



Seller/ Servicer Education Asset Management Surveillance

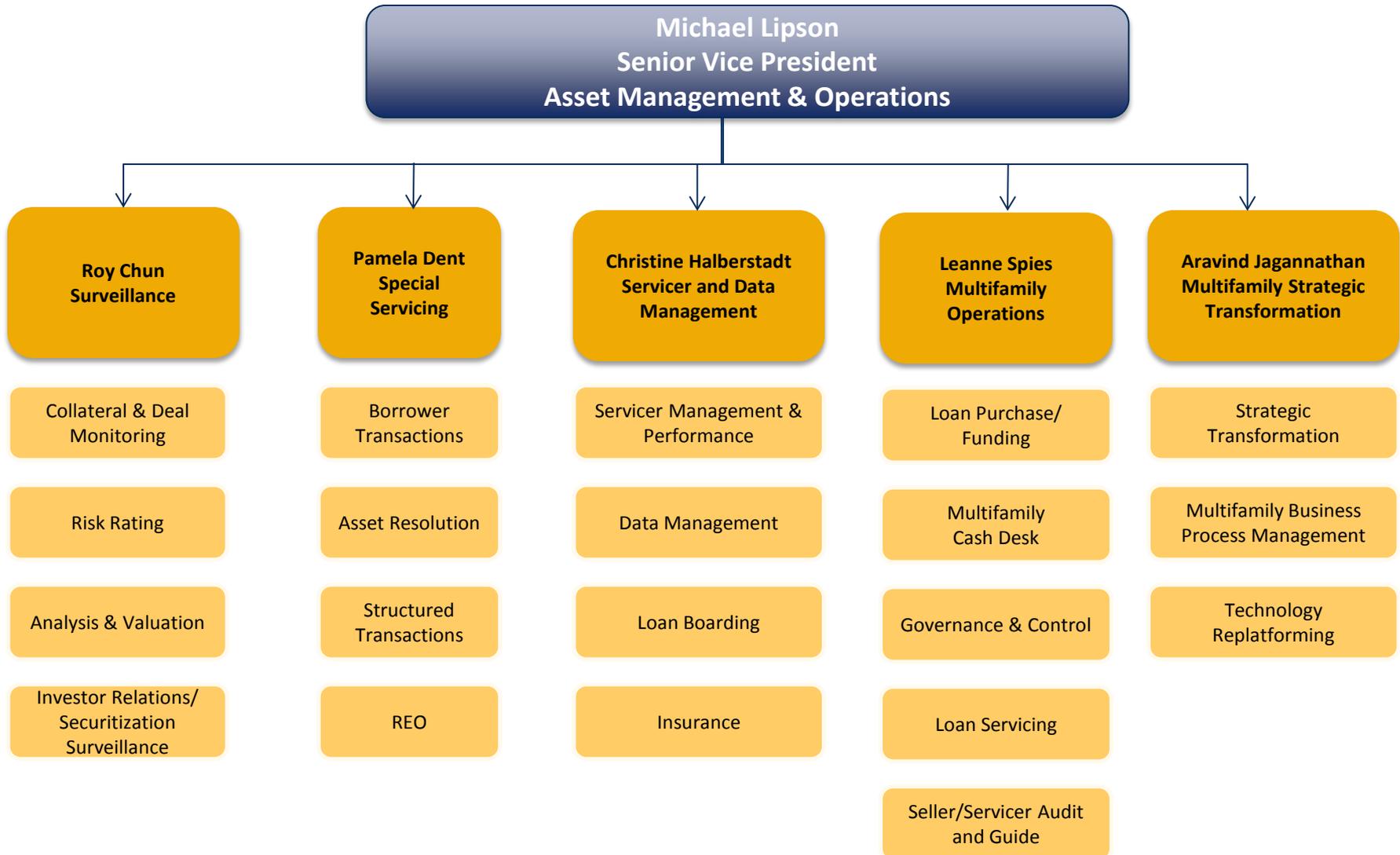
June 18, 2013

Asset Management Surveillance – Agenda



- **Who We Are?**
 - » Organization Structure
 - » Triple A – Aggregate, Analyze and Apply
 - » Roles and Responsibilities
 - » Team Profile
- **Portfolio Surveillance**
 - » Risk Ratings & criteria
 - » Activities - Assessment requirements and Reviews
- **Pre-Securitization Surveillance**
 - » Reporting requirements and reviews
- **Post-Securitization Surveillance**
 - » Reporting requirements and reviews
- **K-deal Performance**

