

Small Balance Loan Prepayments

As of December 2023

Research

Jun Li
571-382-5047
jun_li@freddiemac.com

Michael Donnelly
571-382-3632
michael_donnelly@freddiemac.com

Xiaojun Li
571-382-4967
xiaojun_li@freddiemac.com

Capital Markets

Paul Kolling
571-382-5725
paul_kolling@freddiemac.com

Luke Watts
703-714-4657
lucas_watts@freddiemac.com

- This report presents a summary of Freddie Mac Multifamily Small Balance Loan (SBL or SB) voluntary prepayment activity over the 12 months ending December 2023 (January 2023 through December 2023).
- We summarize prepayment speeds in the aggregate and by product type, vintage, prepayment type, prepayment phase and FRESB deal.
- The 12-month average constant prepayment rate (CPR) is 5.0% as of December 2023 — down 490 bps from the June 2023 CPR of 9.9%¹.
- Based on historical performance to date, we find that prepayment speeds increase with loan seasoning and declining prepayment premiums, all else equal. As loans season and a growing population of loans move into periods with lower prepayment premiums, we expect prepayment activity to pick up. However, higher interest rates and falling property values are slowing prepayment activity, which may continue going forward.
- The focus of this report is on voluntary prepayments. There have been very few defaults in the SBL program — only \$61.4 million (15 basis points) of losses in the aggregate on a total securitized balance of \$41.4 billion in the program's history from October 2014 through December 2023.
- See our [SB-Deal® Investor Presentation](#) for background information on the program's history, mortgage products, the Freddie Mac Optigo® network and FRESB bond structure.

¹ Historic numbers may be different from the previous published reports due to updated data which impact the prepayment rate and number of loans that prepaid in a prior time period.

Freddie Mac Multifamily formally added the SBL line of business to its lending platform in October 2014. This program targets loans between \$1 million and \$7.5 million and offers prepayment flexibility to borrowers.

Through December 2023², Freddie Mac has funded and securitized over 15,000 SB loans totaling over \$41 billion of original unpaid principal balance (UPB) of volume, of which approximately \$14.3 billion has been prepaid, and the remainder was paid on schedule.

Prepayment Options Background

SB loan products include both hybrid ARMs and fixed-rate products across multiple loan terms, all with an array of prepayment options. SB loans generally offer more prepayment flexibility than our conventional loans, where the standard K-Deal[®] fixed-rate loan has a lockout period followed by defeasance or yield maintenance.

Exhibit 1 shows the mix of SBL products and available prepayment types, along with the percentage of total origination volume across product types and prepayment options since the inception of the SBL program in 2014. The 5-year hybrid and 10-year fixed-rate products make up 63% of our business. The most popular prepayment option is yield maintenance, particularly for 10-year fixed-rate loans. These loans make up 47% of total business. The second most popular prepayment option starts with a 5% prepayment premium and then steps down, or declines, over the term of the loan — Option 1.

Exhibit 1: Loan Products & Available Prepayment Options

Option	Hybrids			Fixed-Rate			Total % Business
	5H	7H	10H	5F	7F	10F	
1	54321, 1%	5544321, 1%	5544332211, 1%	54321	5544321	5544332211	41%
2	321(3), 1%	3(2)2(2)1(3), 1%	3(3)2(3)1(4), 1%	321(3)	3(2)2(2)1(3)	3(3)2(3)1(4)	8%
3	(YM or 1%) + 1%, 1%	(YM or 1%) + 1%, 1%	(YM or 1%) + 1%, 1%	YM or 1%	YM or 1%	YM or 1%	47%
4	310(3), 0%	N/A	N/A	310(3)	N/A	N/A	5%
Total % Business	32%	8%	14%	7%	8%	31%	100%

Source: Freddie Mac. We frequently use shorthand above to define the products; for example, we refer to the 5-year Hybrid as "5H" and the 10-year Fixed Balloon as "10F." Option 3 refers to Yield Maintenance (YM) but includes legacy YM or 1%, +1%, 1% loans. See the [SBL Product page](#) for more details. May not sum to 100% due to rounding.

