FINAL TRANSCRIPT

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CSE - CapitalSource to Acquire Bank Branches and Assume $5.6 Billion in Deposits

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to CapitalSource investors call. My name is Carmen and I will be your coordinator for today. (OPERATOR INSTRUCTIONS). As a reminder, ladies and gentlemen, this conference is being recorded for replay purposes. I will now like to turn the call over to your host for today, Mr. Dennis Oakes, Vice President of Investor Relations. Please proceed.

Dennis Oakes - *CapitalSource Inc. - VP IR*

Good afternoon everyone and thank you for joining our call today. With me are John Delaney, our Chairman and Chief Executive Officer, and Tom Fink, our Chief Financial Officer.

We have posted a presentation to the Investor Relations section of our website at www.CapitalSource.com which contains additional background related to today's announcement. This call will be archived on our website and a replay will be available starting at approximately 2 PM this afternoon. The press release provide details on how to access to the archived call, and a transcript of this call will also be posted to the website later today.

Listeners are reminded that statements made during this call which are not historical facts are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These include statements regarding plans, expectations, goals and projections and statements about the benefits of the agreement between CapitalSource and Fremont Investment & Loan, which are subject to numerous assumptions, risks and uncertainties.

Actual results could differ materially from those contained or implied by such statements for a variety of factors including the businesses of CapitalSource and the assets acquired from Fremont Investment & Loan may not be integrated successfully, or integration may take longer to accomplish than expected. Disruption from the acquisition may make it more difficult to maintain relationships with clients, associates or suppliers. The required governmental approvals may not be obtained, or if obtained, may not need the proposed terms and schedule. Fremont General Corporation's stockholders may not approve the merger, and other factors described in CapitalSource's 2007 annual report on Form 10-K filed with the Securities and Exchange Commission.

All forward-looking statements made during this call are based on information available at the present time. CapitalSource is under no obligation to, and expressly disclaims any such obligation, to update or alter its forward-looking statements, whether as a result of new information, future events or otherwise.

With that, I would like to turn the call over to CapitalSource Chairman, John Delaney.

John Delaney - *CapitalSource Inc. - Chairman, CEO*

And my remarks this morning can be -- will be relatively brief as the transaction is relatively straightforward. This morning, as I think everyone knows, we announced that we signed a definitive agreement to acquire 22 branches from Fremont Investment & Loan, together with all of the deposits associated with those branches, which is approximately $5.6 billion. We're also acquiring approximately $3 billion of cash and a $2.7 billion A participation note, which I will touch on in a few minutes.

In consideration for these assets acquired and liabilities assumed, we will pay $58 million plus a 2% premium on actual deposits. The other assets we are acquiring, the cash and the branch assets in the business, we will be acquiring for par, except for the A participation note, which we will be paying $0.97 on the $1.04. We have also agreed to provide the Company with a $200 million loan secured by their servicing advances.

Just to be clear, we're not acquiring Fremont General Corporation, nor are we acquiring the business or stock of Fremont Investment & Loan, or any of the contingent liabilities associated with either of those entities. This transaction is structured as an asset purchase so that CapitalSource is insulated and protected from those liabilities.

To my mind this a very attractive deal for CapitalSource shareholders. It is accretive. It achieves our depository objectives in an optimal way. This is a substantial depository that has a fair amount of liquidity. Now on a relative basis it is under lent. And the branch branches themselves serve a terrific market, Southern California.

It enhances our liquidity, and potentially over time a game changing matter. It will lower our cost of funds over time, which will lead to improved profitability. And we think the transaction on a relative basis has very low integration risks associated with it, not that we are not intensely focused on that.

Regarding the A participation interest, the A note that we are acquiring, together with the B note that is owned by iStar Financial, is part of a $5.5 billion portfolio of first mortgages secured by a large portfolio of high-quality commercial real estate assets. The

A note which we are requiring has a preferential payment mechanism, whereby it is entitled to receive 70% of all collections on the underlying loans, and has no funding obligations. This causes it to pay down in an accelerated manner, which it has already experienced since it was created early last year. It also has a much lower turn than the B note, reflecting this accelerated payment mechanism.