Asset Management and Operations

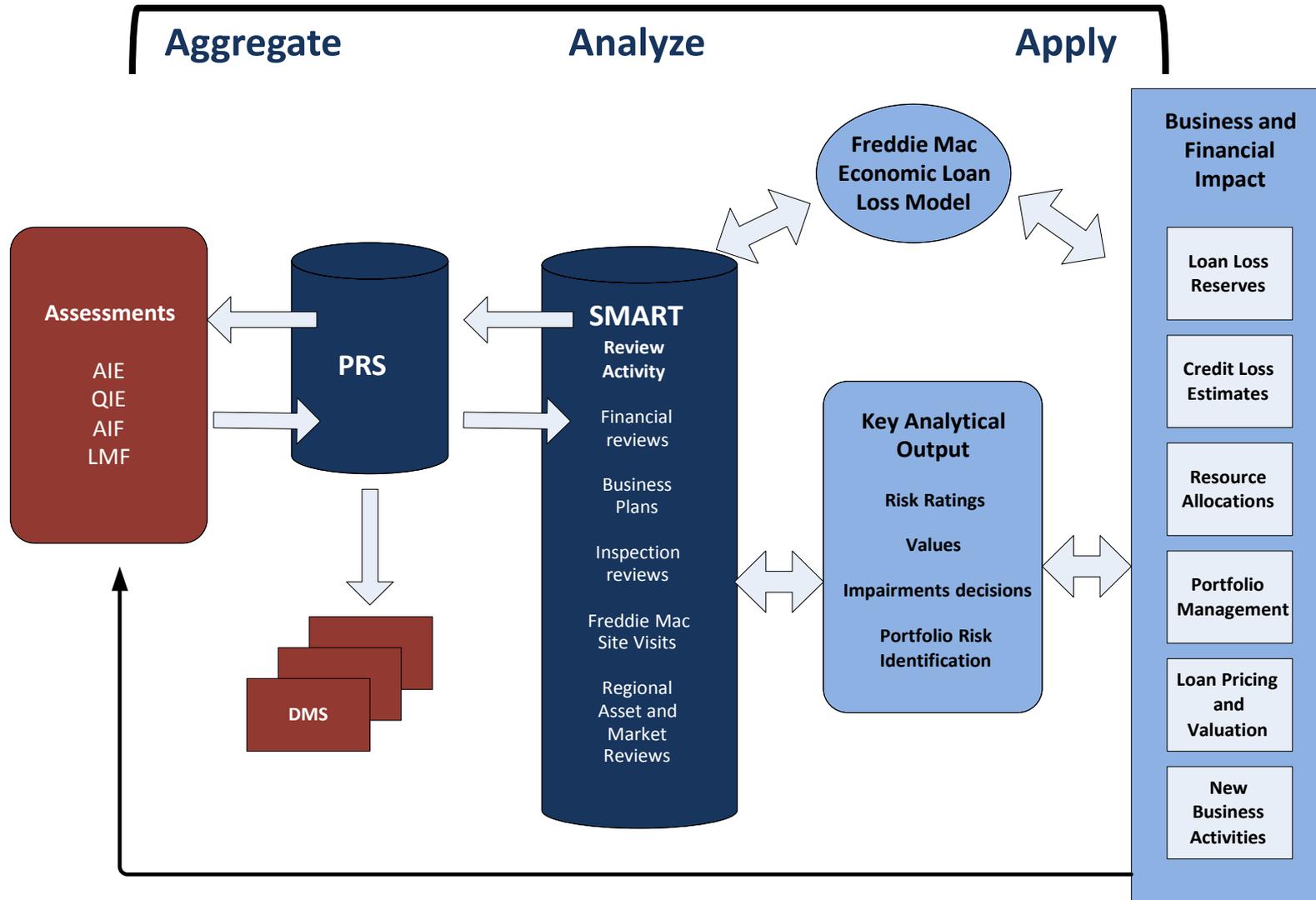


We continue to use the Triple A to Enhance the Freddie Mac Multifamily Servicing Standard



- Freddie Mac continues to hold the borrower experience as one of its key priorities and we continue to develop the “Servicing Standard” in 2013
 - » **Aggregate**
 - » **Analyze**
 - » **Apply**