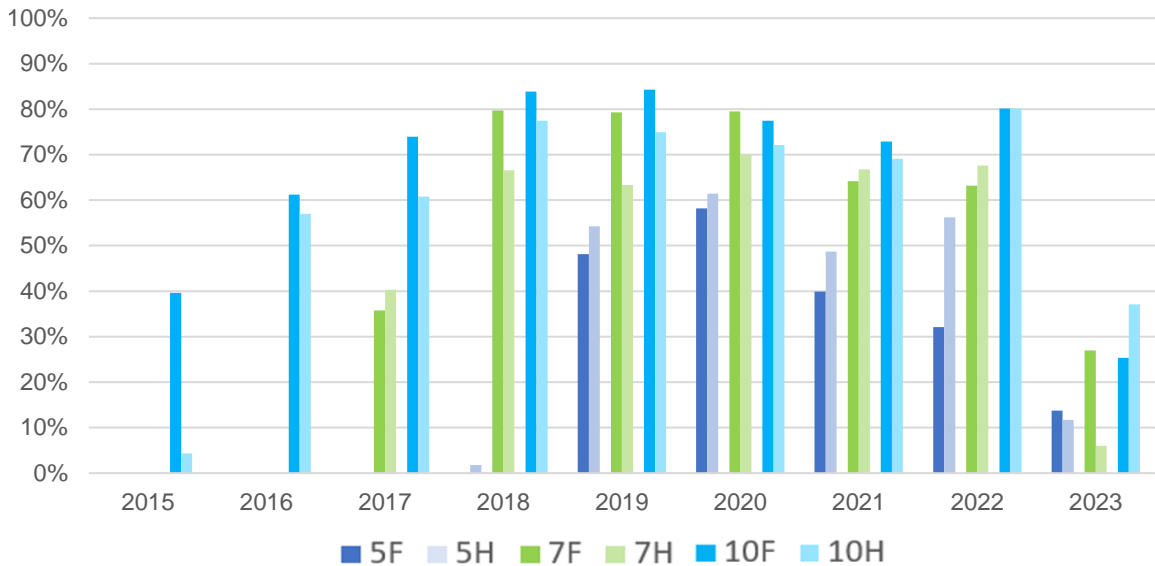
² All data points in this report are as of December 2023 unless otherwise stated. This analysis excludes third-party seasoned loans not typical of the program.

The Freddie Mac SBL program offers borrowers prepayment options along with a number of different products.

The share of borrowers choosing yield maintenance came down in 2023 but remains more popular among our 7- and 10-year products, as shown below in Exhibit 2. From 2019-2022, the majority of 7- and 10-year loans were originated with yield maintenance, between 60%-84% of loans. The rate of loans with yield maintenance in 2023 is less than half that of the prior year, across all product types, implying the majority of loans in 2023 choose a non-yield maintenance prepayment option.

Exhibit 2: Percentage of Currently Active Loans with Yield Maintenance by Vintage and Product Type

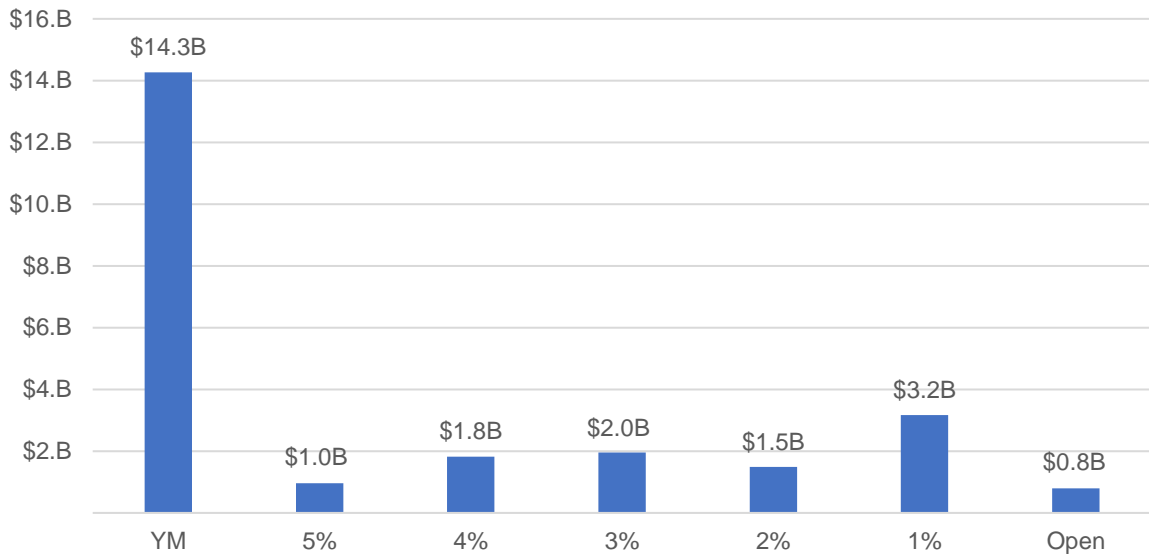
Yield maintenance has become much less prevalent in 2023.