In terms of diligence on this asset, we conducted specific loan level diligence on 88% of the portfolio. So when we say we feel like this is a safe investment that is a very informed view based on a very significant amount of work that we performed.

As I said, we deem the portfolio to be of high quality, consistent with iStar's guidance on the portfolio. And the A note in particular is very safe as it will pay down in an accelerated manner. As I indicated in the release, iStar's management of this asset is a significant advantage, as they are very good at what they do.

From a timing perspective, we will file our application very soon shortly with both the FDIC and the DFI. There is a minimum sixty-day review process as part of this application. The business plan that we will be filing has been previewed with both the FDIC and the DFI, and it involves moving approximately $2.5 billion of loans into our new bank. This will substantially, if not completely, pay down our warehouse loan.

In conclusion, and then I will open it up for questions, this deal is not only a great outcome for our shareholders, but to my mind it is also a great outcome for all the stakeholders involved in this situation. We pair our market leading commercial lending business, which continues to post very good credit outcomes, with a substantial and robust depository. And we look forward to growing this new deposit franchise, which we will rename at closing.

With that, I will open it up for questions.

QUESTIONS AND ANSWERS

Dennis Oakes - *CapitalSource Inc. - VP IR*

Carmen, if we would, we're ready to take questions. I would just ask questioners to limit themselves to one question and one follow-up, so we can get to as many as possible. We're ready now.

Operator

(OPERATOR INSTRUCTIONS). David Hochstim, Bear Stearns.

David Hochstim - *Bear Stearns - Analyst*

I Just would like to hear your view of this transaction relative the TierOne transaction, just a little color. Then are there any regulatory constraints on the rate of deposit growth that is possible? It seems there would be a lot of opportunities, just given the market that you are entering.

John Delaney - *CapitalSource Inc. - Chairman, CEO*

Let me take the second part of your question first. And the reason I can do that is because my answer will be very direct, which is we're not commenting specifically on our business plan as it relates to growth of the depository. Obviously, we are working very closely with the regulators, and it would be probably too forward to make any specific comments about that at this time.

I think the market itself is a very attractive market. Southern California is one of the premier markets for a deposit gathering franchise, and that point was not overlooked by us certainly. I think directionally your analysis is correct, but I think our posture right now is to not comment too specifically about our business plan for the institution at this point. There will be time to do that, and we obviously will do that, other than to comment on the amount of loans we're targeting to move into the bank.

David Hochstim - *Bear Stearns - Analyst*

But I guess I was wondering, are there -- for industrial banks like this when there is a new acquirer are there typically any constraints placed by regulators in terms of the rate of growth of deposit or assets or --?

John Delaney - *CapitalSource Inc. - Chairman, CEO*

Not that we are aware of.

David Hochstim - *Bear Stearns - Analyst*

Okay. Thank you.

John Delaney - *CapitalSource Inc. - Chairman, CEO*

As it relates to the first question, we will probably not get into the business of commenting on one acquisition versus another. I think there are several features about this that are attractive. Obviously the market is very attractive as we just talked about. We think the integration risks here is very manageable. Again, we have to focus very intensely on that. But we feel like in their depository business they have got a very fine group of people. And we're looking forward to having them as part of our business.

And we think the institution from an asset perspective is clean, because we think the A note is very safe and the rest of the balance sheet is cash. I think the overall liquidity profile of the institution is actually quite attractive.

David Hochstim - *Bear Stearns - Analyst*

Yes. I was kind of intimating that this was, I think from a shareholder standpoint, a much more attractive deal than the last one ended up looking like at the end. And there was great that you had the discipline to pass on it and wait for something better.

John Delaney - *CapitalSource Inc. - Chairman, CEO*

Thank you.

Operator

Sameer Gokhale, KBW.

