

The Dreadnought Group

Dreadnought Capital Management Corporation

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Rehabilitation Association**

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Emerging Financial Products for Developers

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ABOUT DREADNOUGHT – BACKGROUND

- The Dreadnought Group is a private investment management firm
 - Dreadnought Capital Management Corp., our operating company, is an SEC registered investment adviser
 - Founded in 2009 by Mirza Kafedzic and Ken Rogozinski
 - Senior leadership team, blue chip investment bank experience (JPMorgan, Citigroup, Bear Stearns, Goldman Sachs), with over 90 years of collective directly relevant experience
- Unique proprietary non-agency direct lending and debt investment platform targeting the affordable housing sector
 - Since inception, Dreadnought has invested/lent over \$1 billion
 - New lending vehicle with annual lending capacity over \$300 million

ABOUT DREADNOUGHT – STRATEGY

- Direct lending and debt investing, focused on cash flowing hard asset collateral in the affordable housing sector
- Our proprietary national (not location or CRA specific) non-agency direct lending products target:
 - Acquisition/bridge financing for projects, particularly for 501c3 owners
 - Preservation of projects approaching/past initial LIHTC compliance period
 - Overlooked 4% LIHTC deals
 - Senior ALF/ILF rental housing with tax-exempt debt (new focus area)
 - Any other projects that are complex or in underserved locations (public-private project finance, including renewables)
- Target individual loan size is between \$10 to \$50 million
- Larger transactions, portfolio and programmatic lending relationships with first-class borrowers is preferred

DREADNOUGHT'S GUIDING PRINCIPLES

Our investors' long-term interest comes first.

Always.

We align our interests with those of our investors.

Our investors appreciate the niche we focus on and are patient. We provide the maximum amount of transparency possible. We invest a substantial portion of our liquid net worth alongside them.

Our greatest assets are our capital and our people.

Together with the capital entrusted to us by our investors, our people and their tireless hard work, creativity, professionalism and commitment to excellence are our greatest assets. By design we keep both our capital size and team the "right size". We desire and attract only uniquely talented and good people who also embody our Guiding Principles.

Our borrowers are treated as partners.

We cannot and do not want to be everything to everyone every time. We can, however, be nimble with creative lending solutions to complex transactions overlooked by others and make them scalable to first-class borrowers.

We believe in doing well by doing good.

Our lending efforts are focused on primarily benefiting low- and moderate-income people and promoting the public good. However, we do not sacrifice returns for social impact – both can be achieved at the same time.

We use technology to help us be better.

We find it important to build out first-class systems – a highly capable human with superb systems/models can achieve better results. But technology will never replace robust fundamental analysis.

Our partners free up more of our time so we can focus on what we do best.

We recognize we cannot do it all ourselves. We welcome and foster long-term, mutually beneficial relationships with best in class third-party partners.

Lending Product 1:

Preservation of Affordable Housing
Mezzanine Loan

(“PAM Loan”)

