

Foresight 20/20

How Chief Credit Officers Will Better Optimize Risk / Profit and
Protect / Grow Deposits in 2020

January 9, 2020

www.lgisgroup.com

Today, we will discuss...

- 1 Best Practices for Optimizing Risk**
How Chief Credit Officers and Chief Risk Officers can more effectively protect their institutions from loss
- 2 Keys To Protecting and Growing Deposits and Profits**
How a Commercial Property Loan Insurance strategy supports stronger borrower relationships, generates additional deposits and provides capital relief for institutions
- 3 Strategies for Managing End-of-Cycle and Recession-Proofing CRE Loan Portfolios**
What bankers can do now to prepare for an uncertain 2020 market

Presenter: David Eichenblatt



LGIS Group, the pioneer of Commercial Property Loan Insurance (CPLI) for the CRE lending industry, was founded by David Eichenblatt. The company's innovative product provides a solution to a problem Eichenblatt identified over the course of his nearly 30 year career as a national real estate investor and developer.



He is also the principal at David Eichenblatt and Company, Real Estate Investments and Development, a firm he founded in 1992. Previous to that he founded the DECK Realty Group and served as an Investment Officer for TMW Real Estate Group (now Prudential) and CB Commercial Real Estate (now CBRE).



Eichenblatt is a graduate of the Owner/President Management from Harvard Business School and earned his MBA in Finance from Georgia State University along with a BS in Finance and Multinational Business from Florida State University. He holds the professional designation of CCIM and a number of insurance and real estate licenses.

Let's Start With Myth Versus Reality...

The Myths



- ▶ **Personal Guarantees are successful in protecting the financial institution's investment**
- ▶ **Keeps borrowers in line**
- ▶ **Repayment Guarantee different than Deficiency Guarantee**

The Reality

- Rarely collect on Personal Guarantees – certainly not in full
- Repayment of Collateral Deficiency is focused on small, illiquid sponsor - not significant money investor
- Personal Guarantor's Collateral is often illiquid and ever changing
- Collection is very expensive, long and uncertain
- Personal Guarantor's often use a Discounted Payoff (DPO) as leverage
- Banking not changed even after the Great Recession – problems repeat
- Personal Guarantor will liquidate property in Repayment Guarantee; thus, banks lose that collateral and still must collect deficiency. However, Personal Guarantors rarely perform well as secondary forms of repayment. So, in practice, Deficiency Guarantees perform no difference than Repayment Guarantees.

Commercial Property Loan Insurance (CPLI) is a more responsible strategy in 2020



With Commercial Property Loan Insurance...

- Lender know they will be made whole
- Create a more cooperative approach to problem solve
- Maintain hard earned relationships
- Certainty of outcome
- Transfer collateral deficiency risk from the bank to an investment grade insurer
- Stronger / Institutional Credit than PG

Commercial Property Loan Insurance

Reduce Risk

CPLI policies cover the top 10% to 40% of qualified loan amounts to reduce lender risk to foreclosure losses.

CPLI is institutional grade rated loan guarantee insurance serving as a substitute to short term CRE loans that require personal guarantees.

Strengthen Credit

Frees bankers from need to secure onerous and uncertain personal guarantees from valued customers to fund their projects.

The result is stronger credit, healthier relationships and more deals in the pipeline. This represents a major structural change to the CRE financing market.



CPLI is a patented, investment grade product / process that adds value to bankers' balance sheets by creating capital relief.

Best Practices for Optimizing Risk

- **Commercial Property Loan Insurance as a recognized Credit Risk Management tool**
- **Regulatory Benefits of a CPLI strategy**
- **Better manage LTV, liquidity and adherence to loan policy over time**

As a Risk Optimization Strategy...

Similar examples currently implemented: PMI (Residential), SBA (Business)



Banks are good at
**accumulating and
distributing capital**



Insurance companies
are good at **assessing
and managing risk**



**A CPLI strategy positions bankers to better
optimize risk / profit in their CRE loan portfolios
and protect their institutions against loss**

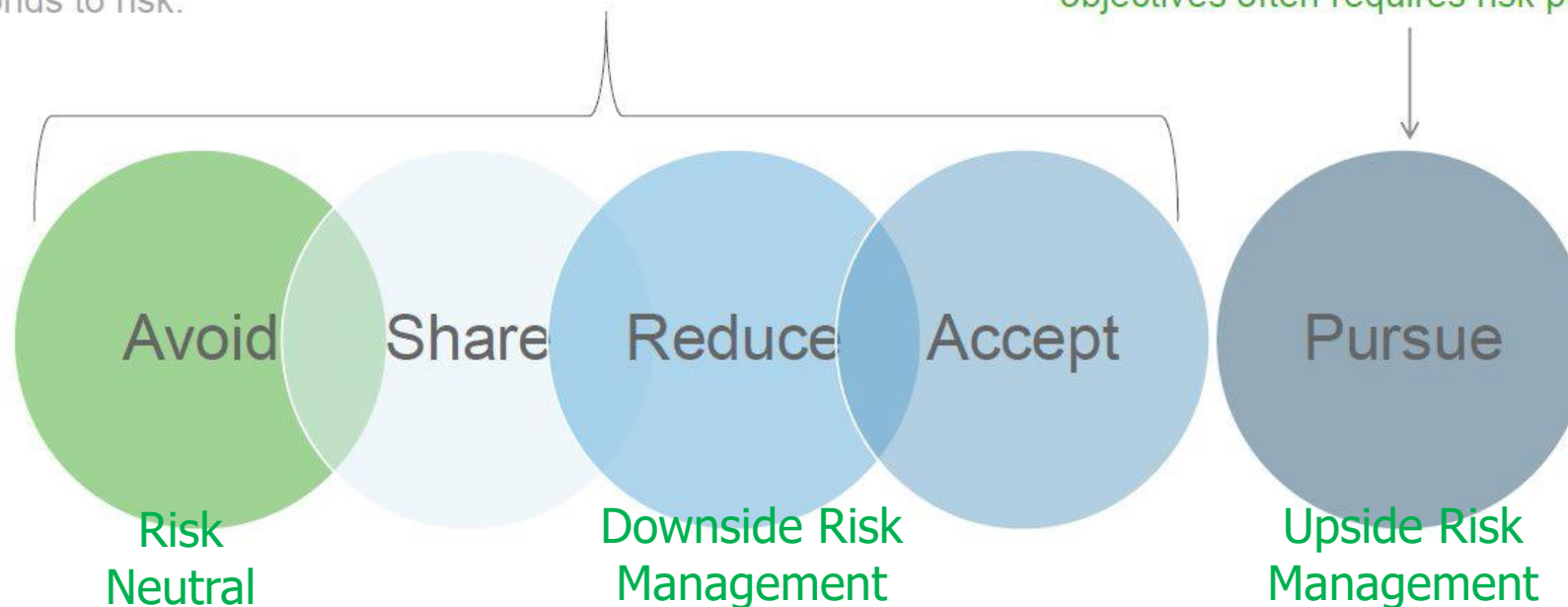
RMA Conference Speaker (10/19) – Spyro Karetos – CRO TD Ameritrade

Purpose of CRO – thought it is to Reduce Risk to 99%, but really job is to “Optimize Risk” – get to the sweet spot to 50%-99%...Don’t minimize risk, find the sweet spot.

