Product Update

2016 Regional Seller Workshops

Freddie Mac MULTIFAMILY

Structured Transactions

Revolving Credit Facility

Lauren Garren

The Revolving Credit Facility: Short-term, Real-estate Secured Line of Credit

- Highly negotiable structured product
- Non, recourse, balance sheet product allows for creative, flexible and unique solutions tailored to specific financing needs

Certainty of execution:

- ✓ Spreads locked up front for life of the facility commitment
  - Expansions and extensions are priced at the time of their execution
- ✓ Facility and property-level loan documents are established up front creating efficient asset additions
- ✓ Once the facility is in place, sponsor is approved; due diligence is only required at the property level
- ✓ Assets can be added or released throughout the term of the facility as long as facility sub-limits are met

Opportunity to obtain additional proceeds at first-mortgage rate pricing:

- ✓ Annual valuations
  - Semi-annual valuations available upon request starting in the 6th month of the facility to evaluate for borrow-up capacity
- ✓ Ability to borrow-up with increased value and/or DCR at the existing tranche price
  - Rebalancing may require a margin call if value or NOI declines

Revolving Credit Facility: Standard Terms

Term	▪ 5-year interest only ▪ 2 one-year floating rate extensions
Commitment Amount	▪ $100M minimum is preferred ▪ Up to 50% of initial commitment amount in expansion rights
Guarantor	▪ Net worth and liquidity requirements set relative to the facility
Type	▪ Fixed- and/or floating-rate ▪ Fixed-rate borrowing tranche can be no more than 50% of the initial commitment amount and can only be funded on day 1 of the facility
Collateral	▪ First-lien mortgages of conventional, seniors or student housing properties
Crossed facility	▪ LTV/DCR sub-limits measured at the facility level with no limits at the property level ▪ No minimum occupancy requirement
Uncrossed facility	▪ Each property is evaluated individually and must meet the sub-limit requirements individually
Maximum LTV	▪ 75%
Minimum DCR (IO basis)	▪ Pricing provided for three tiers: 1.45x, 1.65x, 1.85x ○ Student housing: 1.50x, 1.70x, 1.90x ○ Seniors Independent Living: 1.50x 1.70x, 1.90x ○ Seniors Assisted Living: 1.60x, 1,80x, 2.00x ○ Uncrossed pools: +.10
Underwriting Rate (for most markets)	▪ Index floor (125bps) + stress rate (100bps) + spread + servicing fee (5bps)
Interest Rate Caps	▪ Available through pre-approved third-parties, but not required

Sample Sponsors

Sponsor Uses for Value-Add

- Initial $250 million commitment locked; expandable to $350 million
- Sponsor targets transitional assets for repositioning and completes light rehab (up to $15k/unit) while in facility, keeping units online
- The RCF allows for ***semi-annual re-sizing*** which permits the Sponsor to extract equity faster and more often at ***first mortgage pricing***
- Each asset can remain in facility for up to three years without incurring a seasoning fee
- Once property is upgraded, sell property or refinance with a Freddie Mac securitized product for additional proceeds

Sample Sponsors

Sponsor is a Developer

- Initial $100 million commitment locked, expanded to $200 million after first year
- Sponsor uses RCF to ***take out construction loans*** freeing up construction financing for other projects
- No minimum occupancy requirement (loan sized on as-is cash flow); can obtain *financing earlier in the lease-up period*
- After the asset stabilizes, refinance with a Freddie Mac securitized product for more proceeds, or
- Sell the asset, with standard 1% exit fee out of RCF (waived if buyer finances with a Freddie Mac securitized product)

Sample Sponsors

Sponsor is a Fund in Acquisition Mode

- Initial $350 million commitment locked, expanded to $500 million after two years
- Sponsor uses RCF as an acquisition line of credit for individual/pool of asset(s) –majority of assets are not identified when the facility is set up
- Established loan documents and pricing provide ***certainty of execution for faster loan closings*** due to pre-approved sponsor and loan documents
- ***Provides confidence*** to sellers because the buyer has a $100M RCF with Freddie Mac
- Freddie Mac is required to provide funds even during times when credit is not readily available in the market
- Can set up a new facility with each subsequent fund with different equity investors

