SECOND ANNUAL

MORTGAGE REIT SUMMIT

APRIL 22, 2020

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MORTGAGE REIT SUMMIT

The State of the Market for mREITs and Trends Affecting mREITs

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Mayer Brown Mortgage REIT Summit

Carlos Alvarez, Managing Director, Head of Specialty Finance and Permanent Capital
Jeff Mortara, Vice Chairman, Head of Equity Capital Markets Origination
John Delgado, Associate Director, FIG Investment Banking

April 22, 2020

Mortgage REIT Market Summary

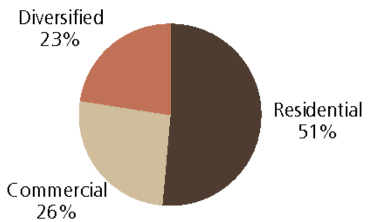
The mortgage REIT market has seen extraordinary dislocation as a result of the Coronavirus crisis, after a very healthy 2019 for both public markets and portfolio economic returns

- Amidst a constructive market environment, mortgage REITs delivered an economic return of 9.6% over the course of 2019, and almost all public vehicles traded at a premium to historical book value over the last twelve months
- However following the economic crisis created by the COVID-19 pandemic, an abrupt "risk-off" sentiment dried up liquidity in the MBS market in early march, and caused significant spread widening due to macroeconomic credit concerns
- This has created a situation where otherwise healthy companies with strong portfolios, credit profiles, and management teams have faced historically unprecedented liquidity demands
- Despite unprecedented action from the Fed, margin calls from repo counterparties added pressure as lenders retrenched beginning in early March, causing several players to engage in liability management exercises with emerging success
- In this context, mortgage REIT share prices suffered meaningful declines heading into quarter end, but have seen some relief over the past two weeks alongside the broader market as business updates have been provided post-quarter end and policy discussions transition to the "reopening" of the economy

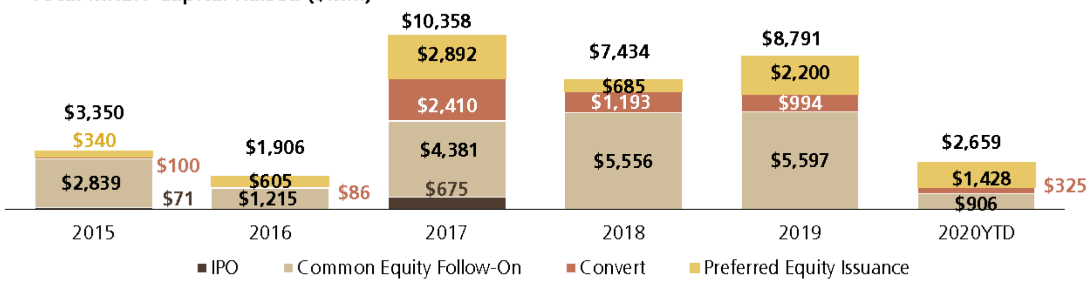
Equity capital raising through 2019 and the first half of Q1 2020 was robust before the selloff, and is now pivoting to be equity-linked

- Prior to the recent market correction, mREIT follow-on issuance was off to a strong start in 2020, raising $2.3bn+ in proceeds in the first two months of the year and continuing the momentum seen in recent years
- Given valuation dynamics, issuers have looked to alternative financing solutions for liquidity, as evidenced by recent convertible note and private preferred transactions

mREIT Type since 2015 (by Proceeds)



Total mREIT Capital Raised ($mm)



Recent internalizations also provide a source of change for the industry, in the context of an otherwise dormant M&A market

- NLY and TWO recently announced internalizations, citing alignment of interests, cost savings, and intended expansion of the investor base
- While 2019 saw zero announced M&A transactions, current market dynamics and optically opportunistic valuations at the company and asset levels have potential to reinvigorate strategic dialogues

Note: Data as of April 17, 2020. Includes all US mREIT offerings >$20mm. Statistics based on base deal size
Source: Dealogic, FactSet

COVID-19 Headlines Drive Market Action

Stocks continue to grind higher off the back of reopening plans across the world

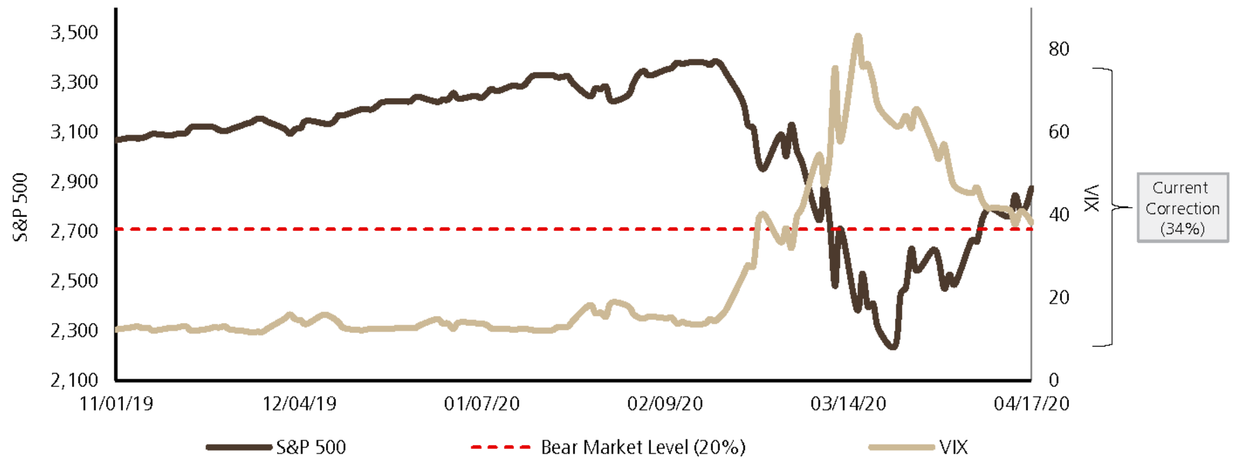
Putting the past week into context

- This week saw a tug of war between improved COVID-19 headlines (i.e. curve flattening, reopening plan) and the technical forces of a range bound market, coupled with a lack of support following the end of the recent short squeeze
- As earnings season has started, investors appear more focused on the macro picture, as most companies are not in a position to give forward guidance yet. That being said, UBS is forecasting Q1 earnings to be down 15% YoY (ex. Energy / Financials – down 8.5%). Q2 could be down as much as 45% YoY

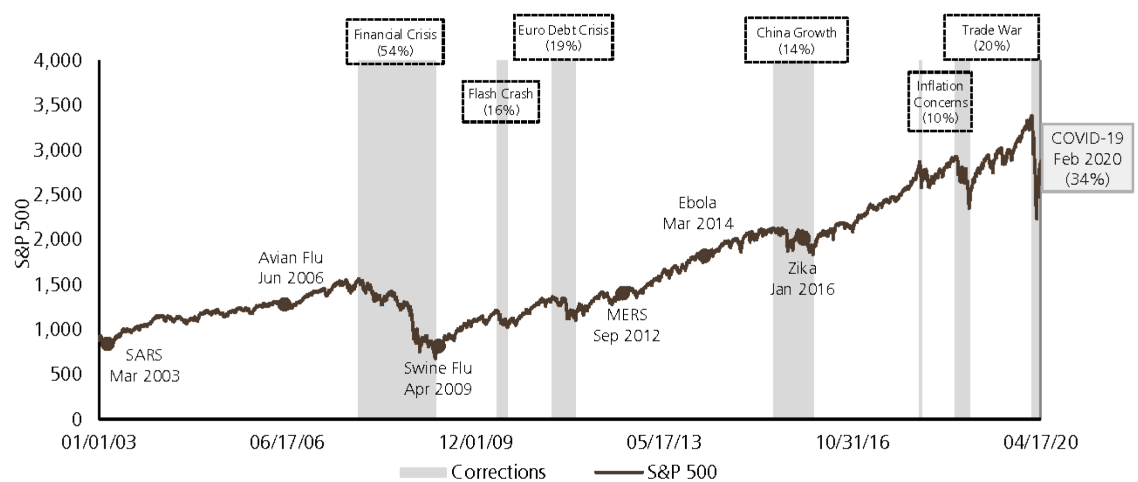
Looking Forward

- Buyside has ample cash on the sidelines, but economic uncertainty is likely to keep investors cautious and/or looking at other less risky assets
- All in all despite so much cash on the sidelines, have a tough time seeing this tape materially run from here, until we actually start accessing the economic impact, receive concrete positive news regarding a preventive vaccine, or at the very least develop widespread testing across the country
- As investors are shifting focus to a vaccine / treatment for COVID-19, the excitement over Gilead's Remdesivir as reported is understandable but it may be too soon to call it a miracle drug given some of the underlying assumptions in the data

S&P 500 finished the week up 3.0%; VIX at 38.2



Recent market corrections and subsequent performance

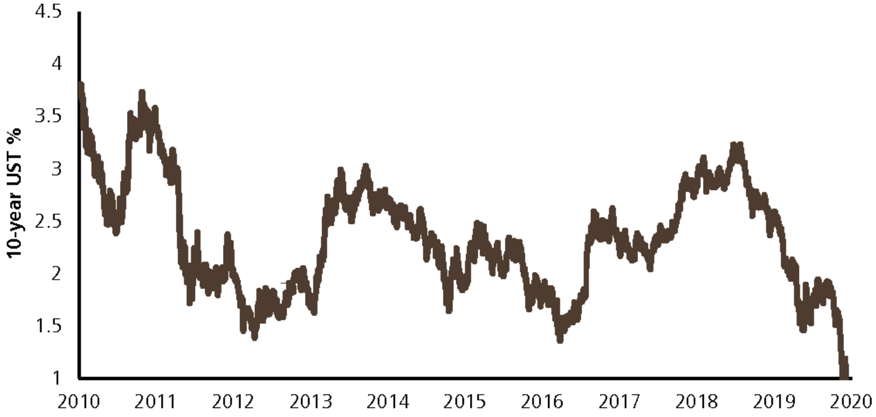


UBS

Source: Factset as of April 17, 2020

Historically Low Rates Amid the Pandemic

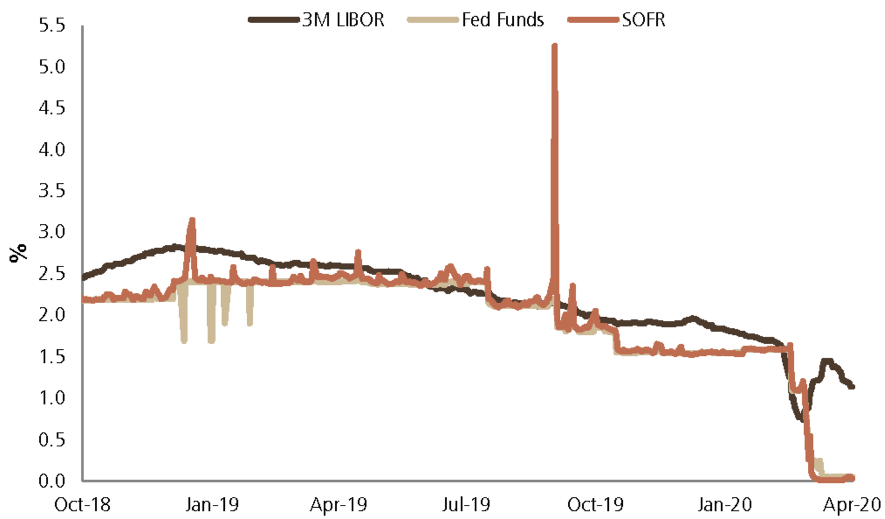
UBS economists project the 10-year US Treasury rate will reach 0.50% by end of Q2 2020 prior to rebounding to 0.75% in Q4



