

Freddie Mac ABOVE AVERAGE Commercial Mortgage Loan Master Servicer Ranking Affirmed; Outlook Stable

May 11, 2021

Overview

- Freddie Mac has been funding and servicing multifamily mortgages since 1993 and, as of Dec. 31, 2020, it has cumulatively provided more than \$763 billion in financing for over 11.3 million multifamily units.
- We affirmed our overall ABOVE AVERAGE ranking on Freddie Mac Multifamily Asset Management and Operations as a commercial mortgage loan master servicer.
- The outlook on the ranking is stable.

NEW YORK (S&P Global Ratings) May 11, 2021--S&P Global Ratings today affirmed its ABOVE AVERAGE ranking on Freddie Mac Multifamily Asset Management and Operations (AMO) as a commercial mortgage loan master servicer. The outlook on the ranking is stable.

Our ranking reflects AMO's:

- Experienced and tenured senior management team;
- Effective and comprehensive employee training and development program;
- Continued low levels of multifamily mortgage loan delinquency rates, albeit supported by an extensive forbearance program during 2020;
- Integrated and effective technology systems;
- Comprehensive subservicer (seller/servicer) oversight program;
- Sound audit and control environment, albeit with a longer-than-average internal audit cycle compared with those 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.

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Since our prior review (see "Servicer Evaluation: Freddie Mac," published Aug. 15, 2019), the following changes and/or developments have occurred:

- In November 2020, the FHFA issued its annual Conservatorship Scorecard, which provides for a multifamily lending cap at \$70 billion for Freddie Mac for 2021; at least 50.0% of that cap must include mission-driven affordable multifamily acquisitions. In January 2021, Freddie Mac, acting through the FHFA, and the U.S. Department of the Treasury entered into a letter agreement to further amend the Senior Preferred Stock Purchase Agreement and terms of the senior preferred stock. The January 2021 Letter Agreement, among other things, capped multifamily loan purchases at \$80 billion in any 52-week period, subject to annual adjustment by the FHFA.
- The "serviced by others" portfolio increased to \$102 billion as of Dec. 31, 2020, from \$82 billion as of Dec. 31, 2018, and the traditional K-Deal (i.e., capital market execution) portfolio balance increased to approximately \$295 billion as of Dec. 31, 2020, from nearly \$235 billion as of Dec. 31, 2018.
- As of Dec. 31, 2020, AMO was the appointed master servicer on securitized transactions aggregating \$42.3 billion in unpaid principal balance (UPB), including 40 nontraditional K-Deals for a total of \$10.7 billion in UPB, 81 small-balance deals for a total of \$23.9 billion in UPB, 12 Q-Deals for a total UPB of \$3.3 billion, and 10 "other" transactions for a total UPB of \$4.4 billion.
- In November 2020, the CEO tendered his resignation and the head of investments and capital markets was appointed interim president, while also maintaining his existing duties.
- The CEO departed the company in January 2021 and a board member was appointed interim CEO in March until a permanent replacement is hired.
- In December 2020, the chief human resources officer/chief diversity officer resigned and an internal candidate will serve as acting officer until a permanent replacement is hired.
- In December 2020, a new senior vice president (SVP) was hired as chief information security officer (CISO), replacing the previous CISO who left the company in June 2020.
- The head of production was promoted to SVP of multifamily production and sales in November 2019.
- From March 1, 2020, through Sept. 30, 2020, 18 AMO employees accepted early retirement packages, which were previously offered, and exit dates were staggered during the year. Management states that all vacated positions have been filled, except one based on need.
- The company continues to invest in its five-year digital transformation plan (which began in the fall of 2018), including increasing responsiveness, optimizing data, providing portable access, and easing the user experience.
- In January 2020, the company held an in-person inaugural compliance forum with representatives from each servicer to review and discuss compliance requirements.
- In the summer of 2020, Freddie Mac made their multifamily seller/servicer guide on the All Regs® website available for free access, instead of the previous paid subscription format.
- Freddie Mac implemented its disaster recovery and business continuity plan in the spring of 2020 due to the COVID-19 pandemic. Management reported that there were no disruptions to the company's operations or data facilities and that they have continued normal operations with no issues.

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The outlook on the ranking is stable, which reflects our view that the company is expected to remain a competent master servicer for commercial mortgage loans. As previously noted, the company recently experienced a change in leadership at the CEO level. As there may be certain challenges to attract a new CEO in short order given the uncertain status of the government-sponsored enterprise and associated compensation limitations, Freddie Mac has filled the role on an interim basis with a board member. Nonetheless, the operational core leadership of AMO has remained stable and has extensive experience and tenure with the company.

Further, although housing finance reform and the future existence and/or role of Freddie Mac has been under discussion internally within Freddie Mac and externally within various levels of the U.S. government under the previous administration, we expect at this time, that operations will continue as usual for the foreseeable future.

The financial position is SUFFICIENT.

Related Research

- Select Servicer List, April 2, 2021
- Servicer Evaluation Spotlight Report™: Environmental, Social, And Governance Factors Have Consistently Powered Our Servicer Evaluation Rankings, Nov. 16, 2020
- Servicer Evaluation Spotlight Report™: U.S. Commercial Mortgage Servicers Preparing For Impact From COVID-19, April 3, 2020
- Research Update: U.S. 'AA+/A-1+' Sovereign Ratings Affirmed; Outlook Remains Stable, April 2, 2020
- Servicer Evaluation: Freddie Mac, Aug. 15, 2019
- Analytical Approach: Global Servicer Evaluations Rankings, Jan. 7, 2019

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