July 22, 2024

CAST CREATIVE CITIES FUND:

A Deposit-Linked Loan Fund for Arts & Culture

We are in a unique moment: Bay Area commercial real estate vacancies are at all-time highs, and prices for office buildings are at historic lows. After decades of displacement, we have a rare opportunity to secure buildings for arts and cultural organizations at prices that allow them to better serve their communities. This is a historic time-sensitive window for anchoring creativity in the Bay. It is a window that will not remain open indefinitely.

To take advantage of this opportunity, the nonprofit sector requires quick action and low-cost capital. Community Bank of the Bay (CBB) and Community Arts Stabilization Trust (CAST) have combined efforts to seize this moment by introducing the **Creative Cities Fund**. Conceived as part of CAST's *Space to Dream Initiative* – a larger effort to create sustainable solutions for long-term affordability for arts and cultural organizations across the Bay Area – the Creative Cities Fund is a strategic investment vehicle that allows depositors to play a part in the future of the arts in our cities. This deposit-linked, low-interest loan fund addresses the root of artist displacement by raising affordable capital to finance spaces for artists and arts organizations.

DEPOSIT-LINKED LOAN PROGRAM SUMMARY
This program is useful for those who would like to loan funds to a specific organization for the purchase of a building, but do not have legal or accounting infrastructure or capacity to do so. Anyone interested in making a deposit greater than $200,000 can designate their deposit to facilitate a CBB acquisition loan to specified CAST Creative Cities Fund building. The deposits are made into an Federally insured account at Community Bank of the Bay. The CBB then makes a loan in an equivalent amount. The depositor's funds stay deposited in a Federally insured bank account for 5 years or until the loan is repaid. During that time, CBB does all the work required to make and document the loan. During the 5-year term, they provide loan monitoring, collections and customary lender services.

There are two options for making deposits. Both of the two options:

- Are federally insured up to $50 million,[1]
- Earn 0.15% - 1.00% interest on deposits less applicable fee federal insurance[2], and
- Require no withdrawal of the deposit for 5 years unless the linked loan is fully repaid in the loan's 5th year.

The two options for deposits are:

Option I: Deposits used as collateral. For deposits that are pledged as collateral for a specific loan, the Bank will make a loan in an amount up to the equivalent of the amount

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[1] Amounts up to $250,000 are insured by the Federal Deposit Insurance Corporation (FDIC). For Trusts, including revocable, irrevocable, Paid On Death (POD) and In Trust For (ITF), the maximum insurance coverage is $250,000 per beneficiary, up to five beneficiaries for a maximum of $1,250,000 per trust.

[2] Deposits over the FDIC insured maximums outlined in the footnote above and up to $50 million, can be FDIC insured for a nominal fee of 0.15% which will be deducted from the rate being paid to the depositor. The fee pays for FDIC-insurance through the Certificate of Deposit Account Registry Service (CDARS) using the InterFi Network.

deposited. The loan rate will be 2% over the interest rate earned by the depositor for the duration of the collateral deposit that guarantees the loan.

Option II: Deposits NOT used as collateral. For the portion of loans up to the Bank's normal loan-to-value (LTV) ratio, the Bank will loan funds at 3% over the rate of interest paid to the depositor for the duration of the deposit. Option II deposits are NOT collateral for the loan, they are providing a low cost source of funds so the bank can pass that savings on to the borrower.

Differences between Option I and II Deposit Programs

Deposit OPTIONS:	**OPTION I** **Deposit linked to loan as collateral**	**OPTION II** **Deposit NOT linked to loan as collateral**
Deposit minimums	Greater than $200,000	Greater than $200,000
Federally insured up to $50 million	Yes	Yes
Deposits earn annual percentage rate (APR) up to 1%	Yes. See Note 1	Yes. See Note 2
Interest rate to borrower	2% over the interest rate earned by the depositor. See Note 1	3% over the interest rate earned by the depositor. See Note 2
Term of deposit	5-years - see Note 3	5-years - see Note 3
Early withdrawal	Only if replacement collateral funds are deposited prior to withdrawal.	Only if replacement funds are deposited prior to withdrawal.
Deposits used as loan collateral	Yes, depositor signs the bank's "Assignment of Deposit Account" See Note 4	No
Maximum loan by bank based on deposits	Amounts over CBB's loan underwriting limits, and less than the building's appraised value. See Note 4.	Up to the CBB's loan underwriting limits. See Note 5

Note 1) The interest rate for a Creative Cities Loan that is linked to a collateralizing deposit will be 2% over the APR earned on deposits that are collateral for the loan. A deposit of $1 million, earning 1% APR would therefore enable a loan of 3%, and importantly, a loan that may initially be larger than what standard underwriting may provide.

