UNC KENAN-FLAGLER
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THE COGSVILLE GROUP

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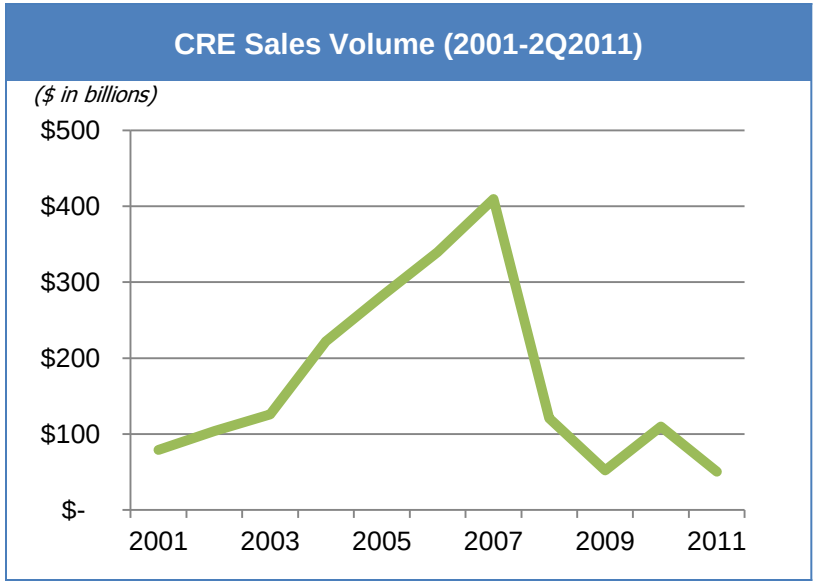
Overview — The Cogsville Group

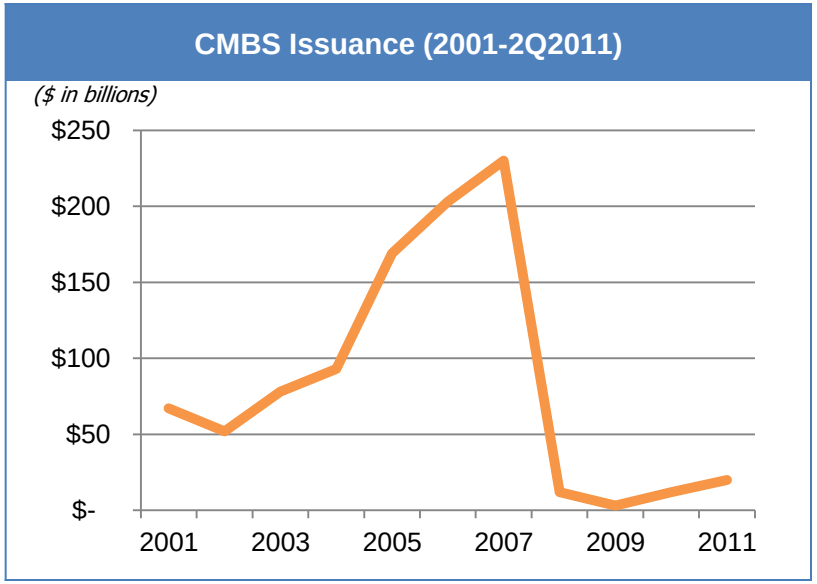
The Cogsville Group is a New York City-based real estate investment firm

- **Founded in 2007, The Cogsville Group (TCG) has executed a successful strategy of acquiring distressed commercial real estate (CRE) and construction (ADC) loans**
  - Believe distressed debt is the best source of attractively priced real estate assets in today's environment
  - Makes investments in large transactions alongside large institutional partners
  - Extensive experience in public-private transactions and transactions with high barriers to entry
- **TCG's investment philosophy minimizes risk through diversification across various asset types and geographies and conservative underwriting**
  - No single asset class or geography represents more than 20% of the firm's investments
  - Perform detailed due diligence and physical inspection of substantial majority of UPB
- **TCG has invested in loan portfolios with $3.0B of UPB secured by more than 3,900 properties in 49 states**
  - Bid with 9 different partners on $9B of distressed assets from FDIC and private sellers
  - Collateral is 2/3 existing CRE assets and 1/3 residential and commercial construction loans

