CFO CAPITAL PARTNERS

Investment and Mortgage Bankers

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Long-Term Credit Tenant Loan Program

Self-amortizing, max leverage financing for properties net leased to high quality credit tenants.

Key features of a Long-Term Credit Tenant Loan (Long-Term CTL Loan)

The long-term CTL loan program enables a borrower to receive the highest loan proceeds that a property's rent payments can support. The fixed rent payments as defined in the lease generally fully amortize the loan balance over the term of the lease (usually 20 years).

Long-term credit tenant loans typically have the following features:

- Self-amortizing over the term of the lease (amortization beyond the term of lease is also available - see extended amortization)
- Debt service coverage ratios as low as 1.00x
- Competitive pricing based on a number of factors including the corporate tenant's creditworthiness, location and value of the underlying real estate and lease quality
- All fixed rent payments are financed (including rent steps)
- Generally non-recourse, with limited carve-outs
- All types of commercial properties are financed

What determines whether a net lease property will qualify for a long-term credit tenant loan?

Investor will underwrite a long-term credit tenant loan if the net leased property has a:

- Credit tenant. The tenant should be rated BBB- (S&P) or Baa3 (Moody's) or better (certain tenants rated BB may also qualify for financing). If the tenant is unrated, Investor will determine if the tenant is equivalent to investment grade.
- Long term lease. Typically a long-term net lease will have at least 15 years remaining on the initial lease term.
- Net Lease. NN, NNN or bond leases are acceptable, provided they do not contain unusual rent abatement, lease termination or assignment provisions.
- Separate tax lot. Each CTL property must be legally separated from any adjacent property, whether through a subdivision or condominium declaration.

Construction / Permanent Funding

Borrowers seeking to lock rate and fund their permanent loan pre-construction may use an L/C Forward Funding option a cost-effective alternative to traditional rate lock agreements, especially for rate locks beyond 12 months.

Under this program, a structured forward funding of a permanent CTL loan against a letter of credit ("L/C"). While the L/C structure is customized for each transaction, the basic features include:

- An evergreen letter of credit from a bank with a rating at least equal to the credit of the tenant, but not less than "A" (S&P).
- The amount of the L/C would be equal to the loan plus any prepayment premium, if applicable.
- The collateral for the L/C would be a first mortgage on the project.
- The permanent loan would be funded into an escrow account. Funds would be released as a project's construction is completed (same as a construction loan).

Negative Arbitrage Minimized / Credit Tenant Downgrade Risks Eliminated

While funding a permanent loan prior to construction using a L/C will result in some negative arbitrage, this cost will be more than offset by a 30 to 40 bps upward movement in long term rates. Given today's low rates and the volatility in long-term treasury rates, the L/C pre-construction program reduces risk, and can save developers money.

A further benefit of this program is that it eliminates event risk including that associated with credit downgrades, which could dramatically increase the cost of financing a net lease project.

Underwriting

While each L/C loan is customized to a specific project and the needs of the borrower, underwriting will focus on:

- Lease provisions requiring the tenant to lease the building when complete.
- Developer's track record.
- Normal CTL underwriting.

What is required to obtain a rate lock or forward commitment?

Prior to the issuance of a rate lock and/or a forward commitment, the investor must review a copy of the lease to determine if it is financeable under its CTL loan programs. In addition, a clean Phase I environmental report is generally required.

Assuming the credit tenant lease qualifies for either a long-term credit tenant loan or a 10-year CTL Loan, a forward commitment agreement with specified rate lock provisions will be sent to the borrower. The interest rate will be locked upon receipt of the signed commitment documents and a refundable deposit. Forward rate locks are priced on a cost pass-through basis.

A loan for which the investor has given a forward commitment shall be funded upon:

- Completion of agreed-upon due diligence and loan documentation;

- Receipt of a tenant estoppel confirming the lease terms; and
- Confirmation that the building is built to the tenant's specifications and is accepted by the tenant within the agreed-upon time frame

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Patented 10-Year CTL Loan Program Expands Borrower Financing Options

This unique program was developed to provide the benefits of long-term CTL financing for properties with shorter term leases or lower credit rated tenants.

Loan Pricing

Investor has developed a state-of-the-art pricing methodology that enables our underwriters to quickly develop accurate quotes that are not retraded at loan closing. It also enables them to run "what if" analyses on a real-time basis, should a borrower desire lower leverage, free cash flow, longer amortization, etc.

Factors which impact CTL loan pricing include:

1. Credit rating of the tenant (or lease guarantor) and whether the tenant is on "credit watch" - Positive, Negative or Developing
2. Spread applicable to the tenant's (or lease guarantor's) senior unsecured debt
3. Tenant's industry sector and position in the market
4. Property type
5. Whether the property is "general" or "special" use
6. Leasehold or fee simple interest
7. Lease type (bond, double or triple net) and overall quality of lease
8. Debt service coverage desired
9. Loan-to-value ratio desired
10. Financing structure (i.e. Long-Term CTL, 10-Year CTL, Rate Lock, Balloon Balance Program, etc.)
11. CMBS and swap market conditions
12. U.S. Treasury rates/Swap spreads
13. Principal versus "best efforts" quote

Obtaining a quote

Preliminary quotes are given once we understand the basics of a transaction - usually within hours of a request. Prior to issuing an application, the underwriter will require that the borrower provide a copy of the lease, a site plan, a photo of the property to be financed, demographic information, and any market comparables for our review. Specific borrower requirements concerning loan proceeds, free cash flow, phantom income tax deferral, etc. should also be discussed with the originator. Once the originator has an understanding of the borrower's requirements, they will finalize our quote and loan structure, and issue a loan application.

