# Freddie Mac, Multifamily Division

## Servicer Report

### Ratings

| | |
|---|---|
| Commercial Master Servicer | CMS2 |
| Commercial Special Servicer[a] | CSS2 |

[a]Upgraded from 'CSS2–' on Aug. 28, 2015.

### Related Research

Fitch Upgrades Freddie Mac's Commercial Mortgage Special Servicer Rating (August 2015)

Fitch Affirms Fannie Mae and Freddie Mac Ratings Following U.S. Sovereign Action; Outlook Stable (April 2015)

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## Servicer Summary

Freddie Mac's (the company) mission is to provide liquidity, stability and affordability to the U.S. housing market, including multifamily housing. The company has been active in the multifamily housing sector since the 1980s and of the multifamily division's 466 employees, 128 are responsible for master and special servicing functions within its multifamily asset management and operations group (MAMOG).

Following its strategic transformation plan that shifted loan purchases to a securitization model, Freddie Mac continues to be an active issuer of multifamily debt, having issued a total of 78 K-series transactions tallying $98.0 billion as of March 2015. Following record purchase volume in 2014 of $28.3 billion, which is expected to continue in 2015, Freddie Mac's K-series issuance and supporting guarantee portfolio are now the largest product of the multifamily division, surpassing the division's $55.6 billion balance sheet portfolio.

The company appointed itself special servicer for FREMF 2012-KP01 in 2013 and master servicer for FREMF 2014-KX01 in 2014 and FREMF 2015-KJ01 in 2015, representing the group's first traditional CMBS servicing assignments and managed approach to growth and new products. Future servicing assignments are expected to support new product initiatives, such as small balance and affordable housing transactions.

## Key Rating Drivers

**Company/Management:** Given its government-sponsored enterprise (GSE) status, Freddie Mac has a significant role in the origination and servicing of multifamily debt in the U.S. Its leadership team includes highly experienced managers with significant commercial real estate servicing and securitization experience supporting the company's capital markets transactions.

**Procedures and Controls:** Freddie Mac maintains thorough and detailed policies and procedures, as well as several levels of internal controls administered both at the corporate level and within the multifamily division to monitor compliance. The company's multifaceted control environment, consisting of controls within MAMOG and at the enterprise level, are among the most robust of servicers rated by Fitch Ratings.

**Loan Administration:** Freddie Mac has extensive experience performing primary (seller/servicer) oversight, advancing and investor reporting for its other products. The company maintains a robust and highly integrated technology platform that supports servicing functions and allows for the efficient processing of information for loan accounting, surveillance and investor reporting.

**Defaulted/Nonperforming Loan Management:** While default volume is limited, MAMOG has a long history of multifamily workout experience and is supported by detailed policies and procedures, internal controls, asset management technology and delegations of authority in place of a formal credit committee.

**Staffing and Training:** Aggregate turnover for master servicing was low at 10% and elevated for special servicing at 20%, due largely to internal transfers and the small nature of the group. Master servicing senior and middle managers have an average of 20 years of industry experience and eight and 10 years of company tenure, respectively. Special servicing senior managers average 29 years of experience and 12 years of tenure, while middle managers average 22 years of experience and seven years with the company.

## Company Overview

Freddie Mac was chartered by the U.S. Congress in 1970 with a public mission to stabilize the country's residential mortgage markets and expand opportunities for homeownership and affordable rental housing. Freddie Mac's statutory mission is to provide liquidity, stability and affordability to the U.S. housing market. To fulfill its mission, Freddie Mac purchases loans in the secondary mortgage market through a national network of approved mortgage lenders. The GSE maintains three business lines: single-family credit guarantees for home loans, a multifamily division for rental housing and an investment portfolio.

### *Servicer Ratings*

Fitch rates primary and master servicers, which protect the interests of the certificateholders in the trust, by servicing and administering the mortgage loans. The primary servicer is responsible for day-to-day servicing functions, while the master servicer is responsible for monitoring the activities of the primary servicers, investor reporting, and timely remittance of funds to trustees.

Fitch also rates special servicers, which are key to maintaining the credit quality of a pool containing nonperforming commercial mortgages and real estate-owned assets. The special servicer is responsible for working out loans, foreclosing, and liquidating assets.

In assessing and analyzing the capabilities of primary, master, and special servicers, Fitch reviews several key factors, including the management team, organizational structure and operating history, financial condition, information systems, and, with respect to the special servicer, workout and asset disposition experience and strategies.

Fitch rates commercial mortgage primary, master, and special servicers on a scale of 1 to 5, with 1 being the highest rating. Within each of these rating levels, Fitch further differentiates ratings by plus (+) and minus (–) as well as the flat rating.

Given the multifamily division's exclusive multifamily focus, the commercial mortgage servicer ratings are limited to the '2' category.

The goal of the multifamily division is to promote an ample supply of affordable rental housing by purchasing mortgages secured by apartment buildings with five or more units. Mortgages are purchased from an approved seller/servicer network of 28 companies as of March 2015 based on Freddie Mac-established guidelines. The multifamily division also securitizes the mortgages and sells the bonds and servicing in the CMBS market. Currently, 95% of Freddie Mac loan purchases are targeted for securitization in K-series transactions, which have totaled $98 billion since the program's inception in 2009. Freddie Mac generally does not retain a controlling interest or servicing for the transactions itself but typically provides credit guarantees for the bonds.

Freddie Mac acquisitions increased 10% in 2014 to $28.3 billion for approximately 1,800 multifamily properties, of which $21.3 billion were securitized into K-series transactions; the remainder is pending securitization or held on balance sheet in the investment portfolio. As the company's securitization portfolio continues to grow, the legacy held for the investment portfolio continues to decline due to payoffs and has experienced extremely low defaults of four basis points. In March 2015, Freddie Mac's regulator expanded the list of affordable housing categories outside of its annual new business volume cap.

