Fannie Mae

Multifamily Credit Risk Management

July 2024

Fannie Mae

Disclaimers

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Overview

About Fannie Mae

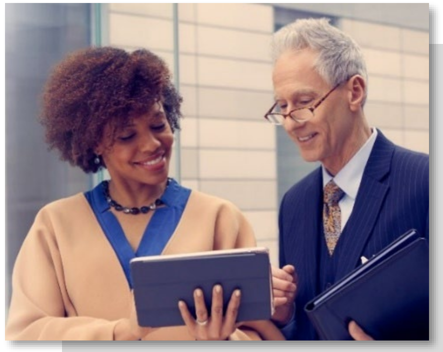
We Create Opportunities for People To Buy, Refinance, or Rent a Home

Fannie Mae is a leading source of mortgage financing in all markets and at all times. Our mission is to facilitate equitable and sustainable access to homeownership and quality affordable rental housing across America.

Our Founding

We are a Government Sponsored Enterprise (GSE), chartered by the U.S. Congress in 1938 to support America’s housing market. Our creation helped make possible the popular 30-year, fixed-rate mortgage, which provides homeowners with stable, predictable mortgage payments over the life of the loan.

Our Partners



We do not lend directly to consumers. Instead, we work with our lender and servicer partners to make sure homeowners, homebuyers, and renters across the country have access to affordable housing opportunities.

Our Business

We support the liquidity and stability of the U.S. mortgage market primarily by purchasing and securitizing mortgage loans originated by lenders into Fannie Mae mortgage-backed securities (MBS). We guarantee the underlying loans and manage the mortgage credit risk.

Two Primary Business Lines

Fannie Mae operates in the secondary mortgage market through two primary business lines: Multifamily and Single-Family.

Multifamily

We provide financing for rental housing – an important segment of the housing market. This is a key component of Fannie Mae's mission and business. We are a leading provider of financing for affordable multifamily properties, including specialized products.

- ✓ 5 or more residential units
- ✓ Individual and institutional owners
- ✓ Includes specialty housing, such as affordable, senior, student, military, and manufactured housing communities
- ✓ Includes innovative loan products such as Multifamily Green Financing Business

Single-Family

We are continuously working to improve the housing finance industry – from developing industry-leading tools and technology, to implementing new standards and solutions. We're focused on improving the mortgage process for both homebuyers and lenders – while limiting risk.

- ✓ 1-4 residential units
- ✓ Generally, homes or condominiums owned by individuals

About Us

Through our Multifamily and Single-Family business segments, we provided $369 billion in liquidity to the mortgage market in 2023, which enabled financing to nearly 1.5 million home purchases, refinancings, or rental units.*

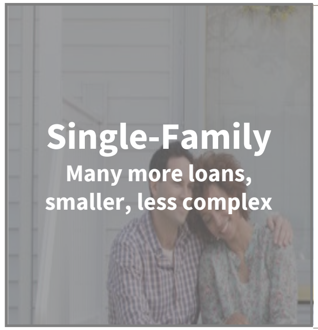
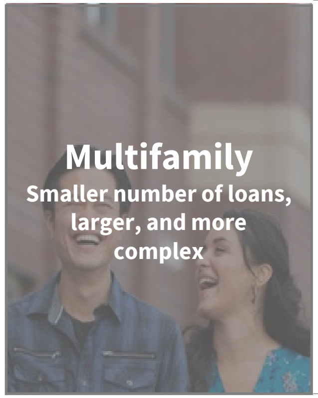
In 2023, Fannie Mae provided more than $52 billion in Multifamily financing.*

Fannie Mae owned or guaranteed an estimated 1 in 4 single-family mortgage loans in the U.S., as of December 31, 2023.*

*Source: Fannie Mae.

Multifamily vs. Single-Family

The Multifamily and Single-Family businesses are intrinsically different, and each has unique characteristics.

	Number of Units	General Borrower	Collateral	Average Loan Size[1]	Typical Term and Rate	UPB of Loans Acquired in 2023
 **Single-Family** Many more loans, smaller, less complex	1 to 4 residential units, generally homes or condominiums owned by individuals	Individual	Single-Family residential property	$207,883	30 years, fixed-rate fully amortizing. Other terms include 20, 15, 10 and other fixed-rate mortgages as well as ARMs[2]	$316.0 billion
 **Multifamily** Smaller number of loans, larger, and more complex	5 or more residential units, including affordable, senior, student, military, and manufactured housing communities	Public or private owner / operator	Income-producing Multifamily rental property	$16.3 million	5, 7, 10 years, payable on a 25-, 30-, or 40-year amortization schedule with a balloon payment at maturity. Other terms include ARMs	$52.9 billion

Source: Fannie Mae
[1]As of December 31, 2023
[2]As of December 31, 2023, 1% of Fannie Mae's single-family conventional guaranty book of business was comprised of ARMs.

Proactive Defense Against Risks

Fannie Mae utilizes an industry standard "three lines of defense" approach to managing risk across all business segments to provide early recognition and to safeguard against sudden discovery of risk.

Responsibilities

3rd Line
Internal Audit

- Perform independent systematic evaluation of the effectiveness of the internal controls systems employed by management to achieve objectives

2nd Line
Enterprise Risk Management, Compliance, Support Functions

- Set standards for the first line of defense to manage and oversee risks
- Perform independent oversight and monitoring of risk management, and aggregate reporting on risk
- Develop and maintain the Company's integrated risk management program

1st Line
Business Units and Operations*

- Identify, assess, respond to, and monitor/report on risks
- Abide by risk appetite, policies, standards, and limits/thresholds

Board of Directors
Establish and maintain oversight of enterprise-wide risk management program in accordance with FHFA regulations.

* The first line of defense is comprised of any group that generates risk from their business activities.

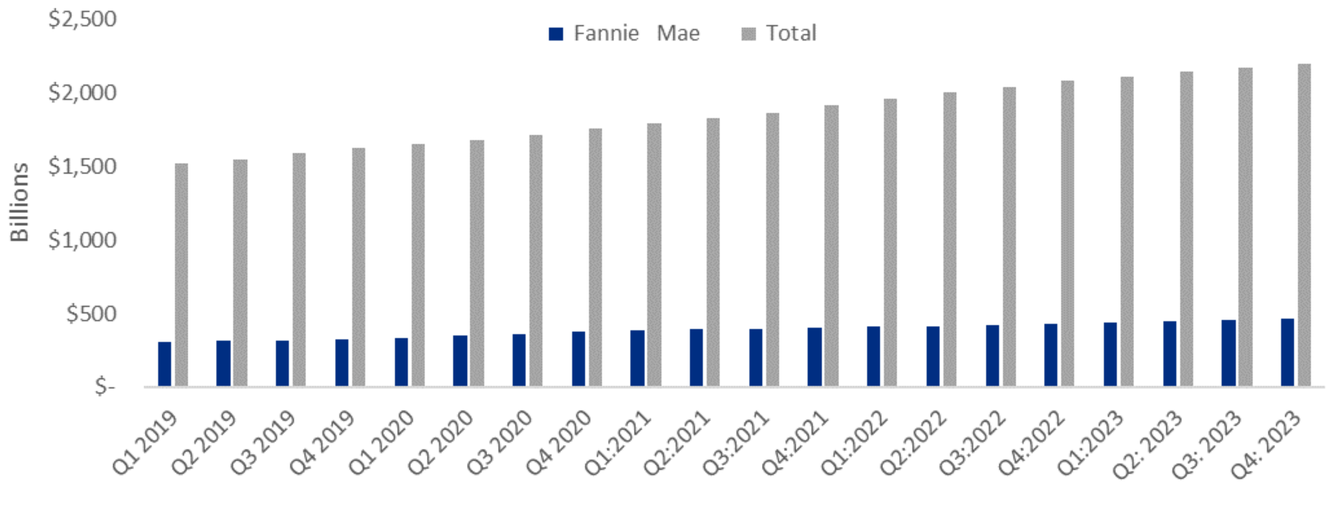
Multifamily Business Overview

Fannie Mae®

Multifamily’s Size and Scale

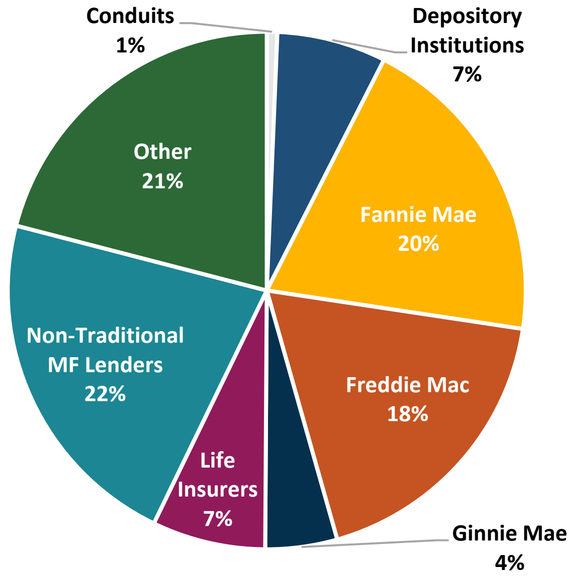
For over 30 years our Multifamily business has relied on its Delegated Underwriting and Servicing (DUS®) program to finance quality, sustainable, and affordable rental housing.

As of December 31, 2023, U.S. multifamily mortgage debt outstanding totaled $2.2 trillion. Fannie Mae’s share stood at approximately $462 billion, representing a 21% share of the market. *



Total includes life insurance companies, state and local credit agencies, banks and thrifts, CMBS, Ginnie Mae, and Freddie Mac.

Fannie Mae is a consistent source of liquidity in the multifamily market including through the financial crisis when liquidity generally evaporated. Fannie Mae issued approximately $53 billion in multifamily MBS in 2023, comprising 20% of the market. **



*Source: Federal Reserve’s Flow of Funds.
** Source: American Council of Life Insurers (ACLI), FDIC, Trepp, Mortgage Bankers Association & Fannie Mae Multifamily Economic Research Group

Types of Multifamily Properties

As a reliable and affordable source of financing, Multifamily is committed to serving the spectrum of America's housing needs.

Standard Conventional	Cooperatives	Seniors Housing	Dedicated Student Housing	Manufactured Housing Community
A residential property composed of five or more dwelling units and in which generally no more than 20% of the net rentable area is rented to, or to be rented to non-residential tenants.	A property owned by a corporation or other legal entity in which each shareholder or equity owner is granted the right to occupy a unit or units in the property under a proprietary lease or other occupancy agreement.	A property that is intended to be used for older residents for whom the owner or operator provides special services that are typically associated with either "independent living" or "assisted living."	A property in which college or graduate students generally make up at least 80% of the tenants.	A residential development that consists of sites for manufactured homes and includes utilities, roads, and other infrastructure. In some cases, landscaping and various other amenities such as a clubhouse, playground, swimming pool, and tennis and/or sports courts are also included.
89%		**3%**	**3%**	**5%**

Affordable population is a subset of all multifamily property types

Source: Fannie Mae Multifamily Guaranty Book of Business, as of year end 2023.

Multifamily's Business Overview

Multifamily tackles access and affordability challenges in the housing market through Affordable Housing, Workforce Housing, and Green and Healthy Housing Financing.

Workforce and Affordable Housing

Over 95% of the multifamily units we financed in 2023 that were potentially eligible for housing goals credit were affordable to those earning at or below 120% of the median income in their area*.

Lower interest rates

We offer reduced interest rates to:

- ✓ Developments that participate in local inclusionary zoning programs. These apartment communities agree to a set amount of affordable units in an otherwise market-rate development in exchange for a lower-than-market mortgage interest rate.
- ✓ Developments of new affordable housing through the federal Low-Income Housing Tax Credit program.

Provide financial opportunities

We provide more financing opportunities for the middle spectrum, between affordable and higher-end properties that traditionally have fewer options.

Green and Healthy Housing Financing

Almost 21% of Multifamily's MBS issuance since 2012 has targeted positive, measurable impact to financial, environmental, and social outcomes and create affordable housing options for families and individuals*.

Triple bottom line

We launched our Multifamily Green Bond Business with a mission to target positive, measurable impacts to financial, social and environmental outcomes – also known as the "Triple Bottom Line."

Efficient financing solutions

We created smart, innovative financing solutions that incorporate energy and water efficiency and energy-generation concepts into traditional mortgage lending and launched new capital market executions.

Affordable homes and cost-efficient properties

We support the retrofitting of U.S. rental housing stock to become more energy- and water-efficient, resulting in more affordable homes for families and individuals and more cost-efficient properties.

*Source: Fannie Mae, as of 12/31/2023.

