



# Capital Markets Viewpoint: Your Securitization Questions Answered

2016 Regional Seller Workshops



# What We Will be Covering Today

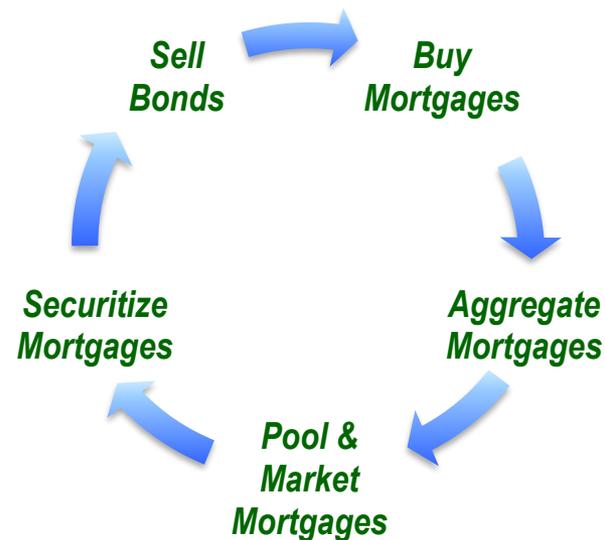
- An overview of the CME Underwriting and Capital Market teams
- Our securitization pipeline strategy and process
- Who are our investors and what are their levels of due diligence
- The Q&A process and assets of concern
- The roles of rating agencies
- Comparisons of K-Deal vs. CMBS performance
- Regulatory Environment
- Single Asset Single Borrower



Large Loan and Tiered Credit  
Exception Approvals  
Loan Level Credit Risk  
Distribution



Manage Securitization Pipeline  
Deal Management & Execution

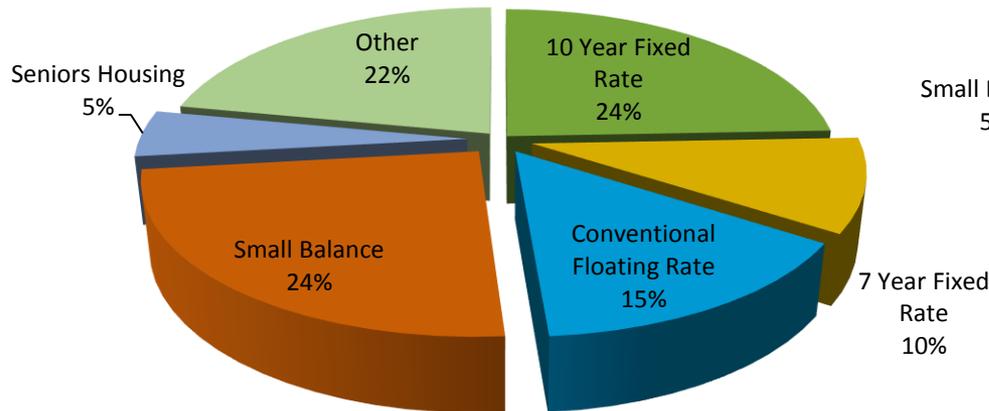


# 2015 Securitization Summary

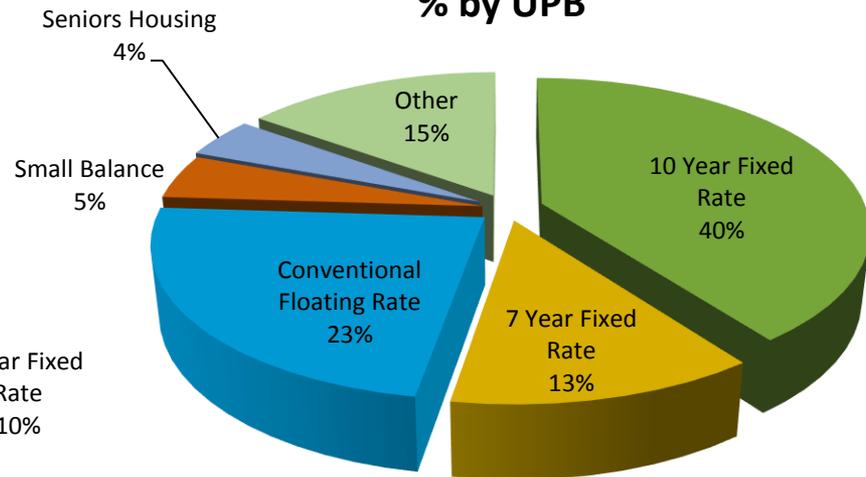
- Issued 41 deals having an aggregate balance of \$37.5 billion backed by 2,595 loans
- Average K-Deal pool composition was 62 loans with a principal balance of \$1.2 billion
- Average SB-Deal pool composition was 68 loans with a principal balance of \$177 million

Type	10 -Year Fixed-Rate	7-Year Fixed-Rate	Conventional Floating-Rate	Small Balance	Seniors Housing	Other*
# of Deals	10	4	6	10	2	9
% of Deals	24.4%	9.8%	14.6%	24.4%	4.9%	21.9%
UPB	\$14.9	\$4.8	\$8.8	\$1.8	\$1.6	\$5.6
% of UPB	39.8%	12.8%	23.4%	4.7%	4.3%	15.0%