In addition to $77.6 billion of outstanding guarantees on the K-series transactions, which became the largest product of the multifamily division during 2014, MAMOG services four other product lines:

**Related Criteria**

Rating Criteria for U.S. Commercial Mortgage Servicers (February 2014)

Rating Criteria for Structured Finance Servicers (April 2015)

## Servicing Portfolio Overview

| | 3/31/15 | % Change | 12/31/14 | % Change | 12/31/13 |
|---|---|---|---|---|---|
| **Total Servicing** | | | | | |
| UPB ($ Mil.) | 150,125.0 | 4 | 143,938.0 | 27 | 113,505.0 |
| No. of Loans | 11,772 | 2 | 11,510 | 4 | 11,015 |
| **Master Servicing** | | | | | |
| UPB ($ Mil.) | 505.5 | 29 | 391.7 | — | — |
| No. of Loans | 61 | 205 | 20 | — | — |
| **Special Servicing – Named** | | | | | |
| UPB ($ Mil.) | 70,743 | 4 | 68,21.03 | (8) | 74,178.0 |
| No. of Loans | 6,401 | 1 | 6,332 | (12) | 7,165 |
| **Special Servicing – Active**[a] | | | | | |
| UPB ($ Mil.) | 309.0 | 1 | 306.0 | (38) | 494.0 |
| No. of Loans | 25 | (4) | 26 | (37) | 41 |

[a]Including REO. UPB – Unpaid principal balance.

- A $5.1 billion portfolio of tax-exempt multifamily bonds (TEBS), through which a sponsor transfers privately placed tax-exempt multifamily revenue bonds and related taxable bonds or mortgages to Freddie Mac in exchange for Freddie Mac senior class A certificates.
- $482 million in swap participation certificates (PCs) secured by multifamily mortgages, in which a Freddie Mac seller/servicer exchanges a pool of mortgages for Freddie Mac PCs.
- A $9.1 billion bond portfolio, for which Freddie Mac provides credit enhancement for fixed- or variable-rate, tax-exempt and taxable-tail housing revenue bonds.
- $55.6 billion in loans held by Freddie Mac for investment, which include balance sheet assets, loans held for sale, subordinate supplemental loans or other loans that fall outside the current parameters of the K-series securitization model.

Employees of the multifamily division are located within the McLean, VA headquarters, as well as the New York City, Chicago and Los Angeles offices. The asset management and operations group is predominately located in McLean, with four employees located in the Chicago office.

## Financial

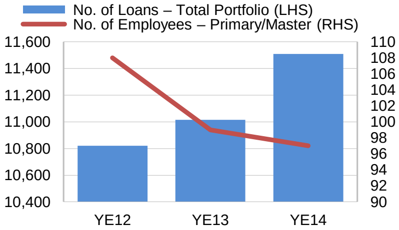
Fitch has publicly rated Freddie Mac ‘AAA’/Stable since April 2015. The ‘AAA’ rating of Freddie Mac is directly linked to the U.S. sovereign rating, based on Fitch’s view of the U.S. government’s direct financial support of the two housing GSEs.

The Federal Housing Finance Agency (FHFA) placed Freddie Mac in conservatorship on Sept. 6, 2008 to restore balance to the GSEs’ safety and soundness mission. The goals of the conservatorship, as stated in September 2008, are to restore confidence in the GSEs, enhance the GSEs’ capacity to fulfill their missions and mitigate the systemic risk that has contributed to market instability. FHFA has stated that Freddie Mac will continue business as usual during the conservatorship. When Freddie Mac was placed into conservatorship, FHFA indicated that the conservatorship will end when it determines a plan to restore Freddie Mac to a safe and solvent condition.

Fitch expects MAMOG staff to increase in 2015 in relation to increased origination volumes stemming from new product initiatives such as small balance and affordable housing transactions.

In May 2014, FHFA issued its 2014 strategic plan and conservatorship scorecard. The 2014 strategic plan contained updated goals to maintain, in a safe and sound manner, foreclosure prevention activities and credit availability for new and refinanced mortgages to foster liquid, efficient, competitive and resilient national housing markets; reduce taxpayer risk by increasing the role of private capital in the mortgage market; and build a new single-family securitization infrastructure for use by both GSEs and adaptable for use by other participants in the secondary market in the future. In May 2015, FHFA announced that it expanded the list of affordable housing categories that are excluded from the overall multifamily new business volume cap.

**Loan and Employee Counts**




Source: Freddie Mac, Multifamily Division.

## Employee Statistics

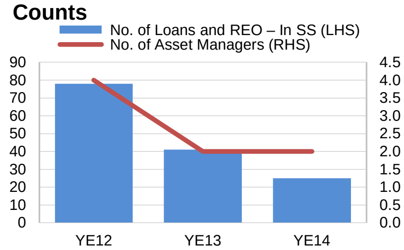
| | 2015 | | | | 2014 | | |
|---|---|---|---|---|---|---|---|
| | No. of Employees | Avg. Years Industry Experience | Avg. Years Tenure | % Turnover | No. of Employees | Avg. Years Industry Experience | Avg. Years Tenure |
| **Master Servicing** | | | | | | | |
| Senior Management | 4 | 19 | 9 | 0 | 4 | 18 | 8 |
| Middle Management | 25 | 20 | 11 | 8 | 23 | 18 | 10 |
| Servicing Staff | 80 | 11 | 8 | 11 | 70 | 11 | 10 |
| **Total** | **109** | — | — | **19** | **97** | — | — |
| **Special Servicing** | | | | | | | |
| Senior Management | 4 | 29 | 10 | 25 | 4 | 30 | 12 |
| Middle Management | 5 | 22 | 7 | 12 | 12 | 20 | 9 |
| Servicing Staff | 10 | 16 | 13 | 25 | 6 | 9 | 8 |
| **Total** | **19** | — | — | **20** | **22** | — | — |

## Employees and Training

As of March 31, 2015, MAMOG consists of 166 employees, with 109 responsible for master servicing functions and 19 for special servicing and asset management. The remaining 38 employees perform multifamily servicing or support functions outside master and special servicing.

