A Closer Look:

Five Things to Know About the Multifamily Business

The Freddie Mac Multifamily business supports renter households across America, roughly one-third of housing units and growing. More than 500 employees from seven divisions across the company are involved in the business. Since Freddie Mac is more associated with its single-family business and homeownership, though, you might not hear as much as about multifamily. So what are five things you should know about Freddie Mac Multifamily?

1. Multifamily Is Different Than Single-Family. In certain ways, Freddie Mac Multifamily is similar to our single-family business. For instance, we both purchase and securitize mortgages originated from a network of lenders. And our respective fundings support residential housing. In most other ways, though, our multifamily business is very different than single-family. Our borrowers are institutions such as property developers, not consumers. We purchase loans from just two dozen or so commercial real estate lenders, many of whom do not do business with single-family; our largest customer, as measured in loan volume sold to us, is a firm named CBRE. Our typical loan size is much larger, $17 million or so. And our staff directly underwrite and price every mortgage — no automated underwriting for apartment loans, if you will — including estimates of future net operating income from properties. For these reasons and more, multifamily lending is more like commercial lending.

2. Multifamily = Affordable Housing. The multifamily housing market is, by and large, an affordable housing market. Case in point: in 2012, Freddie Mac Multifamily financed 436,000 rental units, an annual record; fully 94 percent of these households earned income at or below the local area income. Most renters tend to be young people in school and early in their professional careers, Baby Boomers downsizing in retirement, and others of any age for whom homeownership is not economically attainable or appealing as a lifestyle. With the U.S. homeownership rate declining in recent years, and a continued influx of immigrants who tend to rent more than own, we have seen a significant increase in renters. Thus, Freddie Mac Multifamily plays an important role in U.S. housing.

3. Securitization Done Right. A unique feature of our multifamily business is how it finances affordable rental housing while exposing taxpayers to minimal credit risk. Our K-deal securities, through which we fund almost all loans, transfer risk away from taxpayers and, instead, sell that risk to private investors. We do this through a securities structure that contains a senior bond that we guarantee and a subordinate bond that we do not. In a typical transaction, private investors in subordinate bonds are in a first-loss position for about the first 15 percent of loan defaults, an extremely high percentage. Thus, subordinate bond investors function like a shock absorber to guaranteed bonds: losses would have to be almost catastrophic before taxpayers bear any cost of loan defaults. This structure, which has funded more than $60 billion in multifamily loans, is not replicated by any other government-backed entity and, as such, represents an industry standard for the future of securitization.

4. Economically Sound Business. Our multifamily business performs all these functions while building a high-quality, profitable loan portfolio. Throughout the financial crisis, Freddie Mac Multifamily did not experience the economic trauma that affected many other market participants. Instead, it produced net income and low loan delinquency rates. From

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2008 through the second quarter of 2013, we contributed $4.8 billion in net segment earnings to Freddie Mac. Also, our delinquency rate topped out at just 0.26 percent during this period and now stands at 0.09 percent (June 2013). In contrast, on multifamily commercial mortgage backed securities (CMBS), the delinquency rate soared above 12 percent — that's a whopping 1,200 basis points! — and now stands at 7.38 percent (June 2013). While that’s progress, the CMBS delinquency rate is still 82 times worse than Freddie Mac Multifamily.

5. **Our Market Support Is Returning to Pre-Crisis Levels.** As a government-sponsored enterprise (GSE), Freddie Mac Multifamily finances affordable rental housing in all economic environments. Much like an accordion, we expand when private market participants exit the market, as typically occurs during a broader economic crisis, and contract when economic conditions are favorable and funding is readily available from private sources. We have seen this dynamic play out during the recent financial crisis. When the crisis began, many banks, conduits and life insurance companies — the dominant sources of non-GSE mortgage funding — radically reduced their market support. As a result, our share of annual market originations peaked at 32 percent during the worst of the crisis, doubling our support from the pre-crisis year of 2007. More recently, many apartment markets have staged a rebound and the economy has gradually improved. Thus, private sources of mortgage funding have begun to reenter the market, and our market share has declined naturally, to 20 percent in 2012. Fannie Mae’s market share was 24 percent. We expect a somewhat lower figure for both in 2013.

A business that finances affordable rental housing, protects taxpayers from most risk, and produces good financial results. In a nutshell, that is Freddie Mac Multifamily.

To learn more about Freddie Mac Multifamily, visit our web site at [www.FreddieMac.com/multifamily](http://www.FreddieMac.com/multifamily).

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