

# Innovation in CRE Credit

Short-Term CRE Loan Insurance Against  
Foreclosure / Deficiency Loss

Prepared for: University of Texas – MBA Guest Lecture

April 15, 2020

[www.lgisgroup.com](http://www.lgisgroup.com)

# Guest Lecturers



David Eichenblatt, CCIM  
President & Founder  
30+ Years Experience



Daniel Weingarten, CCIM  
VP – Underwriting  
10+ Years Experience

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# Founder: 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.

# 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.

# Problem Identified



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## 2001 – New Construction

High Rise MXD Highlighted the problem: 23 Story, 486K SF, Retail / Office / Hotel / Apartment

## 2013 – Redevelopment

Georgian Terraces – Convert 326-key Hotel to 88-unit residential and 200-key Hotel

## 2017 – Repositioning / Redevelopment

University Office Park – 21 buildings, 1.2M SF Office Park, 72% leased



ELEVATIONS  
MIDTOWN HIGH-RISE HOTEL/OFFICE/RESIDENTIAL

SCALE 1:60

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Real Estate Investments and Development



**GEORGIAN TERRACE HOTEL**  
ATLANTA'S MODERN CLASSIC



# Proof of Better Way

**2004** – Convert 250 rm. Hotel to 129 Unit Residential (Condo) – Converted Use Redevelopment



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Very successful project hit by three (3) hurricanes – Outcome could have been difference depending on recourse of the loan.

- Project sold out in 72 hours, 1,200 on waiting list.
- One month prior to C.O. – a 100 year event hit, three hurricanes in 2 weeks (last time 1912 Galveston, Tx.)
- \$2.8M needed immediately to arrest destruction (mold) and make repairs needed for C.O. / Closings.

Outcome:

1 – With non-recourse, all parties worked together to solve problem (which was the case) and all benefited. Cooperative. DECO had non-recourse.

2 – With recourse – likely lender (bank) would threaten sponsor / guarantor for repayment, not advance additional funds, leading to legal action and failed project. Adversarial.

# The 10+ Yr. Journey

## Critical for new product prior to coming to market:

1. Investment Grade Rating – Key for lender acceptance and additional benefits - capital and other lender reliefs
2. Capacity – market want assurance to fill demand

## Challenges:

1. New Insurance products are rare. LGIS told 1<sup>st</sup> new product since Cyber Insurance - 10 years prior.
2. Resistance to change, then the heard. **No one wants to be first. (Note: Same challenge with banks).**
3. Often easy to imitate event with high barriers (particularly admitted policies).
4. Patent Protection is rare in insurance. 4.5-year process was needed to wall big capital competitors in herd business.
5. Lack of communication between investment and underwriting sides of Insurance.
6. Poor historical data – Actuaries rely on data to evaluate risk – frequency and severity.
7. Needed to learn three (3) different but connected industries –
  1. CRE – Understood across multiple asset types
  2. Insurance – regulatory / legal, classifications, proforma, actuary science, culture
  3. Banking – production, credit, legal, operational, competition, pricing, culture

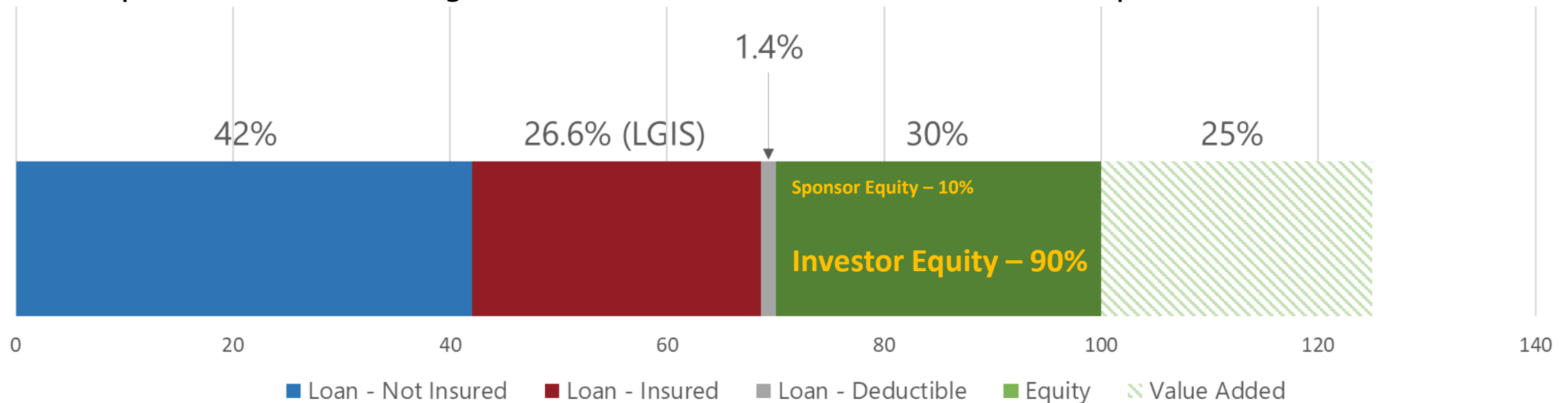
# TYPICAL CRE DEAL STRUCTURE

## Sponsor (Developer)

- General Partner - Controls deal
- Contributes 5% - 10% of equity
- Gets development fee and additional compensation if IRR exceeds certain thresholds
- Responsible for debt and guarantees

## Investors

- Joint Venture - Limited Partners
- Provides majority (90% - 95%) of equity
- Often large institutions or funds
- Limited Responsibilities



# Problem for Sponsor's and Lender's

## Sponsor Issues

1. Sponsor may not meet Financial Requirements – Net Worth or Liquidity.
2. Limits number of deal(s) on balance sheet.
3. Limits size of deal(s) on balance sheet.
4. Penalizes liquidity – trapped in “cash equivalent” v. redeployed into other investments with higher returns or needed elsewhere with sponsor.
5. Risk - Real problems may cause personal ruin as a result a project (after many successful).
6. Concentration limits with a lender relationship.
7. Costly in time / resources to fight with lender.
8. Only alternative is expensive debt funds or “borrower” a balance sheet – which also is very expensive.

## Lender Issues

1. Lender's never collect on PG's in full.
2. Hurts competitiveness and invites competition – i.e. non-bank bank, credit unions, etc.
3. Only weapon is legal threat (adversarial)
4. Growing covenants – hard / expensive to monitor or even enforce. Financial, DSCR, Reporting, etc.

# LGIS Insurance: Our Product Offering



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## What is Commercial Property Loan Insurance ....



LGIS Insurance is an **institutional grade rated insurance product** serving as a substitute to short term CRE loans that require personal guarantees



A proven **risk transfer** and mitigation strategy that can **replace** or supplement the personal guarantee for borrowers of typical short term, recourse commercial real estate loans



At **no cost** to a lender; policy **paid for by the borrower**



Provides **significant capital relief** and **reduces concentration risk**



Empowers banks to **increase volume** and **profitability** across their CRE portfolios with a competitive advantage

## ...And Why is it Needed



*Nothing has Changed Since the Medicis:* Banks still require, but **rarely collect**, on personal guarantees



Under current model, excessive **time, costs** and **uncertainty** in collection process



Net worth and liquidity covenants are often **deal killers** for sponsors of good deals, and ongoing reporting requirements **hurt the customer experience**

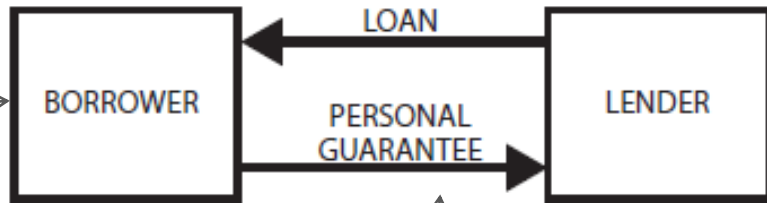


Banks are **stunting their own growth and profitability** due to **CRE concentration limits**

LGIS Insurance: ***“Like PMI for CRE Loans”***

# LGIS Insurance: A Revolutionary Model

## Historical CRE Lending Model

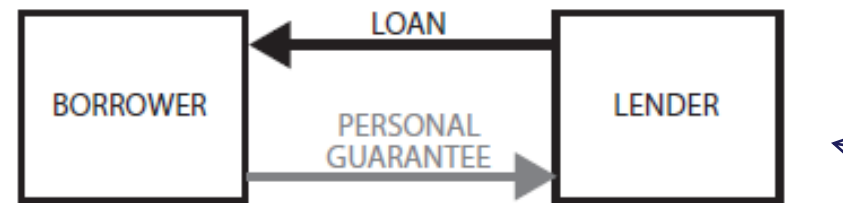


- Cumbersome credit reporting requirements during application and over the life of the loan
- Inability to obtain a personal guarantee will force higher pricing at a non-bank lender

- Extremely difficult to collect when needed, essentially ineffective

- Lender retains all risk
- Loan volume limited due to concentration limits

## New CRE Lending Model



- Pays insurance premium and able to obtain a bank loan
- Removes personal guarantee reporting requirements

- Transfers first loss position, removing all risk
- Frees up capital and reduces loan concentration
- Increases lending volume potential

- Receives insurance premiums
- Takes first loss position from lender
- Backed by an institutional A-rated insurance policy

# The Current Model: Personal Guarantees For CRE Loans



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## The Myths

Personal Guarantees are needed to “hold someone’s feet to the fire”

Banks collect on personal guarantees

Repayment Guarantee different than Deficiency Guarantee

An insurance policy would cut into bank profitability due to the extra cost

## The Reality

- It is the small sponsor facing personal ruin, not the passive big money investor. It is also “adversarial” from the start of a problem, and not cooperative in solving a problem.
- 8 out of 10 bankers will admit they **never collect** on personal guarantees (certainly not in full), and the other 2 are in denial.
- These are actually the same. 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 differently than Repayment Guarantees.**
- LGIS Insurance is **paid for by the borrower**, so this innovative solution comes at no cost to the bank. **Profitability is actually increased** since this product unlocks the ability to increase lending volumes and decrease required reserves

# A Purpose-Built Solution

## Why Commercial Property Loan Insurance?

## Why now?

- 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.