**2015 Transactions  
% by Deals**

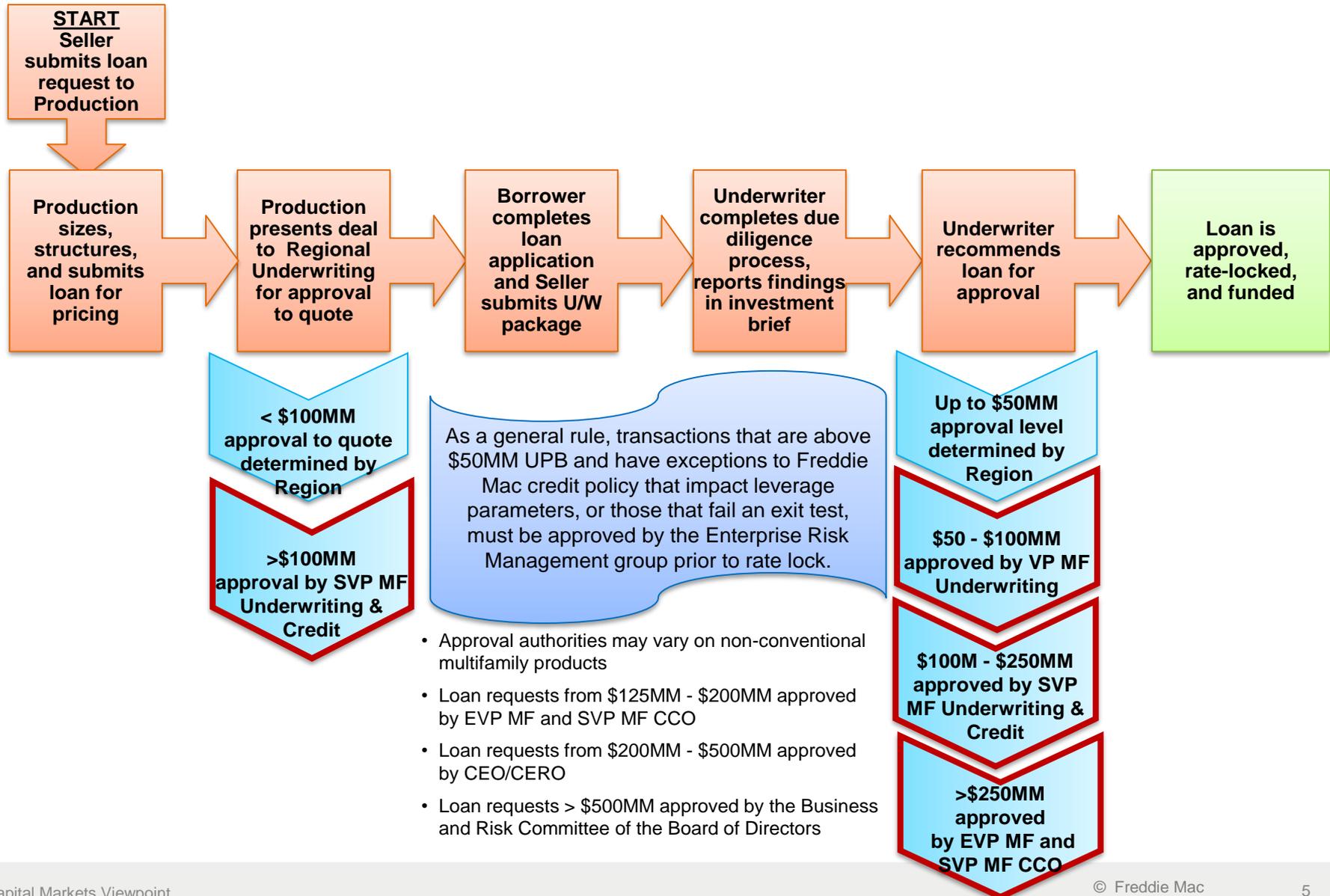


**2015 Transactions  
% by UPB**



\* Other consists of two supplemental deals (K-J01 and K-J02), four single sponsor deals (K-LSF, K-KA, K-PLB and K-VAD), a 10+ year fixed rate deal (K-1501), a no-subordination deal (K-P02), and Q-002.

