

Small Balance Loan Prepayments

As of June 2022

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- This report presents a summary of Freddie Mac Multifamily Small Balance Loan (SBL) voluntary prepayment activity over the past 12 months (from July 2021 through June 2022).
- We summarize prepayment speeds in aggregate and by product type, vintage, prepayment type, prepayment phase and FRESB deal.
- Prepayments increased over the past 12 months, as anticipated. The average Constant Prepayment Rate (CPR) is 16.8% over the past 12 months. The earlier vintages (2015 through 2017) prepayment speeds are higher than later ones.
- Based on historical performance to date, we find that prepayment speeds increase with loan seasoning and declining prepayment premiums. As loans season and a growing population of loans move into periods with lower prepayment premiums, we expect prepayment activity to pick up.
- The focus of this report is on voluntary prepayments. There have been very few defaults in the SBL program — only \$39.1 million (10 basis points) in aggregate losses on a total securitized balance of \$37.5 billion in the program's history since October 2014 through June 2022.
- 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.

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 June 2022¹, Freddie Mac has funded and securitized nearly 14,100 SB loans totaling over \$37 billion of original unpaid principal balance (UPB), of which approximately \$11.2 billion have prepaid. The majority of these loans have been funded in the last few calendar years.

Prepayment Options Background

SBL 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. The 5-year hybrid and 10-year fixed-rate loans are the primary products selected by borrowers, making up 65% of our business for the 12 months ending June 2022. The most popular prepayment option is yield maintenance, particularly for 10-year fixed-rate loans. These loans make up 48% of total business for the 12 months ending June 2022. 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 and Available Prepayment Options

	Hybrids			Fixed-Rate			Total % Business
Option	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)	6%
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%	48%
4	310(3), 0%	N/A	N/A	310(3)	N/A	N/A	5%
Total % Business	32%	8%	14%	5%	7%	33%	100%

Source: Freddie Mac.

Note: 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.

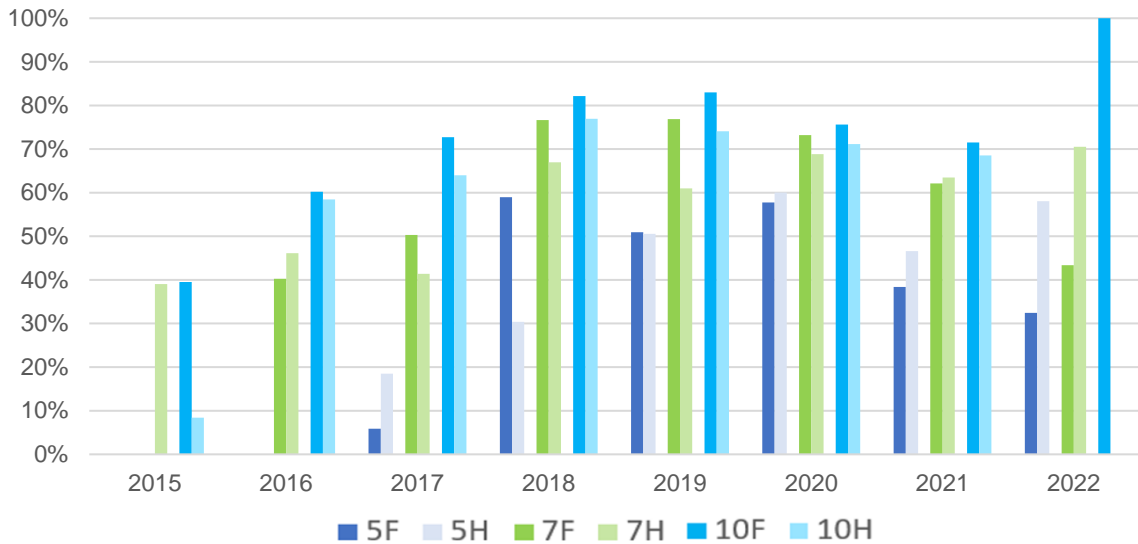
¹ All data points in this report are as of June 2022 unless otherwise stated. This analysis excludes third-party seasoned loans not typical of the program.