Overview — Rise and Fall of CRE Prices

The recent real estate bubble was fueled by aggressive origination of mortgages

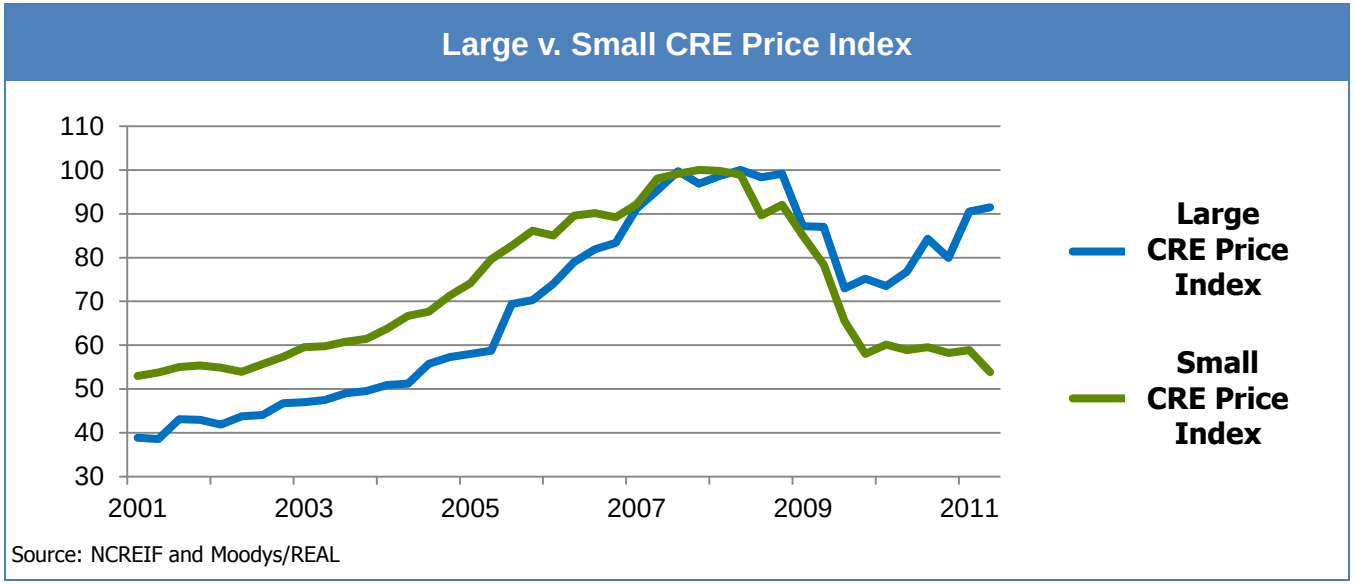




- **Aggressive financing, especially CMBS, quadrupled CRE sales and temporarily doubled prices**
- **More than $1 trillion of real estate was purchased from 2005 to 2008 at inflated prices**
- **After CMBS issuance fell by 98% CRE sales and prices collapsed, falling 45% in less than 2 years**

Overview – Unprecedented Split in RE Pricing

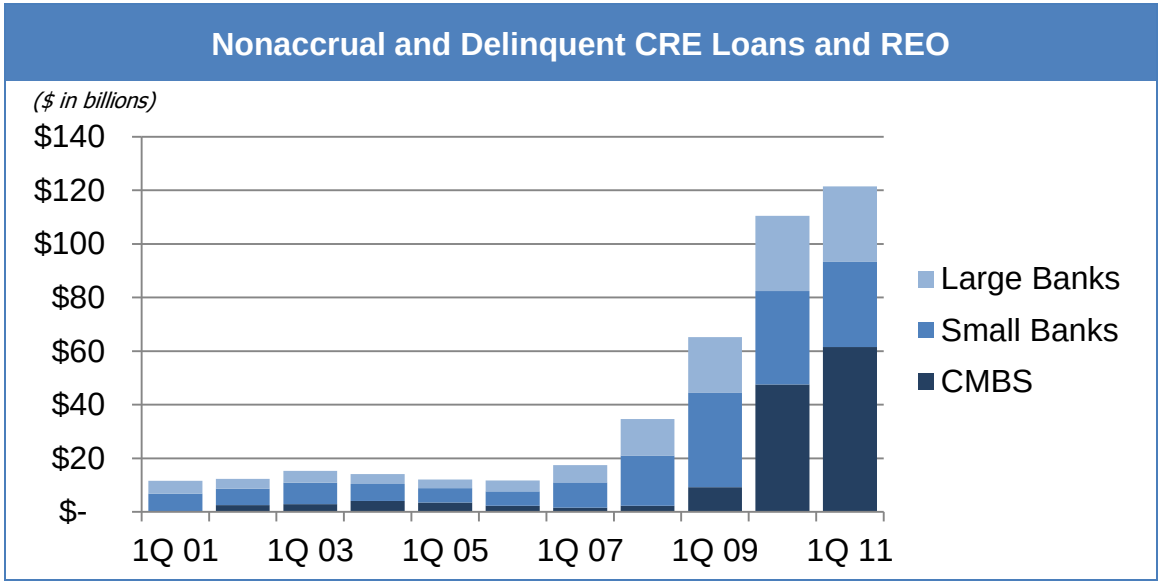
Outside of institutional assets, most CRE assets have seen no price recovery