# The Underwriting & Credit Approval Process



## There are many factors taken into consideration when creating a K-Deal pool:

- **First In, First Out (FIFO)**
- **Consistency:** Freddie's K-Deal program is known for consistency in:
  - » **Size:** The average deal size in 2015 was approximately \$1.2 billion
  - » **Term:** Generally designate similar terms — 10 year, 7 year, 5 year, fixed/floating
  - » **Credit Metrics:** LTV and DSCR
- **Pool diversification:**
  - » Geography
  - » Sponsor
  - » Property Subtype
  - » Seller/Servicer
  - » Amortization
  - » Call Protection

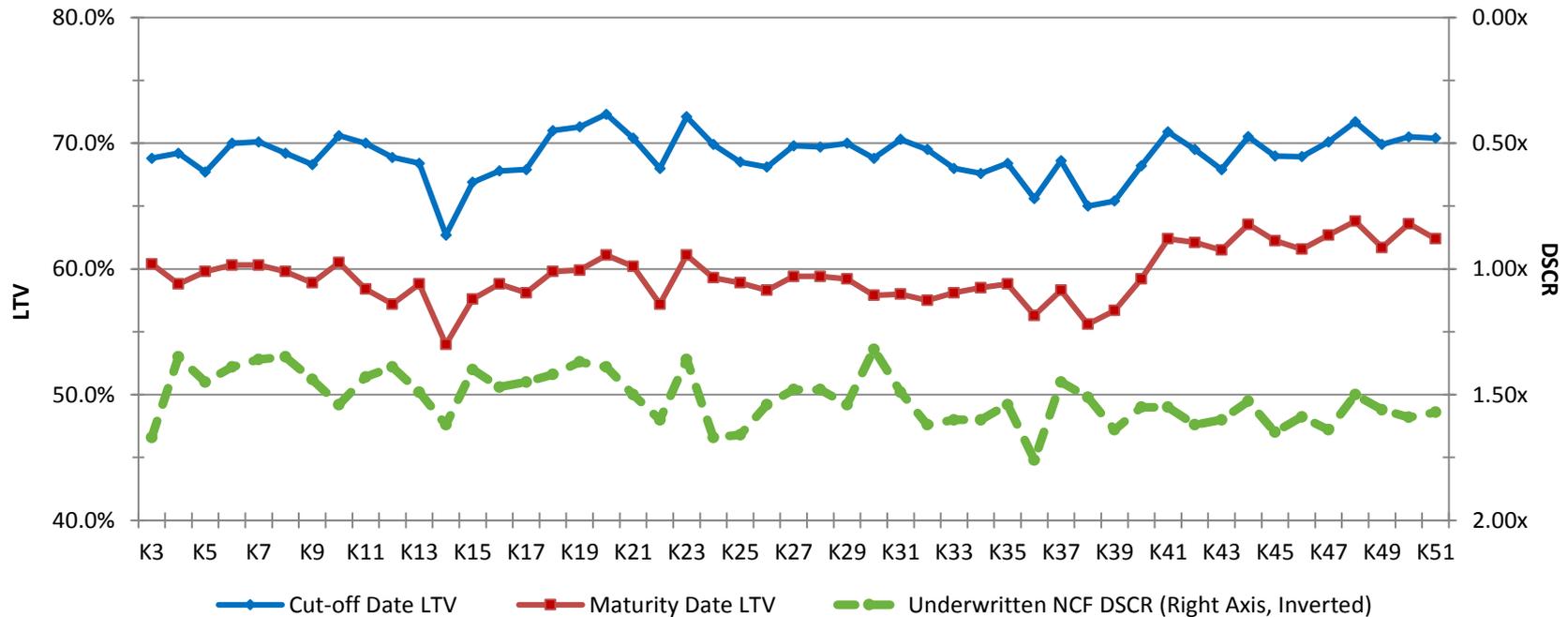
K-Deal Summary By Year <sup>1</sup>						Weighted Average							
Year	Number of Deals	Number of Loans	Mortgage Pool Cutoff Balance (\$)	Guaranteed Balance (\$)	Average Cutoff Principal Balance (\$)	Interest Rate (%)	Remaining Loan Term (Months)	Seasoning (Months)	Loan to Value %	Debt Service Coverage Ratio (x)	Loan Balance % Top 10 Loans	Acquisition Loans (%)	Delinquency % (60+ days & REO)
2009	2	108	2,139,995,180	1,979,495,000	19,814,770	5.707	115	4	69.0	1.51	54.4	28.8	0.00%
2010	6	364	6,443,710,496	5,693,793,676	17,702,501	5.547	113	4	69.0	1.38	46.2	24.9	0.21%
2011	12	839	13,658,171,155	11,722,206,000	16,279,107	4.901	102	5	68.5	1.43	38.7	30.0	0.00%
2012	17	1,141	21,203,764,465	17,922,331,076	18,583,492	4.081	92	6	70.3	1.45	37.3	39.3	0.00%
2013	19	1,391	28,036,108,438	23,696,302,400	20,155,362	3.625	104	6	68.5	1.56	36.3	45.6	0.00%
2014	17	1,299	21,324,933,962	18,262,559,000	16,416,423	3.678	92	5	68.5	1.68	34.4	47.2	0.00%
2015	30	1,858	35,621,528,113	30,552,872,011	19,171,974	3.453	100	7	70.4	1.62	45.7	44.7	0.00%
<b>Total/WA</b>	<b>103</b>	<b>7,000</b>	<b>128,428,211,809</b>	<b>109,829,559,163</b>	<b>18,346,887</b>	<b>3.908</b>	<b>99</b>	<b>6</b>	<b>69.3</b>	<b>1.56</b>	<b>39.8</b>	<b>42.7</b>	<b>0.01%</b>

# 10 Year K-Deal – Credit Profile Data



- The weighted average cut-off date LTV ranges from 62.7% to 72.3%, and the weighted average underwritten DSCR ranges from 1.32x to 1.76x.

