

ASSUMABLE RATE CONVERSION PROGRAM – REFERENCE

ARC ASSUMABLE RATE CONVERSION PROGRAM (ARC)

ARC may be the solution for competitively priced loans and for more sophisticated commercial borrowers who want longer-term fixed-rate options. If your competition is offering long-term fixed rates, then ARC can be your competitive advantage. Currently used by hundreds of banks, ARC is a long-term fixed-rate lending platform without a derivative for the bank, no complex documentation, and no settlement process for the borrower. ARC is distinctly different from the many cumbersome swap programs and is designed for simplicity.

★ THE BENEFITS

- The borrower obtains a competitively priced loan for up to 20 years fixed.
- Upon prepayment of the loan, borrower collects a fee if rates are higher (which is the borrower's interest rate expectation)
- The loan and the original fixed rate are assignable to another property and assumable by another borrower (subject to consent).

★ ARC QUALIFICATIONS

While exceptions can be made, the borrower/loan must meet the following qualifications:

- Borrower demonstrates a minimum net worth of \$1mm (based on GAAP, without adjustment, including both hard and soft assets). The loan may also qualify if the owner(s) of the borrower demonstrate \$1mm net worth.
- Borrower's or the project's DSCR is at least 1.2X. Projected and global cash flow may be used.
- The loan is secured by real estate collateral. C&I collateral may qualify with additional support.
- Loan is between \$250,000 and \$50,000,000.
- Fixed term up to 20 years and amortization up to 30 years (IO periods are acceptable).
- LTV no greater than 85%.
- The loan is not related to the following: gov't, consumer, raw land, adult entertainment, or marijuana industry.

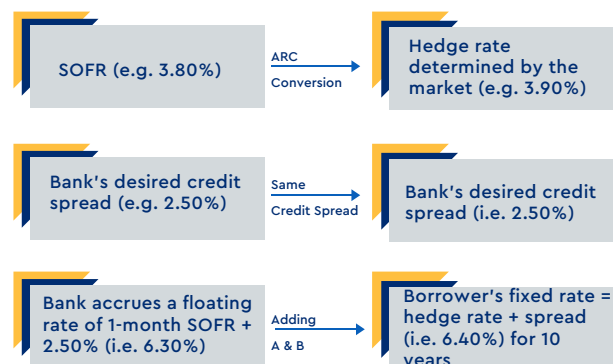
💰 PRICING ARC (A + B = C)

A – Get the hedge index from the ARC daily emails or contact the ARC desk. The index is the market-driven hedge rate corresponding to the fixed term.

B – Determine your bank's required credit spread based on goals, risk, size, and relationship.

C – The sum of A and B. This is what the borrower pays. The bank accrues on a floating rate equal to 1-month SOFR + B.

- Price ARC deals by visiting www.ARCpricing.com
The graph below shows a pricing example:



The fixed rate to the borrower can be established in one of three ways: 1) at closing based on the prevailing hedge index, 2) in advance of closing, however, the bank's credit spread will be determined by subtracting the hedge index at closing from the borrower's fixed rate, or 3) through a forward rate lock agreement where the hedge index is fixed for a future funding date (this requires an extra document, and potentially collateral during the forward period).

🔧 HOW TO EMBED AN ARC FEE

Fees can be generated by increasing the hedge index that the borrower pays. The present value of this increase can be taken upfront by your bank. An Excel calculator is available to solve for the fee based on any loan amount and structure. Banks typically target 0.50% to 1.50% ARC fee of the loan amount. This fee income can substantially increase profitability.

PREPAYMENT PROVISION

ARC standard prepayment is the symmetrical break-even provision, but alternative prepayment provisions may also be structured. Upon early prepayment:

- Borrower receives a fee if interest rates have increased – that is the hedge index corresponding to the remaining term at prepayment is higher than the hedge index established at the time the loan was originated.
- Borrower pays a fee if rates have decreased.
- Partial prepayments are also permitted if they are at least \$100k, and these are also subject to the symmetrical breakeven calculation.
- A table showing prepayment scenarios for interest rate changes is produced prior to closing.
- The ARC prepayment provision is appropriate for borrowers who believe that interest rates will rise, who want to hold the loan for duration, or who may expect to transfer the loan from one property to another and want to retain their original fixed rate.
- ARC is assignable to different properties and assumable by other borrowers with consent.

DOCUMENTATION REQUIRED

ARC does not alter the standard closing process or bank documents.

- Add a short provision to the mortgage or deed of trust then draft the note as a variable rate.
- ARC provides an addendum, known as the Rate Conversion Agreement (RCA), to the bank's promissory note that fixes the rate for the desired period. The ARC team will draft the addendum for the bank well before closing and then finalize this addendum before the borrower signs the note.

WHY ARC

ARC makes sense for borrowers who are concerned about increasing interest rates or those who want to stabilize loan payments because of credit concerns. However, ARC is not right for every borrower. Borrowers need to meet certain minimum net worth criteria, understand prepayment provisions and have goals aligned with the financing. In the current environment where interest rates are low and expected to increase, and where property valuations are high by historical standards, ARC may make sense for both the borrower and the bank. To learn more about how ARC can work for your bank, please email us at our ARC desk at ARC@southstatebank.com or go to <https://southstatecorrespondent.com/arc/#ARCReps> to speak to your local ARC Specialist.

ONGOING PROCESSING

Borrower deals with the bank exclusively unless marketing support is requested. The bank invoices the borrower on the fixed-rate (monthly, quarterly, semi-annually, or annually) and loan operations will accrue the loan on a floating rate. The difference will be settled between the bank and ARC.

CLOSING PROCESS

- Receive daily ARC rates via email.
- Utilize the online ARC Proposal Generator at www.ARCpricing.com or request a customized presentation by emailing ARC@southstatebank.com.
- Email/upload credit memo and appraisal (when available) - Approval typically takes 2 business days.
- Submit draft documents for review.
- The ARC team will draft the RCA to the promissory note for your review.
- Establish signing time with the borrower.
- ARC will send the final RCA to the promissory note 30 minutes prior to signing.
- After signing, email executed documents to the ARC team as soon as possible, but no later than 4:00 PM ET.
- ARC will send a Transaction Supplement to evidence the specific loan.

MARKETING SUPPORT & TRAINING

The ARC team is available to train all departments either in-person or via webinar. In addition, the Program offers videos, white papers, marketing/ad support and one-page explanations. The ARC team is also available to meet any borrower at the lender's request and share customized presentations.