CMBS Loan Restructures Part II: A Closer Look

1ST SERVICE SOLUTIONS®

We listen . . .

Speaker:
Ann Hambly
Founder & Co-CEO

About 1st Service Solutions

- Founded in 2005 by Ann Hambly
- Ann Hambly & Mike Meisenbach are Co-CEOs
- Advocated over $11 billion to date
- Current pipeline is over $7 billion
- National company based in Dallas, Texas
- Average loan size = $30 million, with loans ranging from $2-$300 million

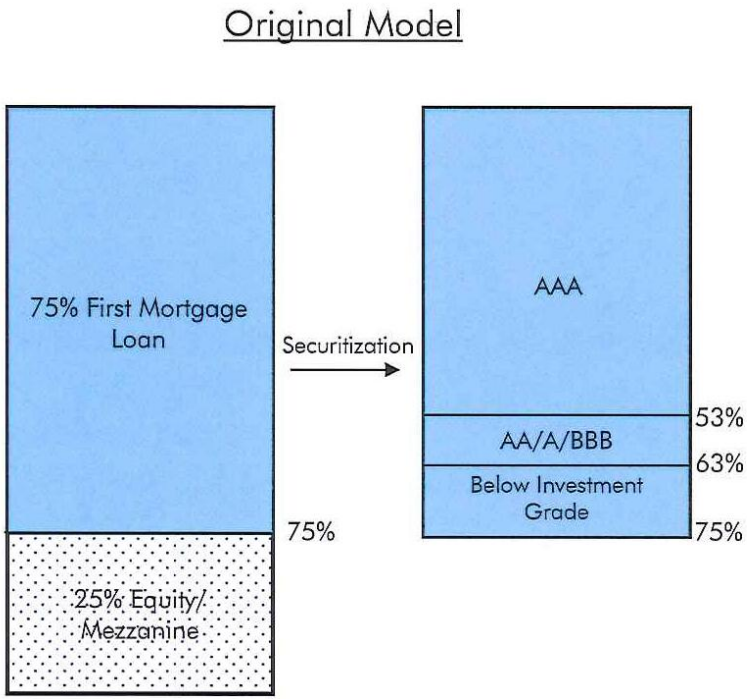
Speaker:
Ann Hambly

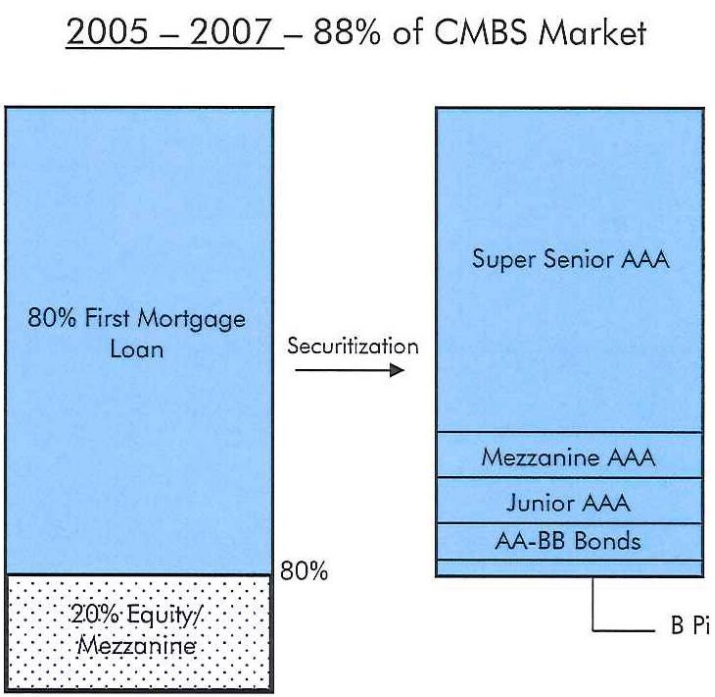
Agenda

- How did we get here?
- The Special Servicers
  - Who are they? What rules do they live by? What if yours changes?
- Special Servicing Today
  - A look at CMBS loans currently in special servicing
- Maturities
  - CMBS debt through 2018
- Restructures
  - Decision tree
  - Four basic types
  - NPV
  - Case studies
  - Top 10 must-haves
- Q&A

Speaker:
Ann Hambly

How Did We Get Here?





