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Introduction

The Federal Housing Finance Agency (FHFA) module for *Multifamily Mortgage Underwriting and Acquisitions* is designed as a resource and reference for all FHFA examiners. It contains information and procedures intended for the examination of the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac), collectively referred to as the Enterprises.

This module addresses risks related to developing underwriting standards, and monitoring underwriting functions, for multifamily loans. Multifamily underwriting standards address borrower and sponsor credit quality, eligibility standards and requirements, collateral/ property criteria, and contributions to the transaction. Appropriate multifamily underwriting standards and processes allow an Enterprise to purchase/acquire or securitize appropriate credit-quality loans. Quality-driven underwriting and acquisition processes are intended to mitigate credit losses. The Enterprises maintain contractual representations and warranties that provide them with the legal ability to require the repurchase of loans that do not conform to underwriting requirements. Additionally, an Enterprise may contractually establish a loss sharing arrangement with the Seller as a means to mitigate any risk of loss.

This module also covers the processes used by the Enterprises to acquire multifamily loans from approved Seller/Service providers. A Seller/Service provider is defined as an approved bank or non-bank entity with a contractual relationship with an Enterprise that performs selling, servicing or both functions. Sellers originate multifamily mortgage loans and sell or securitize with the Enterprises. Service providers perform multifamily servicing and loan administration functions. The Enterprises purchase the mortgages and assume risks associated with their business models.

Underwriting multifamily loans is different in many respects from underwriting single-family loans. Evaluating the credit quality of multifamily properties is more complex than for single-family properties. Multifamily properties represent a commercial business, are comprised of many individual units, and the number of underwriting factors are numerous in comparison to those for underwriting of single-family mortgages. Multifamily loans can be collateralized by a variety of property types. These may include garden and high-rise apartment complexes, senior housing communities, cooperatives, dedicated student housing and manufactured housing communities – all of which are operated as businesses themselves or part of a business to generate income. Unlike single-family properties, multifamily properties should be managed by an experienced and capable multifamily property manager. Insurance and legal requirements for multifamily properties are also different from those for single-family properties. Financial considerations in underwriting multifamily loans are more involved than those for single-family loans given the multitude of revenue and expense items as well as cash flow, accounting, and tax considerations.

The Enterprises seek to limit holding multifamily loans long term in their mortgage portfolios and therefore, securitize loans acquired for cash after acquisition. Some specialized loans, such as those intended to meet the Enterprise's affordable housing goals, may not be securitized and are held in an Enterprise's mortgage portfolio for the remaining life of the loan. (For additional

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detail and the workprogram related to Enterprise securitizations from portfolio, see the module on *Multifamily Mortgage Securitization*.)

Fannie Mae maintains a multifamily whole loan portfolio; the majority of multifamily loans it acquires are securitized at acquisition. With multifamily mortgage securitizations, Fannie Mae guarantees that security holders will receive principal and interest for a specified period of time and earns a guarantee fee for assuming the credit risk on these securities. It is common for Fannie Mae to enter into risk-sharing arrangements with a Seller that agrees to share some portion of potential credit losses. As discussed below, Fannie Mae delegates the underwriting process to select lenders it has approved as Delegated Underwriting and Servicing (DUS) lenders after a review process.

Freddie Mac typically purchases multifamily loans, holds them temporarily in its mortgage portfolio, and then subsequently packages them in structured securities to distribute the credit risk. As part of the securitizations, Freddie Mac sells multifamily mortgage loans to a third-party who deposits the loans into a third-party trust. Freddie Mac purchases and guarantees certain bonds issued by the trust and securitizes these bonds for sale in the secondary market. These bonds serve as collateral within the securitization structure.

Background Information

Underwriting Overview

Fannie Mae

Fannie Mae uses a DUS lender business model for the underwriting process. The DUS model is built upon select Sellers that meet criteria established by Fannie Mae on an ongoing basis. Qualification criteria include financial stability, solid credit analytics and underwriting skills, strong infrastructure and technology platforms, as well as sufficient depth and breadth of expertise and knowledge of multifamily lending. Fannie Mae maintains control over the acceptance of DUS lenders and the number of DUS lenders is relatively small.

The DUS model standardizes loan terms and approval criteria and provides delegated underwriting decisions to lenders with experience in multifamily lending. Generally, a DUS lender who underwrites and sells loans to Fannie Mae will also perform the loan servicing functions after the sale. Fannie Mae requires lenders to share in the risk of loss associated with the multifamily loans they sell to Fannie Mae. DUS lenders are required to post collateral to support their risk-sharing obligations. Fannie Mae's standard loan documents, underwriting standards, and servicing guidelines describe requirements for originating, closing, and acquiring the loans from Seller/Serviceicers. It is important that Fannie Mae use its approval process and periodic assessments to evaluate Seller/Serviceicers' capabilities to meet the financial and operational requirements that are specific to the DUS program. This includes appropriate monitoring and oversight of the underwriting functions performed by DUS lenders as well as risk-sharing arrangements. (See the modules on *Multifamily Credit Loss Management* and *Managing Multifamily Seller/Serviceicer Counterparties* for additional information.)

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Fannie Mae historically purchased multifamily loans from non-DUS lenders; these loans were limited to small balance loans or pools of seasoned loans that were not originated or underwritten according to Fannie Mae requirements. Multifamily loan purchases from non-DUS lenders represent a very small percentage of total multifamily acquisitions by Fannie Mae.

Freddie Mac

Freddie Mac conducts its own underwriting process. Multifamily loan applications are sourced and closed by approved Sellers but submitted to Freddie Mac for underwriting approval. Freddie Mac publishes its required loan parameters as well as general benchmarks for key underwriting criteria. Sellers are able to use this information to conduct preliminary underwriting analyses prior to Freddie Mac's formal underwriting decisions. Appropriate internal risk management controls and oversight should be in place in consideration of Freddie Mac's process to internally perform its underwriting functions.