Source: Freddie Mac

Several factors drive prepayment behavior, including an incentive to prepay when interest rates fall or when property values rise. However, the existence of a prepayment premium can mitigate both of those factors. Currently, most of our outstanding loans are still subject to prepayment premiums, primarily in the form of either yield maintenance or a fixed percentage prepayment premium, as shown in Exhibit 3.

Exhibit 3: Outstanding Loan Balance by Prepayment Phase



Source: Freddie Mac

Note: The remainder of the originated UPB minus the amount prepaid is the amount that paid on schedule.

Prepayment Speeds by Loan Characteristics

For the 12 months ending in December 2023, 558 loans prepaid which decreased -46% in comparison with the prior report, representing the 12 months ending June 2023. Compared with the report that captures data for year ending in December 2022, the decline in loan prepayments is -68%. The total number of loans that have prepaid since the program’s inception is about 5,400. Exhibit 4 is a summary of the payoffs across different prepayment options (shown in Exhibit 1), prepayment phase, vintage, and product type during the 12-month period ending in December 2023.³

Exhibit 4: Payoff Summary by Loan Count in the Past 12 Months

Loan prepayments decreased -68% in 2023 compared with 2022.

Prepayment Option	1	2	3	4					Total
	207	30	300	21					558
Prepayment Phase	YM	5%	4%	3%	2%	1%	Open		
	224	4	25	46	39	157	63	558	
Vintage	2014/15 ⁴	2016	2017	2018	2019	2020	2021	2022	
	12	60	111	197	84	46	44	4	558
Product	5H	7H	10H	5F	7F	10F			
	193	37	67	48	45	168	558		

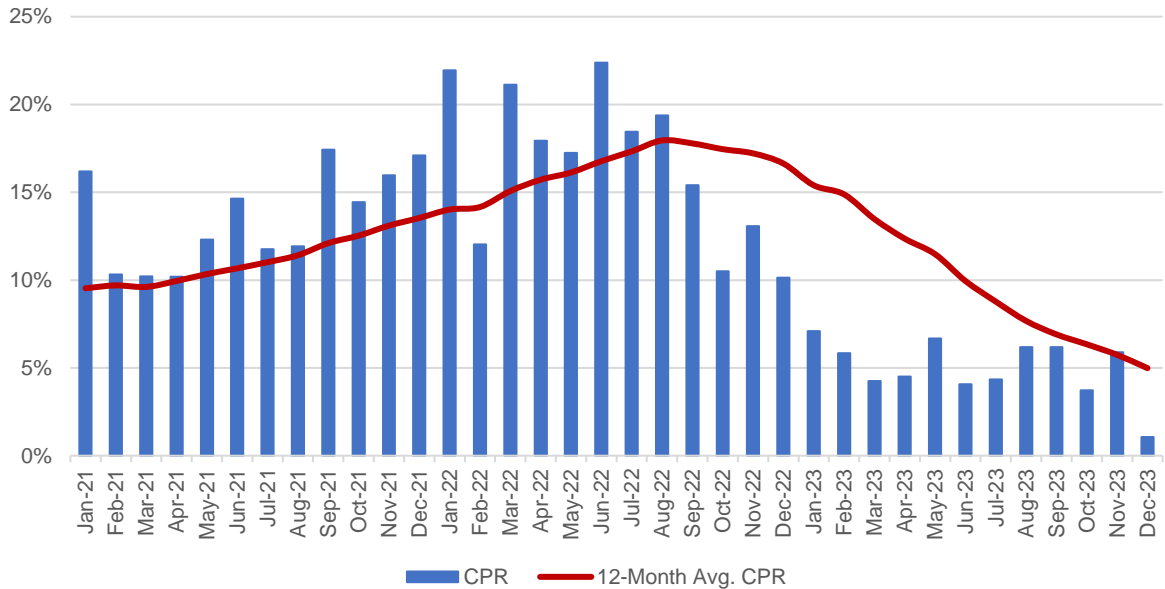
Source: Freddie Mac

³ For additional details on prepayments since inception of the SBL line of business, please see the [Freddie Mac Multifamily Research Page](#), from the “All Topics” drop-down box at the bottom of the page select “Prepay Reports” and select which type and year of report. For additional details around FRESB loan payoffs, please reference our [SB-Deal Performance Presentation](#).

⁴ The 2014 vintage had one loan prepaid.