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

The share of borrowers choosing yield maintenance remains higher than in the early years of the program, especially in our 7- and 10-year products, as shown below in Exhibit 2.

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

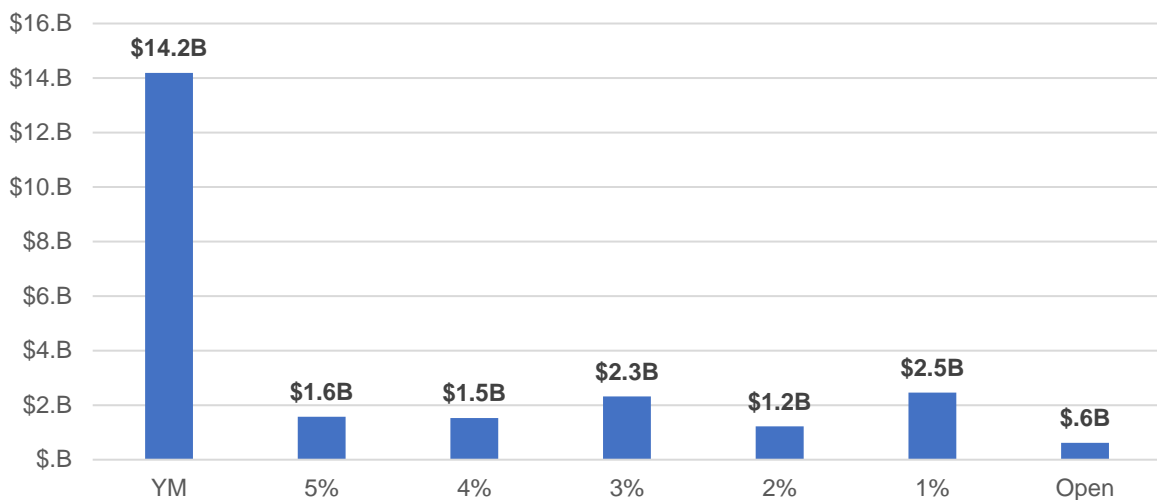
Yield maintenance is more prevalent with newly originated loans and those with longer terms.



Source: Freddie Mac

A number of 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, the majority 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

Prepayment Speeds by Loan Characteristics

For the 12 months ending in June 2022, the number of loans that prepaid increased 31% in comparison with the December 2021 report. The population of loans with the most flexible prepayment terms (1% or open) increased 8%, from approximately \$2.8 billion in December 2021 to approximately \$3.1 billion in June 2022, and overall constitutes approximately 13% of outstanding UPB. Interest rates were relatively low to start the year but increased quickly, while property values continued their rapid growth. Along with loans continuing to season into more favorable prepay terms, all these factors provide an increased incentive for borrowers to prepay.

Over the 12 months ending June 2022, 1,771 loans prepaid. The total number of loans that have prepaid since the program's inception is just under 3,900. The 12-month average CPR is 16.8% as of June 2022, up from 13.5% in the December 2021 report. 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 June 2022.²

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

Loan prepayments increased in 2022, with prepayment Option 1 leading the way, along with loans that originated in 2017-2018.

Prepayment Option	1	2	3	4				Total
	996	143	488	144				1,771
Prepayment Phase	YM	5%	4%	3%	2%	1%	Open	
	424	44	240	257	241	430	135	1,771
Vintage	2015	2016	2017	2018	2019	2020		
	108	211	525	447	308	134	1,771	
Product	5H	7H	10H	5F	7F	10F		
	717	122	187	105	118	522	1,771	