The model that Freddie Mac utilizes transfers portions of credit risk to end-investors. Freddie Mac generally purchases loans for cash and aggregates these loans for later securitization. Freddie Mac focuses its multifamily securitization business model on issuing multiclass structured securities that it refers to as K-certificates or "K-deals". Freddie Mac's K-deals are structured multifamily, multiclass securities. With a K-deal structure, Freddie Mac sells loans from its mortgage portfolio to a third party who places the loans in trust. The third-party trust then issues private label securities backed by the loans. The loans generally have 5-year, 7-year, or 10-year loan terms with a maximum amortization of 30 years. Collateral can be either fixed-rate or adjustable rate mortgages. Freddie Mac purchases, guarantees, and places certain senior bonds issued by the third party into a Freddie Mac trust. Freddie Mac issues its own guaranteed structured pass-through certificates, re-securitizing the third-party trust bond. The non-senior or subordinate bond classes are issued by the third-party buyer to investors without a Freddie Mac credit guarantee. Generally, K-deals include guaranteed senior principal and interest and interest-only classes. K-deal certificates are generally offered to the market by a syndicate of dealers. Rating agencies are typically engaged to rate the senior classes of the K-deal.

To better control and manage risk and its representations and warranties to security holders as part of these deals, Freddie Mac performs all underwriting functions on multifamily acquisitions. As the Seller of K-certificates, Freddie Mac is responsible for certain representations and warranties; however, the original loan sellers retain some representations and warranties. (See module for *Multifamily Mortgage Securitizations* for additional information.)

Underwriting and Acquisitions Requirements and Policies

An Enterprise's mortgage underwriting and acquisitions requirements and policies are found in its internal credit policies, credit procedures, and its selling guide. The underwriting and acquisitions requirements prescribe the obligations of an Enterprise and the multifamily Seller. Specific requirements include standards for compliance with borrower eligibility requirements, loan quality standards, and loan commitment and delivery procedures. Also, Seller requirements included in the selling guide include quality control (QC) and internal monitoring the Seller must perform in the underwriting processes.

Examiners should be familiar with multifamily processes for underwriting and acquisition to test adherence to standards during examinations. Examiners may access the selling and servicing guide for Fannie Mae or Freddie Mac on each Enterprise's respective website or through the FHFA subscription to AllRegs. New requirements are communicated through bulletins and announcements which are available on each Enterprise's website as well as through the AllRegs service. The selling and servicing guide and internal corporate credit policies are supplemented by procedures and processes necessary to align with requirements of other prudential regulators, other government agencies, and/or legislative mandates.

Regardless of whether the primary underwriting entity is a Seller or an Enterprise, diligent underwriting is required to confirm a borrower's and sponsor's creditworthiness and ability to successfully operate a multifamily property to repay the mortgage loan. The Seller completes the underwriting based upon the project specifics. A sponsor is not a legally bound source of repayment; the sponsor is the party that will manage the day-to-day affairs of the project. An understanding of the sponsor's capacity is a critical component of the underwriting process.

Underwriting should include an evaluation and consideration of a variety of information, including the borrower's liquid assets, net worth, debt position, and experience managing multifamily properties. Most importantly, underwriting should also evaluate the property to ensure not only whether the market value is supported but whether the rental income generates sufficient cash flow to support both the expenses to operate the property and the debt service. Comprehensive insurance must be in place, the property condition must be maintained through sufficient capital reserves, and the property must be free from material hazards and code violations. The property should also demonstrate a current and past record of sufficient occupancy levels or credible projections of occupancy levels to be achieved. The following sections address key criteria as part of multifamily loan underwriting:

Loan Quality Attributes

Both Enterprises have established and maintain underwriting standards that focus on achieving a balance between the mission and goals of an Enterprise and the various risks associated with holding and providing a guarantee on multifamily loans. The Enterprises' credit policy personnel and multifamily business teams periodically review underwriting standards and adjust them as necessary to align credit tolerances with current market and economic conditions.

Two core multifamily underwriting parameters include the debt service coverage ratio (DSCR) and the loan-to-value (LTV) ratio:

- DSCR is the ratio of annual net operating income (NOI) divided by the required annual debt service for the property. NOI is calculated as cash rental and recurring income minus normal and recurring cash operating expenses. Judgment may be required to determine NOI, and it may be defined in loan and security agreements supporting individual transactions. It provides an indication of a multifamily borrower's ability to service its mortgage obligation using the secured property's cash flow. The DSCR should be at a level that not only meets the required debt related payments, but includes

a cushion for other associated expenses, such as providing for capital replacement reserves. The higher the DSCR, the more likely a multifamily borrower will be able to continue servicing its mortgage obligation.

- LTV is the ratio of the unpaid principal amount of a mortgage loan to the value of the property that serves as collateral for the loan. Loans with high LTV ratios generally tend to have a higher risk of default and experience higher credit losses than loans with low LTVs.

The standards for multifamily loans specify, at origination, a maximum LTV ratio and minimum DSCR. These will vary based upon the loan characteristics, such as loan type (new acquisition or supplemental financing), loan term (typically 5, 7, or 10 years), and loan features (interest-only or amortizing; fixed rate or variable rate). Typically, a borrower must fund the equity from its own sources to meet the LTV requirement. In certain circumstances, an Enterprise's standards for multifamily loans allow for specific types of loans to have a higher LTV ratio and/or a lower DSCR than required by its underwriting standards. In the cases where the Enterprises commit to purchase or guarantee a loan upon completion of construction or rehabilitation, they may require additional credit enhancements because underwriting for these loans will require estimates of future cash flows for calculating the collateral's ability to repay its debt obligations.

Borrower Strength/Default Analysis

The borrower in a multifamily loan transaction is the legal entity that is created and backed by the real estate, improvements to the land, and the building(s) in place. The property's legal structure is typically established as a Single Purpose Entity (SPE) created to act as a borrower for a single transaction that may include numerous properties serving as collateral. The borrowing entities are generally for-profit corporations, limited partnerships, or 501(c)(3) corporations. The borrowing entity may often have a parent or affiliate; it is important for the underwriter to understand and analyze these financial relationships, especially the limitations of financial and legal support to the borrower by related affiliates.

Multifamily loans are generally non-recourse to the principals or sponsors of the projects. While the borrowing entity is directly liable for the debt, it is also a legal construct designed to own the collateral. Given its limited purpose, it typically has little to no balance sheet strength other than the underlying collateral and cash flows to support the loan in the event of distress. To the extent the sponsor does offer support to the borrower, additional financial capacity might be derived from the sponsor's portfolio of like assets that may be generating excess cash flows to service this debt.

The underwriter must evaluate the borrowing entity's legal structure, parent company, affiliates and, as noted below, its sponsors. The borrower should also be evaluated for: past performance, liquidity, and resources for additional capital if needed. The core source of repayment, however, is the project's NOI. Higher DSCR is likely to increase the chances of repayment.

