Conventional, Targeted Affordable

PRODUCT SNAPSHOT

Float-to-Fixed Rate Loan (Two-Plus-Seven)

More Cash Up Front, When You Need It

We call the float-to-fixed rate loan a “two-plus-seven” because payments during the first two years of the loan are floating-rate and interest-only, and then the following seven years of the loan have a fixed rate. The borrower receives superior cash-on-cash returns through the first two years and can lock in a historically-low coupon for the life of the loan at the initial closing.

The Freddie Mac Difference

When it comes to multifamily finance, Freddie Mac gets it done. We work closely with our Sellers to tackle complicated transactions, provide certainty of execution and fund quickly. Contact your Freddie Mac Multifamily representative today — we’re here to help.

Borrowers Who Want to Know More

Contact one of our approved Seller/Servicers at:
FreddieMac.com/multifamily/lenders

- Borrowers must be well-qualified
- Available with all conventional and targeted affordable housing products that do not include student or seniors housing financing
- Loans as high as $50 million
- Standard delivery only; not eligible for early rate or spread locks
- We support eligible mixed-use properties

Freddie Mac Multifamily
Green Advantage℠

Our new Freddie Mac Multifamily **Green Advantage℠** initiative rewards borrowers who improve their properties to save energy or water.

Freddie Mac MULTIFAMILY

FreddieMac.com/multifamily/product/

Float-to-Fixed Rate Loan (Two-Plus-Seven) ▸ Conventional, Targeted Affordable

Eligible Borrowers	Well-qualified borrowers
Eligible Products	Conventional products (not including student or seniors housing loans)
Amount	Maximum of $50 million
Delivery Options	Standard delivery only; not eligible for early rate lock
How It Works	■ Floating-rate period: 2 years – Interest-only (IO), uncapped, locked-out/no prepayments – No supplemental loans during floating-rate period ■ Fixed-rate period: 7 years – Amortizing loan with defeasance; securitization-ready – Supplemental loans are allowed beginning the second year of the fixed-rate ■ 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 ▫ At conversion from floating-rate to fixed-rate loan, the cost of updated third-party reports will be paid for by Freddie Mac and included in the pricing – 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, unless the borrower seeks additional proceeds at conversion ▫ No future rate adjustments ■ Conversion to fixed rate – Conversion of floating rate to fixed rate is automatic – Updated third-party reports required prior to conversion to fixed rate for purposes of securitization – If the original loan (with no additional proceeds) fails to meet Freddie Mac's credit parameters, Freddie Mac retains the right to restructure the transaction via a split note if necessary at the time of securitization ■ Additional Proceeds at Conversion – Additional loan proceeds permitted via a supplemental mortgage (pari passu); any additional proceeds will be priced at then first mortgage pricing – Freddie Mac must receive request for additional proceeds no less than 150 days prior to conversion – If borrower requests additional proceeds at conversion, the borrower must pay for the third-party reports

Transaction Example

As illustrated in the example[1] 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.

Product	3-Year Average Cash-on-Cash Returns	Year 1	Year 2	Year 3
Float-to-Fixed	17.43%	19.62%	21.24%	11.43%
10-year Fixed	14.54%	14.99%	16.62%	12.00%
7-Year Fixed	13.39%	16.21%	11.14%	12.83%

Assumptions[1]				
10-yr fixed note rate[2]	4.30%	Rate Stack (7-yr)		Rate Stack (10-yr)
7-yr fixed note rate[2]	4.00%	2.15%	Current US Treasury	2.70%
7-yr fixed note rate (float-to-fixed + 50 bps)[2]	4.50%	1.85%	Gross spread	1.60%
1-month LIBOR rate	0.16%			
Net spread	3.00%		Year One	Applied Growth Rate
Margin	3.16%	Revenue:	$3,000,000	3.00% (Income)
Loan amount	$18,500,000	Expenses:	$1,500,000	4.00% (Expense)
Value	$23,125,000	Net operating income:	$1,500,000	
Initial equity	$4,625,000	Float-to-fixed debt service:	$592,719	
Amortization period (months)	360	10-yr fixed debt service:	$806,549	
Interest calculation	Act/360	7-yr fixed debt service:	$750,278	
Discount rate	10.00%			
Terminal cap rate	7.50%			
Selling costs	3.50%			
Cap rate	6.49%			

[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.

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)
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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).

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