Freddie Mac
Multifamily®

A Closer Look:

A Primer on the Freddie Mac Multifamily Business

Freddie Mac Multifamily helps keep rental housing available and affordable across the United States. Since 1993, our efforts have created rental homes for millions of households, strengthened communities nationwide, and delivered positive returns for those who invest in our business — including U.S. taxpayers.

The Multifamily Market

Renting is the right housing option for many people, and a fast-growing number of U.S. households are becoming renters, either by choice or necessity. Supply has not kept pace with demand recently, resulting in low vacancy rates and rising rents. But as the market environment has improved, multifamily loan originations and construction have picked up.

Home Rental versus Ownership Trends

More than one-third of U.S. households rent their homes today, the most since 1997. Homeownership rates have fallen each year since 2004, despite high affordability in recent years thanks to low interest rates and affordable house prices. In this period, the U.S. gained more than six million net-new renter households. Today, around 15 million households live in multifamily apartment properties and demand for rental housing is expected to rise for years to come.

Several factors drive the increasing demand for rental housing. Among them:

- Demographic trends
  - Baby Boomers no longer wanting the responsibilities of homeownership
  - Younger people waiting longer to buy homes
  - Echo Boomers (Generation Y) tending to opt for the conveniences of more urban living
  - Former homeowners who couldn't sustain homeownership
  - Newcomers to the United States
- Household formations — for the last several years, renters have accounted for all net household growth
- A return to higher credit standards for residential mortgages
- Attitude changes toward homeownership in light of the recent economic crisis

"Construction activity has revived from its low during the recession but is still in line with the moderate levels of the 1990s. Meanwhile, vacancy rates continue to edge down and rental rates are moving up, providing no suggestion that supply has begun to outstrip demand."

Joint Center for Housing Studies of Harvard University, "The State of the Nation's Housing," June 2013

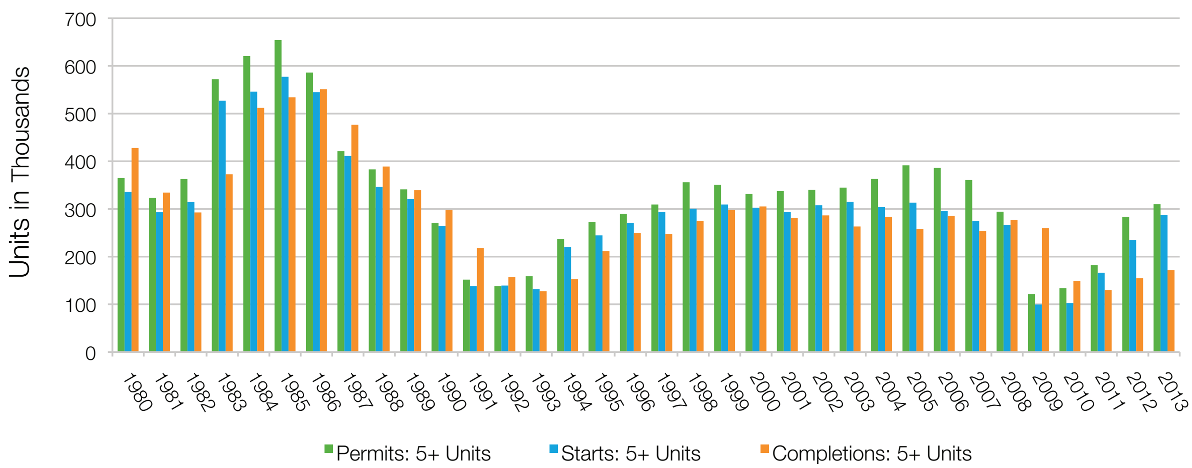
Yet finding adequate, affordable rental housing is a challenge for people across the country. A unit typically is deemed affordable if the gross rent (rent plus tenant-paid utilities) equals no more than 30 percent of household income. According to the U.S. Census Bureau's American Community Survey 2000-2011 (the most recent), more than half of all U.S. renters spend more than 30 percent of their income on housing, up from around 40 percent of renters in 2000. Nearly 30 percent of renters spend at least

50 percent of their income on housing and low- and very low-income households tend to spend even larger portions of their incomes on rent. High rental-cost burdens leave families with less to spend on other needs. In recent years, rising rents along with higher-than-average unemployment and falling or stagnating incomes have exacerbated the situation.

