Multifamily Securitization Forbearance Report

Data as of May 26, 2020

Research
Steve Guggenmos
(571) 382-3520
steve_guggenmos@freddiemac.com

Sara Hoffmann
(571) 382-5916
sara_hoffmann@freddiemac.com

Kevin Burke
(571) 382-4144
kevin_burke@freddiemac.com

Investor Relations
Amanda Nunnink
(312) 407-7510
amanda_nunnink@freddiemac.com

Luba Kim-Reynolds
(212) 418-8879
luba_kim-reynolds@freddiemac.com

Report Highlights

- The forbearance program implemented by Freddie Mac, consistent with the CARES Act, allows for qualified properties of multifamily mortgage-backed loans to defer up to three months of principal and interest payments, which will be repaid within 12 months following the end of the forbearance.
- Master servicers on Freddie Mac securitized loans have reported 1,011 forborne loans totaling $6.4 billion. This equates to 2.1% of the outstanding securitized unpaid principal balance (UPB) and 4.3% of the total Freddie Mac securitized loan population.
- A higher percentage of the forborne loans are Small Balance Loans (SBL), at 75% by loan count, but 30% by UPB. With fewer units, each one experiencing stress has a large impact on small property operators.
- Of the total $6.4 billion forborne loans, 8.8% are student housing and 11.4% are seniors housing facilities.
- Prior to the COVID-19 crisis, the multifamily market was on solid ground and the credit quality of those forborne loans was relatively strong. Of the loans requesting forbearance, 78% have a pre-crisis debt service coverage ratio (DSCR) above 1.25x. Meanwhile, roughly 98% of forbearance loans have a pre-crisis mark-to-market Loan-to-Value (LTV) ratio of less than or equal to 80%.
- Forbearance requests are distributed across the country in 40 states and the District of Columbia. The top states for requests are New York, Texas, Maryland, Florida and California.
- Roughly one-half of securitized pools have at least one loan forborne.
- About 12% of all the forborne loans have maturity dates before 2024. The remaining 88% 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 continues to have a profound impact across the country and on the financial markets. Weekly jobless claims have moderated from their mid-March highs of 6.6 million down to 2.1 million the week of May 17-23. However, the total number of workers filing initial jobless claims since March 15 is over 40 million, representing 25% of the workforce. The April unemployment rate came in at 14.7%, increasing 10.3 percentage points, the highest monthly increase ever in the data going back to 1948. Some states have started to reopen or are in the initial phases of reopening, but the country as a whole continues to see the number of COVID-19 cases increase. As localities start to reopen, some people will get back to work, but at a limited capacity, which will keep the jobless rate high, impacting many tenants' ability to pay rent.

Forbearance and May Rent Payments

Despite the high unemployment rate, according to the National Multifamily Housing Council (NMHC), full or partial rent payments in May were higher compared with the same time period in April: 90.8% as of May 1-20, compared with 89.2% in April, but down 2.2 percentage points from the same time period the prior year.[1] The strong rent payment numbers can be partially attributed to the additional government aid through unemployment benefits, with additional $600 per week through the end of July, and the stimulus checks, which should have reached many Americans in April. While there continue to be delays in getting unemployment benefits to those in need, the strong May rent collections percentage indicates that a majority of renters who can afford to pay their rents are doing so.

As of the date of this report, there has been no change to the Freddie Mac Multifamily forbearance relief program. Borrowers requesting forbearance must provide evidence of financial hardship pertaining to COVID-19 and a delinquency report. Once the request is approved, the forbearance period will cover up to three consecutive monthly payments. After the forbearance period, the borrower is required to repay the forborne loan payments in no more than 12 equal monthly installments.

Forbearance Loan Characteristics

Master servicers of Freddie Mac loans have reported 1,011 forborne loans for a total of $6.4 billion outstanding UPB, or roughly 2.1% of total UPB and 4.3% of total loans.

