

Small Balance Loan B Piece Investor Sheet: Bond Pricing and Structure

Each Small Balance Loan (SBL) Seller/Servicer is required to purchase the most subordinate bond (“B piece”) issued in connection with a securitization of the Seller/Servicer’s SBL loans.¹ The yields below will be used to calculate the final price of the B piece that represents the bottom 10% based on the aggregate unpaid principal balances (UPB) of the mortgages placed in the securitization. For internal purposes only, Freddie Mac may calculate an initial price of the B piece as of the cut-off date of the securitization based on the assumption that the SBL Seller (or its designated investor) purchases the B piece, or its respective share of the B piece relating to the SBL Seller’s loans, on the settlement date of the SBL securitization. Freddie Mac will calculate the final B piece price when the SBL securitization prices.

B Piece Pricing

Note that Freddie Mac no longer provides or posts initial B piece prices based on product, yield, or other characteristics. Freddie Mac will use the below yields for all six product types when calculating a pool’s B piece price at the appropriate time.

B Buyer Due Diligence Option	New Agreement B Piece Yield
Kick-out Rights	15%
No Kick-out Rights	16%

NOTES:

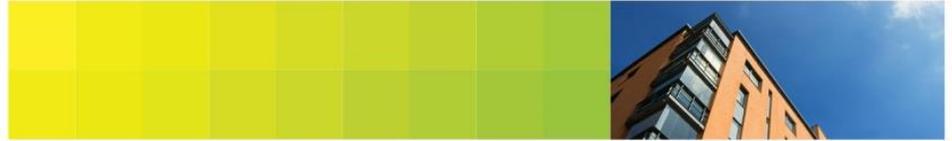
1. Actual yields will depend on the B piece cash flows.
2. New Agreement Yields effective April 1, 2016.
3. Affiliated B Buyers only have the 16%/no kick-out option

Assumptions for Calculating the B Piece Price Based on the Above Yields:

- 15% CPR (Constant Prepayment Rate)
- Constant LIBOR of 0.65% (approximately 9-month forward 6-month LIBOR)
- No mortgage level defaults or losses
- Includes only the assumed B piece cash flows (i.e., no interest-only bonds)
- 30/360 pricing convention

Since the pool securitization details will not be known until after the loans fund and Freddie Mac finalizes the pool for securitization, Freddie Mac cannot project exact B piece purchase prices at the time of SBL loan origination nor during pool aggregation.

¹ SBL Sellers may arrange for investors approved by Freddie Mac to purchase the Seller’s B piece directly from placement agents at securitization. In addition, if all parties agree, Freddie Mac may combine collateral from more than one SBL Seller for a SBL securitization; if for some reason the designated B piece investor fails to purchase the B piece, then each SBL Seller would remain responsible for the purchase of their pro-rata share of the B piece.



Purchase obligations for each SBL pool are described in more detail in Chapter 46 of the SBL Addendum to the Guide. Once Freddie Mac finalizes the pool and securitization structure, we will use the following process to calculate the final B piece price:

1. Calculate a weighted average yield for the pool using the due diligence option yield for the corresponding Seller's collateral set forth in the table above.
2. Generate anticipated cash flows in the final structure with actual loan and B piece coupons using the pricing assumptions specified above.
3. Calculate the final B piece price by discounting the anticipated cash flows calculated in step 2 to their present value using a discount rate equal to the weighted average yield calculated in step 1.

B Piece Pricing and Potential Changes to Yields

Should Freddie Mac change the B piece yields or securitization structure, it will not affect the yields in the securitization for loans rate-locked before the yield change(s). Further, Sellers will be allowed to operate under the old yield framework in place prior to the announced yield change until a sufficient amount of SBLs have been accumulated for the securitization of the Seller's next SBL securitization, as determined by Freddie Mac. After that point, the Seller can determine if it wishes to continue to originate loans under the new yield framework.

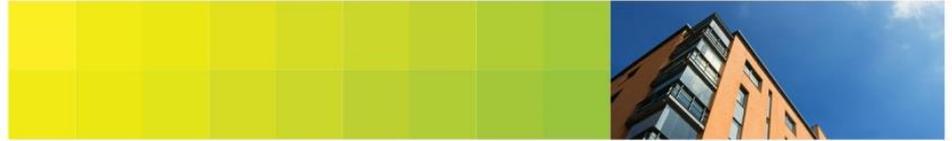
Freddie Mac will communicate any changes to yields well in advance and such changes would be the result of discussions with all SBL Sellers and B piece buyers.

Transaction Structure

The SBL securitization will use a pro-rata structure for scheduled amortization with losses distributed in reverse sequential order. The B piece will represent the bottom 0-10% slice of the capital stack and will have a fixed rate initial coupon. The B piece initial coupon will be determined by the pool's weighted average coupon less the ongoing fees which are expected to be approximately 50-60 bps (i.e., servicing fees, CREFC[®] royalty license fees, trustee fees, etc.). Freddie Mac has already programmatically eliminated the X2 bond for Sellers operating under New Agreements.

The B piece coupon will reset based upon the weighted average reset date of the pool (please see sample calculation below), at which time the B piece coupon will switch to 6-month LIBOR+750 bps. The Second Coupon Reset Date will be 60 months after the First Coupon Reset Date and the B piece coupon will reset to 6-month LIBOR+950 bps. The Third Coupon Reset Date will be 60 months after the Second Coupon Reset Date and the B piece coupon will increase to 6-month LIBOR+1150 bps. The B piece coupon is subject to an available funds cap.

Period	Timing	Coupon
Fixed	Prior to First Reset	Net WAC
First Rest	See Sample Calculation	6-mo L+750
Second Reset	60 months after First Reset	6-mo L+950
Third Reset	60 months after Second Reset	6-mo L+1150



First Coupon Reset Date Calculation

The First Coupon Reset Date is defined as the UPB Weighted Average Reset Date of the collateral in the pool. For purposes of this calculation, the maturity date on fixed rate loans will be used as the reset date. An example is shown below:

Loan Type	UPB, \$M	Balloon Term, mo.	Hybrid Fixed Term, mo.	Months for Calculation
5-yr Hybrid	50	-	60	60
7-yr Hybrid	5	-	84	84
10-yr Hybrid	5	-	120	120
5-yr Fixed	5	60	-	60
7-yr Fixed	5	84	-	84
10-yr Fixed	30	120	-	120
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Waterfall Trigger Events

The securitization structure will switch from pro-rata to sequential pay if a Waterfall Trigger Event occurs. The Trigger Events are:

1. The UPB of the collateral (excluding specially serviced loans) is less than or equal to 15% of the initial pool balance.
2. The aggregate 60-day delinquency is greater than 3% of the collateral in the securitization. In the event the 60-day delinquency subsequently goes below 3%, the transaction will revert to pro-rata pay.
3. Credit support to the Class A is less than 7.5%. Once credit support increases to 10%, the transaction will revert to pro-rata pay.

Each securitization will have a clean-up call (Optional Termination) when the collateral balance reaches 5% of the original pool balance, as follows:

The holders of a majority interest of the Controlling Class (excluding Freddie Mac), the Special Servicer, and any third party Master Servicer, in that order, will each in turn have the option to purchase all of the SBL mortgage loans and all other property remaining in the Trust on any distribution date on which the total stated principal balance of the mortgage pool is less than 5.0% of the initial mortgage pool balance.

Use of This Information

This document is informational only and may be changed by Freddie Mac in its sole discretion.

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