

FOCUS ON

## Multifamily Gold PC<sup>®</sup>s



Since January 1994, Freddie Mac has purchased \$3.5 billion in multifamily mortgages.<sup>1</sup> We expect to significantly increase our multifamily business over the next five years. Multifamily Gold PC<sup>®</sup>s offer many benefits including prepayment protection, attractive yields, standardized pooling criteria, and outstanding credit quality. As with all Gold PCs, Multifamily Gold PCs have a 45-day payment delay; thus, investors receive principal and interest payments 10 days earlier than investors in other mortgage-backed securities. Loan level disclosure and factors released on or about the first business day of the month make it easier for investors to evaluate their Multifamily Gold PC investments.

### Superior prepayment protection

One of the most prominent advantages of multifamily securities over single family securities is the high level of call protection they provide. Contractual call protection is a generic feature of multifamily mortgage loans and takes one of three forms: lockouts, stepped-down prepayment premiums, and yield maintenance provisions.

**Lockout:** A lockout is simply a specified period of time during which prepayments are prohibited. For example a typical loan with a balloon in ten years may have a lockout that expires in 3 years.

**Step down premiums:** Step down premiums require the prepaying borrower to pay a charge calculated as a fixed percentage of the principal balance being prepaid. As the age of the loan increases, the percentage of the prepayment penalty declines. An example of this would be

a typical 4%/3%/2% annual step down. Under this structure, a borrower would pay a penalty equal to 4% of the unpaid principal balance (UPB) if the loan were to prepay during the first 12 months after origination. During the second twelve months the penalty would be reduced to 3% of the current UPB. A 2% penalty would apply if the loan were to prepay between month 24 and the end of the penalty period. With step down premiums, there is generally no penalty in the final 3 months.

**Yield maintenance:** A yield maintenance provision is considered one of the most powerful forms of contractual prepayment protections. It is designed to eliminate the borrower's ability to capitalize on declines in market interest rates by refinancing. In addition to the principal balance prepaid and any accrued interest, the borrower must make a cash payment equal to the present value of the difference between the foregone mortgage interest rate and a specified "reference" rate. Usually the reference rate equals the current yield on the Treasury having a remaining term comparable to that of the remaining yield maintenance period. Overall the penalty is greatest when rates are lowest, eliminating most of the attraction of refinancing to capture a lower interest rate.

Other instances exist in the multifamily market where a yield maintenance floor or a spread to the reference rate are employed as further disincentive to prepayment. Similar to the stepped down premium, there generally is no penalty applied during the 90 days just prior to maturity. Often, a combination of lockout and either a stepped down premium structure or yield maintenance is utilized to offer investors a period of virtually complete prepayment protection.

<sup>1</sup> As of October 1996.

**Additional prepayment protection:** In addition to the contractual prepayment premiums or lockouts, the multifamily borrower faces other disincentives to prepay throughout the mortgage term. First, processing requirements, closing costs, and application fees to refinance multifamily loans are relatively high when compared to single family loans. Second, the refinancing process for multifamily loans is more onerous as documentation and third-party assessments are far more complex, detailed, and time consuming to prepare. Third, available capital is limited for multifamily lenders and is primarily directed to new properties or to refund maturing balloons. Finally, for older properties, lenders often require physical improvements such as upgrading of the building to existing local and federal building codes, and other potentially expensive “tenant improvements.” Each of these systemic costs can substantially increase the refinancing threshold for borrowers.

## Attractive yields

Multifamily PCs offer higher yields than many non-mortgage investments. Compared with similar mortgage assets Multifamily PCs offer attractive yields with better convexity. Contrasted with non-mortgage assets like non-callable agency debt and AAA-rated corporates, Multifamily PCs generally trade at 20 to 30 basis points wider spreads. The table below shows a specific example that compares a Multifamily PC, in this case a 10-year balloon with a 9 ½ year yield maintenance period, to non callable agency debt and AAA-rated corporates. The first column identifies the specific assets, while the subsequent columns offer pricing and valuation measures used to compare the instruments.

Product	Coupon	Price	Maturity	BE Yield	Tsy Spread	WAL	Mod Dur	Convexity
<b>Multifamily PC</b>								
<b>W20001</b>								
10yr/9.5YM	7.26	104-21	05/06	6.60	+53/10yr	8.8	6.29	0.6
<b>Agency Debt</b>								
10yr NC	5.88	96-22	02/06	6.36	+29/10yr	9.3	6.36	0.6
<b>AAA-rated</b>								
Industrials - 10yr	6.88	103-40	06/06	6.43	+36/10yr	9.4	6.94	0.5

Yield Curve as of 10:00pm 12/2/96.

