A directly purchased Index Floater is an attractive alternative to VRDBs

- 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

### Bank risk
- Spread over SIFMA increases or bond is tendered due to investor discomfort with bank credit

### Remarketing performance risk
- Spread over SIFMA is a function of remarketing agent capital strength and performance

### Systemic put risk
- Investors refuse to hold VRDBs as an asset class

### Bank renewal risk
- LOC is not renewed or pricing increases dramatically upon renewal

### VRDB

### Direct Purchase Index Floater
- Spread over index is locked in for the entire Index Floater period
- Bank does not have a right to tender the Index Floater to the borrower prior to the expiration of the Index Floater period
- If bank does not negotiate a new Index Floater term or will not write an LOC upon expiration, issuer faces term out

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