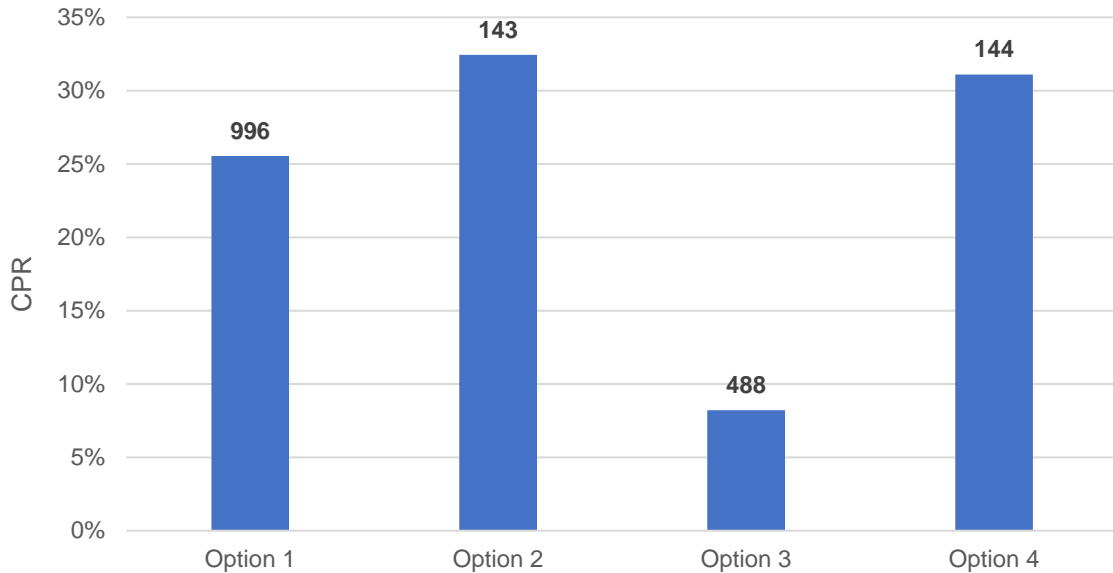
Source: Freddie Mac

In the following exhibits, we present prepayment speed across vintage and other characteristics over the 12 months ending June 2022. We have continued to observe a large number of prepayments utilizing Option 1, at 996 loans of the 1,771 loans that have prepaid. However, due to the large share of loans originated with Option 1, the actual CPR of Option 1 in the past 12 months is 26%, as shown in Exhibit 5. Options 2 and 4 have experienced higher prepayment rates at 32% and 31%, respectively, due to the greater prepayment flexibility they provide.

² For additional details on prepays since inception of the SBL line of business, please see the [May 2019](#), the [November 2019](#), [November 2020](#), [October 2021](#) and [May 2022](#) SBL Prepay Reports. For additional details around FRESB loan payoffs, please reference our [SB-Deal Performance Presentation](#).

Exhibit 5: CPR by Prepayment Option in the Past 12 Months

Loans with Option 2 had the highest CPR, while loans with Option 1 saw the most prepays over the past 12 months.

