

# Freddie Mac Multifamily Securitization

## Seniors Housing

As of September 30, 2018



# Seniors Housing Business

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**We focus on assisted living, independent living and memory care properties across the country**



A specialty network of Seller/Service providers with extensive experience in the seniors housing market has been approved by Freddie Mac to source assisted living, independent living and memory care properties across the United States



Since 1998, Freddie Mac has purchased \$6.96 billion of loans for its Retained Portfolio in support of 745 seniors housing facilities



Since June 2009, Freddie Mac has included Seniors Housing Loans in K Deal pools. Approximately \$12.69 billion of Seniors Housing Loans have been securitized



Our Seniors Housing program covers assisted living, independent living and memory care properties, including a limited percentage of skilled nursing units per property



A staff of 14 Freddie Mac Multifamily real estate professionals are primarily focused on the seniors housing sector, with over 165 years of combined industry experience

# Seniors Housing Property Characteristics

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**Our credit policy and consistent underwriting practices are some of the main drivers of our strong offerings performance**



Experienced, successful Seniors Housing Operators and Owners are prerequisites for Freddie Mac Seniors Housing Loans. Our vast experience and network enables us to identify and capture transactions with strong operational and ownership dynamics



Borrowers with a mix of unit types are generally able to shift up to 25 percent of the total number of units at a property to a higher acuity level than the acuity levels in place at loan closing, and up to 10 percent of the total number of units to a lower acuity level, without lender approval



Skilled nursing is programmatically limited to 20 percent of net operating income, however, more than 95 percent of loans have none

- Without prior written consent, Borrowers cannot provide, or contract to provide, additional skilled nursing that is not present at closing



The acceptance of funds from governmental sources, such as Medicaid or Medicare, must be approved by Freddie Mac and requires a 1.10x debt coverage stressed analysis if greater than 25 percent of total income



Each assisted living property is reviewed by a third-party consultant to evaluate its risk management practices. The assessment focuses on:

- Employee and management practices
- Compliance with appropriate state and federal regulations
- Verification of certain policies and procedures for resident practices
- Incident investigations and claims management procedures

# Sourcing Our Business

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## Freddie Mac Multifamily Seniors Housing team sources its loans from a select group of experienced multifamily lenders

