Freddie Mac Multifamily Securitization - Value-Add Loans

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Freddie Mac
MULTIFAMILY

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Value-Add Loan Business

We work closely with our Sellers to tackle complicated transactions, provide certainty of execution and fund quickly

- Provides flexible, cost-effective acquisition financing, allowing for moderate property upgrades during the term of the loan
- Borrowers are incentivized to aggressively pursue on-schedule upgrade completion and improved value via improved NOI
  - Eligible Borrowers are developers/operators with experience in multifamily property rehabilitation and in the local market with sufficient financial capacity, who are also required to be supported by 1.5x the standard minimum net worth and liquidity requirements
- Short-term, cost-effective financing for modest property upgrades of $10,000 to $25,000 per unit
- Funds up to 50% should be spent on unit interiors
- Each loan goes through quality control and credit approval process
- Since 4Q 2014, Freddie Mac has purchased approximately $4 billion in support of value-add property renovations

Value-Add Loan Characteristics

Our credit policy and consistent underwriting practices are one of the main drivers of our strong Freddie Mac Multifamily offerings performance

Eligible Property Types

- Properties with no more than 500 total units in good locations
- Well-constructed properties requiring modest repairs
- Market laggards that require capital infusion and new/improved management
- Real-estate owned properties in receivership that are capable of improved performance
- Seniors Housing and Manufactured Housing Communities are not eligible

Terms

- Three years with one 12-month extension based on the borrower's request and one optional 12-month extension based on lender's discretion
- Floating-rate loan with full-term interest-only; no cap required
- No lock-out; borrower may pay off the loan at any time but must remit an exit fee of 1%; the exit fee will be waived if the loan is refinanced with Freddie Mac
- Acquisitions and refinances; not assumable
- Loan documentation at origination will include the Value-Add Rider, which will detail the terms/requirements of the rehabilitation
- Escrows will include real estate taxes, insurance, and replacement reserves; escrows for rehabilitation are not required
- 15% cash equity generally required
- For longer term ownership, cash out is available provided a completion guaranty on budgeted improvements in an amount at least equal to the cash out is in place

Value-Add Loan Characteristics (cont.)

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Proceeds/Sizing

- Maximum loan-to-purchase / loan-to-value (LTV) ratio: 85%
- Minimum amortizing debt service coverage (DCR) ratios: 1.10x – 1.15x depending on market
- Sizing based on the 7-year note rate
- Appraisal must include as-is and as-stabilized values; underwriting must support a 1.30x DCR and 75% LTV based on as-stabilized value supported by the appraisal
- Standard Freddie Mac underwriting based on as-is income and expense
- Refinance Test not required
- No pro-forma underwriting of future performance

Rehabilitation / Maturity / Refinance

- Rehabilitation must commence within 90 days of loan origination and be completed within 33 months
- Rehabilitation budget $10,000 to $25,000 per unit where 50% of the budget should be spent on unit interiors
- Completion guaranty or rehabilitation escrow required
- One-year borrower extension option is available for a 0.5% extension fee, assuming no event of default; additional lender extension option is available thereafter with 1% extension fee

Sourcing of Our Business

Freddie Mac Multifamily sources its loans from a group of experienced multifamily lenders

Lenders must meet Freddie Mac's standard for both origination and servicing of value-add loans, which includes meeting minimum financial requirements and obtaining satisfactory annual audits

Value-Add Loan Seller/Servicers

- Arbor Agency Lending LLC
- Bellwether Enterprise
- Berkadia Commercial Mortgage
- Berkeley Point Capital LLC
- Capital One Multifamily Finance
- CBRE Capital Markets Inc.
- Citibank N.A.
- Grandbridge Real Estate Capital
- Holliday Fenoglio Fowler L.P.
- Jones Lang LaSalle LLC
- KeyBank N.A.
- NorthMarq Capital LLC
- PNC Bank N.A.
- Walker & Dunlop LLC
- Wells Fargo Multifamily Capital

Our Credit Approval Process

START
Seller submits loan request to Production

Loan is APPROVED, rate-locked and funded

Production sizes, structures and submits loan for pricing

Production presents deal to Regional Underwriting for approval to quote

- **< $100MM approval** to quote determined by Senior Regional Underwriting Director
- **>$100MM - $350MM** approved by Senior Vice President of Multifamily Underwriting & Credit
- **>$350MM**

  approved by Vice President of Enterprise Commercial Real Estate Risk

Borrower completes loan application and Seller submits Underwriting package

Underwriter completes due diligence process, reports findings in investment brief

