Freddie Mac MULTIFAMILY

Multifamily Securitization Forbearance Report

Data as of April 13, 2020

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Report Highlights

- The forbearance program implemented by Freddie Mac, consistent with the CARES Act, allows for qualified multifamily mortgage-backed loans to defer up to three months of principal and interest payments, which will be repaid over the 12 months following the end of the forbearance.
- Master servicers on Freddie Mac securitized loans reported 336 forborne loans. This equates to 1.4% of the total Freddie Mac securitized loan population and 0.6% of the outstanding securitized unpaid principal balance (UPB).
- Roughly 85% of loans reported to be in forbearance are Freddie Mac master serviced loans. Freddie Mac as Master Servicer included loans that were approved as well as applying for forbearance but not yet approved. The other master servicers have only reported approved forborne loans.
- A higher percentage of the forborne loans are Small Balance Loans (SBL). This concentration can be attributed to the characteristics of tenants in SBL properties, as well as to the reporting difference due to Freddie Mac being the Master Servicer on all our SB-Deals®.
- Prior to the COVID-19 crisis, the multifamily market was on solid ground and the credit quality of those forborne loans was, and remains, relatively strong. Of the loans requesting forbearance, 87% have a current debt service coverage ratio (DSCR) above 1.25x. Meanwhile, roughly 97% of forbearance loans have a mark-to-market Loan-to-Value (LTV) ratio of less than or equal to 80%.
- Forbearance requests are distributed across the country in 33 states and the District of Columbia. The top states for requests are Texas, New York, Michigan, Pennsylvania and Illinois.
- Roughly one-quarter of securitized pooled deals have at least one loan forborne.
- About 10% of all the forborne loans have maturity dates before 2024. The remaining 90% of the forborne loans do not mature until 2024 or later.

Borrowers can request forbearance, which allows them to defer paying mortgage payments for up to three months.

The COVID-19 crisis has had a profound impact on people's lives and day-to-day activity, as well as the financial markets, asset prices, consumer spending and hiring. From March 22 through April 19, initial unemployment claims increased by 26.2 million, the highest recorded number going back to 1967. As localities continue to practice social distancing and keep non-essential businesses closed, we expect the jobless rate to remain high, which will impact tenants' ability to pay rent.

Forbearance and April Rent Payments

Many tenants face sudden financial uncertainty due to job losses or reduced income as a result of the COVID-19 crisis. According to the National Multifamily Housing Council (NMHC), as of April 19, 89% of renters made a full or partial rent payment for the month of April. That is below the prior month's and year's collection rate of 93%. This reporting is specific to properties using property management software and likely is most relevant to larger, institutional-type of properties, whereas smaller multifamily properties may have different results. Overall, while this indicates that a majority of renters who can afford to pay their rents are doing so, it's important to remember that April rents were paid with income that was earned in March, and that significant unemployment impacts due to COVID-19 were not felt until the second half of March. In May, tenant payments will depend more on the availability of unemployment benefits and the one-time stimulus payment from the CARES Act.

In recognition of the difficulty for some tenants to pay rent, starting on March 27, 2020 (the date the CARES Act was signed into law) borrowers with multifamily loans backed by government-sponsored enterprises were given the option to request forbearance if they could provide evidence of financial hardships pertaining to COVID-19. Once the request is approved, the forbearance period will cover three consecutive monthly payments. Borrowers can request forbearance at any time up to the earlier of the end of the National Emergency or December 31, 2020, so long as the borrower was current on its payments as of February 1, 2020. After the forbearance period, the borrower is required to repay the forborne loan payments in no more than 12 equal monthly installments.

Master servicers of Freddie Mac loans have reported 336 forborne loans, or roughly 1.4% of loans and 0.6% of UPB.

Forbearance Loan Characteristics

The master servicers reported 336 forborne Freddie Mac securitized loans as of April 13[1], or roughly 1.4% of our total securitized loan population. This equates to about $1.8 billion of outstanding UPB and represents 0.6% of our total securitized UPB. This data is sourced from our master servicers, including Freddie Mac and external servicers. The external servicers reported forbearance requests that have been approved. Freddie Mac, as Master Servicer, reported loans that requested forbearance, whether or not the request has been approved.

