Freddie Mac Multifamily Securitization
Seniors Housing
May 2014
Multifamily Business
Seniors Housing Business
1Q 2014 Review
2013 Review
Seniors Housing Property Characteristics
Seniors Housing Performance
Production, Sales & Underwriting
K Deal Mortgage Guidelines – Seniors Housing
K-S01 Transaction Highlights
Multifamily Business – Key Facts

- The Multifamily Division of Freddie Mac helps to ensure an ample supply of affordable rental housing by purchasing mortgages secured by apartment buildings with five or more units.

- Freddie Mac buys loans from a network of approved Program Plus® Seller/Servicers and Targeted Affordable Housing Correspondents that have over 150 branches nationwide, substantial lending experience and established performance records.

- Freddie Mac completes the underwriting and credit reviews of all multifamily mortgages in-house.

- Employs approximately 550 experienced professionals in four regional offices (plus headquarters) and three satellite offices.

- Provided more than $321 billion in financing for more than 61,500 multifamily properties since 1993.

- As of March 31, 2014, Freddie Mac had a multifamily whole loan portfolio of $55.9 billion, a multifamily investment securities portfolio of $31.0 billion, and a multifamily guarantee portfolio of $77.6 billion.
Seniors Housing Business

- Freddie Mac added seniors housing to its lending platform in 1998, focusing primarily on assisted and independent living facilities.

- A specialty network of seller/servicers with extensive experience in the seniors housing market has been approved by Freddie Mac to source independent living, assisted living, memory care, and continuing care properties across the United States.

- A staff of eight real estate professionals are primarily focused on the seniors housing sector with over 85 years of combined industry experience.

- Since 1998, $6.5 billion has been deployed to support approximately 604 senior housing facilities.
Multifamily Business – 1Q 2014 Review

- Freddie Mac Multifamily funded $3.0 billion in new business volume, which includes loan purchases of bond guarantees.
- $3.9 billion of multifamily loans were securitized into K-Deal product in 1Q2014, compared to $5.6 billion in 1Q 2013.
- Freddie Mac financed approximately 51,000 apartment units in 239 properties.
- Freddie Mac’s portfolio delinquency rate was 4 basis points as of March 31, 2014.
- Freddie Mac’s K-Deal delinquency rate was 1 basis point as of March 31, 2014.
- Freddie Mac has not realized any credit losses on our K-Deal guarantees as of March 31, 2014.
Multifamily Business – 2013 Review

- Freddie Mac Multifamily funded $25.9 billion in new business volume reflecting a 10 percent decrease, compared to 2012 levels.
- $28.0 billion of multifamily loans were securitized into K-Deal product in 2013, compared to $21.2 billion in 2012.
- Freddie Mac financed approximately 388,000 apartment units in 1,600 properties.
- Freddie Mac’s portfolio delinquency rate was 9 basis points as of December 31, 2013.
- Freddie Mac’s K-Deal delinquency rate was 3 basis points as of December 31, 2013.

**2013 New Business Volume** (based on loan UPB)

- 89% Held for Sale
- 5% Held for Investment
- 3% Bond CE
- 3% TEBS

**2013 New Business Volume** (based on # of loans)

- 55% Refinances
- 41% Acquisitions
- 3% Other
- 2% Rehab
The unit mix of assisted living, independent living, memory care and skilled nursing is established at closing. Borrowers are generally able to shift the number of total units dedicated to assisted or independent living by 10% of the total number of units at closing without lender approval.

Skilled nursing is programmatically limited to 20%; however, the majority of properties have none.

- Without prior written consent, borrowers can not provide or contract to provide additional skilled nursing not present at closing

The acceptance of funds from governmental sources, such as Medicaid or Medicare, must be approved by Freddie Mac.

Each property is reviewed by a third party consultant to evaluate its risk management practices. The assessment focuses on the following:

- Employee and management practices
- Compliance with appropriate state and federal regulations
- Verification of certain policies and procedures for resident practices
- Procedures in place for incident investigations and claims management
The Freddie Mac seniors housing program has historically maintained strong credit metrics and performance throughout various commercial real estate cycles, as demonstrated below:

<table>
<thead>
<tr>
<th>Property Type</th>
<th>Number of Loans</th>
<th>UPB</th>
<th>Historical Number of Delinquent Loans</th>
<th>UPB of Delinquent Loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assisted Living</td>
<td>374</td>
<td>$3,839,722,234</td>
<td>2</td>
<td>$16,582,010</td>
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<tr>
<td>Continuing Care</td>
<td>11</td>
<td>$319,123,506</td>
<td>0</td>
<td>$0</td>
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<tr>
<td>Independent and/or Congregate</td>
<td>219</td>
<td>$2,326,806,629</td>
<td>0</td>
<td>$0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>604</strong></td>
<td><strong>$6,487,652,369</strong></td>
<td><strong>2</strong></td>
<td><strong>$16,582,010</strong></td>
</tr>
</tbody>
</table>

