

May, 2024 - Draft 05/07/2024

SPECIALTYFINANCE.COM

Termsheet

For KBRA

\$100,000,000 AA or AAA rated Notes

Issuer:

SPV SFG #1 Set up by a firm qualified to set up and manage SPVs and will have ownership beneficial interest vested to both Specialty Finance Group, LLC and the Property Owner.

Notes

\$100,000,000 with rates set monthly based on SOFR + the usual spread KBRA Commercial Real Estate Backed Notes plus a minimum additional 75 basis points or ¾%.

Property Funded

“MidTown Tower” a Class A Office building that is in good condition and in this case has 2/3 of original tenants that are credit tenants still paying for the next three to 12 years. Ten years ago the property was bought for \$200,000,000 with a \$150,000,000 mortgage. Paying monthly interest at SOFR + 350pb bank loan or private credit fund. and \$50 Million of Cash Equity

Security & Collateral.

Title & Leases to the building will be contributed by the Owner. The leases guarantee that there is sufficient Cash flow to easily Service and pay off the \$100,000,000 after paying tax, all maintenance and building an adequate Cash Reserve.

Underwriting Loan

KBRA has strict guidelines for what they need to verify prior to Rating. A full package for their underwriting will be created submitted.

The first two new rated foreign note buyers are both trillion AUM asset managers with funds and major Life insurance companies with need for long duration assets. The note buyers will also underwrite and approve the loan. Both foreign groups have said they can look at buying at least a Billion if the credits 50bp wide to the curve for the typical AA or AAA yield.

Rating.

AA or AAA for the first deals with the rating just a private letter rating as the buyer will have performed their own due-diligence and underwriting.

Deals with lower ratings or no rating will be considered by other investors in the pricing on the notes is sufficiently wide to the Treasury Interest Rate Curve for the desired note maturity.

Later notes can be offered 144A that have a CUSIP and are DTC eligible.

Loan Purpose

Wire the current bank or other senior lender \$100,000,000 at close, and have them take back a junior mortgage note that PIKs for the \$50,000,000 remaining loan balance at the exact interest rate the prior senior mortgage note was written at. We anticipate bank regulators will approve or at least not object to the transaction as the transaction helps the bank or credit fund both raise cash and extend loan maturity.

Cash Waterfall & Senior Notes and Junior Preferred repayment.

- 1) To The Master Servicer and Sub-servicers to make sure that covers tax and all usual building expenses.
- 2) Build a Cash Reserve to special building needs like a blown boiler, fix an elevator etc. all based on engineer reports and {xx%} of Gross lease revenue will be put into the cash building reserve .
- 3) pay Interest on the Senior Mortgage Note
- 4) pay Principal on the Senior Mortgage Note
- 4) when the Senior Mortgage Note is retired pay current interest on the Junior Mortgage Note
- 5) when the Senior Mortgage Note is retired, pay back PIK Principal on the Junior Mortgage note.
- 6) if there is insufficient interest to pay the Junior Mortgage Note Interest the note would be deemed to be in default.

Property Owner Getting Property Back.

The Property Owner enters into a binding agreement with the SPV, that after the Senior Mortgage Note is retired the Property Owner can buy or refinance out the Junior Mortgage Note Holder and exercise his rights with the SPV to take care of any outstanding contractual obligations and close out the SPV, and in return the Property Owner receives their title back.

Included as an option the Property Owner may exercise at any time upon his sole discretion would be to sell the Property as long as all outstanding remaining mortgage debt is retired. In that case the SPV would be closed and the Property Owner would receive his share of cash from the Property sale.

Unless there is an event of default and foreclosure, only the Property Owner can agree to any sale, transfer of title to the Property or new financing secured by the Property.

Master Servicer

Division of specialtyfinanceCRE.com or similar Master Servicer that is qualified to perform the general duties at Note Buyers / Investors discretion.

SpecialtyfinanceCRE.com just sees that all is running smoothly and day to day the Sub-servicers are performing as agreed and needed, but can be replaced if necessary.

Sub-servicers.

For all key tasks such as paying tax, overseeing the building operation and releasing operations the vendors must be best of breed and approved by KBRA and the Senior and Junior Mortgage Note Buyers.

Inflation Escalation in Servicing Agreements.

As current CPI inflation calculations are designed by the BLS to grossly underreport the prices increases that the Master Servicing and Sub-servicing need to perform their duties up to the standard required to maintain the KBRA rating and give the investors comfort that the Property generate maximum possible lease revenues, while expenses are in line with local costs for service.

The servicing contract documents will start using shadowstats.com to track real inflation for increasing the payments for servicing every time shadowstats.com reports prices went up.

Later working with John Williams at shadoestats.com a new price index will be created to better track the rising costs of the duties that need to be performed to ensure the work that needs to be done can be paid for.

Technology & IP

The SPV will house new exciting Technology and Applications to both speed up and improve the underwriting closing process, payments and creating monthly servicer reports to the note holders. This technology is the property of both The Specialty finance Group, LLC and the Master Programmer, Kryspin Ziemski. See: <https://kryspinziemski.info>

Financial Advisor

Specialty Finance Group., LLC see www.specialtyfinance.com will earn an Advisory Fee for setting everything up and overseeing execution. Richard Benson President, 160 E 91st, Suite 3B, New York, NY. 10128. Email rbenson@specialtyfinance.com, phone & text 203-361-8161

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will create major deal documents.**