Sameer Gokhale - *KBW - Analyst*

I had a question on slide 8 of your presentation where you showed the cost of funds in your commercial finance business, costs deposits and you showed the advantage of deposits for the nine months ended 9/30/07. I was wondering if you could, if you

were to fast forward to today what that relative advantage would look like, or if you think those numbers would be pretty comparable even now?

John Delaney - *CapitalSource Inc. - Chairman, CEO*

I will let Tom take this.

Tom Fink - *CapitalSource Inc. - CFO*

We showed the nine months ended September of '07 because that is as much of an apples-to-apples comparisons as we could provide, as Fremont has not provided any fourth quarter data.

CapitalSource, for our commercial finance segment, our cost of funds, if you were to look at it on a full year basis for 2007 would have been a little bit higher than what is shown here, about $631 million. If you were to try to, as you're guessing, to try to fast forward that to today, I would say that I think this advantage has probably increased from what is shown here.

Sameer Gokhale - *KBW - Analyst*

The other thing I was wondering is, I think in the press release you referenced $2.5 billion of assets you would try to sell into the bank. How should we think about that from an EPS accretion perspective? Is it as simple as say the starting point just using this relative deposit cost advantage, applying it to the $2.5 billion, and it comes up with accretion of roughly about $0.20 or so analyzed. Is that the right kind of ballpark to think of in terms of numbers?

John Delaney - *CapitalSource Inc. - Chairman, CEO*

I think, again, directionally I think the way you're thinking about it is the right way. But the point I want to make sure we are clear on is that any activities with depository, loans we move and etc., is contingent upon regulatory approval. So rather than getting into specific numbers at this point, I think what we're going to do is focus on the application process and the approval process with the regulators. And then once we're through that we will have some more specific numbers to comment on.

Sameer Gokhale - *KBW - Analyst*

So it is safe to say you don't expect a whole lot of costs involved with the integration of the bank?

John Delaney - *CapitalSource Inc. - Chairman, CEO*

Additional costs involved with integration, no, as I said, we think the bank has a fine team and they run their business very well. Obviously, there's always some integration cost, but nothing that significant.

Sameer Gokhale - *KBW - Analyst*

That's helpful. Just the other thing, I'm sorry with the iStar transaction I just am still a little bit confused about the structure of that. And specifically what I wanted to get a handle on was what the level of subordination or protection there is for CapitalSource in the A position. I understand from a cash flow perspective you're entitled to the 70% of the cash flows with the 48.8% ownership interest. But it seems like that is more of a timing issue as opposed to a subordination/protection point of view from that perspective. Could you talk you little bit about that please?

John Delaney - *CapitalSource Inc. - Chairman, CEO*

Sure. The A and the B notes shared the same lean. So your observation is correct in that neither note is technically structurally -- the A note is not technically structurally senior to the B note. What the A note has is it has the 70% cash flow collection mechanism, so 70% of every dollar that come in go to the A note. And right now the A note is only about 48% of the portfolio.

And then in addition, the B note is responsible for additional fundings, exclusively responsible or solely responsible for additional funding. As findings are made under the portfolio, it effectively creates more collateral, and the A note gets 70% of any collateral. The A note receives 70% of any collections on any new collateral.

So effectively what happens is as the B note makes additional advances, it creates a bigger collateral pool. The A note get 70% of any collections on that additional collateral pool, and that creates this kind of hyper amortization, which we have seen. When the A and the B were created, the A was 70% of the portfolio and the B was about 30. And that is -- the A is paid down to 48% of the portfolio.

You see how the operation of that actually works. And that is really where the seniority, if you will, comes from. But the A has a lower yield obviously, reflecting the fact that it has this. So while it pays down faster, and in many ways is senior, it also gets paid quite a bit less. And IStar gets paid the right reward for the position they are in.

Sameer Gokhale - *KBW - Analyst*

That's helpful. Thank you.

Operator

Carl Drake, SunTrust Robinson Humphrey.

