

# Small Balance Loan Prepayments

As of June 2024

## Portfolio and Risk Management

Jun Li  
571-382-5047  
[jun\\_li@freddiemac.com](mailto:jun_li@freddiemac.com)

Michael Donnelly  
571-382-3632  
[michael\\_donnelly@freddiemac.com](mailto:michael_donnelly@freddiemac.com)

Xiaojun Li  
571-382-4967  
[xiaojun\\_li@freddiemac.com](mailto:xiaojun_li@freddiemac.com)

## Capital Markets

Paul Kolling  
571-382-5725  
[paul\\_kolling@freddiemac.com](mailto:paul_kolling@freddiemac.com)

Luke Watts  
703-714-4657  
[lucas\\_watts@freddiemac.com](mailto: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 June 2024 (July 2023 through June 2024).
- 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 4.0% as of June 2024 — down 110 bps from the December 2023 CPR of 5.1%<sup>1</sup>.
- 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 during the reporting period 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 \$61.3 million (15 basis points) of losses in the aggregate on a total securitized balance of \$42.1 billion in the program's history from October 2014 through June 2024.
- 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.

---

<sup>1</sup> Historic numbers may be different from previously 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 June 2024<sup>2</sup>, Freddie Mac has funded and securitized over 15,500 SB loans totaling over \$42 billion of original unpaid principal balance (UPB) of volume, of which approximately \$14.7 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<sup>®</sup> 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 46% 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%	46%
4	310(3), 0%	N/A	N/A	310(3)	N/A	N/A	5%
<b>Total % Business</b>	<b>32%</b>	<b>8%</b>	<b>14%</b>	<b>7%</b>	<b>8%</b>	<b>31%</b>	<b>100%</b>

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.

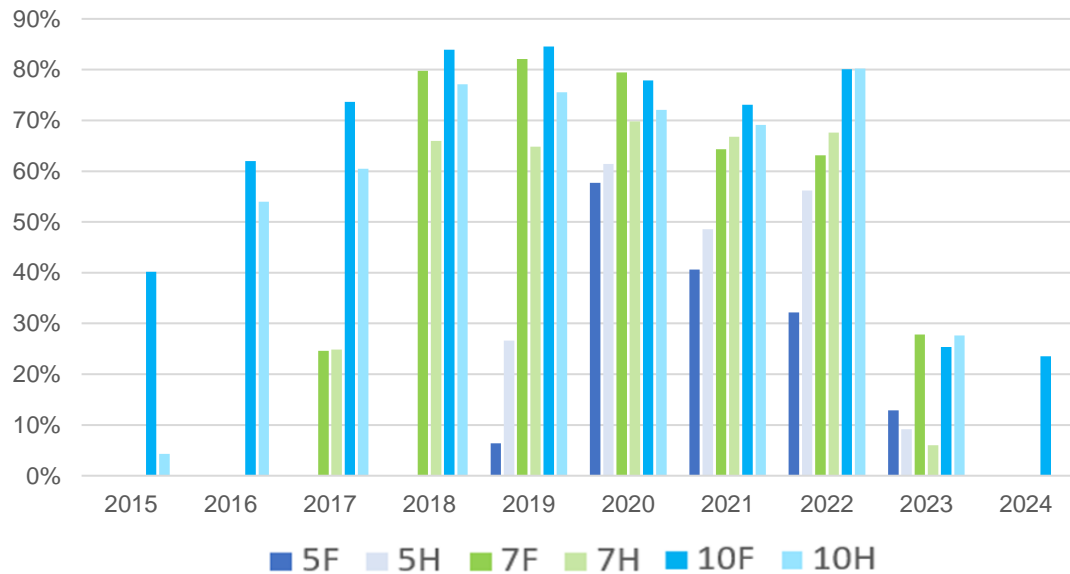
The Freddie Mac SBL program offers borrowers prepayment options along with a number of different products.

<sup>2</sup> All data points in this report are as of June 2024 unless otherwise stated. This analysis excludes third-party seasoned loans not typical of the program.