The 12-month average CPR is 5.0% as of December 2023, down sharply from 9.9% in the June 2023 report and 16.4% from the December 2022 report. Interest rates were relatively low to start 2022 but increased quickly, while property values grew for part of the year before flattening and then declining toward the end of 2022. Both trends have persisted throughout 2023, which has led to slowing prepayment speeds. In Exhibit 5, we see a significant slowdown in CPRs starting in the second half of 2022, which has continued in 2023 due to higher interest rates and falling property values.

Exhibit 5: Annualized and 12-Month Average CPR

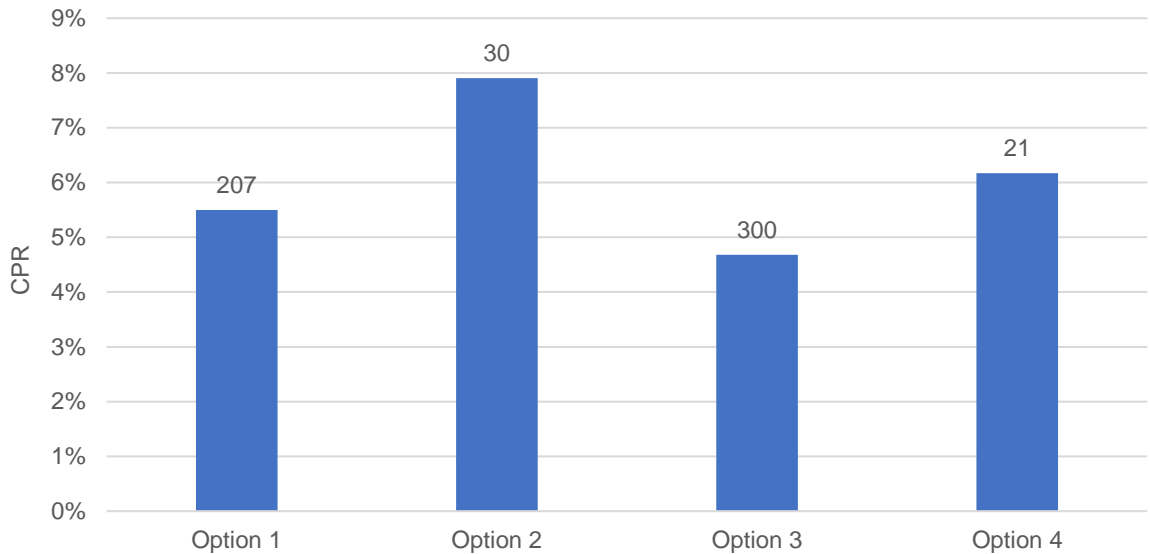


Source: Freddie Mac

The vast majority of prepayments are among loans with Options 3 and 1, at 300 and 207 loans, respectively, of the 558 loans that have prepaid. As shown in Exhibit 6, Option 2, has experienced the highest prepayment rates of 8%, while Options 1, 3, and 4 are lower between 4% to 6%, although prepayment rates are down meaningfully across all option types. In the last version of this report, Option 1 had the highest CPR rate, with Option 3 as the lowest prepayment rate. The reason Option 3 has the lowest prepayment rate is due to the yield maintenance prepayment structure, offering less prepayment flexibility compared with Options 1, 2 and 4.

Exhibit 6: CPR by Prepayment Option in the Past 12 Months

Loans with Option 2 had the highest CPR, while loans with Option 3 saw the most prepayments over the past 12 months – although the lowest CPR.