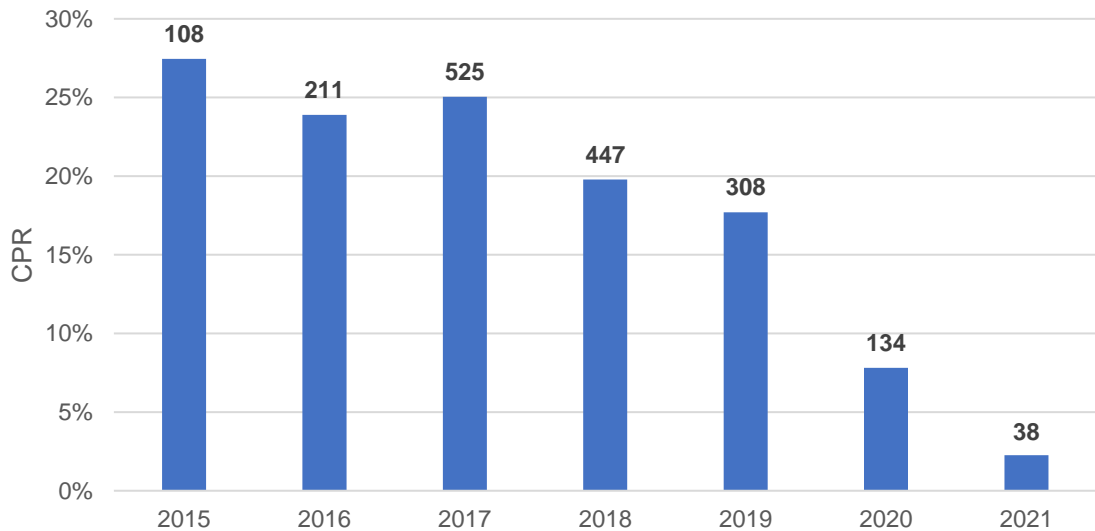


Source: Freddie Mac

The largest number of loans that have prepaid come from the 2017 through 2019 vintages, as loans in those years have had time to season. The older vintages had lower origination volumes and have already had many loans payoff. Therefore, we do not experience high payoff activity by loan count but see some of highest CPR rates in those years. Exhibit 6 shows that loans that originated in 2015 have the highest prepayment speed with a 12-month average CPR of 27%. Generally, the less seasoned a loan the slower the CPR, with 2021 down to 2%.

Exhibit 6: CPR by Origination Vintage and Payoff Loan Counts in the Past 12 Months

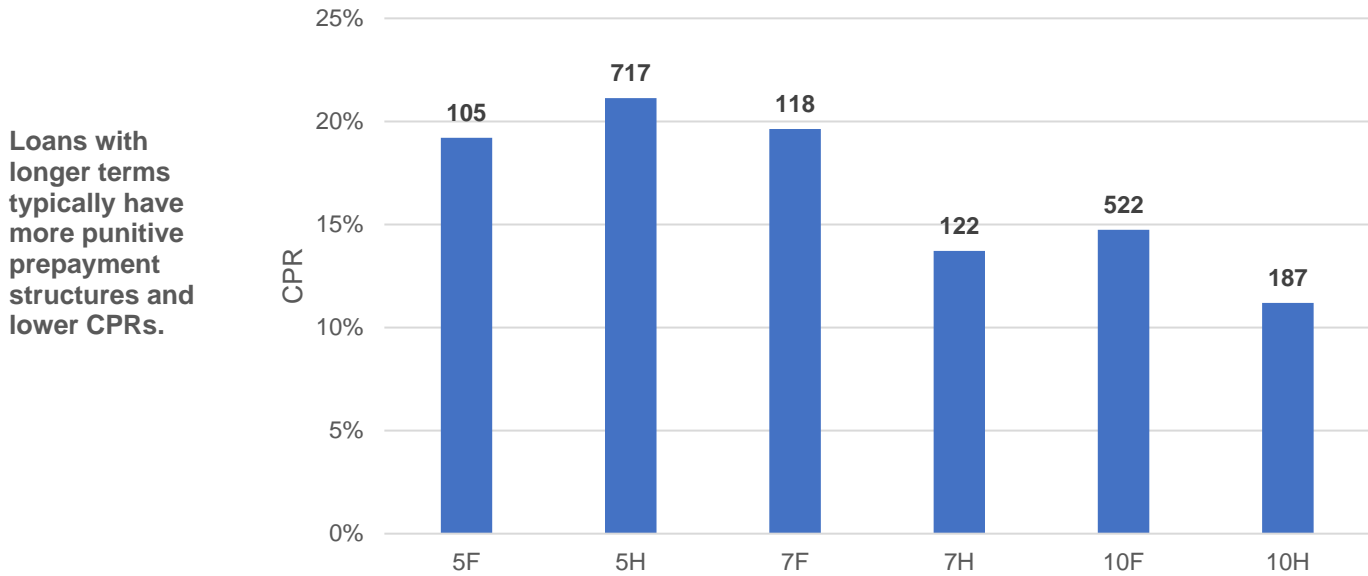
As loans season, the CPR increases.



Source: Freddie Mac

Exhibit 7 below shows that prepayments occur across all product types. CPRs are fastest for the 5-year fixed and hybrid loans as well as 7-year fixed-rate products, with speeds of 19% to 21%. However, by far the greatest number of prepaid loans are among the 5-year hybrid and 10-year fixed-rate products, with 717 and 522 prepaids, respectively, as they are the most common loan types chosen by borrowers.