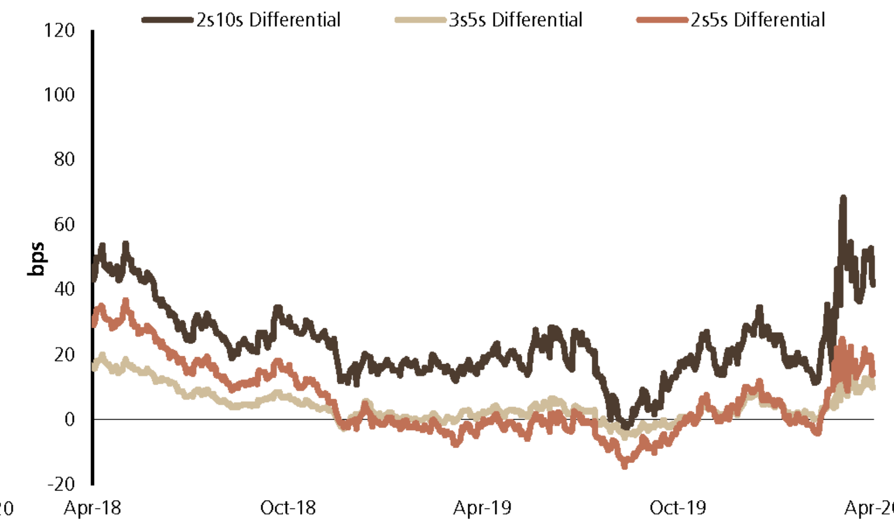
UBS UST Forecasts (%)

	Current	Q2 2020	Q3 2020	Q4 2020
Fed Funds	0.13	0.05	0.05	0.05
3M Libor	1.32	0.26	0.26	0.26
10-yr UST	0.76	0.50	0.75	0.75

In wake of the coronavirus pandemic, front-end rates have taken a nosedive as the Fed has cut the Fed funds rate to nearly 0%



Since the beginning of the coronavirus pandemic treasury rates have seen unprecedented volatility while differentials have increased

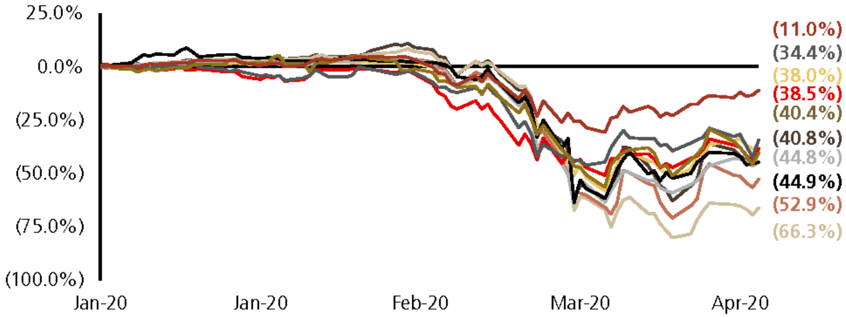


Source: UBS GB Analysis, Bloomberg as of April 17th, 2020

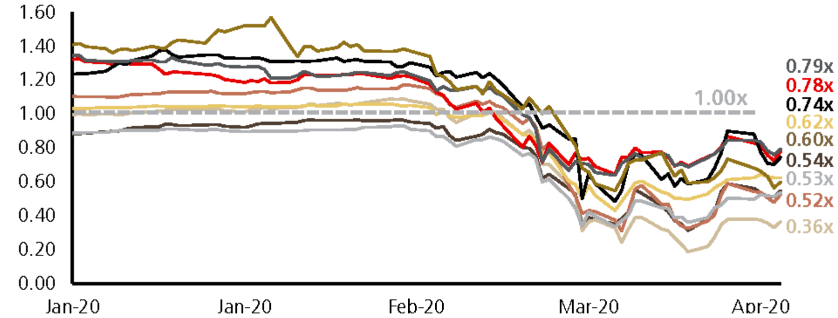
FinCo Valuations are Driven by Credit Apprehensions

- Permanent capital vehicles have experienced significant selling pressure in addition to 3x to 3.5x+ usual trading volumes since the end of February, having underperformed the broader market and also other lending / credit stocks

Share Price Performance (%)

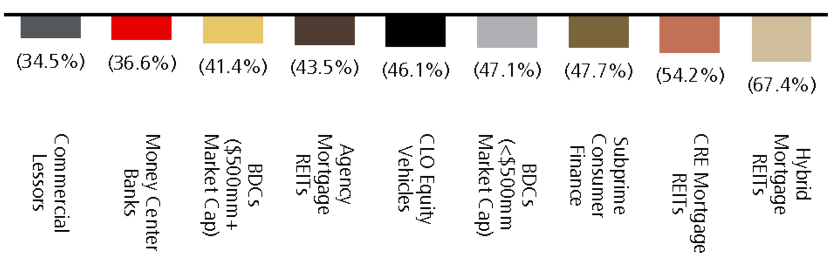


P/BV (x)

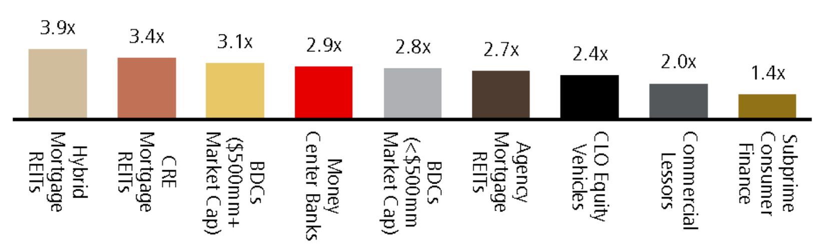


Agency mREITs[1] | Hybrid mREITs[2] | Commercial mREITs[3] | BDCs Market Cap >$500mm[4] | BDCs Market Cap <$500mm[5]
Money Center Banks[6] | CLO Equity Vehicles[7] | Commercial Lessors[8] | Subprime Consumer Finance[9] | S&P500

Average Change in Share Price (%)



Average Multiple of Pre-Selloff Trading Volume (x)[10]



Source: FactSet, SNL
Note: As of April 17, 2020
1 Agency mREITs include: NLY, AGNC, ARR, CMO, ANH, AI, EARN
2 Hybrid mREITs include: NRZ, CIM, MFA, TWO, IVR, NYMT, PMT, RWT, EFC, WMC, MITT, DX, ORC, AJX, CHMI
3 Commercial mREITs include: STWD, BXMT, ARI, LADR, VRMK, TRTX, ABR, KREF, CLNC, GPMT, RC, ACRE, ATAX, XAN, NREF, HCFT, LOAN
4 BDCs (Market Cap >$500mm, based on market capitalization before market decline) include: ARCC, ORCC, GBDC, FSK, PSEC, MAIN, TSLX, HTGC, NMFC, BCSF, AINV, SLRC, TCPC, GSBD, OCSL, CGBD
5 BDCs (Market Cap <$500mm) include BBDC, OXLC, GAIN, PFLT, NEWT, PNNT, TPVG, FDUS, BKCC, CSWC, WHF, GLAD, SUNS, OCSI, SCM, HRZN, SAR, MRCC, OXSQ, MVC, TCRD, OFS, SSSS, MFIN, PTMN, CPTA, GECC, MCC, GARS, ICMB, HCAP
6 Money Center Banks include JPM, BAC, C, WFC
7 CLO Equity Vehicles include: XFLT, OXLC, ECC
8 Commercial Lessors include: EFM-TSX, GATX, TRTM, R, MGRC, MIMI, TGH, CAI, WLFC, MRLM
9 Subprime Consumer Finance includes: ALLY, CACC, SC, OMF, FCFS, PFG-LON, ENVA, WRLD, CURO, EXPW, RM, ELVT, NICK
10 Measured the ratio of ADTV as % of shares outstanding since February 20, 2020 to ADTV as % of shares outstanding from January 22, 2020 to February 19, 2020

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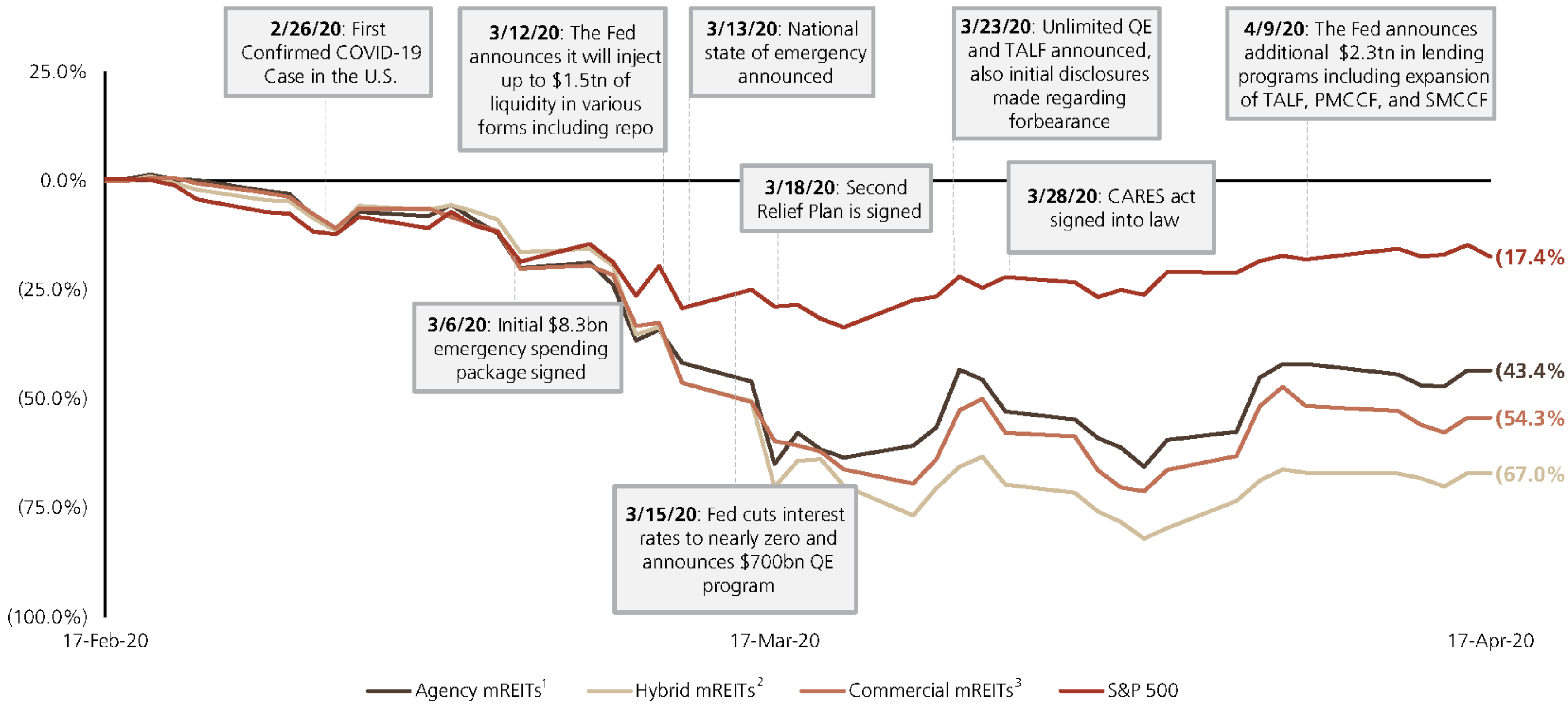
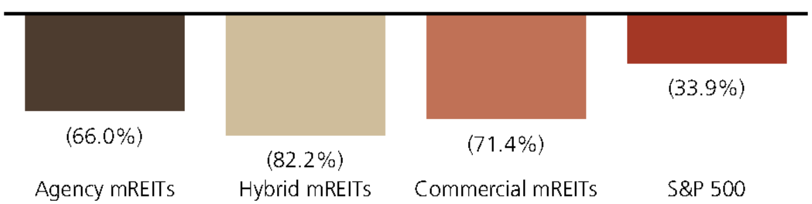
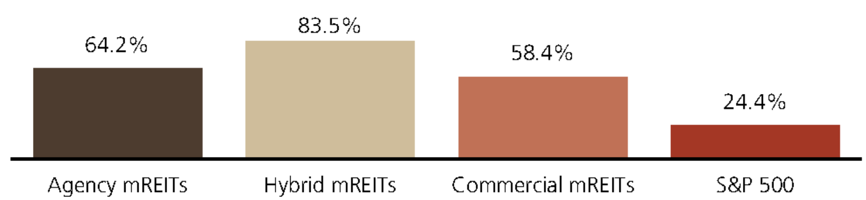
mREITs Experienced the Greatest Initial Adjustment…