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The sponsor's reputation, property management experience, financial capacity, and other real estate holdings should be analyzed in detail as credit risk factors. The Enterprise should consider and analyze how the borrowing entity will have the financial capacity to handle significant events during the life of the loan, such as loss of rental revenue, higher than forecasted expenses, casualty events, and other unforeseen circumstances. The terms of most multifamily loans include a balloon payment, thus an exit strategy that the loan can be repaid or refinanced at maturity should be performed as part of the underwriting analysis.

Property Quality

The property is the source of repayment and collateral for a multifamily loan. The underwriter should confirm at inception that the property is in good condition, and provides safe and sanitary housing for the residents occupying the units. The Enterprises also require property condition and environmental assessments from independent third parties that describe both current and future physical needs of the property. Property quality standards are set forth in the Enterprises' selling and servicing guides and a property should be evaluated by environmental consultants and engineers to determine whether it meets the standards. Because the quality of multifamily properties is a driving factor in assessing credit risk, examiners should review an Enterprise's processes for ensuring that effective evaluations are taking place.

Property Appraisal and Assessment

The Enterprises require third-party assessments and appraisals to support the underwriting decision. The underwriting party will engage the services of an appraiser to perform a property valuation using the *Form Letter of Engagement for Appraiser* or other documentation. The engaged appraiser must be qualified. The appraiser should have the appropriate state license and/or certification to appraise commercial real estate properties. The underwriter and the appraiser should agree on the scope of the appraisal in advance, consistent with the Uniform Standards of Professional Appraisal Practice (USPAP) and an Enterprise's appraisal requirements. The appraiser may be asked to provide information about the property's condition. However property condition and environmental assessments are completed by specialists in that area.

The purpose of an appraisal is to estimate the current and perhaps future market value of the property. The Enterprises require the appraiser be independent. In those circumstances where the appraiser may be affiliated at some level to the Seller/Service, appraisals must include statements of disclosure from both the Seller/Service and from the appraiser that describe the nature of the relationship and the absence of conflicts of interests.

The environmental assessment is completed by a consultant that specializes in that area of practice. The scope of the work should require that standards set forth by the Enterprises are met or exceeded. The Seller/Service has the responsibility to engage a properly certified and qualified consultant. Ultimately, it is the responsibility of the Seller/Service, through the environmental consultant, to assess whether there is a risk of loss due to recognized environmental conditions on or related to the property.

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A property condition report is completed by an entity that specializes in multifamily property condition assessments. The scope of the work should require that standards set forth by the Enterprises are met or exceeded. The Seller/Servicer has the responsibility to engage a properly qualified entity to complete this work. Ultimately, it is the responsibility of the Seller/Servicer, through the property condition report, to assess whether there is a risk of loss due to recognized defects and conditions of the property itself or related to the property. The property condition assessment is also intended to provide the Seller/Servicer and an Enterprise with detailed information including a thorough assessment of the current condition of the property, the identification of the property's short-term repair needs, and a general estimate of expected replacement and major maintenance needs over the term of the mortgage loan.

The Enterprises have specific requirements for multifamily properties. Examiners should be aware of these requirements and the potential impact on credit quality. For example, a requirement may be that the property should generate enough cash flow to fund renovations and on-going capital needs.

Market and Submarket Factors

As part of evaluating the property and borrower capacity, the underwriter must also analyze the overall market and submarket location of the property to determine whether there are any additional risks that could impact property value or borrower's financial capacity and ability to refinance. As part of evaluating the market and submarket, the underwriter reviews factors such as location, vacancy rates, unemployment rates, supply and demand levels, and the availability of local services, such as health care and schools.

Insurance

The underwriting terms for each Enterprise require that every property be covered by insurance policies for the following types of coverage, at a minimum: property damage, liability, professional liability, title, and various natural hazard-related insurance. The Seller/Servicer must obtain and provide evidence of insurance when the loan is closed. Policies are prepaid and not funded by the loan proceeds. After closing, the Servicer has the responsibility to monitor for insurance coverage that meets continuing coverage standards established by an Enterprise.

The Enterprises require the borrowers to have standard commercial general liability on an occurrence-based policy. The policy should insure against legal liability resulting from bodily injury, property damage, personal injury, advertising injury, and contractual liability. General liability insurance must also cover buildings, common areas, commercial spaces, and public ways (roads, driveways, alleys, walks, paths, and similar areas). In addition, this general liability insurance must cover the cost of defending any covered claim arising out of, or in connection with, the ownership, possession, use, leasing, operation, maintenance, or condition of the property. Certain property types may have specific and particular detailed property damage and liability insurance requirements.

Each Enterprise's selling and servicing guide requires that every mortgage loan be covered by an acceptable title insurance policy that meets its requirements. The title insurance policy must be

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issued by a title insurance company that is authorized to issue title policies in the jurisdiction where the property is located, be financially responsible, and demonstrate current adequate financial reserves. The title policy must name the Seller/Servicer as the insured and either directly assign interests to the Enterprise or include assignment language.

Multifamily Balloon and Prepayment Features

Multifamily loans purchased by an Enterprise may be structured as amortizing loans or interest-only and have a fixed or variable rate of interest. Multifamily loans typically have terms of 5, 7 or 10 years, with balloon payments due at maturity. The balance of the balloon payment can be a significant portion of the original balance given there may be little or no amortization in the case of an interest only structure, over the term of the loan.

Balloon payments represent a risk to an Enterprise given the borrower may have limited options to refinance or payoff the balloon payment at maturity. During periods of rising interest rates, and depending on the economics of a specific project's cash flow, the project/borrower may not be able to generate sufficient excess cash to cover the higher debt service that could occur should higher rates and a balloon maturity coincide. An Enterprise assumes this credit risk with multifamily loans held in portfolio. If a loan is securitized, an Enterprise may retain some portion of the project's credit risk, depending on how the security was structured. These maturity and refinance risks are a concern that require effective portfolio management practices at the Enterprise so they can be monitored, reported and managed throughout the lifespan of the loan. (See the module for *Multifamily Mortgage Securitization* for additional information on multifamily loan securitization features and structures.)