# Build a Better Innovative Model



**Never before has there  
been an alternative to  
a Personal Guarantee**

## With Commercial Property Loan Insurance...

- 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

# A Purpose-Built Solution: Commercial Property Loan Insurance (CPLI)

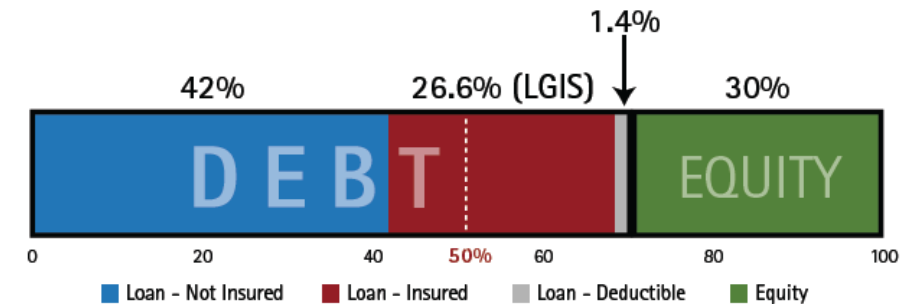


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## Product Details

Loan Insurance Coverage	Insurance for riskiest 10%-40% of qualified loan amounts to replace (or supplement) the need for a personal guarantee
Borrower Equity Requirement	25% – 40%
Eligible Loans	Construction, Redevelopment, Acquisition, Refinance or Rehabilitation / Modification
Loan Sizes	\$5 – \$250M
Premiums (paid by the borrower)	1.25% – 3.75% of the loan amount
Insurance Provider	State National Insurance Company <b>A.M. Best A (Excellent) financial strength rated</b>

## Capital Stack with CPLI



*Historically, when Lenders have experienced losses on CRE, it has NOT been 100% loss factor, but within a loss of 12%-38% of the loan amount (fully loaded)*

**Therefore, CPLI designed assumptions:**

- **40% Loan Insurance (% of total loan amount)**
- **2% Deductible (% of total loan amount)**

# Who is backing LGIS?

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

- 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** 



# Value for Lender

Given Insurance with Investment Grade Credit

**Benefits to Banks / CRO's**

**Loss Given Default Analysis**

**LTV and Concentration Relief**

**Portfolio Optimization**

**Operating Enhancements**

**Improved Customer Experience**

**Deposits**

**Competitive Advantage**



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# Lender Benefits – *Multiple Constituents*

## CEO & Shareholder Benefits

### Enhance Profitability & Shareholder Value

Newly created “excess” capital can be reinvested in interest yielding assets, **improving profitability** and ultimately **shareholder value**

### Transfer Risk

**Structural change** to the CRE market, enabling banks to effectively **offload risk** from their loan portfolios  
*Speeds recovery time & recovery certainty if loan goes to collection*

### Reduce CRE Concentration

LGIS takes the **first loss position**, **reducing the effective CRE exposure** in a bank’s portfolio

### Capital & Reserve Relief

Insurance policy on the first loss position means **less capital & fewer reserves** required against each CRE loan

## CFO & CRO Benefits

## Lending Officer Benefits

### Improve Borrower Experience

Eliminates the cumbersome borrower credit analysis process, as well as ongoing time and labor-intensive quarterly updates and confirmation of collateral value and liquidity

### Increase Volume

Frees up capital to enable for additional loans without breaching concentration limits

### Competitive Advantage

Offers for the first time a non-recourse bank loan option against other banks, non-banks, credit unions or debt funds

# Lender Benefits:

## Bank CEO & Shareholders



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Insurance on the first loss position (10%-40%) provides capital relief, LTV relief and concentration relief.



Unlocked capital can be invested, enhancing loan growth, profitability and shareholder value

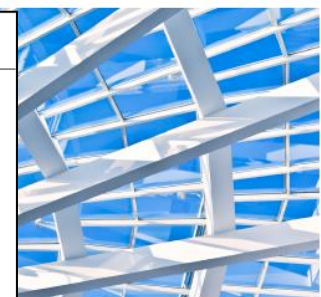


We have written white-papers and received letters from attorneys confirming the capital relief and profitability potential of LGIS insurance; we believe the FDIC would also give approval if the request came from a regulated bank

**TRUE RISK SOLUTION FOR THE NEW REGULATIONS – WITH SIMPLICITY**  
The new risk and capital requirements of Basel III have made the current banking model further unsustainable. How can banks evolve to stay viable in the wake of new regulations?

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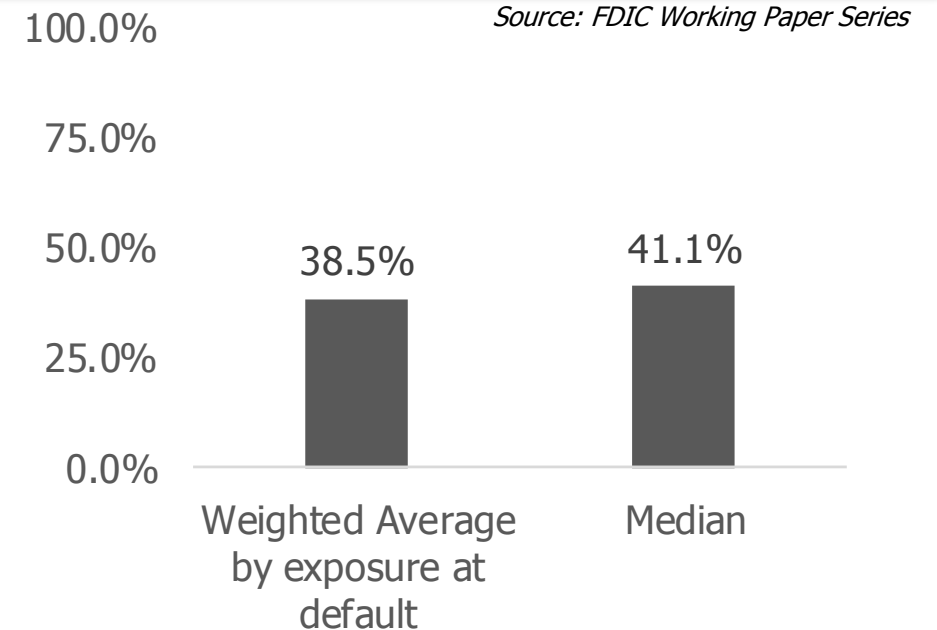
# Benefits to a Chief Risk Officer

*Decrease / Transfer Risk With Investment Grade Credit*



This is not risk mitigation, it is **true risk transfer** – from a bank that historically rely on Personal Guarantees, to having 100% certainty of collection from an investment grade rated Insurance Company. Optimizing risk not only reduces the chance of potential losses but also increases profits.

## Loss Given Default for CRE Loans (1)



**LGIS Insurance would potentially cover all losses in a typical CRE loan default**

(1) FDIC Working Paper Series: "Loss Given Default for Commercial Loans at Failed Banks" by Lynn Shibut and Ryan Singer (October 2015).

# Default Loss Analysis

## Lender Benefits: Bank CFO & CRO



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### Scenario: Default Loss Mitigation Analysis

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

#### LGIS 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
<b>Loss ** /***</b>		<b>2,489,530</b>
<b>Max. Lender Loss</b>	<b>2.0%</b>	<b>143,003</b>

#### Non-Insured Loan

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

***With LGIS Coverage, a \$2.3 million loss to the bank is reduced to a \$143 thousand loss***

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

# Capital Relief: Implied Specific Reserve

*Lender Benefits: Bank CFO & CRO*



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## Reserve Requirement Analysis

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

### LGIS Insured Loan

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

### Not Insured Loan

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

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

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

# CRE Concentration Relief

## Lender Benefits: Bank CFO & CRO



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### Illustrative Bank Assumptions