## 10-Year K-Deals

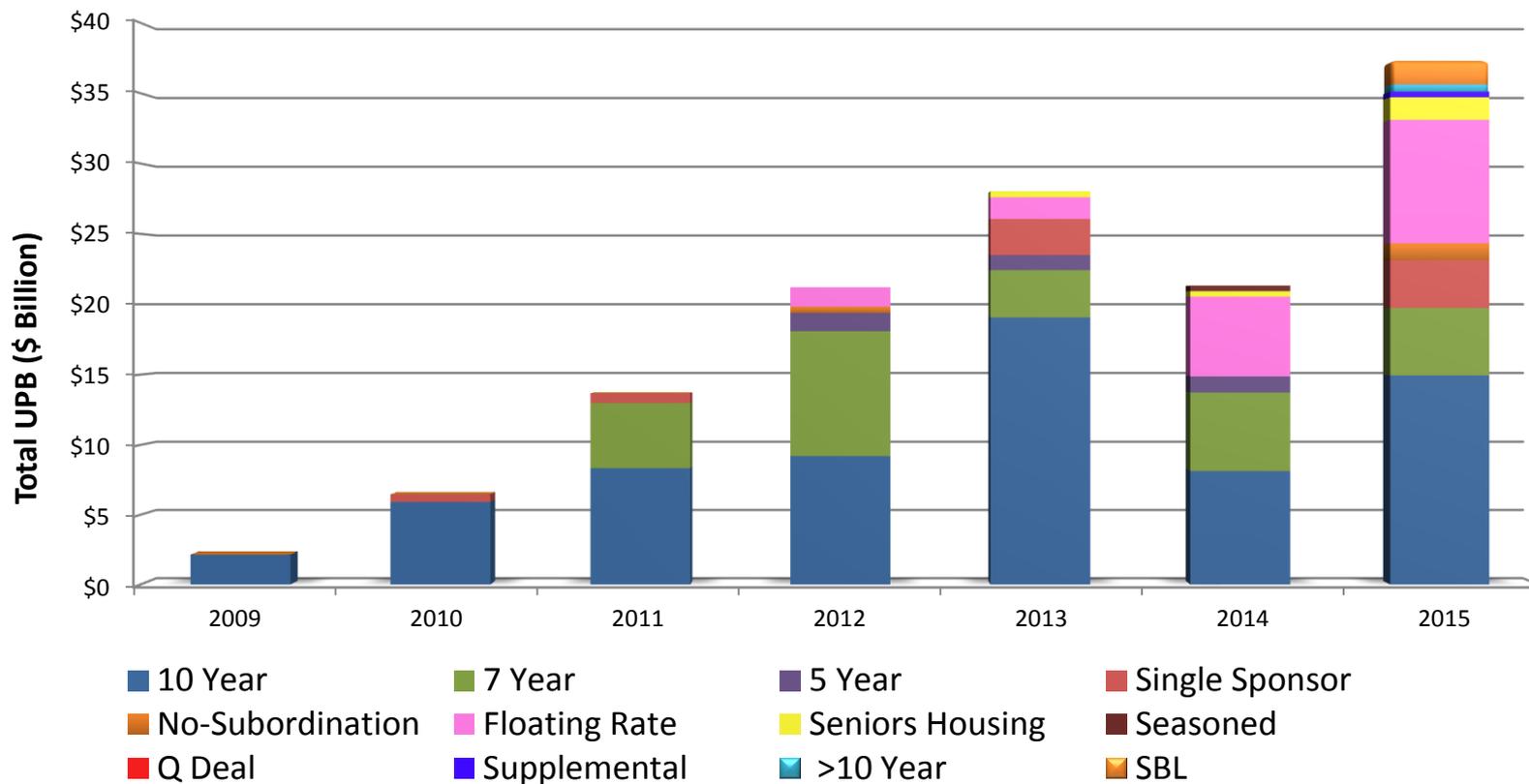


# Multifamily Securitization Program

(2009 – 2015)