The master servicing group has grown 12% from the prior year and is expected to continue to grow via the addition of 27 staff positions through year-end 2015. Staffing growth is the result of the increased mortgage purchase activity and securitization activity for multifamily and affordable housing assets, including the company’s new small balance loan platform. Greater mortgage purchase and securitization activity have also led to an increase in internal transfers within Freddie Mac as opportunities within the multifamily production and underwriting departments have become available.

**SS Loan and Employee Counts**




Note: SS – Special servicing. REO – Real estate owned.
Source: Freddie Mac, Multifamily Division.

## Master Servicing

Master servicing employees are divided among loan accounting, loan administration, GBS, customer compliance management (CCM), operations, surveillance and servicer and data management groups. These groups are responsible for all core servicing functions for Freddie Mac’s multifamily commercial mortgage products, which include TEBS, the 45-day and 75-day (swap) PCs, bond credit enhancement, Freddie Mac K-series transactions and the company’s retained portfolio.

The departments responsible for master servicing functions are led by four senior managers averaging 19 years of commercial mortgage experience and nine years of tenure with Freddie

While only two special servicing employees are currently responsible for working out defaulted loans, the special servicing group has several employees with significant workout experience should defaults increase.

Mac. Twenty-five mid-level managers average 20 years of experience and 11 years of tenure, while the remaining staff of 80 average 11 years of experience and eight years of tenure.

Aggregate turnover among master servicing employees remained low for the second consecutive year at 10%, up only slightly from 7% the prior year. Turnover was the result of two middle management and eight staff-level employees departures, 40% of which were voluntary and 60% were internal transfers within Freddie Mac. All departures occurred in the McLean office, where the majority of servicing employees are based. The number of master servicing employees located in Chicago has increased to four, improving the ability for MAMOG to perform master servicing functions outside of its headquarters.

## Special Servicing

The special servicing group comprises 19 dedicated employees, three less than in 2014. The group is divided among three teams responsible for asset management and real estate-owned (REO) assets, borrower consents and structured transactions. The majority of employees work on nondefaulted loans, proactively working with borrowers to resolve potential defaults, particularly for loans with higher risk ratings or consent matters.

At 13:1, the ratio of assets to asset manager is comparable with the 12:1 average of active Fitch-rated special servicers. Freddie Mac asset managers benefit from the efficiencies of working with a single property type. In addition, Freddie Mac historically has had very few REO assets, and historical REO dispositions occurred in 12 months or less.

Two special servicing employees are actively working out defaulted loans and are considered asset managers; they average 31 years of experience and 15 years of tenure. The ratio of non-CMBS nonperforming, held for investment, assets to asset managers is 13:1 and currently does not include any REO assets, although the asset managers have significant historical experience with REO dispositions. In the CMBS deal where Freddie Mac is the named special servicer, there were no loans in default as of March 31, 2015.

Special servicing is led by four senior managers averaging 29 years of industry experience and 10 years of tenure. Five middle managers, who provide sufficient management depth, average 22 years of experience and seven years of tenure, while staff employees average 16 and 13 years of experience and tenure, respectively.

Aggregate turnover within special servicing declined to 20% as of March 2015 from 29% the prior year. Turnover reflects the departure of four employees and the small size of the group; two of the departures were internal transfers. The remaining two departures, which included a senior management retirement that was subsequently replaced through an internal promotion and one staff employee, were voluntary. While the size of the special servicing group has declined by three employees on a net basis, it remains appropriately staffed as Freddie Mac's balance sheet portfolio continues to decline.

## Training

Employee training is administered through Freddie Mac University (FMU), which offers a variety of courses, including several focused on industry topics. The program includes over 400 web-based and 150 instructor-led training opportunities. The FMU talent development team consults with divisional partners to assess division-specific training needs and brings in relevant training as appropriate. In addition, the team evaluates training needs identified in other forums, such as through employee engagement surveys, the leadership talent review process and employee network groups. MAMOG has two employees dedicated to supporting training curriculum development.

In addition to formal FMU training opportunities, MAMOG employees receive training for system enhancements and specific servicing functions and have educational briefings with industry-leading speakers. Employees are also able to enroll in Certified Commercial Mortgage

Servicer Level I and II certifications through the MBA, as well as the Commercial Real Estate Finance Council (CREFC) CMBS primer training.

Since 2014, 85 MAMOG employees have participated in the MBA commercial mortgage achievement certificate curriculum that consists of more than 50 hours of coursework that must be completed within 12 months.

Employee training is formally tracked within FMU and reviewed by managers quarterly. MAMOG employees have a 40-hour training objective consisting of annual compliance training and a mix of internal and approved external training options. Master servicing employees completed an average of 68 hours of training per employee for the 12 months ending March 2015, and special servicing employees completed 63 hours for the same period. Freddie Mac's employee training hours are among the highest of Fitch-rated servicers.

## Operational Infrastructure

### Outsourcing

Freddie Mac does not outsource any remitting or reporting functions or offshore any master or special servicing functions. The company's individual seller/servicers are responsible for day to day primary loan servicing functions with oversight by Freddie Mac, who retains approval authority. Special servicing functions for balance sheet loans are performed by the special servicing group in the event of default and the group is responsible for directing seller/servicers primary servicing functions.

### Vendor Management

The GBS group is responsible for vendor management. The group is responsible for tracking all contracts and managing pending expirations, administering the enterprise-level contracting process to satisfy procurement requirement, as well as the competitive bid process.

Individual business areas are responsible for the day-to-day oversight of vendors and are required to evaluate their performance quarterly by providing the GBS group with a quality score reflecting overall vendor performance, quality of the staff, timeliness and flexibility. The group provides senior management a monthly summary of vendor performance and costs.