Fundamental Multifamily Market Strength

During the economic crisis, housing construction all but stopped. At the same time, demand for rental housing increased — for the reasons previously mentioned and because some households struggling financially had to exit homeownership. As a result, vacancy rates have plummeted and rents have risen quickly. In turn, property values have been increasing. These factors, combined with interest rates near historic lows, have spurred market activity.

Multifamily (5+ Units) Permits, Starts, and Completions: 1980–2Q13



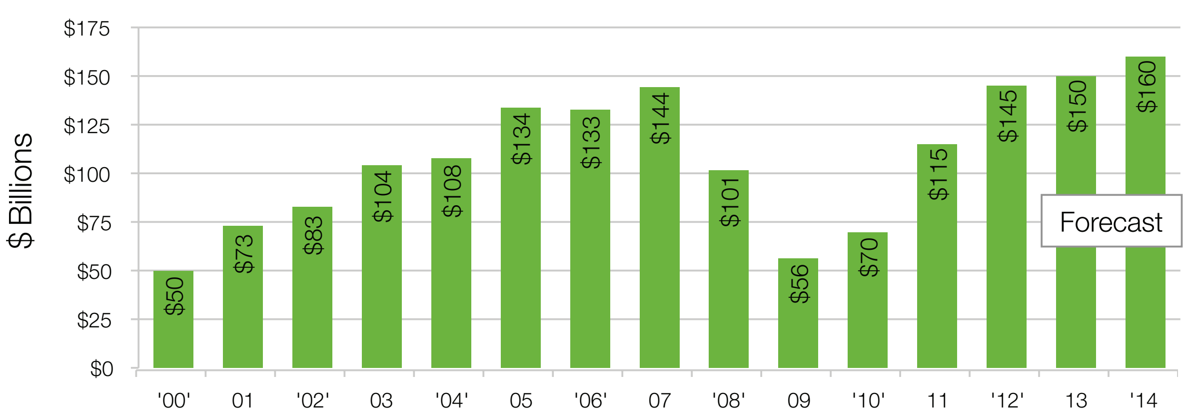
Sources: Moody's Analytics DataBuffet.com, U.S. Census Bureau

Notes: Starts and completions based on all areas of the Unites States, while permits only for areas that require a building or zoning permit. Moody's Analytics estimated that, in 2000, 95% of population was living in permit issuing area.

According to the Harvard University's Joint Center for Housing Studies report, "The State of the Nation's Housing 2013," indicators point to a healthy recovery of the multifamily market. The rate of construction starts and completions is returning to historic norms.

Meanwhile, vacancy rates continue to shrink and rents to grow, suggesting that supply has not begun to exceed demand. Units are being absorbed quickly after becoming available for rent. The market is expected to remain strong at least through 2014. In fact, according to recent statements from the National Multi-Housing Council Research Forum, many economists agree that positive demographic trends combined with recovery in the broader economy will produce demand for multifamily rental housing that generally exceeds the new supply in the pipeline.

Multifamily Mortgage Originations



Sources: FFIEC (HMDA), OTS Thrift Financial Report, ACLI Investment Bulletin, MBA Commercial Mortgage Banker Origination Survey, Freddie Mac

Freddie Mac Multifamily Background

Who We Are

Freddie Mac Multifamily is a unit of the Federal Home Loan Mortgage Corporation (commonly known as Freddie Mac), which was chartered by Congress in 1970 as a government-sponsored enterprise (GSE) to help stabilize the nation's residential mortgage markets and expand opportunities for affordable rental housing and homeownership. Freddie Mac's stated mission is to provide liquidity, stability, and affordability to the U.S. housing market. The Multifamily business focuses on the market for apartment rental properties with five or more units.

Freddie Mac and another GSE, Fannie Mae, were placed into conservatorship under our regulator, the Federal Housing Finance Agency (FHFA), in September 2008, when the housing finance market collapsed.

