K-Deal®

SOFR Bonds

As of April 1, 2020
SOFR Bond Class

**Freddie Mac Multifamily (MF) floating-rate K-Deals® now include one bond class with a coupon indexed to the Secured Overnight Financing Rate (SOFR)**

- MF is supporting the SOFR bond market ahead of a SOFR loan offering, creating liquidity and easing the ultimate transition to SOFR
- The bond offerings are supported by underlying loans that are currently LIBOR-based
- MF provides a guarantee on the SOFR bonds (Class AS) that will cover any basis mismatch in the event SOFR exceeds LIBOR
  - The Freddie Mac guarantee applies whether or not Class AS is WAC capped
  - All LIBOR-based loans and LIBOR-based bonds will convert to an alternative index, which may be SOFR, when LIBOR ceases to be published

1. The Class X Certificates 1) receive interest-only payments indexed to LIBOR and notional to Classes AL, AS, B, and C, and 2) are entitled to Static Prepayment Premiums
2. The Class AL is paid pro rata with the Class AS. The Class AL and AS Principal Balances are sized based on investor demand, totaling $900 million
3. For illustrative purposes only, class sizes do not reflect actual bond offering
Example 1: Class AS Interest Shortfall (SOFR > LIBOR)

1. Interest income received by the Trust from underlying LIBOR based loans (assumed to be 2.00% for illustrative purposes)
2. Interest due to Class AS Certificateholders calculated using SOFR (assumed to be 2.05% for illustrative purposes)
3. Freddie Mac provides Guarantee Cap Payment to the Trust to cover the interest shortfall caused by the mismatch between LIBOR loan inflows and SOFR bond outflows due to Class AS Certificateholders (0.05%)
Example 2: Class AS Interest Surplus (LIBOR > SOFR)

1. Interest income received by the Trust from underlying LIBOR-based loans (assumed to be 2.05% for illustrative purposes)
2. Interest due to Class AS Certificateholders calculated using SOFR (assumed to be 2.00% for illustrative purposes)
3. Freddie Mac receives a Guarantee Cap Fee equal to the interest surplus caused by the mismatch between LIBOR loan inflows and SOFR bond outflows due to Class AS Certificateholders (0.05%)
SOFR Determination

MF’s SOFR bond offering follows the existing “K-F” floating-rate bond structure with the following adjustments

For the purpose of calculating interest due to Class X, Class AS will be assumed to be tied to a LIBOR index (or an Alternate Index) rather than a SOFR index

**KF73 - KF76:** The SOFR bond has a separate SOFR determination date on the first business day of the loan interest accrual period

» LIBOR-based bonds and LIBOR-based loans will continue to have a LIBOR determination date on the last business day of the month prior to the loan interest accrual period

» The applicable index for SOFR-based bonds cannot be less than zero

**Beginning with KF77:** Similar to LIBOR, the SOFR Determination Date is the business day prior to the loan interest accrual period

» SOFR-based bonds will in no event have a pass-through rate less than zero
SOFR Determination – Calendar Month SOFR (KF73 - KF76)

**LIBOR (Current)**

- 8/30 - LIBOR Determination Date
- 9/1
- 9/30 - Loan Payment Date

Loan Interest Accrual

**SOFR (KF73 - KF76)**

- 8/1
- 8/31
- 9/1 - SOFR Determination Date*
- 9/30 - Loan Payment Date

Calculation Period

* SOFR determination dates to occur on the first business day of the loan interest accrual period
SOFR Determination – 30 Day SOFR Average (KF77+)

LIBOR (Current)

SOFR (KF77+)

* SOFR determination dates to occur on the last business day prior to the loan interest accrual period
SOFR Floor – Example 3

Example 3: Class AS Pass-Through 0.00% Rate Floor (KF77+)

1. 30-Day Average SOFR Rate assumed to be -1.00%, -0.75%, and -0.50% respectively for illustrative purposes
2. Class AS Margin assumed to be 0.25%, 0.50%, and 0.75% respectively for illustrative purposes
3. Since the SOFR Bond in KF77 and later transactions cannot have a pass through rate less than zero, the Class AS Pass-Through Rates in Scenarios 1 and 2 are floored at 0.00%
SOFR Rate Calculations

**KF73 - KF76**: Interest due to Class AS certificateholders will be calculated based upon a calendar month compounding average of published SOFR rates

» Freddie Mac Multifamily will calculate the applicable SOFR average based upon the methodology published by the FRBNY / Alternative Reference Rates Committee on November 4, 2019

**Beginning with KF77**: Interest due to Class AS will be calculated based upon the published 30-day SOFR average

» The applicable SOFR average is published on or about 2:30 p.m. (New York City time) on the New York Federal Reserve Bank’s website

1 [https://www.newyorkfed.org/markets/opolicy/operating_policy_191104](https://www.newyorkfed.org/markets/opolicy/operating_policy_191104)

2 [https://apps.newyorkfed.org/markets/autorates/sofr-avg-ind](https://apps.newyorkfed.org/markets/autorates/sofr-avg-ind)
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