Deep Industry Experience

Our multifamily team's experience and longevity through a variety of market cycles enables us to develop strong practices and standards for managing risk.

		Underwriting	Asset Management	Loss Mitigation
VP/ Directors	Count	15	6	3
	Average Tenure (in years)	15	17	16
	Average Industry Experience (in years)	30	32	32
Managers/Asset Managers	Count	31	40	11
	Average Tenure (in years)	9	12	13
	Average Industry Experience (in years)	25	24	29
Analysts / Professional	Count	5	1	9
	Average Tenure (in years)	4	16	11
	Average Industry Experience (in years)	8	16	14
Total	Count	51	47	23
	Average Tenure (in years)	28	13	13
	Average Industry Experience (in years)	63	25	24

*Source: Fannie Mae, as of April 2024.

Multifamily Resiliency

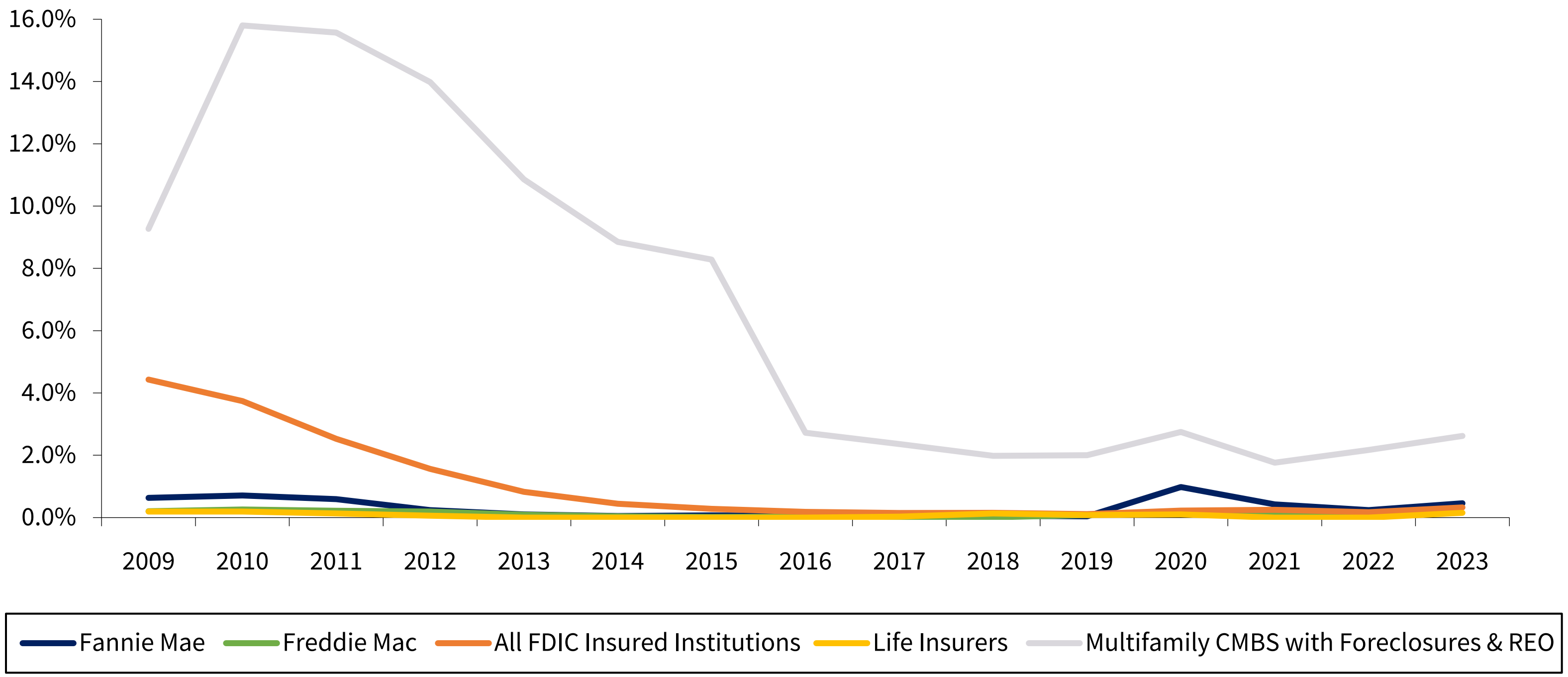
Our depth of industry experience combined with strong practices and standards kept our delinquency rates low in the face of pandemic-related volatility.

Seriously Delinquent (SDQ) Rate

0.46%

of Multifamily's guaranty book of business was seriously delinquent as of December 31, 2023, compared to 0.24% as of December 31, 2022, primarily driven by stress in our seniors housing loans.

MF Delinquency Comparison as of Q4 2023*



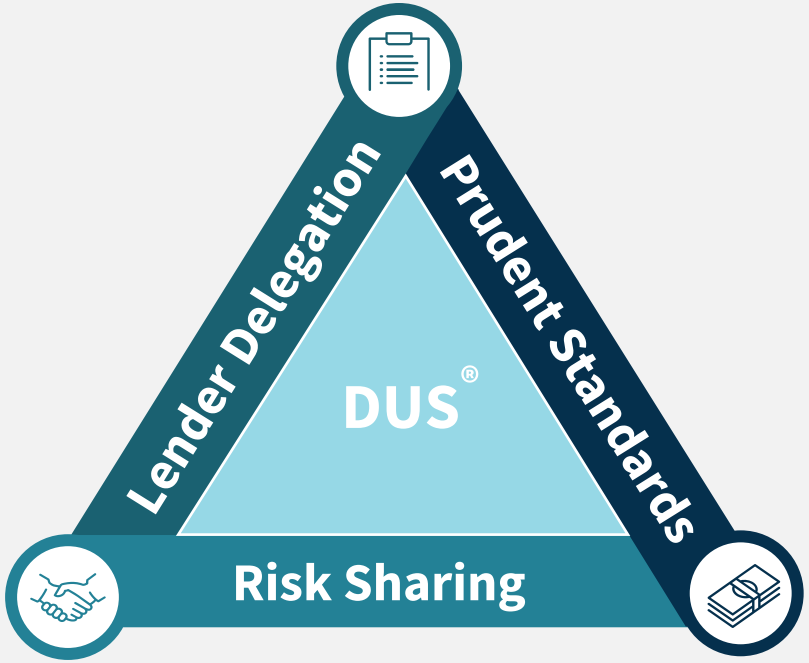
*Sources: Fannie Mae Multifamily Mortgage Business Information, FRE Volumes Summary, FDIC, American Council of Life Insurers (ACLI), and Trepp. FDIC bank data reflects 90+day delinquency rates; CMBS includes foreclosures & REO and reflects 30+ day delinquency rates. Freddie Mac's SDQ rate does not include forbearances while Fannie Mae's does include forbearances.

Key Elements of Multifamily Business

Our Delegated Underwriting and Servicing (DUS®) model is the cornerstone of our business and supports our credit risk management activities throughout the loan lifecycle.

DUS Model

Multifamily's business is executed primarily through 25 approved DUS lenders.

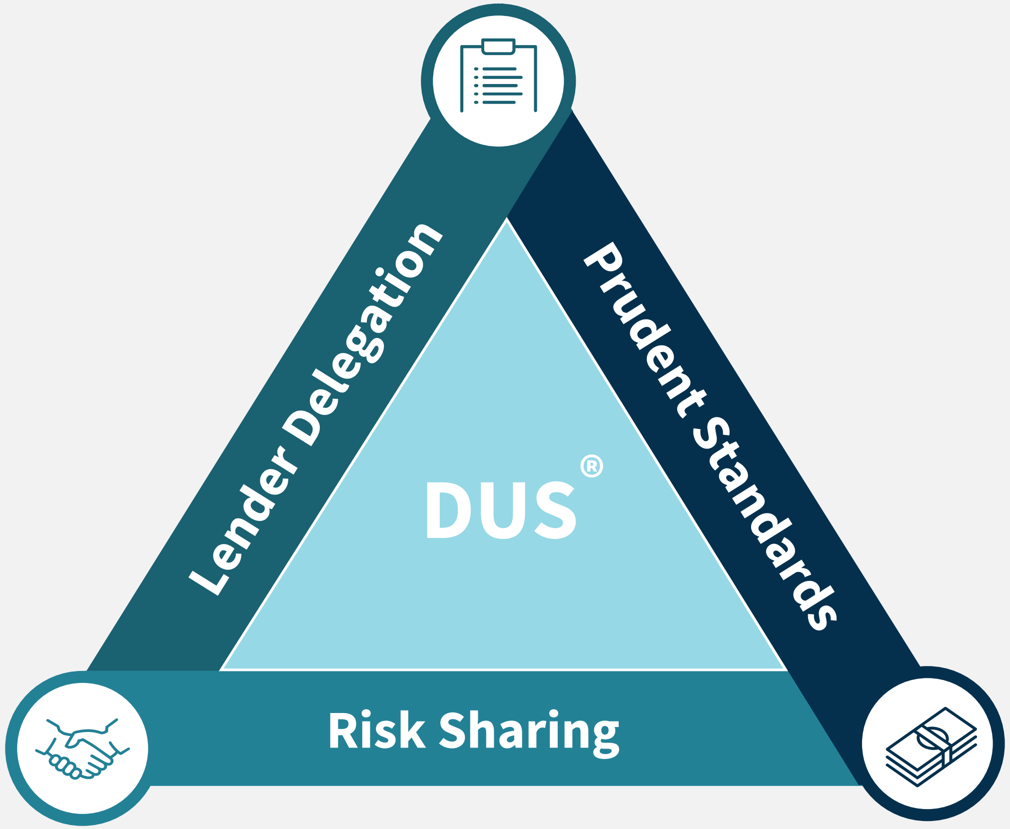


Credit Risk Management

Multifamily has an advanced credit risk management framework that underpins all aspects of our business.

DUS Risk Sharing Model

Fannie Mae®



DUS Model: The Loan We All Own®

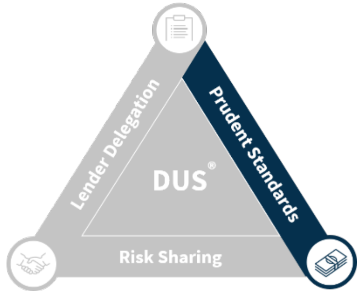
Launched in 1988, the DUS program delegates to approved lenders the ability to underwrite, close, and sell loans on multifamily properties to Fannie Mae Multifamily without prior review. The DUS model is based on three key principles:

Prudent Standards
Multifamily requires DUS lenders to abide by rigorous credit and underwriting criteria and they are subject to ongoing credit review and monitoring.

Risk Sharing
Multifamily requires borrowers to maintain equity in financed properties and requires DUS lenders to share in any credit losses. This aligns interests so all parties maintain a stake in each loan.

Lender Delegation
Multifamily business is primarily executed through our partnership with the DUS lender network of 24 financial institutions and independent mortgage lenders. DUS lenders retain servicing responsibilities through the life of loan under Multifamily oversight. In the event of a default, Multifamily takes lead on the workout options through disposition.

Selling and Servicing Guide



The Multifamily Selling and Servicing Guide ("Guide") is organized by requirements, guidance, and operating procedures to maximize effectiveness of lender delegated authority by simplifying the process, providing certainty around requirements, and enabling faster processing.

Part I: Mortgage Loan

Provides an overview of how to use the Guide and information relevant for all mortgage loans, borrowers, key principals, and principals.

Part II: Property

Provides criteria relevant for all properties, including eligibility characteristics; determining value, income, and legal compliance; and information related to inspections, reserves, insurance, and environmental considerations.

Part III: Products and Features

Provides underwriting information for specific property types and transaction structures.

Part IV: Committing and Delivery

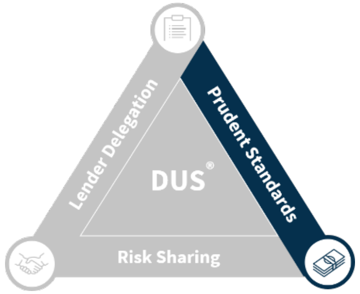
Provides information related to pricing, fees, committing, delivery, purchase, and conversions for all mortgage loans.

Part V: Servicing and Asset Management

Provides requirements relevant to servicing, asset management, and surveillance.

DUS Navigate

DUS Navigate is your one stop portal for the Guide and related documents. It enables users to easily search and navigate through the Guide and provides the information clearly and simply.



An Actively Managed Guide

Multifamily works with our stakeholders to systematically manage updates to the Guide to ensure it reflects Fannie Mae's current risk appetite and broader market conditions.