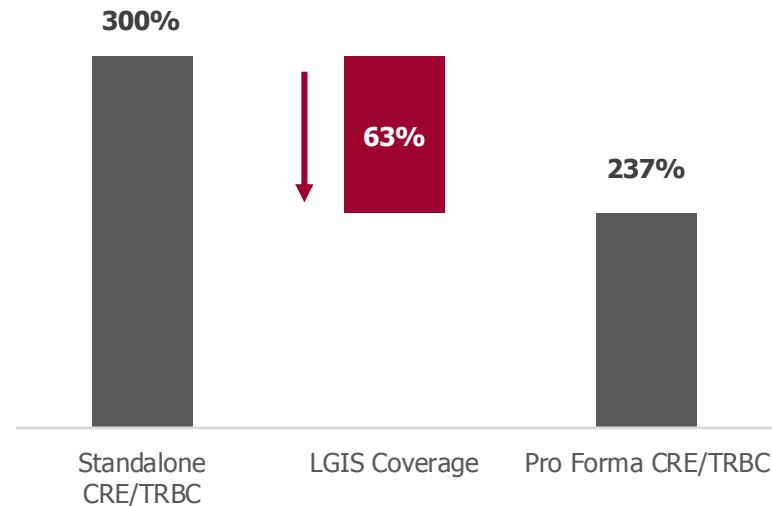
#### Standalone Bank Assumptions (\$000)

Assets	\$20,000,000
TCE / TA	8.75%
CRE Loans	\$5,550,000
<b>CRE/ Total Risk Based Capital</b>	<b>300%</b>
ROA	1.15%
Net Income	\$230,000
ROTCE	13.1%

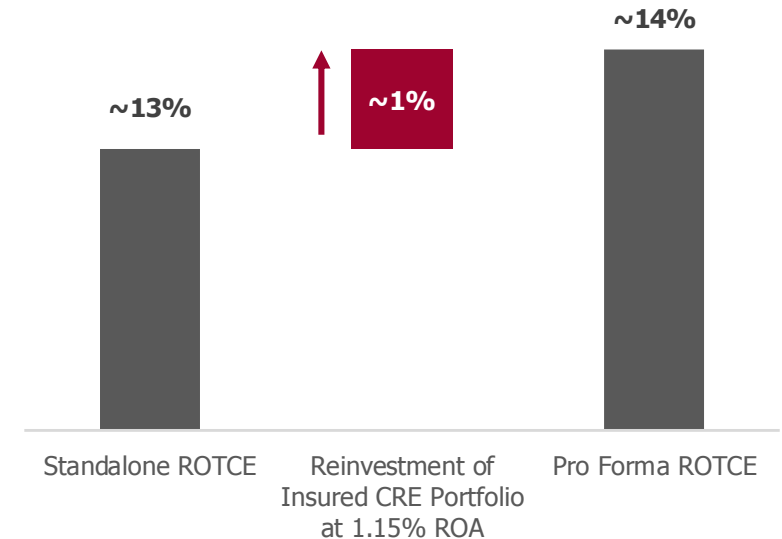
#### LGIS Insurance Assumptions (\$000)

% of Loans that Qualify for LGIS Coverage	70%
% insurance for each loan	30%
<b>% of portfolio insured</b>	<b>21.0%</b>
<b>Pro Forma CRE Portfolio</b>	<b>\$4,384,500</b>

### Pro Forma CRE Concentration



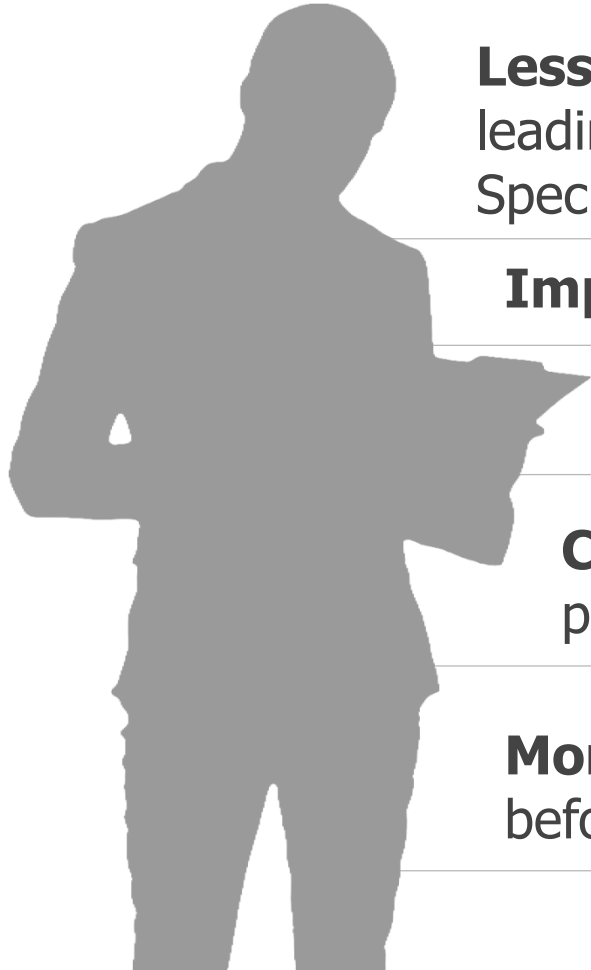
### Pro Forma ROTCE



*LGIS Insurance results in **immediate** value creation, as opposed to other strategies that take much longer and cost much more to see results*

# Portfolio Optimization

## With Investment Grade Credit



**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 time and cost significantly** with a certain two-step process including filing a claim with payment within 60 days.

**More profitable CRE loans** but with lower collateral risk than ever before.

# Operating Enhancements

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



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



Lowers front-and back-  
office head count.



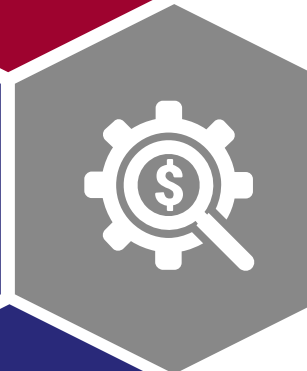
Expands capacity to "do more deals" with  
same customer. Customers are no longer  
curtailed by their own balance sheet, now  
able to do more business with the bank.



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



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



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

# Improved Customer Experience

Initially when negotiating loan, there are **no contentious discussions** of personal guarantee.

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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.

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# Excellent Tool in a Downturn

## *Lender Benefits: All Constituents*



- Strengthens Balance Sheet – without cutting dividend or diluting equity with common equity raise.
- Lowers cost of equity capital with strong balance sheet – increase profitability.
- Positions for strong rebound and competitive advantage.



Loan Guarantee  
Insurance Services  
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- Apply to :
  - Existing Loans
  - Loan Modifications – which will be many in a downturn.
- Releases Liquidity Covenant, giving borrower's much needed liquidity for asset or business.

# Deposits

Banks making CRE loans **require all deposits** go back into the bank into "sweep accounts".  
LGIS also has a "LGIS Deposit Program" for cooperating banks.

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We will **leave money in their banks** – even at below market rates – for the entire term of the loan, known as "Sticky Deposits"

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# Competitive Advantages



## Advantage 1

Superior to the rising tide of “non-bank” banks entering their territory and often offering non-recourse loans.



## Advantage 2

Better than other banks that require personal guarantee. *Note: The Harris Poll survey (6/20-24/19) concluded when selecting a bank to use for CRE, nearly 4 in 5 (79%) would be more likely to choose a bank that offered a non-recourse repayment over a bank that did not.*



## Advantage 3

Banks can actually pay for all, or some, of the LGIS insurance and keep rates same – but now are offering a non-recourse loan. Or, lower rates if borrower pays.



## Advantage 4

Banks also offer a borrower a lot more services than any non-bank bank.

# Initial Steps for Value Creation



## Personal Guarantee Supplement vs. Substitute Option

Supplement a Personal Guarantee with LGIS insurance as the first position of the guarantee to payout any financial claim.



## Liquidity Requirements

Replace minimum liquidity requirements – increase borrower's ROE and enhances the Bank's credit position.



## Other Steps

As the Bank becomes more comfortable with the credit enhancement LGIS is offering, the more confident they become in providing a more competitive structure to valued borrowers and use LGIS as complete substitute.

# Superior to Existing Models

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

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

# Value for Borrower

- **Risk Transfer - First loss position transferred to LGIS**
- **Improved terms and lower borrowing costs offsets costs / premiums and increase returns**
- **Upgrades lender selection and ability to participate in more deals with no capacity issues**
- **Circumvent bankruptcy and taxation on debt forgiveness**
- **Mitigates fear of foreclosure and encourages borrower's to notify lender immediately to assess the best course of action**

# Current Environment

(4/15/20)

- **Covid-19 virus burst on scene in March, not yet peak in U.S. - hope is by May.**
- **Senate passed \$2.1T CARE Act (Phase III, expect a Phase IV, V – for additional liquidity).**
- **Stay-at-home orders for 80%+ of nation, unemployment expected to go to 15%-30% from 3.5%.**
- **Economy in recession – Expected Q2 brutal, recovery by Q4, thrive in 2021.**
- **CRE Affected – Some more than others. Some area will accelerate change.**