RISK RESPONSE TO OPTIMIZE RISK

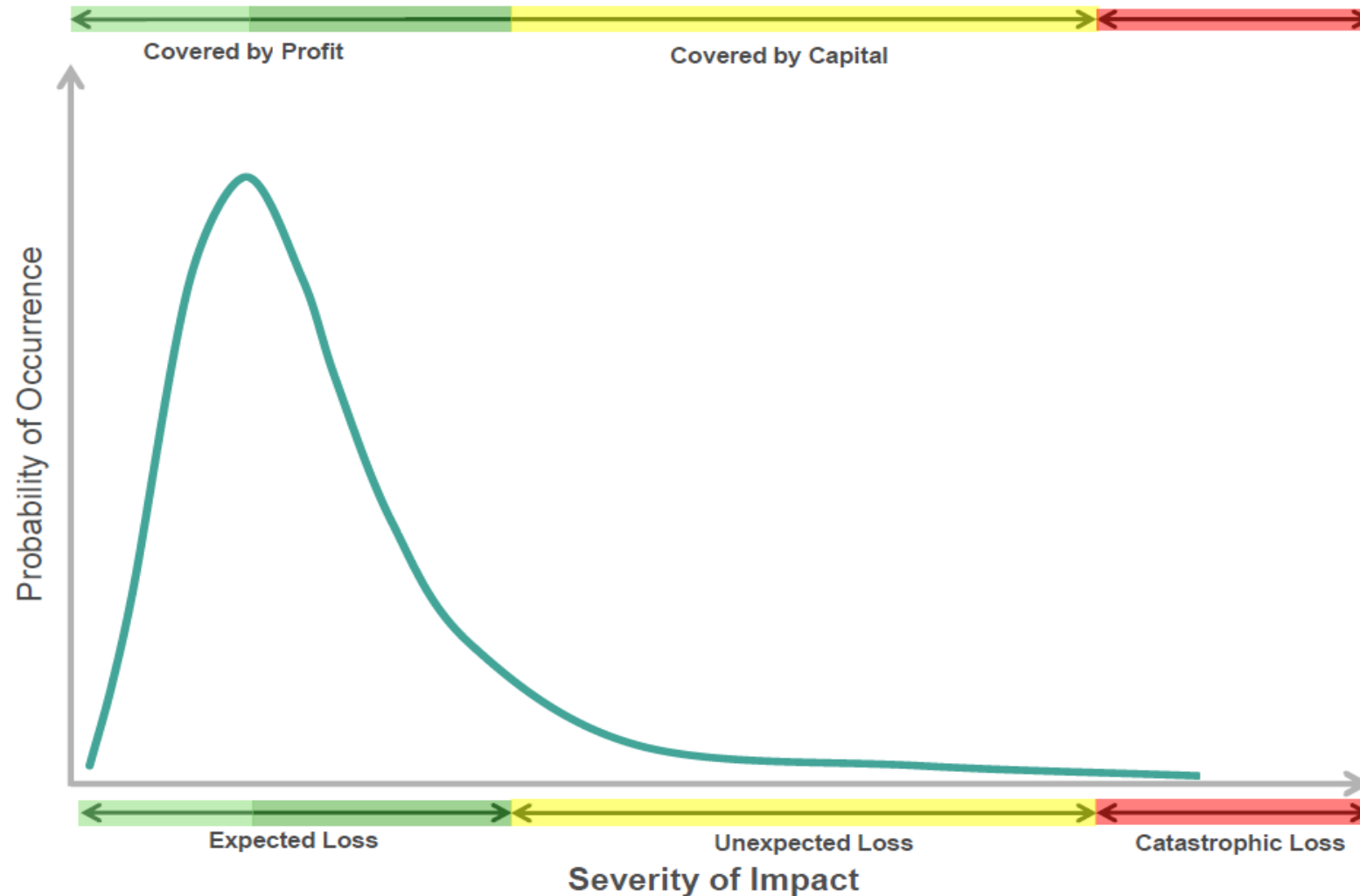
2004: COSO* publishes Enterprise Risk Management (ERM) Framework to guide management in embedding risk management practices throughout the operations of the organization and articulates the four ways management responds to risk.

2017: COSO updates ERM Framework to explicitly align with the strategic objectives of the organization and adds fifth risk response, recognizing that achievement of strategic objectives often requires risk pursuit.



Source: RMA Conf. in N.O (10/19) Keynote Speaker Spyro Karetos – CRO TD Ameritrade

A SHIFT TO STRESSED PROFITABILITY



Source: RMA Conf.
in N.O (10/19)
Keynote Speaker
Spyro Karetos –
CRO TD Ameritrade

CCOs and CROs Protecting Their Institutions

Scenario: Default Loss Mitigation Analysis

This analysis illustrates the benefit to the bank should the loan default.

CPLI Insured Loan


Project - Total Capitalization *		10,214,505
Equity	30.0%	3,064,351
Debt	70.0%	7,150,153
Outstanding Loan Balance - at time of Default	100.0%	7,150,153
Term (Yrs.)	3	
LGIS Coverage (% of Loan Amount)	40.0%	2,860,061
Bank / Borrower Exposure		4,290,092
LGIS Premium (% of Loan Amount)	3.0%	214,505
Liquidation Value (Same as Not Insured Loan)	49.0%	5,000,000
Loss **		2,489,530
Max. Lender Loss	2.0%	143,003

Not Insured Loan

Project - Total Capitalization		10,000,000
Equity	30.0%	3,000,000
	70.0%	7,000,000
Outstanding Loan Balance - at time of Default	100.0%	7,000,000
Term (Yrs.)	3	
Bank / Borrower Exposure		7,000,000
Liquidation Value (% of Total Capitalization)	50.0%	5,000,000
Loss **		2,337,500
Lender Loss	33.4%	2,337,500

* Includes LGIS Premium ** Less Commission and Transaction Costs *** Less Ins. Claims adjustments

Imagine telling your CEO how you protected the bank from more than \$2.19 million in losses from a single defaulted commercial loan.



That is a meaningful positive impact.
You are a HERO to your CEO.

