

# Tax-Exempt Loan Securitization Program (ML Certificates)

As of September 30, 2018



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# **Freddie Mac Multifamily ML Deals Business Introduction**

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# ML Program Overview

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**Freddie Mac's core mission is to provide Liquidity, Stability and Affordability to the U.S. housing market**

- Freddie Mac's Targeted Affordable Housing (TAH) program includes loans for financing multifamily properties in underserved areas that are affordable to families with low and very low incomes, including cash loans, bond credit enhancements, tax-exempt loans and others
- Freddie Mac purchases from approved Seller/Servicers for TAH tax-exempt notes (Governmental Notes also known as TELs) issued by Governmental Entities to finance affordable multifamily rental properties
- The Governmental Entities loan proceeds from the TELs to multifamily developers/owners to finance the acquisition and/or moderate rehabilitation of affordable multifamily housing properties
  - In certain instances where the Governmental Entities cannot issue the entire amount of debt required with tax-exempt debt due to private activity volume cap constraints, taxable supplemental loans (Taxable Loans) are made by the Seller/Servicers and sold to Freddie Mac. Such Taxable Loans are supplemental loans that were made at origination and are subordinate to the TELs made on any given project

# ML Program Overview (continued)

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**The TEL securitization program is a more efficient, cost-effective alternative to tax-exempt bond credit enhancements for properties with 4% LIHTC**



Since the financial crisis in 2008, many banks have developed TEL versions of their tax-exempt bond private placement structures to obtain “lending credit” as compared with “investing credit” for Community Reinvestment Act (CRA) purposes and loan accounting treatment under GAAP accounting guidelines



Freddie Mac will securitize TELs and related supplemental Taxable Loans, which finance stabilized affordable multifamily properties with 4% Low-Income Housing Tax Credits (LIHTC) and at least 7 years remaining in the LIHTC compliance period



The ML Program leverages Freddie Mac’s existing K-Series and M-Series securitization programs

- TELs are sourced from a small network of Freddie Mac approved Seller/Serviceicers for TAH with substantial lending experience and established performance records
- All approved Seller/Serviceicers must comply with Freddie Mac standards for both origination and servicing of multifamily loans, which promote quality originations and a high level of service to Investors and Borrowers

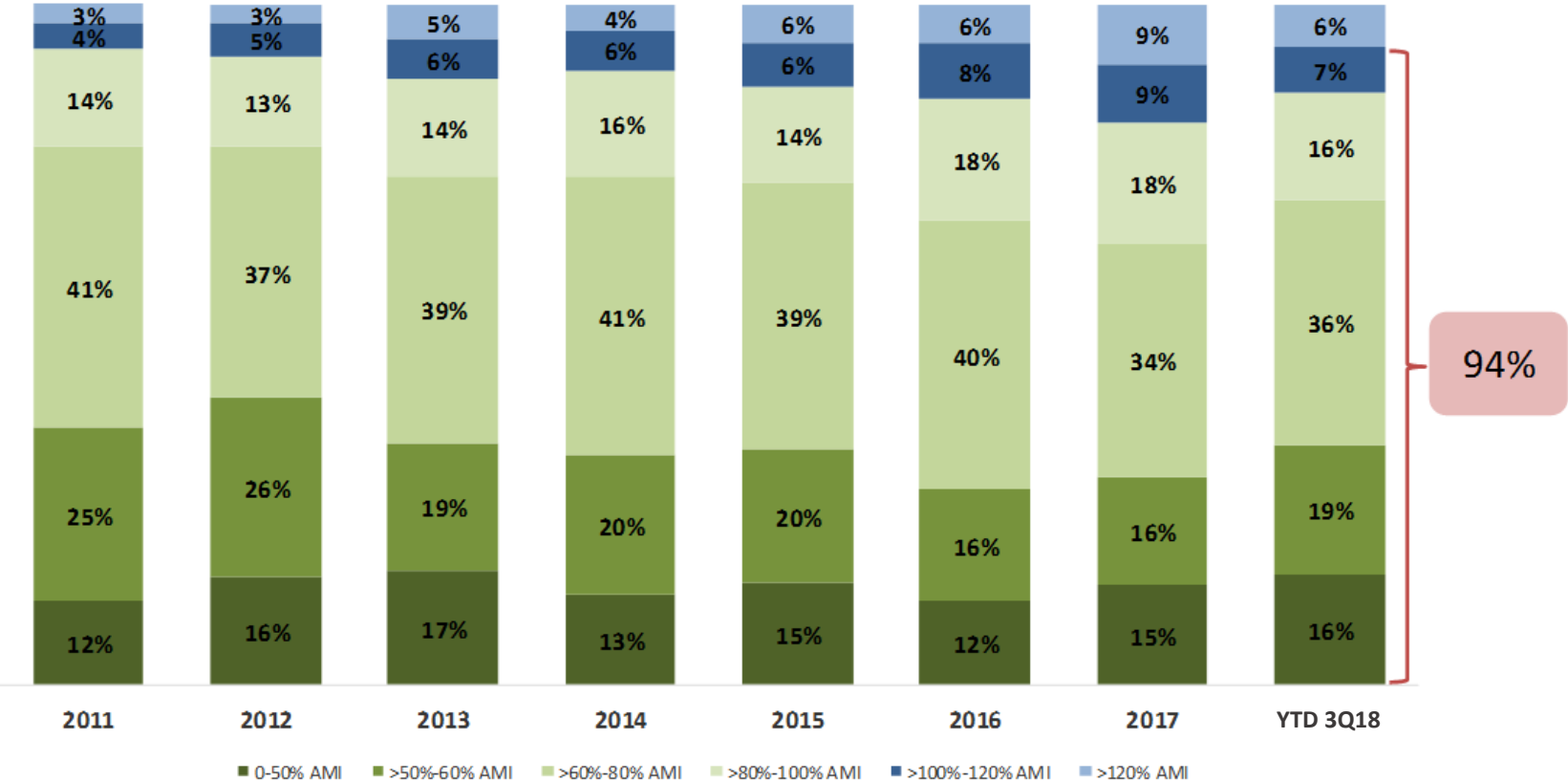
# **Freddie Mac Multifamily Production, Sales and Underwriting**

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# Financing Affordable Units

94 percent of the eligible units we financed in YTD 3Q18 were affordable to households earning at or below 120 percent of the Area Median Income

Multifamily Funded Units by Area Median Income (AMI)  
2011 – September 30, 2018



The numbers above represent the percentage of affordable units at each AMI threshold. Totals may not add to 100 percent due to rounding. Additionally, FHFA mandated exclusions (MHC, Supplementals, etc) are removed.