As of May 26,[2] the master servicers reported 1,011 forborne Freddie Mac securitized loans, or roughly 4.3% of our total securitized loan population. This equates to about $6.4 billion of outstanding UPB and represents 2.1% of our total securitized UPB. This data is sourced from our master servicers, including Freddie Mac, and encompasses only loans that have been approved for forbearance. Of the forborne loans in May, 318 of these loans were also forborne in April compared with the 336 loans that were reported last month.[3] Removing the forborne loans from April's report, a total of 693 loans, totaling $4.7 billion, are new forborne loans in the past month.

The average UPB of forborne loans in May is relatively small at around $6.4 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, as seen in Exhibit 1. Each unit in properties with

[1] This reporting is specific to properties using property management software and likely is most relevant to larger, institutional-type properties, whereas smaller multifamily properties may have different results.
[2] This date references the loans in forbearance as of the security payment date of May 26.
[3] In the April Forbearance report, Freddie Mac reported loans that had been in process but not yet approved. Some of the loans not captured in May but included in April were removed due to withdrawn or denied requests, or those still in the process of being approved and not yet picked up in May due to the reporting change.

small balance loans represents a greater proportion of overall cash flows. The SBL program also typically finances properties with less amenities, making them more affordable to tenants that are more likely to be hourly paid workers and hit harder by non-essential business closures.

Exhibit 1: Forbearance Loans Deal Breakout

	K-Deal®	SB-Deal®	Q-Deal	Multi PC
Forborne Loans (Count)	231	757	13	10
Total Loans (Count)	13,373	8,651	1,255	413
Percent of Loans Forborne	1.7%	8.8%	1.0%	2.4%
Forborne Loans (Outstanding UPB)	$4.1B	$1.9B	$44M	$324M
Total Loans (Outstanding UPB)	$263.9B	$22.2B	$3.2B	$7.5B
Percent of Loans Forborne	1.6%	8.6%	1.4%	4.3%

Source: Freddie Mac

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 seniors housing. As universities are canceling in-person classes, students are returning home, and many have left their apartments empty or vacated entirely. Of the total student housing loan population, 5.1% are forborne (defined as greater than 50% of units or beds leased by students), for roughly $563 million. At the same time, seniors housing facilities are closely being monitored because of the vulnerability of those residents. There were 42 seniors housing loans forborne in May, or roughly $730 million, for 4.8% of the total population of Freddie Mac Seniors Housing Loans. Of the total $6.4 billion forborne loans, 8.8% are student housing and 11.4% are seniors housing facilities.

Exhibit 2: Forbearance Loans by Product Type

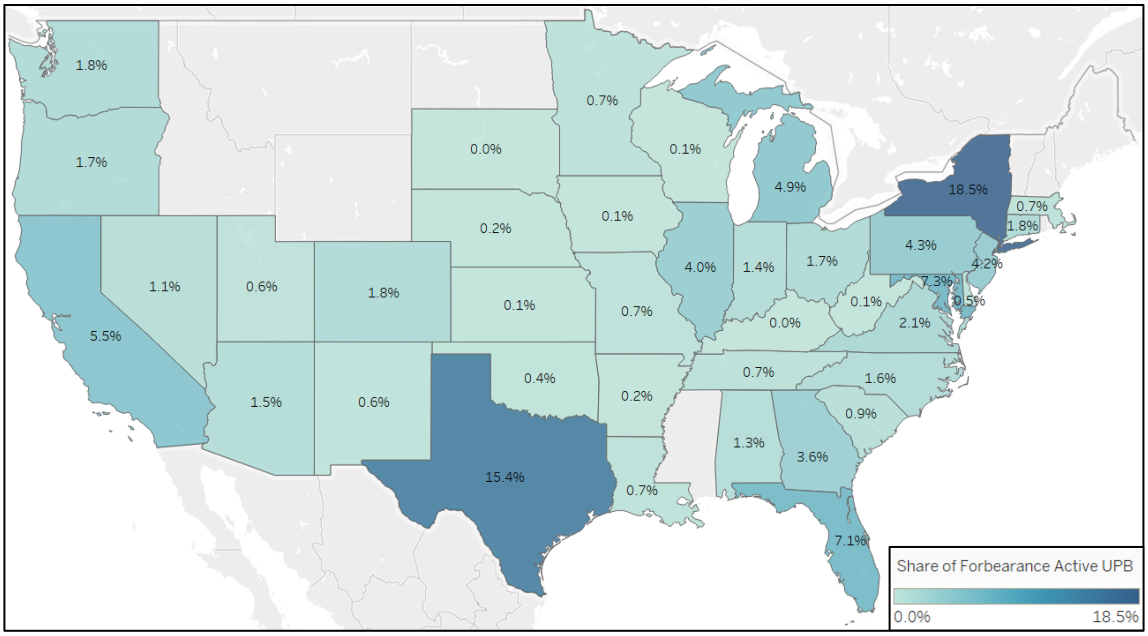
	Student	Seniors
Forborne Loans (Count)	31	42
Total Loans (Count)	606	712
Percent of Loans Forborne	5.1%	5.9%
Forborne Loans (Outstanding UPB)	$563M	$730M
Total Loans (Outstanding UPB)	$11.0B	$15.3B
Percent of UPB Forborne	5.1%	4.8%

