BM Matochik, Brian
November 17, 2023 at 11:31 AM

RE: Gondolier Properties - Interest Rate Swap

To: Tom, JOHN J. COFFEY, Cc: John Cassidy

Details

Hi Tom – my apologies for the delayed response as I have been traveling the last couple of days.

The provision in Section 1(g) triggering a Termination Event if the loan pays off 'in part due to an acceleration of principal' is intended to apply to the specific scenario of paying down the loan more than is scheduled, to the extent the loan balance falls below the swap balance. This is primarily due to the fact that the bank's collateral for the swap is tied directly to the loan. As an extreme example, if you were to pay down the loan to say $100 (just as a hypothetical example) but the swap has an outstanding amount of $6mm, then the bank could have a considerable unsecured exposure amount on the swap.

Additionally, this provision also protects the borrower as well. In the event that rates fall and you are in a pay position on the swap, this provision protects you from being 'overhedged' and paying on a swap balance that is not tied to any debt, i.e. you would be paying 'phantom interest' in this scenario, or paying for a hedge you do not need.

It is for these reasons that we would require you to terminate a portion of the swap if you were to make any additional paydowns on the loan. That said, the good news is that the swap has a positive value currently so we would most likely be paying you to terminate a portion of the swap.

On a final note, in the event that you would like to continue to pursue the option of leaving the swap outstanding, since the swap is currently positive to you we could potentially try to obtain credit approval on our end to keep the swap outstanding at the current balance. This would be an exception to policy on our end and may not be possible, but may be something John can explore if you like.

I hope this helps but please let me know if I can provide any further information.

Best Regards,
-Brian

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