Protecting Deposits and Growing Profits in 2020

**Portfolio Optimization with
Investment Grade Credit**

**Capital Relief Increases Capacity
for Additional Deals**

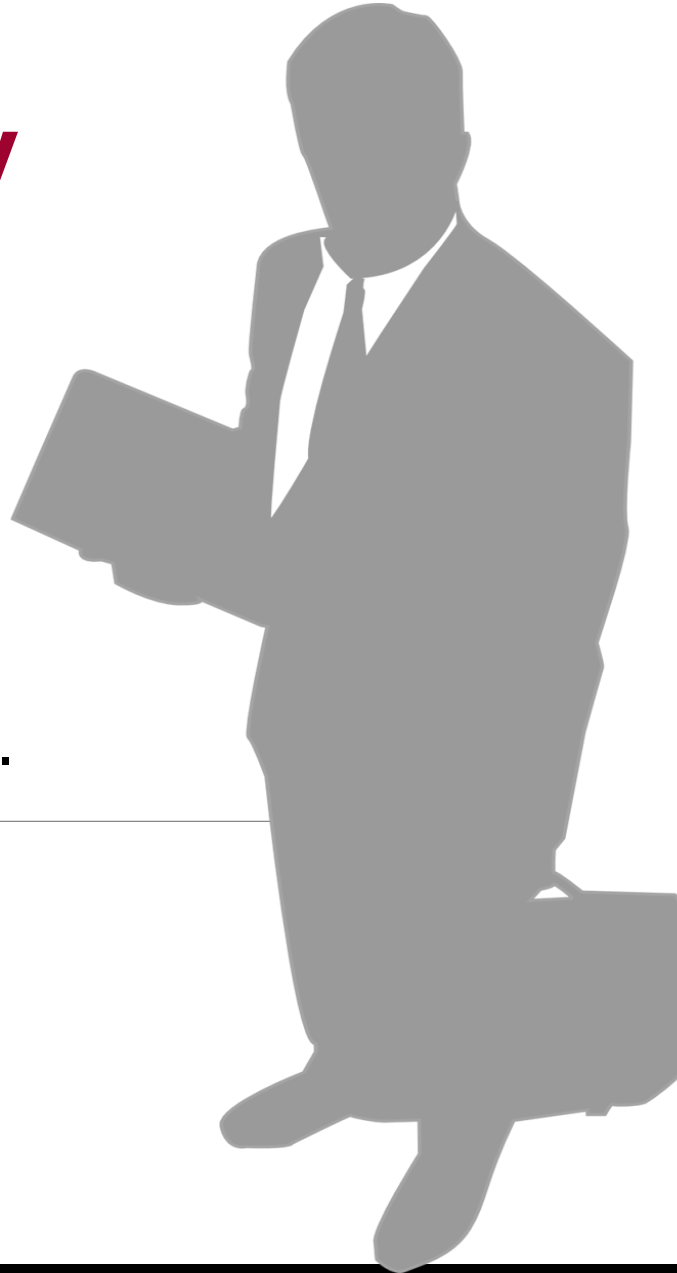
**Borrowers place additional liquid
collateral in bank for life of loan**

**Deposit percentage of loan
premium back into bank for life of
loan**

**Less Risk from Default protects
Deposits over time**

CPLI Is A More Cost Effective, Easier Way

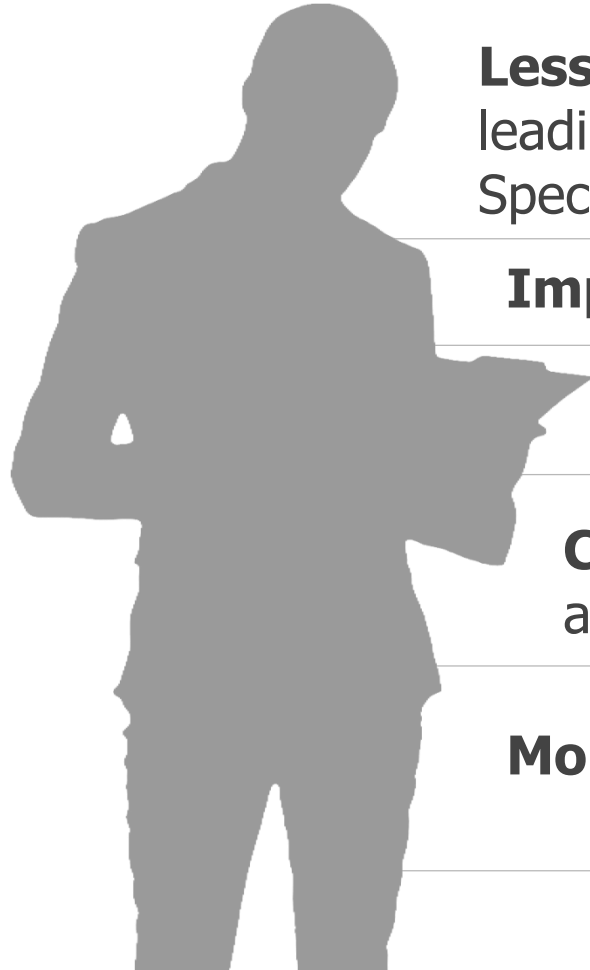
CPLI provides a **more direct way to grow deposits**, forgoing customer acquisition costs.



CRE lenders can **require all deposits** go back into the bank through "sweep" accounts + new liquid collateral deposits.

This keeps **money within the bank** – even at below market rates – for the entire term of the loan, known as "Sticky Deposits"

Portfolio Optimization



Less capital held in reserves means more available for making loans, leading to higher Return on Equity (ROE). See Appendix for Implied Specific Reserve slide.

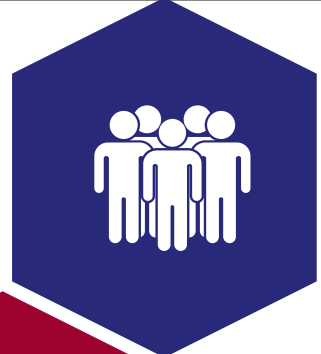
Improves collateral without guarantor reliance.

Collateral Deficiency Repayment with certainty.

Cuts collection times and operating costs by supporting claim filing and payment within 60 days.

More profitable CRE loans but with lower collateral risk.

Operating Enhancements



Helps with Regulators – Avoids LTV appraisal decrease violations, HVCRE violations, etc.



Improve efficiency in execution.
No excessive credit analysis of borrower(s).



No expanded need for spouse or multiple other guarantors – joint and several.



Investment Grade rating reduces time and effort required to validate secondary source of repayment.



No quarterly updating / confirming of value of guarantor's assets, which is often illiquid, and not traded for an accurate mark-to-market valuation.



Lowers front-and back-office head count.



Expands capacity to "do more deals" with same customer. Customers are no longer curtailed by their own balance sheet, now able to do more business with the bank.

Improved Customer Experience

Harris Poll data reflects that 79% of borrowers prefer to work with lenders that provide a non-recourse option; and 60% would be likely to invest more into problem properties if no threat of personal recourse.



In the case of default, relationship can still be maintained to **cooperatively work out situation** with less pressure knowing banks will be repaid and borrowers protected.