Closing Price Performance from February Highs to March Lows



Closing Price Performance since March Lows



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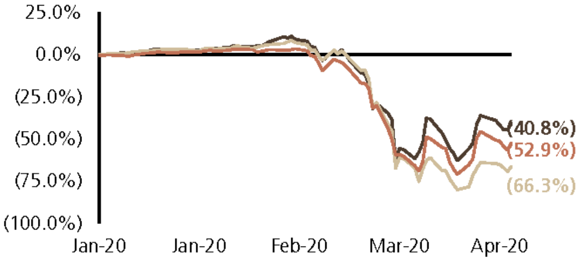
Source: FactSet, SNL
Note: As of April 17, 2020; Share Price Performance over the past 60 Days
1 Agency mREITs include: NLY, AGNC, ARR, CMO, ANH, AI, EARN
2 Hybrid mREITs include: NRZ, CIM, MFA, TWO, IVR, NYMT, PMT, RWT, EFC, WMC, MITT, DX, ORC, AJX, CHMI
3 Commercial mREITS include: STWD, BXMT, ARI, LADR, VRMK, TRTX, ABR, KREF, CLNC, GPMT, RC, ACRE, ATAX, XAN, NREF, HCFT, LOAN

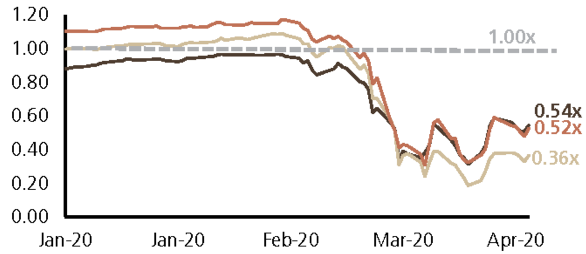
…Largely Driven by Liquidity and Capital Concerns

- Mortgage REITs, notably hybrid mREITs, have been the most affected of listed permanent capital vehicles and on average have experienced the greatest selling pressure due to concerns around liquidity and funding access, which have in some instances resulted in inabilities to fulfill margin calls
- Share price adjustments have in general tracked publicly released BVPS estimates, but still leave the sector's common and preferred equity valued at a discount

Share Price Performance (%)

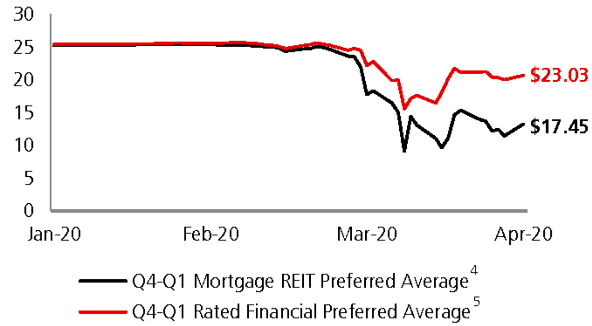


P/BV (x)

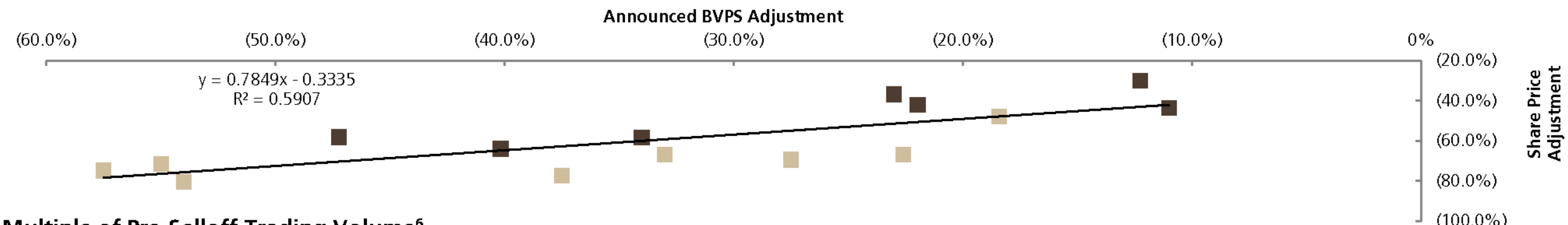


Agency mREITs[1] Hybrid mREITs[2] Commercial mREITs[3]

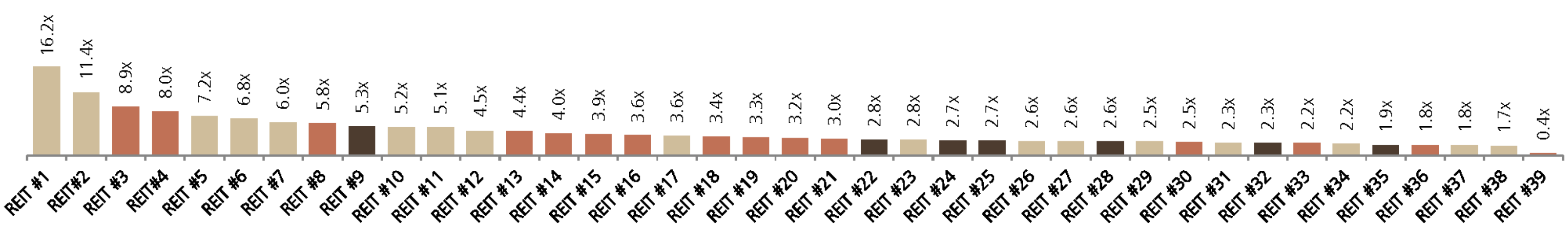
Preferred Stock Performance ($)



Announced BVPS Adjustment vs. Share Price Adjustment for Residential mREITs



Multiple of Pre-Selloff Trading Volume[6]



Source: FactSet, SNL, Bloomberg
Note: As of April 17, 2020
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3 Commercial mREITs include: STWD, BXMT, ARI, LADR, VRMK, TRTX, ABR, KREF, CLNC, GPMT, RC, ACRE, ATAX, XAN, NREF, HCFT, LOAN
4 Preferred Average includes AGNC 6.50%, NYMT 7.875%, EFC 6.750%, ARR 7%, AGNC 6.125%, NRZ 6.375%, DX 6.9%, MFA 6.50%
5 Rated Financial Average includes FITB 4.95%, FRC 4.70%, WFC 4.75%, NTRS 4.70%, JPM 4.75%, CFG 5.00%, COF 5.00%, COF 4.80%
6 Measured the ratio of ADTV as % of shares outstanding since February 20, 2020 to ADTV as % of shares outstanding from January 22, 2020 to February 19, 2020

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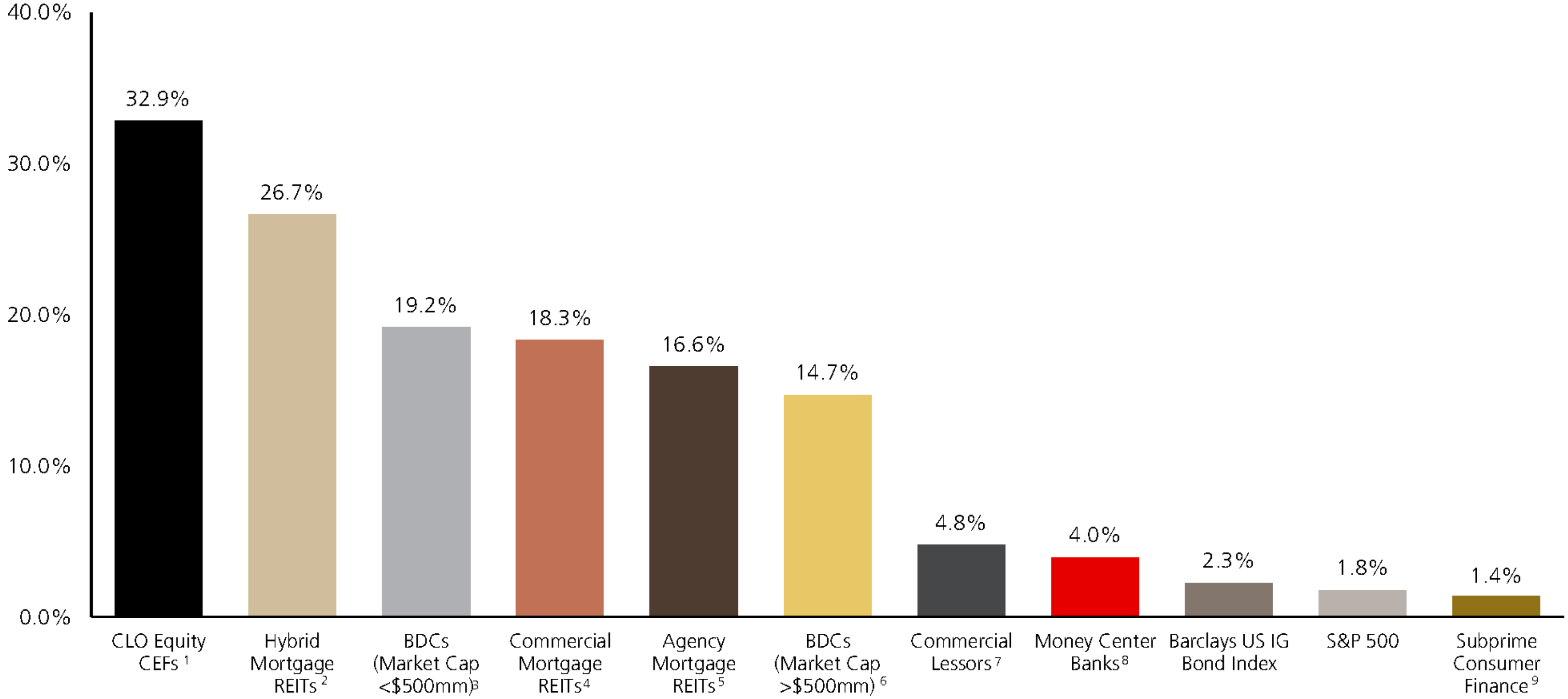
Dividend Cuts are Expected Across the Board

- The 15 to 30%+ dividend yields seen across mREITs, BDCs, and other permanent capital vehicles indicate a significant expected decrease in dividend income to preserve liquidity and revert to historical dividend yield valuations
  - This has been evidenced by names who have publicly adjusted their dividends and book values, who now trade in the 9% to 13% range

Dividend Yield Comparison Across Asset Classes (%)



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Research Analysts Look Ahead with Balance

- After beginning the year with cautious optimism, research analysts are taking a discerning approach toward the sector, with an expectation of a wide array of earnings results that will crystallize performance differentiation across the landscape

Beginning of the Year

“ **While the current environment is favorable, we continue to remain cautious around pockets of volatility** and maintain our preference for the mREITs that have exhibited better ability to protect book value through periods of volatility and create proprietary assets that have better risk-adjusted return profiles… ”

Broker 1, January 24, 2020

“ **…we remain comfortable with the health of the commercial real estate cycle** despite the advanced age of the cycle. This continues to provide **a positive backdrop for the commercial mREIT credit quality**. At this point in the cycle, we expect some noise in credit performance; however, this should be largely idiosyncratic. ”

Broker 1, February 7 2020

In the Thick of Pandemic Volatility

“ **Current valuations overly discount all but the most draconian outcomes. […]** Increased volatility halfway through the quarter translates into highly uncertain estimates… ”

Broker 2, March 13, 2020

“ **...top concerns recently among investors have been: 1) liquidity** (we note below short-term financing remains liquid and available); **2) leverage** (we think leverage is reasonable given asset allocations); **and 3) book values** (we note disclosed information from select mortgage REITs suggests book value impacts QTD have been relatively modest and do not justify the share price movements we are seeing). ”

Broker 4, March 18, 2020

“ **Concerns for residential mortgage REITs are more acute for credit-sensitive strategies**, as the market has turned “risk-off” and potentially higher unemployment and weaker housing market fundamentals are suddenly back in the spotlight. […] Ultimately, on the residential side **we reiterate our preference for agency REITs** ”

Broker 5, March 25, 2020

“ …we take a degree of comfort in the relative wide historical level of spreads today and the discounted valuation. **The biggest risk going forward is further spread widening** that will cause mREITs to need to de-lever. ”

Broker 1, March 13, 2020

“ **Current pricing leaves significant buffer** for dividend cuts and book value decline across Agency MBS and CRE names ”

Broker 3, March 16, 2020

“ **Commercial mortgage REITs have also endured extreme levels of volatility.** […] Beyond individual property exposures, the other **concern with commercial mortgage REITs involves liquidity and financing.** […] lenders will (to the extent this is operationally possible) work with borrowers to potentially extend loans to avoid defaults and impairments, but pressure on the financing side may limit their ability to do so. ”