What We Do

Freddie Mac Multifamily enables the purchase, refinancing, and rehabilitation of multifamily apartment properties and the construction of new properties. We do not lend money directly to borrowers. Rather, we participate in the U.S. secondary mortgage market, which involves buying mortgage loans and mortgage-related securities for investment and issuing mortgage-related securities.

We purchase loans on mid-rise, high-rise, walk-up, and garden-style apartment properties and co-op buildings from networks of Freddie Mac-approved seller/servicers. Today, most of these mortgage loans are bundled into securities and sold to investors through our K-Deal program; a small percentage are held in our portfolio. By selling mortgage loans to us, lenders gain funds that they can use to make loans to additional borrowers. Our main competitors include Fannie Mae, the Federal Housing Administration (FHA), commercial banks, life insurance companies, and commercial mortgage-backed securities (CMBS) conduits.

The Multifamily business is similar to the Single-Family business in certain basic ways: We both purchase and securitize mortgages originated from a network of lenders and our fundings support residential housing. That, basically, is where the similarities end, however.

Some key differences:

Multifamily	Single-Family
Property contains five or more units	Property contains one to four units
Purchase loans from about two dozen approved lenders, many of which do not handle single-family mortgage loans; specialized lenders for deeply affordable, seniors, and student housing	Purchase loans from about 2,000 approved lenders
Average Freddie Mac Multifamily loan size of $17 million, with no current legislated limit	Average Freddie Mac Single-Family loan size of $205,000, with a legislated limit of $417,000 ($625,000 in high-cost areas)
Borrowers are commercial entities, such as property developers, real estate investment trusts (REITs), or investment funds	Borrowers are individual households
Rental income of the property used to pay mortgage	Borrower's personal income used to pay mortgage
5-, 7-, or 10-year loan term with balloon payment due at maturity, typically	15-, 20-, or 30-year fully amortizing loan term, typically
Freddie Mac Multifamily underwrites each loan	Lenders underwrite loans to Freddie Mac standards
Many unique elements to mortgage loans	Standardized elements to mortgage loans, in general
Interest-only or partial interest-only loans are available	Interest-only or partial interest-only loans are not accepted
Prepayment premium required, in general	No prepayment penalty, in general
Issue commercial mortgage-backed securities (CMBS)	Issue residential mortgage-backed securities (RMBS)

More specifically:

- Multifamily rental properties can range from five units to hundreds, and typically are located in more-densely populated urban or suburban areas. Some properties virtually are small cities unto themselves.
- Multifamily rental properties are developed and purchased for investment only. The property developers/owners (borrowers) are businesses. Single-family homes, on the other hand, most often are intended for the buyers to live in, although they might be built or bought as investments. Single-family borrowers typically are individuals.
- Financing a multifamily rental property is like financing a business, rather than a residence. At Freddie Mac Multifamily, mortgage loans range from about $3 million to $300 million. However, we have purchased — and will continue to purchase — much smaller loans, and are open to considering larger ones.
- These transactions are complex and might involve multiple parties, including government agencies in some cases.
- The way Freddie Mac Multifamily operates, we stay involved throughout a loan's life cycle.
  - We touch every mortgage loan that we purchase. We are directly involved in the loan-manufacturing process — including the financial, legal, and structural terms of the mortgage. Given the complexities and numerous factors to consider in a multifamily property transaction, every loan is tailored for the borrower's specific needs and objectives; this underwriting process is not automated. On the Single-Family side, underwriting is more straightforward and based mainly on four factors — the borrower's credit history, capacity to repay, capital on hand, and collateral (the home's value). With help from automated tools, the lender decides the borrower's eligibility and loan terms to offer.
  - Borrowers know that we are involved with asset management and servicing after purchasing a loan, through its maturity. We set servicing standards and, through regular interaction with servicers, we actively monitor the loan's performance and work to ensure that each loan is serviced properly. The asset management and servicing of single-family residential loans tend to be less high-touch activities, given their nature and sheer volume.
  - Our securities are more transparent than securities backed by single-family mortgages. Investors have access to considerable information about the loans within the pools. In fact, Freddie Mac Multifamily offers a web-based tool through which investors can track the performance of every K-Deal in which they invested.