1. Assess Market Factors

Multifamily identifies the need to update the Guide based on changes to the market, internal risk appetite, and regulatory directives.

2. Review Impact of Updates

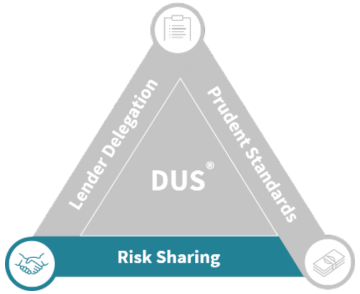
Multifamily subject matter experts (business, credit, legal, etc.) draft clean, clear, and concise updates to the Guide. The updates are reviewed for consistency with other Guide requirements and potential impact to the acquisition and book of business profile.

3. Solicit Market Feedback

Multifamily facilitates internal stakeholder reviews and obtains lender and regulator feedback, as applicable.

4. Communicate Updates to the Market

Multifamily approves the updates, publishes the Guide, and communicates to all lenders.



DUS Risk Sharing

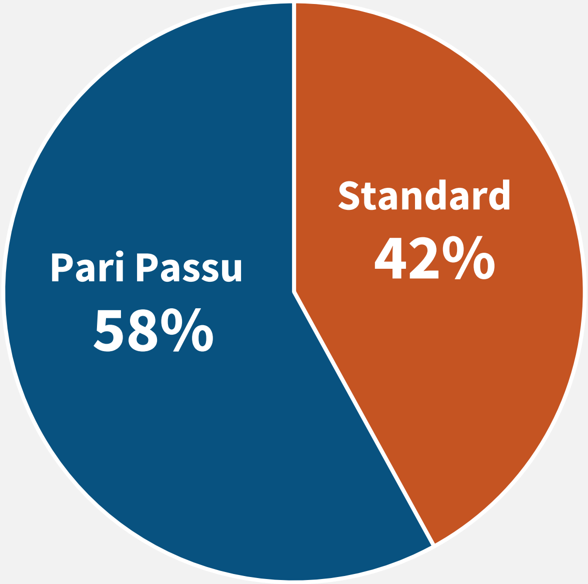
The Multifamily DUS model requires lenders to share the risk of losses with Fannie Mae throughout the life of the loan.

Each DUS lender selects one of the loss sharing approaches below, and all loans from that lender are delivered using the selected loss sharing approach.

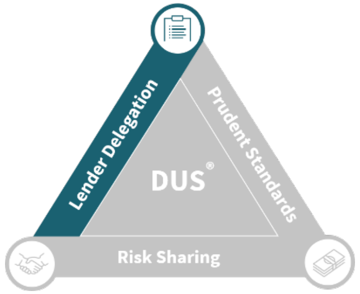
Pari Passu	Lender assumes 33.33% of the loss and Fannie Mae assumes 66.67%.
Standard	Lender assumes credit losses as follows: • All losses up to the first 5% of actual UPB • Plus 25% of the next 20% of actual UPB • Plus 10% of the remaining losses • Maximum potential loss of 20% of original UPB

Lender Loss Sharing Approach

The majority of lenders select the Pari Passu loss sharing calculation.*



*Based on DUS Lender population as of May 2024



Our Delegated Lender Partners

The vast majority of Fannie Mae Multifamily business is transacted through our partners – 24 DUS Lenders and 5 specialty lenders – who undergo a rigorous readiness assessment and ongoing compliance monitoring.

Delegated Lenders*

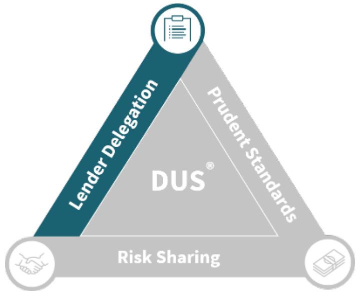
- Arbor Commercial Funding I, LLC
- Basis Investment Group, LLC
- Bellwether Enterprise Real Estate Capital, LLC
- Berkadia Commercial Mortgage LLC
- Capital One, National Association
- CBRE Multifamily Capital, Inc.
- Citi Community Capital
- Colliers Mortgage LLC
- Grandbridge Real Estate Capital, LLC
- Greystone Servicing Company, LLC
- HomeStreet Bank
- JLL Real Estate Capital, LLC
- JP Morgan Chase and Co.
- KeyBank National Association
- Lument
- M&T Realty Capital Corporation
- Newmark
- NewPoint Real Estate Capital LLC
- NorthMarq Capital
- PGIM Real Estate Finance
- PNC Real Estate
- Regions
- Walker & Dunlop, LLC
- Wells Fargo Multifamily Capital

Specialty Lenders*

In addition to our DUS lenders, Multifamily partners with specialty lenders with specific loan product expertise.

- Community Development Trust
- CPC Mortgage Company, LLC
- Massachusetts Housing Partnership
- Merchants Capital Corp.
- National Cooperative Bank

*Delegated and Specialty Lenders as of May 2024.



DUS Lender Requirements

Select DUS lenders must demonstrate and maintain financial health, possess extensive Multifamily underwriting and servicing experience, and show sustained portfolio performance.

Financial Condition

- Acceptable net worth
- Operational liquidity
- Restricted liquidity*

Organizational Documents

- Articles of incorporation
- Articles of organization
- Good standing certificate
- Organizational chart
- Financial statements

Portfolio

- Quality
- Performance
- Geographical distribution
- Types
- Volumes

Past Experience

Working with:

- Fannie Mae
- Government sponsored enterprises
- Federal agencies

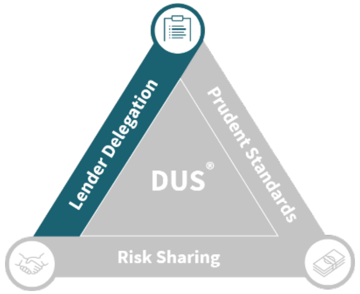
Business Activities

- Business plan
- Marketing plan
- Description of loan applicant process
- Procedures manual
- Fidelity/surety bond

Personnel Experience

Review organizational charts and experience levels for each team and approve the Chief Underwriter at each lender

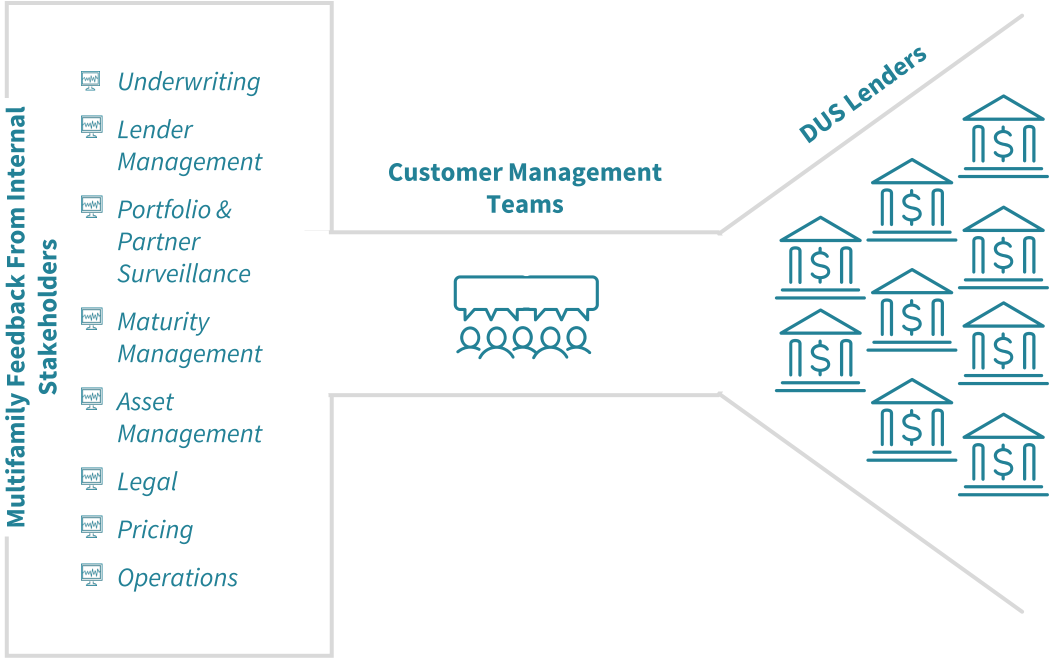
*Fannie Mae decreases the Lender Liquidity Requirements for a lender that is rated investment grade or is a subsidiary or affiliate of a company rated investment grade, so long as the rated company has provided to Fannie Mae a full and unconditional guaranty of all of the lender's Fannie Mae Multifamily obligations or has provided to Fannie Mae a full and unconditional guaranty of all of the lender's Fannie Mae Multifamily obligations from a company that is rated investment grade.



Dedicated Lender Management

The success of our DUS risk-sharing model for over 30 years is testament to the strength of our dedicated relationship management with our DUS lenders.

A customer management team is the face of the company to the lender and consists of National Account Managers and various levels of Associates. Each team, led by Multifamily Officers, provides dedicated support through a variety of methods to meet their needs.



Dedicated Training & Resources

- ✓ **Lender Training**
  Regular trainings designed to provide in-depth best practice tips and product information, including in-person business updates, trainings on our most flexible products, and reception.
- ✓ **Digital Resources**
  Online resources designed to provide self-help (e.g., online training and job aids).

Account Team Interaction

- ✓ **Weekly Pipeline**
  Recurring calls with answers on an array of topics from transactional to systemic issues.
- ✓ **Daily Connections**
  Daily interaction with the market driven by feedback from the lenders.
- ✓ **Regular Communications**
  Touch-points through lender committees and market meetings with the borrowers deepens relationships.

Proactive Publications

- ✓ **Multifamily Minute**
  Communications quickly summarizing updates to the Guide, market, and technology.
- ✓ **Multifamily Credit and Business Updates**
  Periodic updates to all DUS Chief Underwriters regarding various credit topics in collaboration with our credit team, as well as production-related news from the business.

Multifamily Credit Risk Management

Fannie Mae®

Multifamily Credit Risk Management

Multifamily employs an advanced credit risk management framework to actively manage credit risk throughout the loan lifecycle, which is underpinned by the Guide.

Underwriting Management
Multifamily sets prudent underwriting standards and regularly reevaluates them as necessary to address credit tolerances relative to the current market and economic conditions.

Performance Management
Multifamily reviews credit decisions to determine if credit risk is appropriately underwritten and deploys multiple methods of surveillance to gauge loan performance and the ability to provide orderly repayment or refinance of a loan.

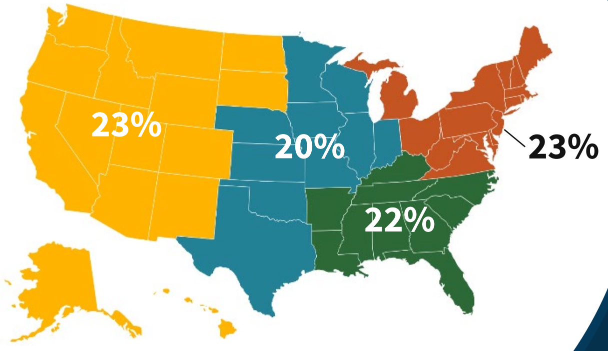
Mitigation Strategies
Multifamily's loss mitigation teams aim to identify risks early and develop mitigation actions to minimize the potential default losses.

Underwriting Management

Market and Product Expertise

Multifamily's underwriting teams are regionally based to foster expertise within each market. The teams are also staffed with subject matter experts for each mortgaged property type.

Regional % UPB of 2023 Acquisitions*



- Standard Conventional
- Affordable Housing and Low Income Housing Tax Credit
- Seniors Housing
- Cooperatives
- Dedicated Student Housing
- Manufactured Housing Community

Approximately 12% attributed to multiple regions

Regionally Based Market Experts

- **Northeast**
- **Southeast**
- **Central**
- **West**

*Source: Fannie Mae.

Conventional Underwriting

Multifamily delegates to our DUS lenders the authority to underwrite loans that meet the Guide requirements.

CORE UNDERWRITING STANDARDS*

- Lenders required to evaluate loan size, property financial and physical quality, sponsor, and market
- Receipt of satisfactory third-party reports (e.g., appraisals, environmental reports, physical needs assessments, borrower financial statements, etc.)
- 100% of properties are inspected before closing

Typical Fixed-Rate Mortgage Underwriting Limits

- Minimum 1.25x debt-service coverage ratio (DSCR)
- Maximum 80% loan-to-value (LTV) ratio

Overall Multifamily Guaranty Book UPB by Interest Rate Type[1]

91% Fixed Rate

9% Adjustable Rate

Typical Adjustable-Rate Mortgage (ARM) Underwriting Limits

- Loan amount governed by the lower of the comparable fixed-rate loan and a stress of the index[2] based on market expectations.
- 65% max loan-to-value (LTV)
- Purchase of an external interest rate cap
- Optional conversion to fixed rate

UNDERWRITING TOOLS

Applicant Experience Check (ACheck®) enables Multifamily to flag and archive applicants and companies based on performance concerns (e.g., foreclosure, physical condition issues, etc.) providing Multifamily the ability to search its database for additional risk when considering a new transaction.