Carl Drake - *SunTrust Robinson Humphrey - Analyst*

The question is on Fremont Investment & Loan and trying to understand the return on assets there. It looks like from some call reports that it was unprofitable, and I am just trying to understand from a recurring ROA standpoint what that might look like?

John Delaney - *CapitalSource Inc. - Chairman, CEO*

We're obviously buying specific assets from the bank. We're not buying the business, so we're not buying the enterprise of Fremont Investment & Loan. We're not buying the stock. We are assuming their operations. We are buying deposits, cash, and this iStar note. So their call -- their financial profile or their performance is not really relevant to how we reconstitute these assets in our new bank.

Carl Drake - *SunTrust Robinson Humphrey - Analyst*

In terms of the cost structure and the yield, I mean, wouldn't that be relevant, the portfolio? Not your loans that you're transferring into the (multiple speakers).

John Delaney - *CapitalSource Inc. - Chairman, CEO*

Their cost structure is relevant, but you can't really look at their profitability because they have largely kept most of their investments in cash. So more than half their balance sheet right now is in cash effectively. That doesn't lead to a particularly good return for them.

Carl Drake - *SunTrust Robinson Humphrey - Analyst*

Right. Okay. So the way to think about it, we talked about the accretion of the $2.5 billion coming in, I was thinking about taking sort of a base case ROA of what was there, and looking at the change, the accretion that you would provide. But we shouldn't assume that it is a losing entity when you add the $0.20 roughly in, should we from a cost structure, yield or standpoint?

Tom Fink - *CapitalSource Inc. - CFO*

No. Absolutely not. There would be -- from our perspective, how we would look at it is on the margins for us. And on the margins we would be significantly reducing our cost of funding. We would be picking up some additional expenses, costs to run the branches, etc. But I think by any measure that is going to be a very strong net positive for CapitalSource.

Carl Drake - *SunTrust Robinson Humphrey - Analyst*

Second question -- I guess I have one follow-up. Could you touch a little bit on the -- are there any granularity in terms of the asset quality of the A note that you can provide? It looked like some of information I saw had 85 basis points in net charge-offs last year. Is that non-current loans of about 66 basis points?

John Delaney - *CapitalSource Inc. - Chairman, CEO*

I think at this point we're not providing any kind of incremental disclosure about the underlying portfolio of the loans that are in that portfolio. Other than to say, we have done very extensive work and feel like the A investment right now is very -- is a very safe investment.

Operator

Robert Napoli, Piper Jaffray.

Robert Napoli - *Piper Jaffray - Analyst*

I like this one better than Tony -- well, as David did. A question, the deposits -- obviously Fremont has been in the news quite a bit, not positively, as an entity overall organization. Buying the deposits, it looks like from looking at their your last 10-Q, and I didn't look at the call reports, that would probably give me a better -- but it looks like the deposits have run off quite a bit, about $1.5 billion since September, if the number on the Q is comparable to what you're buying.

I just wondered what the trends were. I see you are paying as a percentage of the deposits, so you won't pay if there is additional run off. But has there been with the negative news continued runoff of the portfolio, and what would stem the reduction, is that is the case?

John Delaney - *CapitalSource Inc. - Chairman, CEO*

I think the deposits -- the customers of the bank are aware of the fact that they have the benefit of FDIC insurance. And that we believe will lead to a stable franchise. Obviously, we think this announcement and this transaction is very good for those customers, so we think it will be positive.

We think, while the deposits have reduced, you shouldn't assume that is just through run off that the institution didn't want to have happened. Right? Because the institution essentially was keeping most of their assets in cash. So the more deposits you have to some extent, the less financially attractive the institution is.

The management team that is in place now at the bank, that has been in there for roughly half a year, we think has done a terrific job with this institution, kind of stabilizing it. Because it was a tough situation that they stepped in. And I think they have taken the right actions with respect to the deposits. So we feel confident that this will be a stable franchise for us going forward.