To mitigate refinance and maturity risk for the end-investor, both Enterprises build special terms into multifamily loans. At Fannie Mae it is referred to as yield maintenance. For example, it is common for multifamily loans to have prepayment restrictions and penalties. A prepayment restriction will serve to limit the frequency of borrower refinancing and, for the MBS investor, produce a more predictable cash flow stream for their own asset liability management. Prepayment restrictions on the borrower often include a lockout from prepayments for a period of time, a prohibition on partial prepayments, and a sliding prepayment fee assessed as a percentage of the unpaid principal balance. While prepayment penalties generally reduce cash flow uncertainty to an investor, they do not entirely remove the risk of prepayment. As a result, the Enterprises also attempt to limit income loss by structuring securitization agreements to take into account prepayments. For example, multifamily loans that permit full prepayments may be directly securitized into securities that have a defeasance provision. With a defeasance provision, as collateral is paid-off, additional collateral is added to the security trust in order to maintain a continued coupon or cash flow from the security. (For more on prepayment and defeasance, see the module on *Multifamily Mortgage Securitization* for additional detail and workprogram.)

At underwriting, the Enterprises also monitor refinance risk by requiring pro forma analyses. These analyses include growth-rate projections for income and expenses and the projected DSCR, LTV, and capitalization rate at the end of the loan term. Using these analyses, the Enterprises evaluate and estimate their exposure to future refinancing risk at the time of acquisition. After acquisition, the Enterprises proactively monitor upcoming loan maturities

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through the evaluation of property-specific cash flows as well as local and national economic conditions. (For more details on Freddie Mac's and Fannie Mae's multifamily loss mitigation strategies, see the module on *Multifamily Credit Loss Management* and the module on *Managing Multifamily Seller/Servicer Counterparties*. In addition, examiners should reference Advisory Bulletin AB-2012-02 *Framework for Adversely Classifying Loans, Other Real Estate Owned, and Other Assets and Listing Assets for Special Mention* and Advisory Bulletin AB-2013-02, *Clarification of Implementation for Advisory Bulletin 2012-02* when reviewing an Enterprise's baseline and post-baseline multifamily loan analyses.)

The Enterprises and Seller/Servicers monitor the performance and risk concentrations of their multifamily loan portfolio and the underlying properties on an ongoing basis at the loan, property, and portfolio levels. At an individual property level, the physical condition, financial performance, and local market conditions are analyzed. This information is then aggregated and analyzed at a portfolio level that includes consideration of macro-economic and national multifamily housing factors. Information from both property-specific and portfolio-level analyses is used to manage the credit risks in an anticipatory manner. Examiner review of reports and analyses by the Enterprises will aid the examiner in evaluating the internal tools and how managements use them. (For additional details on multifamily credit risk management, see the module on *Multifamily Credit Risk Management*.)

Underwriting Waivers and Exceptions

An Enterprise issues waivers or exceptions from its underwriting standards to purchase loans that do not follow credit policies. The authority to issue waivers or exceptions may be delegated to a Seller/Servicer as defined in an Enterprise's selling guide or contractual documentation. Waivers or exceptions allow for deviation from certain loan eligibility and documentation requirements. Waivers or exceptions require a thorough risk analysis by an Enterprise before a loan acquisition. The loan file should contain documentation to support any waivers or exceptions. As part of an Enterprise's QC, an evaluation of underwriting waivers or exceptions should be conducted.

Enterprise Due Diligence of Seller/Servicers

The Enterprises manage credit and counterparty risk by monitoring the performance and stability of their approved Seller/Servicers. Both Enterprises have eligibility requirements and must approve Seller/Servicers before engaging them in business. Monitoring methods include conducting:

- 1) Post-purchase reviews of lender performance;
- 2) Assessments of a Seller/Servicer's financial strength; and
- 3) Quality reviews of Seller/Servicer due diligence efforts.

(See the module on *Managing Multifamily Seller/Servicer Counterparties* for additional information regarding Enterprise monitoring of Seller/Servicer counterparties.)

Multifamily Loan Categories with Increased Risks:

The Enterprises should diligently review certain categories of loans that present increased risks prior to purchase. These may include:

- 1) Loans collateralized by property located in a market with weak economic conditions;
- 2) High-dollar loan amounts (*e.g.*, \$25 million or more);
- 3) Transactions with multiple loans and a single borrowing entity;
- 4) Loans collateralized by certain asset types, including senior housing, manufactured housing communities, and student housing;
- 5) Loans with an adverse risk rating; and
- 6) Concentrations by geographic area.

Risk Rating

The Enterprises assign each multifamily loan a risk rating at the time the loan is originated. That process establishes an initial benchmark that can be used as a basis to evaluate the loan throughout its term. A risk rating model may be used to help ensure the ratings are applied consistently across multifamily loans that demonstrate different attributes. The risk rating considers the credit and collateral characteristics of the loan and the probability of default. After purchase, the risk rating is periodically revisited by portfolio managers to assess loan performance and other macro factors that could contribute to the overall loan quality. (For additional information related to risk ratings, see the modules on *Multifamily Credit Risk Management* and *Multifamily Credit Loss Management*.)

Quality Control

The multifamily underwriting and acquisitions QC process is part of a larger QC system and process to evaluate and monitor the overall quality of multifamily loan production from the decision to fund or purchase through payoff. The selling guide and internal corporate credit policies establish the obligations of the Seller/Servicers and the Enterprise with respect to the underwriting QC process. For Fannie Mae, the QC process involves monitoring the Seller/Servicer's underwriting processes, focusing on ensuring that multifamily loans conform to Fannie Mae's eligibility and underwriting policies. For Freddie Mac, the QC process has a similar goal of ensuring that loans meet eligibility and underwriting policies, but it focuses upon in-house personnel and processes given Freddie Mac's business model. Both Enterprises must determine whether QC is effective in the identification of noncompliance and performance-related underwriting and/or acquisition-related risks.

Acquisitions and Delivery Processes

Under the 2008 Senior Preferred Stock Purchase Agreements executed with the U.S. Department of the Treasury, both Enterprises are restricted in the amount of mortgage assets that they may own. As a result, the Enterprises have shifted their primary multifamily mortgage business models away from holding mortgage loans on a long-term basis in their portfolios. The majority of Enterprise acquisitions are either securitized by the Seller at the point of acquisition or

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securitized after purchase by the Enterprise. Both Enterprises focus on acquiring loans for securitization with an emphasis on the standardization of certain product attributes and terms.