Note 2) The interest rate for the Creative Cities Loan that results from the deposit will be 3% over the APR earned on deposits that are NOT collateral. A deposit that earns 1% APR would therefore enable a loan of 4%.

Note 3) To achieve a 5-year loan term, deposits must be made for a 5-year term. If the loan enabled by the deposits is refinanced before the end of the 5-year period, the withdrawal restrictions end upon repayment of the loan. When the withdrawal restrictions end, the depositor can either:

a. Recommit the funds to the program for another project,
b. Withdraw the deposit, or
c. Leave the funds in the bank which will automatically change the rate to the bank's rate at that time for deposits.

Note 4) IF THE DEPOSITOR ELECTS to have their deposit be collateral under Option I, they will agree to the bank's Assignment of Deposit Account form which pledges their account as additional collateral for the loan.

Without this pledge of collateral, the linked loan cannot be greater than the amount justified by the bank's underwriting requirements. The pledge of additional collateral enables more flexible underwriting standards and quick availability of funds, but it has risk to the depositor. If this election is made, withdrawal of the funds would be dependent on the ability to refinance at the end of the 5-year deposit period. Early withdrawal is prohibited because it would result in a loan in excess of the required collateral (real property and deposits).

Note 5) To the extent that the loan is within the bank's underwriting requirements, the bank's security for the loan is the building, the Deposit Enabled Loan (Option 2) is NOT at risk if the loan is not repaid. Typical "Bank Underwriting Requirements" might include that the Loan To Value (LTV) will be below 65% and the Debt Service Coverage Ratio not projected to drop below a ratio of 1:1.20 (i.e. Net Operating Income of 1.20 times Debt Service). Actual loan requirements will vary based on the economics and terms of the specific building loan. Early withdrawal is prohibited because it would require the interest rate charged to the borrower to increase to the bank's current market rate.

Program Fees: There are no fees for Depositors. For projects to be added to the CAST Creative Cities Fund, CAST makes a preliminary project feasibility assessment and assesses the feasibility of obtaining sufficient deposits for the proposed loan. Access to the fund will be limited by CAST capacity to review projects. A $5,000 retainer must be paid to CAST to start the process. Once accepted, CAST will work with the borrower to package the loan. Upon loan closing, CAST will receive a fee equivalent to the greater of $25,000 (less the retainer) or 0.75% of the loan amount.

Community Bank of the Bay will require a 1.00% loan fee and reimbursement of their third-party expenses for the origination of the real estate loan up to $2.5 million and 0.75% and reimbursement of their third-party expenses for loans over $2.5 million. Specifically, to the extent required, any third-party appraisal and review fees, environmental reports and review fees, title expense, lender's legal expense, underwriting and documentation expenses and other customarily reimbursed lender's expenses.

Loan principal prepayment is allowed up to 20% per year without penalty and full repayment without penalty is allowed anytime in the loan's 5th year with 30-days advance notice. Otherwise the loan shall have an annual declining step-down prepayment penalty of 5.00% in loan year 1, 4.00% in loan year 2, 3.00% in loan year 3, and 2.00% in loan year 4.

Other: Borrower to establish a banking relationship for the property with Community Bank of the Bay prior to and as part of the loan's approval.

EXAMPLE:

Loan Linked Deposit: $1 million ($250,000 FDIC Insured & $750,000 FDIC Insured via CDARS)

Interest rate on deposits: 1% Annual Percentage Rate (APR) less applicable CDARS fee =

Interest rate on deposits 100% FDIC Insured: 1% x $250,000 0.85% x $750,000 = $8,575/year.

CDARS expense: 0.15% x $750,000 = $1,125/year = 0.1125% of $1 million deposit

Term of Deposit: 5 years

Option I Resulting Loan Example: $1 million loan for a building at 3.1125% annual interest (2% over interest earned by the linked deposit + the annual CDARS fee).

The deposited funds would be held as collateral for the loan. By the end of 5 years, the loan must either be repaid or refinanced, and the depositors can either withdraw their funds or keep the funds at the bank to earn the bank's normal interest for insured deposits. As collateral, the lender can use the deposited funds to repay the loan if no other alternative can be agreed to with the depositor.

Option II Example: The same as above, but the deposit is NOT used as collateral and the borrowing rate is 4.1125% (3% over the 1% rate earned on the deposit + the annual CDARS fee.)