- The prices for large institutional assets (+$50M) have rebounded quickly from their 2009 lows as investors have sought the safety of core assets
- 90% of the $3T CRE market has seen no recovery in prices — values are still 40% below their peak
- Without a recovery in prices, CRE borrowers have no ability to refinance as loans mature

Overview – Troubled CRE Loans Continue to Increase

Delinquent CRE loans and REO are exceeding $100B for the first time



- **Falling rents and rising vacancies are continuing to drive delinquencies**
- **Maturity defaults are increasing with the combination of stagnant prices and conservative lending**

Overview – TCG Acquired $3B in CRE Portfolios

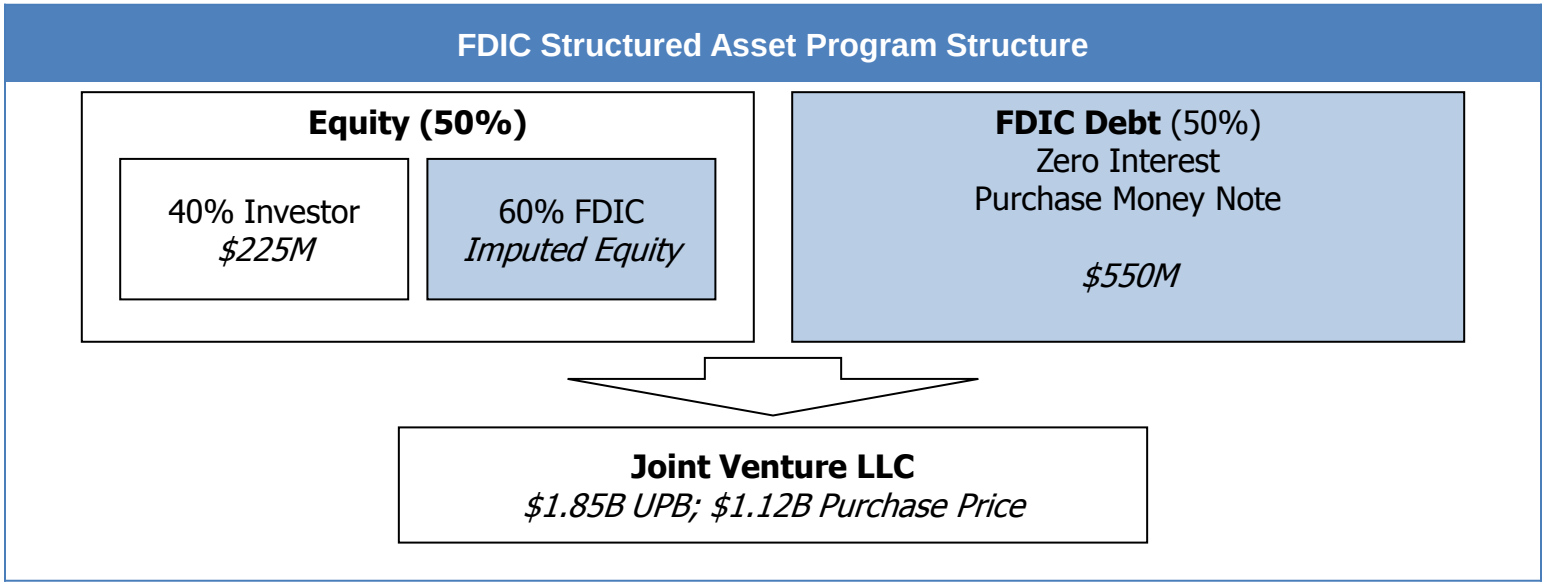
TCG's investment fund, Cogsville Capital Partners Fund I, acquired four portfolios