Surveillance



Surveillance – Roles & Responsibilities

- The **Analyze** and **Apply** of the Triple A
- The Surveillance Group monitors the credit quality and performance of the Multifamily loan portfolios and guarantees on our bond and securitization programs.
 - » Balances as of December 31, 2012 totaled \$128 billion
 - \$63 B Held for Investment Loan Portfolio
 - \$14 B Held for Sale Loan Portfolio
 - \$37 B K-deal Guarantees
 - \$14 B Other Guarantees (Affordable, Tax exempt)
- Informs the organization and key stakeholders of risks and issues in the portfolio
 - » External and Internal Auditors, Corporate Finance, Regulators (e.g., FHFA), Enterprise Risk Management (ERM), Credit Policy, Production and Underwriting, Portfolio Management
- Provides the basis to drive better decision making for new and existing business

- 22 member team
 - » 10 members assigned responsibility for the highest risk rated loans
 - As of March 2013, an average of 30-40 high risk loans assigned to each analyst based on geography
 - » 9 members assigned responsibility for the moderate and low risk rated loans
 - As of March 2013, an average of 60-75 moderate risk loans and 1,000-1,200 low risk loans assigned to each analyst by Seller/Service
 - » 2 people are assigned to monitor the performance of Freddie Mac K-Deal securitizations
 - As of March 2013, there were 44 transactions and 2,600 loans
- During 2012, the analysts reviewed approximately 2,400 property financials and over 4,500 physical inspections and loan management forms.

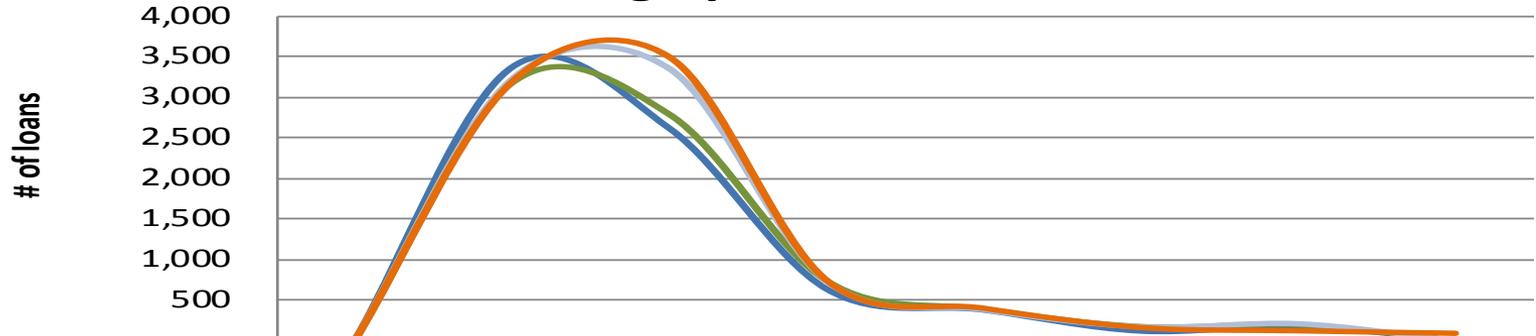
- New Risk Rating methodology has been in place for one year
- New methodology has allowed for:
 - » Common terminology for regulators and auditors (1-10 risk scoring)
 - » Consistent view of risk across Freddie Mac
 - » Markets and individual loan performance
 - » Robust econometric credit loss model
 - » Ability to consume many factors into a rigorous process
- Benefits of new Risk Rating process:
 - » More timely consumption of data
 - » Immediate update of risk based on available data
 - » Improved auditability and controls

- Risk Rating buckets 1-6 (considered low risk loans):
 - » Lowest achievable rating for MF loans is a 3 for defeased loans; 4 for RE loans
 - » Reviews will be based on significant risk rating changes
 - » Reviews will also be triggered by key risks identified from assessments submitted
- Risk Rating of 7:
 - » Loan that displays some element of heightened risk, but default and loss is not expected
 - » Subject to business plans, annual financial and physical inspection reviews
 - » Higher risk loans will warrant a valuation
- Risk Rating 8-10:
 - » Loan deemed to be higher risk of default and losses are more probable
 - » Subject to valuation, impairment recommendations, business plans and quarterly reviews