Robert Napoli - *Piper Jaffray - Analyst*

The A note, over what time period do they pay down, can you --?

John Delaney - *CapitalSource Inc. - Chairman, CEO*

It kind of pays down with the underlying reduction in the portfolio, the underlying commercial real estate portfolio, that the A note is a part of. So happens, most of these loans as everyone knows were construction financings, and they have a certain kind of paydown schedule based on the underlying property. There has been good paydown since closing. I think the deal closed in May or June of last year, and the outstanding amount of the A note was $4.2 billion, now it is to $2.7 billion, so $1.5 billion of paydowns in less than a year. So we think the paydowns are occurring at a fairly rapid rate, and that will continue.

Robert Napoli - *Piper Jaffray - Analyst*

Okay.

John Delaney - *CapitalSource Inc. - Chairman, CEO*

That will free up, obviously, a lot of liquidity on the balance sheet of the company because it pays down. I wouldn't expect the rate of paydown to change material from what it has been in the past.

Robert Napoli - *Piper Jaffray - Analyst*

Have the regulators preliminary agreed to this $2.5 billion? I would imagine that that would have to be the case.

John Delaney - *CapitalSource Inc. - Chairman, CEO*

We're not going to speculate too much on regulators. Again, we are working very hard with them. We said in the release we previewed our business plan with them, including that. And that is probably all we will say at this point.

Robert Napoli - *Piper Jaffray - Analyst*

From a -- bringing it back to CapitalSource, and maybe we can have more freedom to talk about today. The liquidity challenges broadly to CapitalSource throughout the year with the bank, obviously this reduces -- increases your funding capacity. You're going to -- what else out there -- what are the key hurdles for you guys? And are you saying any improvements over the last few weeks in the funding markets maybe that has changed?

John Delaney - *CapitalSource Inc. - Chairman, CEO*

Listen, I think we have articulated the plan for the Company. I would say we are executing at that plan as it relates to both the performance of our portfolio and our liquidity. So I don't think there's any new commentary we would want to make about how CapitalSource is performing.

I alluded to the fact that our credit and performance continues to be good. Our liquidity planning and capacity is moving along as we have discussed in the past, and on track. I think the capital markets remain very difficult obviously. And that is not a unique insight. But there are certain things that we have seen in the last month that are starting to firm up, and that is encouraging. That is probably all I will say. My commentary now wouldn't be very different than it has been in the past month or so.

Robert Napoli - *Piper Jaffray - Analyst*

Are you going to hear -- I imagine you have talked to the rating agencies -- last question -- on this bank deal. Do you --?

John Delaney - *CapitalSource Inc. - Chairman, CEO*

You should assume, yes, we have obviously talked to them.

Robert Napoli - *Piper Jaffray - Analyst*

Do you expect any comments out of them today?

Tom Fink - *CapitalSource Inc. - CFO*

No, I don't think we expect this to have any impact on our ratings. I think long-term clearly it is positive for the firm, but I don't think any announcement in the short term.

Robert Napoli - *Piper Jaffray - Analyst*

Thank you.

Operator

Darrin Peller, Lehman Brothers.

Darrin Peller - *Lehman Brothers - Analyst*

As the $2.7 billion pays down, I guess cash is freed up, can you potentially bring over additional loans or acquire additional loans from CapitalSource, assuming the regulators approve this $2.5 billion, first of all?

John Delaney - *CapitalSource Inc. - Chairman, CEO*

I think what we would focus on there is new originations.

Darrin Peller - *Lehman Brothers - Analyst*

So it is going to be billing out of the bank at that point?

John Delaney - *CapitalSource Inc. - Chairman, CEO*

That's right. That's right.

Darrin Peller - *Lehman Brothers - Analyst*

I guess on the same topic of deposits, and really keeping the deposits, would you expect to change the brand fairly quickly after the deal?

John Delaney - *CapitalSource Inc. - Chairman, CEO*

As I indicated in my remarks we intend to rename the bank, our new bank if you will, upon closing.