# Sourcing TEL Business

## Freddie Mac buys loans from a network of approved Seller/Servicers for Targeted Affordable Housing that have substantial lending experience and established performance records

- The small size of the network promotes quality originations and servicing of multifamily loans as well as a high level of service to Investors and Borrowers
- Seller/Servicers must comply with Freddie Mac standards for both origination and servicing on multifamily loans, which includes meeting minimum financial requirements and undergoing satisfactory annual audits

Targeted Affordable Housing Lenders		
Bellwether Enterprise Real Estate Capital, LLC	Hunt Mortgage Partners, LLC	PNC Bank, National Association
Berkadia Commercial Mortgage LLC	Jones Lang LaSalle Multifamily, LLC	Prudential Asset Resources, Inc.
Capital One Multifamily Finance, LLC	KeyBank National Association	SunTrust Bank
CBRE Capital Markets, Inc.	Merchants Capital Corporation	Walker & Dunlop, LLC
Citibank, N.A.	Newmark Knight Frank*	Wells Fargo Bank, National Association
Greystone Servicing Corporation, Inc.	NorthMarq Capital, LLC	

\* Berkeley Point Capital LLC d/b/a Newmark Knight Frank



# ML Deal Mortgage Guidelines

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The following are the general guidelines for Freddie Mac's Multifamily mortgage purchases that are intended for securitization (subject to certain exceptions):

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## Property Type

- Multifamily loans secured by occupied, stabilized and completed affordable housing properties, including new construction and post-construction properties after moderate or major rehabilitation
  - Loans qualify for the receipt of LIHTCs, and properties are subject to rent restrictions, and may receive Section 8 Housing Assistance Payments (HAP) Contracts
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## Loan Terms

- 7-, 10-, 15-, 18- and 30-year loan terms with a maximum amortization of 35 years
  - Minimum loan term: the lesser of (1) remaining LIHTC compliance period or (2) 15 years
  - Rehabilitation/stabilization period (maximum of 24 months) included in the loan term for preservation rehabilitation loan products
  - May contain initial interest-only periods of 1-10 years; Interest only available during the rehabilitation/stabilization period
  - Forward commitment product with maximum construction loan term of 36 months plus a 6-month extension during construction period for preservation rehabilitation loan products
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## LTV and DSCR

- Maximum LTV of 90 percent, Minimum DSCR of 1.15x
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# ML Deal Mortgage Guidelines (continued)

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## Underwriting

- Effective gross income is calculated based on trailing three months' actual rent collections or the annualized current rent roll minus a vacancy rate between 3-5 percent depending on historical vacancy, subject to regulatory agreement rent restrictions
- For preservation rehabilitation loan products, acquisition/rehabilitation based on projected post-rehab net operating income (NOI); cash or letter of credit required to fund gap between supportable debt on current NOI and loan amount (collateral held until stabilization)
- Expenses are generally calculated based on trailing 12 months plus an inflation factor
- Real estate taxes and insurance are based on actual annual expenses
- Property values are based on third party appraisals and internal value confirmation
- Replacement reserves are typically required and are generally equal to the higher of an engineer's recommendation or \$250 per unit
- Taxes and insurance escrows are generally required
- Other third party reports are required (Phase I ESA, Property Condition, etc.)

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## Borrowers

- Single purpose entity (SPE) is required for almost all loans greater than or equal to \$5 million
- An independent director will be required for large loans on a case-by-case basis
- A carve-out guarantor is generally required
- Established large institutional Borrowers with substantial prior experience with Freddie Mac mortgage programs may have more customized documents

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## Supplemental Financing

- Taxable financing available at time of origination of TEL
- Lower of LTV of 80 percent or maximum LTV per loan agreement and minimum DSCR of 1.25x (amortizing)
- Re-underwriting required based on current property performance, financials and Freddie Mac credit policy
- Monthly escrows for taxes, insurance and replacement required



# **Freddie Mac Multifamily ML Deals Securitization and Structure**

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# Multifamily Securitization Program – Strengths

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Approximately  
94 percent of  
Freddie Mac's  
multifamily  
mortgage  
purchases were  
intended for  
securitization  
through 3Q18



**STRONG CREDIT** provided by credit support of underlying mortgages underwritten to Freddie Mac's portfolio standards, plus "Freddie Mac's Guarantee" of the (1) timely payment of interest at the applicable floating rate and (2) the payment of principal in full by the applicable final payment date



**DIVERSIFICATION** through pooled risk of many assets versus single-asset risk



**LIQUIDITY** supported by expectations for repeatable and reliable issuance subject to market conditions



**SERVICING PERFORMANCE** on all securitization platforms (K, M, SB) through security assets with some of the industry's lowest delinquency and vacancy rates, along with other strong property fundamentals



**CALL PROTECTION** associated with defeasance or yield maintenance



**TRANSPARENCY AND CONSISTENCY** on collateral and deal information via Trustee website






**SERVICING STANDARD** improves the Borrower experience post-securitization

# ML Securitization Program

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**In June 2017, Freddie Mac priced and closed its inaugural issuances of ML Certificates predominately backed by TELs made by state or local housing agencies and secured by affordable rental housing properties**

-  Pursuant to the Tax-Exempt Loan Securitization Program guidelines, TELs and the related Taxable Loans, as applicable, are secured by completed, occupied and stabilized affordable housing properties which qualify for the receipt of LIHTCs and are subject to rent restrictions
-  Our TEL product offers loan terms of up to 30 years, a 35-year loan amortization, 1.15x minimum DSCR and a 90 percent maximum loan-to-value (LTV) ratio. Currently, the TEL product is available for immediate fundings, primarily for acquisition/moderate rehabilitation transactions, as well as unfunded forward commitments for new construction and substantial rehabilitation transactions
-  The Series ML-01 transaction included \$292.0 million of senior guaranteed floating-rate certificates and \$32.4 million of subordinate zero-coupon certificates backed by a \$324.4 million pool comprising 23 TELs secured by 25 occupied and stabilized affordable housing properties. The Series ML-02 transaction included \$18.5 million of senior guaranteed floating-rate certificates and \$2.1 million of subordinate zero-coupon certificates backed by a \$20.6 million pool of three taxable subordinate loans on three of the same properties

# ML Investment Opportunity

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**Opportunity to invest in predominantly tax-exempt securities supported by pools of TELs secured by completed, occupied and stabilized affordable housing properties, including new-construction and post-construction properties after moderate or major rehabilitation**



ML Guaranteed Certificates are expected to be:

- Guaranteed, tax-exempt fixed-rate or floating-rate securities supported by a pool of fixed-rate and/or floating-rate TELs, and guaranteed, taxable securities collateralized by related fixed-rate and/or floating-rate supplemental loans, if applicable.
- Call protected through defeasance and yield maintenance provisions on underlying TELs or Taxable Loans, as applicable