In general, borrowers can expect a firm quote within 2 - 3 days after we receive a copy of the lease and accompanying property information.

What is a Net Lease?

A net lease, as contrasted with a real estate lease, is one where there are no, or limited and defined, landlord obligations. In effect, the tenant occupying the leased property (usually as a single tenant) does so in much the same manner as if the tenant were the owner of the property. In addition to being responsible for paying its rent to the property owner, the tenant is also responsible for the operation of the property, including the payment of taxes, insurance, and routine maintenance. Accordingly, the owner receives rent "net" of these expenses, and the cash flow associated with the lease is predictable for the term of the lease.

Under a net lease, the tenant usually agrees to lease a property for a long term (typically 10 to 25 years); also, the tenants' ability to terminate the lease or abate rent due to real estate driven events, such as a casualty or failure by the landlord to fulfill its obligation under the lease, is greatly, or completely, restricted. A typical real estate operating lease, in contrast, requires the landlord to perform all maintenance, pay taxes, insurance, etc. If they do not, the tenant has the right to withhold rent or cancel the lease.

Types of Net Leases

Bond Lease: Tenant is wholly responsible for all aspects of the property and the operation thereof during the lease term, including liability for casualty and/or condemnation events. All base rent is payable by Tenant without any right of abatement or offset under any circumstance. Tenant indemnifies Landlord against all liabilities arising from Tenant's use or occupancy of the property.

In the event of a casualty and/or condemnation event, the Tenant must purchase the property for at least the then-unpaid principal balance of the loan, plus accrued interest and loan prepayment penalties. Lease enhancement policies are not required with respect to a bond lease.

Triple Net (NNN) Lease: Similar to a bond lease, except the Tenant may have the right to terminate the lease or abate rent due to an event of casualty to, or condemnation of, a portion or all of the property. Lease enhancement policies, arranged by Investor at the borrower's expense, are required in such instances to insure over the risk of rent abatement or lease termination.

Double Net (NN) Lease: Similar to a NNN lease, except the Landlord will have certain limited ongoing obligations with respect to the property. The failure to perform these defined obligations could result in the Tenant having the right to abate rent or terminate the lease. Typically, such obligations include maintenance, repair, and replacement obligations for the roof, structure and parking. Under a double net lease additional debt service coverage and maintenance and repair reserves are required. Additionally, lease enhancement policies are required to insure over the casualty and/or condemnation risk(s).

Short-term full leverage financing for properties net leased to credit tenants.
The 10-Year CTL Program was developed by Investor to provide borrowers with *greater flexibility in obtaining high leverage financing* for a broad range of credit tenants and lease types.

The Program provides borrowers full CTL leverage with debt service coverage's as low as

1.003x and loan-to-values up to 95%. This loan structure is unique since it provides a borrower with a net leased property with essentially the *same loan proceeds* as the **Long-Term CTL Loan Program's** traditional 20-year, fully amortizing loan.

Compare the 10-Year CTL Program to traditional CTL and real estate conduit financing.

Under Investor's patented 10-Year structure, borrowers are able to efficiently finance most properties net leased to tenants rated BB (S&P)/Ba2 (Moody's) or higher. In addition, the Program enables borrowers with shorter term leases (even as short as ten years) to obtain a max-leverage CTL loan with proceeds approaching those of a 20-year self-amortizing loan without a high cost mezzanine loan.

If a borrower has a long term lease with an investment grade tenant, is there any reason to use the new 10-Year CTL Program versus traditional CTL financing?

Yes. The 10-Year Loan Program can provide **tax relief from phantom income** burdens that are inherent in a traditional fully amortizing CTL loan. The result can mean better after-tax cash flows to the borrower over the lease term and increased rates of return.

Is the outstanding loan balance at the end of ten years greater than what it would be under a typical 10-year conduit loan?

Despite receiving 10, 15, or even 20% more loan proceeds than would be available under a conduit real estate loan, the loan balance remaining under the 10-year program is comparable, if not virtually identical, to the balance owed under a lower leverage conduit real estate loan. When a 10-year CTL loan comes due in 10 years, the borrower will have a balloon balance equal to approximately 55-60% of the initial fully leveraged loan amount.

In addition, Investor's loans under the 10-year program have a **"default-proof" automatic refinance feature** after the loan's maturity date that enables the borrower to continue to make debt service payments out of the lease's rent payments if they fail to refinance at the end of the loan. In short, the refinance risk under our program is lower than what many borrowers take on with lower leverage real estate loans.