Multifamily Portfolio By Risk Rating

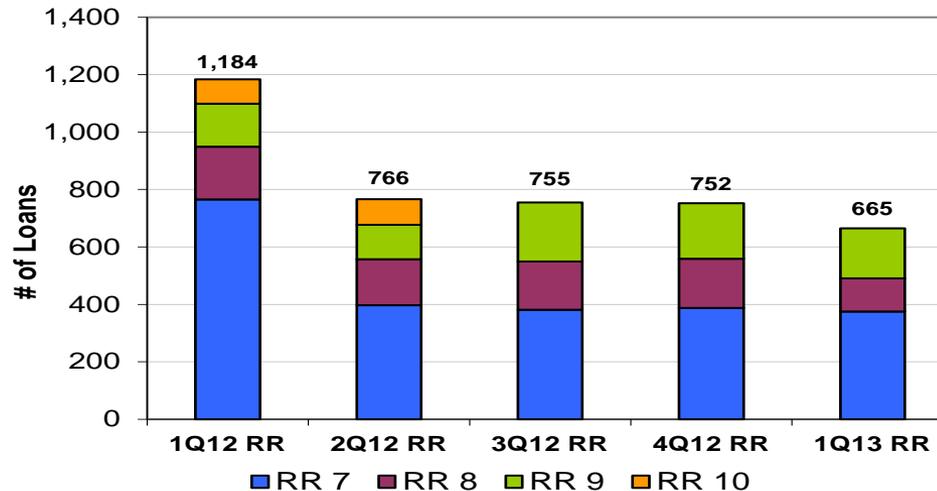


Risk Rating by Quarter



	3 Safest	4	5	6	7	8	9	10 Riskiest
1Q13 Risk Rating	14	3,369	2,610	633	375	116	174	-
4Q12 Risk Rating	14	3,177	2,782	736	387	172	193	-
3Q12 Risk Rating	13	3,223	3,345	735	381	168	206	-
2Q12 Risk Rating	13	3,192	3,488	740	397	160	120	89

Loan Count: Risk Rating (RR) 7 - 10



Multifamily Portfolio By Risk Rating (cont'd)



- Our mortgage portfolio credit quality trends remained relatively consistent period over period, reflecting positive multifamily fundamentals.

1Q13 Risk Rating ¹	% UPB	# loans	Mar-13 UPB \$M	Spec. Res. ³ UPB \$M	Spec. Res. \$M	Wtd. Ave. MTM DCR
9	2%	174	\$ 1,647	\$ 1,517	\$ (190)	0.93
8	1%	116	1,054	73	(3)	1.11
7	5%	375	4,338	271	(0)	1.44
Subtotal 7- 9	8%	665	7,039	1,861	(193)	1.27
6	7%	633	6,508	19	-	1.37
5	31%	2,610	27,286	49	-	1.62
4	37%	3,369	32,762	45	-	2.15
3	0%	14	106	-	-	2.10
New Funding ²	15%	747	13,433	12	-	2.08
Forwards ²	1%	38	465	-	-	2.00
Total	100%	8,076	\$ 87,600	\$ 1,987	\$ (193)	1.85

Loan counts and UPB balances are as of:
 1Q12 – Mar. 31, 2012 2Q12 - Jun. 30, 2012
 3Q12 - Sep. 30, 2012 4Q12 - Dec. 31, 2012
 1Q13 – Mar. 31, 2013

- Risk rating as of 1Q13. Risk rating is on a quarterly basis. Excludes HFA and K-deals.
- Construction forwards and new fundings (less than six months old) were not included in the risk rating analysis.
- Specific Reserves includes bond on-top reserves.

Portfolio Surveillance Activities – Higher Risk Loans



- Performing loans Risk Rated 7 (Moderate Risk Loans)

Activities include:

- » Develop annual rolling business plans
- » Perform annual rolling valuations on selected loans (internal)
- » Review of servicer annual property inspections
- » Annual review of year-end financial statements
- » Complete risk rating reviews

- Performing loans Risk Rated 8-10 (Highest Risk Loans)

Activities in addition to those done for those Risk Rated 7

- » Perform annual rolling valuations or order appraisals on all loans
- » Perform select annual property inspections and site visits
- » Quarterly financial review
- » Quarterly impairment decisions

Portfolio Surveillance Activities – Risk Rating Reviews



- Assessments are critical for the analysis of risk of each loan
 - » All recent assessments are reviewed in full prior to completion of a risk rating review
- Risk Rating reviews, business plans and valuations depend on the information
 - » 3,926 Risk Rating Reviews were performed in 2012
 - » 600 business plans
 - » 397 internal valuations
 - » 110 appraisals
- Criteria for Risk Rating Reviews
 - » Moving in and out of moderate and high risk buckets
 - » Loans with Risk Rating 8-10 which did not change over last 12 months
 - » Loans with significant changes in risk whether lower or high risk loans

Freddie Mac requires the following types of assessments:

- The **Annual Income and Expense Assessment (AIE)** is a year-end operating statement analysis. In the AIE, the Servicer reviews the Property's financial condition for the most recent calendar year.
- The **Quarterly Income and Expense Assessment (QIE)** is a quarterly operating statement analysis. The QIE consists of a review of the Property's financial condition for the most recent quarter.
- The **Loan Management Form (LMF)** is an analysis of the Borrower's compliance with the Loan Documents intended to highlight any potential problems associated with the Borrower or the loan.
- The Freddie Mac **Annual Inspection Form (AIF)** consists of the physical inspection and documentation of the condition of the Property.