	Portfolio UPB	Purchase Date
Axle	$1,845M	July 2010
Milestone West	$137M	Dec 2010
Milestone North	$204M	Dec 2010
Cushman ADC	$817M	Jan 2011

- **The fund acquired the portfolios at attractive prices — CRE loans at 30% of original appraised value and ADC loans at less than 20% of original appraised value**
- **Vast majority of loans are recourse to the borrower and/or have additional guarantors for repayment**
- **Last year has shown tremendous willingness of borrowers to avoid foreclosure and financial performance has exceeded underwriting expectations**

Axle Transaction – Financial Structure

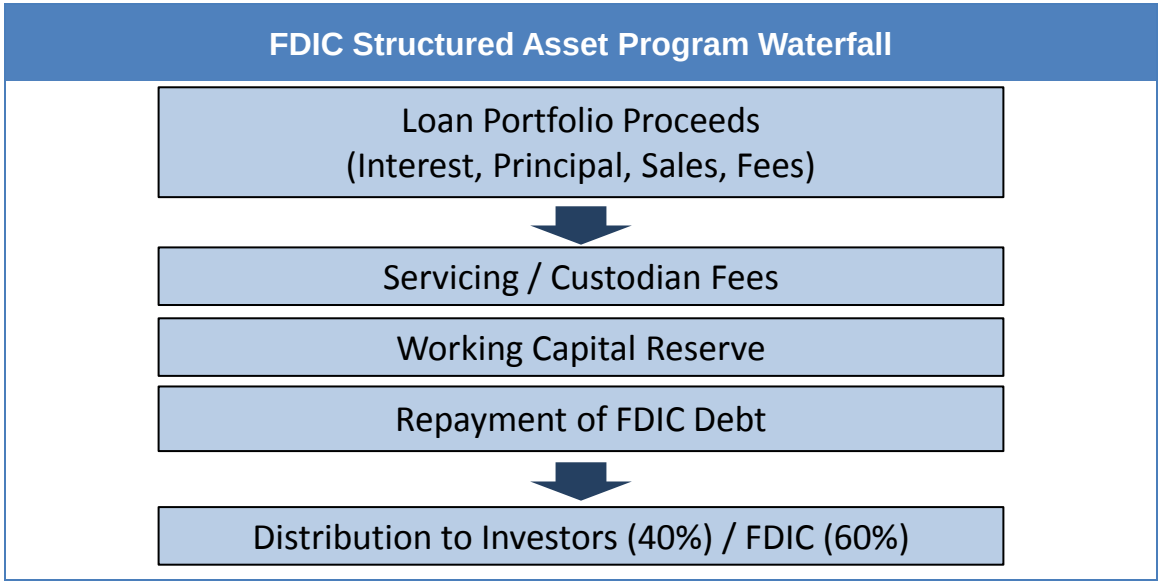
The Axle transaction is a public-private joint venture with the FDIC



- **FDIC contributes loans and financing, private investors provide equity and asset management**
- **Structured Asset Sales Program provides zero-interest financing for up to seven years to encourage modification of loans where appropriate**
- **The FDIC protects the deposit insurance fund by retaining 60% of any future upside**

Axle Transaction – Distribution Waterfall

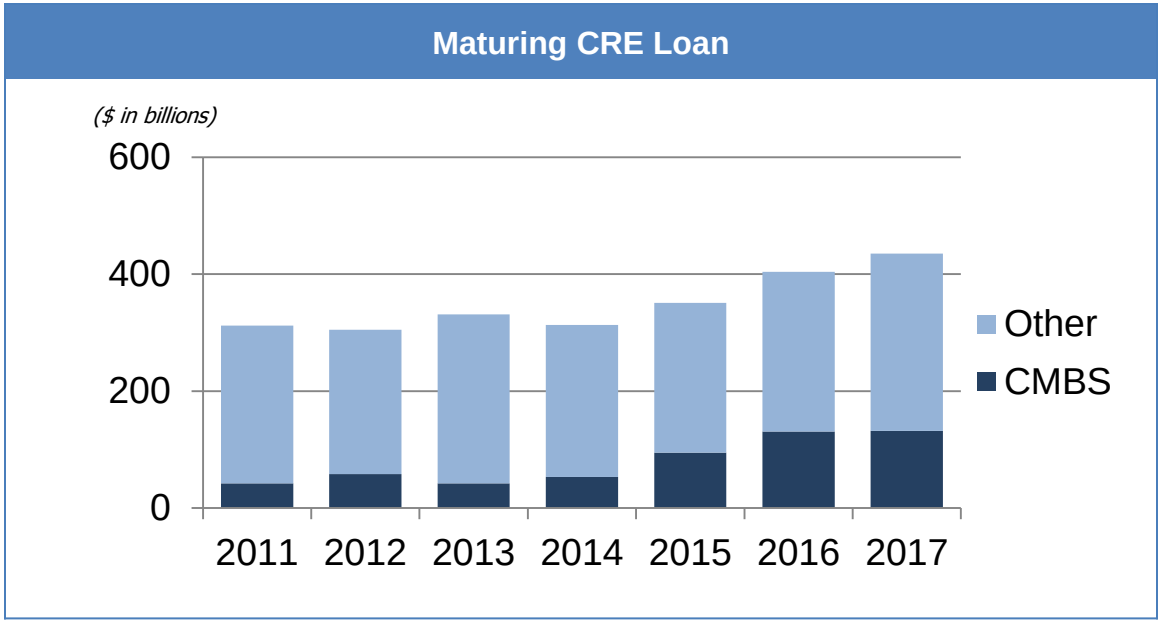
Proceeds are first used to pay expenses and FDIC debt before distributions