Fannie Mae securitizes most multifamily loans at acquisition through the DUS Seller/Servicer. Most Fannie Mae securities issued at acquisition are single-loan securities. Freddie Mac generally purchases multifamily loans for cash, aggregates these loans in their mortgage portfolio, and later securitizes the loans directly. Freddie Mac focuses its multifamily securitization business model on issuing multiclass structured securities that it refers to as “K-deals”. (For more on the multifamily securitization process, see the module on *Multifamily Mortgage Securitization*.)

Commitment and Delivery

Both Enterprises offer a standard commitment and an early rate lock commitment option to their approved Seller/Servicers. In both commitment cases, the commitments are mandatory, meaning the Seller/Servicer must deliver the committed loans or pay a fee to “pair out” of the commitment. An Enterprise will charge a pair-out or pair-off fee when a Seller fails to deliver a loan for which the rate was locked as part of a mandatory rate lock commitment.

Under the standard commitment, the Enterprises require that the commitment include certain information about the loan, including minimum commitment amount, gross note rate, pass-through rate, servicing fee, purchase price, and when the commitment expires. An early rate lock commitment gives eligible Seller/Servicers the option to obtain a cash price commitment for a period of time prior to the purchase of a mortgage (*e.g.*, for Fannie Mae, up to 365 days prior to purchase).

After a commitment is made and the loan is closed by the Seller, the next step is the delivery of the loan documents and loan data. The process is fairly consistent for both Enterprises as it relates to loans delivered for cash purchase. Both Enterprises have specific selling guide requirements that list what documentation is to be provided, when it is to be provided, and preferences for how it is provided. In addition, the selling guides prescribe what constitutes acceptable delivery as well as remedies and procedures for incomplete deliveries or loans that are not delivered.

Examiners should determine through a reasonable means to reach a conclusion about whether the established processes for delivery of loan documents and loan data are being followed by each Enterprise. According to Enterprise-established processes, the following should occur:

- A pre-purchase review of the documents, including verification that the note and security instrument delivered are consistent with the commitment confirmation;
- Title insurance on the property exists; and
- All other required documents have been submitted.

When the loan documents have been reconciled to the data delivered and all other pre-purchase system edits and controls have been satisfied, the loan is cleared for purchase.

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Fannie Mae offers Seller/Servicers the option to securitize loans at acquisition, as noted above. There are different and specific requirements as part of this acquisition option. The Seller/Servicer must distinguish their delivery as either a cash purchase or a securitization. Specific securitization delivery requirements exist for the Seller. For example, the first payment due from the security must be consistent with the first payment due from the underlying mortgage. Fannie Mae has different internal processes associated with a securitization option, such as the preparation of trust documents that are specific to the security. (See the module on *Multifamily Mortgage Securitization* for additional information.) Similar to a delivery for cash purchase, a delivery for securitization requires delivery of the loan documents and data. The latter should be reviewed for accuracy and consistency by Fannie Mae prior to issuance of the security.

Regulatory Environment

The primary rules, regulations, and references of the FHFA pertaining to multifamily underwriting and acquisition activities are listed below. Other resources that may be helpful to examiners are also listed.

FHFA Rules and Regulations relevant to multifamily underwriting and acquisition activities:

- FHFA Prudential Management and Operations Standards, Standard 6: Management of Asset and Investment Portfolio Growth, Appendix to 12 CFR Part 1236
- FHFA Prudential Management and Operations Standards, Standard 7: Investments and Acquisitions of Assets; Appendix to 12 CFR Part 1236

FHFA Advisory Bulletins:

- AB-2014-02: Operational Risk Management (2/18/2014)
- AB-2013-02: Clarification of Implementation for Advisory Bulletin 2012-12, Framework for Adversely Classifying Loans, Other Real Estate Owned, and Other Assets and Listing Assets for Special Mention (5/13/2013)
- AB-2013-01: Contingency Planning for High-Risk or High-Volume Counterparties (4/1/2013)
- AB-2012-03: FHFA Examination Rating System (12/19/2012)
- AB-2012-02: Framework for Adversely Classifying Loans, Other Real Estate Owned, and Other Assets and Listings Assets for Special Mention (4/09/12)
- AB-2012-01: Categories for Examination Findings (4/02/2012)

Other Resources relevant to multifamily underwriting and acquisition activities of Fannie Mae and Freddie Mac:

- Fannie Mae Multifamily 2012 Servicing Guide (3/14/2012) Part VIII – Foreclosures, Conveyances and Claims, and Acquired Properties. Available at: [N.B. Fix spacing if possible] <https://www.fanniemae.com/content/guide/svc031412.pdf>
- Fannie Mae Multifamily Credit Risk Policy, Version 2.01 (June 4, 2012).
- Freddie Mac Multifamily Seller/Servicer Guide (updated periodically). Available at: <http://www.freddiemac.com/sell/guide>.
- Freddie Mac Framework and Governance of Multifamily Corporate Credit Policy Manual (June 24, 2011).

Examination Workprogram

The work program for this module is detailed below. If this module is included in the examination scope, the examiner must perform work steps sufficient in coverage to document the basis for conclusions on the quantity of risk and quality of risk management pertaining to this area. Transaction testing is mandatory and must evidence sufficient work steps from the *Testing* subsection (Step 4), to support the findings and conclusions from this examination module.

In determining the extent of review and testing to be conducted in completing each examination or in ongoing monitoring, the examiner should take into account and document applicable FHFA off-site monitoring or analysis reports, such as analyses of the quality and effectiveness of corporate governance practices, financial condition and performance, economic and housing industry conditions, internal controls, and audit coverage relating to the Enterprise’s multifamily underwriting and acquisitions activities.

NOTE: Text in italics referenced in a work step represents illustrative guidance that serves as suggestions for specific inquiry.

1. Scope of Examination Work Performed

- 1) Review past reports of examination for outstanding issues or previous problems related to the Enterprise’s multifamily underwriting standards, monitoring of Seller underwriting, internal multifamily loan underwriting processes, and the Enterprise’s acquisition of multifamily mortgage loans.
- 2) Assess the status of any outstanding examination findings (*e.g.*, Matters Requiring Attention, Violations, or Recommendations) pertaining to the Enterprise’s multifamily underwriting and acquisition of mortgage loans.
- 3) Review internal audit and external consulting reports for outstanding issues relating to the Enterprise’s multifamily underwriting and acquisition of mortgage loans.