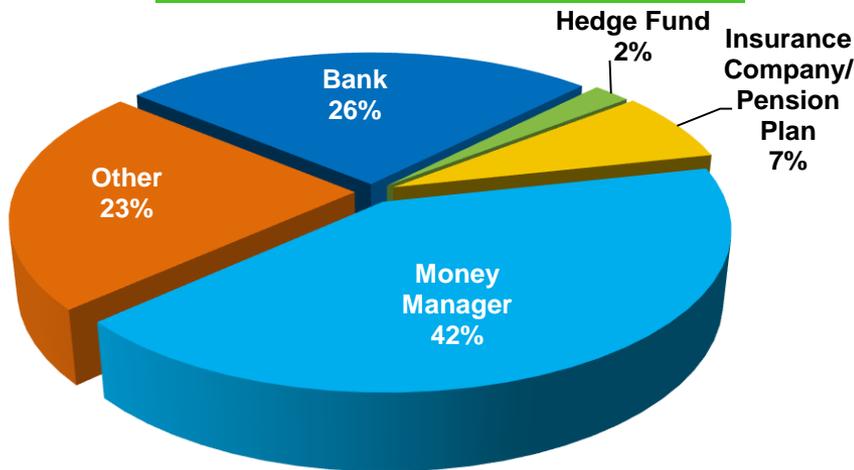
## Execution Volume



	2009	2010	2011	2012	2013	2014	2015	Total
Total UPB	\$2.1	\$6.4	\$13.7	\$21.2	\$28.0	\$21.5	\$37.5	\$130.5
K-Deals	\$2.1	\$6.4	\$13.7	\$21.2	\$28.0	\$21.3	\$35.6	\$128.5
Q-Deal	0	0	0	0	0	\$0.2	\$0.1	\$0.3
SBL-Deals	0	0	0	0	0	0	\$1.8	\$1.8

- 378 investors involved in the K-Deal program
  - » 226 investors participated in 2015
  - » Average of 29 different accounts per transaction
  - » 30 subordinate investors historically, 19 participating in 2015
  