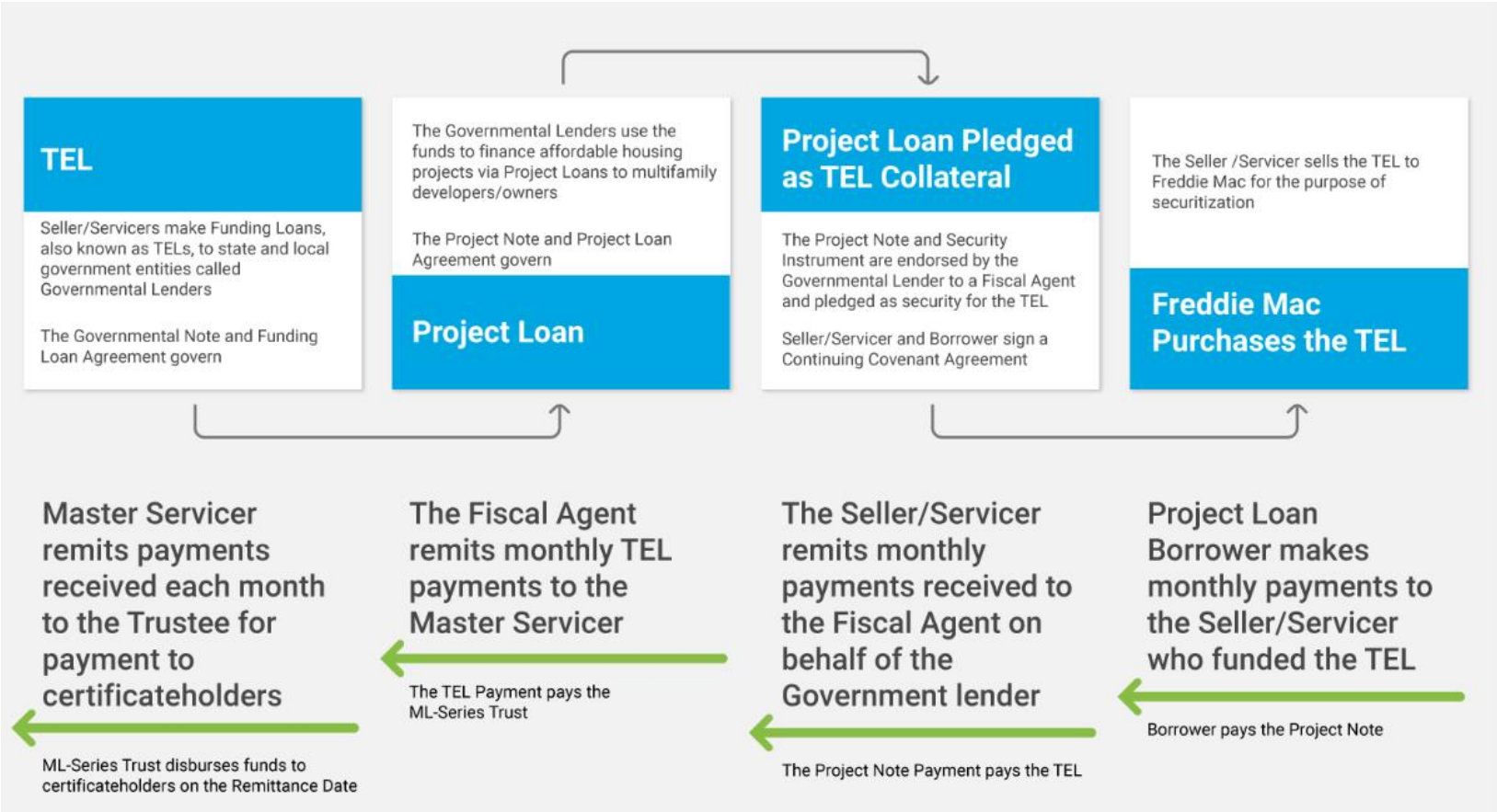


ML Non-Guaranteed Certificates are expected to be:

- Non-guaranteed tax-exempt securities supported by a pool of fixed-rate and/or floating-rate TELs, and non-guaranteed, taxable securities collateralized by related fixed-rate and/or floating-rate supplemental loans, if applicable
- Privately placed with a B-piece buyer
- Subordinate to the ML Guaranteed Certificates

# TEL Structure

## Freddie Mac TEL Structure for Targeted Affordable Housing



# Overview of ML Deal Process

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- The fixed- or floating-rate TELs are transferred by Freddie Mac into a trust and treated as a partnership for federal income tax purposes<sup>1</sup>
- The fixed- or floating-rate Taxable Loans, if applicable, are transferred by Freddie Mac into a taxable loan trust and treated as a REMIC for federal income tax purposes
- In exchange for the fixed- or floating-rate TELs, the Trustee, on behalf of the TEL trust, issues fixed- or floating-rate Freddie Mac Guaranteed Certificates (Tax-Exempt ML Certificates) and Non-Guaranteed Certificates, privately placed with the B-piece buyer
- In exchange for the fixed- or floating-rate Taxable Loans, if applicable, the Trustee, on behalf of the taxable loan trust, issues fixed- or floating-rate Freddie Mac Guaranteed Certificates (Taxable ML Certificates) and Non-Guaranteed Certificates, privately placed with the B-piece buyer
- Freddie Mac sells the Tax-Exempt and Taxable ML Certificates, if applicable, to the Placement Agents who sells the fixed- or floating-rate Tax-Exempt and Taxable, if applicable, ML Certificates to the market
- Multifamily ML Guaranteed Certificates offer the efficiencies of our securitization process to tax-exempt bond holders in the multifamily affordable housing market with Freddie Mac's Guarantee of timely payment of interest and payment of principal at the stated maturity date

<sup>1</sup> Subject to tax counsel opinion



# ML, M and K Certificates – Issuance and Market Comparison

	ML Certificates	M Certificates	K Certificates
<b>Tax Status</b>	Tax-Exempt, Taxable, if applicable	Tax-Exempt, AMT, Taxable	Taxable
<b>Credit Enhancement</b>	Freddie Mac Guarantee	Freddie Mac Guarantee	Freddie Mac Guarantee
<b>Description</b>	Affordable multifamily loan securitization	Affordable multifamily bond securitization	Conventional multifamily loan securitization
<b>Prepayment Considerations<sup>1</sup></b>	Call protection on collateral	Call protection on collateral	Call protection on collateral
<b>Bloomberg Key</b>	Both Mortgage and Muni Key	Either Mortgage or Muni Key	Mortgage Key
<b>Infrequent issuance<sup>2</sup></b>	Anticipated consistency with 2-3 securitizations per year	Smaller market than K Deals	Over \$270 billion issuance since 2009

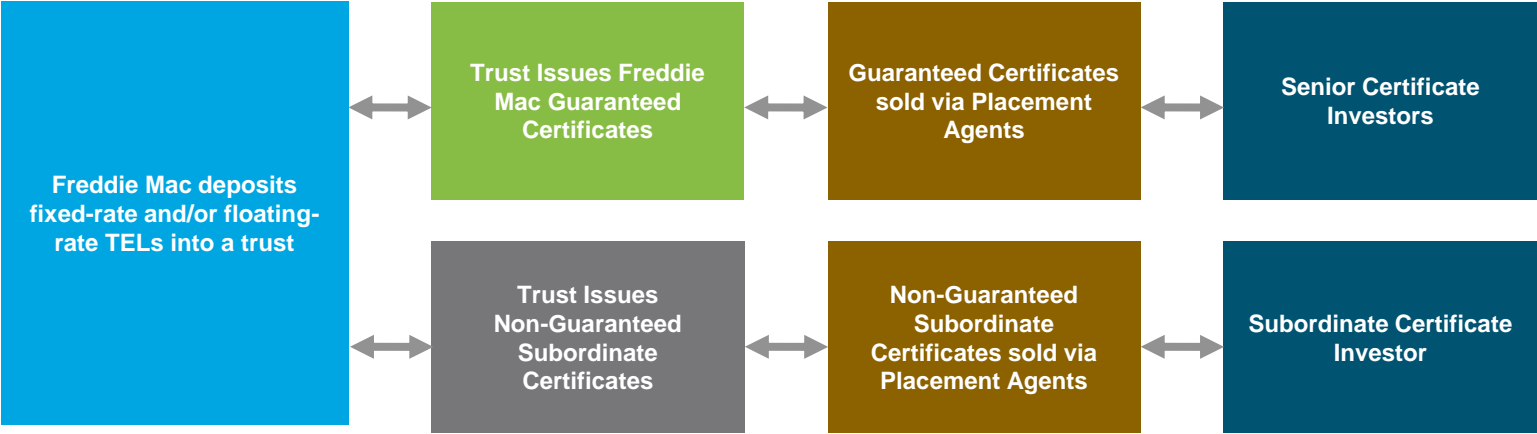
<sup>1</sup> Prepayment protection to be detailed in offering circular of any respective offering