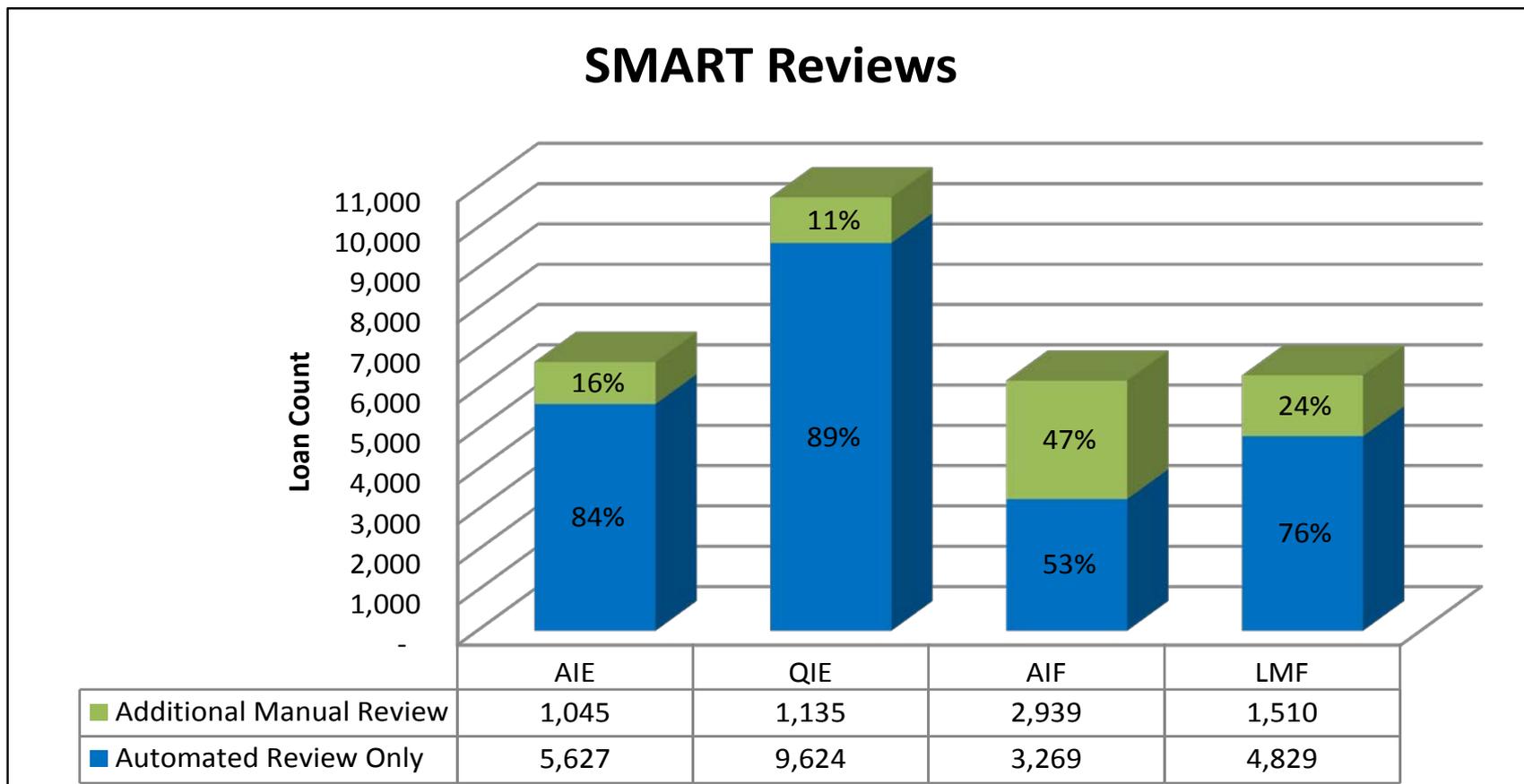
■ Annual Inspection Form (AIF)