# Issues with CRE Lending Today

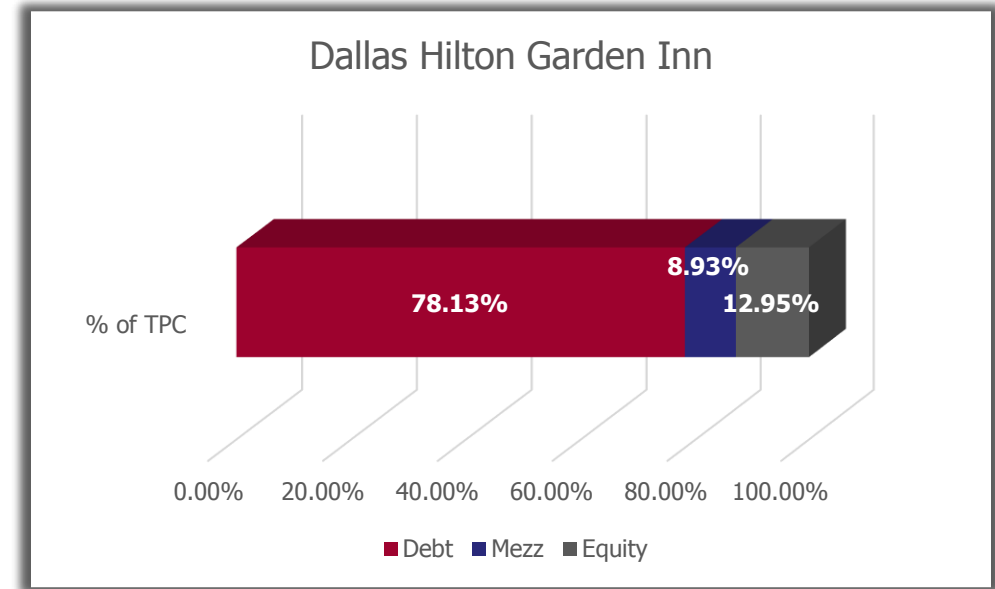
1. Liquidity –
  1. New Loans - Lenders with capacity, borrowers with capacity to meet existing loan requirements.
  2. Refinance – frozen / uncertain take out market
  3. Pricing Discovery – few know what to charge / price.
2. Defaults –
  1. The transfer of funds ecosystem is exposed, Tenant(s) stop paying Landlords / Borrowers
  2. Therefore, Borrowers are unable to pay debt service.
  3. MANY covenant busts and technical defaults trigger springing rights in loans.
3. Lender Strategies
  1. Extend and Pretend (2008 Playbook)
  2. Loan Modifications – without tripping TDR for bank regulatory action (unless waiver). LGIS could be instrumental.
  3. Loan Forbearance – short term for breathing room, not a f
4. See attached LGIS Case Study – “Be Ready, Be Bold”

# SONGY Partners

- Dallas Hilton Garden Inn
- 5433 Westheimer Office / Hotel / Retail
- The Carpenter Building

# SONGY PARTNERS – CASE STUDY

- ❑ Hotels were hit the hardest in the Great Recession (and same today). RevPAR declined 16.75%
- ❑ PIP was an additional Capital Expense - \$1.5MM per year for 3-years.
- ❑ Project was overleveraged with not enough equity.

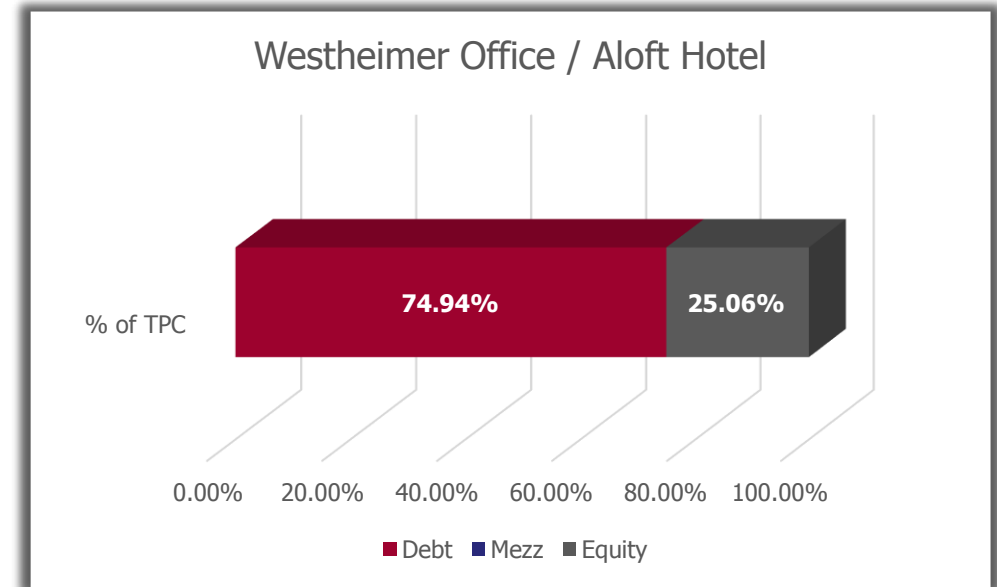


**PROBLEM** – Property was overleveraged, and Lender feared not getting repaid. LGIS requires significant equity investment into projects as the primary cushion against loss.

**LGIS Solution** – Underwrite as a new project and require 35%+ equity into the deal, especially for a hotel project.

# SONGY PARTNERS – CASE STUDY

- ❑ In 2009, Houston’s Office Market had -2.7M absorption. However, vacancy and absorption were all trending in the right direction showing a sign of recovery.
- ❑ Hotel / Retail keeping the property afloat though Debt payments were being made.
- ❑ Lender not cooperating for additional financing for the Office building.

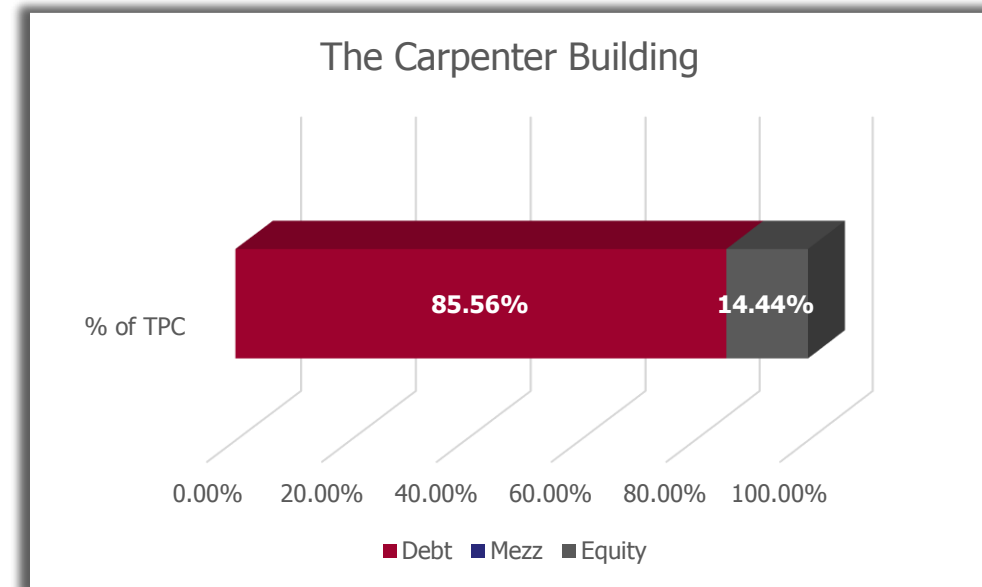


PROBLEM – Property was cross-collateralized and Lender was not comfortable with providing additional financing. While David considered throwing the asset into BK or acting unethically.

**LGIS Solution** – LGIS has a provision for BK where the Borrower would reimburse LGIS from any claims paid (similar to “Bad Boy Carveouts”). Separate the loans and put LGIS policy with more coverage on the Office asset than the Hotel asset, or both. Underwrite the office building as a new project and require 30-35%+ equity into the deal. Full budget that is properly capitalized leads to a successful project.

# SONGY PARTNERS – CASE STUDY

- ❑ The investment had not succeeded thus far and didn't have a proper capital budget from the start. However, the asset was purchased at a low basis where there was perceived low risk.
- ❑ Loan NOT in default, with a 1.50 Debt Coverage Ratio.
- ❑ Corporate Guarantee for \$4.5M signed by Songy Partners (58% of Original Loan).
- ❑ Property was overleveraged with not enough equity.



PROBLEM – Bank had \$4.5M of exposure while Songy wasn't technically in default. Concentration issues led to uncertain future for who the owner of the loan would be. The property was overleveraged, and Lender feared not getting repaid.

**LGIS Solution** – LGIS requires a full budget while protecting both the Borrower and Lender from future losses. This property would be refinanced with a different lender as a new construction loan. Still a value-add opportunity. Property would be properly capitalized and underwritten as a new asset.

# SONGY PARTNERS – Review

- ❑ All properties were overleveraged with Bank's relying heavily on Personal Guarantee's
- ❑ No liquidity during trouble times to buy down loans. If there are funds available, they should be used to solve the problem with the asset not used as a "chip"
- ❑ Personal Guarantees result in adversarial relationships with Lenders
- ❑ Mis-aligned interests - Gamesmanship
- ❑ Investment strategies were not properly capitalized for success

**LGIS** allows both parties to form a cooperative relationship throughout the life of the project with interests aligned. Both parties' efforts will be towards solving the problem and would include full budgets with TI, Commissions and reserves.

**Lenders** are no longer worried about a potential loss given a default and putting a Borrowers "feet to the fire." Funds to solve a problem including a robust contingency, working capital, etc. are included in the full budget which eliminates the need for Financial covenants which are a burden on Borrowers and prevent deals from succeeding.

