Float-to-Fixed Execution

Provides borrowers with superior cash-on-cash returns through the first two years of the loan while locking in a historically lower coupon for the life of the loan

Overview

9-year loan comprised of 2 years with a floating rate and 7 years with a fixed rate:
- Floating rate is interest-only (IO) and uncapped
- Fixed rate is locked at spread-lock of floating rate

<table>
<thead>
<tr>
<th>Float-to-Fixed Execution Options and Requirements</th>
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<tr>
<td><strong>Target Borrowers</strong></td>
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<td><strong>Eligible Products</strong></td>
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<td><strong>Target Deal Size</strong></td>
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<td><strong>Delivery Options</strong></td>
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</table>
| **How It Works** | Floating-rate period: 2 years
  - Interest-only, uncapped, locked-out/no prepayments
  - No supplemental loans during floating-rate period
- Fixed-rate period: 7 years
  - Amortizing loan with defeasance; securitization-ready
  - Supplementals are permitted as governed by existing requirements
- Underwriting
  - Compliant with current credit parameters
  - Sized based on fixed rate
  - Must pass Refinance Test using aggregated term (2 years floating plus 7 years fixed) with 2 years of IO
- Pricing
  - Terms (subject to revisions due to market fluctuations)
    - Floating rate: LIBOR + 300 bps (net spread)
    - Fixed rate: 7-year fixed pricing + 50 bps
  - Process / Approach
    - Fixed rate is locked when the spread on the floating rate is locked; pricing includes the cost of locking the fixed rate
    - Includes cost of third party reports
    - No future rate adjustments
- Conversion to fixed rate
  - New third-party reports ordered and reviewed (to be paid for by the borrower)
  - Additional loan proceeds permitted via a supplemental mortgage (pari passu); any additional proceeds will be priced at then first mortgage pricing
  - If transaction fails to meet Freddie Mac’s credit parameters, Freddie Mac retains the right to restructure the transaction via a split note if necessary
Transaction Example

As illustrated in the example¹ below, our float-to-fixed execution produces superior cash-on-cash returns that are superior to either the 10-year or 7-year fixed-rate executions.

<table>
<thead>
<tr>
<th>Product</th>
<th>3-Year Average Cash-on-Cash Returns</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Float-to-Fixed</td>
<td>17.43%</td>
<td>19.62%</td>
<td>21.24%</td>
<td>11.43%</td>
</tr>
<tr>
<td>10-year Fixed</td>
<td>14.54%</td>
<td>14.99%</td>
<td>16.62%</td>
<td>12.00%</td>
</tr>
<tr>
<td>7-Year Fixed</td>
<td>13.39%</td>
<td>16.21%</td>
<td>11.14%</td>
<td>12.83%</td>
</tr>
</tbody>
</table>

Assumptions²

- 10-yr fixed note rate²: 4.30%
- 7-yr fixed note rate²: 4.00%
- 7-yr fixed note rate (float-to-fixed + 50bps)²: 4.50%
- 1 month LIBOR rate: 0.16%
- Net spread: 3.00%
- Margin: 3.16%
- Loan amount: $18,500,000
- Value: $23,125,000
- Initial equity: $4,625,000
- Year One Revenue: $3,000,000
- 10-yr fixed debt service: $806,549
- 7-yr fixed debt service: $750,278

Operational Questions/Answers

- **Question:** What happens if prior to commitment the loan type changes from a float-to-fixed deal to a standard floating or fixed-rate deal, or the reverse?
  Answer: If the deal changes, the Seller must submit a new Loan Submission Template (LST) (e.g., from 1.6 to 2.2).

- **Question:** Do Sellers submit one or two LSTs?
  Answer: Sellers should submit one fixed-rate LST; Sellers should not create a combined floating-rate and fixed-rate LST.

- **Question:** Will there be one or two loan numbers?
  Answer: When the Seller uploads the fixed-rate LST through OUS, it creates a fixed-rate loan number. However, the loan number that is actually funded will have a floating-rate and, as such, will have a different loan number. The floating-rate loan number will be used by Purchasing for funding. Both loan numbers will appear in the commitment and in the loan documents as well as in the Document Management System (DMS).

¹ Modeled on a sample/actual transaction.
² Float-to-fixed and 10-year scenarios assume 2 years of interest only; 7-year scenario assumes 1 year of interest only.