DUS Gateway® enables lenders to register and submit deals to Multifamily for consideration, track pipelines, and receive Multifamily responses online.

[1]Underwriting standards for individual conventional loans and specialty products may differ from our core underwriting standards. Please see the Guide for full underwriting requirements.
[2] SOFR-indexed ARMs accepted as of October 1, 2020. LIBOR-indexed ARM loan no longer accepted after September 30, 2020.

*Source: Fannie Mae.

Applicant Experience Check

The Multifamily business uses ACheck® to proactively identify and monitor individuals and entities that have previously presented risk concerns. DUS Lenders must perform a search in the ACheck® system for all borrowers, key principals and principals to ensure none of these parties are included in ACheck®. This query is performed for initial applications as well as transfers and assumptions.

Inputs >>> Functions >>> Outputs

Inputs

Information identifying applicant entities such as, but not limited to, borrowers, key principals, principals, and investment partners, is entered into ACheck®. All query data is protected, and may include:

- Taxpayer identification, employer identification, or Social Security numbers
- Applicant name and role
- Risk issue(s)

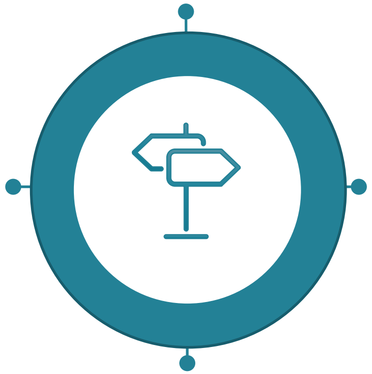
Functions

Multifamily may add, reclassify and remove applicants from ACheck® for various risk-related concerns throughout the loan lifecycle, and thereafter. Risk issues include, but are not limited to:

Foreclosure

Events of Default:

- *Monetary*
- *Non-Monetary*



Unacceptable Risks:

- *Fraud/ Misrepresentation*
- *Bankruptcy*

Exposure Level

Outputs

When a Lender searches for an applicant in ACheck®, the system instantaneously provides one of two electronic responses:

Continue Processing: Lender may proceed with the loan application.

Do Not Continue Processing: Lender may not proceed with an application before engaging in direct communication with Fannie Mae and receiving next steps, as coordinated by the ACheck® Administrator.

Proven Flexibility in Changing Markets

Multifamily continually enhances its business practices and underwriting standards to enable it to weather economic downturns.

CONTINUOUS ENHANCEMENT OF BUSINESS PRACTICES THROUGH TWO CRISES

2008 FINANCIAL CRISIS

- Updated underwriting standards for small loan borrowers
- Organized credit teams/underwriting by geographic markets
- Developed quarterly Metropolitan Statistical Area review to proactively monitor market trends
- Instituted a collaborative quarterly impairment review process across the business
- Created a dedicated Maturity Management team to proactively monitor maturing loans for refinance risk

2020-21 GLOBAL HEALTH PANDEMIC

- During underwriting process, increased reserve requirements to provide additional support at the peak of the pandemic
- Added certain markets and property types to pre-review for areas with heightened concern
- Developed forbearance program to alleviate hardship on borrowers and provide certain tenant protections while ensuring appropriate credit protection
- Used various technological platforms (e.g. FaceTime) to assess property conditions during underwriting, thus helping to ensure the health and safety of all parties involved.

Exceptions Meet Our Risk Appetite

Multifamily conducts a stringent review of any loan that has pre-review conditions or requested waivers.

PRE-REVIEW

Pre-review is the requirement that the lender obtain approval from Multifamily for a loan that does not qualify for delegated underwriting based on one or more factors. The lender must obtain approval prior to requesting a loan commitment.

Examples of pre-review loan factors:

- DSCR and LTV calculations differ from Guide requirements
- Designated markets
- Borrower, key principal, principal eligibility and requirements, and borrower structures
- Financing structures, e.g., subordinate debt, special programs
- Specialty housing types
- Loan size

BUSINESS WAIVERS

For any loan that is not a pre-review loan, but which varies from our standard pricing position, loan documentation requirements, or property inspection requirements, the lender must obtain an approval from Multifamily.

Examples of business waiver categories:

- Pricing waiver
- Loan document changes
- Property inspection waiver (primarily referring to refinancing properties already on the book of business that have acceptable recent inspections)

Analysis Powers Our Decisions

Our DUS lenders are required to evaluate all loans on the below components to ensure they meet our risk tolerances as outlined in the Guide.

LOAN SIZE

Perform different levels of review based on loan size.

PROPERTY QUALITY

Review quality of the property based on:

- Income and expenses
- Third-party appraisal
- Physical needs assessment
- Title and survey
- Environmental site assessment

PROPERTY INSPECTION

Gain insight into the condition of the property through a tour of the property and amenities, meeting with management staff, walkthrough of the surrounding property, and review of the inspection report.

SPONSOR REVIEW*

Attain an understanding of the sponsor through a portfolio analysis (e.g., historical performance, outstanding loans, property condition, etc.).

MARKET ANALYSIS

Acquire knowledge of the market by leveraging our economists to analyze fundamental data to identify concentration or economic issues.

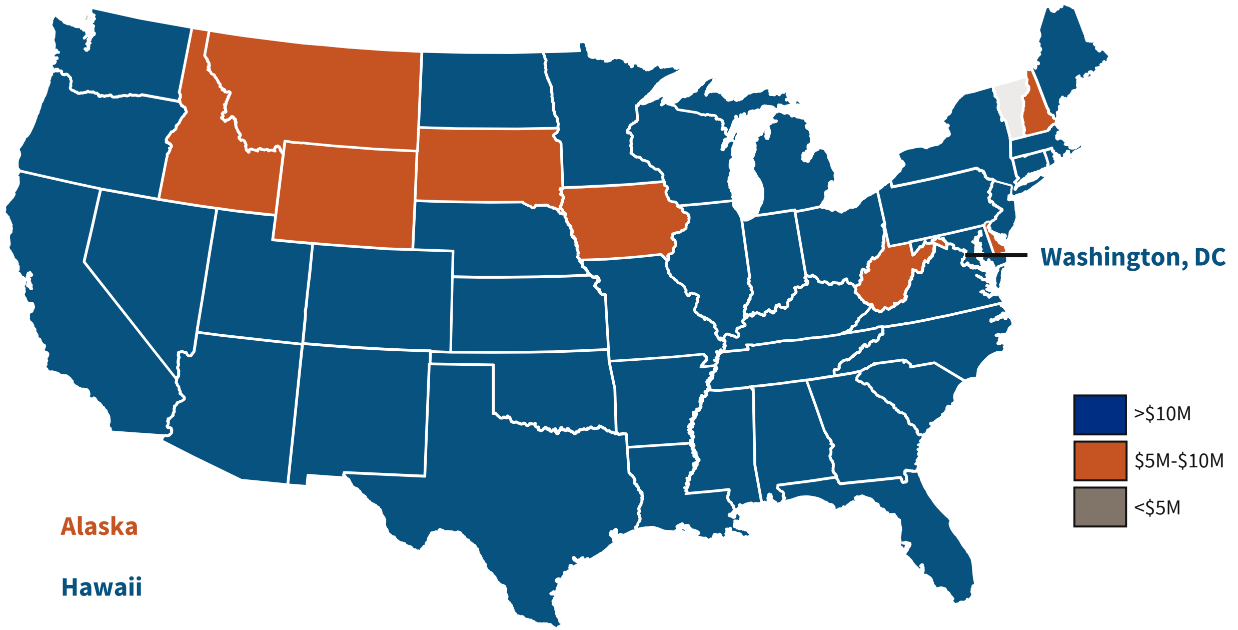
BASELINE EXIT ANALYSIS

Perform an exit analysis on each loan to provide reasonable assurance that repayment is possible at loan maturity.

*A sponsor is a principal equity owner and/or the primary decision maker of the borrower (often the key principal or the person controlling the key principal). The key principal is the person or persons that controls the borrower or property and is critical to successful management.

Loan Size

Multifamily analyzes the size of a loan to determine the level of risk in acquisition decisions.



Average Loan Size of 2023 Acquisitions

Multifamily's average loan size of 2023 acquisitions nationwide is approximately $18.8 million.*

**Excludes credit facilities and loans with properties in more than one state. Blank states did not contain any collateral properties acquired by Fannie Mae.*

* As of December 31, 2023. Source: Fannie Mae.

Property Quality

Multifamily sets lender requirements and reviews the quality of properties based on income and expenses, third-party appraisals, physical needs assessments, titles and surveys, and environmental assessments.

INCOME AND EXPENSES

What?
Underwritten net cash flow

Requirements?
Determine the net cash flow using the appropriate calculation in the Guide based on the product type

Fannie Mae continues to underwrite to economic occupancy rather than physical occupancy, underwriting rental income based on paying renters with underwritten rental rates net of any concessions.

THIRD-PARTY APPRAISAL

What?
Independent assessment of property value

Requirements?
- Performed by a licensed appraiser selected by the DUS lender
- Meets Uniform Standards of Professional Appraisal Practice

SURVEY AND TITLE

What?
A survey and acceptable title insurance policy for each collateral property

Requirements?
Insured amount is not less than the original principal amount of the loan

PROPERTY CONDITION ASSESSMENT

What?
Independent assessment of the current physical condition and historical operation of the property

Requirements?
- Cost estimates for immediate repairs and replacement of capital items
- Description of systems and observations
- Seismic and catastrophic event considerations
- Compliance with zoning, building, and fire code regulations
- Historical capital repairs

ENVIRONMENTAL SITE ASSESSMENT

What?
Independent assessment to identify existing or potential recognized environmental conditions in connection with the property

Requirements?
Report on asbestos, radon, lead-based paint, lead in drinking water, wetlands, regulatory compliance, health and safety, indoor air quality, biological agents, and mold

Property Inspection

Multifamily sets specific requirements to lenders for the physical inspection of properties and reserves the right to accompany lenders on property inspections, including those of occupied units.

INSPECTIONS

The lender must complete and submit the Mortgage Bankers Association (MBA) Master Inspection Form* for all inspections. Inspection requirements include, but are not limited to:

- ✓ Unit inspections, including occupied units
- ✓ Overview of property information
- ✓ Neighborhood and site comparison data
- ✓ Management company information and interview
- ✓ Physical condition
- ✓ Deferred maintenance
- ✓ Trends
- ✓ Life safety
- ✓ Routine maintenance
- ✓ Capital needs
- ✓ Level/volume of issues noted and appropriate follow-up recommendations
- ✓ Photos

If an issue is found during the inspection of the property, such as deferred maintenance, Multifamily requires identified repair costs to be paid by the borrower and escrowed with the lender.

Modified Property Inspections

Fannie Mae has proven flexible in altering processes when in-person inspections are restricted, ensuring diligent oversight of properties through all environments.

*Source: MBA Master Inspection Form. Accessed: July 2022.

Sponsor Review

Multifamily monitors sponsor exposure regularly through sponsor reviews primarily focusing on sponsors exhibiting elevated risks and/or representing large portfolios. Multifamily produces monthly and quarterly reports that track related metrics.

Who is a sponsor?

A sponsor is a principal equity owner and/or the primary decision maker of the borrower (often the key principal or the person controlling the key principal).

What factors are reviewed?

- Aggregate exposure to a single sponsor
- Financial strength (e.g., balance sheet, income statement, etc.)
- Real estate portfolio (e.g., how is the portfolio performing?)
- Property condition (e.g., are properties being kept up to date?)
- Comparison of various sponsor metrics against Fannie Mae's overall book of business.

Are any actions taken?

Multifamily makes recommendations based on the Sponsor Reviews including:

- Addition of sponsors to ACheck to increase monitoring
- Curtailment of certain business activities or future exposure

How are findings communicated?

If findings are identified during the Sponsor Review, a meeting is set up with stakeholders (e.g., Multifamily Customer Engagement team, sponsors, and lenders) to discuss the challenges and determine next steps as needed.

Market Analysis

Additional tools and market analyses are used to acquire timely information and monitor developments in the economic and real estate markets to inform pre-review and Guide requirements.