## Information Technology

Freddie Mac's proprietary servicing systems are comparable with other Fitch-rated servicers in functionality and benefit from dedicated support resources.

MAMOG relies on a suite of legacy applications, as well as a database called Multifamily Processing System (MPS) and MultiSuite, both internally developed, to support its core servicing functions. MPS contains separate applications to support loan accounting, purchase tracking and cash management functions. MultiSuite also comprises separate but integrated applications for bonds, TEBS loan accounting, investor reporting and bond wire requests.

### Core Systems

| Software | Version |
|---|---|
| CRT | 3.1 |
| PRS | 2.1B |
| SMART | 1.7 |
| MSIA | 2.1 |
| MultiSuite | N.A. |
| Multifamily Processing System | N.A. |

N.A. – Not applicable.

Additionally, MAMOG uses a variety of applications to support its core business processes for asset management and surveillance functions. The systems, which are developed and maintained by Freddie Mac and third-party vendors, are integrated with nightly data updates from a centralized database. Examples of core applications used by the asset management and operations group are:

- Property Reporting System (PRS) — Facilitates the workflow process of collecting and validating loan data received from seller/servicers.
- Consent Request Tracker (CRT) — Tracks and monitors servicer performance on borrower consent requests for K-series and retained portfolio loans.
- Streamlined Management Analytical and Reporting Tool (SMART) — A core analytical application for property analysis, loan risk rating, asset management, property valuation and business plan development.
- Multifamily Securities Investor Access (MSIA) — A web-based interface that allows investors access to CREFC data elements and transaction documents for Freddie Mac K-series transactions.
- Asset Resolution Tool — A loan valuation tool used to evaluate resolution strategies.

Asset management reporting is available using a large number of reports within the core applications and through ad hoc queries in the SMART application. All reports can be exported to Excel as needed.

Applications used by Freddie Mac have sufficient capacity and are continually monitored by Freddie Mac's centralized information technology (IT) department. The IT department also has a help desk that provides application and employee support. Within the IT department, a dedicated team of 60 employees are responsible for supporting multifamily applications and systems, including ongoing enhancement to applications.

Recent technology enhancements include improvements to MSIA to improve loan setup, performance and data quality, enhancements to PRS to streamline inspection data, SMART enhancements to support audit and legal requirements and enhanced workflow and reporting capabilities for CRT. In addition, MAMOG is implementing a new data store that will serve as a central data hub for the integration of all the group's applications, as well as support the data warehouse that will retain historical information and support reporting.

The multifamily servicing group instituted an out-of-region business continuity plan in 2015, formalizing business continuity procedures for key cash and legal functions between the McLean and Chicago offices in the event of a disruption.

## Disaster Recovery/Business Continuity Plan

Disaster recovery and business continuity plans are developed by Freddie Mac's enterprise business continuity group. Freddie Mac's corporate policy requires business lines to perform an annual business impact analysis and maintain a business continuity plan to assist in the recovery of critical business functions. Business lines are further required to test and validate business continuity procedures at least annually. Back-up facilities for the multifamily division are located in Herndon and Reston, VA, about 15 miles from its primary servicing location. The back-up facilities are supported by backup generators that are tested weekly.

While the disaster recovery and business continuity plans of Freddie Mac are appropriate for master servicing functions, special servicing functions are subject to a higher potential loss for data and have among the longest recovery times of Fitch-rated special servicers.

The multifamily servicing group maintains business continuity plans and recovery plans that include process level workarounds allowing teams located in both McLean and Chicago to perform critical cash and legal functions in the event of a business disruption. Additionally, an out-of-region data center in Boulder, CO is maintained, to which production data is replicated to on a continual basis.

Freddie Mac conducted disaster recovery tests in 2014 and 2015. The 2014 test identified a data connectivity issue between one critical reporting application and the out-of-region data center, while all other applications were restored without issue. The plan was retested in 2015 with similar results, which Freddie Mac is attempting to resolve.

The maximum possible data loss for MAMOG varies by application. Applications associated with cash processing and investor reporting utilize real-time data replication, resulting in minimal data loss in the event of a power failure. However, special servicing asset management data are backed up daily, resulting in the potential for 24 hours of data loss.

The recovery time for servicing applications also varies by function. Applications that support master servicing functions (such as cash processing and investor reporting) have a recovery time of 24 hours. Special servicing asset management systems that support borrower transactions, REO and data management have a recovery time of one to two weeks, which is the longest of Fitch-rated special servicers.

## Internal Control Environment

MAMOG maintains an effective and multi-faceted internal control environment. Beginning with policies and procedures, the company operates what it calls a Three Lines of Defense risk management framework to clarify internal roles and controls. MAMOG management is the first line, responsible for ongoing oversight of assigned processes, risks and controls. Enterprise risk management (ERM) and compliance are responsible for developing frameworks the business uses and for performing monitoring of the first line. Internal audit is the final line, responsible for assessing the effectiveness of and providing assurance on business processes.

### Policies and Procedures

Freddie Mac maintains thorough and complete policies and procedures, available online to all employees and found by Fitch to be clear and concise, providing detailed instructions with illustrations. Policies and procedures are assigned to senior group members for review and revision annually and approved by the senior management of asset management and operations. Prior to publication, each procedure is also reviewed by the governance and control team for consistency to ensure compliance with Freddie Mac's established credit policy.

Fitch reviewed MAMOG's second-quarter BRAC report, which serves as the basis for quarterly compliance and risk reviews of the organization and meeting minutes. The report identifies operational risks across all segments of multifamily, summarizes and rates key risk indicators, tracks outstanding compliance issues and provides a heat map detailing individual compliance performance and trends for key controls. Fitch found the report to be an extremely effective tool to monitor compliance and one of the most comprehensive and detailed of Fitch-rated servicers.