The average UPB of a loan that has requested forbearance is relatively small at around $5.4 million, whereas the average loan size in the overall securitized portfolio is $12.5 million. This is partially due to a higher percentage of SBL loans requesting forbearance. Small balance loans typically finance properties that are geared toward workforce housing and tenants who are more likely to be hourly paid workers and hit harder by non-essential business closures. Freddie Mac is the only Master servicer on SB-Deals.

[1] This date references the loans in forbearance as of the security payment date of April 25.

Exhibit 1: Forbearance Loans Deal Breakout

	K-Deal®	SB-Deal®	Q-Deal	PC
Forborne Loans (Count)	65	256	11	4
Total Freddie Mac Loans (Count)	13,356	8,585	1,373	413
Percent of Loans Forborne	0.5%	3.0%	0.8%	1.0%
Forborne Loans (UPB)	$1.1B	$600M	$39M	$52M
Total Freddie Mac Loans (UPB)	$262.9B	$22.1B	$3.2B	$7.5B
Percent of Loans Forborne	0.4%	2.7%	1.2%	0.7%

Source: Freddie Mac. May not sum to 100% due to rounding

Given the nature of the pandemic and the impact to different segments of the population, Exhibit 2 breaks out the product type by student housing and senior housing. As universities are canceling in-person classes, students are returning home, and many have left their apartments empty or vacated. Only 1% of the forborne population are student housing loans (defined as greater than 50% of units or beds leased by students). At the same time, seniors housing facilities are closely being monitored because of the vulnerability of those residents. However, there were no seniors housing loans forborne as of the date of this report.

Exhibit 2: Forbearance Loans by Product Type

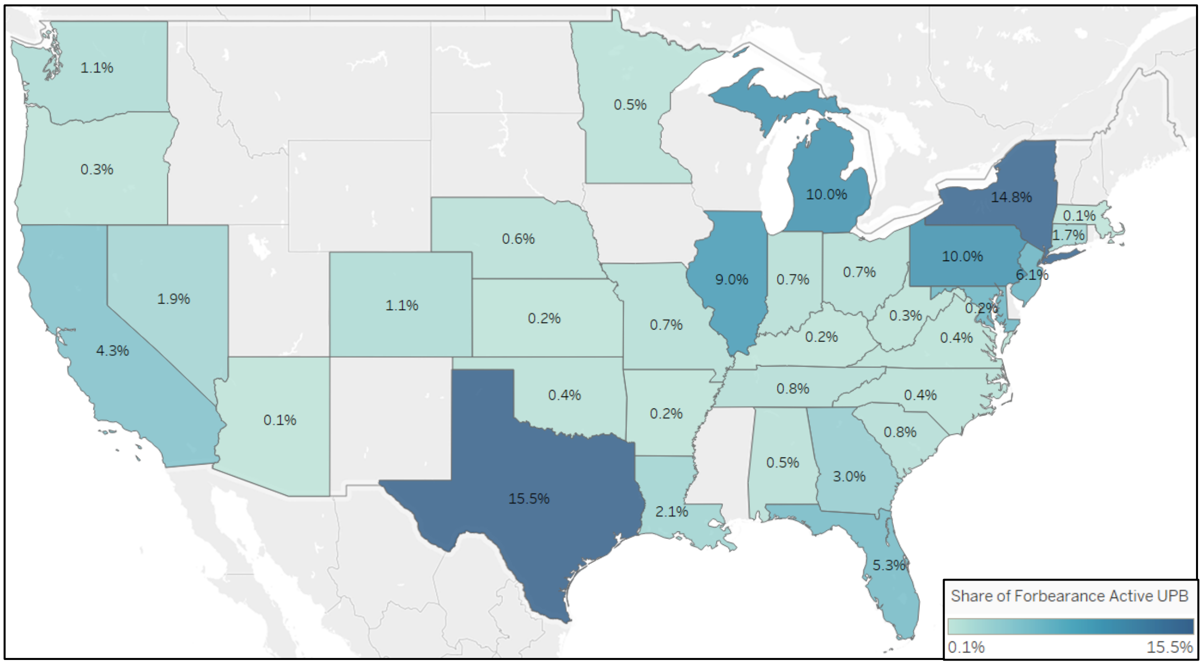
	Student	Senior
Forborne Loans (Count)	6	0
Total Freddie Mac Loans (Count)	606	708
Percent of Loans Forborne	1.0%	0.0%
Forborne Loans (UPB)	$0.2B	$0B
Total Freddie Mac Loans (UPB)	$11.0B	$15.3B
Percent of UPB Forborne	1.4%	0.0%