End-of-Cycle and Recession Readiness

- Recession Readiness strategies
- Proactive evaluation of CRE portfolio
- Leveraging CPLI strategy for loans in pipeline
- Election Year Dynamics

"We as an industry have to be proactive and prepare for a downturn through the decisions that we make every day...banks should always be preparing for a downturn..." Michael Ankrom – RMA Chairman and Head of Enterprise Credit and Global Banking Risk, Bank of America, The RMA Journal, December 2019

Loans being originated today are those most likely to be negatively impacted by End-Of-Cycle and Recessionary Pressures

Response from RMA Webinar (Strategies for a Downturn, A Risk Readiness Webinar) Question (1-7-20) by Dr. Rick Buczynski, SVP/Chief Economist Financial Risk IBISWORLD – ***Q: Would purchasing investment grade rate insurance be beneficial for dealing with end of cycle risk? A: YES – a lot of his clients are doing this. Now is the time to use this as a hedge. Would not wait much longer.***

When Compared to Existing Models

	CPLI	Existing Foreclosure State	Existing Judicial Process State
Resolution Time (months)	5.5	27.0	39.0
Cost of Resolution	\$*	\$\$\$\$	\$\$\$\$\$
Probability of Collection	100%	50%	50%
Credit Strength	Investment Grade	Personal	Personal
Capital Relief	Yes	No	No

* LGIS allows 2% of outstanding balance for property preservation / collection in claim.

Process of Implementing Commercial Property Loan Insurance Program

1

PRELIMINARY REVIEW

Expert underwriters review loan request information and documents to determine eligibility (24 hours)

2

APPLICATION COMPLETION

A formal application is required, along with complete loan request details, lender package, and application fee of \$7,500

3

UNDERWRITING AND APPROVAL

Comprehensive underwriting is performed, mirroring the lender's procedure to the deal (10 bus. days)

4

ISSUING LOAN INSURANCE BINDER

Loan Insurance Binder Letter issued along with the policy at closing, one time Premium of 1.50% – 3.75% of loan amount collected at loan closing

A Purpose-Built Solution For The Industry

Why LGIS for Commercial Property Loan Insurance?

- 1 A banking business model in need of innovation.**
Frustration and ineffectiveness in personal guarantees and their limitations for both commercial real estate (borrower) and finance (lender) industries.
- 2 The first truly new insurance product since cyber insurance 10 years ago.**
Over 10 years in development, including 4.5 years for patent approval, and alignment with strong investment grade credit backing with significant capacity from an insurance company.
- 3 Innovative banking structure for the future.**
Much lower risk and higher Return On Equity (ROE) for banks – and optimum allocation of resources and risk. Plus, competitive advantage against old and new entrants.

LGIS History

2001: Mr. Eichenblatt's project size had outgrown his personal balance sheet which influenced the amount the Lender's were willing to lend – despite being a proven borrower and presenting qualified real estate projects.

2009-2018: LGIS began as Mr. Eichenblatt began exploring the idea of **mitigating losses, enhancing credit, and creating capital relief through CPLI** ("Commercial Property Loan Insurance").

2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019

2001-2009: Mr. Eichenblatt completed numerous real estate projects throughout the United States and faithfully repaid every Lender; however, the **access to capital continues to be limited based on the Sponsor's personal balance sheet as project size grew.**

2013: Patent for CPLI is awarded to LGIS

2019: LGIS is officially backed by a NYSE S&P A rated Insurance Company subsidiary and A.M. Best "A" rated State National Insurance Company, Inc.

Credible and Reliable

Backed by State National, a wholly-owned subsidiary of an S&P A Rated NYSE Company

StateNational

- State National Insurance Company, Inc. is A.M. Best A rated and a wholly-owned subsidiary of Market Corporation (NYSE: MKL) S&P A rated
- State National is a specialty provider of property and casualty insurance operating in two niche markets, **Program Services** and **Lender Services**. The company is licensed to do business in all 50 states and D.C.

**LGIS is also
properly licensed
in all states
planned for
business**



Thank You For Your Time, To Learn More...

Contact:

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LGIS Group

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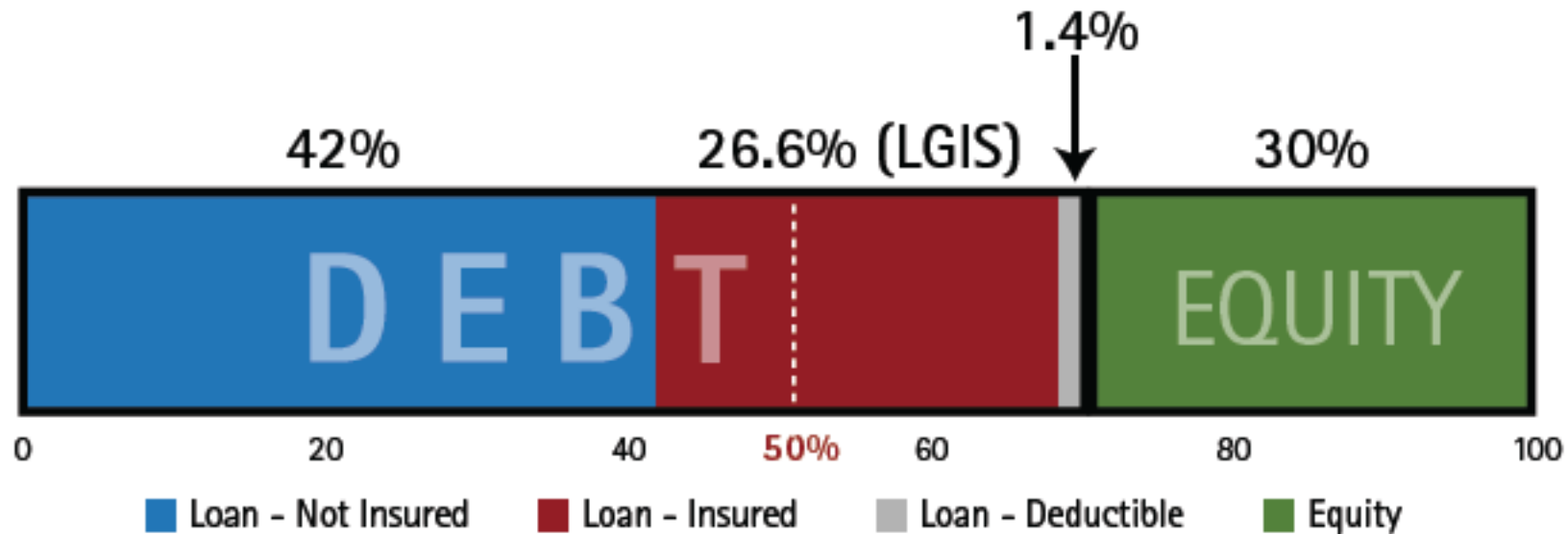
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Appendix

- Capital Stack Example
- CPLI Eligibly Criteria
- Retirement or Claim / Work Out
- Implied Specific Reserve Example
- Compare Existing to New Model – Workflow
- LTV Covenant Violation Exposure – Example
- Capital Relief Example
- Improved Terms Example
- Compare to Alternative / Non-Bank Example
- Entity Guarantee – Improvement Using CPLI Example
- Entity Guarantee Graphic Illustration
- Release Liquidity Covenant Example
- Policy
- Related Reading

Capitalization Stack Example



The example illustrates the capitalization stack for:

- 30% Equity / 70% Loan
- 40% Loan Insurance (% of total loan amount)
- 2% Deductible (% of total loan amount)

Eligibility Criteria

Property Type



Office, industrial, retail, apartments and hotel

Location / Markets



1st + 2nd tier cities with populations of >1 million

Equity Requirements



10% – 40%

Borrowers



Partnerships, JV, corporations, LLCs and individuals

Eligible Loans Covered



- Construction, redevelopment, acquisition, refinance or rehabilitation/modification loans
- Loan sizes: \$5 – 200 million
- Term: < 36 months, extensions available for additional premium
- Loan coverage: 25%-40% of loan amount, 2% deductible min.