Broker 5, March 25, 2020

At Quarter-End

“ Mortgage REITs experienced sharp stock price swings since our last note on 3/17 as sector margin calls, broader market liquidity constraints, technical selling pressure and questions on the fundamental outlook of business strategies weighed on names. […] We believe **the market has largely painted the sector with a broad brush**.". ”

Broker 3, March 30, 2020

“ Given the extreme volatility in spreads and rates, coupled with the unknown timing of deleveraging actions, **we expect more volatility and variance among 1Q mREIT book value results than in previous quarters**. ”

Broker 1, March 31, 2020

UBS Source: Wall Street research, FactSet as of April 17, 2020

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1285 Avenue of the Americas
New York NY 10019
Tel. +1-212-713 2000

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MORTGAGE REIT SUMMIT

Coronavirus Response from the Fed and Congress, GSE Updates and Mortgage Policy Reform

Agenda

- FHLBs and Mortgage REITs
- COVID-19 Issues
- NAIC relief regarding mortgage loans owned by insurance companies
- Things to watch for on the legislative/regulatory front specific to REITs
- Non-QM "patch" disappearing in January 2021

National Association of Insurance Commissioners (NAIC) Temporary Relief

- In response to COVID-19, the NAIC's Financial Condition (E) Committee issued guidance on March 27, 2020 to all U.S. insurance companies
- The Committee expressed support for prudent loan modifications to mitigate the impact of COVID-19
- In these slides, we use the term "COVID-19 Loan Modification" to refer to any loan modification or similar measure mandated by Congress, governmental agencies, or federal or state banking regulators, or voluntarily agreed between a lender and a borrower, that references the COVID-19 pandemic

Temporary Changes to RBC Treatment and NAIC Designations

- The Financial Condition (E) Committee's guidance provides temporary relief for insurers' 1st and 2nd quarter statutory financial statements and RBC calculations
- Ordinarily, insurers' investments in mortgages that are 90 or more days overdue are subject to a higher risk-based capital (RBC) charge
- Under the temporary relief, direct mortgage investments and "Schedule BA" mortgage-related investments that were current on December 31, 2019, and for which required principal and interest payments have been deferred in accordance with a COVID-19 Loan Modification, will not be subject to a higher RBC charge
- RMBS and CMBS that were modeled by the NAIC for year-end 2019 and for which any required principal and interest payments have been deferred in accordance with a COVID-19 Loan Modification may be reported with the same NAIC designation as was used for year-end 2019 and are not required to receive an updated (presumably lower) NAIC designation

Relief on Statutory Carrying Value Requirements

- The NAIC Statutory Accounting Principles (E) Working Group issued an interpretation on April 15, 2020, INT 20-04T, Mortgage Loan Impairment Assessment Due to COVID-19, which applies to:
  - Mortgage loans
  - SEC-registered investments with underlying mortgage loans (such as mortgage-backed mutual funds)
  - Loan-backed and structured securities (such as RMBS, CMBS and credit risk transfers issued through government-sponsored enterprises)
  - Joint ventures, partnerships and limited liability company investments that have underlying characteristics of mortgage loans (such as private equity mortgage loan funds and mortgage and hybrid REITs)
  - Bank loans

Relief on Statutory Carrying Value Requirements
(cont'd)

- The INT 20-04T interpretive guidance provides temporary relief for insurer's 1st and 2nd quarter statutory financial statements
- If a loan was current as of December 31, 2019 and becomes subject to a COVID-19 Loan Modification, then the insurer may presume that the borrower is current on payments and not experiencing financial difficulties for purposes of determining impairment status
- After a COVID-19 Loan Modification within the scope of the interpretive guidance has occurred, future assessments of impairment are to be based on the modified loan terms rather than the original terms
- The interpretive guidance does not apply if the insurer believes that an other-than-temporary-impairment is required under applicable accounting guidance for reasons other than the COVID-19 Loan Modification (for example, in the case of mortgage loan-backed or structured security, if the insurer decides to sell the security)

Agenda

- FHLBs and Mortgage REITs
- COVID-19 Issues
- NAIC relief regarding mortgage loans owned by insurance companies
- Things to watch for on the legislative/regulatory front specific to REITs
- Non-QM "patch" disappearing in January 2021

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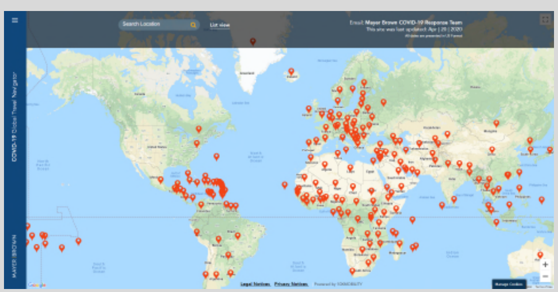
MORTGAGE REIT SUMMIT

We'll be back shortly….

Access Mayer Brown's COVID-19 Resources



- Our **COVID-19 web portal** is a one-stop resource center that aggregates the latest Mayer Brown legal updates and insights on COVID-19 and includes links to other useful resources.
- On our web portal, we have a dedicated **CARES Act resources page**, which compiles relevant links for quick reference to the various CARES Act provisions, including provisions relating to small business loans (SBA), business liquidity, tax benefits, employer mandates, government contracts, military housing, transportation & infrastructure, and aid to state and local governments.
- Our **COVID-19 Response Blog** provides timely updates, legal analysis and commentary on the latest developments surrounding the COVID-19 outbreak.
- Our **Global Travel Navigator tool** maps the more than 110 countries that have enacted quarantines, health checks, or other travel or visa restrictions. With updates daily, the tool indicates which travelers are affected by these fast-changing restrictions.

Visit https://covid19.mayerbrown.com/ to access these resources.

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Consolidation and Acquisition Activity in the Mortgage REIT Sector

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Specialists in Financial Services
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Consolidation and Acquisition Activity in the Mortgage REIT Sector

Mayer Brown 2nd Annual Mortgage REIT Summit

April 22, 2020

Jennifer L. Fuller, Managing Director, KBW Investment Banking
Eric J. Hagen, Director, KBW Equity Research
Lauren B. Pryor, Partner and Co-Lead of Financial Institutions M&A, Mayer Brown
Jade J. Rahmani, Managing Director, KBW Equity Research

Agenda

1. **Defining Mortgage REIT M&A**
2. **Historical Context – Trends and Outlook**
3. **Practical Considerations for Those Pursuing Strategic Opportunities**
   - Public mortgage REIT mergers, reverse mergers and SPAC mergers
   - Platform acquisitions
   - Affiliate transactions
   - Distressed transactions

Defining Mortgage REIT M&A: Transaction Motivations in the Sector

M&A in the mortgage REIT sector is driven by disparate motivations

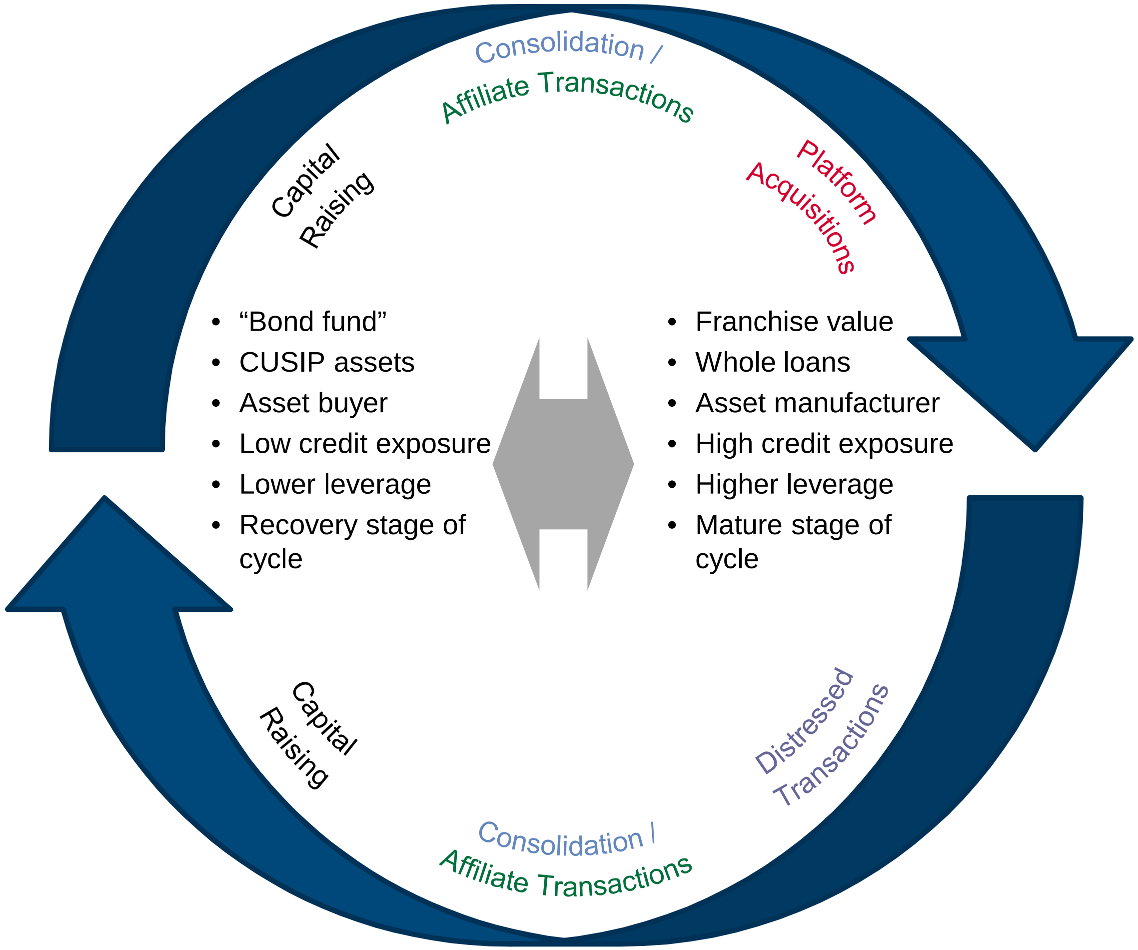
Cycle Stage>> Contraction ← Optimization → Expansion

	Distressed Trades / Investments	Consolidation Between MREITs	Affiliate Transactions	Platform Acquisitions
Motivation	• Continuation of business / preservation of liquidity	• Synthetic capital raise when valuation disparities among companies are high, or capital markets are not open	• Financial arbitrage • Alignment of interests • Shareholder scrutiny	• Access to assets through acquisition of originator • Includes minority / majority investments as well as full platform purchases • Debate between "buy" vs. "build"
Typical Characteristics	• Significant dilution to existing shareholders • If not full purchase, involves governance provisions • Often involve ongoing liquidity issues / financing counterparty stress and preceded by asset "fire sales"	• Valuation discount to book (gain on bargain purchase) • Little or no employees or operations acquired • Stock-for-stock transaction • Approval of seller's (and sometimes buyer's) shareholders	• Internalization of management and alignment of interests of management and shareholders	• Valuation premium to book value • Acquisition of existing employees and operations • Structured as asset purchase or stock acquisition • Regulatory approvals / licensing often required • Business may be "capital light"

* Note: categories are not mutually exclusive.