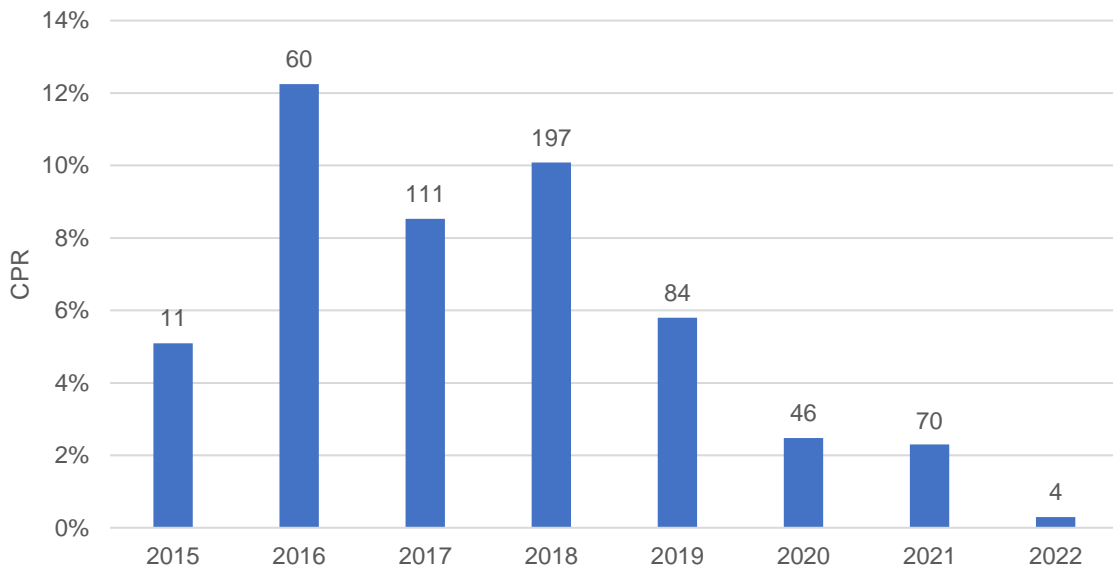


Source: Freddie Mac

The largest number of loans that have prepaid come from the 2017 and 2018 vintages, while the loans with the highest 12-month CPR are from the 2016 and 2018 vintages, shown in Exhibit 7. The earlier years typically have higher CPRs as loans from these vintages have had time to season. Generally, the less seasoned a loan, the slower the CPR, with originations from 2022 down to less than 1%.

Exhibit 7: CPR by Origination Vintage and Payoff Loan Counts in the Past 12 Months

As loans season, the CPR generally increases.

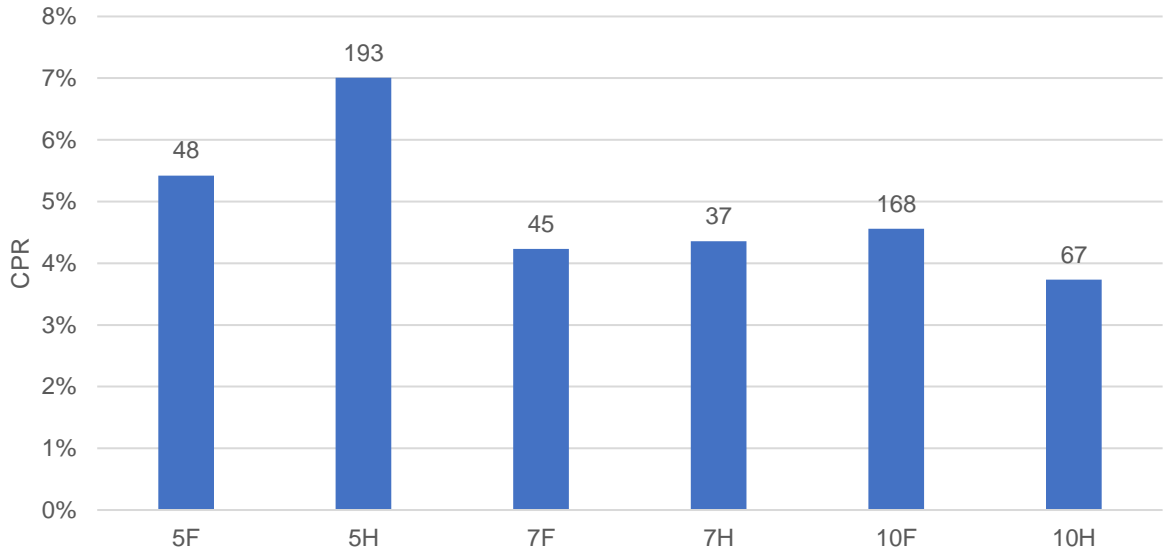


Source: Freddie Mac

Exhibit 8 below shows that CPRs are fastest for the 5-year hybrid loans with speeds of 7%. By loan count, the greatest number of prepaid loans are among the 5-year hybrid and 10-year fixed-rate products, with 193 and 168 prepaays, respectively, as they are the most common loan types chosen by borrowers.

Exhibit 8: CPR by Product Type and Payoff Loan Counts in the Past 12 Months

Loans with longer terms typically have more punitive prepayment structures and lower CPRs.



Source: Freddie Mac

A total of 2,799 5-year hybrid⁵ loans that were originated prior to November 2018 converted to floating-rate by the December 2023, the cut-off date for this report, as shown in Exhibit 9. Once converted, the standard prepayment premium is 1% (unless refinanced with Freddie Mac, in which case the prepayment premium is contractually not due⁶). Of those 2,799 loans, 1,462 either paid off or were refinanced prior to converting, while the remaining 1,337 converted for an overall conversion rate of 48%. Of those loans that converted, 36%, or 488 loans, paid off after they converted.

