SVP multifamily chief operating officer. He has been with the company since 2002 and was previously the CFO of the multifamily division. His group is responsible for loan administration and servicing, counterparty risk management, marketing, employee engagement, business strategy, and management reporting. Freddie Mac AMO is organized into four distinct areas with executives managing each area as described below – with a new portfolio surveillance group and additional duties being split out of asset management to allow for expected growth:

- Asset management, which is headed by a VP with almost 15 years of experience with the company and significant prior work experience in the industry with a servicer and a rating agency. Her group manages and monitors specially serviced asset and real estate-owned resolutions, borrower transactions, and structured transactions. The unit also oversees borrower property insurance issues.
- Loan servicing which is headed by a VP with more than 21 years of tenure with 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.
- Portfolio surveillance, which is headed by a VP who joined the company in March 2024 with extensive industry experience at a large ranked servicer and two rating agencies. His group handles master servicing asset management and reporting, investor support and securitization surveillance, physical risk guidance, loan boarding and compliance, and property assessment collection. The group also handles the risk ratings. Some of these tasks were moved out of asset management and into portfolio surveillance when the new VP started with the company.
- Counterparty risk management, which is headed by a VP who has over 25 years of tenure with the company. 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 Dec. 31, 2023, there were 191 employees in the Freddie Mac 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 division product portfolios. Freddie Mac AMO continues to utilize outsourcing for assistance when volumes are high, but it does not outsource any remitting or reporting functions.

Annual turnover in 2023 and 2022 was 9.1% and 13.9%, respectively. We note that these turnover figures are slightly higher than when they were at pre-COVID-19 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	25	15	14	9	N/A	N/A	4	3

(i)As of Dec. 31, 2023. N/A--Not applicable.

Training

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

- Freddie Mac employs full-time dedicated training personnel, and employee participation hours are formally tracked.
- The AMO group 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 five to 10 years' experience, and 20 hours for those with more than 11 years in the industry.
- In 2023, employees with less than five years' experience averaged 38.9 hours of training, employees with five to 10 years' experience averaged 36.2 hours of training, and employees with more than 11 years' experience averaged 29.5 hours of training.
- 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 Freddie Mac AMO's systems and technology include the following:

- Freddie Mac uses Enterprise! v.20234.0.3.74 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), and 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 provides seller/servicers with a consolidated loan servicing portfolio in a single-platform experience.
- Multifamily Eligibility System provides enhanced functionality for internal Freddie Mac users of the internal control questionnaire.
- 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 also has a reminder feature to track property life safety issues.
- 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.

The company is continuing their strategic transformation 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 (of the original five years) when management decided to significantly expand the scope and continue with the project by including additional process automation initiatives.

Overall, we believe Freddie Mac 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 the AMO group, 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 July 2023, 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 disaster recovery plan identifies recovery timeframes and requirements and helps allocate resources during an event. Updates to this plan 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., North Carolina. and other regional locations. The disaster recovery data is housed on an Amazon Web Services cloud site.

Cybersecurity

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

- The company maintains a stand-alone cyber security insurance policy and makes access to specialized cybersecurity legal counsel readily available.
- Employees are sent phishing emails monthly to enhance cyber threat awareness, which is an increase from quarterly at the time of our last review.
- Multi-factor authentication (MFA) is employed to access the company systems.
- Freddie Mac follows the National Institute of Standards and Technology (NIST) guidelines for access management and their password change policy.
- 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 the fourth quarter of 2023, 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 the AMO group. A centralized operational risk management area assists the AMO group 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. Highlights of the process include the following:

- 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 (IA) 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. Other notable aspects of the IA function include:

- IA uses a risk-based planning approach as auditable entities will focus on significant risks and mission-critical activities. IA completes a comprehensive risk assessment of the inherent and residual risks, and reviews and updates coverage areas for each auditable entity on a continuous basis. Regular interviews of key management provide input for potential changes to the audit universe, risk rankings, emerging risks and areas of audit emphasis.
- At year-end 2023, the number of auditable entities was streamlined to focus more on emerging risk areas and identifiable potential gaps, which will begin with their 2024 audits. Risk factors are re-evaluated every quarter.
- 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.

- 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 2023 multifamily audit universe encompassed two auditable entities for MF data management (satisfactory) and MF modeling (some areas identified that need strengthening). Management stated that the work needed did not include the AMO group and has been completed.

Details of the audits scheduled for 2024 include (as of July 2024):

- The MF underwriting audit, which is complete with a satisfactory rating.
- The MF third-party governance audit, which is complete with a satisfactory rating.
- The MF securitization audit, which is complete with a satisfactory rating.
- The MF control testing audit, which is in progress.
- The MF technology resiliency audit which is slated to begin later in 2024.
- The MF control testing audit, which is in progress.
- The MF technology resiliency audit which is slated to begin later in 2024
- The MF asset management audit, which is slated to begin later in 2024.