MARKET ANALYSIS TOOLS

DUS Insights ™ is an internal database that provides Multifamily with a resource for research and analysis of the U.S. mortgage market, including assessing trends and systemic risks in local areas based on real time reporting on the world's largest multifamily database.

CoStar™, REIS®, and Axiometrics® are external real estate data platforms that equip Multifamily with a combination of tools, resources, and deep understanding of commercial real estate properties in today's market.

MARKET ANALYSIS

Multifamily leverages its market analysis to inform underwriting pre-review and delegation market requirements.

Multifamily Market Outlooks and Commentaries are proprietary analyses and forecasts produced by Fannie Mae multifamily economists who closely follow national and local market conditions.

Multifamily Credit Managers are subject matter experts and assigned to their respective market for oversight. Credit Managers physically travel to their markets for observation one to two times per year.

Baseline Exit Analysis

Multifamily requires lenders to perform an exit analysis at underwriting to mitigate the risk of maturity default. These analyses are based on standard assumptions and Multifamily has the ability to alter them as necessary.

A Conventional Loan Example

BASE ASSUMPTIONS

Income Growth Rate*
Average 10-year market growth rate , differentiated by property type

Expense Growth Rate
Trailing book growth data, differentiated by geography and property type

Economic Vacancy
Maintain underwritten economic vacancy during life of loan

Capitalization Rate
At least 2% greater than the initial underwriting capitalization rate

Refinance Interest Rate
At least 2.25% greater than the Underwriting Floor

Amortization
30 years or the amortization for the applicable product

METRICS

DSCR
Minimum Tier 2 DSCR for the applicable product

LTV
Maximum Tier 2 LTV for the applicable product

RESULT

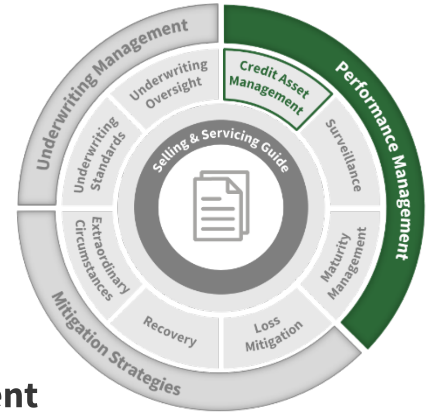
Exit Interest Rate
The exit interest rate is compared to acceptable levels for a given market/submarket.

**These base assumptions are indicative only; alternative growth trends may be applied if warranted by circumstances particular to the property. For mortgage loans secured by multiple properties, the assumed base income growth rate is 2%.*

Performance Management

Credit Asset Management

Operations Lifecycle



Multifamily works closely with our DUS business partners to ensure accurate documentation and payment transactions.

Collect Acquisition Dataset
Multifamily inspects and develops a baseline from the acquisition documents (e.g., loan terms, borrower participants, property data) to ensure completeness and accuracy of the lender submitted data.

Safeguard Documents
After ensuring document information matches the data provided by the lender in Multifamily's system, the documents are safeguarded and held in a central repository.

Monthly Review
Multifamily monitors all lender transactions throughout the life of the loan to ensure the performance of the loan matches expectations set in the terms of the loan documents.

Prepayment?

No

Maturity Payment
Final payment is made by the borrower by the maturity date.

Yes

Payoff calculation

1. Borrower provides Lender notice of payoff request in writing
2. Lender submits payoff quote into Fannie Mae Payoff Calculator for review
3. Multifamily Operations team approves payoff
4. Lender provides Borrower full payoff amount, including any payoff payments due
5. Borrower makes full payoff payment

Prepayment
When due, Multifamily ensures pre-payment premiums are calculated correctly and communicated to the lender.

Payoff and Release of Documents
Multifamily approves payoff amount and release of the lien and loan documents back to the lender or appropriate receiving party.

Credit Asset Management

Multifamily actively monitors post-purchase lender requests by reviewing credit decisions and insurance for compliance with the Guide.

Post-Purchase Credit Decisions

For most post-purchase requests, the lender completes a Delegated Transaction Form, which includes risk-based questions, to determine if the lender has authority to approve the request or if it needs Multifamily approval. Requests include:

- ✓ Easements
- ✓ Transfers/assumptions
- ✓ Commercial leases
- ✓ Property management changes
- ✓ Use conversions
- ✓ Partial releases of collateral
- ✓ Condemnations
- ✓ Condominium and cooperative property conversions
- ✓ Oil, gas, or mineral rights leases

All other borrower non-servicing requests require Multifamily approval.

Insurance Requirements

Insurance policies and records are reviewed once a year by lenders to ensure Multifamily requirements are met.

- ✓ Coverage for Property including Business Income (Business Interruption) and Liability Insurance required for the life of the loan
- ✓ Properties in a Special Flood Hazard Area require flood insurance
- ✓ Insurance company has an A.M. Best Company rating of "A-" or better on a scale of D- to A++ and a financial performance rating of "VI" or better on a scale of I to VIII; or a Financial Stability Rating of "A" or better by Demotech Inc., and have a policyholder surplus of at least $40 million
- ✓ Standard cancellation provisions requiring Fannie Mae to be notified of cancellation
- ✓ Names Fannie Mae as Mortgagee and Loss Payee on Property and Additional Insured on General Liability and Umbrella
- ✓ Lender is required to review the policy within 90-days of closing or policy renewal
- ✓ Lenders must purchase required coverage if the Borrower fails to comply with this requirement.
- ✓ Non-delegated exceptions or waivers to Fannie Mae requirements must be approved by Fannie Mae
- ✓ Fannie Mae audits lender insurance files and procedures during the Lender Assessment

Asset Quality Control

Multifamily routinely performs quality control assessments of property financial and inspection submissions, as well as catastrophe monitoring to ensure underlying assets are performing.

Property Operating Statements

Operating statements are collected on a regular basis to monitor the financial condition of the property.

- ✓ Annually, random selection of each lender's submitted data on property operating statements
  - Re-analyze, normalize, and compare statements to the lender submitted data
  - Exceptions are reconciled with the lender and presented in an annual report to encourage continuous reporting improvement

Inspections

Regular property inspection reports are collected. Risk-based, desktop reviews of a sample of inspections are conducted to ensure the physical quality of the assets has not deteriorated. The review is based on various risk factors including, but not limited to:

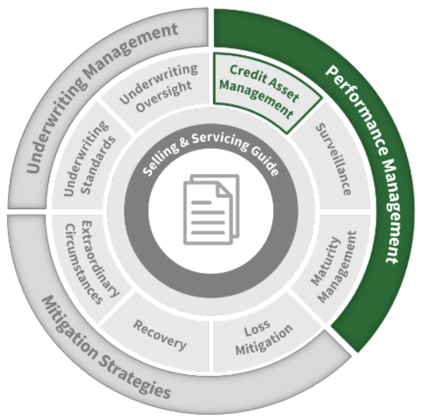
- ✓ Income and expense trends
- ✓ Deferred maintenance and life safety sub-scores
- ✓ Low capital reinvestment
- ✓ Inspection history

Catastrophe Monitoring

Fannie Mae's Incident Management Center (IMC) monitors disasters and potential impacts. A cross-functional working group directs the overall disaster response for the company. After IMC identifies potentially impacted properties, Multifamily manages impacts through resolution by:

- ✓ Assessing for overall portfolio, market, lender, and sponsor risks;
- ✓ Reviewing initial property damage assessments from lenders and inspecting properties based on damage thresholds;
- ✓ Transferring loans with increased property condition or operational risk to special servicing; and
- ✓ Structuring forbearance agreements or modifications for loans with significant cash flow interruptions where appropriate.

Asset Management Portal



The Multifamily Asset Management Portal enables our partners to electronically submit inspections, financials, and borrower requests to simplify the process, provide timely feedback, and ensure transparency.

ASSET MANAGEMENT TOOL

Multifamily Asset Management Portal (MAMP)

MAMP enables lenders to electronically submit borrower requests related to submissions, including all supporting documentation.

- Enables and stores lender submissions of financials, inspections, lender risk ratings, action plans, and catastrophic event tracking and reporting
- Rules engine determines due dates and work items lenders need to submit based on Guide protocols
- Generates management reports
- Tracks outstanding completion of property repair agreements and tracks completion repair status

Value Add

- ✓ Creates data consistency across all lender submissions
- ✓ Ability to conduct a review of delegated requests to aid in the identification of risks or trends
- ✓ Easy identification of past due financial statements and property inspections
- ✓ Ability to track request status throughout the entire process
- ✓ Ability to systematically receive approval letters or notification of incorrect or incomplete request
- ✓ Receive real time email notifications

DUS 360

Provides seamless, integrated loan lifecycle information that enables Multifamily to proactively manage risk across all relationships, products, and markets.

ASSET MANAGEMENT SOFTWARE

DUS 360

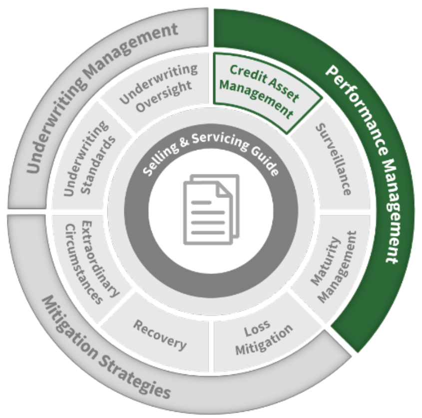
Promotes collaboration between Fannie Mae, servicers, and other stakeholders on a loan's lifecycle.

- Contains greater than 150,000 loans and their underlying properties in its database, allowing Fannie Mae to be better informed about our collateral and markets

- Provides functionality for both formatted and ad-hoc reporting on
  - Deals, Loans, Properties & Risk Management
  - Case Management
  - Counterparty exposures
- Powerful Quick and Advanced Search Capabilities
- Seamless integration with Google maps
- Comparables feature with data integration

Value Add

- ✓ Creates data consistency across all Asset Management risk assessments
- ✓ Centralized place for all loan and property information
- ✓ Ability to transfer loans within the Portfolio Risk Management with various risk profiles
- ✓ System of record for risk rating
- ✓ Ability to track REO portfolio
- ✓ Case management for new Lender functionality
- ✓ Transparency on loan and property risk to Underwriting, Credit Risk Transfer, Enterprise Risk Management, Accounting supports making better decisions



Risk Rating Analytics Platform

Multifamily's web-based Risk Rating Analytics Platform (RRAP) serves as our primary risk rating engine for secondary surveillance and enables us to intervene early to keep delinquencies and losses to a minimum.

RISK RATING TOOL

RRAP provides ratings throughout the lifecycle of each loan and pulls data directly from Multifamily systems on a monthly basis.

INPUTS >>>

Lender data is automatically uploaded and evaluated against the following factors:

- ✓ Cash Flow
- ✓ Leverage and Equity
- ✓ Market and Project Factors
- ✓ Management and Controls
- ✓ Financial Flexibility

Manual Overrides

Asset managers may provide manual risk rating overrides based on most current information. All manual overrides are performed in accordance with Fannie Mae delegations of authority.

RRAP FUNCTIONS >>>

RRAP rates risk on every asset on a monthly basis and a detailed analysis of ratings are provided to business teams every month.

RRAP methodology is reviewed on a routine basis.

RRAP is audited by Internal Audit, ERM, FHFA, and external audit.

OUTPUTS

RRAP rates the risk of each loan using a numerical rating that is aligned with FHFA's regulatory credit risk classification.* The scale is as follows:

- ✓ Pass
- ✓ Special Mention*
- ✓ Substandard
- ✓ Doubtful**
- ✓ Loss

Risk Scores

Lenders can view the FHFA regulatory credit risk classification of each loan through MAMP. Multifamily calibrates RRAP ratings with the lender's risk ratings on a routine basis.

*Source: FHFA Credit Risk Management. July 2013.
**Special Mention and Doubtful are applied through a manual process.

Risk Rating Influences Actions

RRAP risk ratings drive stakeholder actions throughout the asset's life from acquisition to disposition.

PORTFOLIO SURVEILLANCE

Actions

- *Lender and sponsor portfolio quality evaluated relative to Multifamily's overall performance and to other lender and sponsor portfolios*
- *Asset quality by market may be evaluated relative to Multifamily's overall performance*
- *Asset Managers may use the ratings to identify trends in ratings*
- *Loans approaching maturity are tested to determine whether each is likely to qualify for refinance at market terms*

LOSS MITIGATION

Actions

- *Watchlist Management Group* uses the ratings as the basis for monitoring/communication with servicer on risk*
- *Loan level action plans are required of lenders for Substandard rated loans*

*Watchlist Management Group works closely with lenders to identify and monitor risk. Loans classified as Special Mention or Substandard loans are placed on the watchlist for further surveillance.