3mo: 5.12 6mo: 5.23 1yr: 5.37 2yr: 5.61 3yr: 5.70 5yr: 5.85 10yr: 6.07 30yr: 6.37

## Standardized Pooling Criteria

Multifamily mortgages purchased by Freddie Mac and pooled into PCs must represent an income producing multifamily rental or cooperative property with at least five units. The loan size must be at minimum \$350,000 and maximum \$20,000,000. Mortgages purchased may be fully amortizing, amortizing balloons, or interest-only balloons. The variety of loan types purchased, their parameters, and pool prefixes are shown below:

Mortgage type	Minimum/Maximum Original Term	Maximum Amortization	Gold PC Prefix
<b>Conventional / Fully Amortizing</b>	<b>10 to 30 years</b>	<b>30 years</b>	<b>W0, W3</b>
<b>Conventional / Amortizing Balloon</b>	<b>5 to 15 years</b>	<b>30 years</b>	<b>W0, W2</b>
<b>Conventional / Interest-Only Balloon</b>	<b>3 to 10 years</b>	<b>30 years</b>	<b>W0, W1</b>
<b>FHA / Fully Amortizing</b>	<b>10 to 40 years</b>	<b>40 years</b>	<b>W0</b>

## Outstanding Credit Quality

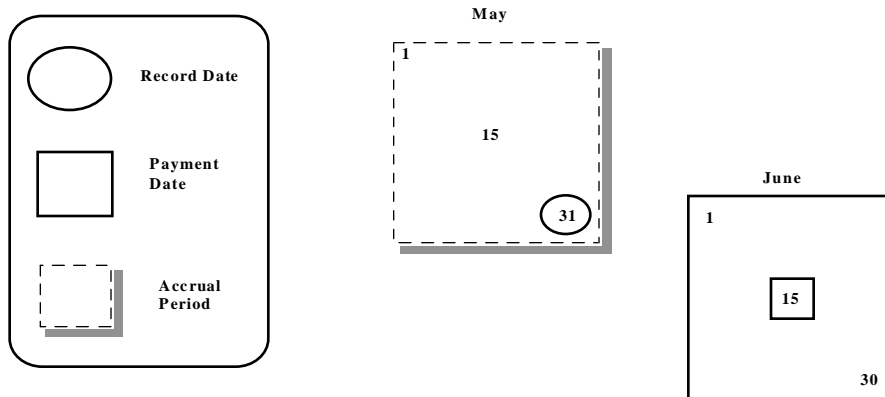
All Multifamily Gold PCs offer the Freddie Mac guarantee of timely payment of principal and interest. Additionally, Freddie Mac's credit, appraisal and underwriting guidelines are consistent. Generally, Freddie Mac requires that the mortgages it purchases:

- be secured by properties with occupancy rates of at least 90%
- have debt coverage ratios (as determined by Freddie Mac) of at least 1.25 for the first mortgage and 1.15 for the first mortgage and any subordinate mortgages
- have loan-to-value ratios of not more than 80% for the first mortgage or 85% for the first mortgage and any subordinate mortgages

In addition to the guidelines established by Freddie Mac, any FHA mortgages purchased must conform to the guidelines established by the FHA.

## Payment Cycle

Like all other Gold PCs, Multifamily Gold PCs pay principal and interest on the 15<sup>th</sup> day of each month to the holder of record on the last day of the month prior to payment. The accrual period begins on the first day of each month, ends on the last day of each month and is paid in the following month. If the 15<sup>th</sup> falls on a weekend or a holiday, then the payment is made on the next business day. The diagram below highlights the accrual period for a Freddie Mac Multifamily Gold PC payable on June 15<sup>th</sup>:



If the 15<sup>th</sup> falls on a weekend or holiday, then payment will be made on the next business day.

**Interest payment** = (Original Par amount)(May Factor)(Interest Rate) ÷ 12

**Principal payment** = (May factor - June Factor)(Original Par Amount)

## Disclosure

Freddie Mac discloses detailed loan level information for each Multifamily Gold PC. The following information is currently available at settlement on both Internet (<http://www.freddie.com>) and the Freddie Mac Resecuritization Electronic Database (FRED<sup>®</sup>):

<b>Mortgage UPB</b>	Principal amount of the mortgage when pooled by Freddie Mac
<b>First Mortgage Payment Date</b>	First payment date of the mortgage after origination
<b>Amortization Period</b>	Amortization period for the mortgage in months. A period of zero indicates an Interest Only Balloon
<b>Appraised Value</b>	Determination of the value of the property
<b>Physical Occupancy Percentage</b>	Represents the actual number of units occupied divided by the total number of units in the property
<b>Estimated Net Operating Income</b>	Represents estimated revenues from the property less estimated operating and fixed expense
<b>Debt Coverage Ratio</b>	Represents ratio of total net operating income from the property to payments required on the outstanding mortgages
<b>Loan to Value</b>	Represents the percentage obtained by dividing the mortgage UPB by the appraised value
<b>Prepayment Premium End Date</b>	Represents the last date when the period for incurring prepayment premiums for a prepayment will cease
<b>Prepayment Premium</b>	An indicator of the type of prepayment premium formula used. (i.e. Yield Maintenance Premium, Step-down Premium) Abbreviations are as follows:  YMP: Yield Maintenance Premium )Includes mortgages that contain a yield maintenance premium for an initial period followed by a percentage premium. STP: Step-down premium PCT: Percentage Premium OTH: Other Premium Type NA: Not Applicable
<b>Lockout End Date</b>	Represents the last date on which a prepayment is not permitted on a given mortgage

The Mortgage Unpaid Principal balance and other selected data fields are updated monthly. Freddie Mac also provides monthly factors for each Multifamily PC on the first business day of each month through FreddieAnswers, the Internet, and FRED.

## More Information

Additional details about Freddie Mac's Multifamily Gold PC program are contained in the Multifamily PC Offering Circular. If you have any questions about Multifamily PCs or any other Freddie Mac securities, please call Investor Inquiry at (800) 336-3672.

**This document is not an offer to sell any Freddie Mac securities. Offers are made only through offering circulars and related supplements for any given security and Freddie Mac's Information Statement and related supplements.**