Freddie Mac MULTIFAMILY

Small Balance Loan 5-year Anniversary

As of July 2019

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- This report presents a summary of the Freddie Mac Multifamily Small Balance Loan (SBL) program from 2014 to 2019
- The report summarizes metrics at the time of origination such as geographical concentration, loan-to-value (LTV), debt-service coverage ratio (DSCR) and cap rate
- This paper compares rent, expense and net operating income (NOI) growth between our SBL and Conventional programs from 2016-2018
- We show quarterly delinquency rates for our SBL program since 2016
- The report explores how the SBL program has supported affordable housing since its inception in 2014
- 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
- Check out our SBL Prepay Report for the latest information on SBL prepayments
- Unless otherwise listed, all data is sourced from Freddie Mac and reflects lending volume as of July 2019

Freddie Mac SBL Program Highlights

- **$22.25 billion in loans**
- **8,500+ loans**
- **12 lenders**
- **300+ investors**
- **306 markets**
- **49 states and D.C.**
- **94% of business supports affordable housing at or below 100% AMI**

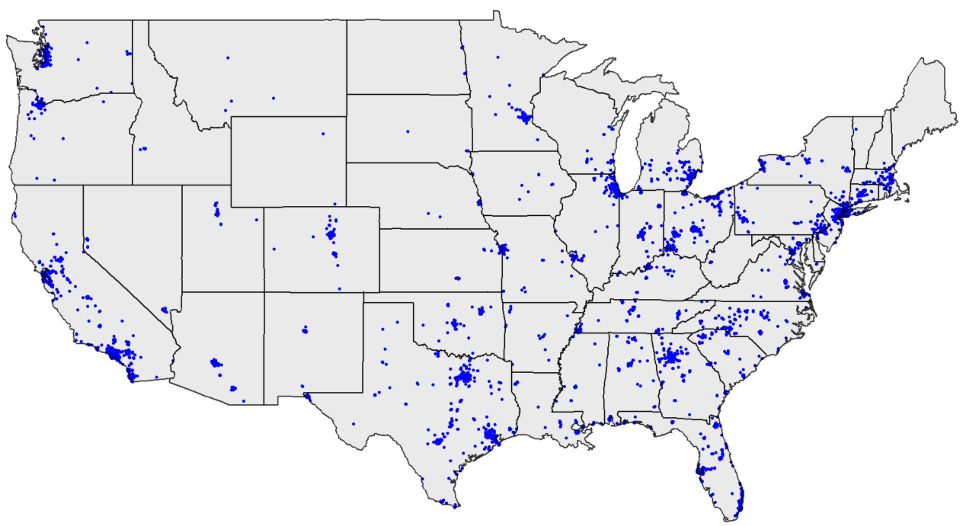
Freddie Mac Multifamily formally announced the SBL line of business to its lending platform in October 2014. This program targets loans between $1 million and $7.5 million and offers prepay flexibility to borrowers. We have seen a tremendous amount of growth and interest in this segment in recent years, and October 2019 marks the 5-year anniversary of the Freddie Mac Multifamily SBL program.

As of July 2019, Freddie Mac funded and securitized over 8,500 SB loans totaling over $22.25 billion of original unpaid principal balance (UPB), with the majority of loans funding in the last two calendar years. Since its inauguration in 2014, the SBL program has grown to include participation from 12 lenders and more than 300 investors. Our SBL business supports our affordable housing mission, with roughly 94% of our SBL business on average affordable to households making at or below the area median income (AMI).

Underwriting

Over the past five years, we have funded loans in over 300 metro areas and 49 states, plus the District of Columbia. Exhibit 1 shows a map of our SBL loans funded throughout the continental United States (Hawaii is not pictured but is included in the SBL footprint).

Exhibit 1: Map of SBL Loans



While our SBL program has a footprint all across the country, our top concentrations are in a mix of gateway and secondary metro areas. Exhibit 2 lists the Top 10 metropolitan areas by units and UPB that were funded from 2014-2019. New York City tops the list both by units and UPB, representing 11% and 24% of total SBL business, respectively.

Exhibit 2: Geographic Distribution of SBL Loans by Units and UPB (2014-2019)

The Top 10 metros make up 43% of all units and 59% of UPB of funded SB loans since the program inception.

