

## TERM SHEET

<b>The Act</b>	The Community Bank and Commercial Real Estate Stabilization Act.
<b>Purpose</b>	A commercial real estate credit facility guarantee program (the “ <u>Program</u> ”) empowering community banks and other qualifying originators to make loans while stabilizing the value of small denomination commercial real estate assets.
<b>Amount</b>	<p>The Program would start as a pilot program with a maximum amount of bonds guaranteed by the U.S. Treasury not to exceed \$3 billion. Half of the Program’s guaranty capacity will be reserved for community banks (banks with less than \$10 billion in assets) with the other half available for larger banks and commercial mortgage bankers. Only community banks can access that part of the Program directed at troubled loans and REO.</p> <p>Within 120 calendar days of enactment of the pilot program, the Secretary of the Treasury shall report to the House Committee on Financial Services and the Senate Banking Committee with a status report and an Administration recommendation on whether to expand the Treasury bond guarantee for a longer period of time and to a larger pool of qualifying originators and CRE loans – current recommendation for the life of the larger program (if enacted) would be three years. Three years will be more than enough time to allow the private commercial real estate bond market to re-establish itself.</p>
<b>Oversight Board</b>	<ul style="list-style-type: none"><li>• Comprised of the Secretary of the Treasury, Federal Reserve Chairman, Chairman of the SEC, Chairman of the FDIC and four members appointed by the President who have comprehensive and practical industry experience.</li><li>• Tasked with developing underwriting and servicing guidelines acceptable to the US Treasury department.</li><li>• Tasked with producing oversight reports on the program and delivering reports to the US Treasury, House Committee on Financial Services, and Senate Banking Committee.</li><li>• Tasked with developing a credit system monitoring report that can be used by the government during the Program</li></ul>

term and thereafter.

<b>Guarantor</b>	The US Treasury will provide a guarantee of principal and interest on a package of loans in exchange for a fee (the “ <u>Guarantee Fee</u> ”). The risk of this guarantee will be mitigated by conservative underwriting and market timing ( <u>i.e.</u> , asset values are currently close to bottom, so appreciation is likely).
<b>Bond Issuers</b>	Financial institutions meeting the requirements established by the Board and by the US Treasury, which requirements will include demonstrated expertise in structuring bonds backed by commercial real estate.
<b>Loan Originators</b>	Insured depository institutions (with community banks having the set-aside described above) insurance companies and commercial mortgage bankers meeting the requirements established by the Board.
<b>Loan Underwriting</b>	<p>Will be developed by the Board and approved by the US Treasury. Underwriting will be conservative and should result in structures in which a significant percentage of bonds are rated investment grade. Very conservative loan underwriting will:</p> <ul style="list-style-type: none"><li>• Leave room for the private bond market to re-establish itself,</li><li>• Make the Program a safe investment for the government,</li><li>• Reverse the trend that the government takes on the most risky loans, instead providing a safety net for conservative borrowers.</li></ul>
<b>Property Types</b>	Owner occupied and non-owner occupied commercial real estate meeting the underwriting guidelines set forth by the Board and the US Treasury.
<b>Program Types</b>	<ul style="list-style-type: none"><li>• Performing loans<ul style="list-style-type: none"><li>– Newly-originated performing loans</li><li>– Will also permit inclusion of “refi’s” (loans which refinance an existing loan with the same borrower)<ul style="list-style-type: none"><li>– Refi’s may include senior refi’s of a delinquent loan if refinanced into a senior loan and a subordinated mezzanine loan</li></ul></li><li>– This part of the Program will provide credit to buyers</li></ul></li></ul>

and to existing owners of commercial real estate

- Seriously delinquent loans (“SDL”) and real estate owned (“REO”)
  - This part of the Program will only be available to Community Banks
  - Fresh appraisals will be required, meeting FDIC requirements
  - SDLs and REO will be contributed to the bond structure at 50% of the appraised value of the underlying property
  - Only “AAA” bonds will be guaranteed by Treasury under this part of the Program
  - Bonds structured under this part of the Program will be “pass-through” entities regardless of the effect of the “taxable mortgage pool” rules
  - The contributing Community Bank will remain as servicer or sub-servicer
  - This part of the Program will provide liquidity to the contributing Community Banks

**Amortizing Fee and Residual Interests**

Servicing and rating agency fees for a particular bond structure will be paid over time from cash flows, rather than upfront. Summarily, loan originators and bonds issuers will receive their profit participations from cash flows over time, through distributions on returned subordinate bonds and/or the residual (equity) interest.