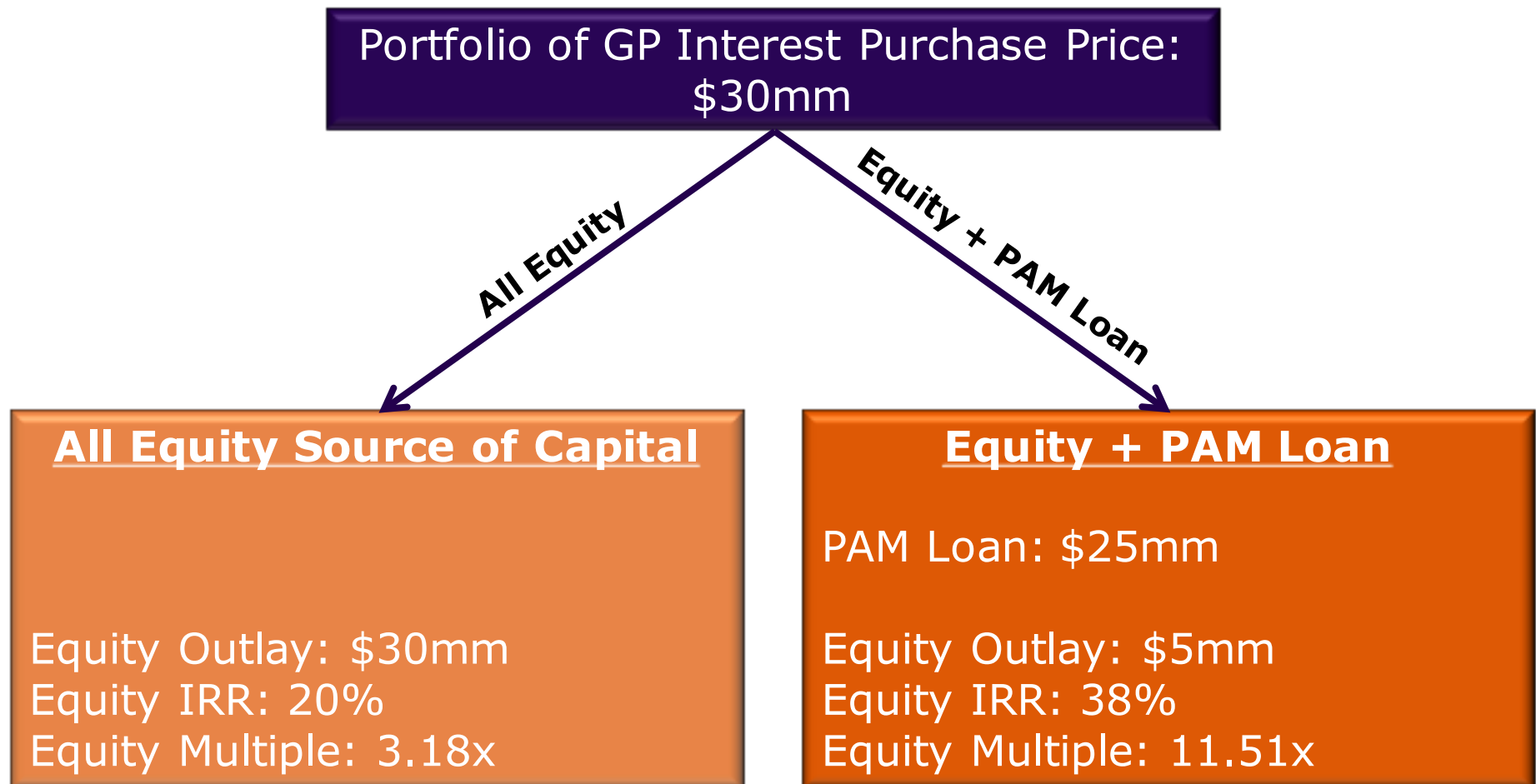
PAM LOAN – OVERVIEW

- **Description:** mezz loan, **funds up to 90% of acquisition cost** of partnership interest (GP or LP or both) prior to year 15 while existing debt remains
- **Purpose:** non-controlling high leverage while sponsor/borrower keeps substantially all the upside after meeting PAM Loan IRR Requirement
- **Loan repayment source:** typically
 - Refinancing of existing mortgage debt
 - LIHTC re-load
 - Sale of property
- **Transaction “Sweet Spot”:**
 - Portfolio or individual deals over \$10 million
 - Low Exiting LTV (50-70%), overall LTV < 85%
 - High Existing DSC (over 1.50x), overall DSC > 1.20x
 - Close to or after year 10 of 15yr LIHTC compliance period

PAM LOAN – LOAN AND CREDIT TERMS

- **Loan terms:**
 - Rate mode: fixed or floating interest rate, typically I/O
 - Term: typically between 3 years and 7 years, with 2 to 3 year lock-out
 - Rate: typically 10%, with an IRR Requirement between 11%-15%
- **Credit terms:**
 - Second or third mortgage lien, if available, and/or
 - Pledge of partnership interest, if available, and/or
 - Pledge of all available free cash flows and net proceeds
 - Non-recourse with standard carve outs (unless higher leverage requested)
- **Typical cash flow distribution waterfall:**
 - **First:** PAM Loan debt service
 - **Second:** pro-rata on capital contributed until our IRR Requirement is met
 - **Third:** generally a flip of capital interest ratio (e.g., 90/10 split becomes 10/90 split, in favor of the sponsor/borrower)

PAM LOAN – CASE STUDY



Lending Product 2:

Non-Profit
Acquisition Bridge Loan

(“NFP ABL”)



NFP ABL – OVERVIEW

- **Description: up to 95% of acquisition cost** tax-exempt acquisition and bridge loan to non-profit entities acquiring affordable multifamily property
- **Purpose:** one stop borrowing product to avoid utilizing multiple sources for acquisition funding needs (replace 1st lien, mezzanine loan and/or LP equity)
- **Loan repayment source:** perm loan that requires an extended time frame for execution e.g., FHA financing and LIHTC syndication strategy
- **Transaction “Sweet Spot”:**
 - Portfolio transactions
 - Active acquirers with over \$25 million of pipeline per year
 - Perm capital event occurring in 9 to 36 months

