

COMMERCIAL REAL ESTATE CAPITAL STRUCTURE

DEBT/EQUITY/HYBRID PRODUCT REFERENCES

Often misunderstood and misused by many, below is a detailed matrix of the “cap stack” how the capital structure works in commercial real estate finance.

| | PLACEMENT IN CAPITAL STRUCTURE | PRODUCT | SECURITY/COLLATERAL | PREFERENCE OF REPAYMENT | REMEDIES |
|-------------------------|--------------------------------|--|---|--|---|
| ASCENDING LEVEL OF RISK | <p>LTV (%)</p> | First Trust Debt | First Trust Deed | First Priority | Foreclosure of Collateral |
| | <p>LTV (%)</p> | Mezzanne “Junior Mortgages” “Participating Debt/Equity” | Most mezzanine loans are typically by an Assignment of Partnership Interests , which means that if there is a default on the mezzanine loan, the mezzanine lender can "step into the shoes" of the General Partner or managing member. | Repayment preference: The mezzanine debt is paid after the first trust debt is repaid, and before the equity is repaid. | Default remedies in the event of a default event: Pay off the first trust loan and becomes the senior lender. Assume the first trust loan and keep the senior in place. |
| | <p>LTV (%)</p> | Equity High Leverage Mezzanine Preferred Equity “Pref” Equity | The preferred equity investor is unsecured, and relies on the Partnership Agreement to determine their rights and benefits. | Is the current or accrued "pay rate" that must be totally repaid (principal and interest) to the investor first, prior to return of capital. | In a preferred equity transaction, remedies run to the General Partner and not to the property. The typical remedy is dilution of the General Partnership's economic interests and/or their ability to manage or control the property. |
| SUPER/SENIOR DEBT | <p>LTV (%)</p> | Hard Money Bridge Loans Distressed Value-Add | First Trust Deed Low Loan-To-Value ("LTV") | First Priority | Foreclosure of collateral, including any and all additionally cross collateralized assets. |
| | <p>LTV (%)</p> | Debtor in Possession Loans (DIP) | Super Priority First Trust Deed. This is senior to any mezzanine financing and any senior trust deeds in the capital structure. | Absolute first priority as mandated by the Bankruptcy Court. | Foreclosure of collateral, wiping out any mezzanine and senior trust deeds. |
| | <p>LTV (%)</p> | Super Collateralized Loans (Super C) (Triage Loans / LOCs) | Very Low LTV First Trust Debt (Typically Less Than 30%) | First Priority | Foreclosure of collateral including any additionally cross collateralized assets. |

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