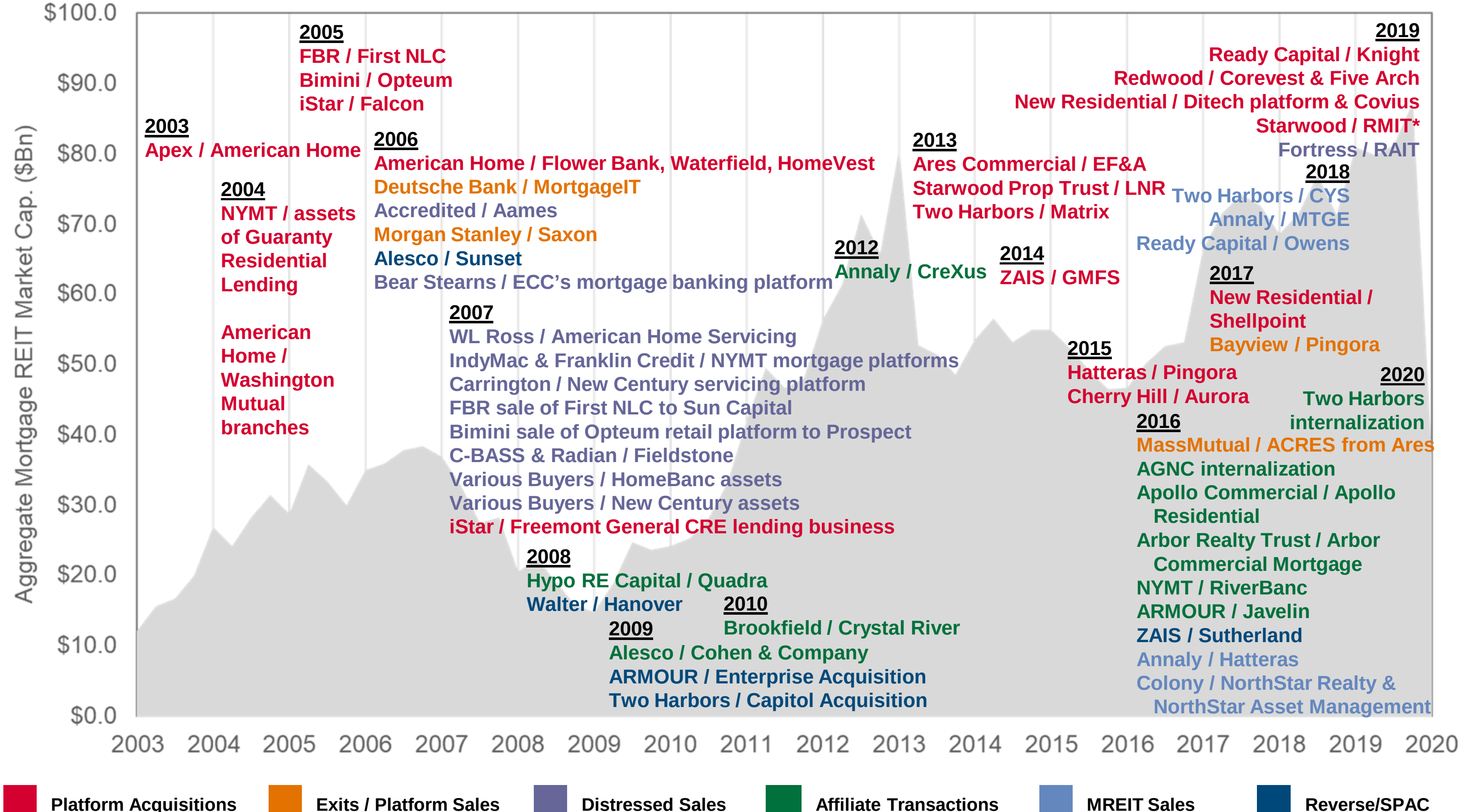
Mortgage REITs: PERMANENT Capital, VOLATILE Cycles

How M&A Plays a Role



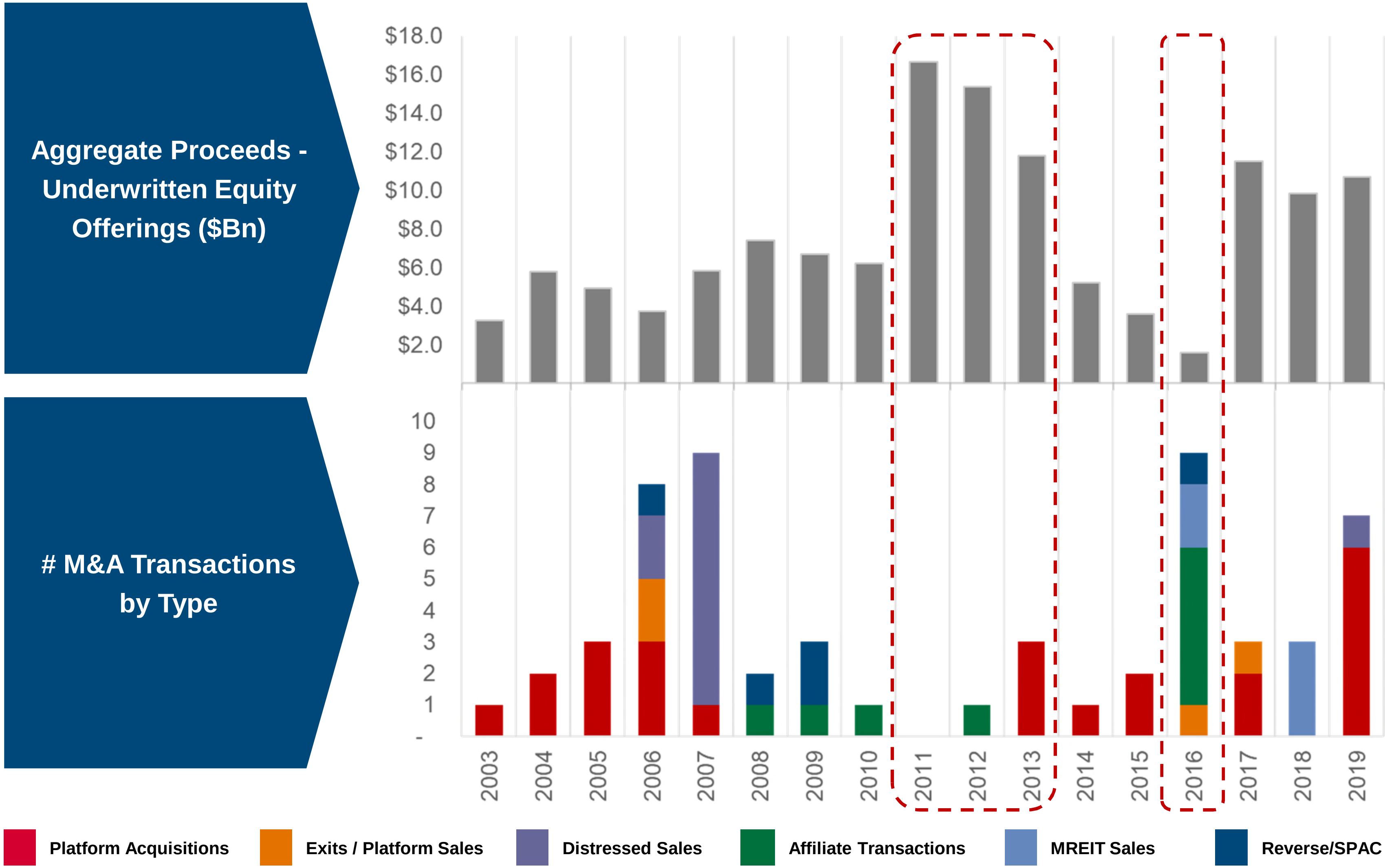
M&A and Strategic Activity in the Context of the Cycle

Aggregate Market Cap ($Bn) of Mortgage REIT Sector + Key M&A Transactions



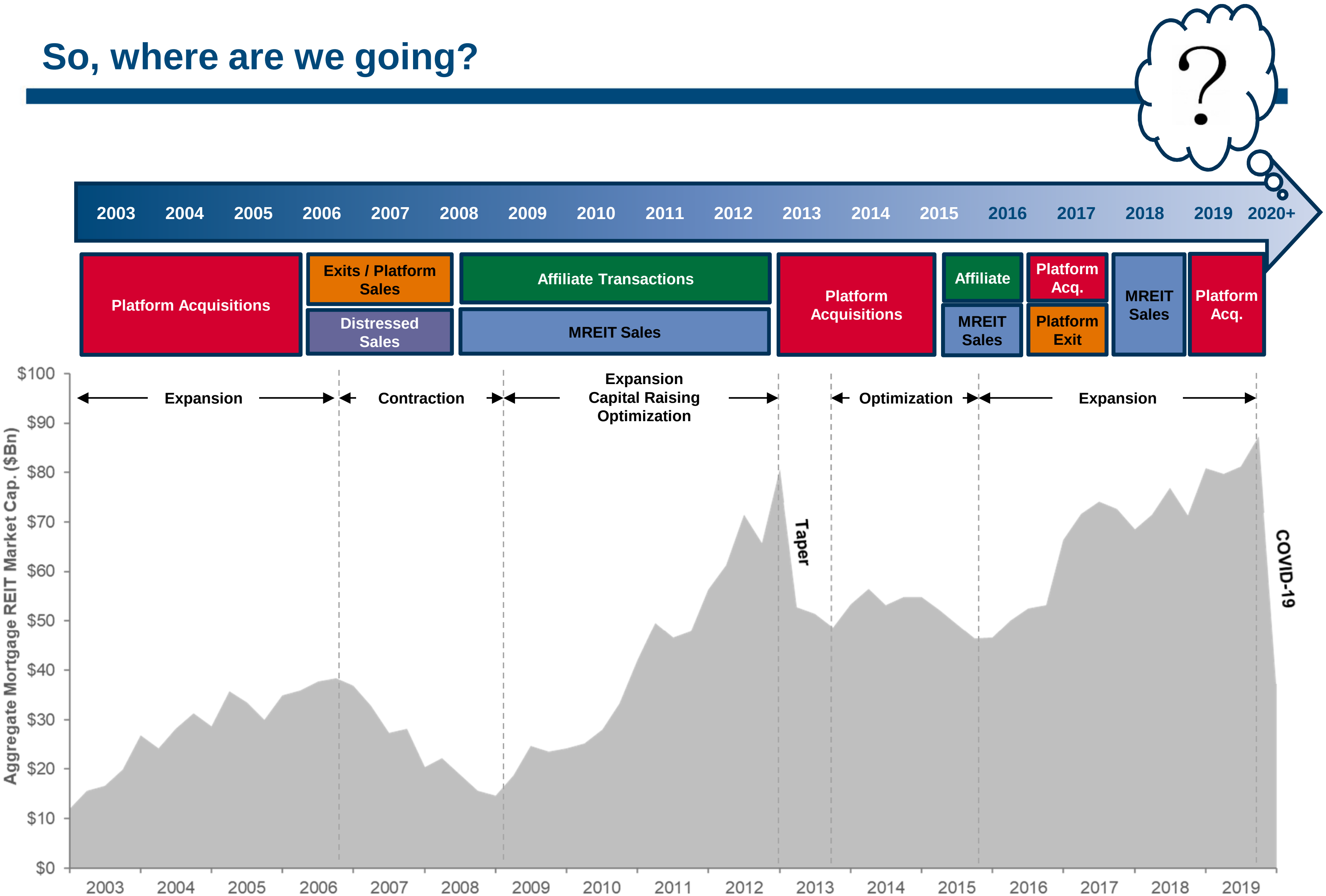
Sources: S&P Global, public company documents. Years reference the years in which the transactions were announced. Internalization transactions for $0 consideration are excluded. Market cap data shown is as of the last day of each quarter. Transaction types are not mutually exclusive. * Starwood/RMIT transaction is pending.

M&A Relationship to Capital Raising



Sources: S&P Global, public company documents. M&A transaction years reference the years in which the transactions were announced. Internalization transactions for $0 consideration are excluded.

So, where are we going?



Sources: S&P Global, public company documents. Market cap data shown is as of the last day of each quarter.

Big Questions: Where are we going?

- **Is COVID-19's market impact going to be more like the taper (a temporary adjustment followed by more expansion) or like the 2007-2009 Great Recession (more prolonged and systemic)?**
- **Will this liquidity-driven crisis become a credit crisis?**
- **Do current company valuations appropriately incorporate potential credit deterioration?**
- **Many are saying that the mortgage REIT model is "broken" due to the mismatch between stability and term of funding, and liquidity of assets funded.**
  - Is this new? Haven't we been here before?
  - Will this prevent MREITs from trading at significant book value premiums in the future?
  - What could/might be done to mitigate this issue going forward? Could the desire for stable funding drive M&A activity?