Source: Freddie Mac. May not sum to 100% due to rounding

Forborne loans are distributed geographically throughout 33 states and the District of Columbia. The top five states by forbearance requests are Texas (15.5%), New York (14.8%), Michigan (10.0%), Pennsylvania (10.0%) and Illinois (9.0%). The top metro areas by percentage of UPB are New York City (19.2%), Chicago (9.1%), Detroit (8.5%), Dallas (8.0%) and San Antonio (6.2%). Exhibit 3 maps the distribution of forborne loans by state; the aggregate sums to 100%.

Texas, New York, Michigan, Pennsylvania, and Illinois are the top five states with forbearance requests.

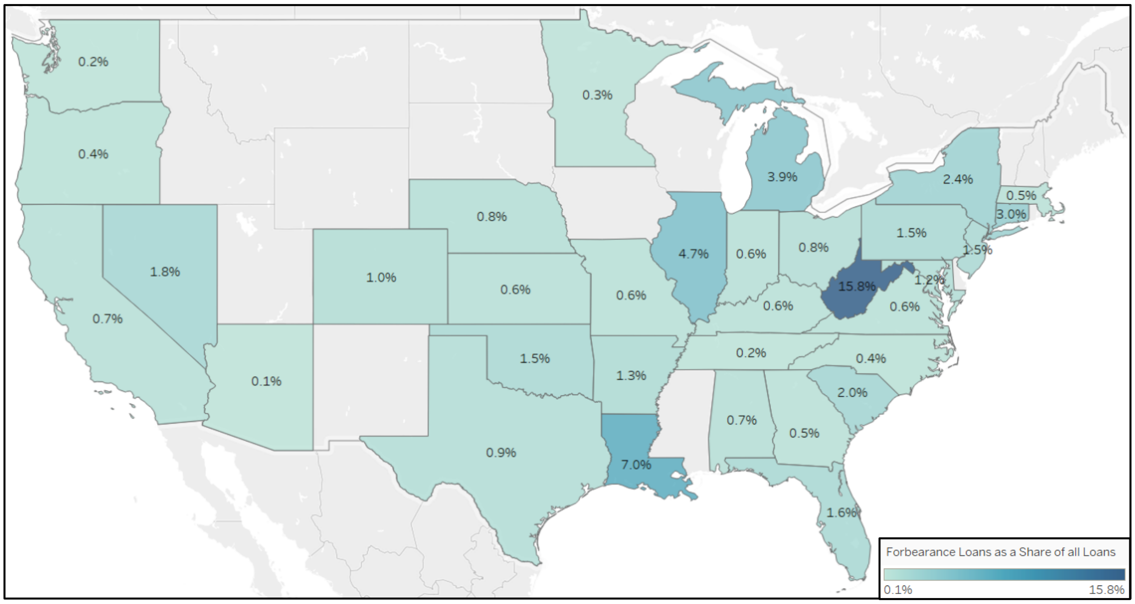
Exhibit 3: Percentage of Forbearance Loans by UPB by State



Source: Freddie Mac. Note: Alaska and Hawaii are not pictured because they do not have any loans in forbearance at this time.

The high percentage of forbearance loans in some of these states is not surprising given the larger size of the population there. In general, a higher percentage of our business is in highly populated states. When we factor in the percent of forbearance loans to the total population by state, we see in Exhibit 4 a slightly different story. In places such as New York and Texas, less than 3% of loans are forborne compared with all loans that Freddie Mac has financed in those states, respectively. Based on the individual state's population of loans, we instead see places such as West Virginia and Louisiana have a higher percentage of loans requesting forbearance relative to the volume of business done there. This can be attributed to lower deal volume in some of those places and indicates that the more populated states are not necessarily experiencing more stress from the pandemic.

Exhibit 4: Forbearance Loans by State as a Percentage of Loans in the State



Source: Freddie Mac. Note: Alaska and Hawaii are not pictured because they do not have any loans in forbearance at this time.

Based on the total population of loans in each state financed by Freddie Mac, we do not see the more populated states necessarily experiencing more stress.