Darrin Peller - *Lehman Brothers - Analyst*

There's no -- does this really put the [Utile LLC] off the table, or is that still sort on the back burner?

John Delaney - *CapitalSource Inc. - Chairman, CEO*

No, this will be our depository.

Operator

Moshe Orenbuch, Credit Suisse.

Moshe Orenbuch - *Credit Suisse - Analyst*

John, maybe just expand on one of your earlier answers. Could you talk a little bit about how important this can become in terms of the overall funding of the Company, and what it means in terms of your asset growth plans in the more near term?

John Delaney - *CapitalSource Inc. - Chairman, CEO*

Let's just talk more broadly without getting too specific about deposit funding as it relates to a company like CapitalSource for a second, if I could. Obviously, based on -- what CapitalSource does in terms of our business is we make largely, almost exclusively, senior secured loans that are well structured loans, that are fairly traditional in the way they're structured, asset-based loans, first mortgages, senior secured term loans. It is kind of basic sound lending.

And we think these are -- our activities are very much bank like in their orientation. So we think -- we have always thought, and we have been kind of articulating our bank strategy now for over a year, we thought that deposits are an excellent match with our business, because our loan -- our credit performance has been exceptional. Our loans are senior secured. They're structured -- they are essentially structured like bank loans. We sell a huge percentage of our loans to other depositories, which keep them in the bank. So we think we are a terrific match for a depository.

I think there is a bit of a paradigm shift going on where there will be a sustained competitive advantage for depositories going forward. The capital markets will return, but they are not going to return to the levels they were. And having an institution whose liabilities are not necessarily linked to your assets, the capital markets can be very efficient, but obviously as we all know today, if you have a capital markets business plan the funding of your business is tied to people's view of your assets. And they tend to be linked when people have concerns about assets and funding gets reduced. Of course depositories don't have that, because they effectively fund in a different market, the government market, if you will.

So we think a depository is a very valuable part of our franchise. It will lead to greater profitability in the future, and it will be better source to fund our business over time. And I think we're a great fit for a depository. We intend on taking it very seriously and being a source of strength for this new depository. But we think our bank -- we think our assets are really exactly the kind of assets that could be in a depository. And we will diversify this depository nicely with a balanced portfolio of assets across a variety of different sectors. So I think it is reasonable to assume that over time a substantial, if not the majority, of our business will be housed and funded out of that depository.

Moshe Orenbuch - *Credit Suisse - Analyst*

It was interesting -- it sounded like the loans -- in other words, you didn't have to cherry pick the loans to put into the bank, you basically were going to be able to put the majority of the loans under your warehouse.

John Delaney - *CapitalSource Inc. - Chairman, CEO*

Yes, and that has kind of been our thesis for a while. There is one activity we engage in, which is healthcare sell leaseback transactions, which clearly do not fit into a depository, because for what they are, where we're buying healthcare real estate and leasing them back over the long term. As you know, that is a very good business of ours, where we believe we have significant unlocked value. And we will be addressing our plans for that in the near term.

But the rest of the business -- what we do is fairly straightforward, sound lending. The kind of lending that has been done for a long time, asset-based lending, first mortgages, senior secured term loans. These are very bank like products. We obviously execute in a highly specialized manner. We have got teams of people that target particular industries or sectors, which we believe leads not only to better pricing, but better credit outcomes. But the essence of what we do is very bank like. So we think it is not a surprise. It shouldn't be a surprise that the whole of what we do, other than the sell leasebacks, is appropriate for a depository.

Operator

Scott Valentin, FBR Capital Markets.

Scott Valentin - *FBR Capital Markets - Analyst*

With regard to Fremont, I guess -- my opinion I guess it would be kind of characterized as a troubled institution. I was wondering if you received preferential treatment from the regulators in agreeing to this transaction?

