Freddie Mac Multifamily Securitization

Value-Add Loans

As of March 31, 2019

Freddie Mac
MULTIFAMILY

Value-Add Loan Business

We work closely with our lenders 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 percent should be spent on unit interiors
- Each loan goes through quality control and credit approval process
- Since 4Q 2014, Freddie Mac has purchased approximately $4.9 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 Optigo℠ 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 percent; 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 percent 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 (continued)

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

- Proceeds/Sizing
  - Maximum loan-to-purchase / loan-to-value (LTV) ratio: 85 percent
  - Minimum amortizing debt service coverage ratios (DSCR): 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 percent 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 percent 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 percent extension fee, assuming no event of default; additional lender extension option is available thereafter with 1 percent extension fee

Sourcing of Our Business

Lenders must meet Freddie Mac's origination and servicing standards for Value-Add Loans, meet minimum financial requirements and obtaining satisfactory annual audits

Value-Add Loan Lenders

- Arbor Agency Lending, LLC
- Bellwether Enterprise Real Estate Capital, LLC
- Berkadia Commercial Mortgage LLC
- Berkeley Point Capital LLC d/b/a Newmark Knight Frank
- Capital One, N.A.
- CBRE Capital Markets, Inc.
- Citibank, N.A.
- Grandbridge Real Estate Capital LLC
- Holliday Fenoglio Fowler, L.P.
- Jones Lang LaSalle Multifamily, LLC
- KeyBank National Association
- NorthMarq Capital, LLC
- PNC Bank, National Association
- Walker & Dunlop, LLC
- Wells Fargo Bank, National Association

Our Credit Approval Process

START
Lender submits loan request to Production

Production sizes, structures and submits loan for pricing

Production presents deal to Regional Underwriting for approval to quote

Borrower completes loan application and lender submits underwriting package

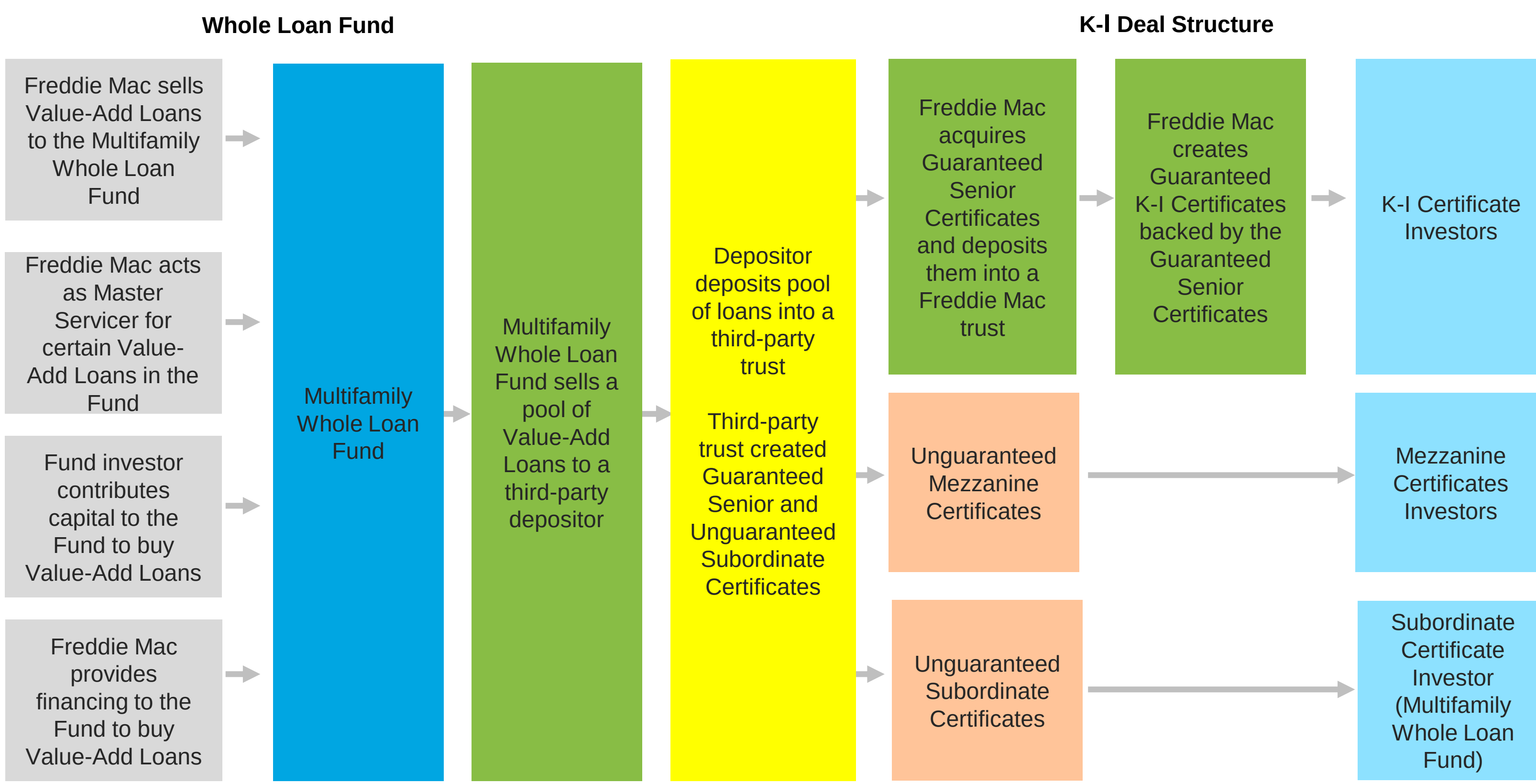
Underwriter completes Due diligence process, reports findings in investment brief