What Sets Us Apart

Freddie Mac Multifamily is an industry leader. The traits that define us, differentiate us:

- **Focus on affordable rental housing** — Making affordable housing consistently available to renters nationwide is at the core of all that we do. It is our primary purpose.
- **Securitization business model** — Our K-Deal securitization program transfers credit risk to private investors, thereby reducing the government's footprint in housing finance and taxpayers' exposure to risk. Many proposals for housing finance reform suggest a similar approach.
- **Innovation** — We transformed our business model in just four years; we went from holding nearly all of the mortgages that we purchased in our portfolio to securitizing more than 90 percent of the eligible purchase volume. Moreover, we continue to enhance our products, processes, and tools to run our business better and faster and to make it easier for customers to do business with us.
- **Credit culture and servicing standards** — We keep sharp focus on credit risk management and loan quality from beginning to end. Through this diligence, our business has remained profitable, with low credit losses and delinquency rates — even throughout the recent economic downturn, when many private capital sources left the market and our purchase volume expanded accordingly.
- **Experienced team and strong relationships** — Freddie Mac Multifamily encompasses about 550 talented, knowledgeable team members. They apply their experience and expertise to our operations and interactions with customers every day to help ensure that we deliver excellent service and achieve our objectives. Working in the spirit of partnership and building trust — across our organization and with our customers — promotes mutual business growth and reliable support for renters and communities across the country.

Running a Sound Business for Today and Tomorrow

Freddie Mac Multifamily has been a consistently reliable partner to our customers since 1993 — in all economic conditions — to help ensure that people's housing needs are met. Over those 20 years, we funded housing for six million renter households in 60,000 apartment properties across the country. And we continue to run our business in a way that enables us to bolster the multifamily rental housing market, while providing leadership to the industry.

To achieve this, we take an integrated, end-to-end view of our business and focus intently on quality at every stage of the loan life cycle. We work to make sure that we have the right people, processes, and technology in place and continually seek out ways to boost speed, capacity, efficiency, and certainty of execution.

Seller/Servicer Networks

Freddie Mac Multifamily's success grows from our solid, trusting relationships with the seller/servicers in our network. Our Production & Sales team collaborates with our network of seller/servicers, well-qualified borrowers, and our Underwriting team to identify and craft transactions that make business sense for all parties involved. Working together, we aim to create a positive experience — from loan origination through servicing to maturity. Our commitment to supporting the multifamily market is reflected as well in the regional focus and presence of our Production & Sales team.

Freddie Mac Multifamily purchases mortgages through the nation's best locally based lenders who have years of lending expertise and proven track records of success. Together, these lenders make up Freddie Mac's Program Plus® network, a highly selective group of experienced multifamily seller/servicers with more than 150 branches across the nation. Many of these seller/servicers do not participate in the single-family lending market. Program Plus seller/servicers are approved for specific geographic areas and product types, which enables us to provide a consistent experience across all regions, seller/servicers, and products. Because of the unique nature of financing subsidized, student, and seniors housing, we also work with networks of select seller/servicers who specialize in these fields.

> **"Fitch identified several strengths of Freddie Mac's origination program, including …**
>
> - **Strong credit environment …**
> - **Standardized underwriting practices and standardized loan documents.**
> - **An established seller/servicer network that operates under detailed seller/servicer guidelines and requirements, including sound financials."**
>
> *Fitch pre-sale report on Freddie Mac's 2013-K32, September 2013*

Credit Philosophy

Freddie Mac Multifamily strictly adheres to a core set of credit principles when deciding whether to purchase mortgages. Borrowers must have equity in the deal, strong understanding of the local market, and a proven record of performing well in all economic cycles. Also, the properties must be well maintained and deliver positive, sustainable cash flow. And loans must have a clear path to refinancing at maturity.

Another factor: Our assessment of market fundamentals and, importantly, how they might change over the life of the loan. It's our projection of how they might change that drives adjustments to credit policy. In turn, these policies affect the business terms we offer on current loan applications.

Our vigilance shows in our profitability and very low delinquency and credit-loss rates.

In-house Underwriting and Loan Production

Our in-house Underwriting team applies our credit philosophy in making prudent credit decisions. Importantly, Freddie Mac holds to the same high credit standards regardless of whether we securitize a loan or keep it in our portfolio. Our underwriting discipline gives us, our customers, and investors confidence in the quality of the loans we buy and in the success of the projects that we fund.