### Compliance and Controls

Freddie Mac maintains a corporate compliance division, with approximately 45 staff members reporting to the chief compliance officer and, ultimately, the CEO. The compliance division is made up of five groups: ethics and business practices, capital markets compliance, mortgage, FAA and assurance compliance, privacy and regulatory affairs. The compliance division works with MAMOG, implementing and overseeing an integrated framework of internal controls with the goal of maintaining compliance with legal and regulatory matters, as well as corporate policies and procedures.

In addition to corporate compliance, Freddie Mac maintains an enterprise-level governance and business services (GBS) team. Within the GBS team, there are three employees dedicated to MAMOG, as well as seven additional employees that support other multifamily functions and can provide additional support to MAMOG, if needed. The team is responsible for internal oversight of MAMOG, which includes quarterly self-assessment and testing of key financial controls, procedure management, vendor management and business continuity planning. The results of MAMOG's quarterly operational tests are reviewed and reported through the company's Business Area Risk Control (BRAC) process. Fitch reviewed a sample of key controls pertaining to loan servicing and investor-reporting functions and found them to be well documented and effective.

Fitch met with the senior member of the internal audit organization responsible for the multifamily division and found the scope to be extensive, thorough and comparable to highly rated Fitch servicers.

Freddie Mac's ERM group and the risk and controls organization (RCO) establish credit policy for the multifamily division and MAMOG and monitor compliance with credit policies by establishing the risk and control environment for the multifamily group. Freddie Mac's RCO works with MAMOG to document Sarbanes-Oxley process flows and financial controls. The group also performs its own annual testing of key financial controls. Compliance with statutory, regulatory and management supervisory requirements are monitored by the corporate compliance group of Freddie Mac. The groups also review changes to process and technology and management's assessment of their impact on risk and controls.

## Internal Audits

Freddie Mac maintains a corporate internal audit function responsible for auditing all business functions on a risk-adjusted basis. Internal audit is staffed by 98 professionals, the majority of whom are certified audit professionals, reporting to the audit committee of Freddie Mac's board of directors. The internal audit organization, based on an annual comprehensive risk assessment of each department, process or product within Freddie Mac, identifies inherent risks and assigns a risk score based on credit, market, operational and strategic, reputational, regulatory and legal risks, as well as determines the frequency of audits (from one to four years).

The multifamily audit universe is defined as eight entities: asset management (special servicing, surveillance and data management); loan accounting operations; loan purchase operations; data and rules management; CCM; loan sourcing and underwriting; K-Deal pricing, securitization and valuation; and held for investment pricing; and costing. Of the eight auditable areas, four have a low risk rating, two are medium/low and the remaining two are classified as medium/high.

Audits of asset management (special servicing, surveillance and data management) and loan purchase operations were completed in the first half of 2015, both of which resulted in satisfactory results, the highest possible rating, and no material findings. Loan sourcing and underwriting is the last entity scheduled for a 2015 audit and loan accounting operations, data rules and management and K-Deal pricing, securitization and valuation are currently scheduled for 2016. There were no internal audits conducted with MAMOG in 2014 following audits of surveillance, special servicing, CCM, loan accounting operations and data quality and rules management in 2013, all of which resulted in satisfactory ratings.

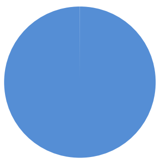
Business units self-assess their risks and controls quarterly to supplement internal audits. The corporate compliance, internal controls and internal audit organizations of Freddie Mac perform annual internal reviews of the multifamily division as well. Ongoing compliance monitoring is performed by ERM, which reviews and approves certain credit decisions of the asset management and operations group.

## External Audits

PricewaterhouseCoopers LLP (PwC) completed a Uniform Single Attestation Program (USAP) audit in 2014 for Freddie Mac as special servicer for FREMF 2012-KP01 and master servicer for FREMF 2014-KX01. The reporting, which was issued on March 31, 2015, contained no findings.

PwC performs an annual audit of Freddie Mac, as does FHFA, which regulates Freddie Mac. PwC is responsible for auditing Freddie Mac's quarterly and annual financials to ensure that the financial statements are free of material misstatements. As part of its review, PwC tests the key financial controls of the multifamily division throughout the year to confirm their successful execution.

**Property Type — CMBS Master Servicing Portfolio**

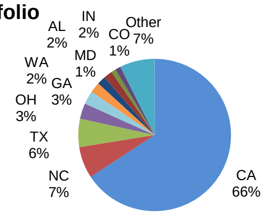



Note: Numbers may not add to 100% due to rounding.
Source: Freddie Mac, Multifamily Division.

## Master Servicing

Freddie Mac appointed itself master servicer for the FREMF 2014-KX01 transaction in July 2014, the company's first traditional CMBS master servicer assignment, followed by FREMF 2015-KJ01 in March 2015. The FREMF 2014-KX01 is a public transaction comprising

**Geographic Distribution — CMBS Master Servicing Portfolio**




Note: Numbers may not add to 100% due to rounding.
Source: Freddie Mac, Multifamily Division.

19 single-asset multifamily loans, with a balance of $362.6 million as of March 31, 2015, and has an unaffiliated special servicer with Freddie Mac seller/servicers acting as primary servicers. The FREMF 2015-KJ01 is also a public transaction comprising 42 supplemental second mortgages loans, with a balance of $143.0 million as of the same date.