- » An AIF review consists of a full review of the Seller/Servicer submission package by Freddie Mac
- » 29 individual exception review criteria can cause an AIF review
- » 9 out of 29 criteria have a direct impact on a loan's Risk Rating

■ Loan Management Form (LMF)

- » An LMF review consists of a full review of the Seller/Servicer submission package by Freddie Mac
- » 11 individual exception review criteria plus comments cause an LMF review
- » All 11 exception review criteria have a direct impact on a loan's Risk Rating

Portfolio Surveillance – Assessments Reviewed in 2012



*All submitted assessments are consumed & reviewed by our system. The system identifies the key risks which triggers additional manual reviews completed by the Surveillance team.

Surveillance – CME Pre-Securitization

■ Financial Statements and Rent Roll Collection

- » Trailing 12 month Financial Statements due one month following every quarter end
- » Rent Roll dated no earlier than 5 days prior to quarter end
- » Submit both documents into DMS

■ Loan Compliance

- » Monthly requests for updates on Repair Agreements, Radon, Violations, etc. that have a due date in the upcoming few months
- » Submit Borrower Certification of Completion into DMS

■ Site Inspection Contact Information

- » Each property could be inspected by representatives of the B-Buyer and two Rating Agencies
- » As a loan is nearing designation for a specific loan pool, the site contact information is requested
- » As the B-Buyer and Rating Agencies are determined, Servicers are asked to confirm the contacts and inform the Borrower contacts of the entities that may be contacting them

■ Loan level questions

- » We often have questions from investors or the rating agencies that we need the Servicer to assist in answering.
- » We include our timing need on each request and ask that Servicers work closely with Borrowers to obtain full responses as quickly as possible.
- » Questions typically relate to borrower completion of open items and financial statement or occupancy variances.

- **Importance of ongoing surveillance**
 - » Freddie Mac guarantees 85% of the balance on a typical K-deal
 - » Quarterly reserving process
 - » Freddie Mac typically has minimal consent rights while the pools are doing well but the brand is important

- **CRE Financial Council – IRP Reporting**
 - » Freddie Mac has adopted the use of CRE Financial Council reporting requirements to monitor the securitized loans
 - » Working on greater integration with portfolio surveillance process

- **Freddie Mac Reviews**
 - » Monthly review of watchlist loans
 - Review financial and property inspections
 - Perform our own due diligence site inspection on select loans
 - » Follow closely all specially serviced and delinquent loans and work out activity
 - » Track borrower consents

K-Deal Performance



- UPB and Loan Count by Region

Region	# Loans	UPB	% Total	% Issuance
NE	10	\$ 380,592,057	30%	16%
CE	23	\$ 314,512,813	25%	24%
SE	15	\$ 294,148,190	23%	34%
WE	24	\$ 266,618,498	21%	26%
Total	72	\$ 1,255,871,558	100%	100%

- Watchlist does not mean credit risk

Total UPB by FM Risk Level		
Risk Level	# Loans	Sum of UPB
Low	39	\$ 775,979,123
Moderate	26	\$ 421,662,314
High	7	\$ 58,230,121
Total	72	\$ 1,255,871,558

- \$43.7MM Total Specially Serviced Loans (2 Loans)

- \$26.0MM Total Delinquency (3 Loans)

Surveillance

- MF_Surveillance@freddiemac.com
 - Risk Rating related questions
 - Assessment (AIE/QIE, AIF, LMF) completion questions
 - Paid off loan notifications
 - FM in-house inspection inquiries (if unavailable in PRS/DMS)
 - In-house inspector requirements waiver
- MF_Securitization_Notices@freddiemac.com
 - Notices regarding K-deal loans post-securitization

Insurance Compliance

- MF_InsuranceCompliance@freddiemac.com
 - Business related questions on Insurance
- 1133-TechHelp.freddiemac@cmservicing.com
 - Technical related questions regarding ICT

Servicer and Asset Management

- MF_Asset_Performance@freddiemac.com
 - PRS related (upload, download) issues.
 - Hazard Loss notifications & updates (upload to DMS first)
 - Natural Disaster notifications
 - Servicer contact updates
 - Property specific data change (name, units, etc.)
 - DMS document delete requests
- MF_CMEServicing@freddiemac.com
 - Repair Agreement Updates / Radon / Termite / etc
 - Borrower Certificates (upload in DMS first)
 - CME Site inspection contact information
 - CME Financial updates (upload to DMS first)

QUESTIONS?