Performance Management

Surveillance

Post-Purchase Review

Multifamily samples recently purchased loans on an ongoing basis to determine their compliance with established underwriting risk parameters.

What loan categories are reviewed?

For each loan, Multifamily reviews the following categories:

Underwriting		Compliance
✓ Income / Expense	✓ Market Support	✓ Guide Requirements
✓ Appraisal Valuation	✓ Borrower Financials/ Loan Sponsor Analysis	✓ Documentation Requirements
✓ Physical Condition	✓ Property Management	
✓ Environmental / Seismic		

How is it measured?

We measure each loan in the sample to determine if the lender is generally meeting expectations.

Measures
1 – Fully meets or exceeds Requirements and Standards.
2 – Meets or Minor variance to Requirements and Standards; potential variances may impact compliance with Standards.
3 – Does not meet Requirements and/or Standards, potential variances may be resolved with additional due diligence and follow up.
4 – Does not meet Requirements and/or Standards, unable to resolve with additional due diligence and follow up.

What are the benefits?

- This review helps to identify any lender trends and enables the risk team to intervene early to correct any issues.
- Multifamily calibrates lender scores quarterly to ensure findings are not only independent, but also consistent across lenders.

How are findings communicated?

- Multifamily provides lenders with regular progress reports throughout the year, including opportunities to meet to receive feedback.
- An annual report is provided to each lender that contains:
  - Summary page showing the aggregate results
  - Lender scoring relative to the scores for all DUS lenders
  - Detailed information for each reviewed loan, which includes:
    - (1) Scores for each category
    - (2) Scores for each loan
    - (3) Comments for categories with issues

Sponsor Surveillance

Multifamily monitors sponsor exposure regularly through sponsor surveillance and in-depth sponsor reviews, focusing primarily on sponsors exhibiting elevated risks and/or representing large portfolios. Multifamily produces monthly reports that track related metrics and holds quarterly calls to discuss specific sponsors with elevated risks.

Who is a sponsor?

A sponsor is a principal equity owner and/or the primary decision maker of the borrower (often the key principal or the person controlling the key principal).

Are any actions taken?

Multifamily makes recommendations based on sponsor surveillance and sponsor reviews, which can include:

- Addition of sponsors to ACheck to increase monitoring
- Curtailment of certain business activities or future exposure

What factors are reviewed?

- Aggregate exposure to a single sponsor
- Financial strength (e.g., liquidity, net worth, cash flow)
- Real estate portfolio (e.g., how is the portfolio performing?)
- Property condition (e.g., are properties being kept up to date?)
- Comparison of a sponsor's metrics against Fannie Mae's overall book of business

How are findings communicated?

If findings are identified during sponsor surveillance or a specific sponsor review, a meeting is set up with stakeholders (e.g., Multifamily Customer Engagement team, Credit Underwriting, and possibly DUS lenders) to discuss the challenges and determine next steps, as needed.

Breach Review

Multifamily conducts a breach review to detect loans with potential inconsistencies with our risk tolerance or Guide requirements.

What causes a breach review?

- A referral for a breach review occurs when Multifamily identifies a potential inconsistency with Fannie Mae's risk tolerance or Guide requirements.
- A breach review can happen at any time throughout the lifecycle of a loan (e.g., delivery or servicing breach).
- Acquisitions that are 60 days delinquent within the first 12 months are subject to review.

What are potential remedies?

If a material breach is identified, Multifamily may impose a remedy on the lender at the loan level, which may include:

- Adjusting the loss sharing level
- Indemnifying Fannie Mae for losses
- Requiring repurchase of the mortgage loan

What actions are taken?

- Violation of any representation or warranty is a breach of the lender contract, which may entitle us to pursue certain remedies.
- If a breach is detected, Multifamily has the ability to review prior loans acquired from the lender or serviced by the lender to assess if a trend exists.

536
Completed DUS Breach Reviews (2009 - 2023)

17.5%
of DUS Breach Reviews resulted in remedies

How are findings communicated?

Multifamily communication to the lender depends on the findings in the Breach Review:

- For all material breaches, there is direct communication with the lender.
- For non-material breaches Multifamily determines the most appropriate and effective way to address the breach with the lender.

Lender Assessment

Multifamily conducts an annual desktop operational assessment and a bi-annual onsite assessment of DUS lenders and vendors (e.g., third-party collateral custodian and REO Vendors) for compliance.

What areas are reviewed?

For each lender, Multifamily evaluates the following areas:

- ✓ Corporate Governance
- ✓ Production and Origination
- ✓ Credit and Underwriting
- ✓ Committing and Delivering
- ✓ Servicing
- ✓ Asset Management
- ✓ Loss Mitigation / Special Asset Management
- ✓ Legal
- ✓ Financial Management
- ✓ Insurance

What other assessments are included?

- When evaluating each lender, Multifamily leverages findings from other internal assessments.
- Multifamily compares each Lender Assessment to those conducted in the past to identify any changes or trends.

How is it measured?

Exceptional	No material process weaknesses, financial risks, or missing Fannie Mae requirements
Good	No material process weaknesses, financial risks, or missing Fannie Mae requirements, with minor process/control improvements
Average	No financial risks or missing Fannie Mae requirements with material process improvement recommendations
Substandard	Material process weaknesses, financial risks, and missing Fannie Mae requirements
Poor	Significant process weaknesses, financial risks, and missing Fannie Mae requirements

How are findings communicated?

Multifamily provides lenders with a Lender Assessment Report that documents its findings. The report includes:

- Overall score
- Summary of assessment findings for each of the ten evaluated areas, which includes:
  - ✓ Overall opinion
  - ✓ Best practice observations
  - ✓ Requirements
  - ✓ Recommendations

Lender Assessment Actions

As a result of the lender assessment, Multifamily recommends or requires specific actions to mitigate adverse impacts and monitors them through to resolution.

Are requirements monitored?

Requirements identified in the Lender Assessment are implemented by the lender. Fannie Mae monitors to resolution.

All significant risks that result in an issue are reported to Fannie Mae's Enterprise Risk Management (ERM) and Third-Party Risk Management (TPRM).

Are any further actions taken?

If a Lender Assessment indicates negative trends, Multifamily has a number of strategies to manage potential risk:

- Restrict types of business a lender may conduct
- Suspend the lender's selling rights
- Place the lender on pre-review so that all transactions are no longer delegated and are reviewed by Fannie Mae prior to purchase
- Require removal and replacement of a lender's chief underwriter
- Require repurchase of loans, additional collateral, increased loss sharing or indemnification of losses for breaches of underwriting, servicing, or other requirements
- Increase frequency of reporting and communication with lender's senior management, including in-depth loan portfolio reviews
- Require action plan from lender to remediate risk and liquidity concerns
- Require additional capital, operational liquidity or restricted liquidity

Performance Management

Maturity Management

Maturity Management

Multifamily and our lenders closely collaborate to manage maturity risk, with a focus on identifying and reacting to potential issues well before they develop into problems.

Proactive Maturity Planning

Identify Maturing Loans

Lenders identify performing balloon payment loans within 24 months of maturity.

Conduct a Risk Analysis

Fannie Mae and lenders must conduct a risk analysis for a market rate refinance to demonstrate that the borrower will maintain a positive equity position and remain committed to the property.

Develop a Maturity Plan

Lenders must work with borrower to prepare a plan to refinance or pay-off the loan in full on (or before) the scheduled maturity date.

Multifamily evaluates a Borrower's likely ability to repay the loan at maturity via a refinance using the refinance eligibility forecasts starting at 24 months prior to maturity. Loans typically pay off at maturity via a refinance, sale of the Property, or via cash or lines of credit held by Sponsorship.

Loans that nearly meet or may not meet refinance eligibility criteria may be evaluated for the following responses:

Lender Recommended Course of Action

Multifamily analyzes possible actions for successful payoff. Actions may include extension, defensive refinance, forbearance, or other modification.

Transfer to Loss Mitigation

If Fannie Mae determines that the likelihood of a loan is unable to meet repayment obligations upon maturity, and no viable exit exists, management of the loan is immediately transferred to Special Asset Management to proactively manage the loan.

Maturing UPB in 2024 and 2025 represents 4.9% of the total Multifamily guaranty book of business as of April 30, 2024

Mitigation Strategies

Loss Mitigation

Loss Mitigation Credit Philosophy

Multifamily's loss mitigation program works through early risk detection, communication, accountability, and management of delinquencies to minimize the probability of default.

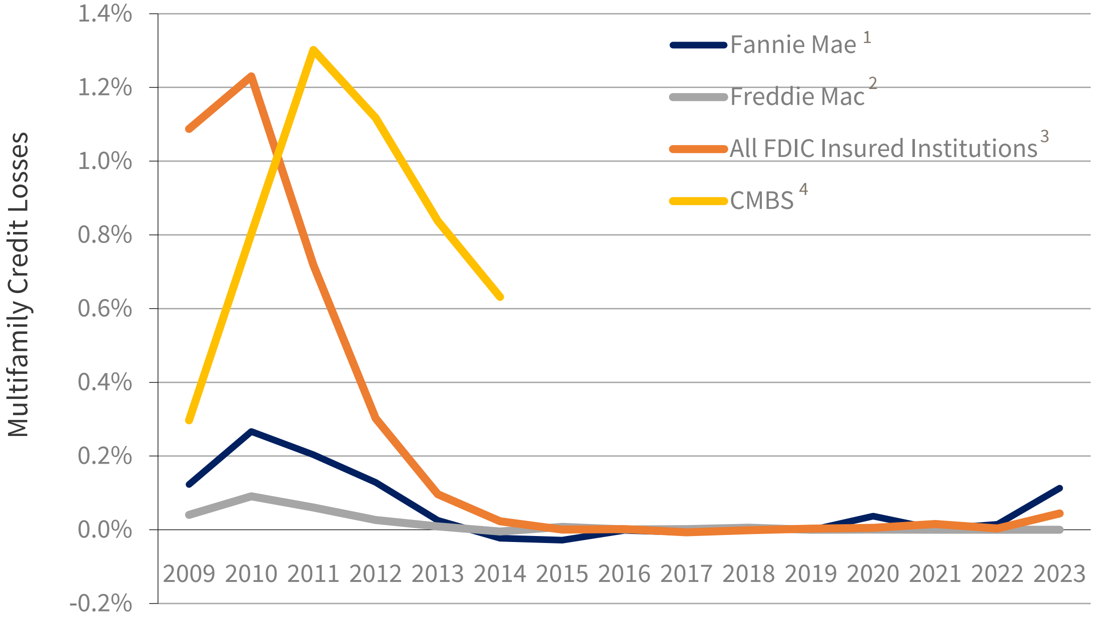
Early risk identification:
Improved risk identification provides opportunities to minimize potential losses

Communication:
Internal communication within our credit group and calibration with our lender loss sharing partners is essential

Accountability:
If a borrower creates a loss for Fannie Mae, higher scrutiny is applied to that borrower prior to underwriting another loan (ACheck®)

Mitigation of Loss:
We manage our SDQ loans to mitigate losses

Our proactive loss mitigation philosophy enables us to maintain sound credit performance through all economic cycles. Fannie Mae's multifamily credit losses peaked in 2010 at 27 bps compared to 123 bps for all FDIC Institutions in 2010 and 130 bps for all CMBS in 2011.*



Our multifamily credit losses increased in 2023 compared with 2022, primarily driven by the write-off of $300 million related to a seniors housing portfolio.

Source: Fannie Mae as of December 31, 2023.
[1]Fannie Mae credit loss to book is shown net of loss sharing benefit.
[2]Freddie Mac credit loss to book is shown net of K-Deal B-pieces.
[3]FDIC bank data reflects net charge-offs to book.
[4]CMBS data is only available through Q4 2014.

Loss Mitigation Journey

Under the four specialized teams that make up our loss mitigation program, Multifamily carefully monitors for risk, and at default takes the lead on workout options to disposition.