Freddie Mac Multifamily is unique among government-sponsored entities in that we follow a prior-approval model. This means that we underwrite each multifamily mortgage loan in-house before accepting it for purchase; we do not delegate our due diligence or credit analysis. Our credit philosophy guides our decisions and, because we decide what we will or will not accept, we are directly involved in the process of making each loan. Each transaction is unique — we craft each mortgage loan to fit borrower, property, and market conditions, while managing credit risk appropriately.

Multifamily loans have shorter terms than single-family loans — typically, seven or 10 years. Upon maturity, the loan must be paid off. Usually, it's refinanced. So we apply a proprietary refinance test during the underwriting process to assess each loan's ability to refinance at maturity.

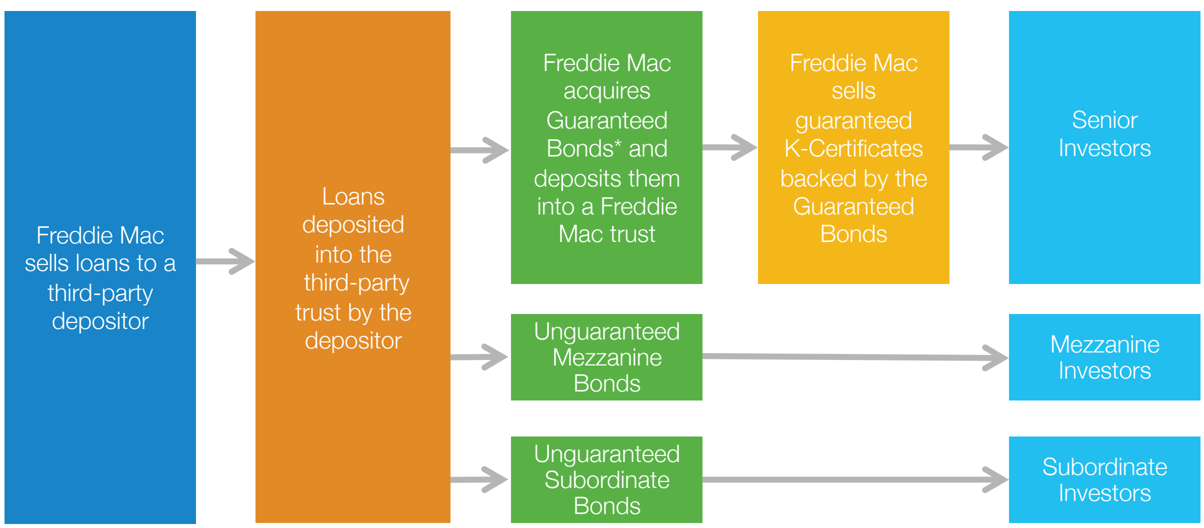
Our underwriters have the knowledge and creativity needed to address the complexities of designing mortgage solutions for multifamily rental properties. In addition to business and industry expertise, local-market understanding is a critical factor. That's why we take a regional approach to production and underwriting, with team members based in key cities nationwide.

Securitization

Another distinctive aspect of our business model is our securitization approach, known as our K-Deal program. Recently purchased mortgage loans that we underwrite, price, and structure through our Capital Markets Execution℠ (CME) product are pooled and sold as CMBS, known as K-Deals. Each K-Deal represents about $1.2 billion in multifamily mortgage loans.

How it works:

K-Deal Structure



* Guaranteed Bonds may include senior bonds and/or interest-only bonds.

The senior guaranteed bonds carry a AAA-equivalent rating based on the quality of the underlying collateral. We sell the unguaranteed mezzanine and subordinate bonds to private capital investors. It is important to note that the unguaranteed mezzanine and subordinate bonds account for the vast majority of the risk, although they represent only 15 percent of the total offering. Investors in the unguaranteed bonds are the last to receive a payout and the first to bear any loss. In effect, these bonds serve as a shock absorber to guaranteed bonds.

The market essentially grades our performance every time we issue a K-Deal. In fact, ratings agencies and potential investors often re-underwrite many if not all of the loans in the K-Deal when making decisions about a particular issuance. Our securities are consistently well-received in the marketplace and our underwriting is viewed favorably.