Exhibit 7: 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 1,379 5-year hybrid loans that were originated prior to May 2017 converted to floating rate by June 2022 (the cut-off date of this report), as shown in Exhibit 8. Once converted, the standard prepayment premium is 1%. Of those 1,379 loans, 666 either paid off or were refinanced prior to converting to floating rate, while the remaining 713 converted to floating rate, for an overall conversion rate of 52%. Of those loans that converted to floating rate, 42% or 302 loans paid off after they extended into their floating-rate period. Although the very first of the 7-year hybrid loans are now able to convert to floating rate, only one of the eight eligible loans has converted, while the other seven were either paid off or refinanced.

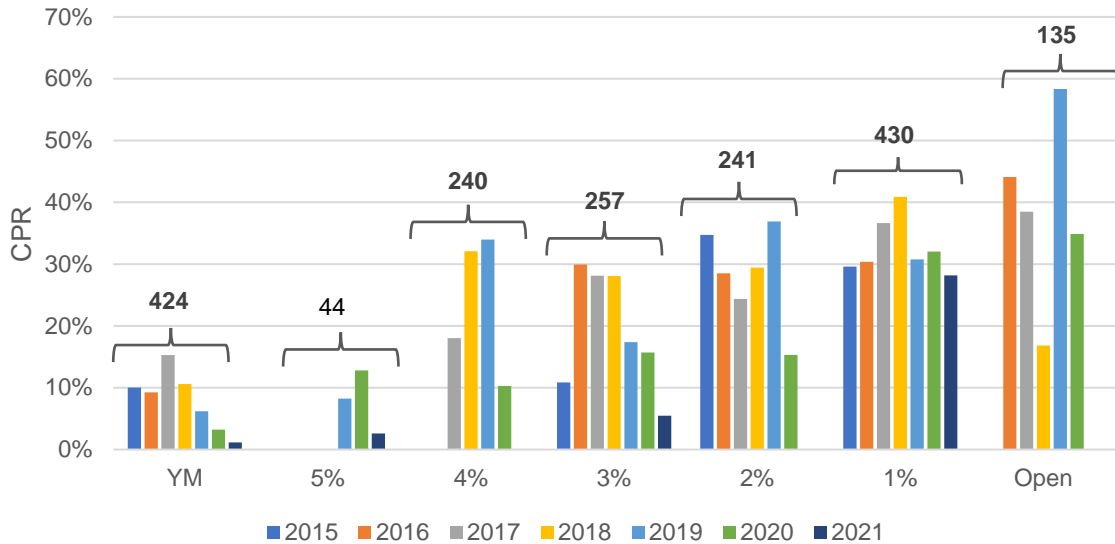
Exhibit 8: Analysis of 5-Year Hybrid Loan Conversion Rates

Origination Month	Originated 5H Loans	Loans Paid Off/Refinanced	Loans Converted	First Interest Adjustment Date	Conversion Rate	Floating Loans as of June 2022
Oct 2014	1	1	0	--	--	--
Nov 2014	1	1	0	--	--	--
Dec 2014	6	1	5	Jan 2020	63%	4
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%	23
Oct 2015	50	26	24	Nov 2020	51%	9
Nov 2015	42	18	24	Dec 2020	51%	10
Dec 2015	71	34	37	Jan 2021	52%	18
Jan 2016	53	26	27	Feb 2021	51%	11
Feb 2016	56	27	29	Mar 2021	51%	13
Mar 2016	70	42	28	Apr 2021	50%	9
Apr 2016	56	31	25	May 2021	50%	13
May 2016	53	18	35	Jun 2021	51%	25
Jun 2016	67	40	27	Jul 2021	50%	19
Jul 2016	26	12	14	Aug 2021	50%	7
Aug 2016	28	15	13	Sep 2021	50%	10
Sep 2016	30	18	12	Oct 2021	50%	9
Oct 2016	46	23	23	Nov 2021	50%	13
Nov 2016	42	22	20	Dec 2021	50%	9
Dec 2016	99	34	65	Jan 2022	51%	39
Jan 2017	80	43	37	Feb 2022	51%	18
Feb 2017	60	28	32	Mar 2022	51%	21
Mar 2017	86	42	44	Apr 2022	51%	34
Apr 2017	45	20	25	May 2022	51%	21
May 2017	88	34	54	Jun 2022	52%	44
Total	1379	666	713		52%	411

Source: Freddie Mac

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 9, where the prepayment speed increases as the seasoning increases and prepayment premium decreases.