The share of current loans with yield maintenance has declined in the past 18 months, as shown below in Exhibit 2. The rate of loans with yield maintenance in 2023 and 2024 is less than half that of 2022 across all product types, implying the majority of loans in 2023 and 2024 choose a non-yield maintenance prepayment option.

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

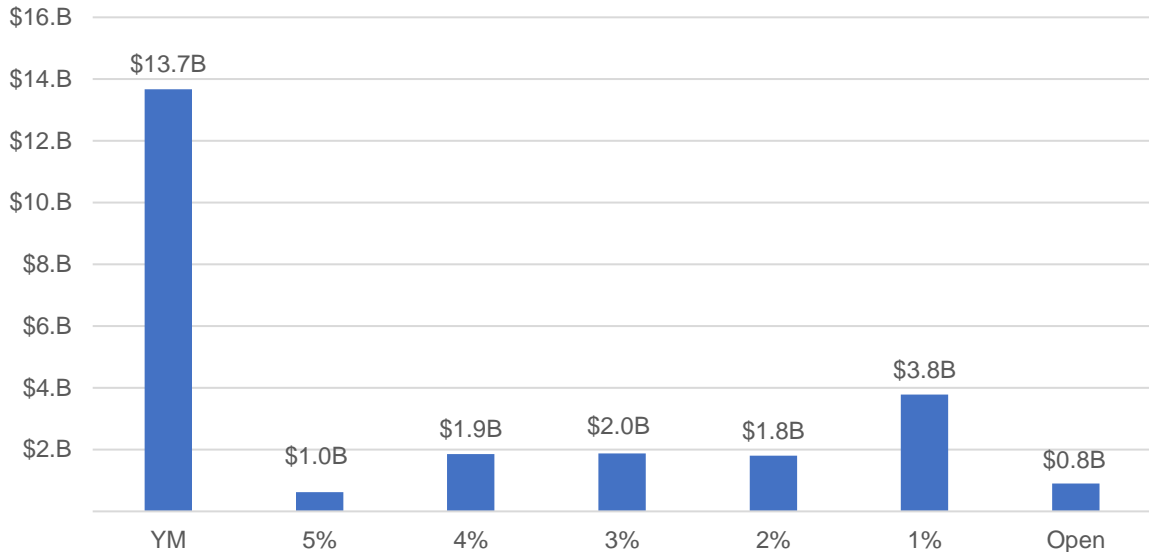
Yield maintenance has become much less prevalent during 2023 and the first half of 2024.



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: This represents current UPB, 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 June 2024, 460 loans prepaid which is a decrease of -18% in comparison with the prior report, representing the 12 months ending December 2023. Compared with the report that captures data ending in June 2022 (when prepayment counts were highest), the decline in loan prepayments is -74%. The total number of loans that have prepaid since the program’s inception is about 5,600. 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 2024.<sup>3</sup>

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

Loan prepayments decreased -74% for the 12 months ending in June 2024 compared with 2022.