Sources: Freddie Mac Multifamily Loan Performance Database (MLPD). The complete data can be accessed at http://www.freddiemac.com/multifamily/investors/securities.html
Notes: 1) The current database provides performance information through Second Quarter 2013.
2) MLPD excludes loans that are (or will be) put into our mortgage related securities, credit revolvers, old book (pre-1994) loans and negotiated transactions/structured deals.
3) Delinquent loans were sold with no realized loss to Freddie Mac.
LTV and DSCR Comparison

Sources: Freddie Mac Multifamily Loan Performance Database (MLPD). The complete data can be accessed at http://www.freddiemac.com/multifamily/investors/securities.html
Notes: 1) The current database provides performance information through Second Quarter 2013.
2) MLPD excludes loans that are (or will be) put into our mortgage related securities, credit revolvers, old book (pre-1994) loans and negotiated transactions/structured deals.
3) Average LTV and DSCR as of Origination
The seniors housing group of Freddie Mac Multifamily sources its loans from a select group of experienced multifamily lenders.

- The small size of the network promotes quality originations and a high level of service to lenders and borrowers.
- Seniors Housing Program Plus® lenders must meet our standards for both origination and servicing of seniors housing loans, which includes meeting minimum financial requirements and obtaining satisfactory annual audits.

### Seniors Housing Program Plus® Seller Servicers

<table>
<thead>
<tr>
<th>Beech Street Capital</th>
<th>KeyBank NA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Berkadia Commercial Mortgage</td>
<td>NorthMarq Capital</td>
</tr>
<tr>
<td>Berkeley Point Capital</td>
<td>Oak Grove Capital</td>
</tr>
<tr>
<td>CBRE Capital Markets</td>
<td>PNC Real Estate Finance</td>
</tr>
<tr>
<td>Grandbridge Real Estate Capital</td>
<td>Prudential Johnson Apartment Capital Express</td>
</tr>
<tr>
<td>Greystone Servicing Corporation</td>
<td>Walker &amp; Dunlop</td>
</tr>
<tr>
<td>Holliday Fenoglio Fowler</td>
<td>Wells Fargo Multifamily Capital</td>
</tr>
</tbody>
</table>
The Underwriting and Credit Approval Process

**START**
- Seller submits loan request to Production

- Production for seniors housing presents deal to Underwriting for approval to quote

- Borrower completes loan application and Seller submits U/W package

- Seniors housing Underwriter completes due diligence process, reports findings in investment brief

- Seniors housing Underwriter recommends loan for approval to upper management

- Loan is Approved, Rate Locked, and Funded

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As a general rule, transactions that are above $50MM UPB and have exceptions to Freddie Mac credit policy that impact leverage parameters or those that fail an exit test must be approved by the Enterprise Risk Management group at the quote stage, as well as the rate lock or final approval stages.

- Loan requests from $200MM - $500MM approved by CEO/CERO
- Loan requests > $500MM approved by the Business and Risk Committee of the Board of Directors
The following are the general guidelines for Freddie Mac’s Seniors Housing product (subject to certain exceptions):

**Property Types:**

- Seniors focused multifamily loans secured by occupied, stabilized, and completed properties
- Independent living facilities defined as properties that include optional services designed to aid the residents’ independence; some level of meal plans are provided
- Assisted living facilities defined as properties designed to provide oversight and assistance for residents with functional limitations, including all meals. Assisted Living and Independent Living facilities may include a memory care component within the tenant mix
- The Properties may include a limited number of skilled nursing units (required to be no greater than 20%)

**Loan Terms:**

- 5-, 7-, and 10-year loan terms with a maximum amortization of 30 years
- May contain initial interest-only periods of 1-5 years
- Limited exposure to full term interest only loans
- Full term interest-only loans require higher initial amortizing debt service coverage ratio (DSCR)
- Mortgages are fixed rate or floating rate
- Floating rate mortgages are based on 1-month LIBOR and generally include a Freddie Mac embedded interest rate cap or a third party LIBOR cap
<table>
<thead>
<tr>
<th><strong>K Deal Mortgage Guidelines – Seniors Housing</strong> (continued)</th>
</tr>
</thead>
</table>

**Underwriting:**
- Effective gross income is calculated based on trailing 3-months actual rent collections or the annualized current rent roll minus a minimum 5% vacancy rate subject to submarket data and actual rent collections.
- Expenses are generally calculated based on trailing 12 months plus an inflation factor.
- Real estate taxes and insurance are based on actual annual expenses.
- Property values are based on third-party appraisals and internal value confirmation.
- Replacement reserves are typically required and are generally equal to the greater of an engineer’s recommendation or $250/unit.
- Taxes and insurance escrows are generally required.
- Third party LIBOR caps that expire prior to related mortgage maturity date are required to be replaced. Replacement cap funds are escrowed at 125% of replacement cost and are recalculated on either an annual or semi-annual basis.
- Other third-party reports are required (e.g., Phase I ESA, property condition, Liability Assessments, etc.).