- 4) Review publicly available information and material regarding multifamily underwriting and acquisitions management as well as publicly produced articles of interest regarding the Enterprises' underwriting and acquisition operations and activities. This information could include 10-K and 10-Q financial reports, the selling and servicing guide for each Enterprise, as well as White Papers and articles produced by trade groups and the media.
- 5) Review meeting minutes of the board of directors and relevant board and management committees for any issues related to the Enterprise's multifamily underwriting standards and acquisition of mortgage loans.
- 6) Evaluate any significant changes in policy that have been implemented since the last examination or are being considered that may affect the Enterprise's risk profile related to the Enterprise's multifamily underwriting and acquisition processes.
- 7) Access the Office of Conservatorship Operations (OCO) Status Tracking and Reporting (STAR) system to determine if outstanding decisions (*e.g.*, directives, orders) by the Conservator should be considered in the scope of multifamily Seller/Service counterparty examination work.
- 8) Collaborate with the model risk examiners if the examination scope includes an independent assessment of the model results produced by the Enterprise's automated underwriting credit models or an assessment of model governance. See the module on *Risk Modeling* for additional details.
- 9) If the examination scope requires the sampling of purchased loans for any of the steps described in the Testing section of this workprogram, identify a risk-based sample sufficient to draw conclusions about that segment of the multifamily mortgage loan portfolio.
- 10) Review internal management reports and scorecards that address areas such as the Enterprise's risk profile related to the Enterprise's multifamily underwriting standards, monitoring of Seller underwriting, internal underwriting processes, and the Enterprise's acquisition of mortgage loans.
- 11) Review applicable portions of FHFA issued Advisory Bulletins or other examination guidance (Supervisory Directives or Examiner Practices Bulletins).

Summarize the work performed in the examination of the *Multifamily Mortgage Underwriting and Acquisitions* work program. To the extent there were modifications to the originally planned scope based on concerns identified during the examination, document those changes and the reasons for such changes.

2. Description of Risks

The following identifies key areas of risk to the Enterprises. If within the scope of the examination, the examiner should use these to evaluate changes within the organization or industry affecting risk, and evaluate the entity's own risk-identification practices and conclude on their adequacy.

- 1) Assess the types and quantity of risk inherent in the Enterprise's multifamily mortgage underwriting and acquisition channels.
- 2) Evaluate trends in the quality of loans held in the mortgage portfolio and guaranteed in securities.
- 3) Evaluate significant changes to the Enterprise's multifamily mortgage underwriting criteria for Sellers since the previous examination.
- 4) Review significant changes to the Enterprise's delivery standards as discussed in its internal corporate credit policies and selling/servicing guide.
- 5) Assess whether the Enterprise's strategy has business resumption and contingency plans that incorporate the inability of multifamily Seller/Servicer [global change to conform initial capitalization of "Seller/Servicer"] counterparties to meet standards and requirements pursuant to Advisory Bulletins applicable to counterparty risk management
- 6) Review and assess significant changes to the Enterprise's policies for the evaluation of appraisals, property condition reports, environmental assessments, and other required third-party property assessment reports as part of the underwriting decision.

3. Risk Management

1) Risk Identification Process

- a. Based on work steps performed under **Description of Risks**, consider the adequacy of the Enterprise's risk identification process with respect to the underwriting and acquisitions of multifamily whole loan and MBS portfolios.
 - i. *(Has the Enterprise appropriately identified significant areas of potential risk resulting from multifamily underwriting or acquisition processes (including reliance on Seller/Servicer underwriting for Fannie Mae or reliance on internal underwriting for Freddie Mac)?*
 - ii. *Are significant risk exposures such as a higher proportion of loans with higher LTVs, lower DSCRs, or higher risk concentrations from a particular DUS Seller/Servicer monitored on an on-going basis?*
 - iii. *Does the Enterprise report on risk exposure to the board of directors/management? Has the identification of potential risk*

resulted in establishing appropriate controls for underwriting- and acquisitions-related processes?)

- b. Determine if the Enterprise has appropriately identified, monitored, and managed the asset quality and operational risk issues related to the multifamily underwriting and acquisitions related processes.
 - i. *(Does the Enterprise have documented processes in place to identify and manage multifamily underwriting/acquisition risks?)*
 - ii. *Does the Enterprise modify policies and requirements to reflect new or emerging risks in a timely manner?*
 - iii. *Do Enterprise personnel appropriately coordinate the mitigation of risks within the Enterprise?)*

- c. Determine if the Enterprise has an ongoing loan review process to identify, monitor, and communicate to executive management asset quality and operational risk issues related to the multifamily portfolio.
 - i. *(Does the Enterprise have documented processes in place to conduct multifamily loan reviews?)*
 - ii. *Does the Enterprise have effective processes in place to identify, conduct and communicate multifamily loan risks that may impact repayment?)*

2) Organizational Structure

- a. Identify the key personnel and their primary duties, responsibilities and technical expertise to determine if resources are effectively deployed to execute the Enterprise's multifamily underwriting and acquisitions business strategies. *(Does management possess the experience and required skills for their particular positions? For examinations of Fannie Mae, does Fannie Mae provide adequate staff resources to effectively meet the respective requirements associated with DUS/Non-DUS programs? For examinations of Freddie Mac, is Freddie Mac able to adequately staff its underwriting processes?)*

- b. Evaluate the segregation of duties and cross-training of personnel to determine if resources are sufficient to execute the Enterprise's multifamily underwriting and acquisitions management strategies. *(Does staff have appropriate training and experience to carry-out their responsibilities within the Enterprise? What steps has the Enterprise taken to address identified deficiencies in staff expertise?)*

- c. Evaluate coordination between departments such as the Seller/Servicer customer account teams, QC and risk management, information technology, treasury and cash management, and accounting to determine if underwriting and acquisitions processes are executed in an efficient and effective manner. *(Do different departments within the Enterprise coordinate efforts to manage underwriting and acquisition risks? Are issues with Seller/Servicers resulting from multifamily underwriting or acquisitions*

processes identified and communicated across relevant groups in a timely manner? How are these efforts coordinated?)