# Target Customer / Sponsors

**LGIS assesses each deal individually on the following criteria:**

1. Feasibility of the Project
2. Sponsorship Team

**LGIS does not underwrite the borrowers balance sheet. Designed to solved the problem.**

1. Young Professional with no balance sheet, but great experience.
2. Industry Veteran who wants to protect “wealth” accumulated throughout their career. Risk adverse even though historically has signed on the recourse.
3. Funds or entities that have no ability to provide a PG, thus may inject excessive costly equity.

**CPLI should be considered a scalable business model by developers to never have to question which team member or 3<sup>rd</sup> party will sign on the recourse again**

**CPLI will allow developers to continue to borrower from a single Lender through concentration relief benefit**

# Eligibility Criteria

## Property Type



Office, Industrial, Retail, Apartment, Hotel, and Mixed-Use

## Location / Markets



1<sup>st</sup> + 2<sup>nd</sup> tier MSA's with populations of approx. 1 million or greater

## Equity Requirements



25% – 40%

## Borrowers



Partnerships, JV, Corporations, LLC's and Individuals

## Eligible Loans Covered

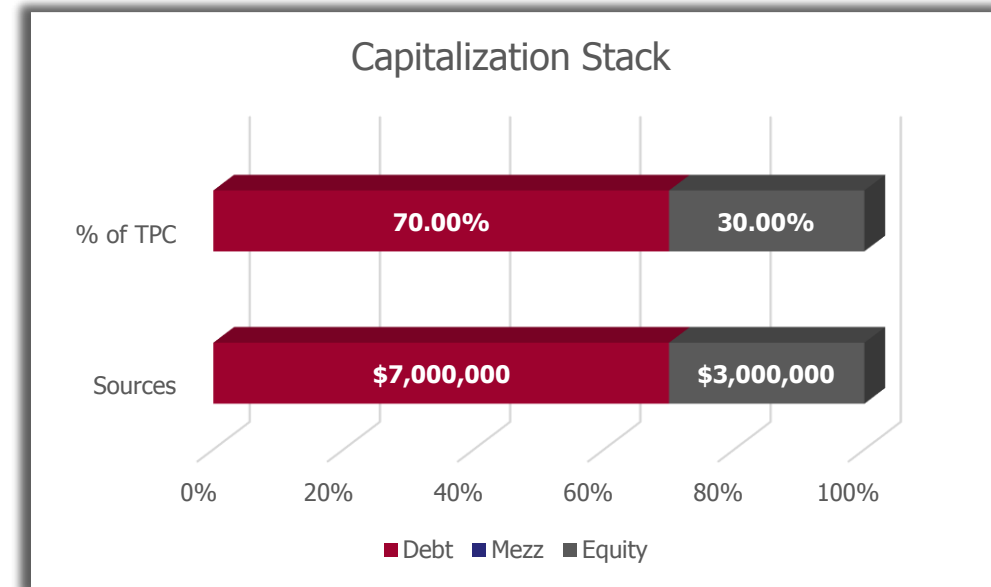


- Project Type: Construction, Redevelopment, Acquisition, Refinance or Rehabilitation / Modification Loans
- Loan Size: \$5 – 250 million
- Loan Term: < 36 months, extensions available for additional premium
- Loan coverage: 10% – 40% of loan amount, minimum 2% deductible
- Repayment / Deficiency, Completion, "Bad Boy" Carveouts – "A loss is a loss"

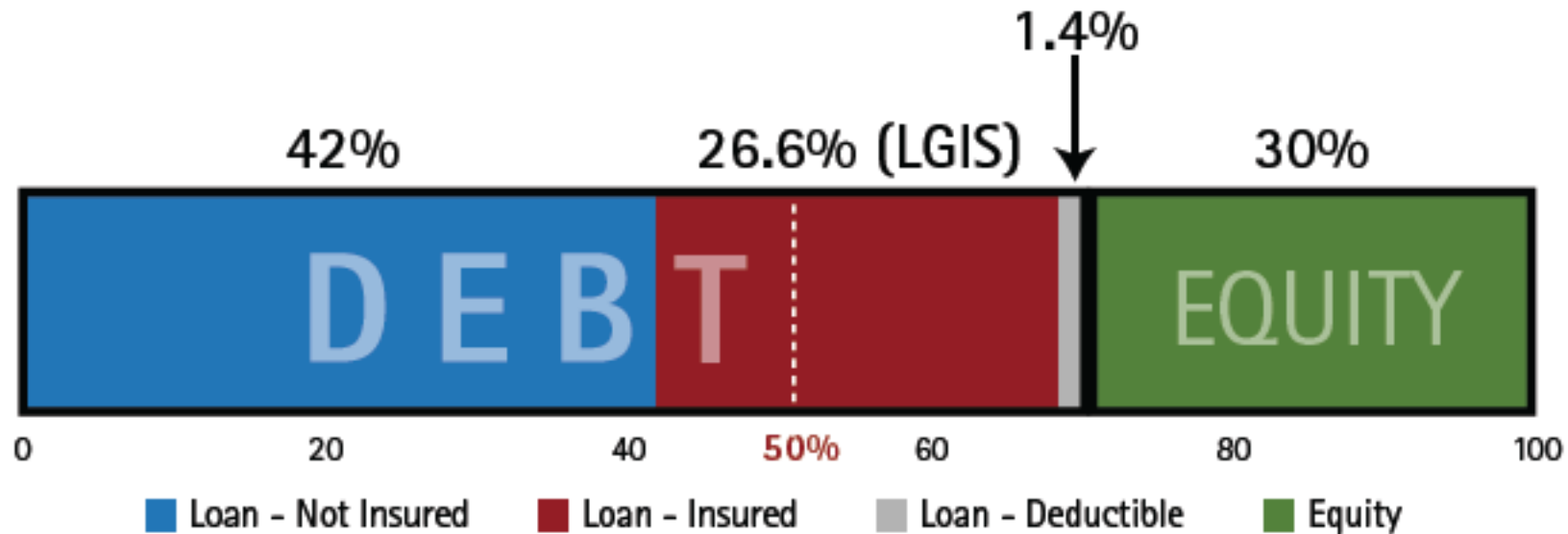


# Structure of Typical CRE Project

- Single Asset Entity
- Equity
  - Sponsor – Developer most likely only contributing 5% – 10% of the equity, if any
    - **Guarantor of the debt**
    - Promoted Interest, in addition to pari-passu equity
  - Investor – Passive investor putting in 90%+ of the equity
    - **Does not guarantee the debt**
- Debt (for Short-Term Financing)
  - Bank – Typically requires recourse
  - Under 36 mo., Two (2) 1-year ext. options



# Capitalization Stack Example with LGIS



The example illustrates the capitalization stack for:

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

# Release Liquidity Covenant Example

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

Assumptions		
Project Cost		71,554,500
Loan Amount	56.60%	40,499,847
Liquidity Requirement (% of Loan)	<b>10.00%</b>	4,049,985
<b>LGIS Guarantee Coverage</b>	<b>20.00%</b>	8,099,969
<b>Borrower Benefit</b>		
Freed Liquid Collateral		4,049,985
Term (Years)		3
Liquidity Collateral Investment Rate (T-Bills)	<i>as of 12/13/2019</i>	1.74%
<b>CRE Investment Returns</b>		<b>18.00%</b>
LGIS Premium - % of Loan Amount		1.65%
Freed Liquid Collateral - End of Term		6,654,254
Liquid Collateral Investment - End of Term		4,265,471
Difference		2,388,783
LESS: Cost of LGIS		668,247
<b>Net Benefit</b>		<b>1,720,536</b>
<b>Return over the cost of LGIS above</b>		<b>2.57 X</b>

## Lender Benefits:

- Made whole with 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 of the Policy Cost.
- Removes Capacity Constraint.
- Do More Deals.

# Process to Issue Policy

## 1

### PRELIMINARY REVIEW

Expert underwriters review loan request information and documents to determine eligibility (24 - 48 hour)

- Lender Package
- Pro Forma
- Full Detailed Budget
- Sponsor Background
- Market Data / Comps

## 2

### APPLICATION COMPLETION

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

## 3

### UNDERWRITING AND APPROVAL

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

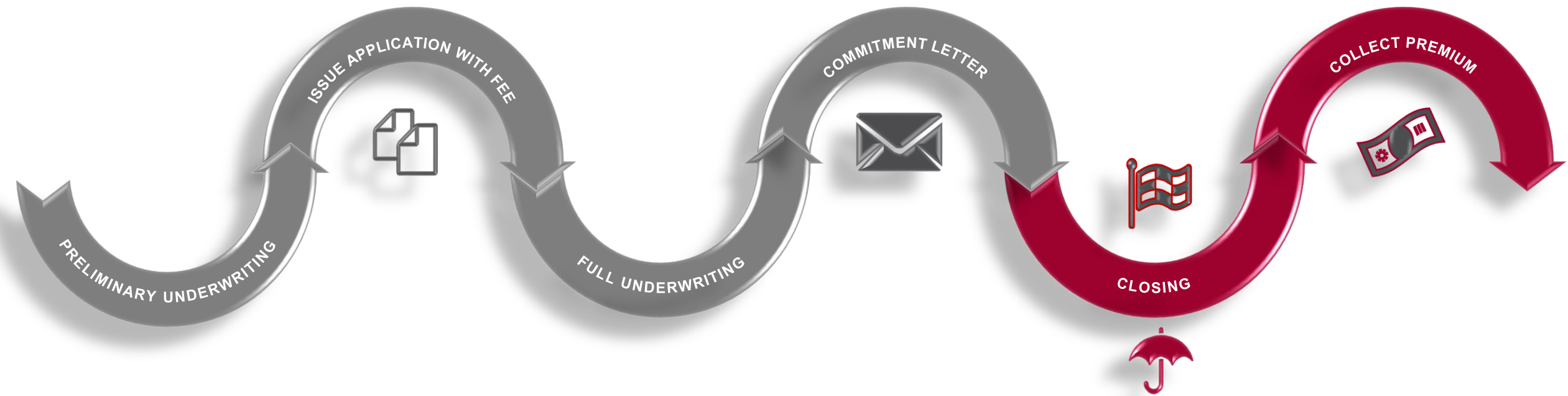
- Economic Development
- Planning & Zoning
- DOT
- Site Visit with Sponsor
- In Depth Market Research

## 4

### ISSUING LOAN INSURANCE BINDER

Loan Insurance Binder Letter issued along with the policy at closing, one time Premium of 1.25% – 3.75% of loan amount collected at loan closing

# Underwriting Life Cycle



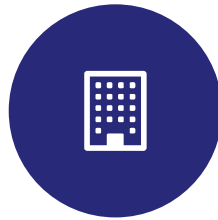
# Threshold Underwriting

We conduct thorough reviews of individual loans and not portfolios.