⁵ Beginning in May of 2024, the SBL hybrid total loan terms for 5- and 7-year new originations have been reduced from 20 years to a total of 10 years.

⁶ The prepayment premium is also not due when the loan is prepaid with proceeds of selling the property to an unaffiliated third party.

Exhibit 9: Analysis of 5-Year Hybrid Loan Conversion Rates

Origination Month	Originated 5H Loans	Loans Paid Off/Refinanced	Loans Converted	First Interest Adjustment Date	Conversion Rate	Floating Loans as of December 2023
Oct 2014	1	1	0	--	--	--
Nov 2014	1	1	0	--	--	--
Dec 2014	6	1	5	Jan 2020	63%	3
Jan 2015	5	5	0	Feb 2020	38%	--
Feb 2015	9	6	3	Mar 2020	36%	0
Mar 2015	14	10	4	Apr 2020	33%	3
Apr 2015	9	5	4	May 2020	36%	1
May 2015	9	6	3	Jun 2020	35%	1
Jun 2015	28	14	14	Jul 2020	40%	5
Jul 2015	31	14	17	Aug 2020	44%	6
Aug 2015	50	18	32	Sep 2020	50%	16
Sep 2015	68	32	36	Oct 2020	51%	20
Oct 2015	50	26	24	Nov 2020	51%	8
Nov 2015	42	18	24	Dec 2020	51%	8
Dec 2015	71	34	37	Jan 2021	52%	16
Jan 2016	53	26	27	Feb 2021	51%	8
Feb 2016	56	27	29	Mar 2021	51%	10
Mar 2016	70	42	28	Apr 2021	50%	6
Apr 2016	56	31	25	May 2021	50%	11
May 2016	53	18	35	Jun 2021	51%	22
Jun 2016	67	40	27	Jul 2021	50%	16
Jul 2016	26	12	14	Aug 2021	50%	5
Aug 2016	28	15	13	Sep 2021	50%	10
Sep 2016	30	18	12	Oct 2021	50%	7
Oct 2016	46	23	23	Nov 2021	50%	11
Nov 2016	42	22	20	Dec 2021	50%	9
Dec 2016	99	34	65	Jan 2022	51%	37
Jan 2017	80	43	37	Feb 2022	51%	13
Feb 2017	60	28	32	Mar 2022	51%	18
Mar 2017	86	42	44	Apr 2022	51%	28
Apr 2017	45	20	25	May 2022	51%	11
May 2017	88	34	54	Jun 2022	52%	36
Jun 2017	96	63	33	Jul 2022	51%	23
Jul 2017	69	38	31	Aug 2022	50%	13
Aug 2017	148	99	49	Sep 2022	49%	24

Origination Month	Originated 5H Loans	Loans Paid Off/ Refinanced	Loans Converted	First Interest Adjustment Date	Conversion Rate	Floating Loans as of December 2023
Sep 2017	103	43	60	Oct 2022	49%	53
Oct 2017	57	28	29	Nov 2022	49%	25
Nov 2017	78	38	40	Dec 2022	49%	37
Dec 2017	80	33	47	Jan 2023	50%	44
Jan 2018	50	24	26	Feb 2023	50%	24
Feb 2018	72	34	38	Mar 2023	50%	28
Mar 2018	92	58	34	Apr 2023	49%	30
Apr 2018	103	68	35	May 2023	49%	32
May 2018	54	32	22	Jun 2023	49%	20
Jun 2018	94	57	37	Jul 2023	48%	31
Jul 2018	79	47	32	Aug 2023	48%	30
Aug 2018	51	29	22	Sep 2023	48%	21
Sep 2018	34	14	20	Oct 2023	48%	12
Oct 2018	64	36	28	Nov 2023	48%	19
Nov 2018	96	55	41	Dec 2023	48%	38
Total	2,799	1,462	1,337		48%	849

Source: Freddie Mac

A total of 152 7-year hybrid loans that were originated prior to November 2016 converted to floating rate by December 2023, the cut-off date for this report, as shown in Exhibit 10. Once converted, the standard prepayment premium is 1% (unless refinanced with Freddie Mac or prepaid with proceeds of selling the property to an unaffiliated third party, in which case the prepayment premium is contractually not due). Of those 152 loans, 107 either paid off or were refinanced prior to converting, while the remaining 45 converted for an overall conversion rate of 30%. Of those loans that converted, 11%, or 5 loans, paid off after they converted.