Mortgage REIT Acquisitions and Reverse Mergers

Key Considerations

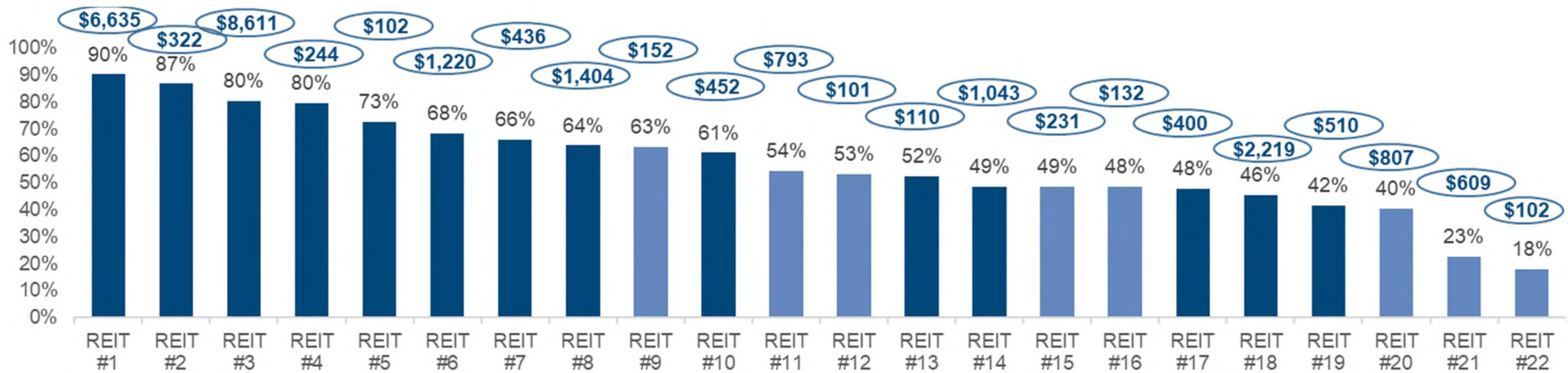
Do the numbers work ("threading the needle")?	• For public buyers, buyer price / book > seller price / book (**"multiple arbitrage"**)
	• Capacity to pay seller's shareholders a **premium to market**
	• Transaction value is **greater than** the seller's **liquidation value**
	• **Accretive** to buyer's book value (or in the case of modest dilution, earnings)
	  ▸ MREIT-to-MREIT trades usually do not warrant significant franchise (or control) premiums
	  ▸ "Capacity to pay" calculation should incorporate **consideration paid for the seller's external manager**, if applicable, as well as transaction costs
	  ▸ Any **cost savings** (most likely a lower expense ratio due to scale) should also be considered

"Is the juice worth the squeeze?"	• If the motivation for the acquisition is to raise capital, and the public markets are open, **how does the merger compare economically to a capital raise**? ▸ For a stock-for-stock transaction, increase in the buyer's equity (including gain on bargain purchase, deal expenses, other purchase accounting adjustments, etc.) divided by shares issued = "net issue price" • Does this seller come with meaningful **legacy risks**? Is the **timeframe** to negotiate and close prudent? • Particularly in reverse merger situations, how will the **shareholder base** transition? • For reverse mergers, will the company have sufficient scale to **access accretive follow-on capital**? • **Social** (board, executives, other) **considerations**
Understanding Motivations and Positioning	• **Is the seller willing to sell? Why?** (Acute capital structure / liquidity issues? Subscale vehicle drives suboptimal economics to the manager/executives? Activist/shareholder pressure?) • **What makes you a competitive buyer?** (Higher capacity to pay? Ability to accommodate social concerns? Ability to recognize valuation synergies from increased float/scale?) ▸ In a stock-for-stock transaction, you must "sell" your stock to the seller's directors and shareholders
Explore Further With Your Legal & Financial Advisors …	• **Protection against price and book value changes between announcement and closing:** fixed vs. floating exchange ratio; caps and collars; closing book value adjustments; walkaway provisions • **Termination fees, superior proposals** • **Stock technicals that will impact post-closing valuation:** index inclusion, major holders, shareholder composition between passive & active, etc. • **Process:** proxy process; shareholder approvals; regulatory approval (if necessary) • **<u>Related topics: SPAC mergers, "GP/LP Investments," two-step mergers</u>**

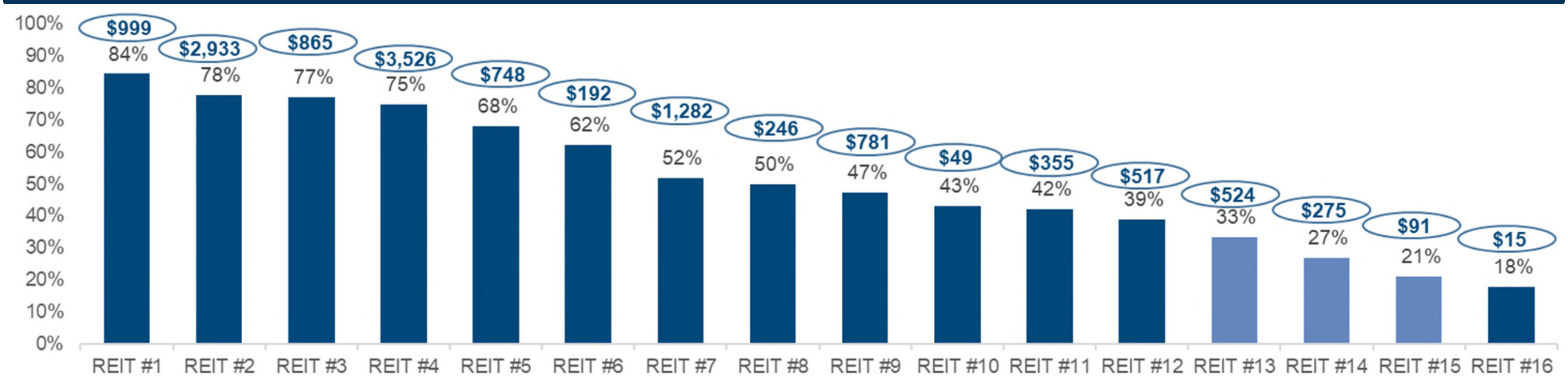
Mortgage REIT Consolidation: Valuation Stratification

Market Values are Conducive to Mortgage REIT Consolidation

Residential Mortgage REIT Price/Book and Market Cap. ($M)



Commercial Mortgage REIT Price/Book and Market Cap. ($M)



Companies in light blue have suspended, delayed, or revoked cash dividends (which includes companies that elected to pay their dividend in stock). Sources: S&P Global as of 4/17/20. Book values are as of the most recently announced date, which may be an intra-quarter estimated figure. If a company has disclosed an estimated book value range, the midpoint of the range is used.

Platform Acquisitions

Key Considerations

Do I want to operate a business, or is this a trade?	• **Is this strategy viable throughout the cycle?** ► You can sell portfolio assets, but unwinding a platform is more difficult and costly ► If a "trade," consider a partnership or minority platform investment + asset flow arrangement – If you DO buy, a conceptual framework could be to "amortize" the premium over the likely life of the trade. Do the economics work? Are you willing to risk "loss" of this premium sooner than you expect? • **Am I willing to manage a large number of "rank and file" employees?** What sort of additional resources would this require and what would the incremental risk be? • **Is the target scalable?** What are the growth prospects?
Do the numbers work?	• Key driver is **earnings accretion** • Consider **revenue synergies** as well as **cost savings** • **How much TBV dilution is reasonable for an earnings-accretive acquisition?** ► Consider forward-looking economic return[(1)], potentially TBV dilution "earn-back"
Identifying Key Value Drivers and Structuring Accordingly	• **Who are the key leaders and producers?** Consider employment agreements, non-competes, rollover ownership, and/or contingent consideration. What roles will these individuals have in the combined company? • **What are the key risks in the business? What regulatory and other approvals are required?** ► Asset vs. stock purchase • **What is the seller's motivation for selling? Is the seller at a key inflection point? Does the sponsor want an exit?** ► Disagreements over valuation (for example, "hockey stick" projections, or mortgage origination record earnings in a period of lower rates) can be bridged through contingent consideration – Under what restrictions must the business operate during the earn-out period? – What metric will be used to measure the earn-out? Will it be structured as consideration or compensation? ► Attractiveness of cash vs. stock ► **It isn't just about price: what value do you bring as a buyer?** • Buyers should note that **indemnity (if any) is likely to be limited**; diligence and pricing becomes more important ► **Representation and warranty insurance coverage** may help bridge the gap, but note exclusions for regulatory compliance and loan level reps
Valuation	• Value the seller at an appropriate multiple for their business, not yours … but consider the impact to your valuation

(1) Economic Return for a Given Period = (Change in Book Value + Dividends Declared) / Starting Book Value.

Big Questions: Platform Acquisitions

- How much tangible book value dilution is acceptable in an earnings-accretive transaction?

- How much of a book value premium can a mortgage REIT recognize through build-out of a platform?

- Are there mortgage REITs for which the operation of a platform-intensive business model has worked throughout the cycle?

- What are the most common questions that skeptical investors ask when a mortgage REIT acquires a platform?

Affiliate Transactions

Key Considerations

Range of Affiliate Transactions	• **Management internalizations and externalizations** ► Recent precedents include Annaly, AGNC, Two Harbors, Granite Point[(1)], and single-family rental REITs ► Can be driven by shareholder pressure or by manager-related business changes ► In the mortgage REIT space, data on internally-managed vs. externally-managed company valuations does not yield any definite conclusions about how management structure impacts valuation or performance ► While most REITs have a contractual termination fee, in practice, internalizations have been done for more and for less than the contractual termination fee • **Merger of affiliated companies** ► Affiliate can be a more competitive acquirer of an externally managed REIT than an independent third party, as no consideration to the manager – and few other “breakage costs” - are involved • **Roll-up of managed entities** ► Can provide benefits of scale to shareholders, reduce conflicts of interest, and make it possible to internalize management
Important Criteria	• Does the transaction increase (or is it at least neutral to) **alignment of shareholders with management**? • In what ways does the transaction **financially benefit shareholders**? • Investors will be watching how the sponsor behaves. **Is the sponsor acting in a fair way, taking shareholder value into consideration?** • **For internalizations:** What will the company’s expense ratio be after internalization? One could look at consideration paid / annual cost savings, but should also consider dilution to tangible book value and pro forma expense ratio versus peers • **For affiliated company mergers:** Where will the blended company trade? Will it have greater access to capital? Does the merger mitigate conflicts of interest, or allow shareholders to “own” franchise value?
Process Considerations	• **Special committee formation** ► Comprised of independent directors ► Special committee selects and is represented by independent legal and financial advisors • **Important considerations:** ► Termination fee ► Potential “go shop” provision or pre-announcement market check ► Fairness opinion

(1) Granite Point has announced a process to internalize its management.

Big Questions: Affiliate Transactions

- **What are the most important things for investors to see in affiliate transactions?**
- **Investors normally prefer internally managed structures, and we have seen recent internalizations.**
  - ▸ Under what circumstances do investors prefer externally managed structures?
  - ▸ Is this environment different?
- **Are there other affiliate transactions that companies should consider?**
  - ▸ Spin-offs, other?

Distressed Transactions

Key Considerations

General observations about companies in distressed situations

- Executives are generally optimistic about their businesses, and:
  - Underestimate how much capital/liquidity they need to get through a challenging time[(1)]
  - Wait too long to bring in legal and financial advisors[(1)]
  - In general, the earlier a company looks for a buyer or capital, the more value accrues to shareholders
- When in need of financing to weather distress, the cheapest and fastest capital is often found with an existing relationship of the company (sponsor, major shareholder, etc.). Companies should consider whether they have existing relationships that could be willing to make an additional investment
- In general, evaluation of a distressed acquisition target considers:
  - Distributing consideration among security holders. Does the equity have value? If not, what is the "fulcrum" security? Will those holders accept a discount? Can one negotiate with the major stakeholders directly, or is approval dependent on the solicitation of many holders?
    - Transactions are often structured as asset purchases, leaving the responsibility of distributing proceeds to debt and equity holders to the seller. In this case, a seller must consider "run-down" expenses and the potential liability of making distributions without adequate "holdbacks" for contingent liabilities and satisfaction of senior obligations.
  - Has there been erosion of the franchise? Departure of key talent?
  - Does the target have tax loss carryforwards? Can they be utilized? What is their "capped" value in a Section 382 ownership change?
- Related topic: in-court bankruptcy processes and opportunities for participation

(1) This is a general observation. It is important to concede that sudden liquidity-related distress from global pandemics does not allow time to calculate, or to wait.

Big Questions: Current Environment of Distress

- **We have seen a lot of asset sales recently, and some highly dilutive financing transactions.**
  - How should we think about prioritization of these things versus looking for an M&A solution?
- **Several mortgage REITs have sold assets to meet margin calls but their liquidity situation now seems more stable.**
  - Do you think that the worst is behind us? What should companies to do be defensive?