The current delinquency rate on K-Deals is zero. Tools for accessing data on the performance of K-Deals and the underlying loans are available on our web site.

Asset Management

Our Asset Management & Operations team manages a $133 billion portfolio containing nearly 9,000 multifamily mortgage loans and loans underlying Freddie Mac's financial guarantees. The strength of our asset management practices comes from having knowledgeable people, efficient processes, and strong risk management tools in place. We continually work to enhance our processes and implement technology to help us work more efficiently and support our seller/servicers more effectively.

Leading ratings agencies also recognize our asset management strength.

- Fitch Ratings assigned Freddie Mac Multifamily a CMBS special servicer rating of CSS2-, based on our experienced management team, asset management capabilities, ability to work out defaulted loans, technology, and quality controls.
- Morningstar Credit Ratings assigned us a commercial mortgage special servicer ranking of MOR CS2 and a commercial mortgage trust advisor ranking of MOR TA3 for the quality of our asset management, operations, expertise, reporting and resolution practices, and monitoring ability.
- Standard & Poor's assigned us an overall Above Average ranking as a multifamily mortgage loan master servicer, citing our experienced management team, effective technology, audit and compliance controls, and comprehensive servicer oversight program.

Results

Our business results reflect the strength of our strategy and our execution:

- Freddie Mac Multifamily has delivered profits for U.S. taxpayers for at least 14 consecutive quarters. From the start of 2008 through second quarter 2013, including the worst of the financial crisis, segment earnings net of taxes were $4.8 billion.
- Our credit losses are minimal and delinquency rates consistently are among the industry's lowest. Credit losses in second quarter 2013 were 0.04 basis points.
- Repeat borrowers account for 80 percent of our business.

"Overall, the loans securitized in Freddie Mac transactions have superior credit characteristics and lower default rates relative to typical conduit/fusion loans."

Standard & Poor's pre-sale report on Freddie Mac's 2013-K712 issuance, April 2013

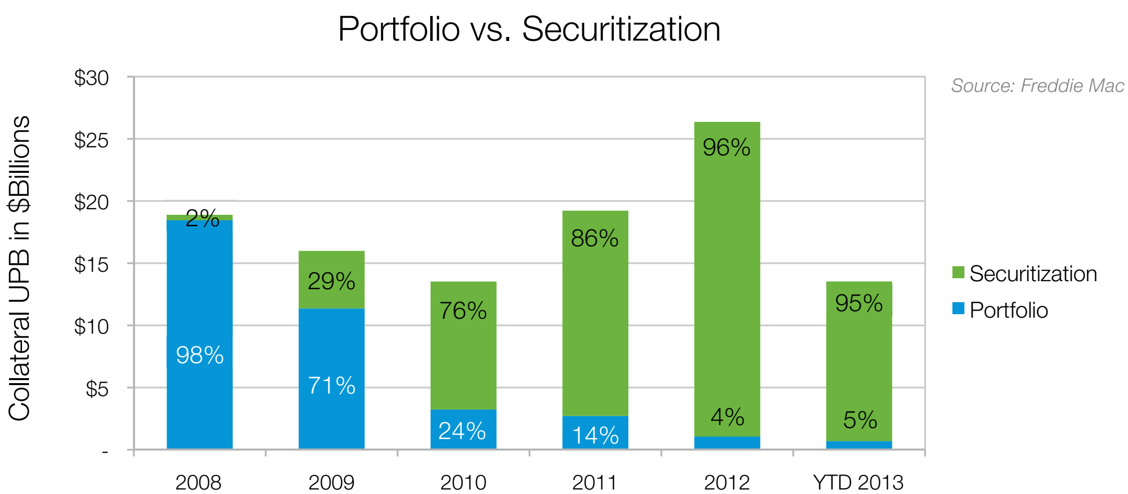
Attracting Private Capital to the Market

Freddie Mac Multifamily's business model enables us to finance rental housing nationwide, while minimizing U.S. taxpayers' exposure to credit risk through our securitization program. Many government and industry proposals for how to reform housing finance recommend a similar approach to managing credit risk. Only Freddie Mac employs it today.