Sample Sponsors

Sponsor Uses for Large Portfolio Acquisitions

- Initial $125 million facility and $350 million Single Sponsor Securitization
- Fixed-rate long term Freddie Mac conventional loan for core assets
- Floating-rate shorter term RCF debt for sale or renovation candidates
- Allows for ***efficient low-cost "short-term parking"*** for assets that might not be strategic long term holds
- Purchasing the subordinate B-piece of the securitization provides structuring flexibility and a return reducing the effective note rate
- Limited substitution ability between the RCF and securitization pool provides options for changing asset level strategy over time

New & Improved Fee Structure

$20M

Commitment Amount ($100M)

Allocated Loan Amount (i.e., amount available to draw) ($80M)

$10M

UPB Drawn ($70M)

$30M

Unused Commitment Fee (20 bps = $60k)

*****unused commitment fee can be minimized/ eliminated by strategically selecting a commitment amount*

Fee	Description		
Legal Deposit:	$35,000 (due when term sheet signed)		
Commitment Fee:	• 5 bps for initial facility commitment & each expansion • $50,000 for each extension year		
Addition Fee:	10 bps per property addition (15 bps per Seniors property)		
Unused Commitment Fee:	20 bps charged annually on the difference between the commitment amount and UPB drawn (see picture above)		
Seasoning Fee:	50 bps charged annually beginning in the fourth year the asset is in the facility		
Asset Exit Fee:		<u>Floating-Rate Tranche</u>	<u>Fixed-Rate Tranche</u>
	• Freddie Securitized Product Exit	No Exit Fee	Calculate greater of 1% or yield maintenance then waive 1% of prepaid UPB
	• Property Sale	1% Fee; waived if buyer finances with a Freddie Mac securitized product	Greater of 1% or yield maintenance with 1% of prepaid UPB waived if buyer finances with a Freddie Mac securitized product
	• All Other Exits	• Years 1-3: 2% of allocated loan amount • Years 4-5: 1% of allocated loan amount	Greater of 1% of prepaid UPB or yield maintenance

Structured Transactions Production Team

Name	Title	Phone	Email
Lauren Garren	Vice President Production & Sales	703-903-4170	lauren_garren@freddiemac.com
Denise Hogan	Production Director	703-714-2765	denise_hogan@freddiemac.com
David Quadt	Associate Production Director	703-714-3533	david_quadt@freddiemac.com
Mark Shutello	Structured Senior Producer	703-714-2861	mark_shutello@freddiemac.com
Doug Smith	Professional	703-714-3647	douglas_smith@freddiemac.com

Know Your Products

Value-Add, Moderate Rehab and Lease-Up

Tom Hamill, Dylan Green

Value-Add

What

- Minor upgrades: $10K-$25K/unit
- Property >20 years
- Located in strong rental market

Who

- Developers/operators with experience in Multifamily property rehab in local market
- Sufficient financial capacity

Why

- Flexible liquidity for minor renovations

Moderate Rehab

What

- More significant upgrades: $25K-$50K/unit
- Property >20 years
- Located in strong rental market

Who

- Experienced, well-capitalized sponsors
- Similar projects with Freddie Mac

Why

- Flexible liquidity for significant renovations

Lease-Up: Refi and Acquisition

What

- Refi for newly constructed
- Acquisition for newly constructed
- Conventional and TAH
- Fixed- and floating-rate

Who

- Experienced with new construction and/or lease-up
- Strong $ capacity
- Real estate expertise with good performance and credit history

Why

- Lock in rate/funding before property fully stabilized

Which Product Worked?

Round One: Southeast Region

- The deal: Kennesaw, GA
  - » Came in as a Value-Add request:
    - – 1.15x / 80% were the recommended credit parameters

- The issues:
  - » Plan to put in 2,500,383 (8,447/unit): 55% will be on the interior on an as-needed basis (before Value-Add 2.0)
  - » Borrower not planning to complete 100% of the interiors during the 3-year term
  - » Property was built in 2 phases, 1997 and 1999, a newer vintage than standard “Value-Add”

Property Photos

Property Photos

Property Photos

Which Product Worked?

- The solution?