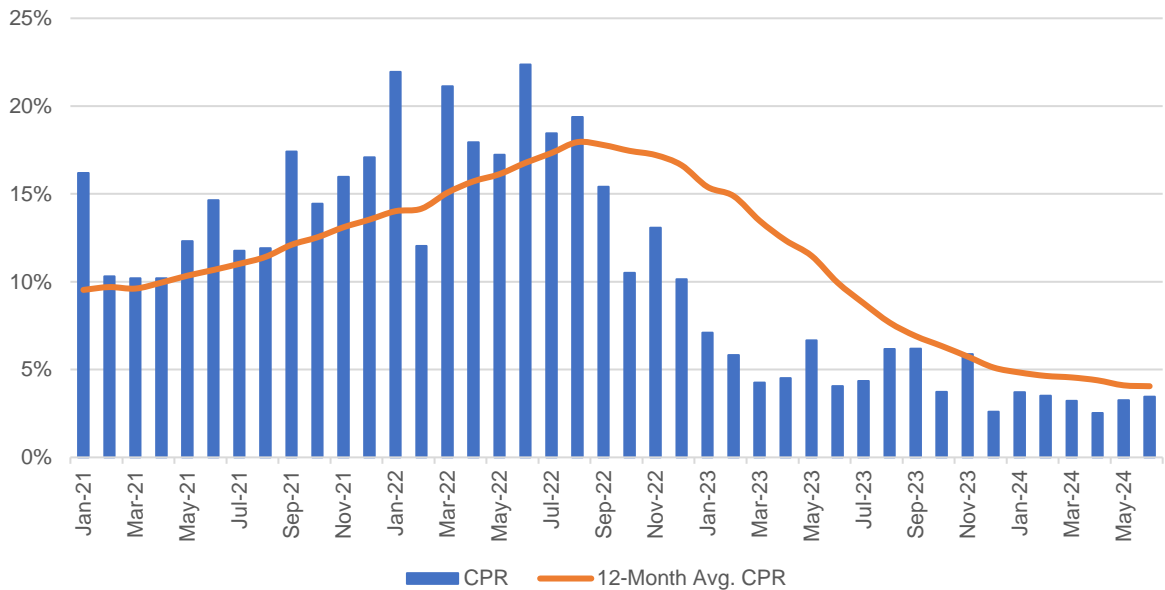
Prepayment Option	1	2	3	4					Total
	164	25	256	15					460
Prepayment Phase	YM	5%	4%	3%	2%	1%	Open		
	202	1	19	34	33	112	59	460	
Vintage	2015	2016	2017	2018	2019	2020	2021	2022	
	12	44	95	134	93	37	37	8	460
Product	5H	7H	10H	5F	7F	10F			
	125	33	63	39	48	152	460		

Source: Freddie Mac

<sup>3</sup> 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 filter, select “Prepay Reports” and select which type and year of the report. For additional details around FRESB loan payoffs, please reference our [SB-Deal Performance Presentation](#).

The 12-month average CPR is 4.0% as of June 2024, down modestly from 5.0% in the December 2023 report, but the CPR rate has fallen quickly, albeit with some volatility from the cyclical peak of 18% in August of 2022, seen in Exhibit 5. Interest rates were relatively low to start 2022 but increased throughout the year more than 200 bps, while property values grew for part of the year before flattening and then declining toward the end of 2022. Since then, property values have continued to decline, while interest rates are slowly declining — albeit volatile at times — through the middle of 2024. Despite interest rates appearing to have peaked in late 2023, the higher rates and declining property values has caused prepayment speeds to slow. In Exhibit 5, we see a significant slowdown in CPRs starting in the second half of 2022, which has continued through 2023 and into 2024 due to higher interest rates and falling property values.

