Presentation to:

Gondolier Properties, LLC

Interest Rate Hedging Proposal

September 2019

FIRST TENNESSEE

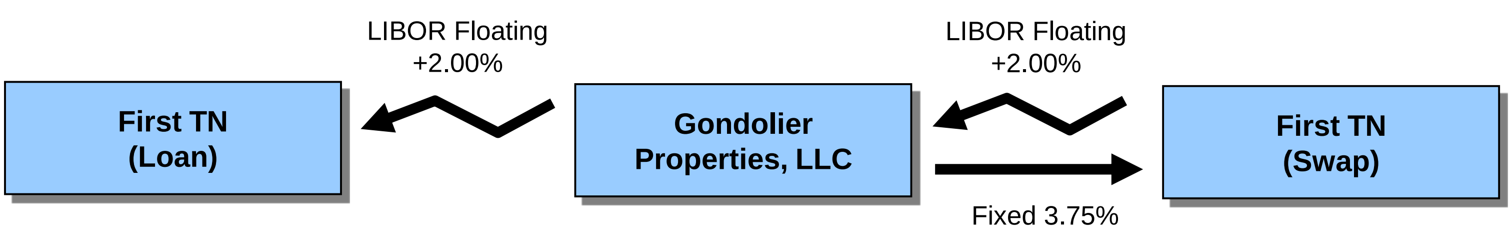
Interest Rate Swap: How It Works

What are the Terms of the Swap?

Notional Amount:	$7,150,000.00
Start Date:	3 Months Forward Start
Maturity:	7 Years from Start
Amortization Type:	20 Years., Avg. Mortgage Style
Floating Rate Index:	1-Month LIBOR + 2.00%

Current Indicative Fixed Rate:	***3.75%****

Rates are indicative of current market conditions and subject to change



- Gondolier Properties, LLC (the “Borrower”) has a floating rate loan with First Tennessee Bank.
- Under the swap contract, the Borrower will pay a fixed rate and receive a floating rate.
- The floating rate received on the swap will offset the floating rate paid on the loan.
- The Borrower has effectively locked in a fixed rate for the life of the interest rate swap contract.

Interest Rate Swap: How It Works

Swap Payments in Different Rate Environments

Current Rates (1-month LIBOR = 2.05%):

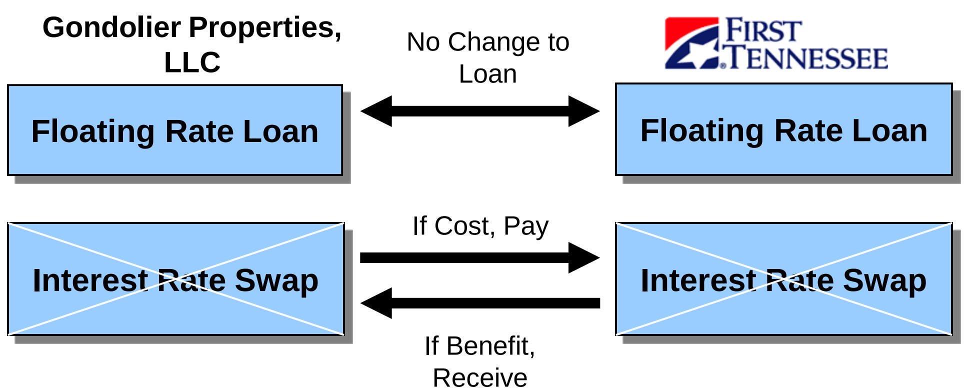
Loan	+ Swap	= All In Rate
Floating Rate 4.05%	Floating Rate (4.05%)	
	Fixed Rate 3.75%	
Total Loan Payment 4.05%	+ Total Swap Payment / (Receipt) (0.30%)	**= Effective Fixed Rate** **3.75%**

Rates Low (1-month LIBOR Down -50 bps):

Loan	+ Swap	= All In Rate
Floating Rate 3.55%	Floating Rate (3.55%)	
	Fixed Rate 3.75%	
Total Loan Payment 3.55%	+ Total Swap Payment / (Receipt) 0.20%	**= Effective Fixed Rate** **3.75%**

Early Termination

Early Termination of the Swap – Doesn't Impact the Loan *



Gondolier Properties, LLC can terminate the swap at market value at any point in time by paying or receiving an early termination payment

Estimated Benefit / (Cost) of Unwinding a 7 Year, $7.15M Amortizing Swap Prior to Maturity

	Swap Replacement Rate Changes				
Term:	**-1.50%**	**-0.50%**	**+0.50%**	**+1.50%**	**+2.50%**
7-Yrs	($650)	($210)	$203	$589	$951
5-Yrs	($443)	($141)	$135	$388	$620
3-Yrs	($253)	($80)	$75	$214	$338
2-Yrs	($164)	($51)	$48	$137	$215
1-Yrs	($80)	($25)	$23	$65	$102