The USAP audit report for year-end 2023 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 the AMO group 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 Freddie Mac 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. Notable aspects include the following:

- All new vendors are put through a risk assessment internally to verify that the company can use the vendor. Vendors are assigned a risk rating and the company has a planned exit strategy, in case of vendor termination. The SVP of multifamily must be aware of all Freddie Mac AMO contracts before implementation.
- All vendors are subject to a competitive bid process and stringent corporate procurement requirements.
- Business units provide a score card based on a five-point scale to assess performance for each of the vendors. Timing is based on an annual basis unless they are at a greater risk rating.
- 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.
- Any vendor cybersecurity and privacy incidents are tracked in a SharePoint site.

- 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.
- Freddie Mac 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.

Freddie Mac AMO performs master servicing and asset management activities for the Freddie Mac MF portfolio (see table 3). Responsibilities include:

- Boarding and tracking each loan on MPS;
- Aggregating and reconciling loan data and funds from subservicers;
- Performing portfolio accounting functions;
- Tracking advances and recovery;
- Conducting investor reporting and remittance tasks;
- Administering collateral, loan, and portfolio-level surveillance;
- Monitoring subservicer performance and compliance; and
- Managing credit-related borrower consent requests.

Table 3

Total servicing portfolio

	UPB (mil. $)	YOY change (%)	No. of assets	YOY change (%)	No. of staff	YOY change (%)
Master servicing						
Dec. 31, 2023	130,958.4	12.7	16,710	4.8	191	0.5
Dec. 31, 2022	116,209.2	16.0	15,938	0.6	190	(9.1)
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

YOY--Year-over-year. UPB--Unpaid principal balance.

Table 4

Master servicing portfolio

	Dec. 31, 2023		Dec. 31, 2022		Dec. 31, 2021		Dec. 31, 2020		Dec. 31, 2019	
	UPB (mil. $)	No.	UPB (mil. $)	No.	UPB (mil. $)	No.	UPB (mil. $)	No.	UPB (mil. $)	No.
Master (SBO) loans	130,958.4	16,710	116,209.2	15,938	100,181.3	15,843	101,754.8	15,744	87,380.0	14,456
Subservicers	--	35	--	39	--	34	--	33	--	36
Average loan size	7.8	--	7.3	--	6.3	--	6.5	--	6.0	--
Delinquent (%)										
30 days	0.21	--	0.03	--	0.05	--	0.06	--	0.02	--
60 days	0.06	--	0.00	--	0.01	--	0.03	--	0.04	--
90+ days	0.38	--	0.21	--	0.27	--	0.41	--	0.18	--
Total	0.65	--	0.25	--	0.33	--	0.50	--	0.24	--

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

As of Dec. 31, 2023, Freddie Mac's loans had a delinquency rate of 0.65% on loans subserviced by its licensed seller/servicers (see table 4). While this delinquency rate has increased from year-end 2022, it is still quite manageable and far less than we see in other investor and property types.

Subservicer oversight

The counterparty risk and compliance (CRC) team changed their name from customer compliance management in 2023. The team manages the seller/servicer assessments that cover the business operations, financial strength, operational risk, and compliance with the SSG.

The assessments also focus on reviewing property inspections and servicer timeliness in providing notice for occupancy or significant property condition issues, along with verification of collection of previous deferred reserves, inspector comments on recent U.S. Department of Housing and Urban Development Real Estate Assessment Center inspections, inspector qualifications for certain property types, or those properties more than 40 years old and not renovated within the last 20 years, and follow up on deferred maintenance letters and issuance of reservation of rights letters. 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.

Team 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.
- CRC 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 almost 50 seller/servicers (26 being licensed Conventional, Small Business Loan, and/or Targeted Affordable Housing Servicers). CRC 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.

- After Freddie Mac held a successful inaugural Compliance Forum in January 2020, it began hosting the event virtually each year. The last session was held in April 2023 with the next session planned for October 2024.
- CRC is also responsible for systems and applications associated with counterparty-level exposure tracking and monitoring, and it regularly adds new monitoring capabilities.
- Since our last review, CRC developed an internal departmental procedure on its cybersecurity incident response with its seller/servicers.
- CRC 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, with a focus on known previous issues noted or other areas of ongoing concern.
- In 2024, the group is planning 10 full scope assessment, and 20 limited scope assessments. Eleven of these are already underway or will start before June 2024. During 2023, the company completed 31 audits, including 9 full-scope and 22 limited-scope audits.
- The audit program tests the seller/servicers' overall control environment, anti-fraud and anti-money laundering infrastructure, underwriting, and 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, with delineation in the Minor category to denote multiple issues of the same type during one audit or repeat issues of the same type in subsequent audits. Each seller/servicer is given an audit assessment score of satisfactory compliance, somewhat weak compliance, or weak compliance. All findings reported to the seller/servicer are expected to be remediated by the seller/servicer within 180 days. CRC performs a follow-up to verify implementation by the seller/servicer remediation efforts for each reported finding.
- CRC 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.
- For 2023, the top three findings on the servicer audits were issues regarding: loan level insurance, organizational change reporting and a tie between customer due diligence and brokered loan reporting.
- CRC 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 Freddie Mac AMO either for acknowledgement or consent. Other notable aspects include:

- There were 5,303 consent requests processed during 2023, consisting of 1,554 repair extensions, 1,106 management changes, 630 assumptions, 579 collateral releases, and 1,434 various other requests. In 2022, Freddie Mac processed 7,152 consent requests.

- 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 46% on-time rate in 2023, which is lower than 2021 (61%). Freddie Mac is meeting with the chief servicing officers in the fall of 2024 to discuss and provide training to improve servicer turnaround times.
- 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 Freddie Mac 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 Freddie Mac AMO visibility into the status of the process and allows them enhanced reporting and monitoring.

Asset and portfolio administration

Freddie Mac AMO takes a proactive approach to portfolio surveillance and has effective processes for identifying and managing high-risk loans. The group 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 low income housing tax credit 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 division securitized $33.3 billion in UPB of multifamily loans in K-Deal transactions (excluding mortgage loan (ML)-deals) during 2023, and $46.5 billion in 2022. K-Deals (including ML deals) are approximately $327 billion based on UPB and 14,800 loans in Freddie Mac's total portfolio as of Dec. 31, 2023, which is about 75% of the portfolio by UPB. We note that Freddie Mac is the master servicer on only $9.5 billion (244 loans) of these deals, because 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, 1,627 securitized loans were on the watchlist, totaling $6.3 billion in UPB, or 12.5% of the outstanding securitized balance. Of the securitized loans, the small-balance loans represent the highest amount of loans (81%) on the watchlist, as well as by UPB (50%) (see table 5). As of Dec. 31, 2023, 308 balance sheet (portfolio) loans were on the various servicer's watchlist, totaling $4.5 billion in UPB, or 6% of the outstanding loan balance of $80.9 billion.

Table 5

Master servicing

As of Dec. 31, 2023

Product type	Loan count	UPB (mil. $)	Watchlist loan count	Watchlist UPB (mil. $)	Watchlist by UPB (%)
SB-Deal	9,598	24,717.8	1,310	3,158.0	12.8
Portfolio	4,457	80,930.9	308	4,464.1	5.5
K-J	1,202	6,544.3	108	535.7	8.2
K-Deal	244	9,463.5	59	1,801.5	19.0
Other	1,209	9,301.8	150	770.4	8.3
Total	16,710	130,958.3	1,935	10,729.7	8.2

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 Commercial Real Estate Finance Council investor reporting packages.
- Reconciliations are automated through Enterprise! for cash remittances to individual trustees. Additionally, as

reconciliations are completed, an automated file is generated.

- Newly closed loan documents contain references to the 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, Freddie Mac 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:

- Freddie Mac has a formalized advancing committee process. On deals where Freddie Mac is the appointed master servicer, the Freddie Mac AMO executive team, including AMO VPs, directors and multifamily legal counsel, 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 Freddie Mac 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 Freddie Mac 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 advancing committee makes the recoverability determination.
- For any loans where advances are determined to be non-recoverable, a non-recoverable determination notice will be sent in accordance with the requirements of the pooling and servicing agreement.

Financial Position

The financial position is SUFFICIENT.

Appendix: Freddie Mac Multifamily Division Portfolios/Product Types

Participation certificates (PC)

A seller delivers a multifamily mortgage loan to Freddie Mac and typically receives cash at funding. The PCs are mortgage pass-through securities issued and guaranteed by Freddie Mac and sold to third-party investors. While the 45- and 75-day products are no longer offered in the marketplace, Freddie Mac offers a 55-day product. Freddie Mac servicing functions including 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 unsecuritized held-for-investment loans and held-for-sale loans awaiting for 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 subordinate 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 Research

- Freddie Mac ABOVE AVERAGE Commercial Mortgage Loan Master Servicer Ranking Affirmed; Ranking Outlook Stable, June 27, 2024
- Select Servicer List, May 17, 2024

- Research Update: U.S. 'AA+/A-1+' Sovereign Ratings Affirmed; Outlook Remains Stable, March 27, 2024
- Servicer Evaluation: Freddie Mac, Nov. 7, 2022
- Servicer Category Descriptions Expanded and Revised, Feb. 28, 2022
- Analytical Approach: Global Servicer Evaluations Rankings, Jan. 7, 2019

This report does not constitute a rating action.