Retirement or Claim / Work Out

The LGIS claim process allows lenders to recoup their money fast without costly lawsuits and waiting periods



Dual Claims Trigger: (1) Borrower Default/Foreclosure Sale and (2) Uncured default with quantifiable loss

Implied Specific Reserve

Scenario: Reserve Requirement

This analysis illustrates the benefit the bank will receive with an LGIS insured loan.

LGIS Insured Loan

Loan Amount	\$10,000,000
Probability of Default	1.5%
Loss Given Default*	2.0%
Percent of Loan Held in Reserve	0.010%
Implied Specific Reserve	\$3,000

Not Insured Loan

Loan Amount	\$10,000,000
Probability of Default	1.5%
Loss Given Default*	33.4%
Percent of Loan Held in Reserve	0.167%
Implied Specific Reserve	\$50,100

The \$47,100 difference in Implied Reserve Requirement results in a \$5,652 additional ROE per year Lender would receive based on a 12% required return.

Source: Methodology from former Chief Risk Officer of UCBI, David Shearrow.

Compare Existing to New Model – Workflow

Steps	Existing - Foreclosure State	\$	Months	Cum. Months
1	Default	Internal		
2	60 Days to Cure	Internal		
3	Engage Attorney	\$	1	1
4	Foreclosure	\$\$	3	4
5	Acquire title and REO	\$\$	3	7
6	Market for Sale	3%-5%	3	10
7	Pursue Deficiency	\$\$\$	12	22
8	Discounted Payoff (DPO)	\$\$\$\$	2	24
9	Collect Deficiency (Guarantor)	?	3	27
Steps	Existing - Judicial Process State	\$	Months	Cum. Months
1	Default	Internal		
2	60 Days to Cure	Internal		
3	Engage Attorney	\$	1	1
4	Judicial Process	\$\$	15	16
5	Acquire title and REO	\$\$	3	19
6	Market for Sale	3%-5%	3	22
7	Pursue Deficiency	\$\$\$	12	34
8	Discounted Payoff (DPO)	\$\$\$\$	2	36
9	Collect Deficiency (Guarantor)	?	3	39

Steps	With LGIS	\$	Months	Cum. Months
1	Default	Internal		
2	60 Days to Cure	Internal		
3	Deed in Lieu	Internal	0.5	0.5
4	Market for Sale	3%-5%	3	3.5
5	Claim Paid	Internal	2	5.5

Conclusion		LGIS	Existing System	
1	Much Quicker Resolution (mos)	5.5	27.0	39.0
2	Much Less Expensive Resolution *	\$	\$\$\$\$	\$\$\$\$\$
3	Probability of Collection	100%	50%	50%
4	Credit Strength	Investment Gd.	Personal	Personal
5	Capital Relief	Yes	No	No
* NOTE - LGIS allows 2% of outstanding balance for Property Preservation / Collection in Claim.				

LTV Covenant Violation Exposure – Removed Appraisal Value Decrease Issues

		LGIS Insured Loan	Not Insured Loan	Difference
<u>Assumptions</u>				
Project Cost / Value		83,333,333	83,333,333	
Equity	40.00%	33,333,333	33,333,333	
Debt		50,000,000	50,000,000	
LTV - Initially		60.0%	60.0%	
LGIS - Coverage	30.00%	15,000,000	-	
Bank Exposure		35,000,000	50,000,000	
Bank Exposure LTV - Initially		42.0%	60.0%	
<u>Reserve Requirement</u>				
Loan Amount		\$50,000,000	\$50,000,000	
Probability of Default		1.5%	1.5%	
Loss Given Default		2.0%	33.4%	
Percent of Loan Held in Reserve		0.030%	0.501%	
Implied Specific Reserve *		\$15,000	\$250,500	(235,500)
<u>Scenario: Appraisal Values Show Decrease of:</u>				
	20.0%			
Project Cost / Value		66,666,667	66,666,667	
Bank Exposure		35,000,000	50,000,000	
New - Bank Exposure LTV - After Devaluation		52.5%	75.0%	
Implied Specific Reserve - Increase		5,000	83,500	(78,500)
New - Implied Specific Reserve		20,000	334,000	(314,000)

Significantly less capital reserved from the start – and even with ongoing value decrease surprises.

Conclusion: Appraisal value decrease, increases LTV above regulatory approved limit needing 1) more borrower equity (not likely), or 2) more capital reserves from bank. LGIS removes this issue having significantly decreased bank loan exposure from the start.

Source: Methodology from former Chief Risk Officer of UCBI, David Shearrow.

Capital Relief

Scenario A: Guarantee for Top 50% (most risky)

	Without Substitution	With Substitution, Full Period
Exposure Type	HVCRE Exposure	HVCRE Exposure
Loan Amount	\$ 10,000,000	\$ 10,000,000
Risk Weighting	150%	150%
Exposure Period (Months)	24	24
Exposure Capital Reserve	\$ 15,000,000	\$ 15,000,000
Guaranty Exposure Type	None	Corporate
Guaranty Amount	\$ 5,000,000	\$ 5,000,000
Guaranty Risk Weighting	0%	100%
Guaranty Period (Months)	0	24
Recognized Guaranty	\$ (714,286)	\$ 5,000,000
Guaranty Reserve	\$ -	\$ 5,000,000
Exposure Amount	\$ 10,714,286	\$ 5,000,000
Exposure Reserve	\$ 16,071,429	\$ 7,500,000
Total Capital Reserve	\$ 16,071,429	\$ 12,500,000
Reduction		\$ 3,571,429
Required Core Capital	7.00%	7.00%
	-	250,000
Return on Equity - Annually	15.0%	15.0%
Additional Earnings - Annually	-	40,189
Additional Earnings - over Period	-	86,838
Add'l Annual Earnings / Loan Amount	0.00%	0.40%
Add'l Period Earnings / Loan Amount	0.00%	0.87%

Scenario B: Guarantee for 50% (most risky), and assume bottom 50% would be considered No Risk by Supervisors.