Benefits of our securitization program:

- Allows us to offer seller/servicers and borrowers access to a highly competitive funding source for multifamily mortgages
- Expands Freddie Mac Mulitfamily's access to capital, while helping to manage our risk
- Reduces reliance on Freddie Mac's government backstop guarantee, thereby shrinking the government's footprint in the housing finance market

By appealing to the risk appetite and return requirements of a diverse set of capital markets investors, we have the means to assist more borrowers and to offer lower interest rates than we could if we held all loans that we purchase in portfolio. In short, our securitization program is the best way to preserve taxpayers' investment in Freddie Mac because it enables us to fulfill our mission, while transferring risk away from the company and generating consistent profits.



We issued our first K-Deal in 2009. Over time, we have expanded the securitization program to include numerous loan types to meet market needs. Today, we securitize about 95 percent of the eligible loans that we purchase and issue a K-Deal about every three weeks. Each K-Deal is considered a true sale; that is, after securitization, the underlying loans come off of our balance sheet. Therefore, we don't have to hold an equivalent amount in capital. This allows us, in effect, to recycle our capital — to reuse the $1 billion or so from the sale to buy new mortgage loans. This capability is unique in the GSE world to Freddie Mac Multifamily.

So far, we have funded more than $60 billion in multifamily mortgage loans through this model. Freddie Mac Multifamily currently is the largest CMBS issuer.

Supporting the Nation's Renters

Helping to keep quality rental housing widely affordable reflects our dedication to our public mission. Many of the properties we finance likely would have trouble securing funding elsewhere. A large majority of these properties are more than 10 years old, and many are in need of capital improvements. And they are located in cities of all sizes across the country. That said, we also finance some newer, higher-end properties in major cities. In contrast, other private funding sources (such as life insurance companies, banks, and conduits) tend to focus mainly on high-end properties and top-tier markets along the U.S. coasts; in times of economic stress, such as the financial crises of 2008–09, these sources tend to leave the market altogether.

Working closely with our seller/servicers and borrowers, Freddie Mac Multifamily structures financings in a way that lets us offer very competitive, long-term rates. Borrowers realize lower costs of ownership and the benefits are typically passed on to tenants through sustainable, viable properties and lower rents than might otherwise be available.

Freddie Mac defines an affordable multifamily mortgage loan as a secured loan whereby the majority of the units in the property are leased to households with annual gross incomes that are equal to, or lower than, the local area median income (AMI). In other words, if 51 percent or more of the rental units are leased to renters with annual incomes at or below the AMI, then the loan on that property is considered an affordable multifamily mortgage loan.

Applying this definition, on average since at least 2005:

- More than 90 percent of the units we financed were affordable to middle-income households (earning 100 percent or less of AMI).
- Nearly 80 percent were affordable to low-income households (earning 80 percent or less of AMI).
- About 15 percent were affordable to very low-income households (earning 50 percent or less of AMI).

The U.S. Department of Housing and Urban Development (HUD) sets the thresholds for what is considered middle-, low-, and very low-income levels. It revisits the definition every five years.

Subsidized, or targeted affordable, housing for very low-income households — which includes properties subject to low-income housing tax credits, receiving federal subsidies, or receiving credit enhancement on a mortgage that backs tax-exempt bonds — makes up only about 10 percent of our overall funding, but it is mission-critical. Each project may involve myriad federal, state, and local initiatives, which makes underwriting them particularly complex. Freddie Mac Multifamily's dedicated Targeted Affordable Housing team has extensive experience in funding significant affordable rental housing undertakings that make a positive difference in local communities.

"The struggle to find affordable rental housing stems from the simple fact that low-income renters far outnumber the supply of low-cost units.