Underwriter recommends loan for approval

- **Up to $50MM** approval level determined by Senior Regional Underwriting Director
- **$50 - $100MM** approved by Vice President of Multifamily Underwriting
- **$100 - $350MM** approved by by Senior Vice President of Multifamily Underwriting & Credit
- **>$350MM - $500MM**

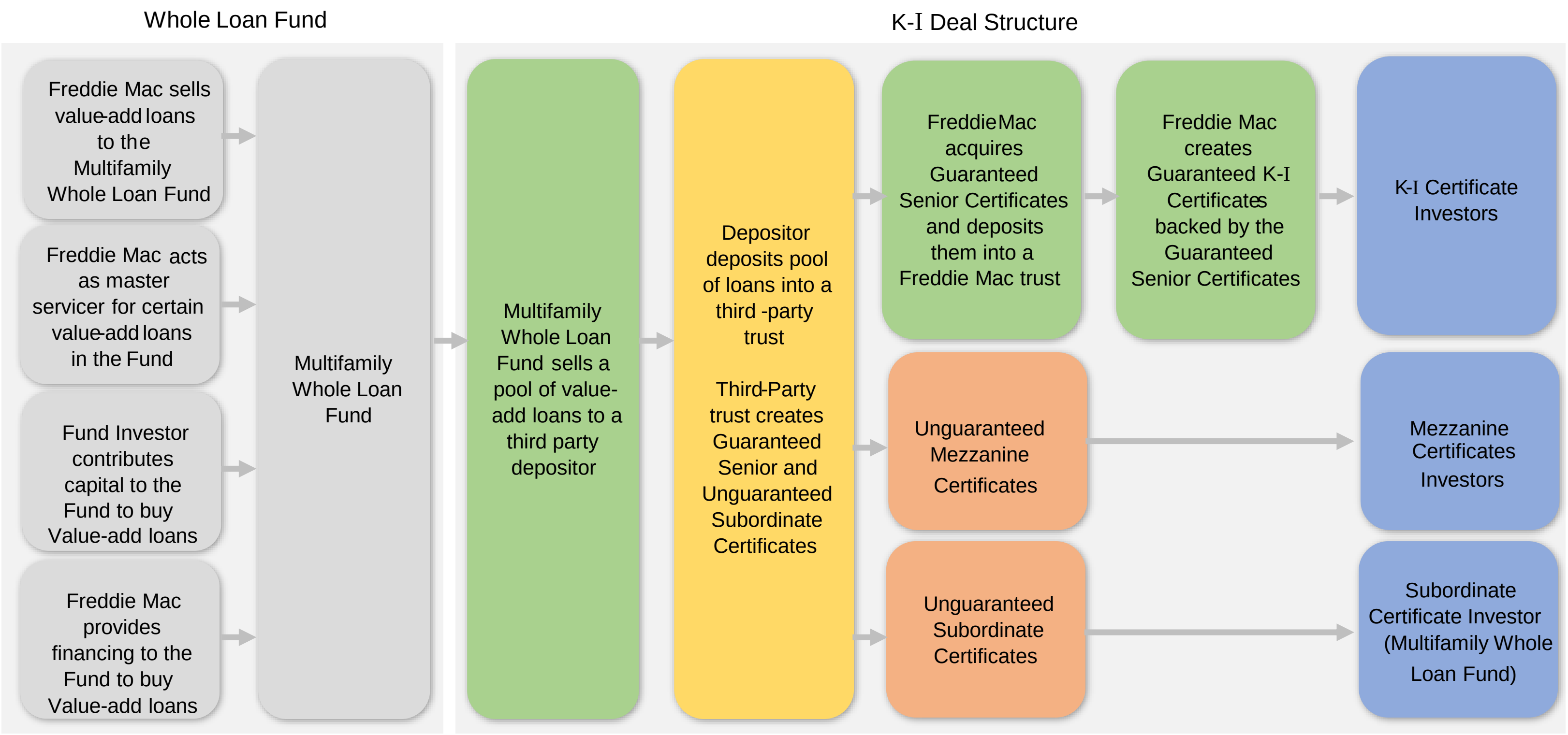
  approved by Executive Vice President Chief Enterprise Risk Officer

As a general rule, transactions that are above $50MM UPB or 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 approved by CEO and Executive Vice President Chief Enterprise Risk Officer
- Loan requests > $750MM 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 > $500MM require elevated levels of credit approval