- A 7/3 ARM
  - » *"We liked the location and the borrower, so we got creative on the underwriting and structure. We were able to offer a 7/3 ARM at 1.25x / 80%, and the borrower took the deal."*

Round Two: Northeast Region

- The Deal: Philadelphia, PA
  - Value-Add Request – *Is it?*
  - Acquisition
  - Recommended credit parameters: 80% LTV / 1.15x DSCR
  - Interest rate type: Floating-rate, uncapped

- Rehabilitation Plan: Renovate 101 units, refresh the lobby, modernize the front entrance, repurpose the library into a new management and leasing office, renovate the fitness center, and renovate the outdoor space and pool area
  - Total rehab cost: $4,629,500 or $24,625/unit
  - 32% of the budget is dedicated to unit interiors

The Property and Market

- Property
  - Built in 1966; partially renovated in 2010
  - 188 units, 11 stories
  - 122 parking spaces

- Market:
  - Within one mile of the Philadelphia CBD
  - Walking distance to public transportation and all amenities

Borrower and Guarantor

- The Borrower
  - Owns 15,000 apartments with the largest concentration in Philadelphia, Pennsylvania
  - Value-Add investor with vast experience in renovation and ground up development (> 3,000 units)
- The Guarantor
  - A fund that met 1.5x the policy requirement for net worth and liquidity

Property Photos

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Which Product Worked?

- The Solution?
- Is it Value-Add Loan? ***YES***
- Did the subject meet the Value-Add criteria?
  - » Property with no more than 500 units ✓
  - » Market laggard ✓
  - » Require modest repairs ✓
  - » Sponsor with experience in multifamily rehab in the local market ✓
  - » Rehab budget of $10,000 to $25,000 per unit ✓
  - » 50% of rehab budget for unit interiors X
  - » Minimum DSCR of 1.15x and maximum LTV of 85% ✓

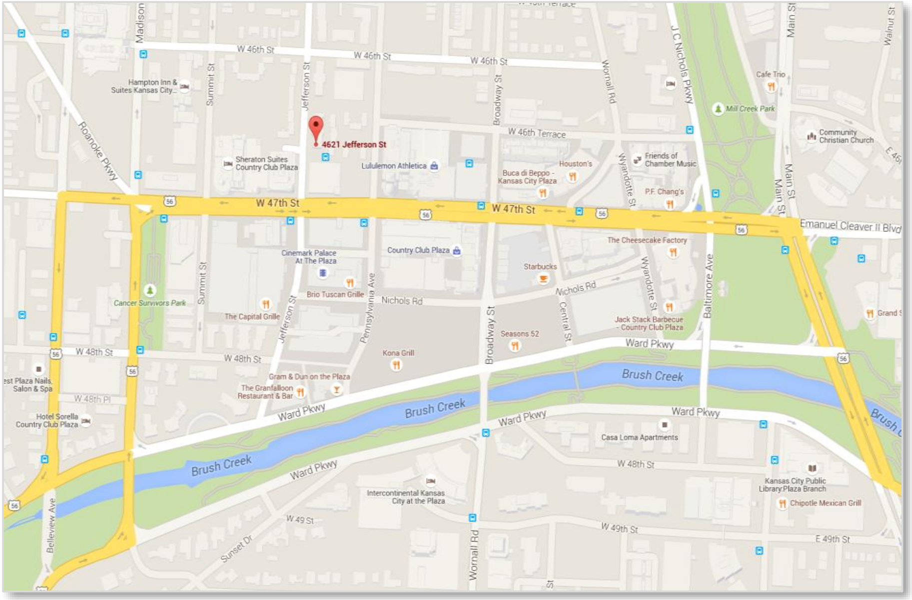
Round Three: Central

- The Property:
  Kansas City, MO, 213 unit high-rise

- The Metrics:
  - Day-1 funding: $20.6M
  - Purchase price: $26M / LTPPL 80%
  - As-is value: $26.5M / LTV: 78.5%

Rehab Plan

- Rehab Budget:
  - $6.15M
  - $28K/Unit
- As Stabilized Value:
  - $33.6M
  - LTV 77.4%
- Rehab Proposed:
  - Garage repairs, brick veneer, boiler/chiller replacement, electrical upgrades
  - Unit interiors
  - Adding sky lounge, upgrade pools
  - New business / fitness centers
  - Hallways, lighting, landscape



Strengths and Weaknesses

- Deal Strengths:
  - » Strong guarantor and sponsor
  - » $5.2M cash equity
  - » Good location: Country Club Plaza
- Deal Weaknesses:
  - » 2 Years I/O
  - » Commitment = 100% of PP
  - » New Supply in Market

Which Product Worked?

- The solution?