<sup>2</sup> Terms subject to offering circular, subject to change

# Basic ML Deal Transaction Structure

Freddie Mac securitizes fixed-rate and floating-rate TELs via the ML Deal program through the following steps:

- Freddie Mac deposits the fixed- or floating-rate TELs into a trust
- Trust issues fixed- and/or floating-rate Freddie Mac Guaranteed and Non-Guaranteed Certificates
- The resulting fixed- and/or floating-rate Freddie Mac Guaranteed ML Certificates are publicly offered via placement agents
- The Non-Guaranteed Subordinate Certificates are privately offered to Investors via placement agents



**Relevant Parties/Entities**

**Depositor:** Freddie Mac

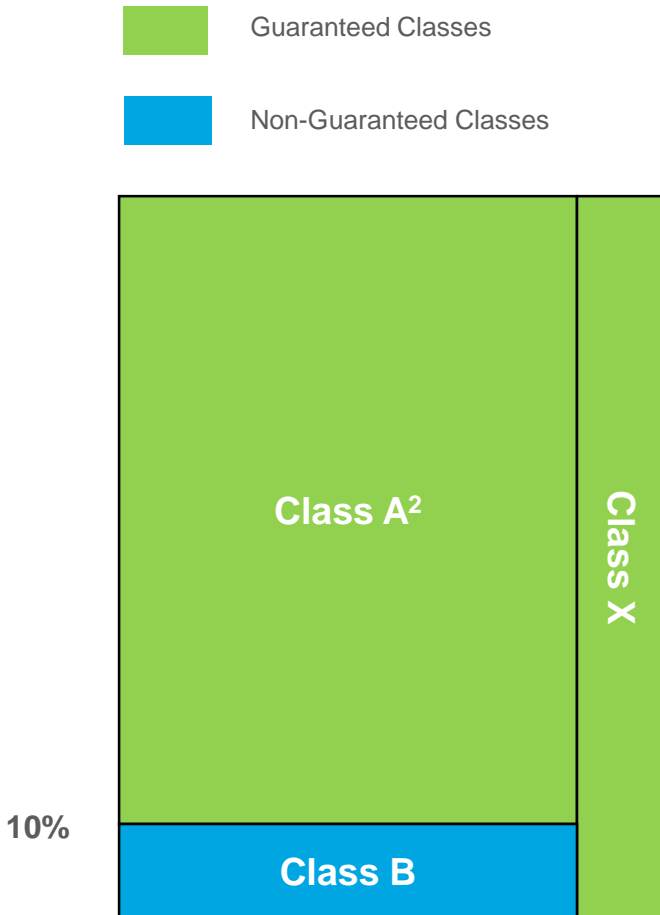
**Originators:** Freddie Mac approved Seller/Serviceicers for Targeted Affordable Housing