3) Policy and Procedure Development

- a. Evaluate the Enterprise's practices for maintaining consistency and appropriateness in multifamily underwriting and/or acquisitions policies and processes. *(Are standards and requirements applied consistently across various Seller/Service providers as appropriate? Have there been instances where multifamily underwriting and acquisition policies or procedures were not consistently applied? Has Enterprise personnel identified such instances? Have they taken appropriate corrective action? If the inconsistent application related to approved waivers, did the Enterprise perform a risk analysis prior to approving the waiver and identify an appropriate reason and adequate basis for granting the waiver ?)*
- b. Determine if the Enterprise has adequate policies and procedures requiring the establishment of a quality control process to ensure that the multifamily loans it purchases or underwrites and approves for funding meet the Enterprise's multifamily eligibility and underwriting standards. *(Does the policy address requirements for sampling and reviewing mortgage loans, collecting delivery and repurchase data, reporting results, and record retention? Are quality control checks conducted in a timely manner and with sufficient frequency? Is a sufficient sample size tested to provide feedback on the Seller/Service provider's performance for Fannie Mae or internal underwriting quality for Freddie Mac?)*
- c. Evaluate the enterprise's risk management framework for ensuring that multifamily Seller/Service providers perform their obligations in accordance with contractual agreements. *(Does the framework provide reasonable assurance that the counterparty is fulfilling representations and warranties to comply with applicable laws and regulations, including consumer protection laws? Is there a process to identify instances where the counterparty was under investigation for potential violations of laws and regulations, was convicted of violating laws or regulations, or settled allegations that it violated laws or regulations? Are there methodologies to review a Seller/Service provider's record of compliance with laws and regulations? Has the enterprise exercised its contractual rights with any Seller/Service provider in response to a failure to comply with laws and regulations?)*

4) Risk Metrics

- a. Evaluate any risk metrics established related to multifamily underwriting or acquisitions processes and loan portfolio volumes. *(Do metrics appropriately consider significant aspects of potential risk to the Enterprise?)*
- b. Determine if risk metrics are consistent with the risk appetite of the Enterprise and sound risk management practices. *(Do risk parameters for multifamily loan*

underwriting or loan acquisitions result in risk exposure beyond the Enterprise's overall risk appetite?)

- c. Determine the adequacy of the board and management's efforts to ensure compliance with risk parameters and limits. *(Is information reported to the board and management accurate and comprehensive? What actions have been taken when risk metrics are not met by the Enterprise?)*

5) Reporting

- a. Determine if management reports on significant potential risks to the Enterprise resulting from multifamily underwriting and acquisitions activities (including reliance on Seller/Servicer underwriting for Fannie Mae or reliance on internal underwriting for Freddie Mac) and monitors these risks. *(Is reporting adequate? Is information communicated in a comprehensive and meaningful fashion?)*
- b. Determine if internal control weaknesses that could potentially affect financial reporting have been identified, assessed, and disclosed by Enterprise staff. *(Has the Enterprise taken appropriate action to correct deficiencies?)*
- c. Review regularly produced reports related to the Enterprise's multifamily underwriting and acquisitions management. *(Do regularly produced reports include an evaluation of the Enterprise's compliance with established risk parameters and limits? Are reports produced for loan repurchase and other underwriting and acquisitions waivers? Are waivers to underwriting standards reported to management and the board of directors by total volume and by Seller/Servicer? Is the information in these reports sufficient for an evaluation of potential risk?)*

6) Internal/External Audit

- a. For internal audits completed in the multifamily underwriting and acquisitions since the previous examination, consult with the Office of the Chief Accountant (OCA) to determine if it performed an evaluation of the adequacy of the scope and testing completed by internal audit.
- b. If an evaluation was not performed by OCA, select internal audits of multifamily underwriting and acquisitions management and determine whether or not the scope of audit was adequate and assess the adequacy of workpapers to support findings. *(Does the scope include an assessment of internal policies and procedures? Does the scope include testing compliance with policies? Does the scope include an evaluation of internal controls and testing of operational processes? Do the workpapers include a clear trail to conclusions? Do the workpapers identify areas for further review?)*
- c. Coordinate with OCA to determine whether or not external audit performed work in the underwriting and acquisitions management area and whether or not OCA

performed an evaluation of the adequacy of the scope and testing completed by external audit.

7) Information Technology

- a. Identify and assess the automated and manual systems and applicable controls for processing and supporting multifamily underwriting and acquisitions transactions (e.g., systems used for tracking and managing mandatory commitments, as well as underwriting, loan acquisition, and funding processes.)
- b. Determine if the Enterprise's underwriting or acquisitions information systems are aligned with its credit risk policy.
- c. Determine if the Enterprise has developed and tested a business continuity plan for multifamily underwriting and acquisition functions. *(Are systems specific to multifamily underwriting or acquisitions considered in the business continuity plan? Does the Enterprise have appropriate actions in place to ensure that related processes continue to operate despite unexpected interruptions?)*
- d. Determine if the Enterprise has developed a quality assurance framework to ensure information required is accurate, and determine the adequacy of the penetration levels and methodology achieved over the course of a calendar year. *(Has the Enterprise's management evaluated the accuracy of information it receives? Have appropriate steps been taken to address concerns identified by management? If delivery or commitment data received is modified or amended by Enterprise staff, are these adjustments appropriate?)*

8) Compliance

- a. Determine if the Enterprise has appropriately complied with pertinent regulations and regulatory guidance pertaining to underwriting or acquiring multifamily mortgages. *(What was the underlying cause of the violation or non-compliance with regulatory guidance? Do internal controls require enhancements?)*
- b. Determine the efforts of the board and management to ensure compliance with policies and procedures related to the Enterprise's underwriting or acquisition processes. *(Has the board and management taken appropriate steps to address instances of non-compliance?)*
- c. Determine compliance with Standard 6 (Management of Asset and Investment Portfolio Growth) and Standard 7 (Investments and Acquisitions of Assets) of 12 CFR 1236 Prudential Management and Operations Standards as guidelines. *(Has the board and management appropriately identified the risk associated with underwriting or acquisition of multifamily mortgages? Has the board and management appropriately identified any unforeseen developments in portfolio volume or credit risk and taken action to mitigate the risks to the Enterprise?)*