Source: Freddie Mac

Forborne loans are distributed geographically throughout 40 states and the District of Columbia. Exhibit 3 maps the distribution of forborne loans by state; the aggregate sums to 100%. The top five states out of all forbearance requests are New York (18.5%), Texas (15.4%), Maryland (7.3%), Florida (7.1%) and California (5.5%). The top metro areas by percentage of UPB are New York City (21.0%), Baltimore (5.4%), Houston (4.8%), Philadelphia (4.3%) and Chicago (4.0%).

Exhibit 3: Percentage of Forbearance Loans by UPB by State Out of All Forbearance Requests

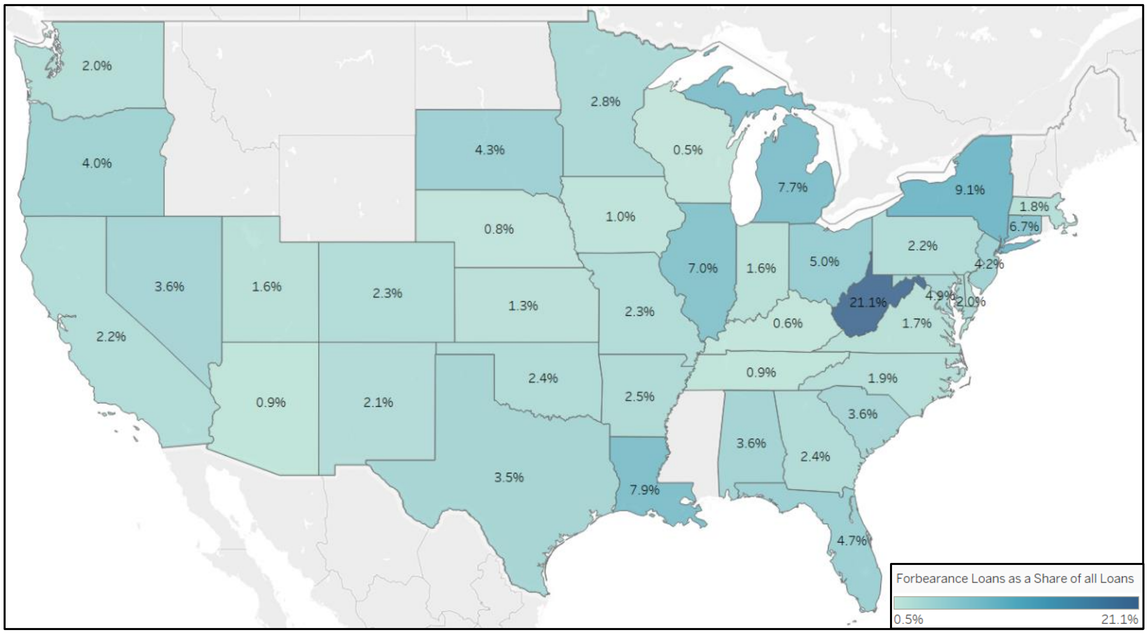
New York, Texas, Maryland, Florida and California are the top five states with forbearance requests.