**Master Servicer:** Freddie Mac

**Special Servicer:** Selected by subordinate bond Investor in consultation with Freddie Mac

**Trustee/certificate administrator:** Selected by Freddie Mac through bidding process

# Sample ML Deal Structure<sup>1</sup>



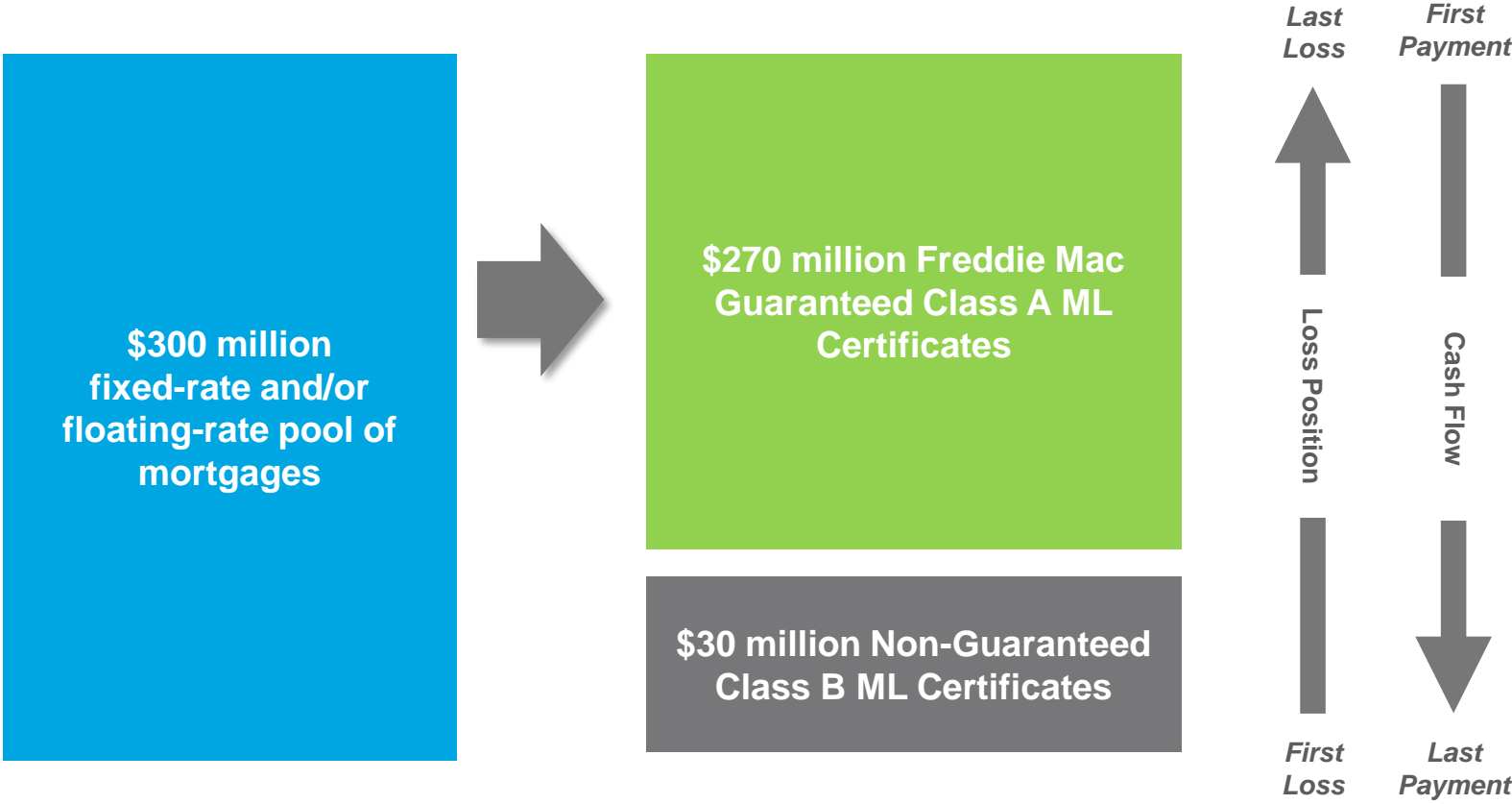
## Structure

- One principal and interest (P&I) senior class (Class A)
- One subordinate class (Class B)
- One interest-only class (Class X)
- Initial principal balances of the Class A and Class B Certificates are generally determined by Freddie Mac.
- Class A Certificates have a principal balance, accrue interest on that principal balance and are entitled to P&I payments each month
- Class B Certificates have a principal balance but do not accrue interest and generally are only paid principal at the maturity of the deal. Their principal balance is reduced if collateral losses occur. The Class B Certificates are also known as the “B-Piece”
- Class X Certificates will receive the difference between (i) the WAC of the fixed-rate and/or floating-rate TELS and (ii) the interest payable on the Class A Certificates plus associated securitization fees

<sup>1</sup> This deal structure is applicable to ML-01 through ML-04 deals and might differ for subsequent deals

<sup>2</sup> Guaranteed Class A Certificates will bear interest at LIBOR plus a spread and will change on a monthly basis from ML-01 through ML-04

# Sample ML Deal Subordination – Sequential Pay

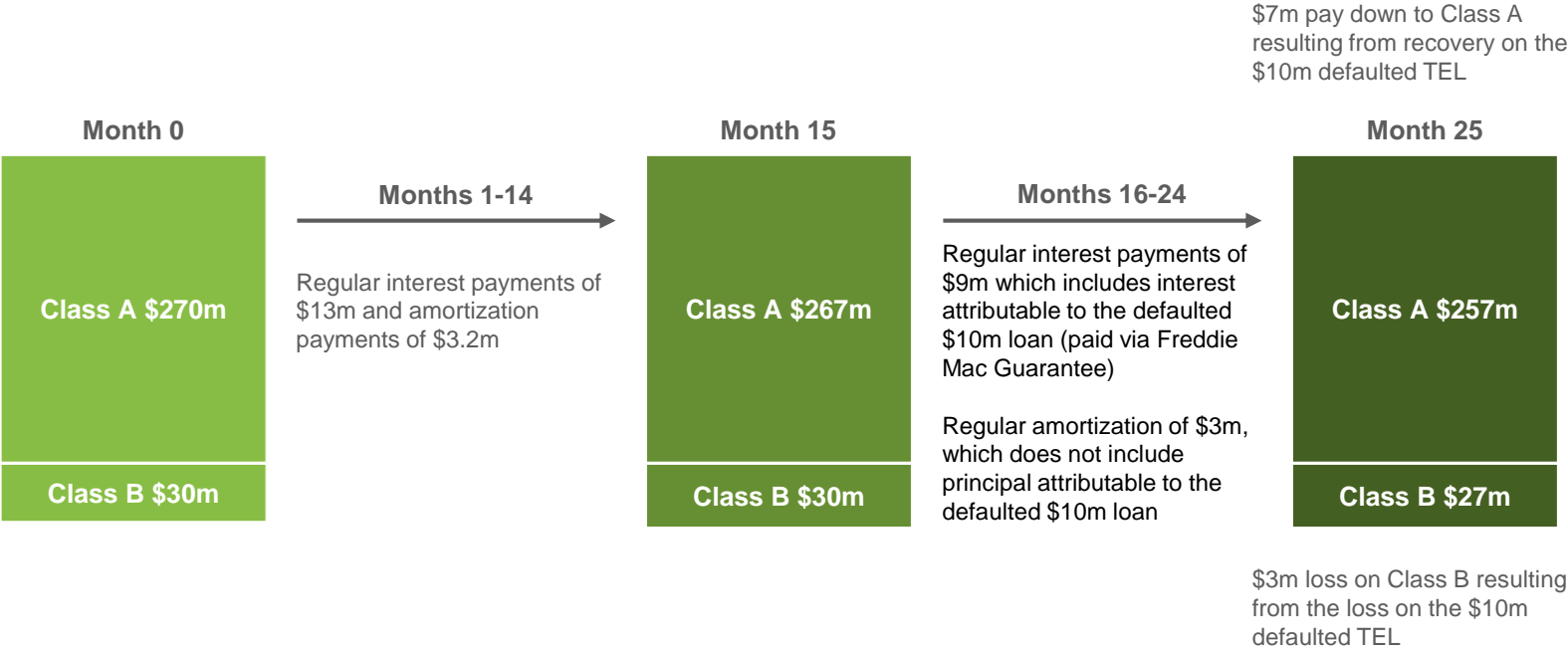


- All scheduled principal and pre-payments are utilized to pay down the Class A Certificates prior to any repayment of the Class B Certificates

# Sample ML Deal Loss Scenarios

## SCENARIO 1 Example of loan loss in Freddie Mac ML Deal structure

The loss scenarios below illustrate how the ML Certificates are affected by TEL defaults and the Freddie Mac Guarantee assuming that the Master Servicer is no longer making principal and interest advances with respect to the defaulted TELs and the absence of trust fund expenses. These scenarios are for illustrative purposes only. Class balances, TEL balances and other TEL pool characteristics described in these scenarios do not reflect those of the actual ML Certificates or an underlying TEL pool. Further, these scenarios assume that the interest payable by the Borrowers on the TELs is equal to the interest due to certificate holders.