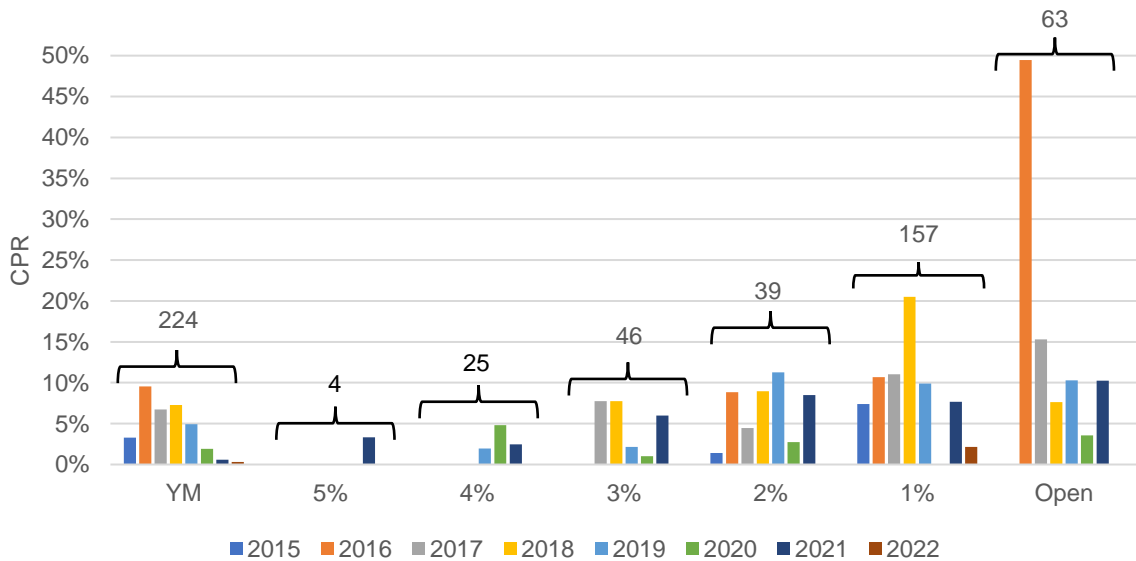
Exhibit 10: Analysis of 7-Year Hybrid Loan Conversion Rates

Origination Month	Originated 7H Loans	Loans Paid Off/ Refinanced	Loans Converted	First Interest Adjustment Date	Conversion Rate	Floating Loans as of December 2023
Nov 2014	1	1	0	Dec 2021	0%	--
Dec 2014	0	0	0	Jan 2022	0%	--
Jan 2015	0	0	0	Feb 2022	0%	--
Feb 2015	1	1	0	Mar 2022	0%	--
Mar 2015	0	0	0	Apr 2022	0%	--
Apr 2015	4	3	1	May 2022	17%	1
May 2015	2	2	0	Jun 2022	13%	--
Jun 2015	6	5	1	Jul 2022	14%	1
Jul 2015	13	10	3	Aug 2022	19%	2
Aug 2015	6	3	3	Sep 2022	24%	3

Origination Month	Originated 7H Loans	Loans Paid Off/ Refinanced	Loans Converted	First Interest Adjustment Date	Conversion Rate	Floating Loans as of December 2023
Sep 2015	4	4	0	Oct 2022	22%	--
Oct 2015	6	5	1	Nov 2022	21%	1
Nov 2015	3	2	1	Dec 2022	22%	0
Dec 2015	7	4	3	Jan 2023	25%	1
Jan 2016	1	1	0	Feb 2023	24%	0
Feb 2016	7	7	0	Mar 2023	21%	0
Mar 2016	12	10	2	Apr 2023	21%	2
Apr 2016	8	7	1	May 2023	20%	1
May 2016	12	11	1	Jun 2023	18%	1
Jun 2016	10	6	4	Jul 2023	20%	4
Jul 2016	3	1	2	Aug 2023	22%	2
Aug 2016	10	3	7	Sep 2023	26%	7
Sep 2016	14	11	3	Oct 2023	25%	3
Oct 2016	8	3	5	Nov 2023	28%	5
Nov 2016	14	7	7	Dec 2023	30%	6
Total	152	107	45		30%	40

Historically, as loans season and enter lower prepayment premium periods, we expect loans to prepay more quickly and for CPRs to increase. This is illustrated below in Exhibit 11, where the prepayment speed increases as the seasoning increases and prepayment premium decreases.