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 of loans by state, we see in Exhibit 4 a slightly different story. While New York continues to see a high share of forborne loans to total loans in the state, Maryland, California, Texas and Florida see a lower percentage relative to business done there. However, in places like West Virginia and Louisiana, we see a higher percentage of forborne loans relative to the volume of business. This can be attributed to lower deal volume in some of those places, such as West Virginia with roughly 20 properties, and indicates that more populated states are not necessarily experiencing more stress from the pandemic.

Exhibit 4: Forbearance Loans as a Percentage of Loans Financed 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

We see a mix of property characteristics across the forborne population. Exhibits 5 and 6 break out the loans by the year the property was built.[4] Exhibit 5 shows the concentration among the forborne loans for both K-Deals and SB-Deals, whereas Exhibit 6 shows the percent of forborne loans across all loans built in those years. Among all forborne K-Deal loans, we see a higher distribution starting with properties built in 1960 or later. However, across all K-Deal loans, there is a higher concentration of forborne loans with properties built in the earlier, pre-1940 vintage at 6.8%. The forborne SB-Deal loan properties are more heavily concentrated in the pre-1940 and 1960-1979 vintage years, but only see a slightly higher concentration across all SB-Deal loan properties in the pre-1940 vintages and do not see a significant difference across the other vintage years. This can partially be attributed to smaller properties typically being older buildings, but the distribution is relatively in line with our overall SB loan distribution. In general, we do not see a higher concentration of forborne loans in newer vintage property types.

There is a slightly higher concentration of forborne loans in older properties compared with the overall population of loans.

Exhibit 5: Forbearance by Year Built Across Deal Type (Sums to 100%)

Year Built	K-Deals	SB-Deals
Before 1940	11.6%	40.7%
1940-1959	2.2%	9.9%
1960-1979	26.0%	32.2%
1980-1999	32.5%	10.2%
2000 and Later	27.7%	7.0%

Exhibit 6: Forbearance by Year Built Across All Loans by Deal Type

Year Built	K-Deals	SB-Deals
Before 1940	6.7%	10.3%
1940-1959	1.5%	9.0%
1960-1979	1.5%	7.7%
1980-1999	1.5%	7.1%
2000 and Later	1.8%	8.8%

Source: Freddie Mac

[4] Year built does not include renovation year.

Over 78% of forborne loans have pre-crisis DSCRs above 1.25x while roughly 98% of forborne loans have pre-crisis LTVs less than or equal to 80%.

Credit quality of the loans requesting forbearance is illustrated in the following four Exhibits, broken out by SB-Deals and K-Deals. It captures the reported DSCR, prior to the COVID-19 crisis, and mark-to-market LTV.[5] These Exhibits are 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. Overall, we see 78%, by UPB, of forborne loans have DSCRs greater than 1.25x, and 98% with LTVs less than or equal to 80%. Only 1% of forborne loans have DSCRs below 1.25x and LTVs greater than 80%. While these values are pre-COVID-19 stress, they provide some color around the strength of the loans going into the crisis. Due to the relatively strong debt coverage and value of these loans, it would take a large shock to values and cash flows for the majority of these loans to fall underwater.

For SB-Deals, roughly 83% of all forborne loans by UPB have DSCRs greater than 1.25x, and around 7% have DSCRs less than 1.00x. At the same time, a majority of SB forborne loans, 97%, have LTVs equal to or less than 80%.[6] Only 11 loans have an LTV above 80% and DSCR below 1.25x.