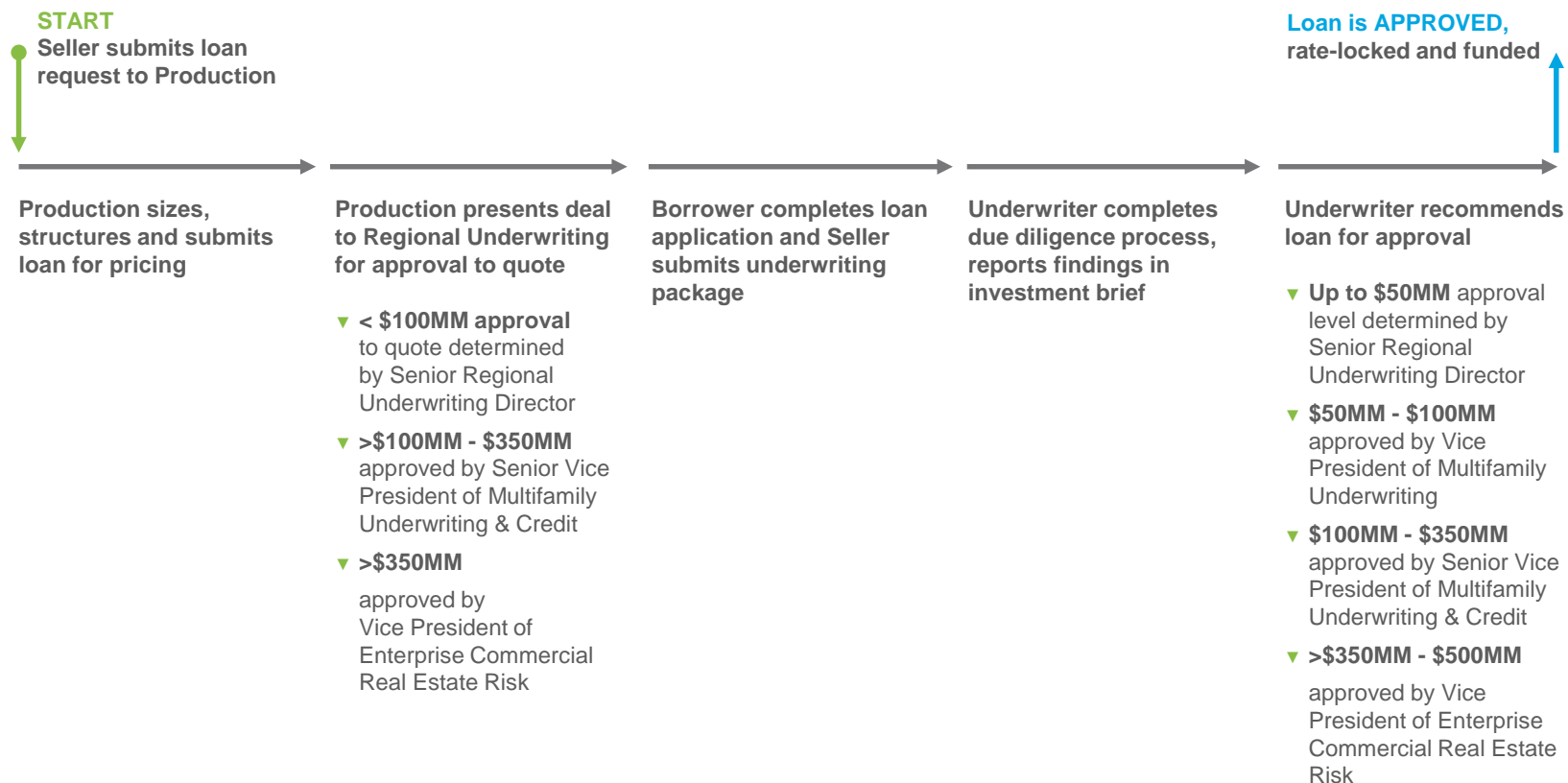
- The small size of the network promotes quality originations and a high level of service to lenders and borrowers
- Seniors Housing lenders must meet Freddie Mac’s standards for both origination and servicing of Seniors Housing Loans, which includes dedicated seniors housing finance professionals and meeting minimum financial requirements and obtaining satisfactory annual audits

### Seniors Housing Seller/Serviceers

Arbor Agency Lending	Jones Lang LaSalle LLC
Barings Multifamily Capital LLC	KeyBank NA
Berkadia Commercial Mortgage	M & T
Capital One Commercial Bank, Specialty Finance	Newmark Knight Frank*
CBRE Capital Markets	NorthMarq Capital
Grandbridge Real Estate Capital	PNC Real Estate Finance
Greystone Servicing Corporation	Prudential Affordable Mortgage Company
HFF	Walker & Dunlop
	Wells Fargo Multifamily Capital

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

# Our Credit Approval Process



**As a general rule, transactions over \$50MM UPB or that have exceptions to Freddie Mac's Credit Policy that impact coverage, leverage, or maturity risk parameters must receive a higher level of approval.**

- Loan requests from \$500MM - \$750MM also approved by CEO and Executive Vice President Chief Enterprise Risk Officer
- Loan requests > \$750MM also approved by Freddie Mac Risk Committee of the Board of Directors
- Final approval may be delegated for loans that obtained formal quote approval at levels above Senior Vice President of Multifamily Underwriting & Credit if there is no material change during underwriting
- Pooled transactions > \$150MM for crossed and > \$500MM for uncrossed require elevated levels of credit approval

# Mortgage Guidelines for K Deals Including Seniors Housing Loans

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Following are the general guidelines for Freddie Mac's Seniors Housing offerings<sup>1</sup>