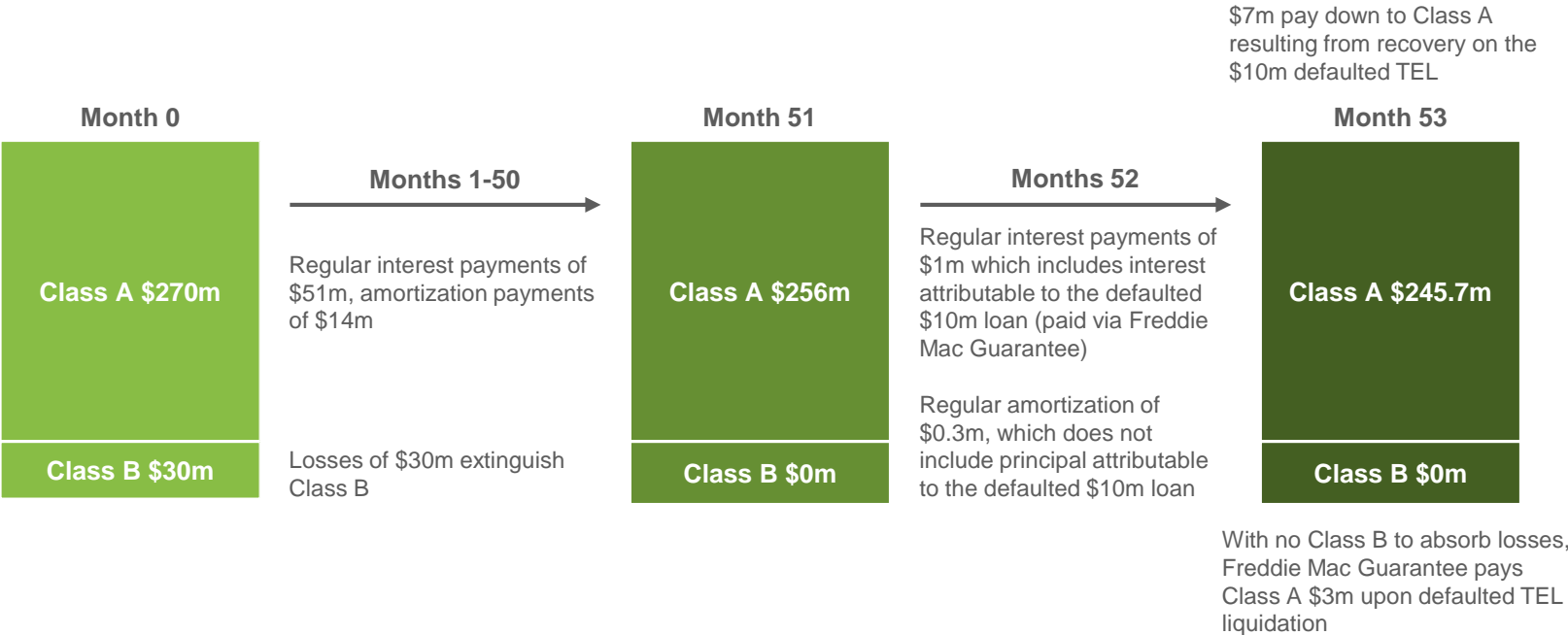
- Assumptions**
- Pool Size: \$300m
  - \$10m TEL defaults in month 15 (prior to TEL maturity)
  - TEL sold for \$7m in month 25, \$3m loss in month 25

# Sample ML Deal Loss Scenarios (continued)

## SCENARIO 2

### Example of loan loss in Freddie Mac ML Deal structure

The loss scenarios below illustrate how the ML Certificates are affected by TEL defaults and the Freddie Mac Guarantee assuming that the Master Servicer is no longer making principal and interest advances with respect to the defaulted TELs and the absence of trust fund expenses. These scenarios are for illustrative purposes only. Class balances, TEL balances and other TEL pool characteristics described in these scenarios do not reflect those of the actual ML Certificates or an underlying TEL pool. Further, these scenarios assume that the interest payable by the Borrowers on the TELs is equal to the interest due to certificate holders.



#### Assumptions

- Pool Size: \$300m
- Losses occur during the first 50 months resulting in Class B being written down to zero
- \$10m TEL defaults in month 51 (prior to TEL maturity)
- TEL sold for \$7m in month 53, \$3m loss in month 53

# ML-04

## Transaction Highlights

### Overview of Deal Structure (Pricing Date: May 11, 2018)

Class	Initial Principal or Notional Amount	Discount Margin	Assumed Weighted Average Life
Offered ML-04 Certificates:			
A	\$248,655,000	32	13.04
X	\$276,283,970	N/A	13.35
<b>Total Guaranteed</b>	<b>\$248,655,000</b>		

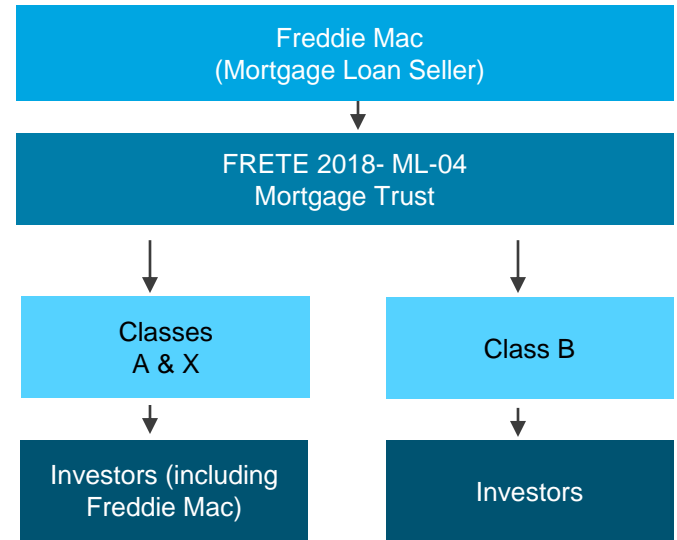
### Deal Characteristics: ML-04<sup>1</sup>

<b>Collateral Type</b>	Multifamily Fixed- and Floating-Rate TELs
<b>Collateral Structure Type</b>	Balloon
<b>Mortgaged Loans</b>	20
<b>Initial Underlying Pool Balance</b>	\$276,283,971
<b>Rating Agencies</b>	N/A
<b>Waterfall Structure</b>	Sequential
<b>Top 5 State Concentrations</b>	CA (43.2%), FL (15.5%), IL (11.0%), TX (7.8%), MD (7.0%)
<b>WA Mortgage Interest Rate</b>	4.417%
<b>WA Original Maturity</b>	197 months
<b>WA DSCR</b>	1.21x
<b>WA LTV</b>	77.1%

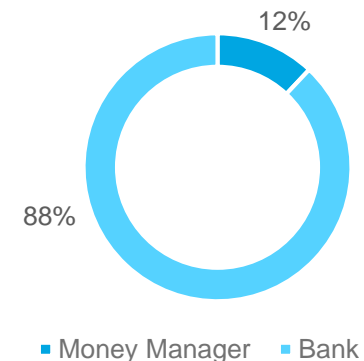
<sup>1</sup> As of the Cut-off Date

<sup>2</sup> As of the Pricing Date

### Structural Diagram



### Breakdown of Investors (Class A)<sup>2</sup>



# Community Reinvestment Act (CRA)

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# ML Certificates as a CRA Investment

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**Investments in  
Guaranteed  
Certificates may  
qualify for CRA  
credit<sup>1</sup>, making  
the ML  
Certificates a  
CRA Investment  
Opportunity**



Freddie Mac will provide CRA side letters to Investors who wish to claim CRA credit for their investment



The ML pool consists of affordable housing loans, allowing investments in the certificates to potentially qualify for CRA credit



Details on the specific Metropolitan Statistical Areas (MSA) within each state where CRA credit is available for a given pool will be provided upon request