Exhibit 7: Percent of Forbearance Loans by Pre-Crisis DSCR for SB-Deals ($ in Millions)

	DSCR				
	<1.00x	**1.00x-1.25x**	**1.25x-1.50x**	**1.50x-2.00x**	**>2.00x**
Forborne Loans (Count)	51	84	237	266	119
% of SB Forborne Loans by Count	6.7%	11.1%	31.3%	35.1%	15.7%
Forborne Loans (UPB)	$131	$195	$671	$638	$278
% of SB Forborne Loans by UPB	6.9%	10.2%	35.1%	33.3%	14.5%

Source: Freddie Mac, most recently reported DSCRs. May not sum to 100% due to rounding

Exhibit 8: Percent of Forbearance Loans by Pre-Crisis LTV for SB-Deals ($ in Millions)

	LTV				
	>100%	**80-100%**	**70-80%**	**50-70%**	**<50%**
Forborne Loans (Count)	0	22	352	342	41
% of SB-Deal Forborne Loans by Count	0.0%	2.9%	46.5%	45.2%	5.4%
Forborne Loans (UPB)	$0	$46	$901	$840	$127
% of SB-Deal Forborne Loans by UPB	0.0%	2.4%	47.1%	43.9%	6.6%

Source: Freddie Mac. LTV computed using estimated cap rates except for loans originated in 2019 or after, which uses the underwritten LTV. May not sum to 100% due to rounding

Across K-Deals, roughly 25% of loans have DSCRs below 1.25x and 13% have DSCRs below 1.00x. The reason for the slightly lower DSCRs among forborne K-Deal loans (compared with SB-

[5] The DSCR for a property is calculated using the most recent reported income pre-crisis over the current debt service, accounting for either interest-only or fully amortizing loans. The LTV for a loan is calculated using estimated cap rates, except for loans originated in 2019 or after, which uses the underwritten LTV.
[6] 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.

Deal loans) can be attributed to the lesser impact that tenants who cannot pay rent would have on those properties. For example, while an SBL may have a relatively strong DSCR, these properties have a smaller number of tenants, so if some cannot pay their rent, the property owner would expect a greater impact to their cash flows and may request forbearance before any signs of stress on the cash flows; hence a higher percentage of strong DSCR SBLs requesting forbearance. By comparison, for a K-Deal loan, the number of tenants per property is much higher. If a handful of tenants are unable to pay rent, there would be less of an impact on the cash flows and it is less likely the borrower would need to request forbearance. Despite the slightly lower DSCR among K-Deal loans, the LTV remains strong, at 98% of loans with LTV below 80%. Only two loans have DSCR below 1.25x and LTVs above 80%.

Exhibit 9: Percent of Forbearance Loans by Pre-Crisis DSCR for K-Deals ($ in Millions)

	DSCR				
	<1.00x	1.00x-1.25x	1.25x-1.50x	1.50x-2.00x	>2.00x
Forborne Loans (Count)	32	27	36	74	62
% of K-Deal Forborne Loans by Count	13.9%	11.7%	15.6%	32.0%	2.8%
Forborne Loans (UPB)	$522	$488	$921	$1,466	$699
% of K-Deal Forborne Loans by UPB	12.7%	11.9%	22.5%	35.8%	17.1%

Source: Freddie Mac, most recently reported DSCRs. May not sum to 100% due to rounding

Exhibit 10: Percent of Forbearance Loans by Pre-Crisis LTV for K-Deals ($ in Millions)

	LTV				
	>100%	80-100%	70-80%	50-70%	<50%
Forborne Loans (Count)	1	3	40	132	55
% of K-Deal Forborne Loans by Count	0.4%	1.3%	17.3%	57.1%	23.8%
Forborne Loans (UPB)	$6	$54	$742	$2,831	$464
% of K-Deal Forborne Loans by UPB	0.2%	1.3%	18.1%	69.1%	11.3%

Source: Freddie Mac. LTV computed using estimated cap rates except for loans originated in 2019 or after, which uses the underwritten LTV. May not sum to 100% due to rounding

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

The forborne loan population falls across 207 different pooled securitizations (excluding PC transactions) equating to roughly 50% of all securitized pool deals. However, that percentage is skewed heavily toward SB-Deals; roughly 90% of all SB-Deals have at least one forborne loan compared with 41% of all K-Deals. We continue to see a higher concentration among SB-Deals, partially due to the tendency of those properties being geared toward tenants expected to be harder hit during this crisis. On average, the percentage of forbearance loans within a securitized deal is 4.1% of the total pool, while the UPB of forborne loans is 3.9% of the deal UPB. Exhibit 11 breaks out the top 15 of each of the K-Deals and SB-Deals by percent of forborne loans.