**Exhibit 5: Annualized and 12-Month Average CPR**

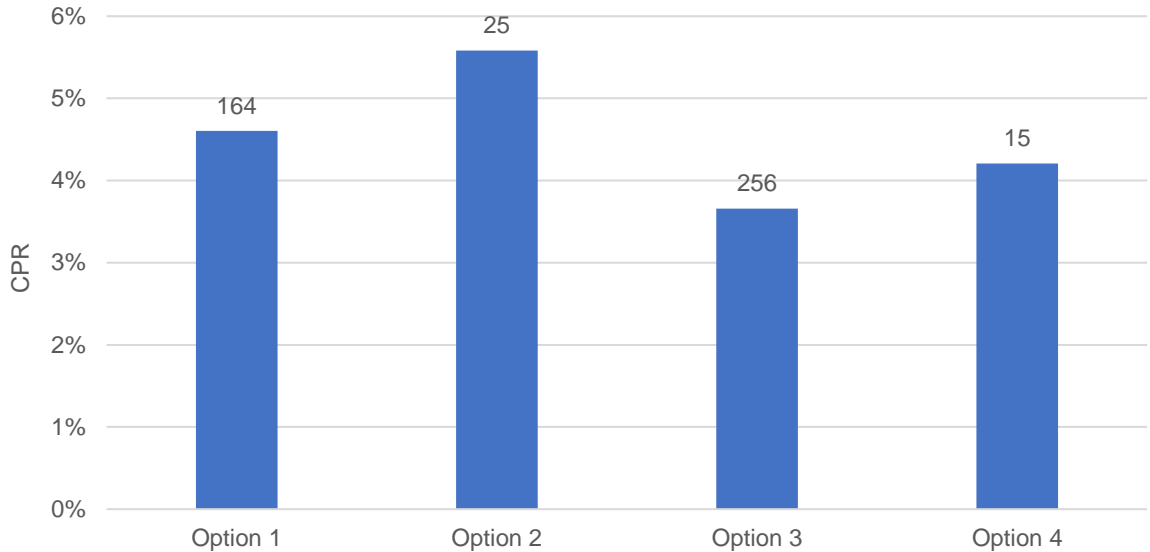


Source: Freddie Mac

Of the loans that have prepaid in the past 12 months, the vast majority of prepayments are among loans with Options 3 and 1, at 256 and 164 loans, respectively, of the 460 loans that have prepaid. As shown in Exhibit 6, Option 2 has experienced the highest prepayment rates of 5.6%, while Options 1, 3 and 4 are lower between 3.7% to 4.6%, although prepayment rates are down meaningfully across all option types. 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.

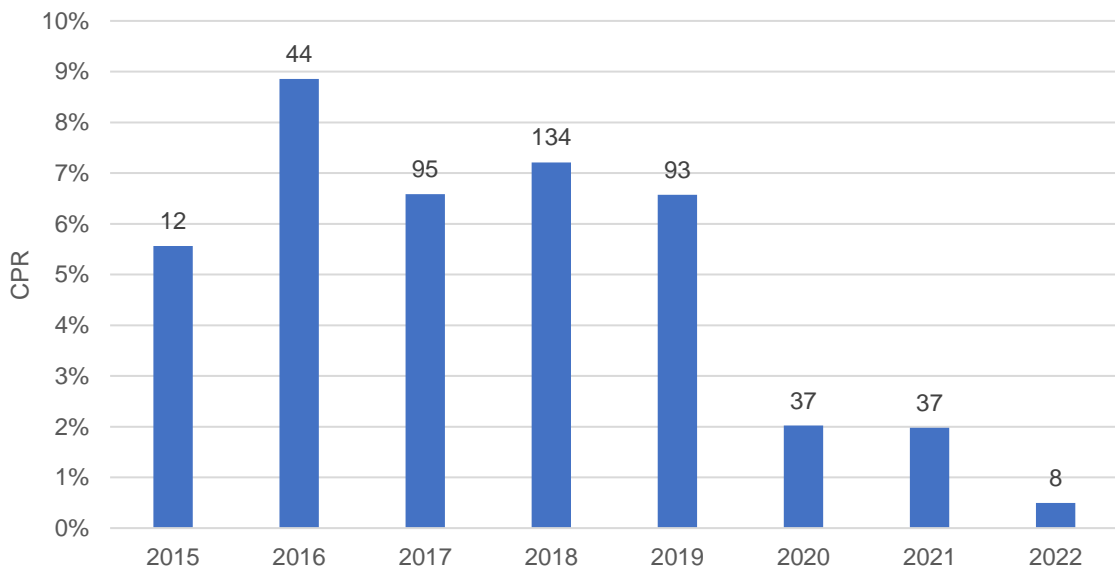


Source: Freddie Mac

The largest number of loans that have prepaid come from the 2017 through 2019 vintages, while the loans with the highest 12-month CPR are from the 2016 vintage, shown in Exhibit 7. The earlier years typically have higher CPRs as loans from these vintages have had time to season, and the loan populations decrease from previous prepayments. Generally, the less seasoned a loan, the slower the CPR, with originations from 2022 down to less than 1% and no prepayments for 2023 and 2024.

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

As loans season, the CPR generally increases.