Conclusions and Q&A

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MORTGAGE REIT SUMMIT

SEC and Capital Markets Updates for mREITs

Agenda

- Capital markets update
- Proposed changes to MD&A
- KPI guidance
- Non-GAAP measures (including adjustments for COVID-19)
- LIBOR change
- SEC guidance on earnings and forward-looking statements
- Section 3(c)(5)(C) exemption

Stephen Laws

Raymond James Equity Research

How Did We Get Here?

Liquidity Concerns

- Stress peaked on March 23
- Companies with non-agency MBS exposure faced the most stress
- Many companies suspending/delaying dividends to preserve liquidity
- TALF
- Portfolio repositioning continues

Servicer Advance Obligations

- Delinquencies expected to spike given CARES Act mortgage forbearance provisions
- How big is this problem?
- Not all servicing is created equal
- Nonbanks vs banks
- Will servicer advance facility be created?

Subsector performance

- Initial selloff impacted entire sector
- Impact of ETFs
- Starting to see some divergence

CRE Mortgage REITs

2H Earnings Visibility Is Poor

- Impact of LIBOR floors
- Additional asset sales
- No/little new investments
- Loan extensions/slower repayments
- Smaller portfolio
- No/lower gain on sale income for non-agency mortgage conduits (TRSs)
- Lower leverage
- Higher financing spreads
- Higher operating expenses
- Higher servicing and subservicing expenses
- CECL impact
- Higher share counts if 1Q dividend paid in stock.
- Considerations around dividends

Portfolio performance considerations

- Property type
- Transitional loans
- Portfolio duration
- Average loan size
- Geographic breakout
- Mezz/other exposure, if any

CECL day two provisioning required; Impact is unknown

Company Citations

Company Name	Ticker	Exchange	Closing Price	RJ Rating	RJ Entity
Apollo Commercial Real Estate Finance, Inc.	ARI	NYSE	$8.32	MP3	Raymond James & Associates
Arbor Realty Trust, Inc.	ABR	NYSE	$6.76	MO2	Raymond James & Associates
Ares Commercial Real Estate Corporation	ACRE	NYSE	$7.36	SB1	Raymond James & Associates
Blackstone Mortgage Trust, Inc.	BXMT	NYSE	$21.67	MP3	Raymond James & Associates
Broadmark Realty Capital Inc.	BRMK	NYSE	$7.57	MO2	Raymond James & Associates
Chimera Investment Corporation	CIM	NYSE	$7.50	MP3	Raymond James & Associates
Colony Credit Real Estate, Inc.	CLNC	NYSE	$4.08	MP3	Raymond James & Associates
Exantas Capital Corp.	XAN	NYSE	$2.88	MP3	Raymond James & Associates
Granite Point Mortgage Trust Inc.	GPMT	NYSE	$4.98	MO2	Raymond James & Associates
Great Ajax Corp.	AJX	NYSE	$7.89	MO2	Raymond James & Associates
iStar Inc.	STAR	NYSE	$9.02	MO2	Raymond James & Associates
KKR Real Estate Finance Trust Inc.	KREF	NYSE	$15.05	MO2	Raymond James & Associates
Ladder Capital Corp	LADR	NYSE	$7.18	SB1	Raymond James & Associates
MFA Financial, Inc.	MFA	NYSE	$1.78	MP3	Raymond James & Associates
New Residential Investment Corp.	NRZ	NYSE	$5.34	MO2	Raymond James & Associates
New York Mortgage Trust, Inc.	NYMT	NYSE	$2.10	MP3	Raymond James & Associates
NexPoint Real Estate Finance, Inc.	NREF	NYSE	$10.70	MO2	Raymond James & Associates
Ready Capital Corporation	RC	NYSE	$6.82	MO2	Raymond James & Associates
Redwood Trust, Inc.	RWT	NYSE	$3.50	MO2	Raymond James & Associates
Starwood Property Trust Inc.	STWD	NYSE	$12.46	MO2	Raymond James & Associates
TPG RE Finance Trust, Inc.	TRTX	NYSE	$6.76	MO2	Raymond James & Associates
Two Harbors Investment Corp.	TWO	NYSE	$4.46	MO2	Raymond James & Associates
Velocity Financial, Inc.	VEL	NYSE	$3.10	MO2	Raymond James & Associates

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Strong Buy and Outperform (Buy)	54%	56%	20%	22%
Market Perform (Hold)	42%	36%	12%	16%
Underperform (Sell)	3%	8%	3%	0%

** Columns may not add to 100% due to rounding.*

Suitability Ratings (SR)

Medium Risk/Income (M/INC) Lower to average risk equities of companies with sound financials, consistent earnings, and dividend yields above that of the S&P 500. Many securities in this category are structured with a focus on providing a consistent dividend or return of capital.

Medium Risk/Growth (M/GRW) Lower to average risk equities of companies with sound financials, consistent earnings growth, the potential for long-term price appreciation, a potential dividend yield, and/or share repurchase program.

High Risk/Income (H/INC) Medium to higher risk equities of companies that are structured with a focus on providing a meaningful dividend but may face less predictable earnings (or losses), more leveraged balance sheets, rapidly changing market dynamics, financial and competitive issues, higher price volatility (beta), and potential risk of principal. Securities of companies in this category may have a less predictable income stream from dividends or distributions of capital.

High Risk/Growth (H/GRW) Medium to higher risk equities of companies in fast growing and competitive industries, with less predictable earnings (or losses), more leveraged balance sheets, rapidly changing market dynamics, financial or legal issues, higher price volatility (beta), and potential risk of principal.

High Risk/Speculation (H/SPEC) High risk equities of companies with a short or unprofitable operating history, limited or less predictable revenues, very high risk associated with success, significant financial or legal issues, or a substantial risk/loss of principal.

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Target Prices: The information below indicates our target price and rating changes for the subject companies over the past three years.

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SEC proposal to modernize and simplify certain parts of S-K
S7-01-20 on January 30, 2020

- Eliminate the following requirements since investors presumed to be able to accumulate such information from the various filings and disclosures of the registrants on their own:
  - Five-year selected financial data table (Item 301)
  - Selected quarterly financial data (Item 302(a))
  - Contractual obligations table

- Codify the requirement to disclose critical accounting estimates (CAE) previously in interpretive guidance (SEC staff FRM 9510)
  - Disclosure should supplement, not duplicate, financial statement discussion of significant accounting policies
  - Sensitivity analysis on material assumptions of CAE
  - Commission does not believe disclosure would duplicate critical audit matters (CAMs)

EY

SEC proposal to modernize and simplify certain parts of S-K
S7-01-20 on January 30, 2020

- The proposal would also make the following modifications to current MD&A requirements:
  - Integrate disclosure of off-balance sheet arrangements from separately captioned disclosure into broader MD&A discussion
  - Expand material commitments for capital expenditures to include ***all material cash commitments***
  - Change threshold for disclosures about events that change the relationship between costs and revenues from those that *will* cause a material change to ***reasonably likely***
  - Provide option to compare the most recently completed quarter to the immediately preceding quarter in MD&A
  - Provide narrative discussion of the ***reasons why a change*** in revenue or expense type occurred (in qualitative and quantitative terms, with multiple factors each quantified if material)
  - Information provided also must relate to all separate segments and/or other subdivisions (e.g., geographic areas, ***product lines***) of the company
    - More granular analysis for registrants with a single reportable segment
    - Enable investors to see the company through the eyes of management
    - Particular emphasis on discussion of the prospects (not past results)

Key Performance Indicators

- On January 30, 2020, the SEC provided guidance regarding the disclosure of key performance indicators and metrics used in the MD&A section.
    - Similar to earlier concerns raised by the SEC with respect to the use of non-GAAP financial measures.
- The SEC's Division of Enforcement has taken action in recent years against companies relating to the use of misleading key performance metrics.
- Item 303(a) of Regulation S-K requires discussion of "such other information that the registrant believes to be necessary to an understanding of its financial condition, changes in financial condition and results of operations." In addition, Instruction 1 to Item 303(a) requires discussion of "statistical data that the registrant believes will enhance a reader's understanding of its financial condition, changes in financial condition, and results of operations."

Key Performance Indicators *(cont'd)*

- Guidance reminds each registrant that uses metrics in its MD&A that, under existing requirements, it "need[s] to include such further material information, if any, as may be necessary in order to make the presentation of the metric, in light of the circumstances under which it is presented, not misleading.
- SEC generally expects that a metric be accompanied by the following disclosure:
  - a clear definition of the metric and how it is calculated;
  - a statement indicating the reasons why the metric provides useful information to investors; and
  - a statement indicating how management uses the metric in managing or monitoring the performance of the business.

Key Performance Indicators *(cont'd)*

- If a company changes the calculation method or presentation of a metric from one period to another or otherwise, it should consider disclosing, to the extent material:
  - the differences in the way the metric is calculated or presented compared to prior periods;
  - the reasons for the change;
  - the effects of the change on the amounts or other information being disclosed or previously reported; and
  - other differences in methodology and results that would reasonably be expected to be relevant to an understanding of the company's performance or prospects.
- Depending on significance, it may be necessary to recast prior metrics to conform to the current presentation following a change in methodology.

Non-GAAP measures in the COVID-19 pandemic
EY Technical Line – April 14, 2020

- Regulation G, Item 10(e) of Regulation S-K, and SEC staff C&DIs on non-GAAP measures remain relevant
- Disclosure Guidance Topic 9: Coronavirus (March 25, 2020)
  - May reconcile non-GAAP measure to provisional (or a range) GAAP measure
  - Pending but not finalized impairment charges
  - Do no present full (or what appears to be full) non-GAAP income statement

- Expect SEC staff intent focus on novel adjustments attributed to the current COVID-19 pandemic
  - May appropriately exclude only GAAP items that are:
    - *Directly* attributable to COVID-19
    - Not expected to recur after the pandemic subsides
    - Clearly *separable* from normal operations
  - Examples: extra hazard pay on top of normal wage rate; extra cleaning & disinfecting; pay to stay at home to quarantine but not be available to perform work; insurance recoveries under business disruption policies

EY

Non-GAAP measures in the COVID-19 pandemic
EY Technical Line – April 14, 2020

- The following adjustments would likely not be appropriate:
  - Paying employees remain available to work from home but are idled due to drop in customer demand for their services (idled employees)
  - Rent and other recurring cash operating expenditures
  - Excess capacity costs incurred during the period due to lower production/utilization of the overhead capacity
  - Paying employees for increased hours worked to perform their normal business duties
  - Paying higher for routine inputs to the business processes
  - Adding to GAAP income an estimate of lost revenue for days when business is closed(no revenue) but employees continue to be paid
  - Excluding employee pay for the days when business closed (no revenue or significantly declining revenue).

- Consider supplementing non-GAAP measures with a table listing separately other items that impacted income for the period

LIBOR

- LIBOR will cease to be quoted by the end of 2021
- SOFR is quoted now, could be used to price loans now
  - Overnight rate (i.e., not a term rate like LIBOR)
  - A historic rate (i.e., not forward-looking like LIBOR)
  - A nearly risk-free rate (i.e., no credit component)
- Tremendous pressure on banks from the Federal Reserve to price loans at SOFR now

LIBOR *(cont'd)*

- SEC Public Statement (July 2019): LIBOR discontinuance "may present a material risk for certain market participants, including public companies, investment advisers, investment companies and broker-dealers."
- SEC's Division of Corporation Finance:
  - Focus on disclosure of risks and events that a reasonable investor would consider important to an investment decision.
  - Disclosure relating to the expected LIBOR discontinuance could be triggered by risk factor disclosure requirements (Item 105 of Regulation S-K and Item 3.D of Form 20-F), MD&A (Item 303 of Regulation S-K and Item 5 of Form 20-F), board risk oversight (Item 407(h) of Regulation S-K) and the financial statements.

COVID-19: Forward-Looking Disclosure

- On April 8, 2020, SEC Chair Jay Clayton and the Director of the SEC's Division of Corporation Finance issued a joint statement providing guidance for the upcoming earnings release season.
- Statement urged companies to provide as much information as is practicable regarding their current financial and operational status, as well as their future operational and financial planning.
- Company disclosures should reflect the current state of COVID-19 affairs and outlook.
    - Historical information may be relatively less significant.