- The "original" Moderate Rehab
  - » This was the transaction that was used as a template for the current Moderate Rehab

Round 4: Western Region

- The deal: San Jose, CA

  Came in as …

  » 1.05x (interest only) / 70% (as-is) - at funding

  » 1.25x (amortizing) / 65% (as-stabilized) - at stabilization

- The issues:

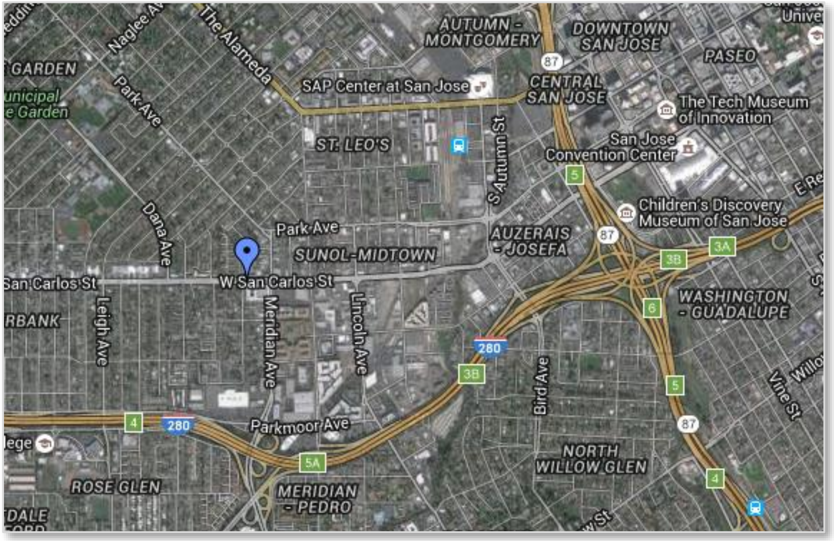
  » Waiver of letter of credit

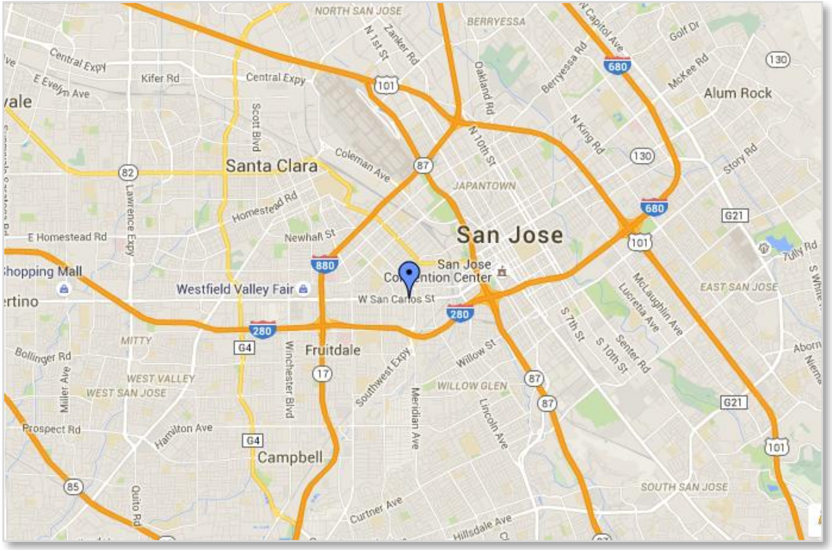
  » Ability to Index and/or Rate-Lock prior to 50% occupancy

  » Ability to size to a minimum 1.25x DCR

Property & Market Information

- **The Property:**
  - Premium residential and commercial retail space ("mixed-use development")
  - 218 residential apartments and over 450 parking spaces in a 'wrapped' construction configuration
  - Ground floor retail of 14,224 sq ft and is already 93.1% leased to Chase Bank, Starbucks, and others
- **The Market:**
  - "Capital of Silicon Valley"
  - Apple, Cisco Systems, eBay, Google, Hewlett-Packard, Intel, Yahoo! and Facebook headquarters
  - 97.6% occupancy
  - Asking rents projected to increase 2.6% on average over a five-year period





Property Photos

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Which Product Worked?

- The Solution?

- Lease-Up Loan!
  - Waived letter of credit

    Require $5.3 MM (5% of the loan amount; loan has 65% LTV) hold back to be released once the property achieves 1.25x DSCR
  - Ability to Index and/or Rate-Lock prior to 50% occupancy

    Property had already received 100% of the CO's, had shown strong leasing velocity. In addition the retail space was already +90% leased
  - Ability to size to a min. 1.25x DCR

    Cap rates for similar class A apartment assets in similar in-fill locations in the Bay Area of 4.4%, fell in line with subject's projected Cap Rate; combined with strong sponsorship allowed Freddie to feel comfortable at a 1.25x DCR