MSA	% of Units		MSA	% of UPB
New York City	11%		New York City	24%
Dallas	7%		Los Angeles	10%
Los Angeles	6%		Chicago	6%
Houston	4%		Dallas	4%
Chicago	4%		Seattle	3%
Atlanta	4%		Houston	3%
Miami	2%		Denver	2%
Detroit	2%		Miami	2%
Cincinnati	2%		Atlanta	2%
Seattle	2%		Portland	2%

Since 2015, our underwriting has remained consistent with LTV, averaging around 69% over those five years. Over that same time, the DSCR has declined slightly, from 1.43x to 1.32x, partially due to the increased market competition and a rising interest rate environment from 2016-2018. Cap rates have remained relatively consistent around 5.6%. The geographical concentration among the Top 10 metros by units has ranged from 40-46%.

Exhibit 3: SBL Underwriting Metrics

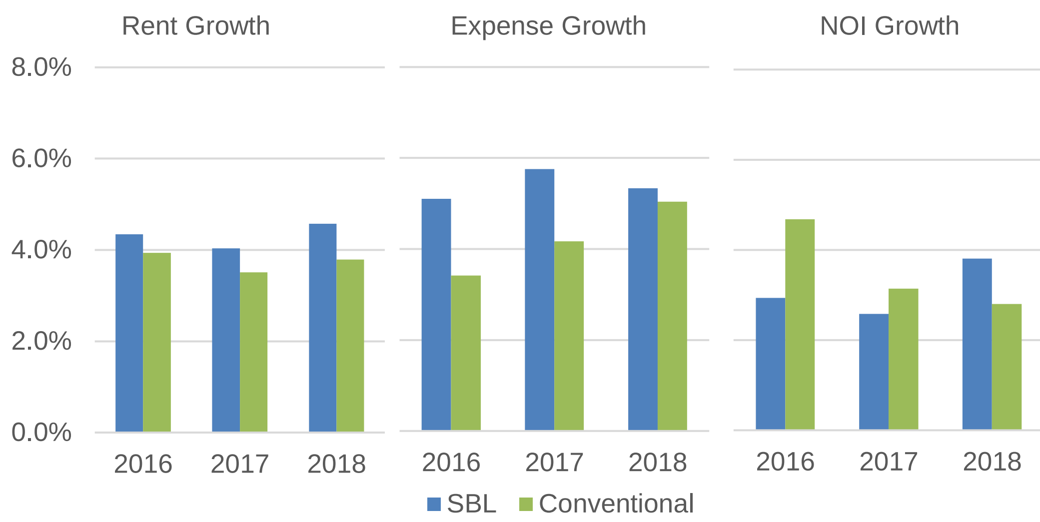
Year	LTV	DSCR	Cap Rate	Top 10 Geography Concentration
2015	69%	1.43x	5.6%	42%
2016	70%	1.40x	5.6%	40%
2017	69%	1.36x	5.4%	46%
2018	68%	1.32x	5.4%	44%
2019	68%	1.32x	5.6%	42%

Financial Performance

Exhibit 4 compares rent growth, expense growth and NOI growth in our SBL program with our Conventional program. Compared with our Conventional program, SBL saw higher rent growth in the past three years, ranging from 4.0% to 4.6%. At the same time, expense growth in SBL has outpaced our Conventional program partially due to the nature of how small properties operate. Due to the higher expense growth in SBL, NOI growth has typically been lower for SBL compared with Conventional Loans, except for in 2018. However, NOI growth in SBL has been trending upward in the past year, reaching 3.8% in 2018 compared with 2.6% in 2017.

Exhibit 4: SBL and Conventional Rent, Expense and NOI Growth

Rent growth has been marginally higher in SBL loans. Due to somewhat higher expenses, SBL NOI growth has generally lagged Conventional, except for in 2018.