Exhibit 11: CPR by Loan Prepayment Phase, Year and Payoff Counts in the Past 12 Months



Source: Freddie Mac

Exhibit 12 shows CPRs and prepayment count by Freddie Mac SB-Deal ([see Appendix](#) for additional chart). Because the history is short and SB-Deals are more heterogenous compared with K-Deals, we observe an uneven, albeit generally downward trending prepayment history over time. Some of the unevenness can be attributed to large pools of loans in deals paying off, inflating an individual deal's CPR. The most seasoned deals are seeing CPRs slow as the loans season and payoff, naturally slowing prepayment speeds. However, in general, the longer the deal has been outstanding, the higher the prepayment rate.

Exhibit 12: CPR, Initial UPB and Loan Count of Payoffs by FRESB Deal

Deal	Initial UPB (\$M)	CPR	Paid-off Loan count in the past 12 months	Deal	Initial UPB (\$M)	CPR	Paid-off Loan count in the past 12 months
SB001	121	3%	1	SB057	578	15%	25
SB002	122	0%	0	SB058	624	7%	12
SB003	193	0%	0	SB059	626	6%	10
SB004	192	0%	0	SB060	625	9%	20
SB005	145	0%	0	SB061	616	8%	15
SB006	202	0%	0	SB062	625	10%	14
SB007	101	0%	0	SB063	531	3%	8
SB008	102	0%	0	SB064	443	7%	8
SB009	445	2%	2	SB065	615	6%	11
SB010	148	3%	1	SB066	575	5%	7
SB011	110	5%	1	SB067	605	2%	3
SB012	167	6%	2	SB068	537	3%	6
SB013	401	8%	3	SB069	460	5%	6
SB014	310	12%	4	SB070	414	3%	4
SB015	302	12%	6	SB071	423	3%	5
SB016	350	7%	4	SB072	381	6%	8
SB017	387	17%	6	SB073	333	5%	5
SB018	118	0%	0	SB074	419	5%	9
SB019	265	0%	0	SB075	494	2%	4
SB020	293	0%	1	SB076	432	2%	3
SB021	94	5%	1	SB077	426	1%	1
SB022	255	15%	7	SB078	411	3%	5
SB023	342	18%	6	SB079	410	2%	2
SB024	259	8%	4	SB080	405	5%	9
SB025	233	9%	6	SB081	323	3%	3
SB026	221	11%	5	SB082	450	2%	3
SB027	246	9%	2	SB083	401	2%	3
SB028	323	7%	5	SB084	403	3%	3
SB029	217	3%	2	SB085	428	3%	6

Deal	Initial UPB (\$M)	CPR	Paid-off Loan count in the past 12 months	Deal	Initial UPB (\$M)	CPR	Paid-off Loan count in the past 12 months
SB030	307	1%	1	SB086	414	7%	7
SB031	264	1%	2	SB087	430	1%	3
SB032	322	6%	6	SB088	426	0%	1
SB033	221	8%	5	SB089	426	3%	5
SB034	328	11%	5	SB090	450	3%	4
SB035	317	13%	5	SB091	425	1%	2
SB036	351	9%	6	SB092	390	1%	3
SB037	317	1%	1	SB093	422	2%	3
SB038	259	14%	9	SB094	446	3%	5
SB039	264	3%	2	SB095	417	1%	1
SB040	294	6%	4	SB096	476	1%	2
SB041	312	6%	3	SB097	440	0%	1
SB042	288	5%	5	SB098	381	1%	1
SB043	326	9%	8	SB099	417	1%	1
SB044	321	1%	1	SB100	455	0%	0
SB045	403	14%	16	SB101	384	0%	0
SB046	495	8%	8	SB102	397	0%	0
SB047	553	7%	11	SB103	379	1%	2
SB048	561	11%	11	SB104	398	0%	0
SB049	569	6%	5	SB105	280	0%	0
SB050	506	8%	15	SB106	270	0%	0
SB051	509	8%	11	SB107	298	0%	0
SB052	564	18%	28	SB108	278	0%	0
SB053	568	12%	16	SB109	287	0%	0
SB054	539	17%	19	SB110	250	0%	0
SB055	608	8%	15	SB111	239	0%	0
SB056	565	9%	12				

Source: Freddie Mac

Summary

The higher interest rates and lower property values slowed down prepayment activity considerably in 2023. There are many factors that drive prepayment behavior, some of which are idiosyncratic. Typically, as loans season and property values increase, the prepayment rates increase. Additionally, 5- and 7-year hybrid loans started to convert in 2020 and 2022, respectively, which could lead to a higher level of prepayment activity. The run up in interest rates has slowed CPRs across all product types and vintages. The prepayments seen in the past 12 months were mostly from seasoned loans with less expensive prepayment premiums, while recently originated loans are still unable to prepay because they are still in their lockout period.

Appendix: CPR by FRESB Deal in the Past 12 Months