John Delaney - *CapitalSource Inc. - Chairman, CEO*

Again, and I'm not trying to be evasive, but we don't think it is appropriate to comment on our dialogue with the regulators around the transaction.

Scott Valentin - *FBR Capital Markets - Analyst*

Then as far as the REIT status, are there any implications in terms of trying to manage the REIT compliant assets with the bank?

John Delaney - *CapitalSource Inc. - Chairman, CEO*

No, actually one thing we can probably comment on is our agency portfolio, which a lot of people know has been driving our REIT optimization -- REIT compliance. We have actually been able to downsize that because we had overinvested in that. That portfolio is probably now down to $2.5 billion. And we think it is going to go smaller because we don't need quite as many assets. So managing the REIT structure right now has not been that difficult for us. So this doesn't change any of that.

Scott Valentin - *FBR Capital Markets - Analyst*

Final question. On a page 8 slide it shows substantial margin improvement. If we were to factor in the G&A, because there will be, I guess, some G&A costs with the branch network, would that be -- and then 150 basis points, 200 basis points do you think in terms of the G&A versus what it would cost to run a securitization platform?

Tom Fink - *CapitalSource Inc. - CFO*

No, I would think it is far, far less than that. I wouldn't want to give you an exact number at this point, but certainly less than 50 basis points.

Operator

Tayo Okusanya, UBS.

Tayo Okusanya - *UBS - Analyst*

John, a follow-up question in regards to slide eight. I get what is going on on the deposits on the liability side of the equation. What I am trying to understand is on the asset side of the business, the $2.5 billion of loans you're trying to sell to the new bank, procedurally are you expecting to sell that when capacity frees up at the new bank, when the A loans sell off, or how exactly does that work is what I'm trying to --.

John Delaney - *CapitalSource Inc. - Chairman, CEO*

The bank right know has about $3 billion of cash.

Tayo Okusanya - *UBS - Analyst*

Okay, so it is the cash that you are thinking you might end up using?

John Delaney - *CapitalSource Inc. - Chairman, CEO*

That's right.

Tayo Okusanya - *UBS - Analyst*

That is helpful to me. Well if you end up in a situation like that, where you end up with using the cash, the balance sheet is going to look like approximately $5.2 billion in commercial loans, $0.3 billion in cash. What I struggle with -- if you end up going down that route, you have such -- there is so little equity in the bank at this point that will the bank still be well capitalized at that point?

John Delaney - *CapitalSource Inc. - Chairman, CEO*

Yes, the bank will be very well capitalized. We will be making a substantial equity investment in the bank as part of this transaction, so that it meets or exceeds any capital ratios.

Tayo Okusanya - *UBS - Analyst*

That is excluding -- okay, apart from the $158 million that you guys are paying for the franchise, you also plan to infuse (multiple speakers)?

John Delaney - *CapitalSource Inc. - Chairman, CEO*

Every asset in the bank will have the appropriate and comfortable level of regulatory capital against it, which will come from us.

Tayo Okusanya - *UBS - Analyst*

There will still be some type of equity infusion into this. All right. That is helpful. That is what I wanted to know. Thank you.

Operator

John Hecht, JMP Securities.

John Hecht - *JMP Securities - Analyst*

The first one, and forgive me if you have alluded to this or if you suggested you won't comment on it, can you tell us anything about the yield on the A notes, and from what you understand what the financing commitments on the B notes would be over the next few months?

John Delaney - *CapitalSource Inc. - Chairman, CEO*

The A note has a yield of LIBOR plus 150. Because of the nature of the transactions and the confidentiality agreements we are under, we can't make specific comments about what we expect in terms of additional funding commitments. That will be made in the near term.

John Hecht - *JMP Securities - Analyst*

Okay. In terms of the bank, in terms of just making some broad assumptions, one, would we assume that you're going to run it at 10 times its leverage that you would see in a normal bank, so 8 to 10% capital ratios? And that in terms of loss reserves will you establish a reserve policy upon the confirmation of this, and what type of level would we assume there?