COVID-19: Forward-Looking Disclosure *(cont'd)*

- Good faith attempts to provide appropriately framed forward-looking statements would not be second-guessed by the SEC.
- Statement noted that investors may be particularly interested in detailed discussions of current liquidity positions and expected financing needs, whether the company is receiving or intends to apply for financial assistance under various COVID-19 related federal and state programs, including the CARES Act, and how such assistance has had or may have a material effect on the company.
- Companies are advised to take advantage of the safe harbor provisions of the U.S. federal securities laws.

Section 3(c)(5)(C)

- 1940 Act exemption generally excludes from the definition of "investment company" any entity primarily engaged in, among other things, purchasing or otherwise acquiring mortgages and other interests in real estate.
- In order to qualify for this exemption, a mortgage REIT must have at least 55% of its assets consist of mortgages and other liens on, or interests in, real estate that are the functional equivalent of mortgage loans, referred to as "qualifying assets," and at least 80% of its assets consist of qualifying assets and real estate-related assets.

Section 3(c)(5)(C) *(cont'd)*

- In satisfying the 55% requirement, mortgage REITs may treat securities issued with respect to an underlying pool of mortgage loans in which it holds all of the certificates issued by the pool as qualifying assets.
- The SEC Staff has been reluctant to provide qualifying asset relief for agency partial pool certificates and credit risk transfer securities; as a result, they are typically considered real estate-related assets for purposes of the 80% requirement.
- On August 15, 2019, the SEC staff issued a no-action letter to Redwood Trust allowing it to treat certain mortgage servicing rights (MSRs) and cash proceeds as qualifying assets under Section 3(c)(5)(C), subject to certain time limitations.

Rule 3a-2: Transient Investment Companies

- Transient investment company (for foot faults)
  - When an issuer inadvertently becomes an investment company, it may be eligible to rely on the transient investment company exception – Rule 3a-2
    - Must have *bona fide* intent to be engaged primarily, as soon as reasonably practical (must be at least prior to the termination of the one-year period), in a business of other than that of investing, reinvesting, owning, holding, or trading in securities
    - Issuer can only rely on Rule 3a-2 once during any three year period
    - Intent evidenced by:
      - Looking at business activities
      - Resolution from board of directors
    - One year relief begins the earlier of:
      - The date the issuer owns securities and/or cash having a value exceeding 50% of total assets; or
      - The date the issuer owns or proposes to acquire investment securities having a value exceeding 40% of total assets
    - Not available to an issuer that holds itself out as an investment company

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MORTGAGE REIT SUMMIT

We'll be back shortly….

What others say about Mayer Brown….

TOP RANKED Chambers USA 2019

***Chambers USA* ranks Mayer Brown and individual partners in 42 practice areas**, including Capital Markets: Debt & Equity, Derivatives, Securitisation (Band 1); Financial Services Regulation: Consumer Finance (Band 1); Real Estate; and Tax: Corporate & Finance.

TOP RANKED Chambers GLOBAL 2020

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IFLR1000

***IFLR1000* ranks our firms and individual partners** in the areas of Capital Markets: Debt, Equity, Derivatives, and Structured Finance; Financial Services Regulatory; M&A; and Restructuring and Insolvency.

The LEGAL 500

***Legal 500 US* ranks Mayer Brown and individual partners in 65 practice areas**, including Capital Markets: Debt, Equity and Global Offerings (Advice to Issuers and Underwriters); Financial Services: Regulatory; Restructuring (including Bankruptcy): Corporate; Structured Finance: Derivatives and Structured Products (Tier 1), and Securitisation (Tier 1); M&A: Large Deals; Real Estate; and Tax: Financial Products (Tier 1), US Taxes: Non-Contentious (Tier 1)

GlobalCapital

GlobalCapital has named Mayer Brown as **Global Derivatives Law Firm of the Year** (2019), **Americas Derivatives Law firm of the Year** (2019, 2018), **US ABS Law Firm of the Year** (2019, 2018, 2017, 2016) and **US Securitization Law Firm of the Year** (2017)

"The 'experiences and responsive' team at Mayer Brown provides a 'committed and client-oriented service.'"
The Legal 500 US

"…exceptional reputation in the consumer finance space, notably excelling in its provision of compliance advice to clients in the mortgage industry."
Chambers USA

IFLR1000 US notes that Mayer Brown exhibits **"…constant firm growth … and consistent work on large and creative transactions."**

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MORTGAGE REIT SUMMIT

Asset-Specific Financing Developments

Funding Servicing Advances

- Private Financing Arrangements:
  - Fannie, Freddie, Ginnie, PLS
  - Structures: Secured Loan/Securitization
- Public Financing Arrangements:
  - PTAP/C19
  - Others?

MSR Financing

- Bi-lateral Arrangements
- Excess Servicing Rights
- MSR Ownership
- Securitization

Notable Securitization Tax Relief Guidance

(Mortgage REITs as sponsors/investors & mortgage REIT special servicing)

Revenue Procedure 2020-26

- Broadly speaking, the Rev. Proc., issued on April 13, 2020, sanctions CARES Act and certain non-CARES Act forbearances and all "related modifications" on federally-backed and non-federally-backed mortgage loans held by REMICs and fixed investment trusts, including CMBS and RMBS mortgage loans.
- In the case of non-federally-backed mortgage loans and federally-backed mortgage loans not covered by the CARES Act, the Rev. Proc. applies to forbearances of up to six months (and related modifications) provided to borrowers experiencing direct or indirect hardship due to the COVID-19 emergency if they are:
    - i. provided pursuant to a "forbearance program" (voluntary or state-mandated) that is identical or similar to those described under the CARES Act and
    - ii. requested or agreed to between March 27, 2020 and December 31, 2020, inclusive.

Revenue Procedure 2020-26 *(cont'd)*

- The term "related modification" is not defined in the Rev. Proc. Examples given are (i) adding deferred loan payments to the principal amount to be paid after the scheduled final payment on the loan and (ii) reamortization of a loan at the end of the forbearance period to preserve the loan's original maturity date.
- Under the Rev. Proc., qualifying forbearances and related modifications:
  - <u>for REMICs</u>: *do not result in* (i) a prohibited transaction, (ii) a newly issued mortgage loan, (iii) a deemed reissuance of the REMIC regular interests or (iv) for REMICs acquiring a mortgage loan that was subject to a qualifying forbearance, improper knowledge of an anticipated default on the loan for purposes of the REMIC foreclosure property rules or a change in the loan's origination date (e.g., for REMIC LTV testing purposes).
  - <u>for Fixed Investment Trusts</u>: *do not manifest* a `power to vary' the investment of the beneficial holders of the trust jeopardizing the trust's tax treatment.

Revenue Procedure 2020-26 *(cont'd)*

- Additionally, under the Rev. Proc., delays/shortfalls in payments on mortgage loans associated with qualifying forbearances (and related modifications) constitute "contingencies" that can be disregarded under applicable REMIC rules, and thus, will not adversely affect the tax integrity of a REMIC's outstanding regular interests.
- The Rev. Proc. states that, if associated with a qualifying forbearance (and any related modifications), such contingencies include excess fees paid for specially serviced loans, an inability of a servicer to make advances, and non-accrual of compound interest on payments subject to forbearance.

Repo Financing of Retained Positions Held in Domestic CRE CLO mREIT Securitizations

CRE CLOs - What is a CRE CLO?

- Typically bridge loans secured by transitional properties
  - First lien, floating rate whole loans or participations therein with interest rate caps in place or springing
  - Cash management
  - Secured by Hotel, Office, Industrial, Retail or Multifamily properties
  - Properties are often under renovation, construction, re-flagging, re-leasing or re-positioning
  - Improvements and stabilization funded by future funding commitments
  - Short duration (2-5 years)
  - Different from pre-crisis deals which included subordinate interests, CMBS debt, CDO securities, synthetic exposures, etc.
  - Target Diversity: Geographic, Borrower, Tenant and Property Type

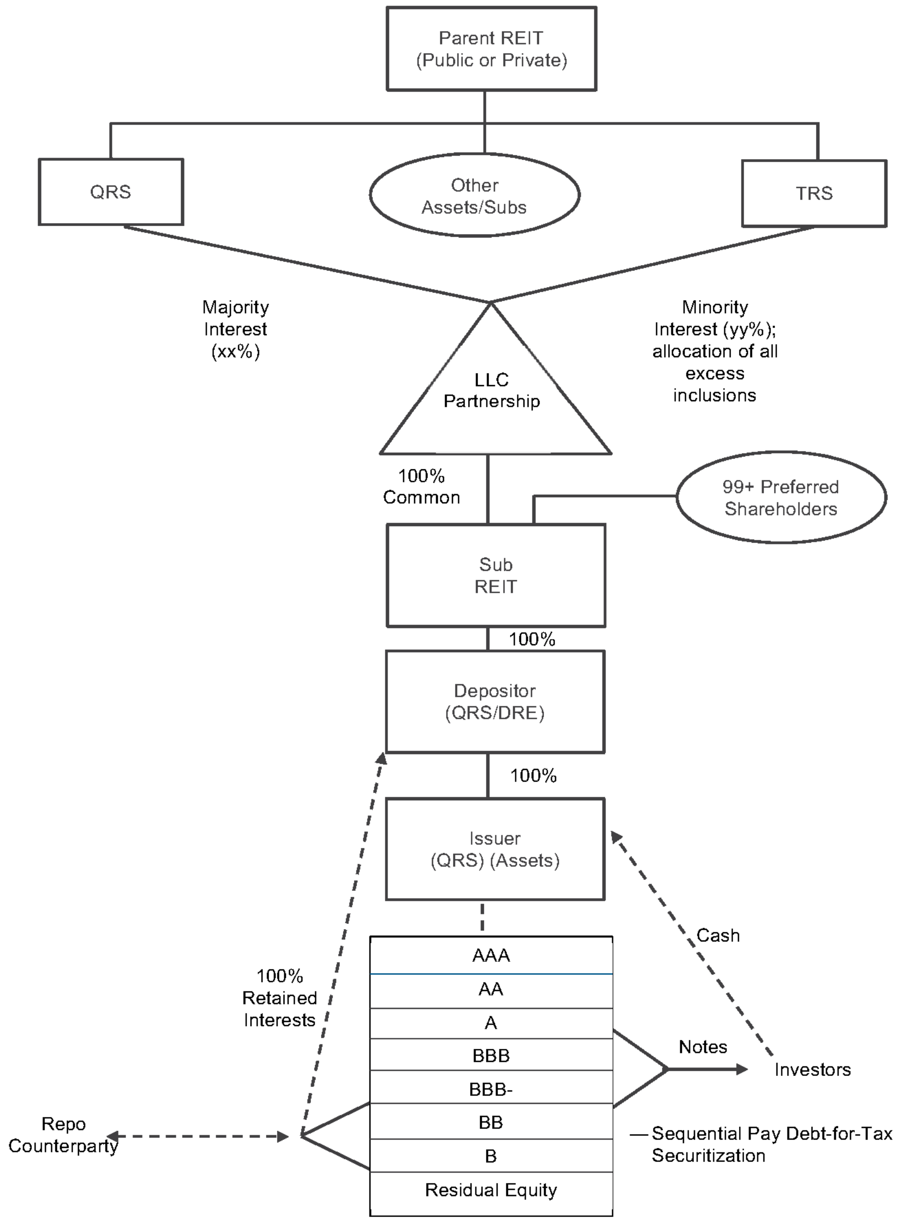
CRE CLOs

- What are the typical structures?
  - Primary Tax Structure Issue – Avoid U.S. entity-level income taxation
    - Onshore CRE CLO: Qualified REIT Subsidiary (QRS) issuer
    - Offshore CRE CLO: Non-QRS foreign corporation issuer that is not engaged in a U.S. trade or business (USTB)
    - CMBS: REMIC issuer
  - Additional Tax Issues
    - Onshore QRS Structure: Must retain QRS issuer's "tax equity"; Manage/Block Excess Inclusion Income
    - Offshore Structure: Ensure that issuer is not engaged in a USTB; Ensure that loan obligations are in registered form (e.g., loans are held by a grantor trust owned by the issuer); Any REO held in U.S. domestic LLC check closed

CRE CLOs *(cont'd)*

- What are the typical structures?
  - Managed vs. Static
    - Managed: Ramp-up and reinvestment periods with eligibility criteria for inclusion of subsequent loans
    - Static: Fully ramped on the closing date with ability to add funded participations in existing loans or delayed funding loans (sometimes referred to as "lightly managed")

Domestic CRE CLO



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MORTGAGE REIT SUMMIT

APRIL 22, 2020

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