	Without Substitution	With Substitution, Full Period
Exposure Type	HVCRE Exposure	HVCRE Exposure
Loan Amount	\$ 10,000,000	\$ 10,000,000
Risk Weighting	150%	150%
Exposure Period (Months)	24	24
Exposure Capital Reserve	\$ 15,000,000	\$ 15,000,000
Guaranty Exposure Type	None	Corporate
Guaranty Amount	\$ 10,000,000	\$ 10,000,000
Guaranty Risk Weighting	0%	100%
Guaranty Period (Months)	0	24
Recognized Guaranty	\$ (1,428,571)	\$ 10,000,000
Guaranty Reserve	\$ -	\$ 10,000,000
Exposure Amount	\$ 11,428,571	-
Exposure Reserve	\$ 17,142,857	-
Total Capital Reserve	\$ 17,142,857	\$ 10,000,000
Reduction		\$ 6,071,429
Required Core Capital	7.00%	7.00%
	-	425,000
Return on Equity - Annually	15.0%	15.0%
Additional Earnings - Annually	-	68,321
Additional Earnings - over Period	-	147,624
Add'l Annual Earnings / Loan Amount	0.00%	0.68%
Add'l Period Earnings / Loan Amount	0.00%	1.48%

Improved Terms Example

Scenario: Borrower Benefit with LGIS Insurance

Assumptions

Assumption: Investment grade guarantee will allow more favorable rate and debt dollars.

Deal Size		10,000,000			
Cost of Equity		20.00%			
Cost of Debt		5.00%			
Without LGIS Insurance		K		Cap. %	Weighted K
Equity		20.00%	X	35.00%	7.00%
Debt		5.00%	X	65.00%	3.25%
				100.00%	10.25%
			Year 1	Year 2	Year 3
Cost of Capital			1,025,000	1,025,000	1,025,000
NPV @	10%	\$2,549,023			
With LGIS Insurance					
Less Rate		0.50%			
More Debt		5.00%			
		K		Cap. %	Weighted K
Equity		20.00%	X	30.00%	6.00%
Debt		4.50%	X	70.00%	3.15%
				100.00%	9.15%
			Year 1	Year 2	Year 3
Cost of Capital			915,000	915,000	915,000
NPV @	10%	\$2,275,470			
Savings (Cost)	10%	273,554	110,000	110,000	110,000
LESS:					
Debt		7,000,000			
LGIS Premium	3.25%	227,500			
NET Savings (Cost)		46,054			

Compare to Alternative/Non-Bank Example

Scenario: Compare Bank Deal w/ LGIS Ins. vs. Alternative Non-Recourse Lenders			
Cost			10,000,000
Equity	30%		3,000,000
Debt	70%		7,000,000
Rate	Spread		2.50%
	Alternative Lender		6.50%
	Bank		4.00%
Points		In	Out
	Alternative Lender	1.25%	0.50%
	Bank + LGIS	3.75%	0.00%
Alternate Lender		1	2
			3
Points	87,500		35,000
Interest	455,000	455,000	455,000
Total Costs	542,500	455,000	490,000
NPV	1,237,359		
Bank		1	2
			3
Points	262,500		-
Interest	280,000	280,000	280,000
Total Costs	542,500	280,000	280,000
NPV	934,955		
Savings (Cost)	302,404		
% Difference	32.3%		

Assumption: Insurance Guarantee will allow more favorable rate and debt dollars.

Entity Guarantee – Improvement using CPLI

Below is an example that frees Cash, or equivalent, to redeploy at higher rates for borrower and doubles the security for lender.

Liquidity Requirement

Assumptions

Number of Projects		5	/ Project
Project Cost		769,230,769	153,846,154
Loan Amount	65.0%	500,000,000	100,000,000
Guarantee	20.0%	100,000,000	20,000,000
Borrower - 1st Takes (% of Loan)	2.0%	10,000,000	2,000,000
LGIS - 2nd Takes		90,000,000	18,000,000
Liquidity Requirement (% of Loan)	10.00%	50,000,000	10,000,000

Borrower Benefit

Liquidity Requirement		50,000,000	
Borrower - 1st Takes (% of Loan Amt.)	2.0%	10,000,000	2,000,000

Freed Liquid Collateral	40,000,000
Term (Years)	3
Liquidity Collateral Investment Rate (T-Bills)	1.74%
CRE Investment Returns	20.00%
LGIS Premium - % of Loan Amount	2.00%

Freed Liquid Collateral - End of Term	69,120,000
Liquid Collateral Investment - End of Term	42,124,542
Difference	26,995,458

LESS: Cost of LGIS	10,000,000
Net Benefit	16,995,458

Interest Rate Savings

Loan Amount	500,000,000
Interest Rate Savings	0.25%
Savings / Year	1,250,000
Years	3
Total - Interest Rate Savings	3,750,000

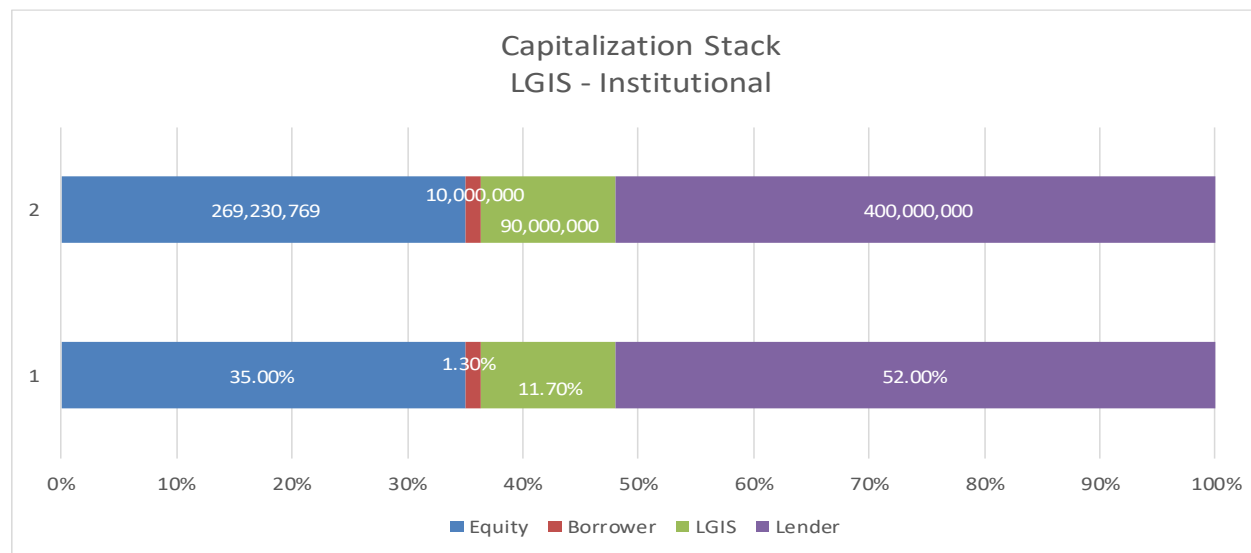
Total Net Benefit	20,745,458
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Bank Comparison - Liquid Collateral Covenant Scenarios