- Addition to Barclays Index further increased investor base

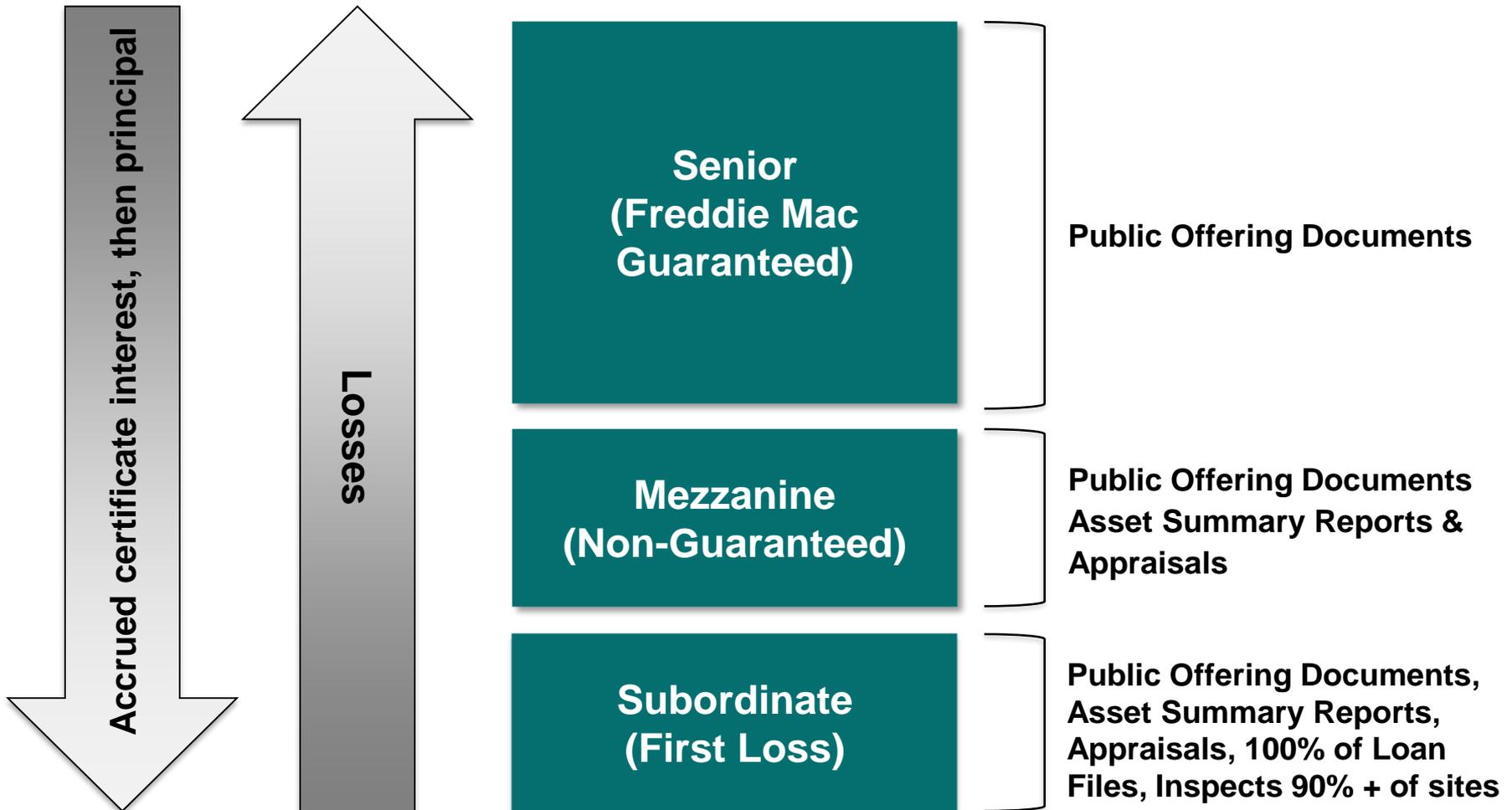
## K-Deal Investors by Type



Investor by Bond Type	% of Issuance
<b>Senior (Guaranteed)</b>	
Money Manager	40%
Bank	31%
Other	21%
Insurance Company/Pension Plan	7%
Hedge Fund	1%
<b>Total</b>	<b>100%</b>
<b>Mezzanine (Unguaranteed)</b>	
Money Manager	65%
Insurance Company/Pension Plan	13%
Other	8%
Hedge Fund	8%
Bank	7%
<b>Total</b>	<b>100%</b>
<b>Interest Only (Unguaranteed)</b>	
Money Manager	49%
Insurance Company/Pension Plan	13%
Other	31%
Hedge Fund	6%
Bank	1%
<b>Total</b>	<b>100%</b>
<b>Subordinate (Unguaranteed)</b>	
Specialty Real Estate/Owner/Operator	54%
Money Manager	35%
Hedge Fund	11%
<b>Total</b>	<b>100%</b>

<sup>1</sup> Data reflects allocations for deals closed through December 31, 2015.

## Level of due diligence correlates to level of risk



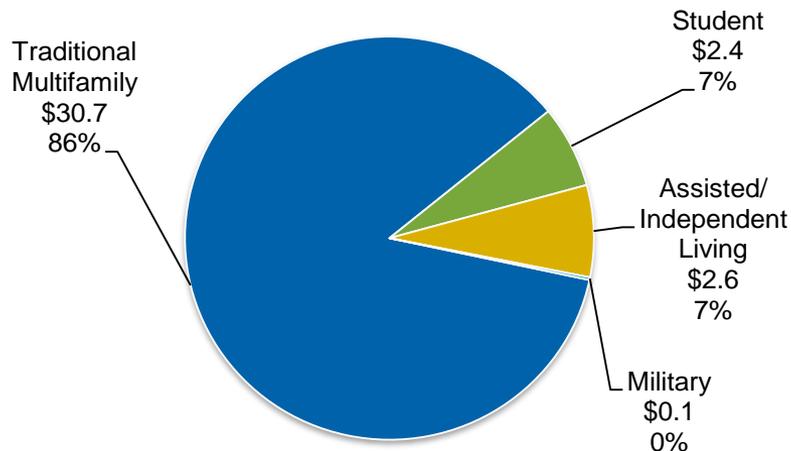
# Subordinate Bond Investors (“B-Buyers”)

- Selected via public auction or private placement
- First hand experience with multifamily real estate
- Prior to securitization
  - » Underwrites all loans
  - » Typically performs site inspections on 90% + of loans
  - » Appoints an unaffiliated entity as Special Servicer, subject to Freddie Mac approval
  - » Approves loans for final pool
- Post-securitization
  - » Monitor transaction
  - » Approval required for certain modifications, assumptions and requests
  - » Investment absorbs losses first

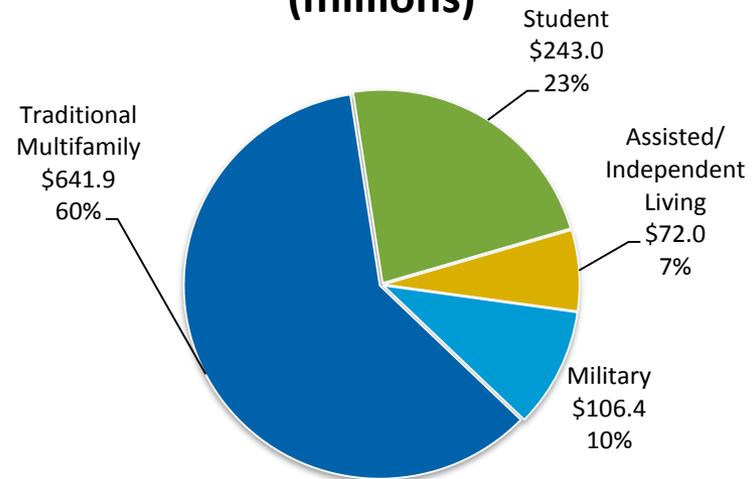
Loans may be removed at the end of due diligence for various reasons:

- Performance decline
- High exposure to certain borrowers, markets, etc.
- Property quality concerns
- Specialty products such as student, senior and military subtypes are removed at a disproportionate rate compared to their volume in securitizations in 2015

### 2015 Securitization Totals (billions)



### 2015 Investor Kickouts (millions)



## Performance

- Explanation/Monitoring
- Strong Inspection
- Strategy/Business Plan
- Latest RR & CF Update
- Relevant Comparables

## Property Condition

- Identify Issues Upfront
- Escrowed Funds?
- Completion Status
- Track Record
- Crime

## Providing Support

## Market Fundamentals

- New Supply/Market Updates
- Employment/Population Growth
- Additional Demand Drivers
- Short-Term Value Appreciation