Credit quality of the loans requesting forbearance is illustrated in Exhibits 5 and 6. It captures the reported DSCR, prior to the COVID-19 crisis, and mark-to-market LTV. The DSCR is calculated using the most recent reported income for the property over the current debt service, accounting for either interest-only or fully amortizing loans. Meanwhile, the LTV is calculated using estimated cap rates, except for loans originated in 2019 or after, which uses the underwritten LTV.

Roughly 87% of all forborne loans by UPB have recently reported DSCRs greater than 1.25x, dispelling concerns that most loans taking forbearance would be cash-constrained properties going into the crisis. Only 4.6% of the forborne loans had DSCRs less than 1.00x going into the crisis. While part of the forbearance approval process requires a certified letter of hardship and delinquency report, we assess on a case-by-case basis. Exhibit 5 is designed to show the credit quality of loans leading up to the COVID-19 crisis and is not representative of their updated cash flows submitted in the forbearance process.

Over 87% of forborne loans have DSCRs above 1.25x while roughly 97% of forborne loans have LTVs less than or equal to 80%.

Exhibit 5: Percent of Forbearance Loans by DSCR ($ in Millions)

	DSCR				
	<1.00x	**1.00x-1.25x**	**1.25x-1.50x**	**1.50x-2.00x**	**>2.00x**
Forborne Loans (Count)	19	21	87	112	97
% of Forborne Loans by Count	5.7%	6.3%	25.9%	33.3%	28.9%
Forborne Loans (UPB)	$81	$147	$399	$703	$447
% of Forborne Loans by UPB	4.6%	8.3%	22.5%	39.6%	25.1%

Source: Freddie Mac, most recently reported DSCRs

Likewise, the vast majority of forbearance loans — roughly 97% by UPB — are at or below an 80% LTV. These LTV values are based on mark-to-market values.[2] These calculations are based on the most recent data available to Freddie Mac, although it will take time to know the property-level impacts because of reporting delays. Of the 14 loans with LTV greater than 80%, only four loans have DSCRs less than 1.25x, one of which is less than 1.00x. The overall credit quality of the forborne loans is relatively stable given there is only one loan with LTV above 80% and DSCR is below 1.00x.

Exhibit 6: Percent of Forbearance Loans by LTV ($ in Millions)

	LTV				
	>100%	80-100%	70-80%	50-70%	<50%
Forborne Loans (Count)	2	12	140	157	25
% of Forborne Loans by Count	0.6%	3.6%	41.7%	46.7%	7.4%
Forborne Loans (UPB)	$10	$29	$672	$913	$151
% of Forborne Loans by UPB	0.6%	1.6%	37.9%	51.4%	8.5%

Source: Freddie Mac. LTV computed using estimated cap rates except for loans originated in 2019 or after, which uses the underwritten LTV

Roughly one-quarter of all securitized pooled deals have at least one loan that has requested forbearance.

The forborne loan population falls across 108 different pooled securitizations (excluding PC transactions) meaning roughly one-quarter of securitized pool deals have at least one loan forborne. On average, the percentage of forbearance loans within a securitized deal is 2.4% of the total pool, while the UPB of forborne loans is 2.3% of the deal UPB. Exhibit 7 below shows the deals where greater than 5% of UPB have requested forbearance. We see a higher concentration among SB-Deals, partially due to the tendency of those properties being geared toward workforce housing with tenants expected to be harder hit during this crisis, as well as how Freddie Mac – the sole Master Servicer of SB-Deals – reported forborne loans that were not yet approved.

[2] Mark-to-market value is net operating income (NOI) divided by cap rate. The NOI is the most recently reported on the property before requesting forbearance. For loans where that is not the most recent quarter, rent is trended to the current quarter with metro-level rent trends. Cap rate is the original property cap rate, adjusted for metro-level cap rate trends since the loan's funding date.