## Master Servicing Portfolio Overview

| | 3/31/15 | % Change | 12/31/14 | % Change | 12/31/13 |
|---|---|---|---|---|---|
| **CMBS** | | | | | |
| No. of Transactions – Master Servicer | 2 | 100 | 1 | — | 0 |
| UPB – Master Servicing ($ Mil.) | 505.5 | 29 | 391.7 | — | 0 |
| No. of Loans – Master Servicing | 61 | 205 | 20 | — | 0 |
| No. of Primary Servicers Overseen | 28 | 28 | 28 | 8 | 26 |
| **Non-CMBS** | | | | | |
| UPB – Master Servicing ($ Mil.) | 70,304 | 4 | 67,773 | (8) | 73,743 |
| No. of Loans – Master Servicing | 6,373 | 1 | 6,304 | (12) | 7,137 |
| No. of Primary Servicers Overseen | 38 | — | 38 | 12 | 34 |

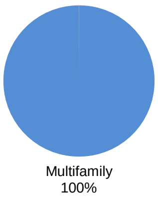
UPB – Unpaid principal balance.

The CCM group performed eight onsite audits and 11 desktop audits of seller/servicers during the 12 months ended March 2015.

While Freddie Mac's CMBS master servicing portfolio is small, Fitch expects it will continue to grow at a slow pace as the company intends to appoint itself master servicer for new product types such as small balance loans, one-off single asset transactions or nontraditional K-series transaction. Freddie Mac has stated it has no intention of becoming master servicer for traditional K-series transactions. In addition, the company continues to perform master servicing functions, such as primary (seller/servicer) oversight, advancing and investor reporting for its 6,373 non-CMBS loans held for investment.

### Primary Servicer Oversight

**Property Type — Non-CMBS Master Servicing Portfolio**




Note: Numbers may not add to 100% due to rounding.
Source: Freddie Mac, Multifamily Division.

The CCM group within MAMOG performs primary servicer oversight for 28 Program Plus and/or Targeted Affordable Housing seller/servicers and 10 servicers of loans purchased under prior programs or negotiated transactions (referred to as legacy loans), who collectively serviced in excess of 6,000 loans totaling $68.4 billion as of March 2015.

Seller/servicers are evaluated annually to determine the scope of audit based on their last audit, audit findings, portfolio size, organizational changes, loan performance and business-area feedback. Freddie Mac requires all seller/servicers to have a full-scope audit at least every three years. Seller/servicers are also required to submit annual certifications of compliance and obtain Freddie Mac's approval for any organizational changes. The 10 servicers of legacy loans are also monitored by CCM and audited, albeit less frequently, given the size of their portfolios. The CCM group will perform 12 full scope and 14 limited scope audits in 2015.

Oversight of Freddie Mac's seller/servicers consists of either full- or limited-scope annual audits of each seller/servicer's internal controls, loan underwriting and setup, servicing and accounting functions, investor reporting and overall compliance with Freddie Mac's servicing guidelines. Seller/servicer oversight is extensive and includes input from various groups within Freddie Mac, including loan administration and servicing who provide feedback based on direct experience. In addition, warehouse line compliance and reconciliation, disaster recovery/ business continuity plans, anti-fraud programs, data integrity, third-party evaluations and corporate eligibility requirements are reviewed.

In addition to the formal audit of seller/servicers, Freddie Mac holds an annual performance review meeting with each seller/servicer to discuss its performance. The performance review meeting is attended by senior managers of Freddie Mac and serves as a compliance and working-relationship review through which it provides feedback on the seller/servicer's performance and solicits feedback on its servicing guidelines.

Fitch noted as a concern Freddie Mac's lack of a formal advancing committee relative to it being named master servicer on two transactions as of June 2015. While there have been no advances required to date, Fitch believes an advancing oversight function is consistent with its highest ratings.

Unlike traditional master servicers, Freddie Mac does not perform primary servicing functions for commercial mortgage loans purchased from its seller/servicers, and the assumption of those duties is outside the company's current scope of business and capacity. In the event Freddie Mac determines a seller/servicer cannot continue servicing loans, it maintains portfolio seizure protocols and has agreements with its seller/servicers to immediately transfer the loans. Robust monthly reporting from seller/servicers and ongoing surveillance by MAMOG greatly minimize the risk of a loss of loan data in the event a portfolio of loans needs to be transferred.

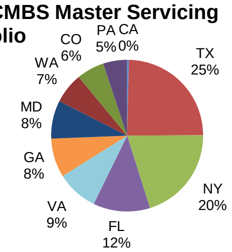
## Advancing

CCM added five new seller/servicers within the past 12 months in conjunction with its new small balance lending program and expanded its seller/servicer audits to include K-series securitized loans in 2015.

Freddie Mac has varying degrees of advancing obligations for its five key multifamily product types, including advancing principal and interest payments and/or property-protection payments. Advancing determinations and distributions are a collaborative effort between groups within MAMOG based on product type, but are generally led by the loan accounting group.

Freddie Mac has not had to make any advances on its named K-series master servicing portfolio as of June 2015. In the event advances are required, Freddie Mac will establish a credit committee comprising individuals from surveillance, operations and accounting and special servicing to establish procedural thresholds and review outstanding advances.

**Geographic Distribution — Non-CMBS Master Servicing Portfolio**




Note: Numbers may not add to 100% due to rounding.
Source: Freddie Mac, Multifamily Division.

Freddie Mac's largest outstanding advances totaled approximately $5 million as of March 2015 for the payment of interest and principal for the guaranteed portion of its $77.6 billion portfolio of K-series transactions. Freddie Mac also has advancing responsibility, but no outstanding advances (including property-protection advances) for its retained portfolio of loans and any loans in special servicing as of the same date. Advances for retained portfolio loans are done in collaboration with the special servicing group for property-protection payments and operating expenses of REO assets. Other products for which the company has advancing responsibility include: $9 billion bond credit enhancement, $482 million PCs, $5.1 billion TEBS and the $363 million named master servicing portfolio.

## Investor Reporting

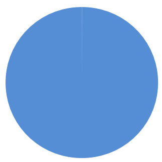
Investor reporting varies by product type and is primarily the responsibility of the loan accounting group. For the TEBS portfolio, the loan accounting group reviews and reconciles bond payment/reporting and information from seller/servicers to the payments paid to bond trustees. Loan accounting also forwards collateral-level activity to the trustee each month and allocates funds to the appropriate collateral.

