

## Interest Rate Cap Options for Floating-Rate Cash Loans

Initial Interest Rate Cap Term	Replacement Interest Rate Cap Escrow Inflation Factor	Required Initial Deposit to Replacement Cap Escrow
2 years	125%	At least 50% of the estimated cost of the initial replacement third-party cap is collected at loan origination
3 years	125%	N/A
≥ 4 years	100%	N/A
<b>Term(s) of Replacement Cap(s)*</b>	As each cap ends, the borrower may select any term for the replacement cap so long as the term of the replacement cap is not less than 1 year	
<b>Escrow Sizing</b>	<ul style="list-style-type: none"> <li>Initially calculated and maintained at either 100% or 125% of the amount estimated by the lender to be sufficient to purchase, immediately prior to termination of the then-existing cap, a replacement cap that expires on the <i>earlier</i> of the date that is 2 years after termination of the then existing cap or the loan maturity date</li> <li>Subsequent replacement caps are escrowed 125%, and required to be maintained until borrower obtains a cap with a term equal to the maturity of the loan</li> </ul>	
<b>Escrow Analysis Frequency</b>	Semi-annual	

\*All caps must have terms in annual increments.

Example: Initial 3-year cap with replacement caps for a 7-year cash loan

*At origination:* The borrower purchases 3-year cap and escrows 125% the cost of a cap with a term of 2 years.

Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Purchases 3-year initial cap			Escrows 125% of estimated cost of 2-year cap			

*Start of Year 4:* At the end of the initial 3-year cap, the borrower purchases a 1-year cap to follow, and escrows 125% of the cost of a cap for a term of 2 years.

Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
			1-year cap	Escrows 125% of estimated cost of 2-year cap		

*Start of Year 5:* At the end of the 1-year cap, the borrower purchases a 2-year cap to follow, and escrows 125% of the cost of a cap for the remaining 1-year term of the loan.

Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
				2-year cap		Escrows 125% of estimated cost of 1-year cap

*Start of Year 7:* At the end of the 2-year cap, the borrower purchases a 1-year cap to follow. No escrow is necessary as this cap provides coverage until the maturity of the loan.

Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
						1-year cap
						No escrows