Surveillance of Risk	Actions to Mitigate Default	Foreclosure/ Borrower Negotiations	Monetary Recovery
Watchlist Management Group (WMG)	**Special Credits (SC)**	**Special Asset Management (SAM)**	**Real Estate Owned and Dispositions (REO)**
WMG works closely with lenders to identify and monitor risk. Loans classified as Special Mention or Substandard loans are placed on the watchlist for further surveillance.	SC manages loans with the highest potential for default through direct engagement with borrowers and lenders to remedy property concerns and other default issues.	SAM manages loans in monetary default* through a dual track approach, which initiates the foreclosure process and borrower negotiations simultaneously.	REO is responsible for maximizing recoveries on foreclosed properties and provides direct oversight of third-party vendors engaged in the management, marketing, and disposition of assets.
1,360 Loans ($29.7B UPB; 6.3% of Book)	**311 Loans** ($4.4B UPB; 0.9% of Book)	**371 Loans** ($9.9B UPB; 2.1% of Book)	**59 Properties** ($452.7M UPB**)

Default

Source: Fannie Mae Multifamily Guaranty Book of Business, as of December 31, 2023.
*A monetary default includes any amount that is delinquent and remains due 30 days after the due date including principal and interest, real estate taxes, and insurance.
**REO properties are not included in the Multifamily Guaranty Book of Business.

Watchlist Management/Inspection Review Group

WMG performs ongoing surveillance of its assigned loan portfolio to assess and understand the risk profile, confirm risk ratings, review lender-provided action plans and loss mitigation strategies.

Portfolio Surveillance

WMG identifies and assesses various risks within the entire loan portfolio, reviewing trends and analyzing performance across varying sectors.

Actions

Risks are identified through:

- ✓ Automated Risk Rating Engine (RRAP)
- ✓ Delinquency reporting (DEWS)
- ✓ Lender communications

Loans can be adversely rated for numerous reasons including:

- ✓ Property operations (e.g. DSCR under 1.0x)
- ✓ Property condition
- ✓ Sponsors
- ✓ Markets

Results

Loans that require a higher level of attention due to an identified risk are placed on the Watchlist.

Loan Surveillance

WMG reviews required loan level action plans provided by the lenders for loans on the Watchlist that are rated Substandard (by RRAP or the assigned Asset Manager).

Actions

Lenders provide an Action Plan on a given loan twice a year to identify and address the following factors:

- ✓ Sponsor capacity, commitment, and exposure
- ✓ Risk rating history
- ✓ Property level operating information/analysis
- ✓ Market data and asset valuation
- ✓ Inspection and operating summary
- ✓ Overall strengths and weakness
- ✓ Asset management conclusions and strategy

Results

WMG reviews the lender's submitted Action Plans and communicates with the lenders to ensure WMG's understanding of the risk and loss mitigation strategies.

Inspection Surveillance

IRG conducts ongoing desktop reviews of lender inspections supplemented with actual re-inspection by Multifamily employees and third-party vendors of properties for a sample of loans.

Actions

- ✓ Conduct Lender calibration meetings as needed
- ✓ Calibrate rating criteria with lenders
- ✓ Provide best practice observations and training to mitigate asset specific and ongoing risk
- ✓ Report out any risk trends to Fannie Mae Senior Management

Results

Loans with an inspection rating of 4 and 5 are transferred to SC for additional engagement (1=Excellent, 2=Very Good/Good, 3=Average/Fair, 4=Deteriorated, 5=Unacceptable).

Non-Monetary Defaults

Fannie Mae works closely with servicers to assess and mitigate the risk of loans entering performance default.

Event of default

Non-monetary default occurs. Common types include:

- Unauthorized transfer/assumption
- Failure to maintain property
- Unauthorized change in use
- Mechanics', materialman's, or judgment liens
- Completion/repair defaults
- Non-compliance with laws
- Failure to maintain insurance
- Unauthorized partial release

Servicer becomes aware; notifies borrower

Servicer submits to borrower a written notice of default (via Reservation of Rights letter) or failure to perform any act under the Loan Documents

Servicer notifies Fannie Mae

Fannie Mae must receive notice within five days after the Servicer becomes aware of default

WMG reviews default notice

WMG assesses whether to transfer the loan to a Fannie Mae asset manager or send back to the Servicer to monitor through resolution

WMG gathers further information

Servicer provides at minimum monthly updates to advise on the status of the default and the steps being taken by the borrower to cure

Loan sent back to Servicer to monitor through resolution

Loan transferred to WMG, SC, or SAM

When the issue can't be resolved, Fannie Mae issues a Notice of Default and Demand for Cure, and can eventually accelerate the loan

Special Credits

Loans requiring asset-specific attention are transferred to Special Credits (SC). SC engages borrowers and lenders to prevent default. Borrowers are required to provide a monetary commitment for a resolution.

	Causes	Actions	Resolutions
Property Issues	• Deferred maintenance • Code or zoning violations • Catastrophic events • Structural concerns • Casualty losses • Significant property renovation	• Inspect properties with lenders and/or borrowers • Obtain a Property Condition Assessment (PCA) if necessary • Review borrower repair plans and ensure execution of repairs	• When a PCA is required, identified repair costs must be paid by the borrower and escrowed with the lender. • If the borrower refuses to fund the repair cost, this results in a monetary default and the loan is transferred to SAM
Non-Monetary Issues	• Unauthorized borrower transfers • Liens • Litigation	• In-depth interaction with lenders, who provide loan and borrower background, and documentation of risk issues • Assess the materiality of non-compliance with the loan agreement and overall risk	• Issuance of reservation of rights letters • Demand for cure letters
Monetary Issues	• Borrower Relief Requests • Catastrophic Events	• Negotiate default resolution and relief requests from borrowers	Execute a forbearance, extension, or loan modification, which may include: • Short term payment deferrals • Extension of interest only periods • Maturity date extensions • Right sizing (principal pay downs)

Special Asset Management

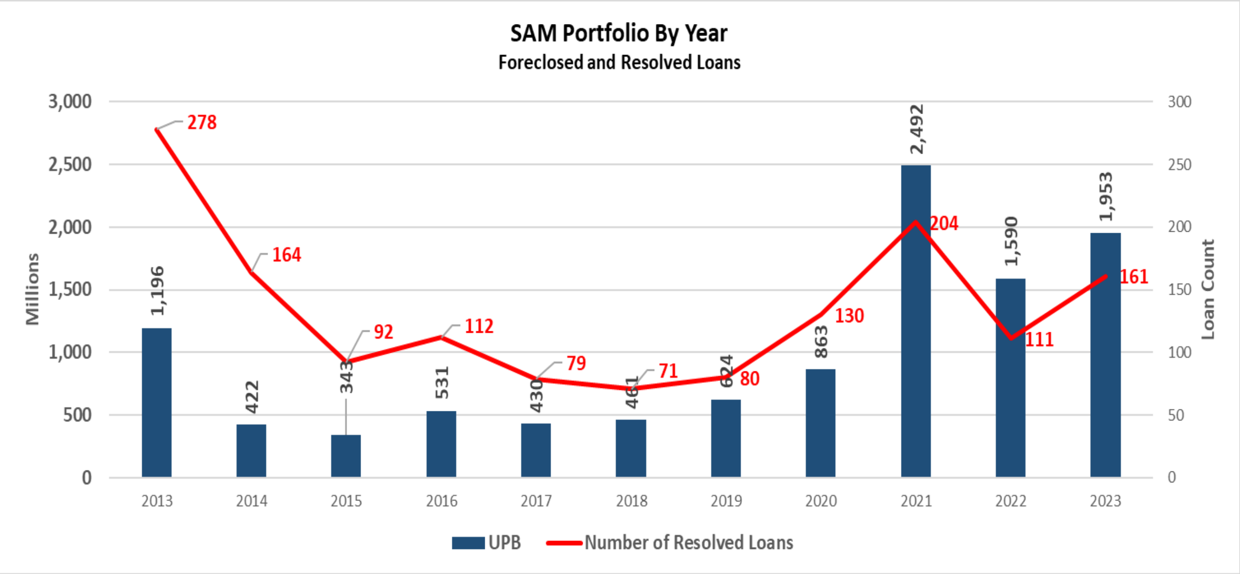
If a resolution is not negotiated, loans are transferred to Special Asset Management (SAM). SAM manages Multifamily's portfolio of defaulted loans, acting as special servicer.

Loans transferred to SAM's portfolio are identified by internal and external sources:

Lender Communication
Lenders notify SAM of loans in default and potential defaults with supporting information (e.g., borrower communication, collateral condition, etc.). Communication is frequent and ongoing.

Internal Communication
Internal Fannie Mae Multifamily groups (e.g., WMG, SC, Maturity Management, etc.) notify SAM of loans in default and potential defaults. Communication is frequent and ongoing.

Delinquency Early Warning Servicing
Loans in monetary default (30 days delinquent or more) are reported monthly by each lender. SAM and the lender discuss the default to determine next steps for resolution.



*Source: Fannie Mae.
**SAM's portfolio size increased in 2023 from 2022 due to increased risk and monitoring of the Senior Housing portfolio.

Dual Track Approach

SAM employs a dual track methodology that engages in borrower negotiations while simultaneously proceeding with foreclosure to minimize losses from loans that are in default.

Borrower Negotiations

Execute Pre-Negotiation Letter

Borrowers are required to execute a pre-negotiation letter prior to discussing workout options.

Discuss Modifications

All parties engage in ongoing negotiations for alternative resolutions (e.g., modifications, pay-offs, reinstatements, etc.).

Viable Workout Agreement

A viable workout agreement is entered into by all parties.

Workout Resolution

Resolution strategies include reinstatement, full payoff, or loan modification.

Foreclosure

Engage Legal Counsel

Multifamily engages outside legal counsel to draft a default letter to discuss the default and acceleration. The lender and SAM agree upon the proposed action and SAM sends the letter to borrowers.

Receivership

In conjunction with the foreclosure action, Multifamily files for receivership, if applicable, coordinating the selection with REO.

Order Reports

Multifamily orders third-party reports (e.g., Broker Price Opinion, Appraisal, Environmental Site Assessment, or Property Condition Assessment) in anticipation of foreclosure.

Conduct Foreclosure

SAM notifies REO of an anticipated foreclosure date and provides REO with asset background information. Outside counsel engaged conducts the foreclosure sale in accordance with Multifamily instructions.

Dual Track Approach Results

In 2023, 61% of workout resolutions resulted in the reinstatement or payoff of loans. The significant increase in activity continues to be driven by COVID-19 forbearances. The increase in foreclosures is driven by the TPG Credit Facilities.

		2013		2014		2015		2016		2017		2018		2019		2020		2021		2022		2023	
		% of Total Resolutions	# of Loans	% of Total Resolutions	# of Loans	% of Total Resolutions	# of Loans	% of Total Resolutions	# of Loans	% of Total Resolutions	# of Loans	% of Total Resolutions	# of Loans	% of Total Resolutions	# of Loans	% of Total Resolutions	# of Loans	% of Total Resolutions	# of Loans	% of Total Resolutions	# of Loans	% of Total Resolutions	# of Loans
Workout Resolutions	Reinstatement	35%	96	30%	49	40%	37	40%	43	38%	30	38%	27	24%	20	65%	85	48%	102	35%	39	37%	88
	Payoff	10%	29	26%	43	34%	31	32%	35	49%	38	45%	32	54%	45	26%	34	38%	82	56%	63	24%	57
	Modification	6%	18	5%	8	2%	2	2%	2	1%	1	0%	0	4%	3	0%	10	4%	9	2%	2	19%	46
	Note Sale	9%	25	10%	17	0%	0	6%	7	0%	0	3%	2	13%	11	1%	1	0%	1	0%	0	2%	5
	Deed-in-Lieu/ Discounted Payoff	5%	13	0%	0	0%	0	0%	0	1%	1	0%	0	0%	0	1%	1	0%	1	0%	0	0%	0
	Third Party Sale	1%	3	3%	5	0%	0	1%	1	1%	1	3%	2	1%	1	1%	1	0%	1	1%	1	2%	4
	Credit Loss (Profit) ($M)	48		8		0		2		-3		1		-2		0		33		1		-1	
Foreclosure		34%	94	26%	42	24%	22	19%	20	9%	7	11%	8	4%	3	6%	8	8%	17	7%	8	16%	39
	Credit Loss (Profit) ($M)	91		23		5		3		1		4		6		26		27		4		0	

Credit Loss 2012-2023

Foreclosure

$190M

Other Workout Resolutions

$87M

$277M

Total Credit Loss over the past decade

*Source: Fannie Mae book of business as of December 31, 2023. Forbearances are not considered a modification as modifications constitute a resolution.

Mitigation Strategies

Recovery

Real Estate Owned

Multifamily outsources Real Estate Owned (REO) functions to third-party vendors to manage, market, and sell foreclosed assets to maximize monetary recovery.

All third-party contracts are reviewed and approved by Fannie Mae Procurement and Third-Party Risk Management. Each vendor operates under Asset Management Agreements that define their responsibilities in the management and disposition of assets.

Property Inspections

The vendor inspects all REO properties to assess life safety issues, capital needs, deferred maintenance, and operational concerns.