## Specialty Products

- Student Preleasing
- University Demand
- Military Deployments/Downsizing
- Seniors Long-Term Demand and Economics

# Rating Agencies

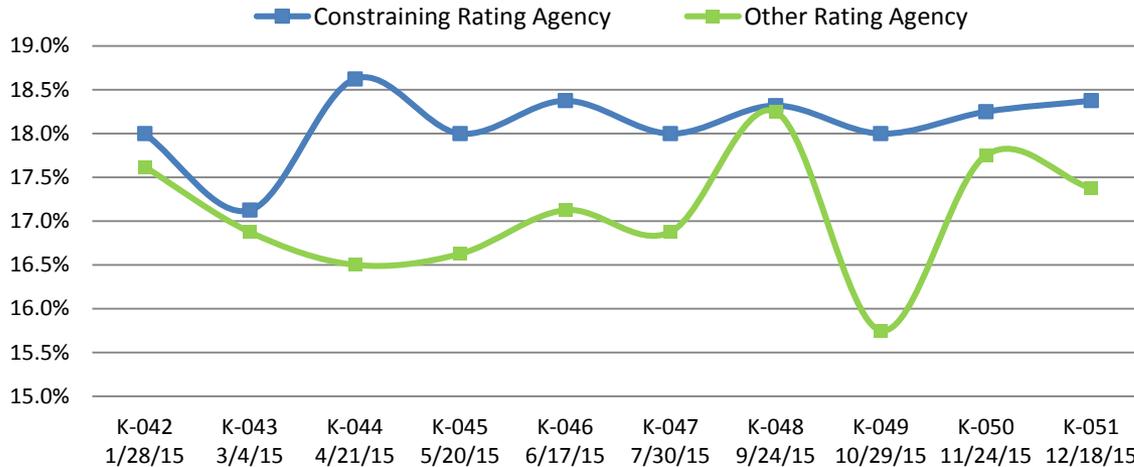
Solicit preliminary feedback from six nationally recognized statistical rating organizations



# K-Deal vs. CMBS Performance

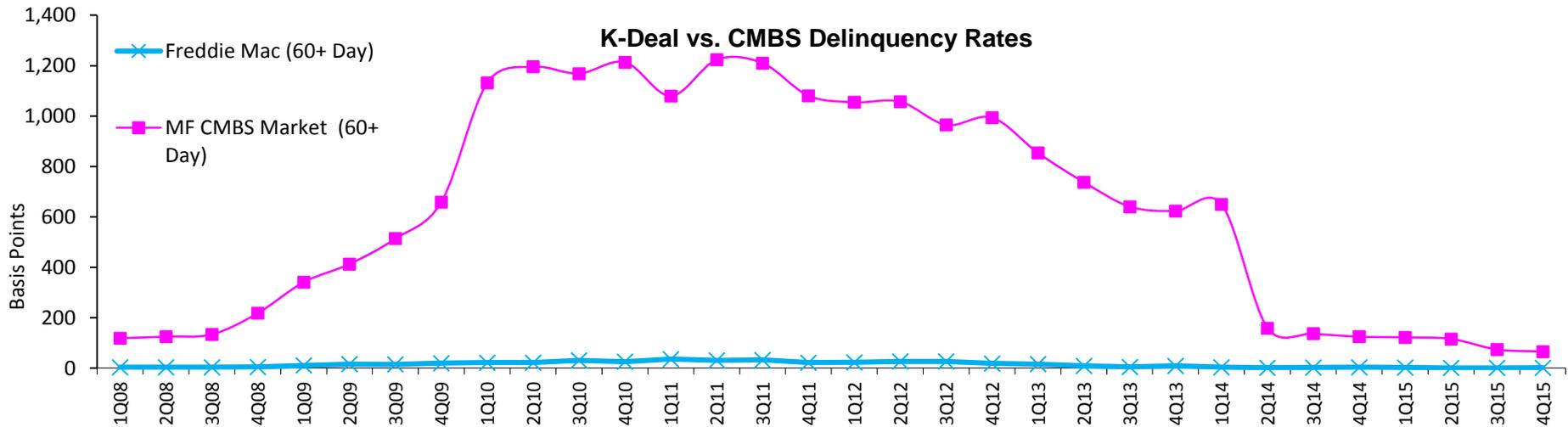


## 2015 10-Year K-Deal AAA Subordination



- K-Deal A-2 subordination levels have been consistently tighter than the A-S bond in the CMBS market. December 2015, average A-S CMBS subordination levels were 24%<sup>1</sup>.
- K-Deal delinquency rate was 2bps in December 31, 2015 compared to 66 bps for CMBS.
- Servicer Watchlist<sup>2</sup> consists of 2.88% collateral UPB (as of December 2015).

1. Based on the last 3 10-year fixed rate CMBS deals priced in 2015.  
 2. The respective servicers maintain a watchlist for each securitization. Loans are added to and removed from the watchlist in accordance with criteria established by CREFC.