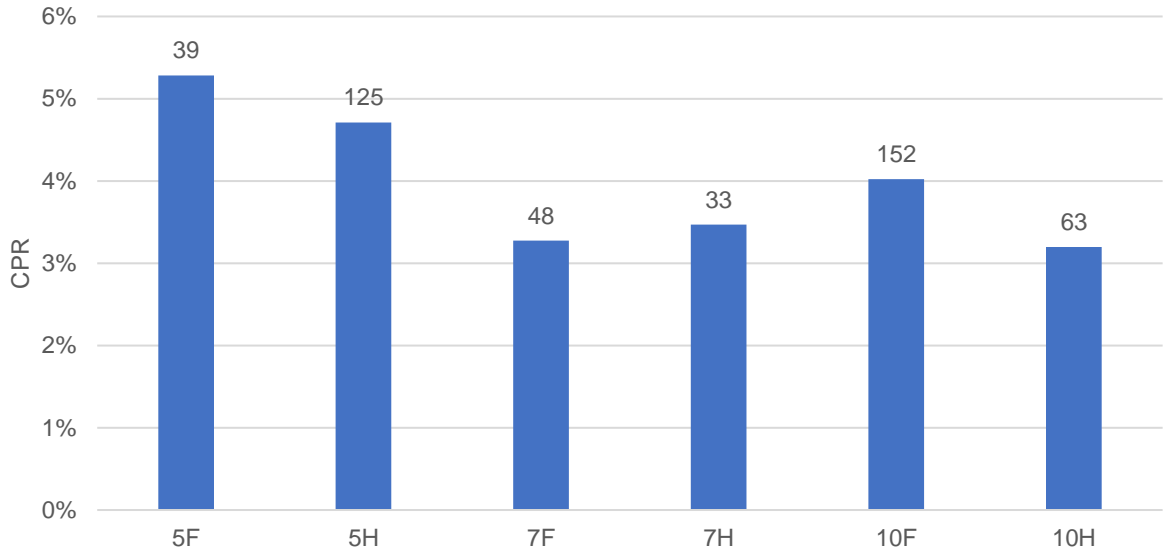


Source: Freddie Mac

Exhibit 8 below shows that CPRs are fastest for the 5-year fixed loans with speeds of just over 5%. By loan count, the greatest number of prepaid loans are among the 5-year hybrid and 10-year fixed-rate products, with 125 and 152 prepaids, 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 3,268 5-year hybrid<sup>4</sup> loans that were originated prior to May 2019 converted to floating rate by the June 2024 data cut-off of this report, as shown in Exhibit 8. Once converted, the standard prepayment premium is 1% (unless refinanced with Freddie Mac, in which case the prepayment premium is contractually not due<sup>5</sup>). Of those 3,268 loans, 1,639 either paid off or were refinanced prior to converting, while the remaining 1,629 converted, for an overall conversion rate of 50%. Of those loans that converted, 32%, or 515 loans, paid off after they converted.

<sup>4</sup> 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.

<sup>5</sup> 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 June 2024
Oct 2014	1	1	0	—	0%	0
Nov 2014	1	1	0	—	0%	0
Dec 2014	6	1	5	Jan 2020	63%	3
Jan 2015	5	5	0	Feb 2020	38%	0
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%	0
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%	5
Aug 2015	50	18	32	Sep 2020	50%	16
Sep 2015	68	32	36	Oct 2020	51%	18
Oct 2015	50	26	24	Nov 2020	51%	8
Nov 2015	42	18	24	Dec 2020	51%	7
Dec 2015	71	34	37	Jan 2021	52%	16
Jan 2016	53	26	27	Feb 2021	51%	7
Feb 2016	56	27	29	Mar 2021	51%	9
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%	9
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%	34
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%	25
Apr 2017	45	20	25	May 2022	51%	10
May 2017	88	34	54	Jun 2022	52%	34
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 June 2024
Sep 2017	103	43	60	Oct 2022	49%	53
Oct 2017	57	28	29	Nov 2022	49%	23
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%	23
Feb 2018	72	34	38	Mar 2023	50%	28
Mar 2018	92	58	34	Apr 2023	49%	29
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%	15
Nov 2018	96	55	41	Dec 2023	48%	36
Dec 2018	199	59	140	Jan 2024	49%	140
Jan 2019	40	17	23	Feb 2024	49%	23
Feb 2019	41	18	23	Mar 2024	49%	23
Mar 2019	49	26	23	Apr 2024	49%	23
Apr 2019	59	22	37	May 2024	50%	37
May 2019	81	35	46	Jun 2024	50%	46
<b>Total</b>	<b>3,268</b>	<b>1,639</b>	<b>1,629</b>		<b>50%</b>	<b>1,114</b>