Exhibit 7: Percentage of Forbearance by Deal

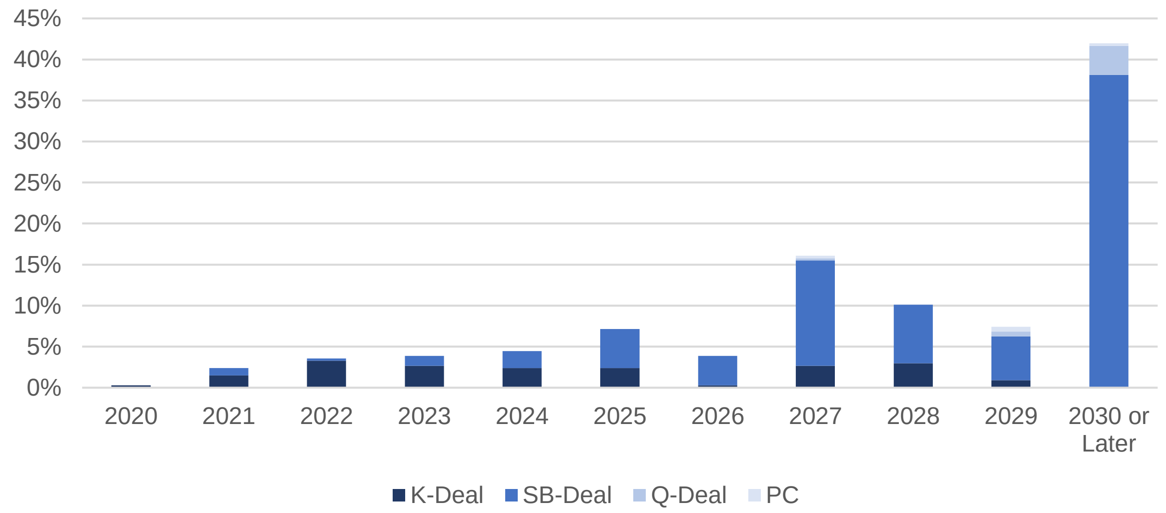
Deal	Total Loan Count	Total UPB ($ Millions)	% Forbearance (by Count)	% Forbearance (by UPB)
SB6	41	$111	12.2%	19.0%
SB33	90	$173	14.4%	14.7%
SB45	131	$314	9.9%	12.5%
Q010APT2	55	$209	9.1%	11.2%
Q002	59	$96	5.1%	10.6%
KJ23	26	$150	7.7%	9.9%
SB52	196	$494	8.7%	8.2%
KX03	29	$418	6.9%	7.9%
KF33	14	$380	7.1%	7.4%
SB22	65	$166	7.7%	7.0%
SB18	31	$60	6.5%	6.8%
KLU1	16	$712	6.3%	6.6%
SB39	75	$199	5.3%	6.4%
SB28	108	$212	6.5%	6.1%
K045	74	$1,538	2.7%	5.9%
SB11	24	$40	4.2%	5.2%
SB50	166	$456	6.0%	5.0%

Source: Freddie Mac

About 10% of forborne loans have a maturity date before 2024.

Exhibit 8 shows the percentage of forborne loans by maturity year. Of the total forborne population, we see a small percentage with maturity dates over the next few years. Around 10% of all the forborne loans by loan count have maturity dates before 2024. The remaining 90% of the forborne loans will not mature until 2024 or after. We do not expect the forbearance stipulations to impact balloon risk significantly. We see an increase in loans with a maturity year of 2027, at 16.1% of all forborne loans, which is made up of a variety of SB-Deals.

Exhibit 8: Percentage of Forbearance Loans by Maturity Year



Source: Freddie Mac

Summary

As the lockdowns continue and forbearance reporting is streamlined, the number of forbearance requests could increase in the coming months.

Based on the population of forbearance loans, we see a broad diversification across geography, deal execution and credit quality. Forbearance requests are more common among SB-Deals, however this can be attributed to the increased likelihood that tenants in those properties are more dependent on jobs that are impacted by the lockdown as well as from the difference in master servicer reporting. At the same time, the vast majority of properties currently have debt coverage above a 1.00x coverage and below an 80% LTV.

The majority of state lockdowns and closures of non-essential businesses were enacted in the month of March, which should translate into tenants receiving partial paychecks or even severance that could have assisted in paying April's rent. As the lockdown continues, we could expect a greater volume of tenants to experience financial hardship. The CARES Act is designed to help provide financial support through one-time stimulus checks and increased unemployment benefits, but this benefit has been slow to reach some tenants. Furthermore, as reporting of forbearance loan requests is streamlined and standard practices are enacted, we could see a higher number of forbearance requests in the next few months.