Joint Center for Housing Studies of Harvard University, "The State of the Nation's Housing," June 2013

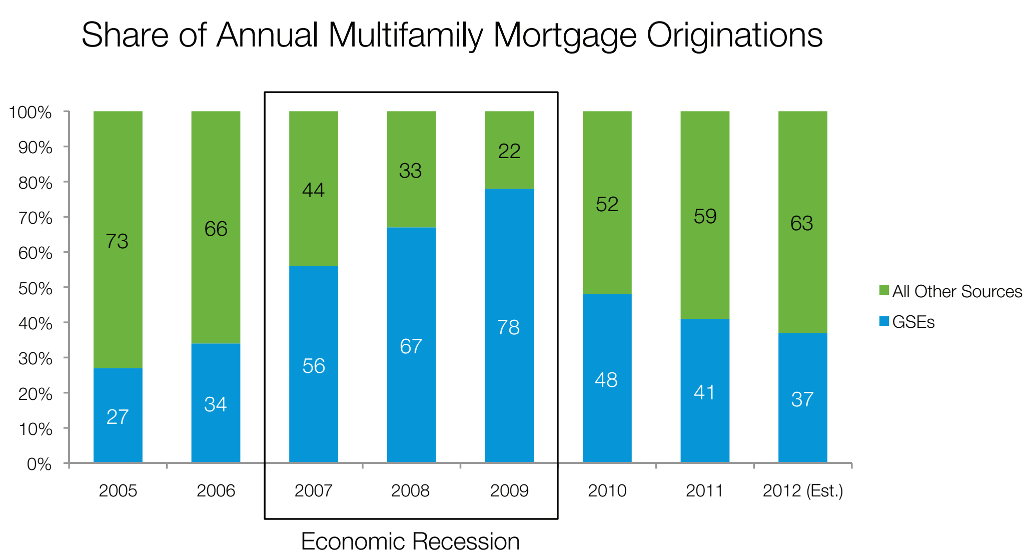
Our support extends to other special segments of the population, including seniors and students.

- We've been financing seniors housing since 1998. Baby Boomers represent the start of a major age wave coming our way, bringing with it a wide range of special housing needs. To help our seller/servicers address market needs, we offer financing options for alternative housing options that are becoming increasingly popular, including apartments, independent- and assisted-living properties, memory-care facilities, and senior housing properties with a limited percentage of skilled nursing care.
- Freddie Mac Multifamily has had a dedicated student housing product since 2008. This segment — and our support for it — is growing. Freddie Mac Multifamily currently leads the industry in funding student housing.

As new rental properties are built or rehabilitated, the people moving into them often leave units in older buildings, which likely have lower rents. This opens the older units for other renters, thereby expanding the overall availability of affordable rental housing.

Serving the Market in All Economic Conditions

Freddie Mac Multifamily serves the housing finance market in good economic times and bad. Much like an accordion, we expand when other private funding sources exit the market in times of economic stress and contract when economic conditions are favorable and funding from our competitors is readily available.



This dynamic played out during the recent economic crisis. When the crisis began, many banks, conduits, and life insurance companies radically reduced their market support. As a result, Freddie Mac Multifamily's share of annual market originations climbed to 32 percent at the peak of the crisis. Even then, we remained profitable and maintained low loan delinquency rates. More recently, many apartment markets have rebounded and the economy has improved. Private sources of mortgage funding have reentered the market, and our market share has declined naturally, to 20 percent in 2012. As conditions continue to improve, we expect market share to shrink a bit further. But we will be ready to expand again, if conditions warrant.

Conclusion

Freddie Mac Multifamily's consistent support for the multifamily rental housing market, track record, and industry experience and expertise give confidence to private apartment developers and construction lenders. In turn, this helps ensure a strong and stable pipeline of new apartment communities to accommodate the growing demand for affordable rental housing.

Research shows that access to decent, affordable, sustainable housing benefits — among other things — childhood development, performance in school, health outcomes, and the economy overall. By helping to make rental housing available and affordable, Freddie Mac helps strengthen communities nationwide.

Because we continue to operate under conservatorship, we do not know exactly what the future holds for us. But our goal is to remain a market leader and a valued partner in supporting and advancing affordable multifamily rental housing and the multifamily industry. Freddie Mac Multifamily's business model and organizational structure give us the flexibility to adapt to various potential outcomes and continue serving U.S. renters into the future.

"While the participation of private capital has increased in recent years, it is unclear how well these sources will meet the growing demand for multifamily financing, particularly for the affordable and underserved market segments."

Joint Center for Housing Studies of Harvard University, "The State of the Nation's Housing," June 2013