Exhibit 9: CPR by Loan Prepayment Phase, Year, and Payoff Counts in the Past 12 months



Source: Freddie Mac

Exhibit 10 and the [Appendix](#) list CPRs and prepayment count by Freddie Mac SB-Deal®. 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, but the most seasoned deals are slowing. Some of the unevenness can be attributed to large pools of loans in deals paying off, inflating an individual deal’s CPR. However, in general, the longer the deal has been outstanding, the higher the prepayment rate.

Exhibit 10: 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	10%	2	SB049	208	19%	49
SB002	42	19%	4	SB050	180	16%	23
SB004	71	30%	12	SB051	509	21%	39
SB005	66	26%	6	SB052	564	18%	29
SB006	73	22%	8	SB053	590	16%	36
SB007	40	43%	12	SB054	539	25%	33
SB009	155	20%	19	SB055	608	22%	47
SB010	60	18%	7	SB056	565	20%	35

SB011	55	22%	6	SB057	578	14%	26
SB012	67	10%	5	SB058	624	17%	36
SB013	160	31%	21	SB059	626	21%	44
SB014	115	25%	21	SB060	625	27%	52
SB015	117	20%	10	SB061	616	21%	40
SB016	154	29%	25	SB062	625	10%	20
SB017	165	21%	15	SB063	531	18%	30
SB018	58	19%	7	SB064	443	19%	26
SB020	118	13%	11	SB065	615	20%	41
SB021	37	8%	2	SB066	575	21%	40
SB022	94	20%	14	SB067	605	15%	27
SB023	123	26%	20	SB068	537	13%	26
SB024	107	22%	14	SB069	460	16%	23
SB025	106	15%	13	SB070	414	11%	15
SB026	84	20%	15	SB071	423	16%	22
SB027	93	26%	20	SB072	381	12%	18
SB028	151	22%	22	SB073	333	16%	16
SB029	100	27%	33	SB074	419	9%	15
SB030	132	33%	28	SB075	494	4%	6
SB031	98	23%	19	SB076	432	3%	6
SB032	144	22%	28	SB077	426	8%	14
SB033	108	32%	25	SB078	411	11%	17
SB034	125	29%	21	SB079	410	4%	5
SB035	114	27%	30	SB080	405	5%	10
SB036	131	24%	30	SB081	323	9%	16
SB037	137	13%	20	SB082	450	10%	16
SB038	105	21%	24	SB083	401	7%	11
SB039	95	29%	22	SB084	403	7%	12
SB040	119	16%	17	SB085	428	5%	7
SB041	110	27%	20	SB086	414	5%	9
SB042	119	17%	21	SB087	430	6%	6
SB043	111	17%	15	SB088	426	2%	5
SB044	109	16%	19	SB089	426	2%	3
SB045	155	32%	36	SB090	450	2%	3
SB046	169	12%	18	SB092	390	5%	3
SB047	209	18%	32	SB093	422	1%	1
SB048	236	21%	43	SB099	476	2%	1

Source: Freddie Mac

Summary

As loans in the program season, along with relatively low interest rates in the beginning of 2022 and strong multifamily property price appreciation, the number of SB loans that prepaid in the past 12 months has increased 31% when compared with the 12 months ending in December 2021. Furthermore, 5-year fixed-rate maturities and 5-year hybrid conversions started to convert in 2020, which will continue to contribute to the higher level of prepayments. As discussed earlier, there are many factors that drive prepayment behavior, some of which are idiosyncratic. Accurately predicting future prepayment activity is difficult, but typically the more seasoned loans and those with lower prepayment premiums will prepay at higher rates than others. However, the rapid rise in interest rates seen during 2022 may lead to lower prepayment speeds going forward because higher interest rates typically slow prepayment activity.

Appendix: CPR by FRESB Deal in the Past 12 Months