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## Property Type

- Seniors-focused multifamily loans secured by occupied, stabilized, or newly completed properties in lease-up
  - Independent living facilities defined as properties that include optional services designed to aid the residents' independence; some level of meal plans are provided
  - Assisted living facilities defined as properties designed to provide oversight and assistance for residents with functional limitations, including all meals. Assisted living and independent living facilities may include a memory care component within the tenant mix
  - The properties may include a limited number of skilled nursing units (required to generate no more than 20 percent of a property's net income); at least 15 percent of the skilled nursing units must be allocated for residents of other types of units at the property
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## Loan Terms

- 5-, 7-, and 10-year loan terms with a maximum amortization of 30 years
  - May contain initial interest-only periods of 1-5 years
  - Limited exposure to full-term interest-only loans
  - Full-term interest-only loans require higher initial amortizing debt service coverage ratio (DSCR)
  - Mortgages are fixed rate or floating rate
  - Floating-rate mortgages are based on 1-month LIBOR and generally include a third-party LIBOR cap or a Freddie Mac embedded interest rate cap
  - Seniors Housing Loan Pools are often cross defaulted/cross-collateralized
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## Borrowers

- Single-purpose entity (SPE) is required for almost all loans greater than or equal to \$5 million
  - A warm-body carve-out guarantor is generally required
  - Entity guarantors are acceptable but may require financial covenants or a material adverse change clause
  - All Borrower/Sponsors have owner and operator experience on at least five profitable seniors housing properties prior to application and at least 10 years of seniors housing experience
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<sup>1</sup> Subject to certain exceptions

# Mortgage Guidelines (continued)

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## Underwriting

- Effective gross income (EGI) is calculated based on trailing 3-months actual rent collections or the annualized current rent roll minus a minimum 5 percent vacancy rate, subject to submarket data and actual rent collections
- Operating Expenses are generally calculated based on trailing 12 months
- 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 greater of an engineer's recommendation or \$250/unit
- Taxes and insurance escrows are generally required. Other third-party reports are required (e.g., Phase I ESA, property condition, liability assessments, etc.)
- Third-party LIBOR caps that expire prior to related mortgage maturity dates are required to be replaced. Replacement cap funds are escrowed at 125 percent of replacement cost and are recalculated on either an annual or semi-annual basis.

## Supplemental Financing

- Eligible one year after origination of the first mortgage. Purchased by Freddie Mac from original Seller/Service under Freddie Mac's supplemental mortgage product
- Minimum 3 percent net operating income (NOI) growth achieved from EGI growth is generally required to support the approval of supplemental financing
- Lower of combined loan-to-value (LTV) of 75 percent or original LTV ratio and minimum combined DSCR of 1.30x for independent living properties and 1.40x for assisted living properties (amortizing)
- Monthly escrows for taxes, insurance and replacement required. If first mortgage allowed for deferral of escrows, the supplemental will trigger collection if paid or escrowed by Borrower
- Subject to a pre-approved intercreditor agreement

## LTV Ratio and DSCR

- Shorter loan terms, markets of concern, and specialty product types typically require adjustments
- All loans require a Refinance Test, unless the loan has a LTV ratio of 55 percent or less and an amortizing DSCR of: for independent living:  $\geq 1.45x$ , assisted living:  $\geq 1.55x$ , assisted living with skilled nursing beds:  $\geq 1.60x$ , all partial-term interest-only loans must pass the Refinance Test