Number of Loans	5	(Different Lenders)
Loan Size / Loan	100,000,000	
Total Loan	500,000,000	

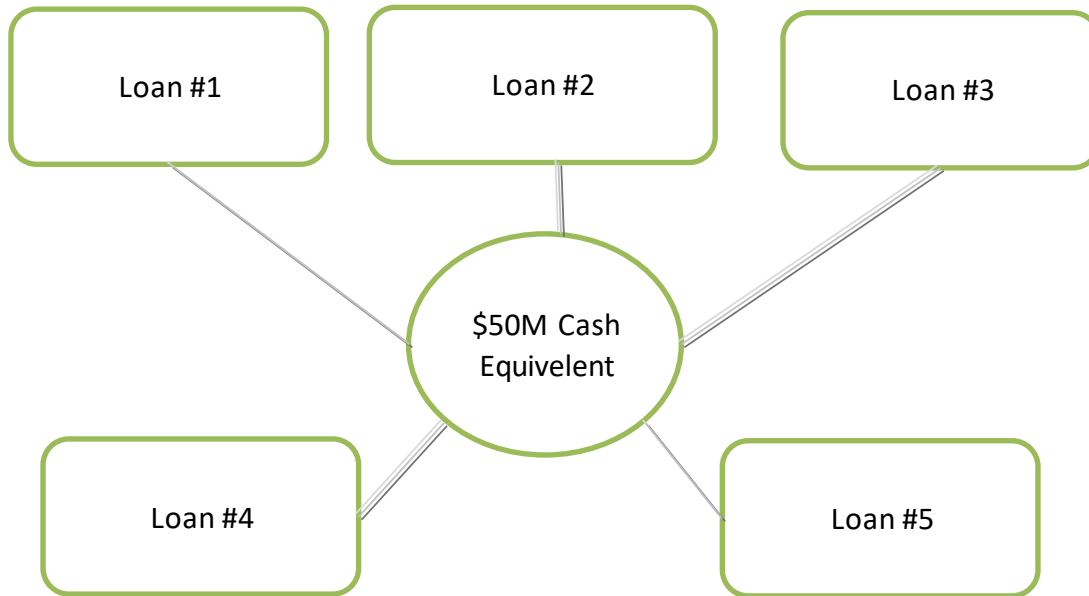
	Option 1	Option 2	Difference
Borrower Cash Collateral (All Lenders)	50,000,000	10,000,000	40,000,000
LGIS *			
LGIS / Loan		18,000,000	
# of Loans		5	
Total LGIS Coverage	0	90,000,000	
Total Guarantee	50,000,000	100,000,000	50,000,000
% of Loan	10.0%	20.0%	100.0%

* Guarantee Claim paid after a sale - Short Sale, Deed-in-Lieu or Foreclosure Sale.

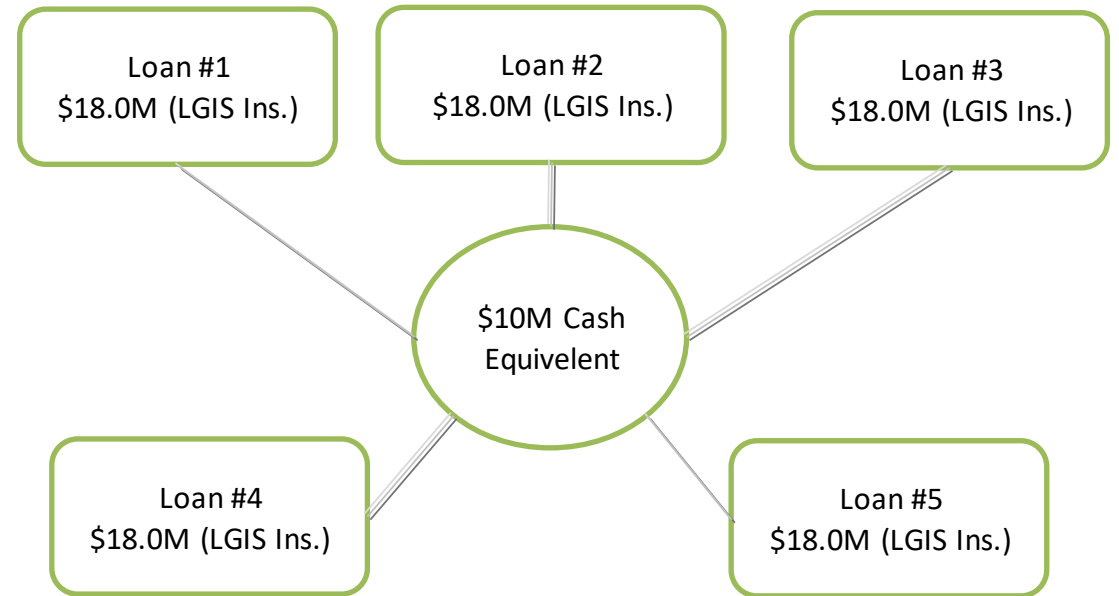


Graphic Illustration of Above Example

Scenario 1 - \$50M Cash Equivalent + \$0 Ins. On each Loan (Total = \$50M)



Scenario 2 - \$10M Cash Equivalent + \$18.0M Ins. On each Loan (Total = \$100M)



Release Liquidity Covenant Example

Release of Liquid Collateral has significant benefits for both lender and borrower.

Collateral Benefit Analysis

Scenario: Bankers releases liquid collateral requirement due to LGIS policy.

Example

Loan Amount		20,000,000
Liquid Collateral Requirement	11.00%	2,200,000
Loan Term (Years)		3
Liquid Collateral Interest		1.56%
Collateral Reinvested Rate		23.00%
LGIS Premium		2.25%
Collateral Reinvested - End of Term		4,093,907
Liquid Collateral - End of Term		2,304,370
Difference		1,789,537
LGIS Premium		450,000
Difference (Net Savings)		1,339,537

Lender Benefits:

- Made whole – 100% certainty.
- Continues Bad Boy Carve Outs motivation / fear to control behavior.
- Removes borrower leverage for Discounted Pay Off (DPO).
- Huge Competitive Advantage – in a somewhat commodity business.