- Dodd-Frank (effective December 2016)
  - » Risk retention has two general structures
    - Vertical: Sponsor is required to retain 5% of the notional value of each class of securities
    - Horizontal: Sponsor is required to retain the most subordinate class of securities equal to 5% of the FMV of the entire capital stack
  - » Freddie Mac 100% guaranteed securities are exempt
- Regulation AB
  - » Expanded disclosure to investors
  - » Depositor CEO certification
- Fundamental Review Trading Book (FRTB)
  - » Places capital requirements for banks holding certain types of securities
  - » Freddie Mac guaranteed securities are exempt

# Single Asset Single Borrower (SASB)

- Provides sponsors flexible, customized financing for a portfolio of loans generally greater than \$300 million
  - » Eligible products: Conventional, Senior, Student, Targeted Affordable, etc.
  - » Fixed, floating
  - » Prepayment provisions
- Must have capacity to purchase a discounted subordinate bond equal to 10-15% of the pool amount
  - » Bond cash flows offsets debt service payments effectively lowering borrowing costs
- Freddie Mac Servicing Standard is in effect throughout the entire term of a performing loan

# K-SMC Transaction Highlights

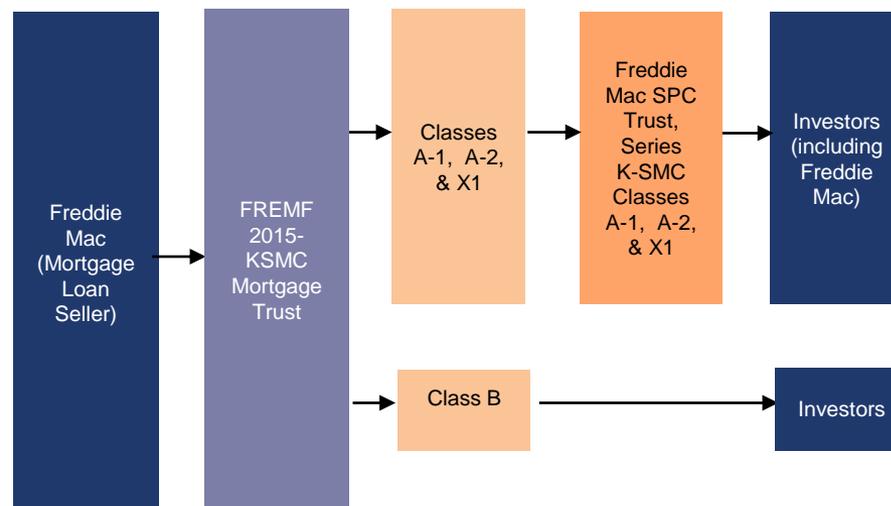
## Overview of Deal Structure Pricing Date: March 19, 2013

Class	Initial Principal or Notional Amount	Pricing Spread	Assumed Weighted Average Life
<b>Offered K-SMC Certificates:</b>			
A-1	\$241,000,000	S+35	6.07
A-2	\$1,109,000,000	S+60	9.83
X1 (IO)	\$1,350,000,000	T+175	8.74
<b>Total Guaranteed</b>	<b>\$1,350,000,000</b>		
B	\$150,000,000	S+857	9.83
<b>Total Non Guaranteed</b>	<b>\$150,000,000</b>		

## Deal Characteristics <sup>1</sup>

Collateral Type:	Multifamily Fixed Rate Mortgage Loans
Collateral Structure Type:	Balloon
Mortgaged Loans:	69
Initial Underlying Pool Balance:	\$1,500,000,000
Waterfall Structure:	Sequential
Top State Concentrations:	MD (82.9%), VA (17.1%)
WA Mortgage Interest Rate:	3.870%
WA Original Maturity:	120 months
WA DSCR:	1.44x
WA LTV:	58.9%
WA Debt Yield:	8.70%

## Structural Diagram



<sup>1</sup> As of the Cut-off Date

# K-PLB Transaction Highlights

## Overview of Deal Structure Pricing Date: June 19, 2015

Class	Initial Principal or Notional Amount	Pricing Spread	Assumed Weighted Average Life
<b>Offered K-PLB Certificates:</b>			
A	\$812,150,000	S+98	9.91
X	\$878,000,000	T+400	9.66
<b>Total Guaranteed</b>	<b>\$812,150,000</b>		
B	\$65,850,000	S+267.9	9.91
<b>Total Non Guaranteed</b>	<b>\$65,850,000</b>		

## Deal Characteristics <sup>1</sup>

Collateral Type:	Multifamily Fixed Rate Mortgage Loans
Collateral Structure Type:	Balloon
Mortgaged Loans:	1
Initial Underlying Pool Balance:	\$878,000,000
Rating Agencies:	Not Rated
Waterfall Structure:	Pro Rata
State Concentration:	CA (100.0%)
Mortgage Capped Interest Rate:	3.33%
Original Maturity:	120 months
DSCR:	2.27x
LTV:	52.4%
Debt Yield:	8.63%

<sup>1</sup> As of the Cut-off Date

## Structural Diagram