## Probability of Take Out

Refinance or Sale are the only two options.



## Project Feasibility Focus

Over bank's focus on the borrower's ability to repay.



## Underwriting Perspective

If we don't want to own the asset we simply pass.



## Threshold Underwriting

Accept only if it meets criteria and avoid higher premium for higher risk.











## Selectivity Is the Key

LGIS carefully selects only the feasible individual projects that adhere to our underwriting parameters.

We do NOT underwrite portfolios!

We rely on our own underwriting (not the banks').

# Threshold Underwriting – “Levers”

	Budget – Interest Reserve, Working Capital, Contingency, etc.
	Construction Period – Consider delays
	Absorption / Lease Up Period
	Achieved Effective Rents
 	Ratios – Cap Rates, Debt Coverage, Debt Yield
 	Capital Stack – What is targeted Equity
<hr/>  	<b>Decision - Successful Project &amp; Issue Preliminary Term Sheet</b>
	<b>Final Lever - Increase Deductible</b>

# Policy Life Cycle – Guarantee Monitoring

## Before Certificate of Occupancy – Construction Risk

- ✓ Monthly Reviews
- ✓ Loan Draws
- ✓ Inspection Reports
- ✓ Before CO



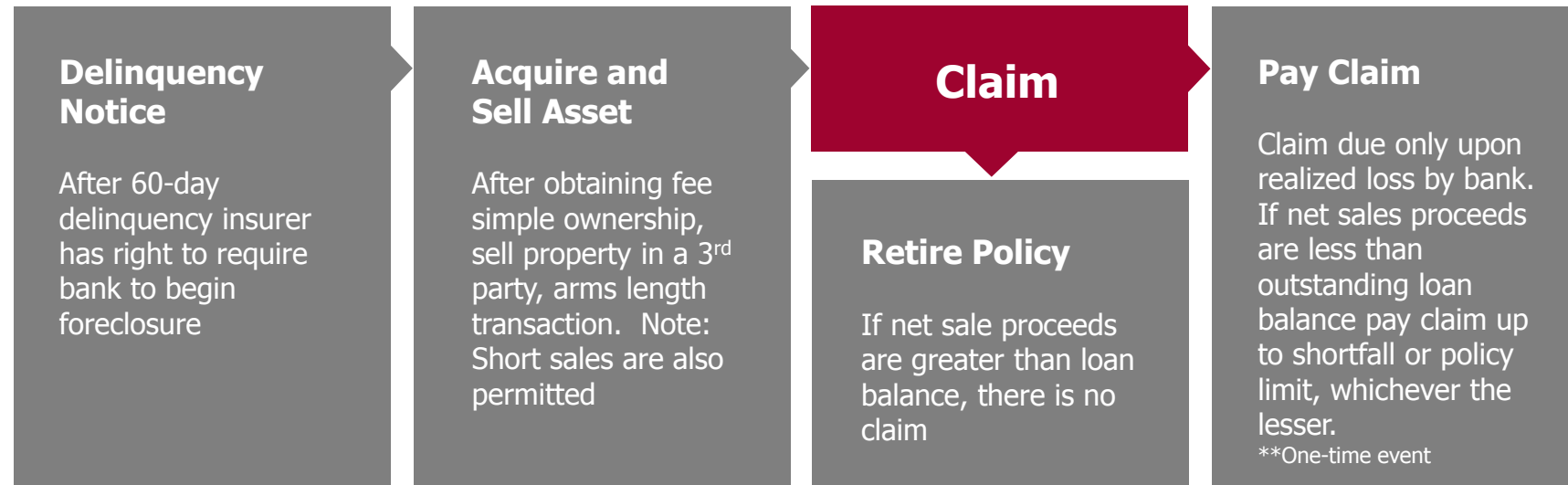
## After Certificate of Occupancy – Market Risk

- ✓ Quarterly Reviews
- ✓ P&L to Budget
- ✓ Marketing Reports
- ✓ Loan Performance Reports



# Policy Life Cycle – Retirement or Claim / Workout

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



**Dual Claim Trigger:** (1) Borrower Default/Foreclosure or Short Sale, and  
(2) Uncured default with quantifiable loss

# Default Loss Analysis – LGIS Benefit

## Scenario: Default Loss Mitigation Analysis

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

### LGIS 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 (% of Total Capitalization)	50.0%	5,107,252
Property Taxes	1.25%	
Insurance	0.5%	
Agent Commission	4.0%	
Miscellaneous Costs	1.0%	
Sales Proceeds		5,107,252
LESS: Agent Commission	4.0%	204,290
Net Sales Proceeds		4,902,962
LESS: Transaction Costs + Carry Costs		
Property Taxes (half year)	0.63%	63,841
Insurance (half year)	0.25%	25,536
Miscellaneous Costs	1.00%	51,073
Other		-
SubTotal - Transaction Costs + Carry Costs		140,449
Net Sales Proceeds		4,762,513
<b>Loss **</b>		<b>2,387,640</b>
<b>Max. Lender Loss</b>	<b>2.0%</b>	<b>143,003</b>

### Not Insured Loan

Project - Total Capitalization		10,000,000
Equity	30.0%	3,000,000
Debt	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
Property Taxes	1.25%	
Insurance	0.5%	
Agent Commission	4.0%	
Miscellaneous Costs	1.0%	
Sales Proceeds		5,000,000
LESS: Agent Commission	4.0%	200,000
Net Sales Proceeds		4,800,000
LESS: Transaction Costs + Carry Costs		
Property Taxes (half year)	0.63%	62,500
Insurance (half year)	0.25%	25,000
Miscellaneous Costs	1.00%	50,000
Other		-
SubTotal - Transaction Costs + Carry Costs		137,500
Net Sales Proceeds		4,662,500
<b>Loss **</b>		<b>2,337,500</b>
<b>Lender Loss</b>	<b>33.4%</b>	<b>2,337,500</b>

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

***With LGIS Coverage, a \$2.3 million loss to the bank is reduced to a \$143 thousand loss***

# Event of a Claim - Scenarios

Sources	\$ Amount	LTC %
Equity	\$ 1,718,598	30.00%
Original Loan Amount	4,010,063	70.00%
<b>Total Project Costs</b>	<b>\$ 5,728,661</b>	<b>100.00%</b>
Sources - LGIS Breakdown		
	\$ Amount	LTC %
Equity	\$ 1,718,598	30.00%
Deductible	80,201	1.40%
LGIS coverage	521,308	9.10%
Loan Not Guaranteed	3,408,553	59.50%
<b>Total Sources</b>	<b>\$ 5,728,661</b>	<b>100.00%</b>

<-- 2.00% of Full Loan Amount

### Additions to the Claim Paid Amount

Allowance for Foreclosure / Preservation Costs \* \$ 80,201 <-- 2.00% of Outstanding Loan Balance

\* Includes attorneys fees/Trustee's Fees, Foreclosure Allowance, Hazard Insurance Premiums, etc.