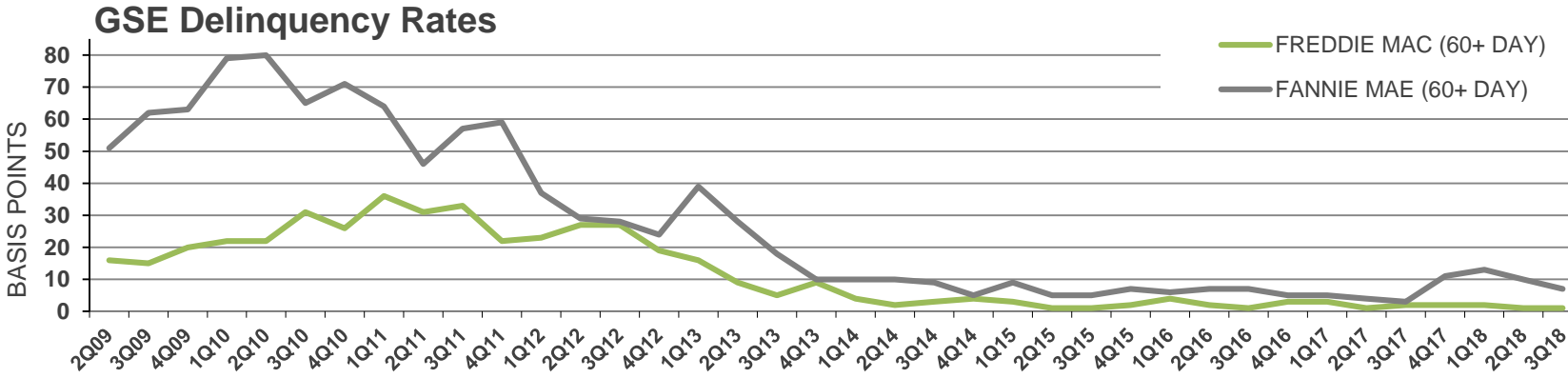
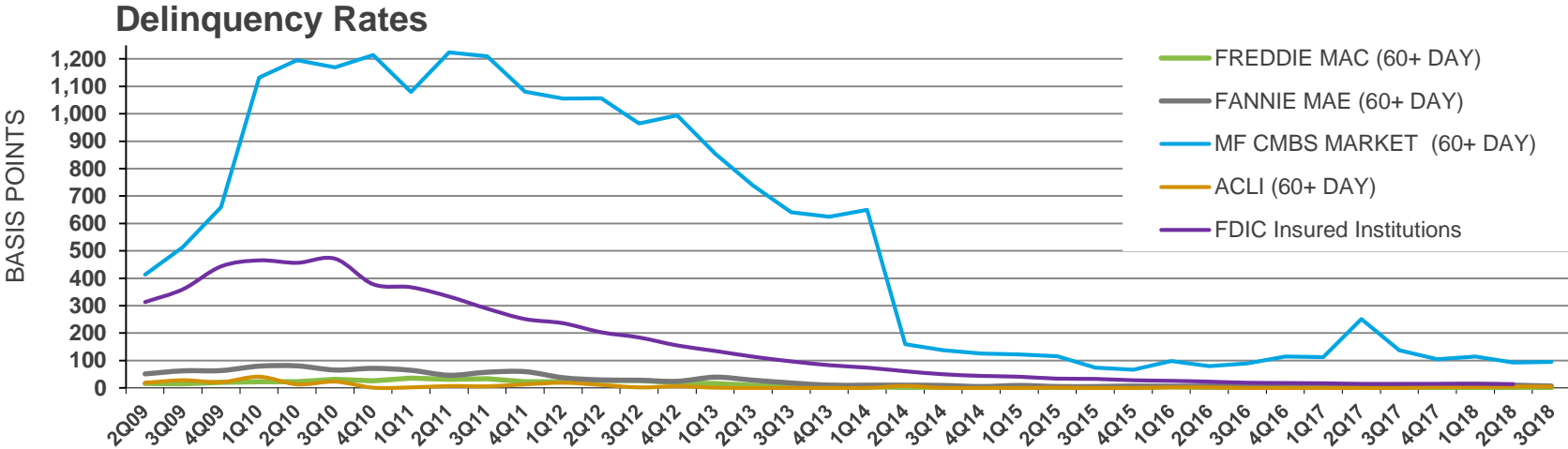
<sup>1</sup> Subject to individual bank evaluation

# Freddie Mac Multifamily and LIHTC Performance

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# Multifamily Delinquency Rates

Our disciplined credit practices are one of the main drivers of the continued strong performance of our offerings



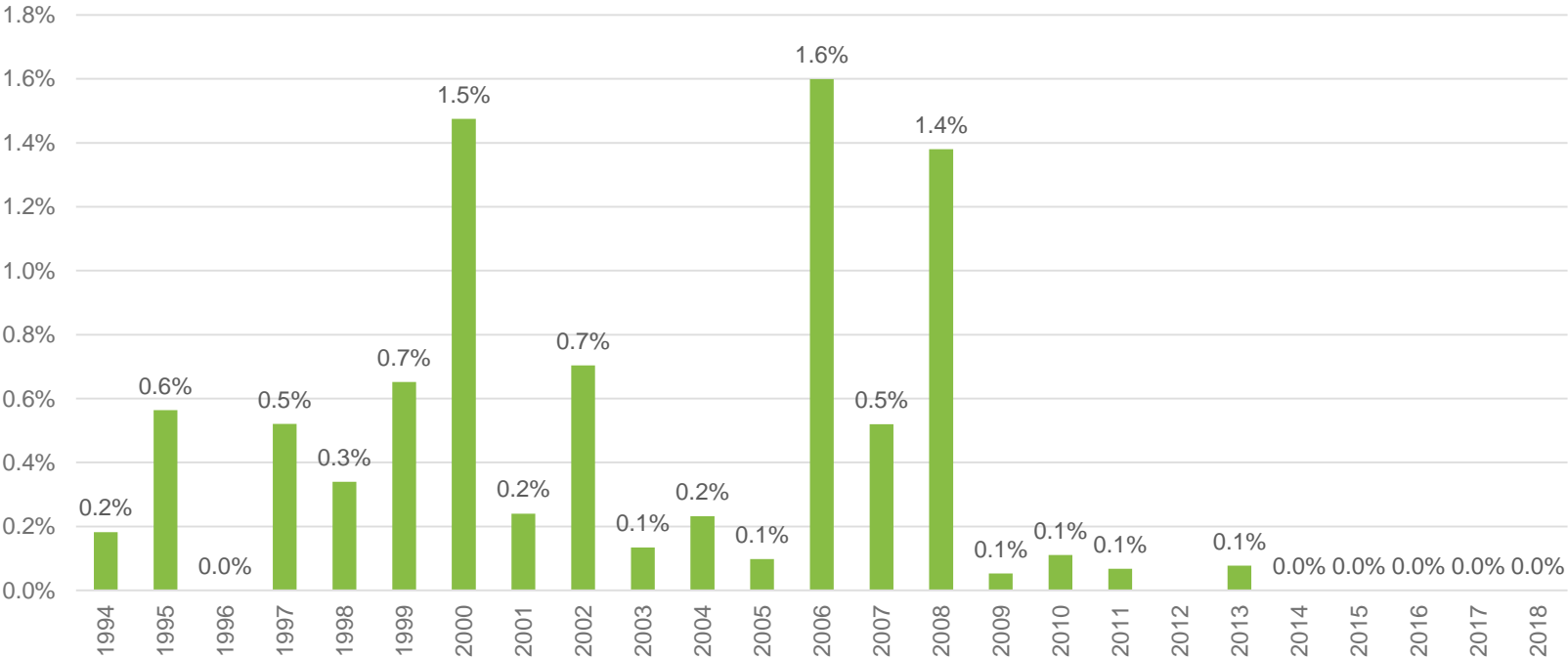
Freddie Mac does not report modified or forbearance loans in delinquency rates if the borrower is less than two monthly payments past due. Fannie Mae reports forbearance loans in their delinquency rates. Sources: Freddie Mac, Fannie Mae, American Council of Life Insurers (ACLI) Quarterly Investment Bulletin, FDIC Quarterly Banking Profile, TREPP (CMBS multifamily 60+ delinquency rate, excluding REOs) for periods prior to 3Q17, Wells Fargo CMBS research for 4Q17-3Q18 CMBS delinquency rates