- **Portfolio income is generated by performing loans and resolutions**
- **Proceeds are first used to fund servicing/custodian fees then build a working capital reserve and repay FDIC debt**
- **After debt repayment, distributions are made to investors — distributions can be reduced to 35% if investment threshold is reached**

Future Opportunities - $1T in Maturing Loans

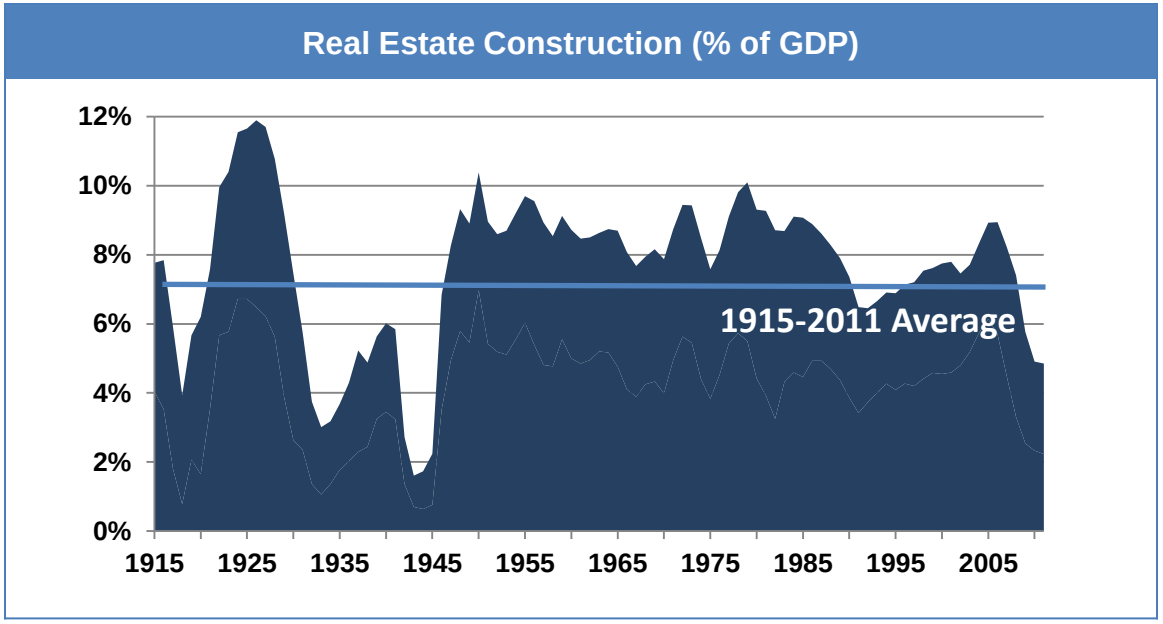
Maturity defaults will drive continued opportunities in distressed debt



- **Over $1 trillion in CRE loans mature over the next three years and many borrowers are incapable of refinancing**
- **While banks have made progress in repairing their balance sheets, maturity defaults will incur losses during a difficult environment to recapitalize**

Future Opportunities – Beyond Distressed Debt

Significant equity opportunities will emerge later in the market cycle



- **The recent collapse in real estate construction is the largest since the Second World War — over $1T of construction has been deferred**
- **When development resumes, the changing economy and social preferences will focus growth in urban areas**