Underwriter recommends loan for approval

Loan is APPROVED
Rate-locked and funded

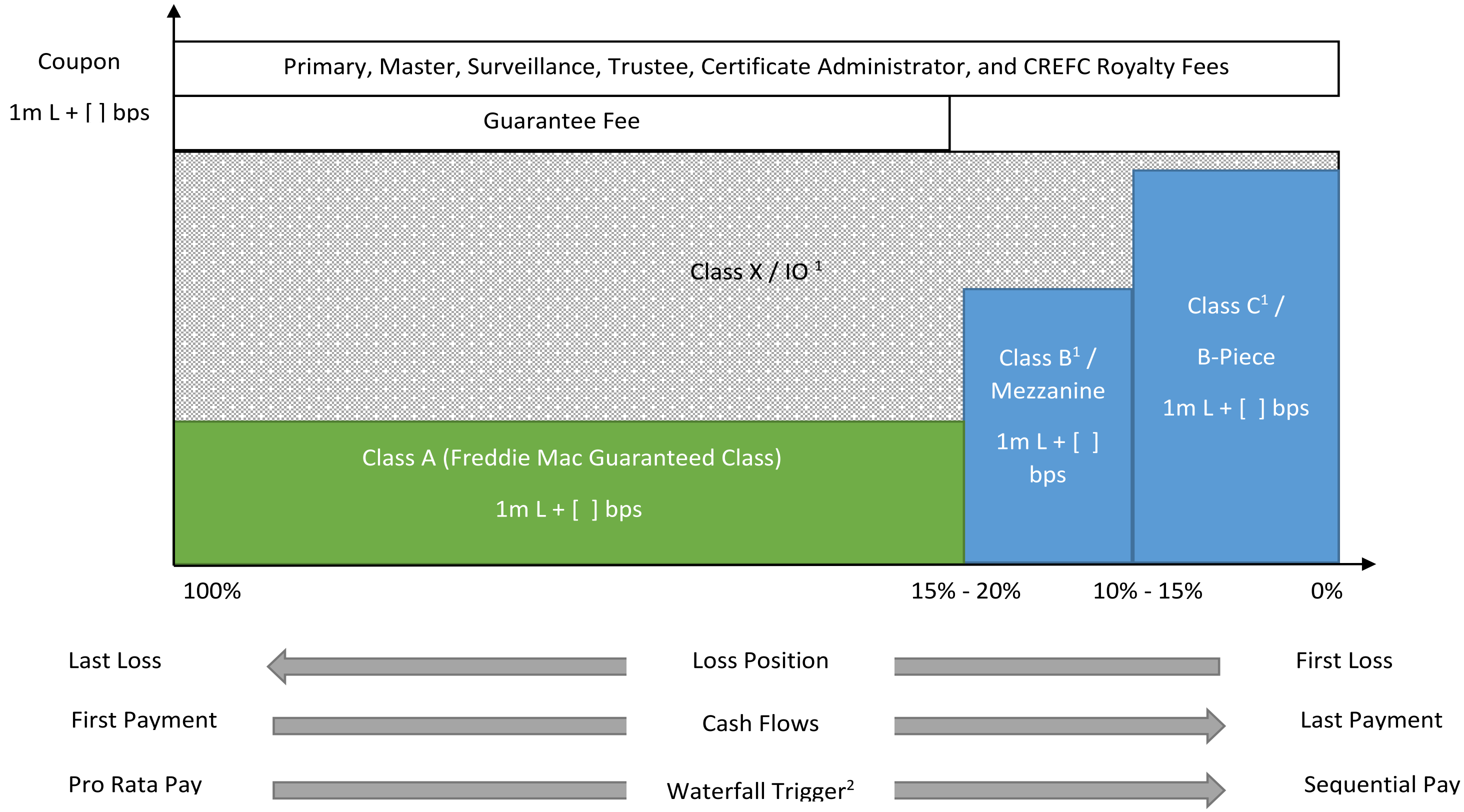
Multifamily Whole Loan Fund Securitization Structure

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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