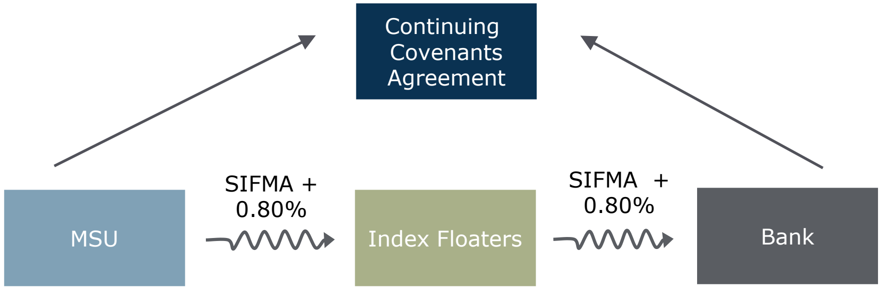
A directly purchased Index Floater is an attractive alternative to VRDBs

Schematic

3 year example



Mechanics

- **Index Floater is a standard, multi-modal VRDB with an additional 3-year *Index Floater* mode**
- **During the Index Floater mode, the bond pays an interest rate equal to a short term index plus a fixed credit spread equal approximately to what the LOC fee would have been on an LOC backed weekly VRDB**
- **Bond is subject to a one-time mandatory investor tender at par at the end of the 3 year initial Index Floating period, at which time the bond can be remarketed, at the option of the borrower, to any other mode available under the documents**
  - The mandatory tender date corresponds to what the LOC expiration date would have been on an LOC backed VRDB
- **In lieu of writing an LOC, the bank simply purchases the bond for its own account on a buy and hold basis**
- **There is no Reimbursement Agreement. Rather, the bank receives its rights as bondholder via a Continuing Covenants Agreement that contains all the protections typically found in an RA**
- **During the term of the Index Floater mode, no LOC, liquidity or remarketing fee is required to be paid by the borrower**
  - The LOC fee is effectively built into the bond rate, in the form of the fixed spread

The Borrower's risk profile is reduced by a Direct Purchase Index Floater

	VRDB	Direct Purchase Index Floater
Bank risk Spread over SIFMA increases or bond is tendered due to investor discomfort with bank credit	☑	☐ Spread over index is locked in for the entire Index Floater period
Remarketing performance risk Spread over SIFMA is a function of remarketing agent capital strength and performance	☑	☐ Spread over index is locked in for the entire Index Floater period
Systemic put risk Investors refuse to hold VRDBs as an asset class	☑	☐ Bank does not have a right to tender the Index Floater to the borrower prior to the expiration of the Index Floater period
Bank renewal risk LOC is not renewed or pricing increases dramatically upon renewal	☑	☑ If bank does not negotiate a new Index Floater term or will not write an LOC upon expiration, issuer faces term out