# Resources – Multifamily Loan Performance Database<sup>1</sup>

Multifamily Loan Performance Database (MLPD) is available on [mf.freddiemac.com](http://mf.freddiemac.com). It provides quarterly performance information on Freddie Mac's loans which includes more than 30,000 loans with a total origination UPB of over \$390 billion that were purchased by Freddie Mac from 1994 through the end of Q2 2018.

Of this reported population, approximately 0.20 percent has defaulted by UPB through the end of Q2 2018.

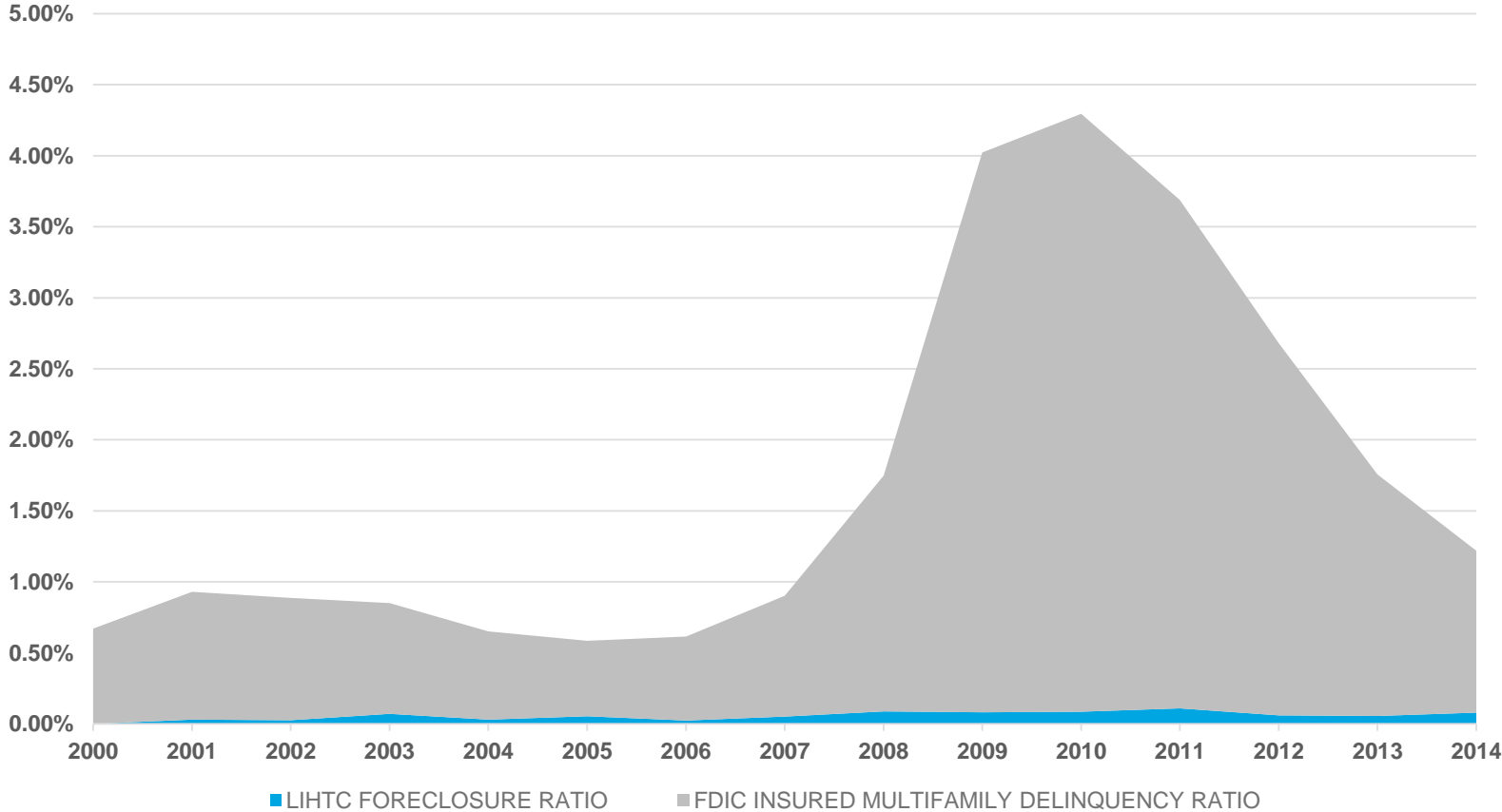
**Percent Defaulted By Funding Year**



<sup>1</sup> The Multifamily Loan Performance Database (MLPD) provides historical information on a subset of the Freddie Mac multifamily loan portfolio. The MLPD comprises information regarding certain multifamily whole loan, K Deal and SBL Deal loans. It excludes loans that are credit revolvers, sold book (pre-1994) loans, and negotiated transactions/structured deals and K001 and K002.

# LIHTC Performance

**Within the multifamily space, LIHTC properties exhibited a lower foreclosure rate than conventional multifamily properties**



Source: Cohn Reznick: The Low-Income Housing Tax Credit at Year 30; Recent Investment Performance (2013-2014)



This product overview is not an offer to sell or a solicitation of an offer to buy any Freddie Mac securities. Offers for any given security are made only through applicable offering circulars and related supplements, which incorporate Freddie Mac's Annual Report on Form 10-K and certain other reports filed with the Securities and Exchange Commission. This document contains information related to, or referenced in the offering documentation for, certain Freddie Mac mortgage securities. This information is provided for your general information only, is current only as of its date and does not constitute an offer to sell or a solicitation of an offer to buy securities. The information does not constitute a sufficient basis for making a decision with respect to the purchase and sale of any security and is directed only at, and is intended for distribution to and use by, qualified persons or entities in jurisdictions where such distribution and use is permitted and would not be contrary to law or regulation. All information regarding or relating to Freddie Mac securities is qualified in its entirety by the relevant offering circular and any related supplements. You should review the relevant offering circular and any related supplements before making a decision with respect to the purchase or sale of any security. In addition, before purchasing any security, please consult your legal and financial advisors for information about and analysis of the security, its risks and its suitability as an investment in your particular circumstances. The examples set forth above are for illustrative purposes only. Opinions contained in this document are those of Freddie Mac currently and are subject to change without notice. Please visit [www.mf.freddiemac.com](http://www.mf.freddiemac.com) for more information.

