

LESMARK

LesMark Capital, LLC

CTL LOAN PRODUCTS

Credit tenant lease-backed loans have traditionally been structured as highly leveraged long-term fixed-rate mortgages coterminous with the underlying lease. The tenant's credit rating, coupled with the reliability of its direct tenant-paid cash flows, affords the borrower favorable loan terms, including up to 100% LTV financing of the property. The assignment of investment grade tenant's lease allows the borrower to structure the debt service around the lease payments, thus maximizing loan proceeds. The lender, typically an institutional investor or life insurance company, obtains favorable bond reporting and reserve classification status. The Securities Valuation Office (SVO) of the National Association of Insurance Commissioners (NAIC) provides guidance on bond-eligible classification (Regulatory Report Schedule D) status. Landlord obligations in less than bond or triple-net (NNN) CTL transactions are usually mitigated through lease amendments, reserves, additional insurance and/or increased debt coverage to attain Schedule D treatment. Once underwritten and structured, these CTL loans are either table-funded directly by the investor, or closed and sold to an intermediary investment bank, which privately places the loan in the fixed-income private placement bond market.

Up until about ten years ago, most CTL loans were sold primarily as individual or as pools of whole loans under a note purchase agreement. This execution usually requires the investor to purchase the entire loan or pool, as well as making it difficult to later participate or transfer its long-term loan asset. The preferred execution is now through a Grantor Trust securitization. The CTL loans are contributed to or purchased by a qualified investment trust, thereby allowing investor distributions to pass through the trust entity on a tax-free basis. Essentially, the market has been creating lease-backed commercial mortgage securities and issuing undivided interests in the trust assets to investors in the form of trust certificates. A closed-end pass-through trust agreement is drafted, and a trustee is named to administer the trust and the underlying assets on behalf of the certificateholders. The trust agreement eliminates the need for loan purchase and participation agreements among the various investors, and facilitates certificate sales and transfers through an uncomplicated process embedded in the trust agreement. This execution has dramatically improved the liquidity of CTL loans by creating a secondary market for CTL loan-backed certificate sales.

There is also a niche for CTL structured balloon loans. Some borrowers would like to leverage their single or credit tenant lease, but are uncomfortable locking the rate and prepayment penalty that long. Although not always Schedule D compliant, there are lenders that prefer a balloon CTL structure, typically a 10/25 or 10/30 term/amortization. Due to the additional refinance risk associated with this structure, there is usually some underwriting focus on the underlying real estate and market, which may affect rate and terms.

Other borrowers would prefer placing floating-rate debt on their acquisition or development of credit tenant leased properties. These borrowers opt to take advantage of lower short-term (LIBOR-based) interest rates, and probably have a relatively quick exit strategy for the real estate, either a sale or refinance. Once again, the credit tenant lease can be leveraged through low floater credit facilities sponsored by a number of commercial and investment banks. Enhanced by a letter of credit (LOC) from a highly rated commercial bank, the loan is structured and sold as a rated senior floating rate note security in the short-term money market. The note rate is adjusted periodically (usually weekly) and benchmarked off of LIBOR or commercial paper as determined by the remarketing agent. The LOC bank takes an assignment of the credit tenant lease, as well as a mortgage in the property in exchange for its LOC enhancement. It is typical for the borrower to invest in an interest rate cap agreement or execute an interest rate swap to mitigate interest rate risk and maximize loan proceeds.

Mezzanine-structured financing and second mortgage debt can occasionally be coupled with CTL financing, depending on leverage/coverage constraints and current market conditions. These strategies tend to get complicated and typically only make sense on larger transactions (>\$15,000,000).

LesMark is also actively engaged on larger state, local and international government public/private partnership (P3) projects, including many alternative energy facilities. We offer several other financing programs, as market condition permit, such as tax-exempt bond financing, construction/perm loans, specialty retail (restaurant, gas station, convenient store, etc) financing, hospital loans, and GSA lease financing, all directed at single and credit tenant properties.