Property Operating Plans (POP)

The vendor develops a POP following foreclosure. Multifamily REO verifies the POP is consistent with the property inspection findings and requirements of all Fannie Mae Policies. The POP includes:

- Annual line-item budget
- Capital expenditure plan
- Leasing plan with rental rates
- Quarterly budget variance reporting

Marketing and Sales Case

The vendor prepares a marketing and sales case that is verified by Multifamily REO that includes:

- Marketing strategy
- Disposition strategy (e.g., conventional, auction, or other)
- Proposed sales broker or auction company
- Recommended list price and brokerage commission structure
- Estimated timelines for sale and closing

Multifamily Oversight

Multifamily conducts periodic reviews to monitor asset management functions of the REO vendors, which includes an analysis of:

- Portfolio-level operations, marketing, and sales strategies
- Compliance with approved property-level budgets and capital plans
- Management company operations and training
- Bank account oversight

Third-Party Vendor External Audit

Multifamily engages a third-party audit firm to conduct periodic reviews of the REO vendors and property management companies. The scope of the audit includes a review of:

- Adherence to the Master Services Agreement, REO Statement of Work , Property Management Agreements, and all banking-related requirements
- Internal controls to ensure compliance with management requirements
- Master Funding Account reports and bank statements
- Property-level funding requests
- Funding process for the transfer for sales proceeds

Real Estate Owned

We economically manage the disposition strategy for our REO assets as Multifamily can add value to the property after foreclosure and by evaluating market conditions to identify the optimal timing for property sales. This ensures we are maximizing our foreclosure gains while minimizing losses.

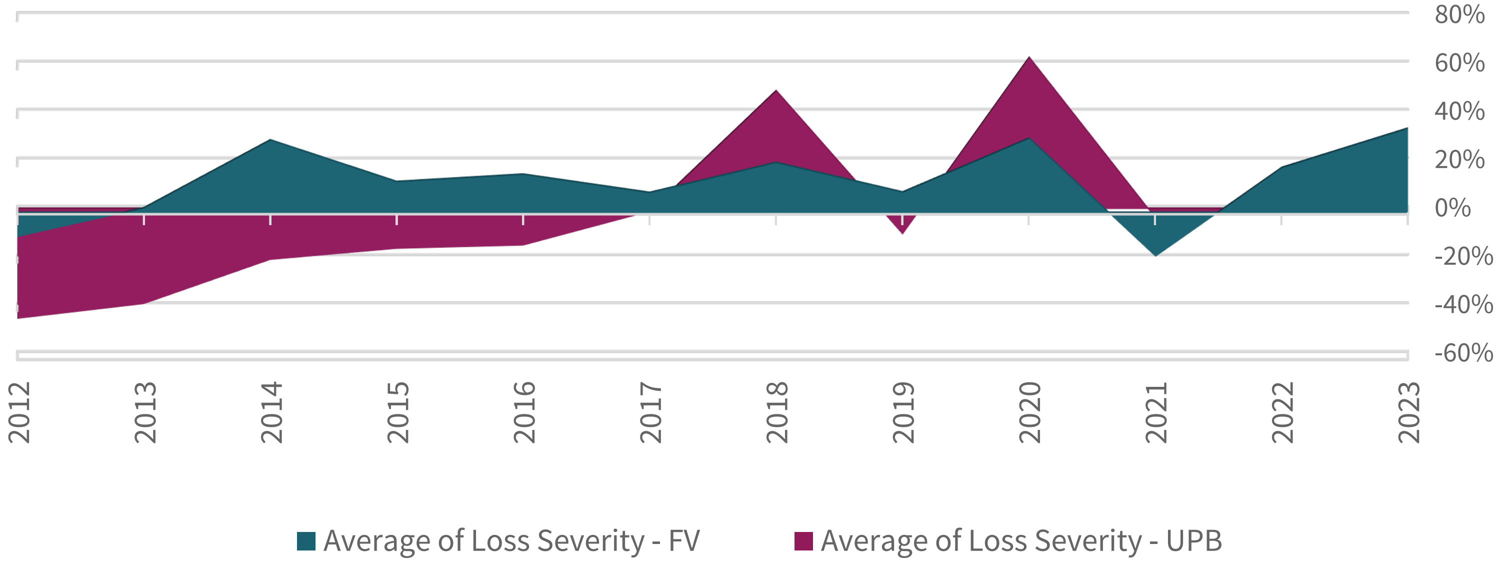
2011-2023
Real Estate Owned

793 Properties	**$2.4B** Sales Price
$3B UPB	**$2B** Foreclosure Value

Average Gain/Loss Severity

-23% UPB	**13%** Foreclosure Value

Gain/Loss Severity by UPB & Foreclosure Value



Source: Fannie Mae Multifamily Guaranty Book of Business as of December 31, 2023.

Mitigation Strategies

Extraordinary Circumstances

Weathering High Interest Rates

Fannie Mae proactively assesses market conditions to maintain strong loan performance through most rate environments – managing risk to minimize loss.

1. Existing Safeguards for Acquisitions

Our Multifamily business engages with stakeholders, including borrowers and lenders, to determine when updates to our loan acquisition requirements are necessary – ensuring they reflect current market conditions and our risk tolerances. We perform exit tests to help ensure loans will be able to refinance at maturity.

2. Effective Management

Our seasoned Multifamily workforce averages over 20 years of industry experience, and we promote flexibility by cross-training staff to more easily support areas of need during periods of volatility. This broad expertise enhances the monitoring of maturing loans (that begins 24 months out to maturity) and helps ensure loans are able to fully repay at maturity or are proactively managed to minimize loss.

3. Knowing our Partners

Due to our unique risk-sharing model, the interests of borrowers, lenders, and Fannie Mae are aligned throughout the life of the loan. We believe this alignment of interests improves the performance of all parties and optimizes outcomes.

Natural Disaster Management

Fannie Mae is well prepared to address natural disasters that may occur, to mitigate unforeseen risk to affected multifamily properties.

1 Incident Management Center (IMC)

At the enterprise level, Fannie Mae has a dedicated 24x7 team to actively monitor all natural disasters

2 Natural Disaster Assessment

Once a natural disaster occurs, the IMC works with NOAA*, FEMA**, and other governmental agencies to map the impacted geographical area

3 Communication with Impacted Borrowers

For loans identified in the impact zone, Servicers contact the applicable Borrowers to assess any damage caused by the natural disaster

4 Risk Resolution Initiated

If damage is noted, the Fannie Mae Loss Mitigation team works with the applicable Servicers and Borrowers to inspect and estimate damage to the properties, and develop a plan to repair the damage as appropriate

*NOAA: National Oceanic and Atmospheric Agency.
**FEMA: Federal Emergency Management Agency.

Natural Disaster Management Historical Loan Performance

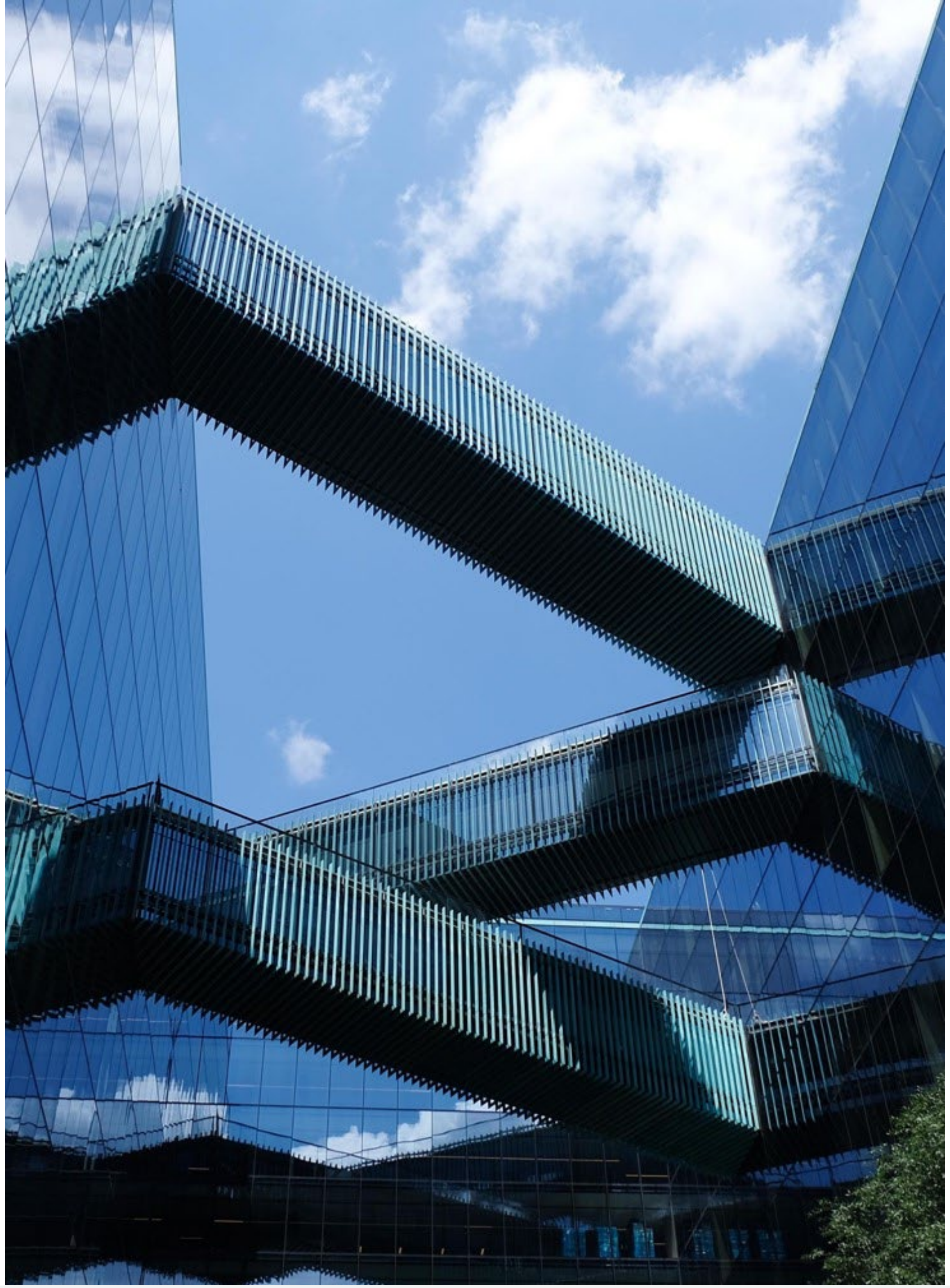
	Impacted UPB (in MM)	Default Rate	Loss Rate
Hurricane Katrina 2005	$563	2.96%	0.22%
Hurricane Sandy 2012	$29,758	0.02%	0.02%
Houston Floods 2016	$766	0.00%	0.00%
Hurricane Harvey 2017	$7,820	0.00%	0.00%
Hurricane Irma 2017	$18766	0.00%	0.00%
Hurricane Maria 2017	$29	0.00%	0.00%
Hurricane Ida 2021	$1,929	0.00%	0.00%
Hurricane Ian 2022	$3,169	0.00%	0.00%
Total / Simple Average	**$62,801**	**0.04%**	**0.01%**

While Multifamily properties with an aggregate UPB of over $62B have been in areas impacted by the last 8 major storms, MF has only experienced losses of $6M, a **0.01% loss rate**.

Appendix

Additional Resources

Multifamily Credit Risk Transfer	https://capitalmarkets.fanniemae.com/credit-risk-transfer/multifamily-credit-risk-transfer
DUS Disclose®	https://mfdusdisclose.fanniemae.com/#/home
Sign-up for News and Commentary	https://capitalmarkets.fanniemae.com/form/notification-sign-up
DUS Navigate™	https://mfguide.fanniemae.com/
Loan Performance Data	https://capitalmarkets.fanniemae.com/credit-risk-transfer/multifamily-credit-risk-transfer/multifamily-loan-performance-data
Data Dynamics	https://datadynamics.fanniemae.com/data-dynamics/#/userProduct
SEC Filings	http://www.fanniemae.com/portal/about-fm/investor-relations/sec-filings.html
Multifamily Market Research and Commentary	https://multifamily.fanniemae.com/news-insights/market-research-commentary
Multifamily Products	https://multifamily.fanniemae.com/financing-options/products



Contact Us

Information is available for investors and potential investors about Fannie Mae's products, the company's financial performance, and disciplined management of credit risk and interest rate risk.

For more information, please contact us:

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Fannie Mae also operates regional offices in the greater Washington, DC area, Atlanta, Plano, and Philadelphia.

Fannie Mae®