Source: Freddie Mac

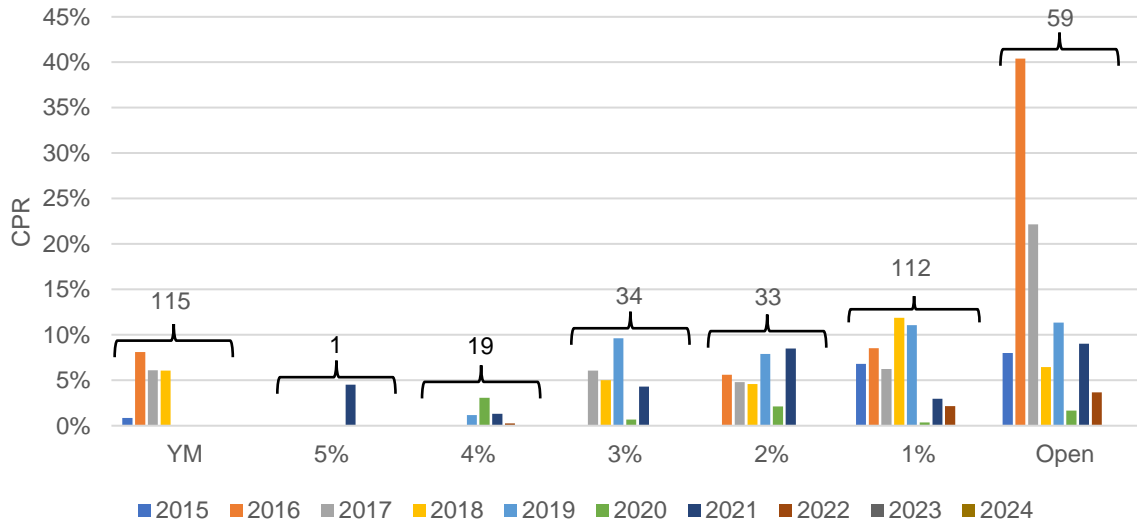
A total of 208 7-year hybrid loans that were originated prior to May 2017 converted to floating rate by June 2024, the cut-off date for this report, as shown in Exhibit 10. Once converted, the standard prepayment premium is 1% (unless refinanced with Freddie Mac or prepaid with proceeds of selling the property to an unaffiliated third party, in which case the prepayment premium is contractually not due). Of those 208 loans, 147 either paid off or were refinanced prior to converting, while the remaining 61 converted for an overall conversion rate of 29%. Of those loans that converted, 11%, or 7 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 June 2024
Nov 2014	1	1	0	Dec 2021	0%	0
Dec 2014	0	0	0	Jan 2022	0%	0
Jan 2015	0	0	0	Feb 2022	0%	0
Feb 2015	1	1	0	Mar 2022	0%	0
Mar 2015	0	0	0	Apr 2022	0%	0
Apr 2015	4	3	1	May 2022	17%	1
May 2015	2	2	0	Jun 2022	13%	0
Jun 2015	6	5	1	Jul 2022	14%	1
Jul 2015	13	10	3	Aug 2022	19%	1
Aug 2015	6	3	3	Sep 2022	24%	3
Sep 2015	4	4	0	Oct 2022	22%	0
Oct 2015	6	5	1	Nov 2022	21%	0
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
Dec 2016	16	9	7	Jan 2024	31%	7
Jan 2017	7	3	4	Feb 2024	32%	4
Feb 2017	5	4	1	Mar 2024	32%	1
Mar 2017	9	8	1	Apr 2024	31%	1
Apr 2017	12	10	2	May 2024	30%	2
May 2017	7	6	1	Jun 2024	29%	1
<b>Total</b>	<b>208</b>	<b>147</b>	<b>61</b>		<b>49%</b>	<b>54</b>