# Mortgage Guidelines (continued)

## Loan-to-Value (LTV) Ratios and Amortizing Debt Service Coverage Ratios (DSCR)

Seniors Housing – Independent Living Conventional Maximum LTV /Minimum DSCR	Fixed-Rate and Floating-Rate <sup>1</sup> LTV/DSCR <sup>2</sup>		
	Amortizing	Partial-Term Interest-Only <sup>3</sup>	Full-Term Interest-Only
≥ 5-Year and < 7-Year Term	70% / 1.35x	70% / 1.35x	60% / 1.45x
7-Year Term	75% / 1.30x	75% / 1.30x	65% / 1.40x
> 7-Year Term	75% / 1.30x	75% / 1.30x	65% / 1.40x
Seniors Housing – Assisted Living (>50% Assisted Living Units) Conventional Maximum LTV/ Minimum DSCR	Fixed-Rate and Floating-Rate <sup>1</sup> LTV/DSCR <sup>2</sup>		
	Amortizing	Partial-Term Interest-Only <sup>3</sup>	Full-Term Interest-Only
≥ 5-Year and < 7-Year Term	70% / 1.45x	70% / 1.45x	60% / 1.55x
7-Year Term	75% / 1.40x	75% / 1.40x	65% / 1.50x
> 7-Year Term	75% / 1.40x	75% / 1.40x	65% / 1.50x
Seniors Housing – Skilled Nursing (Max 20% of NOI <sup>4</sup> ) Conventional Maximum LTV/ Minimum DSCR	Fixed-Rate and Floating-Rate <sup>1</sup> LTV/DSCR <sup>2</sup>		
	Amortizing	Partial-Term Interest-Only <sup>3</sup>	Full-Term Interest-Only
≥ 5-Year and < 7-Year Term	70% / 1.50x	70% / 1.50x	60% / 1.65x
7-Year Term	75% / 1.45x	75% / 1.45x	65% / 1.55x
> 7-Year Term	75% / 1.45x	75% / 1.45x	65% / 1.55x

<sup>1</sup> Floating-rate proceeds are calculated based on the equivalent fixed-note rate

<sup>2</sup> The DSCR calculated for the partial-term interest-only and full-term interest-only period uses an amortizing payment

<sup>3</sup> For partial-term interest-only loans, there must be a minimum amortization period of 5 years for loans with terms greater than 5 years. Acquisition loans with 5-year terms may have up to 1 year of partial-term interest-only. For terms of 10 years or more, loans may have interest only in an amount equal to no more than half of the loan term

<sup>4</sup> Skilled nursing cannot exceed a maximum of 20 percent of the overall property net operating income



# K Deal Performance – Seniors Housing

## The outstanding principal balances of the loans are 100 percent current

- Freddie Mac has not realized any credit losses
- No Seniors Housing Loans are in special servicing
- As measured by outstanding principal balances, only 9.09 percent of the unpaid loan population is on the servicers' watchlist<sup>1</sup>

### K Deal - Seniors Housing Performance

Property Type	Number of Loans	UPB (\$ millions)	Number of Delinquent Loans
Age Restricted	325	\$2,978	0
Assisted Living	259	\$3,438	0
Independent Living	234	\$4,556	0
Memory Care	19	\$119	0
Manufactured Housing Community Age Restricted	37	\$274	0
Seniors Housing <sup>2</sup>	107	\$1,171	0
Various	1	\$154	0
<b>Total</b>	<b>982</b>	<b>\$12,690</b>	<b>0</b>

Source: Freddie Mac. The additional information can be accessed at [mf.freddiemac.com/investors/presentations](http://mf.freddiemac.com/investors/presentations)

Notes: The data above provides performance information for the loans contributed to K Deals since 2009 through October 31, 2018

<sup>1</sup> The respective servicers maintain a watchlist for each securitization. Loans are added and removed from the watchlist in accordance with criteria established by CREFC

<sup>2</sup> The property type "seniors housing" includes memory care and all seniors housing types that have not been classified as assisted living, independent living or age-restricted

# Retained Portfolio Performance – Seniors Housing

The Freddie Mac Seniors Housing program has historically maintained strong performance throughout various commercial real estate cycles

## Portfolio - Seniors Housing Performance 1998 - 2018

Property Type	Number of Loans	UPB (\$ millions)	Number of Delinquent Loans
Assisted Living	345	\$3,369	0
Continuing Care	9	\$293	2 <sup>1</sup>
Independent Living	217	\$2,313	0
Seniors Housing	174	\$991	0
<b>Total</b>	<b>745</b>	<b>\$6,966</b>	<b>2</b>

Source: Freddie Mac Multifamily Loan Performance Database (MLPD). The complete data can be accessed at [mf.freddiemac.com/investors/sd\\_remic\\_lookup.html](http://mf.freddiemac.com/investors/sd_remic_lookup.html).

