Holland & Knight

Underwriting Criteria for Qualifying Commercial Real Estate (CRE) Loans

- The loan must be secured by an enforceable first lien on the commercial real estate and improvements; a security interest in all personal property used in operations; and an assignment of leases and rents and other occupancy agreements, all related franchise, license and concession agreements and all other payments due to borrower in connection with operation of the property — including enforcement rights thereunder.
- The originator verified and documented the current financial condition of the borrower and each operating affiliate.
- The originator obtained a written appraisal of the real property from a qualified appraiser performed not more than six months after the origination date that conforms to certain stated requirements and provides an "as is" opinion of the market value of the real property, including an income valuation approach using a discounted cash flow analysis.
- The originator qualified the borrower based on a monthly payment amount derived from a straight-line amortization of principal and interest over the term of the loan, not exceeding 25 years, or 30 years for a qualifying multifamily property.
- The originator conducted an environmental risk assessment on the property and based on the assessment, took appropriate steps to mitigate any environmental liability.
- The originator analyzed the borrower's ability to service its overall debt obligations during the next two years based on reasonable projections.
- The originator has determined that, based on the previous two years' actual performance and the two years of projections, the borrower had, and will have the following after giving effect to the new loan:
  - if the loan is a qualifying leased CRE loan[1]: a debt service coverage (DSC) ratio of 1.5 or greater, excluding any income from tenants that have not satisfied all obligations in a timely manner
  - if the loan is a qualifying multifamily property loan[2]: a DSC ratio of 1.25 or greater
  - if the loan is any other type of loan: a DSC ratio of 1.7 or greater

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[1] A CRE loan secured by commercial nonfarm real property, other than a multifamily or hospitality property, with at least 80 percent of the revenues coming from performing tenants with leases having remaining terms longer than six months.

[2] A CRE loan secured by any residential property consisting of at least five dwelling units, where at least 75 percent of the NOI is derived from residential rents and tenant amenities.

- The borrower is required to provide quarterly financial statements, including information on related leasing or rent-roll activity.
- Other security interests with respect to the loan collateral, except for certain permitted junior liens, are restricted.
- The transfer of any collateral, other than obsolete or surplus fixtures, furniture, furnishings, machinery or equipment, is prohibited.
- At least 30 days prior notice must be given of any change to the name, location or organizational structure of any borrower, operating affiliate or other pledgor.
- Casualty insurance must be maintained against the collateral in an amount at least equal to the loan, naming the originator and any subsequent holder of the loan as an additional insured or loss payee.
- The borrower must pay taxes, charges, fees and claims to avoid a lien on collateral.
- The borrower must perfect or protect the security interest and any priority in loan collateral, and defend any collateral against claims adverse to the lender.
- The lender and servicer must have inspection rights of any collateral and the books and records of the borrower.
- The borrower is required to maintain the physical condition of the real estate collateral.
- Requires compliance by the borrower with all environmental, zoning, building code, licensing and other laws, regulations, agreements, covenants, use restrictions and proffers applicable to the real estate collateral.
- Requires compliance by the borrower with leases, franchise agreements, condominium declarations, and other documents and agreements relating to the operation of the real estate collateral, and requires the consent of the lender or the servicer to modify any material terms and conditions of the loan agreement.
- The borrower is not permitted to materially alter the real estate collateral without the consent of the lender or the servicer.
- No loan secured by a junior lien on the loan collateral is permitted unless:
    - after giving effect to this junior lien loan, the applicable combined loan to value (CLTV) ratio below would be met, based on the appraisal at origination of the junior lien loan, or
    - the new loan is a purchase money loan used to buy machinery or equipment and the machinery and equipment is pledged as additional collateral for the CRE loan
- At origination, the loan has a loan to value[3] (LTV) ratio less than or equal to 65 percent and a CLTV[4] ratio less than or equal to 70 percent; provided that if the capitalization rate used in the related appraisal is less than or equal to the 10-year swap rate *plus* 300 basis points, then the

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[3] The principal balance of the loan divided by (a) for acquisition funding, the lesser of the purchase price or the appraised market value or (b) for refinancing, the appraised market value.

[4] The sum of the principal balance of the loan, plus the principal balance of any junior-lien mortgage loan secured by the same property, divided by (a) for acquisition funding, the lesser of the purchase price or the appraised market value or (b) for refinancing, the appraised market value.

loan must have an LTV ratio less than or equal to 60 percent and a CLTV ratio less than or equal to 65 percent.

- All loan payments are based on straight-line amortization of principal and interest over a term that does not exceed 25 years, or 30 years for a qualifying multifamily loan and are to be made at least monthly over a term of at least 10 years.
- No payment deferrals are permitted.
- The interest rate is fixed, either by its terms or by the borrower converting a floating rate into a fixed rate by obtaining a derivative.
- No interest reserve is established at origination.
- At the closing of the securitization transaction, all payments due on the loan are contractually current.