The group reviews and reconciles collateral-level reporting and remittance data from seller/servicers for the bond credit enhancement portfolio, including monthly payment advances and recoveries, as well. Additionally, loan accounting reconciles monthly principal and interest for retained portfolio loans. At payoff, the group ensures the balance and prepayment fees are calculated, reported and remitted correctly by its seller/servicers. The group performs the same functions for Freddie Mac's named master servicing portfolio.

While Freddie Mac is named master servicer for only two K-series transactions, the GSE remains an active participant in monitoring and supporting its entire K-series guaranteed bond portfolio totaling $77.6 billion as of March 2015. The loan accounting group aggregates and compares bond-level transaction files and delinquency data for all K-series transactions and discloses results monthly, both internally and externally, to investors through a free website that includes all CREFC Investor Reporting Package information. In addition, the website allows restricted access to borrower statements, inspections and rent rolls for loans where Freddie Mac is the named master servicer.

## Special Servicing

**Property Type — CMBS Special Servicing Portfolio**




Note: Numbers may not add to 100% due to rounding.
Source: Freddie Mac, Multifamily Division.

### Special Servicing Portfolio

As of March 31, 2015, MAMOG oversaw and performed asset management for a portfolio of approximately 6,300 non-CMBS loans with a balance of $70.3 billion held on Freddie Mac's balance sheet. As of the same date, the company was the named special servicer for one CMBS transaction containing 28 loans, none of which have defaulted since issuance. MAMOG's active special servicing portfolio consists of 25 held for investment loans totaling $309 million and no REO assets.

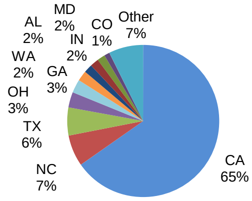
**Special Servicing Portfolio Overview**

| | 3/31/15 | % Change | 12/31/14 | % Change | 12/31/13 |
|---|---|---|---|---|---|
| **CMBS** | | | | | |
| No. of Transactions — Special Servicer | 1 | 0 | 1 | 0 | 1 |
| UPB – Named Special Servicer ($ Mil.) | 439.0 | 0 | 440.0 | (1) | 444.0 |
| No. of Loans — Named Special Servicer | 28 | 0 | 28 | 0 | 28 |
| UPB – Actively Special Servicer (Non-REO) ($ Mil.) | 0 | 0 | 0 | 0 | 0 |
| No. of Loans — Actively Special Servicer (Non-REO) | 0 | 0 | 0 | 0 | 0 |
| UPB – REO Assets ($ Mil.) | 0 | 0 | 0 | 0 | 0 |
| No. of REO Assets | 0 | 0 | 0 | 0 | 0 |
| **Non-CMBS** | | | | | |
| UPB – Named Special Servicer ($ Mil.) | 70,304 | 4 | 67,773.0 | (8) | 73,734.0 |
| No. of Loans – Named Special Servicer | 6,373 | 1 | 6,304 | (12) | 7,137 |
| UPB – Actively Special Servicing (Non-REO) ($ Mil.) | 309.0 | 1 | 306.0 | (36) | 481.0 |
| No. of Loans — Actively Special Servicing (Non-REO) | 25 | (4) | 26 | (35) | 40 |
| UPB – REO Assets ($ Mil.) | 0 | 0 | 0 | (100) | 13.0 |
| No. of REO Assets | 0 | 0 | 0 | (100) | 1 |

REO – Real estate owned. UPB – Unpaid principal balance.

The special servicing group resolved seven defaulted loans for the 12 months ending March 2015 totaling $42.4 million, only one of which incurred a loss. Resolutions included three full payoffs, three returned to performing and one discounted payoff. The multifamily assets were located in five states, and the outstanding balance of the loans ranged from approximately $280,000 to $9.1 million.

**Geographic Distribution — CMBS Special Servicing Portfolio**




Note: Numbers may not add to 100% due to rounding.
Source: Freddie Mac, Multifamily Division.

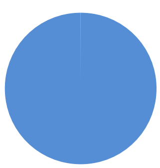
### Loan Administration

Portfolio surveillance is the responsibility of three surveillance teams responsible for securitized loans, balance sheet loans, and risk rating administration. Analysts are each responsible for approximately 1,100 loans including between 40-50 high risk or watchlist loans. In 2014, Freddie Mac reorganized surveillance teams to allow greater focus on individual portfolios and dedicate resources to reporting, technology and new initiatives. As part of the reorganization, the group absorbed the physical risk team previously included in enterprise risk management to enhance surveillance efforts.

Freddie Mac's surveillance process begins with the collection of detailed loan and property information from its seller/servicer network. Freddie Mac receives quarterly financial information, Freddie Mac's core special servicing philosophy is to resolve loans in Freddie Mac's best interest economically, operationally and, from a reputational perspective, with the ultimate workout strategy resulting in the highest NPV to Freddie Mac. While this philosophy is appropriate for balance sheet loans, Fitch believes it may create potential conflict of interest for third-party investors in securitized transactions.

Freddie Mac's AR Tool is used to calculate and compare NPV scenarios for various resolution strategies. Note sales are a preferred disposition strategy for assisted-living assets or multifamily assets in extremely poor condition.

**Property Type — Non-CMBS Special Servicing Portfolio**




Note: Numbers may not add to 100% due to rounding.
Source: Freddie Mac, Multifamily Division.

Fitch found Freddie Mac's surveillance and risk-rating process to be a proactive monitoring tool and the company's early intervention, with borrowers effective in mitigating losses and shortening workout negotiations.

annual inspections and qualitative management information for all loans in its portfolio. The information received is consolidated within the SMART system used to risk rate loans quarterly.