John Delaney - *CapitalSource Inc. - Chairman, CEO*

Our Utah approval had 15% capital, and I think it is probably appropriate to think about this in those terms.

John Hecht - *JMP Securities - Analyst*

And then loss reserves, would we just assume you'll be establishing a loss reserve at the time of consummation?

John Delaney - *CapitalSource Inc. - Chairman, CEO*

Obviously we have a loss reserve policy now, as you know, because we have been taking reserves against our loans since inception, as we are required to do. We expect to have a similar loss reserve methodology, obviously working with the regulators, but it is argued that it will be consistent with the way we do things now.

Operator

Mike Taiano, Sandler O'Neill.

Mike Taiano - *Sandler O'Neill - Analyst*

Most of my questions have been answered. I just had a couple of follow-ups. You mentioned the $2.5 billion that would go into the bank would be to pay off the warehouse facility. Now would those -- would the expectation be that those warehouse facilities would terminate or would you still have that line open and available to you?

Tom Fink - *CapitalSource Inc. - CFO*

I think immediately upon closing it would certainly still be open and available to us. I think the question that you are asking is best answered as we get a little bit closer, and we can really reassess what our needs are going to be, quite frankly. There is no sense for us caring around $5 billion plus of committed capacity, which was what we had at the end of December, when we really wouldn't effectively need all of that. So I think we would certainly look at a rightsizing exercise round our committed credit facilities.

Mike Taiano - *Sandler O'Neill - Analyst*

Where I think you had a $300 million facility that expires at the end of March, can you comment on where that if you renew or where does that stand?

Tom Fink - *CapitalSource Inc. - CFO*

Similar with what I just said, and we had an awful lot of capacity, committed capacity at the end of 2007. That specific facility was in our plans not to renew. We have not renewed that facility. And then with respect to others, we're working through the processes we have outlined already, and expect renewal on those facilities. Also we expect some changes of terms with respect to pricing and other things.

But I think that is all going along the lines of our plans for that, as John said, executing along the plans we had for the company. And then clearly this transaction is a big positive in the sense that we would be ultimately reducing significantly our reliance on wholesale funding sources. So not only would deposits be attractive, but they do reduce our reliance on wholesale funding, and then really would be a great support for our continued growth as a firm.

Mike Taiano - *Sandler O'Neill - Analyst*

Understood. Then just an entirely separate question. The July 31 deadline that you have on page 5, is that something that is being stipulated by you or by both parties? How do we interpret that if we get to July 31 and the deal doesn't close, does it then terminate? Is that how it works?

John Delaney - *CapitalSource Inc. - Chairman, CEO*

I think both parties agreed on that. I think that is probably the best comment I could make.

Dennis Oakes - *CapitalSource Inc. - VP IR*

Operator, we will take one more question.

Operator

David Chamberlain, Oppenheimer Capital.

David Chamberlain - *Oppenheimer Capital - Analyst*

Just one other question I had was what do you anticipate the debt rate that you probably have to raise for this steel, what do you think is the interest expense will probably be on that?

Tom Fink - *CapitalSource Inc. - CFO*

We don't necessarily need to do anything with respect to this. You have seen in the presentation the amount of the premium we're paying. I think with the sale of loans to the bank it would accomplish a lot with respect to the initial capitalization of the bank, so we really don't have to dig into our pocket too deep at all.

We have availability under our existing credit facilities. There is no restrictions on use of proceeds, so we don't need to specifically do anything with respect to funding this transaction. And all future decisions are really around what we see as being the right thing to do with respect to the opportunities that are presented to the Company.

Dennis Oakes - *CapitalSource Inc. - VP IR*

Thank you, everybody. That concludes our call. And just a reminder that the transcript will be posted on our website later today. Thanks.

John Delaney - *CapitalSource Inc. - Chairman, CEO*

Thanks.

Operator

This concludes the presentation for today, ladies and gentlemen. You may now disconnect. Have a wonderful week.