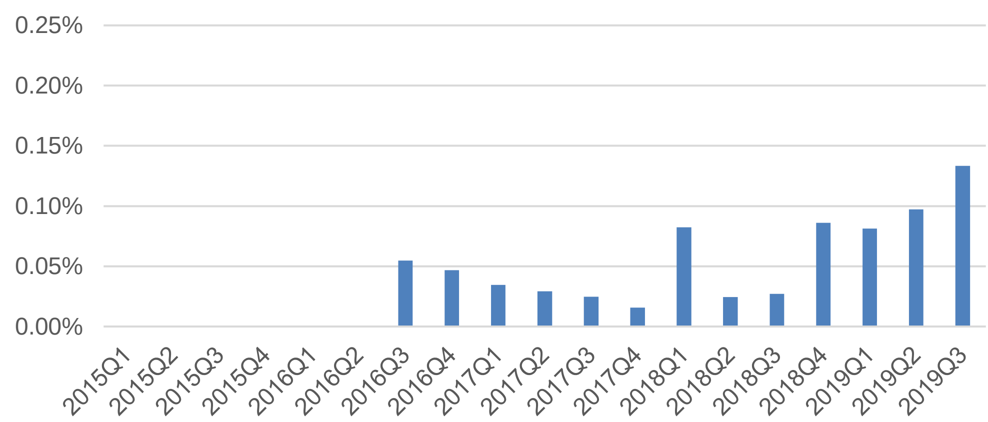


Credit Risk

Credit performance among SBL Loans has been very strong since the program's inception, as seen in Exhibit 5. As of September 2019, the serious delinquency rate was around 13 bps. There has been only $2.3 million in total losses over the entire program, representing 1 bp of total issuance.

Exhibit 5: SBL 60+ Day Delinquency Rate (bps)

As of 3Q 2019, SBL performance is strong, with 13 bps of 60+ day delinquencies.

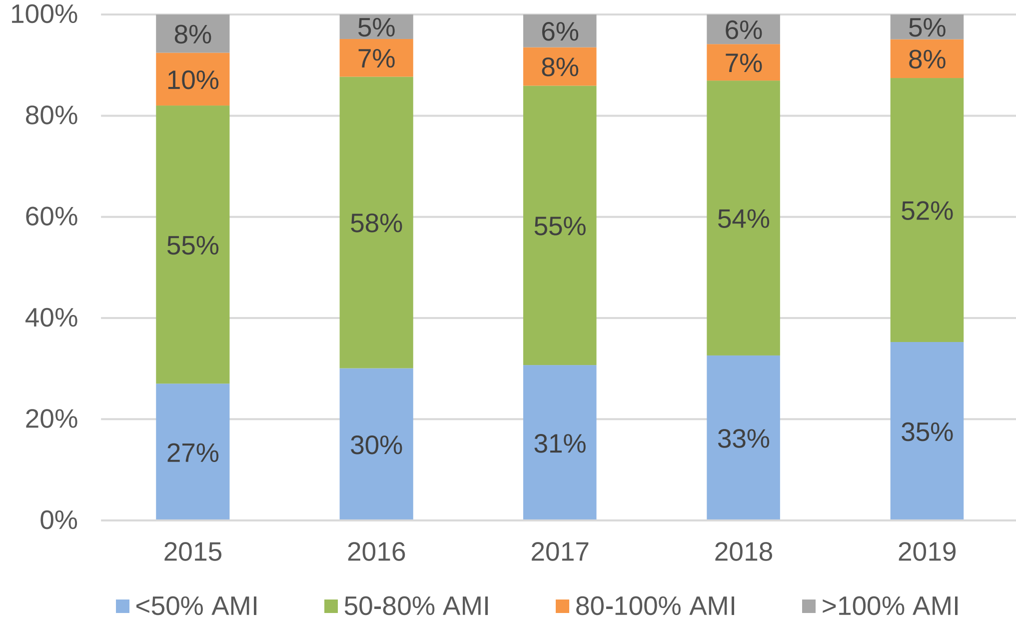


SBL Affordability

Since 2015, an average of 94% of our annual SBL business is affordable to households making at least the area median income (at or below 100% AMI). By comparison, 86% of our total business is affordable to households making at or below 100% AMI.

Exhibit 6: SBL Affordability by AMI (as of September 2019)

On average 94% of SBL business has been affordable to households making at least the area median income.



Summary

Our SBL program has grown significantly since inception in 2014, has a vast national footprint and continues to support affordable rental housing. As our program grows, our underwriting practices have remained consistently strong. Consistent with our Conventional business, loan performance is strong and defaults remain low.