	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5
Net Sales Proceeds	\$ 4,200,000	\$ 4,010,063	\$ 3,850,000	\$ 3,488,755	\$ 2,000,000
Outstanding Loan Balance	\$ 4,010,063	\$ 4,010,063	\$ 4,010,063	\$ 4,010,063	\$ 4,010,063
	<b>Equity Recouped</b>	<b>Equity Recouped</b>	<b>Deficiency</b>	<b>Deficiency</b>	<b>Deficiency</b>
What is the Deficiency?	N/A	N/A	\$ (160,063)	\$ (521,308)	\$ (2,010,063)
LGIS Coverage	N/A	N/A	\$ 521,308	\$ 521,308	\$ 521,308
<b>Deductible</b>	<b>N/A</b>	<b>N/A</b>	<b>\$ (80,201)</b>	<b>\$ (80,201)</b>	<b>\$ (80,201)</b>
Allowance for Foreclosure / Preservation Costs	N/A	N/A	\$ 80,201	\$ 80,201	\$ 80,201
<b>Total Max Coverage</b>	<b>N/A</b>	<b>N/A</b>	<b>\$ 521,308</b>	<b>\$ 521,308</b>	<b>\$ 521,308</b>
<b>LGIS Coverage Payment</b>	<b>N/A</b>	<b>N/A</b>	<b>\$ 160,063</b>	<b>\$ 521,308</b>	<b>\$ 521,308</b>
Additional Exposure to Lender	N/A	N/A	N/A	N/A	\$ 1,488,755

# Underwriting Going Forward - TBD

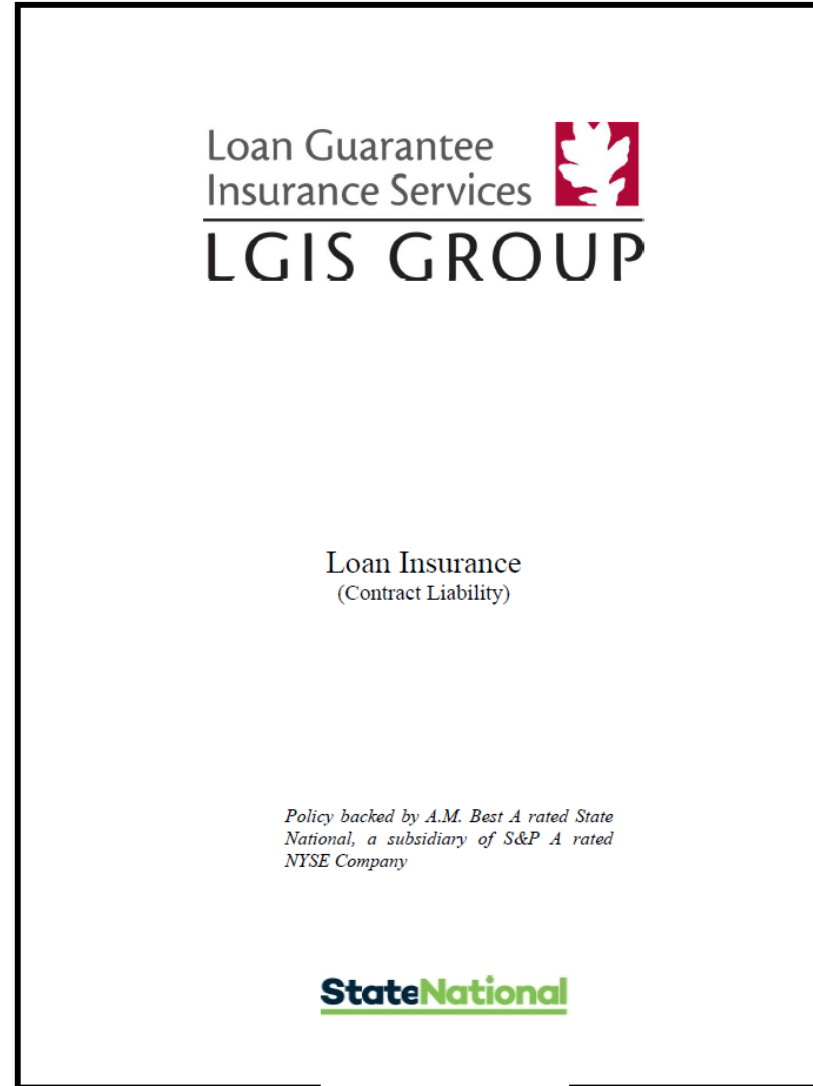
- ❑ Lender Requirements – Borrowers who were considered strong before may no longer be.
  - ❑ Liquidity, Net Worth, Defaults, etc.
  
- ❑ Equity – More equity contributed in deals for specific asset types which have been hit the hardest.
  - ❑ Hotels, Student Housing, Senior Housing, Retail, etc.
  
- ❑ Economy Recovery Timeline & Unknown Metrics
  - ❑ Can't compare to terms achieved two (2) months ago – Cap Rate, Effective Rents, Concessions, etc.
  - ❑ Increased Opportunities – Tenant and Buyer “friendly market,” no longer Landlord and Seller.
  - ❑ Bounce Back – Some say Q4 2020 others longer.

# Policy

The LGIS policy is on our website

Go to: [www.lgisgroup.com](http://www.lgisgroup.com)

Login Tab: Password: "lgisclient"



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

# What They Are Saying

“For years, the commercial real estate market has been hindered by the shortcomings of traditional, outdated loan methods. **There has long been a need for a mechanism that could at once open up, benefiting both lender and borrowers all while minimizing risk, and LGIS Group’s CPLI is the answer.**”

– *Edgar Ortiz*  
*President, Strategic Analytic Solutions*

“I believe that this product is **long overdue, would be in strong demand, and answer many of the problems facing commercial banks...**”

– *CEO of four banks*

“... the FDIC (and followed by OCC) looks positively for **anything to help mitigate risk.**”

– *Director of Capital Markets Branch FDIC*

“**Large Equity plus Institutional Grade Guarantee** is what every Lender wants and LGIS provides.”

– *Head of Major Money Center Bank*

# Q&A

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**LGIS Group**

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**Contact:**

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# Appendix

# 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	<b>27</b>
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	<b>39</b>

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	<b>5.5</b>

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.				

# Default Loss Example

## Scenario: Default Loss Mitigation Analysis

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

### LGIS 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
<b>Loss **</b>		<b>2,489,530</b>
<b>Max. Lender Loss</b>	<b>2.0%</b>	<b>143,003</b>

### 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
<b>Loss **</b>		<b>2,337,500</b>
<b>Lender Loss</b>	<b>33.4%</b>	<b>2,337,500</b>

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

# Implied Specific Reserve

## Scenario: Reserve Requirement

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

### LGIS Insured Loan

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

### Not Insured Loan

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

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.

# LTV Covenant Violation Exposure – Removed Appraisal Value Decrease Issues

		LGIS Insured Loan	Not Insured Loan	Difference
<b><u>Assumptions</u></b>				
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	
<b>LTV - Initially</b>		60.0%	60.0%	
LGIS - Coverage	30.00%	15,000,000	-	
Bank Exposure		35,000,000	50,000,000	
Bank Exposure LTV - Initially		<b>42.0%</b>	<b>60.0%</b>	
<b><u>Reserve Requirement</u></b>				
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)
<b><u>Scenario: Appraisal Values Show Decrease of:</u></b>				
	<b>20.0%</b>			
Project Cost / Value		66,666,667	66,666,667	
Bank Exposure		35,000,000	50,000,000	
New - Bank Exposure LTV - After Devaluation		<b>52.5%</b>	<b>75.0%</b>	
Implied Specific Reserve - Increase		5,000	83,500	(78,500)
<b>New - Implied Specific Reserve</b>		<b>20,000</b>	<b>334,000</b>	<b>(314,000)</b>

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.

# 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
<b>Total Capital Reserve</b>	<b>\$ 16,071,429</b>	<b>\$ 12,500,000</b>
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	-
<b>Total Capital Reserve</b>	<b>\$ 17,142,857</b>	<b>\$ 10,000,000</b>
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%			
<b>Without LGIS Insurance</b>		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				
<b>With LGIS Insurance</b>						
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				
<b>Savings (Cost)</b>	<b>10%</b>	<b>273,554</b>		110,000	110,000	110,000
<b>LESS:</b>						
Debt		7,000,000				
<b>LGIS Premium</b>	<b>3.25%</b>	<b>227,500</b>				
<b>NET Savings (Cost)</b>		<b>46,054</b>				

# 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	<b>70%</b>		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	<b>3.75%</b>	0.00%
<b>Alternate Lender</b>	1	2	3
Points	87,500		35,000
Interest	455,000	455,000	455,000
Total Costs	542,500	455,000	490,000
<b>NPV</b>	<b>1,237,359</b>		
<b>Bank</b>	1	2	3
Points	262,500		-
Interest	280,000	280,000	280,000
Total Costs	542,500	280,000	280,000
<b>NPV</b>	<b>934,955</b>		
<b>Savings (Cost)</b>	<b>302,404</b>		
<b>% Difference</b>	<b>32.3%</b>		

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
<b>Net Benefit</b>	<b>16,995,458</b>