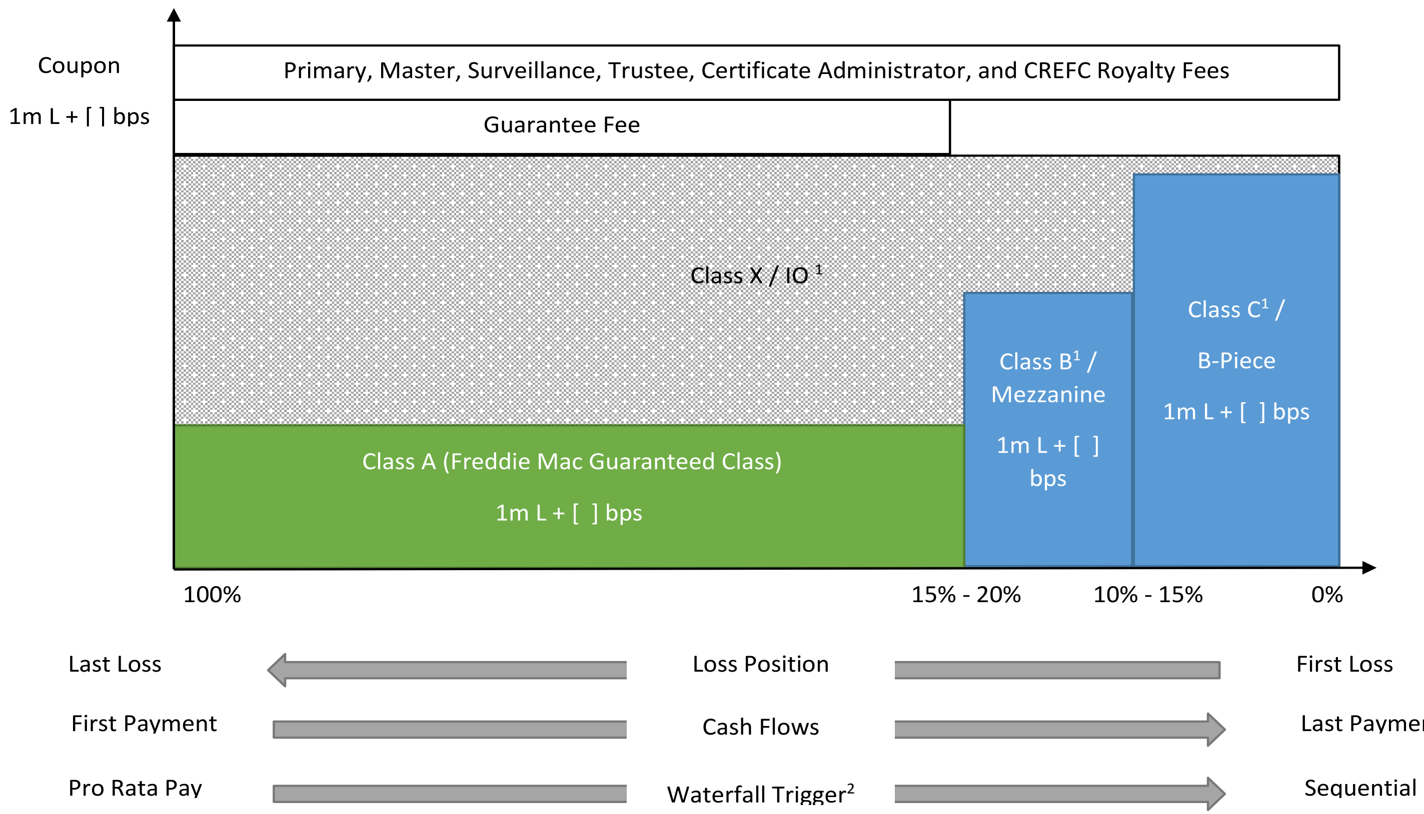
Multifamily Whole Loan Fund Securitization Structure

Freddie Mac Multifamily underwrites, purchases then sells mortgage loans to a closed-end Multifamily Whole Loan Fund (WLF). The WLF subsequently securitizes a pool of loans purchased from Freddie Mac using Freddie Mac Multifamily's K-I deal structure and either retains or sells to a third-party the subordinate bonds.



K-I Deal: Floating Rate Coupon Payment and Subordination

Similar to floating rate K-Deals, the K-I deal is supported by floating-rate loans and uses pro rata pay structure. Principal collected is distributed pro rata unless a Waterfall Trigger Event[2] has occurred and is continuing.



[1] Class B, Class C, and Class X are not guaranteed by Freddie Mac.

[2] A Waterfall Trigger Event occurs when (1) the number of non-specially serviced loans remaining in the pool falls below the designated threshold as defined in the loan documents or (2) the total outstanding principal balance of the non-specially serviced loans is less than 15% of the initial total pool balance.

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