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. More seasoned deals are seeing lower CPRs as the underlying loan population is shrinking over time, 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	0%	.	SB058	624	7%	11
SB002	122	0%	.	SB059	626	6%	11
SB003	193	--	.	SB060	625	9%	19
SB004	192	4%	1	SB061	616	6%	12
SB005	145	0%	.	SB062	625	4%	7
SB006	202	5%	1	SB063	531	2%	4
SB007	101	5%	1	SB064	443	10%	10
SB008	102	--	.	SB065	615	4%	9
SB009	445	2%	1	SB066	575	4%	6
SB010	148	0%	.	SB067	605	1%	1
SB011	110	5%	1	SB068	537	2%	5
SB012	167	2%	1	SB069	460	3%	5
SB013	401	8%	3	SB070	414	3%	5
SB014	310	0%	.	SB071	423	0%	1
SB015	302	7%	2	SB072	381	12%	13
SB016	350	0%	.	SB073	333	2%	2
SB017	387	8%	2	SB074	419	3%	4
SB018	118	5%	1	SB075	494	2%	2
SB019	265	--	.	SB076	432	2%	3
SB020	293	1%	1	SB077	426	1%	2
SB021	94	5%	1	SB078	411	0%	1
SB022	255	6%	4	SB079	410	1%	1
SB023	342	3%	2	SB080	405	3%	6
SB024	259	14%	8	SB081	323	1%	1
SB025	233	1%	2	SB082	450	2%	2
SB026	221	7%	4	SB083	401	2%	4
SB027	246	8%	2	SB084	403	3%	4
SB028	323	5%	3	SB085	428	1%	2
SB029	217	5%	4	SB086	414	2%	3
SB030	307	3%	4	SB087	430	2%	3
SB031	264	1%	2	SB088	426	1%	2
SB032	322	5%	5	SB089	426	2%	2
SB033	221	8%	6	SB090	450	3%	3
SB034	328	10%	5	SB091	425	1%	1
SB035	317	7%	2	SB092	390	1%	2

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
SB036	351	4%	3	SB093	422	0%	.
SB037	317	4%	2	SB094	446	2%	2
SB038	259	16%	10	SB095	417	1%	1
SB039	264	3%	2	SB096	476	2%	3
SB040	294	1%	1	SB097	440	0%	.
SB041	312	3%	3	SB098	381	1%	1
SB042	288	4%	4	SB099	417	1%	1
SB043	326	4%	4	SB100	455	0%	.
SB044	321	1%	1	SB101	384	0%	.
SB045	403	7%	4	SB102	397	0%	.
SB046	495	3%	3	SB103	379	1%	2
SB047	553	6%	9	SB104	398	0%	1
SB048	561	5%	6	SB105	280	0%	.
SB049	569	3%	4	SB106	270	0%	.
SB050	506	4%	4	SB107	298	0%	.
SB051	509	6%	8	SB108	278	0%	.
SB052	564	8%	9	SB109	287	0%	.
SB053	568	7%	9	SB110	250	0%	.
SB054	539	15%	17	SB111	239	0%	.
SB055	608	3%	5	SB112	265	0%	.
SB056	565	5%	7	SB113	235	0%	.
SB057	578	7%	11	SB114	265	0%	.

Source: Freddie Mac

### Summary

The higher interest rates and lower property values slowed prepayment activity considerably in 2023 and during the first half of 2024. 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, as 5- and 7-year hybrid loans continue to convert, it 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