**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

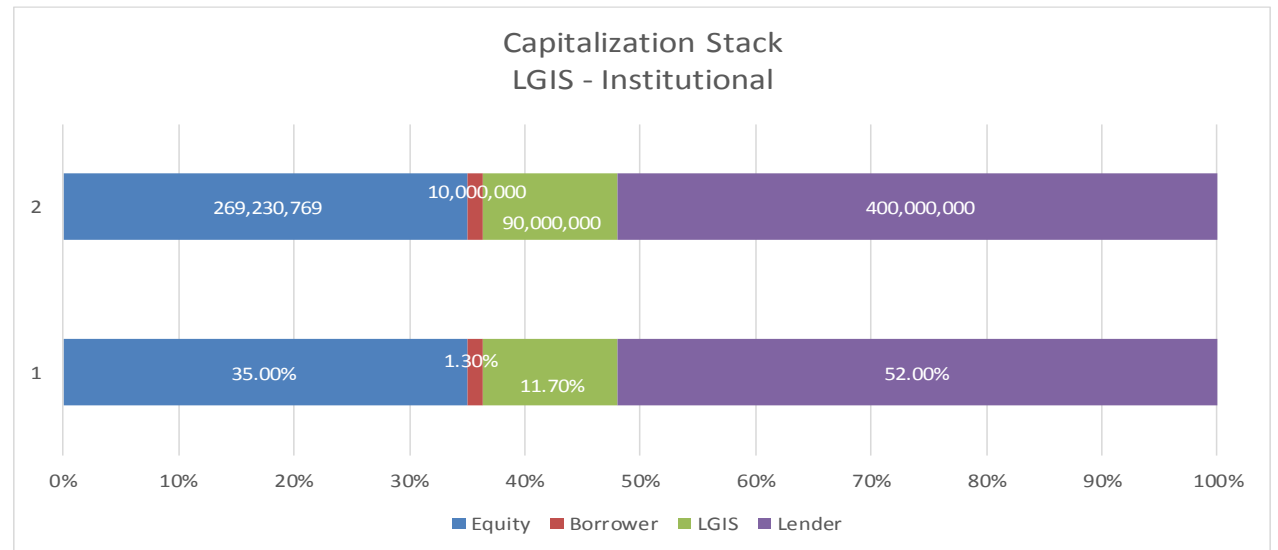
Total Net Benefit	<b>20,745,458</b>
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**Bank Comparison - Liquid Collateral Covenant Scenarios**

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

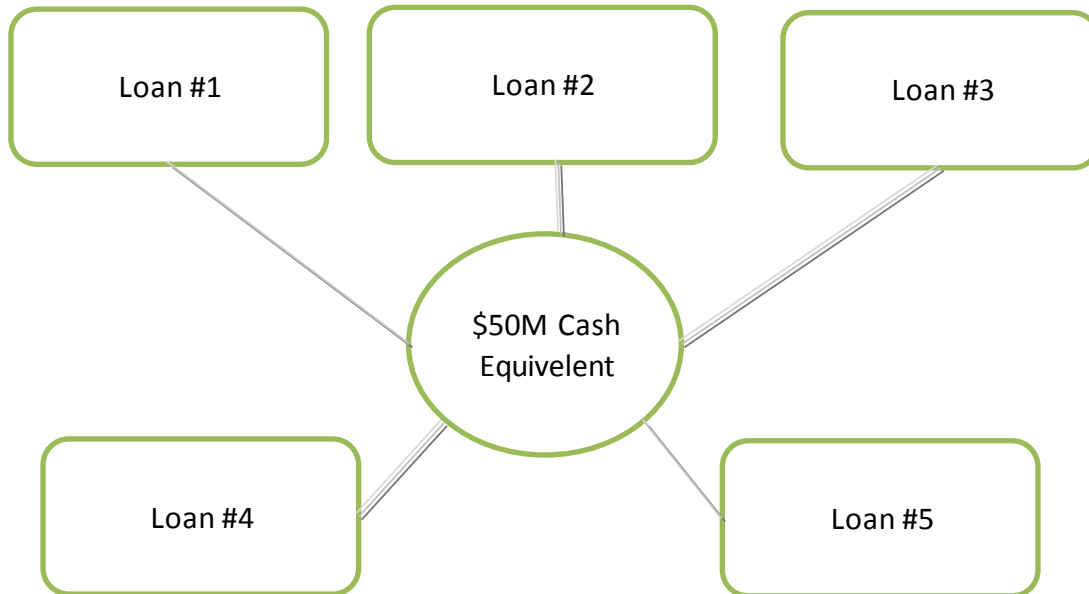
	Option 1	Option 2	Difference
Borrower Cash Collateral (All Lenders)	50,000,000	10,000,000	40,000,000
LGIS *			
LGIS / Loan		18,000,000	
# of Loans		5	
Total LGIS Coverage	0	90,000,000	
Total Guarantee	50,000,000	100,000,000	50,000,000
% of Loan	10.0%	20.0%	100.0%

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

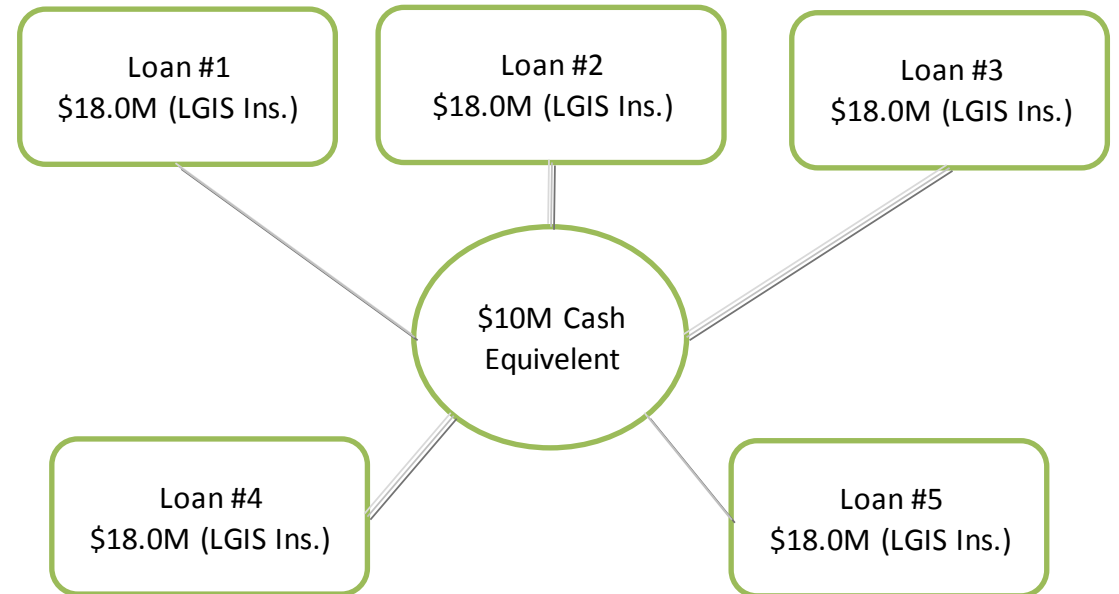


# Graphic Illustration of Above Example

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)



# 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	<a href="https://finance.yahoo.com/news/lgis-launches-commercial-real-estate-143000731.html">https://finance.yahoo.com/news/lgis-launches-commercial-real-estate-143000731.html</a>
12/3/19	Scotsman Guide: Commercial Edition	Find a Better Safety Net	<a href="https://www.sq-comdigital.com/comdigital/201912ce/MobilePagedReplica.action?pm=2&amp;folio=74#pg74">https://www.sq-comdigital.com/comdigital/201912ce/MobilePagedReplica.action?pm=2&amp;folio=74#pg74</a>
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	<a href="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/">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/</a>
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	<a href="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">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</a>
8/13/19	Bank BUSINESS	Realizing CRE Lending Growth with a Commercial Property Loan Insurance (CPLI) Strategy	<a href="https://www.bankbusiness.us/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/</a>
8/12/19	MBA Insights	How Commercial Property Loan Insurance could Make You Recession-Proof	<a href="https://www.mba.org/publications/insights/articles/current-issue/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</a>
7/26/19	BankNews (online)	CRE Developers Prefer to Work with Banks That Offer Non-Recourse Repayment	<a href="https://www.banknews.com/blog/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/</a>
7/15/19	MortgageOrb	David Eichenblatt: CRE Lenders Must Adapt to New Market Realities	<a href="https://mortgageorb.com/david-eichenblatt-cre-lenders-must-adapt-to-new-market-realities">https://mortgageorb.com/david-eichenblatt-cre-lenders-must-adapt-to-new-market-realities</a>
7/12/19	GlobeSt.com	The Appeal of Non-Recourse Repayment Option	<a href="https://www.globest.com/2019/07/12/the-appeal-of-non-recourse-repayment-options/">https://www.globest.com/2019/07/12/the-appeal-of-non-recourse-repayment-options/</a>

# 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)	<a href="https://www.mpamag.com/market-update/nonrecourse-loans-will-tempt-most-developers-poll-reveals-172257.aspx">https://www.mpamag.com/market-update/nonrecourse-loans-will-tempt-most-developers-poll-reveals-172257.aspx</a>
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	<a href="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/">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/</a>
7/1/19	Yahoo! Finance	LGIS Announces New Team Members in Response to Rapid CRE Industry Growth	<a href="https://finance.yahoo.com/news/lgis-group-announces-team-members-133000094.html">https://finance.yahoo.com/news/lgis-group-announces-team-members-133000094.html</a>
6/10/19	MortgageOrb	Leveraging a Commercial Property Loan Insurance Strategy To Increase Credit and Grow CRE Lending	<a href="https://mortgageorb.com/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</a>
6/5/19	MBA Newslink	LGIS Introduces Commercial Property Loan Insurance	<a href="https://www.mba.org/cmfi-newslinks/2019/june/mba-cmf-newslink-6-6-19/news-and-trends/commercial/multifamily-briefs">https://www.mba.org/cmfi-newslinks/2019/june/mba-cmf-newslink-6-6-19/news-and-trends/commercial/multifamily-briefs</a>
6/3/19	AP Newswire	LGIS Group Introduces Commercial Real Estate Industry's First Commercial Property Loan Insurance (CPLI)	<a href="https://apnews.com/Business%20Wire/772a7f36bb75430d8f0ace79102b2f21">https://apnews.com/Business%20Wire/772a7f36bb75430d8f0ace79102b2f21</a>