* Note: if the Borrower terminates the loan, the swap must also be terminated at the then current market value

Summary

Risks	Benefits
1) Like any fixed rate, there is the risk that rates could remain flat or decrease over the life of the transaction 2) Possibility of a termination cost (prepayment penalty) associated with the swap if unwound early: • If Fixed Swap Rate > Prevailing Market Rate = Gondolier Properties, LLC *MAKES* a payment • If Fixed Swap Rate < Prevailing Market Rate = Gondolier Properties, LLC *RECEIVES* a payment	1) Eliminates the variability of interest expense and protects against rising rates 2) Flexibility • Immediate (spot) and future (forward) starts • Maturity less than or equal to the maturity of the loan • All or a portion of the loan amount 3) Possibility of a gain if unwound early and fixed swap rate is less than the prevailing market rate 4) Can be used to hedge a single loan or a portfolio of debt

Interest Rate Swaps: FAQ

What is an interest rate swap? An interest rate swap is a contractual agreement between two counterparties under which a series of fixed rate payments are exchanged for a series of floating rate payments.

What are the key terms associated with swaps?

1. **Notional** – The amount to which interest rates are applied in order to compute periodic payments.
2. **Floating Index** – The specific underlying interest rate used for computing floating rate payments (usually Prime or LIBOR).
3. **Fixed Rate** – The Fixed Rate is the specific underlying interest rate used for computing the fixed rate payments.
4. **Reset Frequency** – The Reset Frequency is the frequency with which the floating rate is adjusted (usually monthly or quarterly depending on the Floating Index selected).

How does an interest rate swap work with my floating rate debt to result in a fixed rate? Combining the rate on floating rate debt with a pay-fixed interest rate swap results in an effective fixed rate. With a pay-fixed interest rate swap you pay a fixed rate in exchange for receiving a floating rate. The floating rate interest payment you receive on the swap offsets the floating rate interest payment you make on your debt, which leaves you paying the fixed interest payment on the swap.

Interest Rate Swaps: FAQ

Do I have two separate financial instruments on my books? Yes. You have a loan with First Tennessee Bank National Association and an interest rate swap with First Tennessee Bank National Association. Two transactions will occur on each payment date. You will make your normal loan payment. We will net settle (the difference between the fixed and floating rates) the swap. If the swap fixed rate is higher than the swap floating rate, you will pay us the net difference. If the swap floating rate is higher than the swap fixed rate, we will pay you the net difference.

How is the net settlement determined? At each payment period, First Tennessee Bank National Association will determine the floating index on the swap based on terms spelled out in the Trade Confirmation. The floating rate payment will be based on the floating rate index, the notional amount and the day-count convention. The fixed payment will be based on the fixed rate, the notional amount and the day count convention.

How are interest rate swaps terminated? Interest rate swaps are terminated at market value. For pay-fixed swaps, this means if the prevailing market rate is lower than the existing swap rate, there will be a payment by Gondolier Properties, LLC associated with termination. If the prevailing market rate is higher than the existing swap rate, there will be a benefit associated with termination. The payments associated with early termination may be significant and cannot be accurately predicted because they will be determined based on future market conditions.

Interest Rate Swaps: FAQ

What are the economic risks associated with interest rate swaps? The primary economic risk associated with a pay-fixed interest rate swap is that interest rates move lower and the client terminates the swap before maturity, which will obligate Gondolier Properties, LLC to pay an early termination fee (see swap termination on previous page). A secondary economic risk is that, as with any fixed rate product, floating rates remain lower than the fixed rate over the life of the transaction.

Who is your swap counterparty? First Tennessee Bank National Association

Can I swap a portion of my floating rate debt? Yes. You can swap any amount up to the total principal amount.

Can my swap have a maturity that is different than my debt? Yes. As long as the swap maturity does not exceed the maturity date of the debt.

Interest Rate Swaps: FAQ

How are swaps accounted* for?

- Swaps are governed by FASB ASC 815
- This type of swap would be referred to as a cash flow hedge
- The swap value is recorded on balance sheet as an asset or liability with an offsetting entry to other comprehensive income
- Hedge accounting documentation is required under FASB ASC 815

**** This accounting information is intended to be general in nature and for informational purposes only. Please consult with your accountant for all of the details regarding hedge accounting treatment under FASB ASC 815.***

Gondolier Properties, LLC:

I have reviewed this Interest Rate Swap Proposal and understand the material presented.

By: ____________________________
Name:
Title:

Our Contact Information

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