Note: MLPD excludes loans that are (or will be) put into our mortgage related securities, credit revolvers, old book (pre-1994) loans, and negotiated transactions/structured deals

<sup>1</sup> Note: Both loans were paid off in 4Q2012 with total combined losses of only \$2 million

# K-S09

## Transaction Highlights

### Overview of Deal Structure (Pricing Date: December 1, 2017)

Class	Initial Principal or Notional Amount	Pricing Spread	Assumed Weighted Average Life
Offered K-S09 Certificates:			
A	\$637,908,000	L+37	8.63
X	\$637,908,000	T+200	9.67
<b>Total Guaranteed</b>	<b>\$637,908,000</b>		

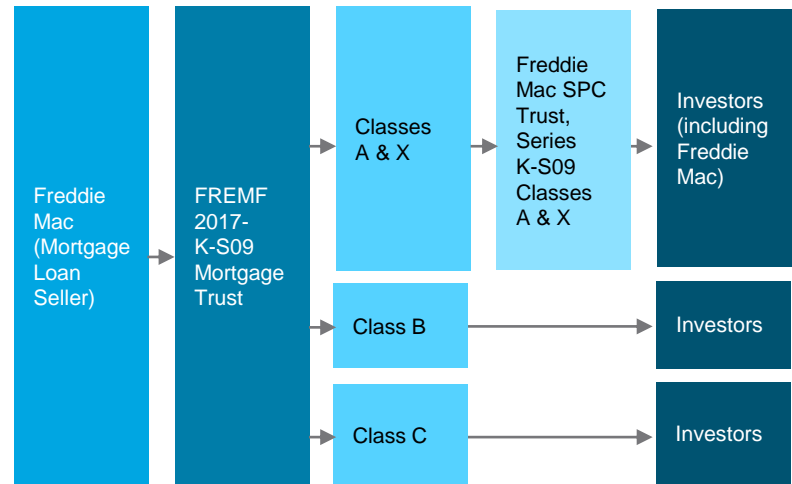
### Deal Characteristics<sup>1</sup>

<b>Collateral Type</b>	Multifamily Seniors Housing Mortgage Loans
<b>Collateral Structure Type</b>	Balloon and Partial IO
<b>Mortgaged Loans</b>	25
<b>Initial Underlying Pool Balance</b>	\$708,786,765
<b>Rating Agencies</b>	Not Rated
<b>Waterfall Structure</b>	Sequential
<b>Top 5 State Concentrations</b>	MO (20.6%), ID (13.1%), CA (11.7%), TX (8.7%), FL(7.2%)
<b>WA Mortgage Interest Rate</b>	4.517%
<b>WA Original Maturity</b>	117 months
<b>WADSCR</b>	1.49x
<b>WALTV</b>	62.3%

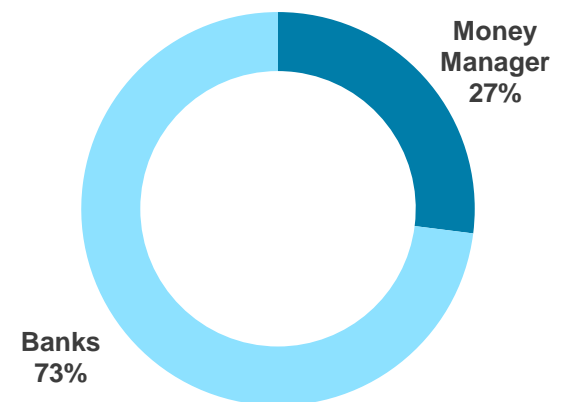
<sup>1</sup> As of the Cut-off Date

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

### Structural Diagram



### Breakdown of Investors (Classes A and B)<sup>2</sup>





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