Borrower Benefits:

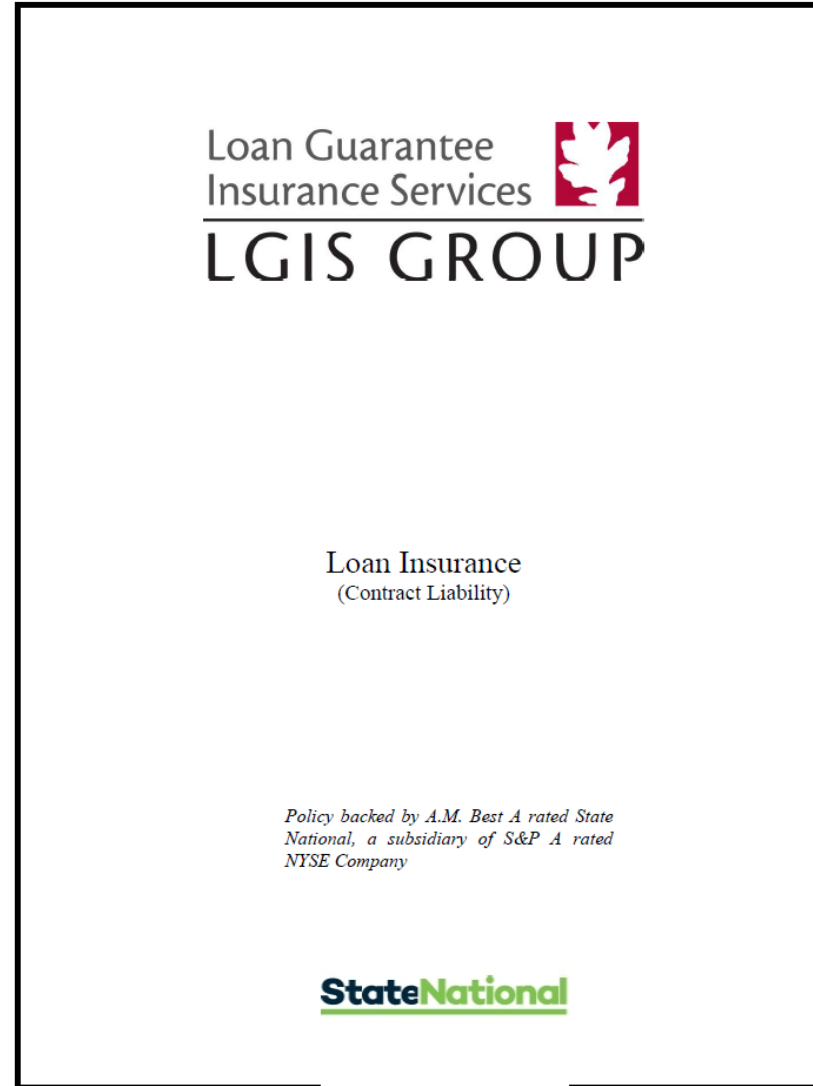
- Savings / Earnings are a multiple (3-4x's) of the Policy Cost.
- Removes Capacity Constraint.
- Allows More Deals.

Policy

The policy on the web site

Go to: www.lgisgroup.com

Login Tab: Password: "lgisclient"



Policy Number _____ Name of Insured _____ Effective Date _____
Form Number _____ Copyright ©David Eichenblatt and Company, LLC

Related Reading

Date	Publication	Headline	Link
12/4/19	Yahoo! Finance	LGIS Launches Commercial Real Estate Industry's First Deposit Assurance Service to Grow Deposits and CRE Loans	https://finance.yahoo.com/news/lgis-launches-commercial-real-estate-143000731.html
12/3/19	Scotsman Guide: Commercial Edition	Find a Better Safety Net	https://www.sq-comdigital.com/comdigital/201912ce/MobilePagedReplica.action?pm=2&folio=74#pg74
9/5/19	Global Banking & Finance Review	Growing Number of Financial Institutions Now Leveraging Commercial Property Loan Insurance to Better Mitigate Risk and Drive Profitability in CRE Lending	https://www.globalbankingandfinance.com/category/news/growing-number-of-financial-institutions-now-leveraging-commercial-property-loan-insurance-to-better-mitigate-risk-and-drive-profitability-in-cre-lending/
8/28/19	MarketWatch	LGIS Group Partners with Tanner, Ballew & Maloof to Help Meet Growing Demands for Better Risk Mitigation in the CRE Lending Market	https://www.marketwatch.com/press-release/lgis-group-partners-with-tanner-ballew-maloof-to-help-meet-growing-demands-for-better-risk-mitigation-in-the-cre-lending-market-2019-08-28
8/13/19	Bank BUSINESS	Realizing CRE Lending Growth with a Commercial Property Loan Insurance (CPLI) Strategy	https://www.bankbusiness.us/realizing-cre-lending-growth-with-a-commercial-property-loan-insurance-cpli-strategy/
8/12/19	MBA Insights	How Commercial Property Loan Insurance could Make You Recession-Proof	https://www.mba.org/publications/insights/articles/current-issue/how-commercial-property-loan-insurance-could-make-you-recession-proof
7/26/19	BankNews (online)	CRE Developers Prefer to Work with Banks That Offer Non-Recourse Repayment	https://www.banknews.com/blog/cre-developers-prefer-to-work-with-banks-that-offer-non-recourse-repayment/
7/15/19	MortgageOrb	David Eichenblatt: CRE Lenders Must Adapt to New Market Realities	https://mortgageorb.com/david-eichenblatt-cre-lenders-must-adapt-to-new-market-realities
7/12/19	GlobeSt.com	The Appeal of Non-Recourse Repayment Option	https://www.globest.com/2019/07/12/the-appeal-of-non-recourse-repayment-options/

Related Reading (cont'd)

Date	Publication	Headline	Link
7/10/19	Mortgage Prof. America (MPA)	Non-recourse loans will tempt most developers poll reveals (Harris Poll)	https://www.mpamag.com/market-update/nonrecourse-loans-will-tempt-most-developers-poll-reveals-172257.aspx
7/9/10	Morningstar	New LGIS / Harris Poll Study Reveals Nearly 4 in 5 CRE Developers Would Prefer Working With Banks That Offer Non-Recourse Repayment Options	https://www.creditunions.com/press-center/article/44101/new-lgis/harris-poll-study-reveals-nearly-4-in-5-cre-developers-would-prefer-working-with-banks-that-offer-non-recourse-repayment-options/
7/1/19	Yahoo! Finance	LGIS Announces New Team Members in Response to Rapid CRE Industry Growth	https://finance.yahoo.com/news/lgis-group-announces-team-members-133000094.html
6/10/19	MortgageOrb	Leveraging a Commercial Property Loan Insurance Strategy To Increase Credit and Grow CRE Lending	https://mortgageorb.com/leveraging-a-commercial-property-loan-insurance-strategy-to-increase-credit-and-grow-cre-lending
6/5/19	MBA Newslink	LGIS Introduces Commercial Property Loan Insurance	https://www.mba.org/cmfi-newslinks/2019/june/mba-cmf-newslink-6-6-19/news-and-trends/commercial/multifamily-briefs
6/3/19	AP Newswire	LGIS Group Introduces Commercial Real Estate Industry's First Commercial Property Loan Insurance (CPLI)	https://apnews.com/Business%20Wire/772a7f36bb75430d8f0ace79102b2f21