**Residual Interest**

Each bond structure will have a residual interest, which will represent excess cash flow available after the payment of fees and bond debt service. The residual interest will be split (if they are different parties) between the bond issuer and the loan originator.

For performing loan pools, the residual interest will consist of the “haircut” (i.e., the portion of the capital structure not bonded against, subject to a minimum haircut of 1-2%) plus excess interest.

For pools consisting of SDLS and/or REO, the residual interest will consist of the 50% haircut, and may also be split with an asset manager.

**Pricing for Performing Loans**

All Performing Loans will have fixed interest rates of no less than 3.5% above the 10 year Treasury rate. Maintaining a historically wide spread over Treasury rates will leave room

for the private bond market to develop. This pricing should be 2% - 2.25% higher than competitive interest rates once the credit market recovers. With Treasury rates so low, loan pricing is still reasonable, approximately 7% to 7.5%.

**Loan Origination Fees** A maximum of 2% of the loan amount which will be split (if they are separate entities) between the loan originator and the bond issuer. Limited loan fees will stop originators and issuers from “up-fronting” profits.

**Ratings** Must be provided by at least two nationally recognized statistical rating agencies. We need to involve the rating agencies for the following reasons:

- Assist with comprehensive loan and bond review and analysis. This will provide needed transparency.
- Help the Board by providing historical loan and bond performance information which will be critical to the development of both loan underwriting and bond structuring.
- Help build the infrastructure to be used as the private bond market re-establishes itself.

**Eligible Bonds** The US Treasury will only guarantee bonds rated investment grade (i.e., “BBB-” or better). Good loan underwriting can create a structure comprised primarily of bonds rated investment grade. Bonds rated below investment grade will have to be sold without a guarantee or retained by issuers.

Bonds backed by SDLs and/or REO must be “AAA” rated to be guaranteed.

**Loan Term for Performing Loans** A maximum loan term of 10 years. By offering a 10 year term, the Program will do a number of important things:

- Stabilize the value of commercial real estate. A shorter term will increase risk (refinance risk) to the commercial real estate buyer, thus decreasing the value of commercial real estate.
- Prevent an increase in refinance activity in 2015-17 that a shorter five year term would cause. There are already a large number of commercial real estate loans coming due in this time frame.

- Increase profit of the Program.
- From five – ten years much of the risks of a commercial real estate loan has diminished because of amortization and seasoning.
- Gives the financial system the ability to make loans with longer term desired by their customers. Historically, this has been very difficult for the commercial banking sector.

**Maximum Loan Amortization**

All performing loans will be required to be amortizing loans (as distinguished from “interest-only” loans). The maximum loan amortization will be 25 years. This will vary based on asset class. Longer amortizations result in lower payments. Matching loan term and amortization to the functional life of an asset is very important. Longer amortization also reduces loan pay down speed.

**Maximum Loan Amount (or Appraised Value for SDL/REO)**

\$10,000,000 per property.

**Reporting**

All reports (number of loans, dollar amount of loans, loan performance, amount advanced under guarantee by US Treasury, if any, etc.) will be made available to the public and distributed by the Board and rating agencies.

**Program Term**

Three years (if the Pilot Program is extended). Three years will be more than enough time to allow the private commercial real estate bond market to re-establish itself.

**Program Income Distribution**

Loan payment proceeds will be distributed by the trustee in accordance with the bond document, but generally as follows:

- Trustee and Servicer (fees)
- Rating Agency (fees)
- Investment Grade Bonds (principal and interest)
- US Government (Guarantee Fee) (minimum of 200 bps, maximum of 300 bps)
- Subordinated Bonds (principal and interest)
- Bond Issuers (residual cashflow) (50% of residual)

cashflow)

- Loan Originators (residual cashflow) (50% of residual cashflow)

**Funded Reserves**

Collections of the Guarantee Fee will be deposited to a reserve fund until the fund contains an amount equal to 3% of the aggregate Guaranty exposure.

**Servicers**

Must meet the requirements established by Board and rating agency.

**Special Servicers**

Must meet the requirements established by the Board and rating agency.

**Trustee**

Must meet the requirements established by the rating agencies.

**Expedited Foreclosure Process**

For performing loans, foreclosures may be prosecuted on an expedited basis in federal court.