Freddie Mac's risk-rating process is its primary tool to screen and identify potential problem loans within its portfolio, as well as the foundation for the company's requirement to establish reserves for potential loan losses. The risk rating is based on an econometric model that produces a loan score reflecting the expected lifetime loss of a given loan. The loan-score criteria factor approximately 15 performance aspects of the loan and property, as well as Freddie Mac's view on multifamily markets, future interest rates and cap rates.

The risk rating is defined on a scale of one to 10, where one is the least risky and 10 the most risky. Loans with high risk ratings are assigned to surveillance analysts who are responsible for developing business plans and ongoing monitoring of the loan. The surveillance group risk rates all loans held within Freddie Mac's retained portfolio, as well as loans originated for securitization, both during the warehousing period and post-securitization.

## Defaulted/Nonperforming Loan Management

Freddie Mac's goal is to resolve loans based on its own best economic interests as lender with consideration of reputational risks. While this is similar to the CMBS servicing standard in terms of obtaining best resolution based on a net present value (NPV) analysis, Freddie Mac has yet to perform any workouts considering the economic interest of investors. The asset resolution team is responsible for working out loan defaults and is supported by Freddie Mac's internal legal counsel, as well as local counsel when deemed appropriate.

Once a default occurs or a borrower requests debt relief, Freddie Mac's workout strategy is to maximize recovery on an NPV basis. Possible workout scenarios include loan extension or forbearance, note sale, modification or foreclosure. While working out a loan, Freddie Mac considers the cooperation of the borrower and its willingness to demonstrate a financial commitment commensurate with any debt relief. Freddie Mac considers the need for an updated title policy and/or updated third-party reports (appraisal, engineering or environmental) depending on the status of the loan and potential workout.

Unlike many Fitch-rated special servicers, Freddie Mac does not have a formal credit committee responsible for review and approval of loan workouts. Individuals within Freddie Mac are responsible for workout decisions based on the company's approval-delegation authority matrix determined by its board of directors and risk management group. Delegations of authority are reviewed quarterly.

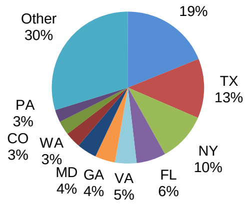
## REO Management

When an asset is foreclosed upon, asset management responsibility transfers to the REO team from the asset resolution team. MAMOG employs a detailed REO management process designed to stabilize, position and dispose of the REO for the highest possible price.

Freddie Mac's philosophy is to hold REO assets for less than a year, although Fitch observed exceptions occur when properties are not stabilized. Prior to taking title to an asset, Freddie Mac develops a 90-day takeover plan that includes an assessment of the asset, including potential capital expenses necessary to stabilize or add value to the property. Freddie Mac makes capital expenditures to stabilize assets as necessary and has no restrictions on access to capital. Upon taking title to a property, Freddie Mac engages a third-party property manager to resolve all immediate life safety issues, secure the premises and address operational deficiencies. While a property is held by Freddie Mac, an annual operating budget is prepared by the asset manager in conjunction with the property manager. The budget is reviewed and approved by Freddie Mac.

Prior to marketing a property for sale, Freddie Mac's policy is to engage two to three brokers to develop opinions of value. Freddie Mac evaluates the brokers' experience, previous success with Freddie Mac, geographical focus, strategy, pricing/incentives and marketing materials prior to selecting a broker to list the asset for sale. While Freddie Mac's goal is to sell assets at the highest possible price, it is sensitive to selling assets to qualified buyers and avoiding/mitigating potential headline risk.

**Geographic Distribution — Non-CMBS Special Servicing Portfolio**




Note: Numbers may not add to 100% due to rounding.
Source: Freddie Mac, Multifamily Division.

## Governance and Conflicts of Interest

### Managing Conflicts of Interest

Potential conflicts of interest in special servicing arise through various forms, particularly as investors retaining controlling positions in securitizations or specific loans have influence on workout strategies and the ability to select the special servicer.

Freddie Mac does not plan to act as master or special servicer in transactions in which it is not also the guarantor. In the ordinary course of its K-Deal securitizations, Freddie Mac does not purchase B pieces, although it may do so in specialized transactions. The company is the named special servicer for one transaction for which it owns the controlling class position, as well as other bonds within the transaction that are consolidated onto the company's balance sheet. Freddie Mac does not have specific policies for securitized transactions or where potential conflict of interest exist although Fitch noted the separation of special servicing and asset management functions from investments as a mitigating factor.

Fitch found Freddie Mac's business plans to be well documented and comparable to those of highly rated special servicers.

Freddie Mac's employees are subject to its code of conduct, which contains specific policies addressing conflicts of interest, and business ethics relating to the company's business lines. Furthermore, employees are required to attend annual compliance training and certify their understanding and compliance with the employee code of conduct. Fitch found the code of conduct for employees to be complete, addressing the disclosure of material, nonpublic information, data firewalls, business relationships, information disclosure with vendors, confidentiality and fair-dealing practices.

Fitch reviewed 10 business plans for defaulted loans and REO properties to assess timeliness, completeness and consistency with Freddie Mac's stated policies and procedures. Fitch found the plans thorough and complete, containing an analysis of the loan, property, borrower, market and circumstances surrounding the default. The plans presented a clear rationale for proposed resolution and, where applicable, an NPV analysis of alternative resolutions when applicable.

In its review of Freddie Mac, Fitch noted the high degree of internal controls and compliance functions of the organization, including the approval of valuations by separate departments. These controls, in addition to the company's well-substantiated business plans, mitigate potential conflicts of interest within its current portfolio.

### Affiliated Companies

Freddie Mac does not have any affiliated companies that provide real estate management or broker services. Freddie Mac also does not provide debt refinancing directly to borrowers, but a non-affiliated Freddie Mac seller/servicer may provide commercial real estate financing options to maturing CMBS loans.