**LTV and DSCR:**
- Maximum LTV of 75%, Minimum DSCR of 1.30x for independent living properties and 1.40x for assisted living properties (acquisition loans or refinanced loans with no “cash out” to the borrower). Minimum DSCR at the capped interest rate of 1.10x for Independent Living and 1.20x for Assisted Living (acquisition loans or refinanced loans with no “cash out” to the borrower).
- Maximum LTV of 70%, Minimum DSCR of 1.35x for independent living properties and 1.45x for assisted living properties (refinanced loans with “cash out” to the borrower). Exceptions may be granted based on remaining cash equity and/or length of ownership. Minimum DSCR at the capped interest rate of 1.15x for Independent Living and 1.25x for Assisted Living (acquisition loans or refinanced loans with no “cash out” to the borrower).
- Shorter loan terms, markets of concern, and specialty product types typically require adjustments.
- All loans require a refinance test.
Supplemental Financing:

- Eligible one year after origination of the first mortgage
- Purchased by Freddie Mac from original Seller/Servicer under Freddie Mac’s supplemental mortgage product, on a held-for-investment basis
- Minimum 3% NOI growth achieved from EGI growth is generally required to support the approval of supplement financing
- Lower of combined LTV of 75% or Original LTV and Minimum combined DSCR of 1.30x for independent living properties and 1.40 for assisted living properties (amortizing)
- Monthly escrows for taxes, insurance and replacement required. If First Mortgage allowed for deferral of Escrows, the supplemental will trigger collection
- Subject to a pre-approved intercreditor agreement

Borrowers:

- Single purpose entity (SPE) is required for almost all loans greater than or equal to $5 million
- A non-consolidation opinion is generally required for almost all loans greater than or equal to $25 million
- In place soft, springing hard cash management agreement required for almost all loans greater than $50 million
- A warm-body carve-out guarantor is generally required
- Entity guarantors are acceptable but may require financial covenants or a material adverse change clause
- All borrower sponsors have owner and operator experience on at least five profitable seniors housing properties prior to application
K-S01 Transaction Highlights

Overview of Deal Structure
A-1 and A-2 Pricing Date: May 2, 2013

<table>
<thead>
<tr>
<th>Class</th>
<th>Initial Principal or Notional Amount</th>
<th>Pricing Spread</th>
<th>Assumed Weighted Average Life</th>
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</thead>
<tbody>
<tr>
<td>Guaranteed Freddie SPCs 2013 K-S01 Certificates:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A-1</td>
<td>$165,205,000</td>
<td>S+42</td>
<td>5.16</td>
</tr>
<tr>
<td>A-2</td>
<td>$203,737,000</td>
<td>S+60</td>
<td>9.12</td>
</tr>
<tr>
<td>X1 (IO)</td>
<td>$368,942,000</td>
<td>T+160</td>
<td>7.34</td>
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<tr>
<td>Total Guaranteed</td>
<td>$368,942,000</td>
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<td></td>
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<tr>
<td>Unguaranteed FREMF 2013 K-S01 Certificates:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>B</td>
<td>$21,702,000</td>
<td>N/A</td>
<td>9.70</td>
</tr>
<tr>
<td>C</td>
<td>$43,405,884</td>
<td>N/A</td>
<td>9.70</td>
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<tr>
<td>Total Unguaranteed</td>
<td>$65,107,884</td>
<td></td>
<td></td>
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Collateral Characteristics

Collateral Type: Multifamily Seniors Housing Mortgage Loans
Collateral Structure Type: Balloon
Mortgaged Loans: 27
Initial Underlying Pool Balance: $434,049,885
Waterfall Structure: Sequential
Top 5 State Concentrations: CA (36.5%), WA (9.2%), NJ (7.4%), CO (6.6%), TX (6.5%)
WA Mortgage Interest Rate: 4.389%
WA Original Maturity: 111 months
WA DSCR: 1.71x
WA LTV: 63.0%
WA Debt Yield: 10.61%

Structural Diagram

Freddie Mac (Mortgage Loan Seller) → FREMF 2013-KS01 Mortgage Trust → Classes A-1, A-2 & X1 → Freddie Mac SPC Trust, Series K-S01 A-1, A-2 & X1

Breakdown of Investors (Class A-1, A-2, B and C)

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1 As of the Cut-off Date
2 As of the Closing Date
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