4. Testing

- 1) Select and review a sample of multifamily loan purchases to determine if the loan acquisition process adhered to the Enterprise's multifamily underwriting and acquisitions requirements. *(Did the LTV, DSCR, and other key loan parameters meet eligibility criteria? Did the underlying property have the appropriate insurance and did the coverage amounts and deductibles meet Enterprise policy requirements? Based on the loan characteristics, were the loans underwritten using sound underwriting practices consistent with the selling guide and the Enterprise's credit policy? Was the loan purchased in compliance with terms and conditions outlined in internal corporate credit policies, the selling guide, and the Seller/Servicer's master contract? Were the appropriate data and loan documents delivered, reviewed, reconciled, and certified in accordance with acquisition policies? Were pricing determinations appropriate and consistent with internal pricing models, the Seller/Servicer's master agreement, and corporate credit policies? Did the Enterprise complete a pro forma analysis at the time of acquisition? Has any credit analysis met FHFA's guidelines for the adverse classification of assets, if applicable? Is the Enterprise conducting appropriate monitoring for refinance and maturity risk?)*
- 2) Select and review a sample of multifamily loan purchases to determine if the loans are supported by an appraisal and other third party reports that meet the requirements prescribed in the Enterprise's selling guides. *(Do the appraisals contain sufficient information and analysis to support the valuation of the property? Was the appraiser licensed or state-certified? Was the appraiser independent? Did the appraisals meet other requirements set by the Enterprise? Did the appraiser follow an appropriate valuation methodology given the facts and circumstances of the property?)*
- 3) Select and review a sample of multifamily loans that are experiencing deterioration in performance to determine if approval waivers or exceptions can be correlated with those loans. *(How many have occurred? Is there a type of waiver or exception that is more prevalent among any loans experiencing deterioration? Are there concentrations of the loans? How do loans with waivers or exception compare on a short term and long term performance basis against the book of business without waiver or exceptions? Has the Enterprise adequately assessed and supported these policy waivers or exceptions? Have policy waivers or exceptions increased repayment risks?)*
- 4) Select and review a sample of recent multifamily loan purchases that were approved with waivers to determine if the waiver decision was processed in accordance with the requirements of the Enterprise. *(Did the Enterprise perform a comprehensive risk analysis before sign-off of the variances? Did the Enterprise identify why the variance or waiver was permitted? After the purchase, did the Enterprise perform quality control on the loans delivered?)*
- 5) Select and review a sample of reports focused on multifamily underwriting and acquisitions management. *(Do the reports provide status and trends? Do the reports contain the appropriate and relevant information for management who oversee these*

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processes? Do the reports highlight risks and other trends that may need immediate attention or violate credit risk thresholds set by the Enterprise?)

- 6) Select and review a sample of multifamily loan quality control review reports. *(Is multifamily quality control an independent process, separate of any business lines or business functions at the Enterprise? Are multifamily loan quality control procedures and processes sufficiently robust to ensure the Enterprise is informed of any unwarranted risks in the multifamily underwriting and acquisitions business line? Were any loans repurchased by the originating lender?)*

5. Conclusions

- 1) Summarize conclusions for all examination work performed, including work performed by other FHFA staff as it relates to the Enterprise's multifamily mortgage underwriting and acquisition practices. Develop a memorandum describing the risks to the Enterprise related to credit risk and operational risk and the Enterprise's management of those risks. The memorandum should describe the basis of conclusions reached and summarize the analysis completed. Within the memorandum, discuss the types of risk the Enterprise is exposed to through its multifamily mortgage acquisition and underwriting practices (e.g., market, credit, operational); the level of risk exposure; the direction of risk (stable, decreasing, increasing); and the quality of risk management practices (strong, adequate, weak). A memorandum must be prepared irrespective of whether the examiner's assessment is positive or negative.
- 2) Conclude on the responsiveness to previous examination findings. Evaluate the adequacy of the Enterprise's response to previous examination findings and concerns.
- 3) Based on examination work performed, develop findings communicating concerns identified during the examination. Findings should identify the most significant risks to the Enterprise and the potential impacts to the Enterprise resulting from the concerns identified. Such documents should describe a remediation plan specifying the appropriate corrective action to address examination concerns and establish a reasonable deadline for the Enterprise to remediate the finding. Communicate preliminary findings with the EIC. Discuss findings with Enterprise personnel to ensure the findings and analyses are free of factual errors.
- 4) Develop a list of follow-up items to evaluate during the next examination. In addition to findings developed in the steps above, include concerns noted during the examination that do not rise to the level of a finding. Potential concerns include issues the Enterprise is in the process of addressing, but require follow-up work to ensure actions are completed appropriately. In addition, potential concerns should include anticipated changes to the Enterprise's practices or anticipated external changes that could impact the Enterprise's future multifamily underwriting and acquisition practices.

Workprogram

The examiner must perform work steps sufficient in coverage to document the basis for examination conclusions pertaining to this area. The examiner is not required to perform each work step, but must document the reason(s) for omitting the work step(s). Transaction testing, however, is mandatory and must evidence sufficient work steps to support the findings and conclusions from this examination module. The examiner is also required to determine that the Enterprise maintains the appropriate formal documentation of policies and procedures to support each testing area.

1. Scope of Examination Work Performed

- Workpapers must document the examination activities undertaken to evaluate potential risks in multifamily underwriting and acquisitions.

2. Description of Risks

- Identify areas of concern related to multifamily underwriting and acquisitions.
- Assess current risks and trends in the risk to the Enterprise emanating from the performing loans portfolio.
- Evaluate changes within the organization or industry affecting risk.
- Evaluate the Enterprise's own risk-identification practices and conclude on their adequacy.

3. Risk Management

- Assess and conclude on the adequacy of the Enterprise's risk identification process.
- Assess and conclude on the overall adequacy of internal controls, including an evaluation of:
 - The Enterprise's organizational structure;
 - Policy and procedure development for this area;
 - Appropriateness of risk metrics established in this area;
 - Reporting by management and the board; and
 - The design and effectiveness of controls.
- Assess and conclude on the internal and external audit of risks.
- Assess and conclude on the adequacy of information technology and controls related to the Enterprise's processes related to underwriting and acquisitions of multifamily mortgage loans.
- Assess and conclude on the adequacy of the Enterprise's efforts to ensure:
 - Compliance with laws, regulations, and other supervisory guidance
 - Compliance with the Enterprise's policies and procedures.

4. Testing

- Complete testing, as appropriate, to assess adherence with applicable standards.

5. Conclusions

- Summarize conclusions for all examination work performed related to multifamily mortgage underwriting and acquisition activities
 - Conclude on the level of risk to the Enterprise.
 - Include an assessment of the adequacy of an Enterprise's monitoring of risk and establishment of internal controls to mitigate risk.
- Conclude on responsiveness to examination findings from previous examinations.
- Develop findings (*e.g.*, Matters Requiring Attention, Violations, and Recommendations) as appropriate.
- Identify areas requiring follow-up examination activities or monitoring.