Exhibit 11: Percentage of Forbearance by Deal

K-Deal	Total Loan Count	Total UPB ($ Millions)	% Forbearance (by Count)	% Forbearance (by UPB)	SB-Deal	Total Loan Count	Total UPB ($ Millions)	% Forbearance (by Count)	% Forbearance (by UPB)
KS03	57	$893	52.6%	63.8%	SB6	40	$107	15.0%	24.2%
KF19	14	$205	7.1%	19.0%	SB18	31	$60	16.1%	23.6%
KX01	7	$115	14.3%	16.8%	SB9	105	$279	14.3%	22.8%
KLU2	6	$289	16.7%	15.6%	SB30	102	$243	12.7%	16.9%
KLU1	16	$711	12.5%	13.6%	SB45	130	$312	14.6%	16.0%
KF41	12	$324	8.3%	13.2%	SB11	24	$40	12.5%	15.9%
KS06	41	$557	12.2%	12.6%	SB20	94	$223	11.7%	15.7%
KX03	29	$417	10.3%	10.6%	SB52	196	$494	15.3%	14.9%
KJ23	26	$150	7.7%	9.9%	SB26	65	$167	15.4%	14.5%
K731	53	$1,199	5.7%	8.8%	SB33	89	$171	15.7%	14.3%
KF08	8	$179	12.5%	8.6%	SB49	191	$512	16.8%	14.2%
KJ07	14	$76	14.3%	8.3%	SB28	108	$212	16.7%	13.7%
KF33	13	$368	7.7%	7.6%	SB22	65	$166	15.4%	13.7%
K1501	22	$479	4.5%	7.6%	SB48	216	$499	11.6%	13.3%
KX03FL	11	$204	9.1%	7.2%	SB61	219	$601	10.5%	12.7%

Source: Freddie Mac. Deals with less than five outstanding loans were removed from the table above.

Despite the larger number of forborne loans in May, the majority of forborne loans continue to have longer maturity terms. Exhibit 12 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 12% of all the forborne loans by loan count have maturity dates before 2024. The remaining 88% of the forborne loans will not mature until 2024 or after. We see a slight increase in loans with a maturity year of 2025 and 2027, at 8.7% and 12.5%, respectively, of all forborne loans. We do not expect the forbearance pay-back stipulations to impact balloon risk significantly.

Exhibit 12: Percentage of Forbearance Loans by Maturity Year

We do not expect the forbearance stipulations to impact balloon risk significantly.

Source: Freddie Mac

Despite states beginning to reopen, we expect the jobless rate to remain elevated, which could keep forbearance requests up over the next few months.

Summary

The increase in forbearance requests in May compared with April can be attributed to the continued stay-at-home orders and closures of non-essential business. Given the securitization reporting timeline, the reported April numbers reflect only three weeks of forbearance requests following the enactment of the CARES Act. The May numbers reflect a longer request window.

Forbearance requests continue to be more common among SB-Deals, which can be attributed to the increased likelihood that tenants in those properties are more dependent on jobs that are impacted by the pandemic. At the same time, the vast majority of properties have a pre-crisis debt coverage above a 1.00x coverage and an LTV of 80% or below.

Many states are starting to reopen on a limited basis, which will help some workers get back to work. But given the limited scope of these reopenings, we expect the unemployment rate to remain high for the near term. We anticipate the forbearance population will remain elevated as the jobless rate remains high and the forbearance process becomes more standardized. As states reopen and financial aid from unemployment benefits reach those in need, we do not expect the rate of rent payment to deteriorate over the next few months.