NFP ABL – LOAN AND CREDIT TERMS

- **Loan terms:**

- Rate mode: fixed or floating interest rate, typically I/O
- Term: up to 36 months, with 9 month year lock-out
- Rate: typically 5.75% to 7.50%

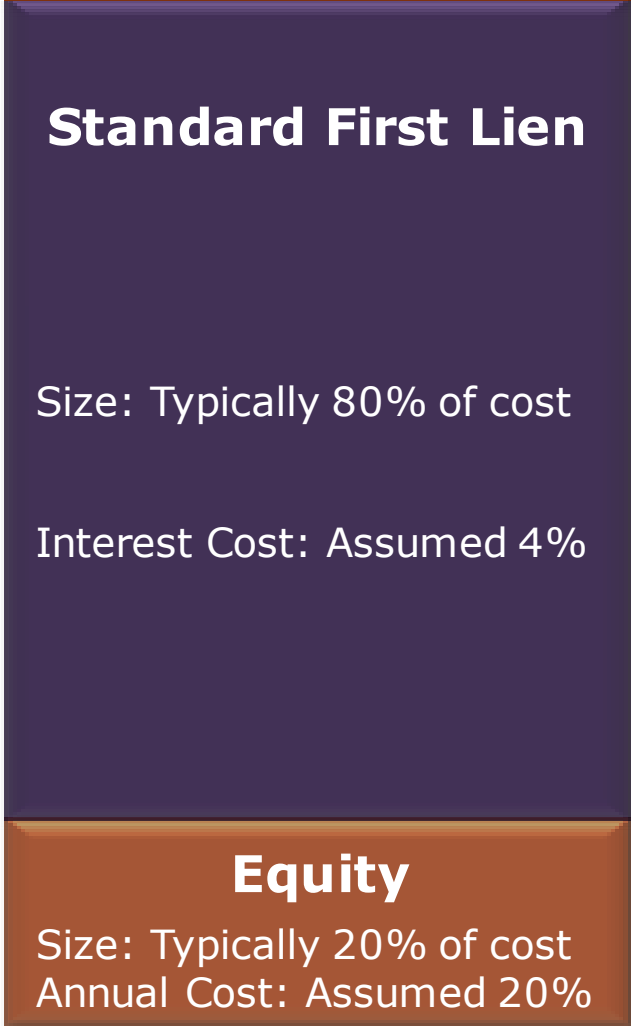
- **Credit terms:**

- First lien, on agency form documents
- Additional limited security for loan amount in excess of 80% of As-Is value
 - Sponsor Guaranty (with sufficient liquidity/net worth)
 - Guaranty from unrelated party (bank LOC, other)
 - Seller take-back notes (to be repaid at perm financing)
- Cross collateralized mortgage lien and guaranty
- Non-recourse with standard carve outs (other than Guaranty)
- “Re-sizing” of equity and/or Guaranty based on LTV and DSC metrics (for loans longer than 18 months)

NFP ABL – SIMPLE COST OF CAPITAL EXAMPLE

Generic Acq-Bridge Financing

Assumed Overall Annual Cost: 7.20%



Dreadnought NFP ABL

Assumed Overall Annual Cost: 6.70%



Lending Product Applications



LENDING PRODUCT APPLICATIONS

PAM Loan:

- **Middle of Fairway:** high leverage mezz loan for acquisition of partnership interests
- **Other applications:**
 - Borrow against portfolio cash flows of existing GP interests
 - GP buy out of LP interests in projects desired to be held or resyndicated
 - In conjunction with PAM Loan, refi senior debt bridging to LIHTC re-syndication
 - For-profit mezz acquisition-bridge loan in conjunction with 7/4, 7/6 or other agency execution (hybrid ABL and PAM Loan)
 - Developing PAM Loan to support for-profit acquisition of workforce housing or naturally affordable projects with FHA or LIHTC exit strategies

NFP ABL:

- **Middle of Fairway:** high leverage all-in-one acquisition-bridge loan for 501c3s
- **Other applications:**
 - For-profit or 501c3 mezz acquisition-bridge loan in conjunction with 7/4, 7/6 or other agency execution (hybrid ABL and PAM Loan)
 - For-profit borrower/sponsor version of ABL (“FP ABL”)
 - In development
 - Terms will essentially be the same, except rate will start at 7.50%

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