- AAA represented 70% of the first mortgage
- No I/O loans
- Reserves, lock-box, lender protection
- 1995 CMBS issuance: $14B

- AAA represented 90% of the first mortgage
- Mostly I/O loans
- Little lender protection
- 2007 CMBS issuance: $230B

Speaker:
Ann Hambly

Parties in a CMBS Structure

1ST SERVICE SOLUTIONS®
We listen . . .

Loan Funded	Investment Banking Firm Creates Pool	Rating Agencies	Bonds are Sold	Special Servicer is Assigned
Borrower Lender	Loan contributed to Pool Lender may stay in as Primary Servicer	Bonds are rated: AAA AA A BBB BB B UR Rated Master Servicer is assigned to Pool	Bonds are sold: AAA, AA, A, BBB — Investment Grade BB, B, UR — Non-Investment Grade "B pieces"	B piece owner becomes Controlling Class Certificate Holder "CCR" "CCR" selects Special Servicer

Speaker:
Ann Hambly

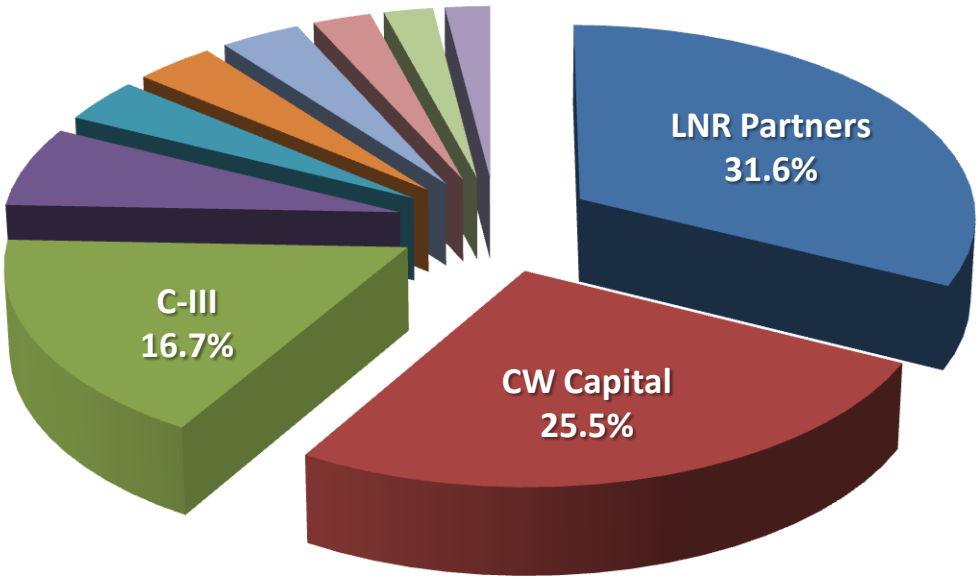
The Special Servicers

Speaker:
Ann Hambly

Who Are They?

% Market Share of Top Special Servicers

- **LNR Partners: 31.6**
- **CW Capital: 25.5**
- **C-III: 16.7**
- Midland: 6.6
- Wells Fargo: 3.6
- Situs/Helios AMC: 3.5
- Torchlight: 3.5
- Bank of America: 2.6
- Berkadia: 2.1
- KeyCorp: 1.9



Source: Morningstar, April 2012

Speaker:
Ann Hambly

What Rules Do They Live By?

- Special Servicer Servicing Standard – Maximize return to all bondholders without regard to your own position and no benefit of 20/20 hindsight.

Pooling & Servicing Agreement

Speaker:
Ann Hambly

Effect of Losses on Special Servicers

- Current CCR appoints special servicer
- Losses hit lowest tranches of bonds first
- As losses wipe out a class of bondholder, CCR charges

EXAMPLE ($100 pool)

	Original Face Amt of Bond	Losses	Current Bond Amt
AAA	50	–	50
AA	20	–	20
A	10	5	5 (CCR)
BBB	10	10	0
B	6	6	0
UR	4(CCR)	4	0

Speaker:
Ann Hambly

What If the Special Servicer Changes?

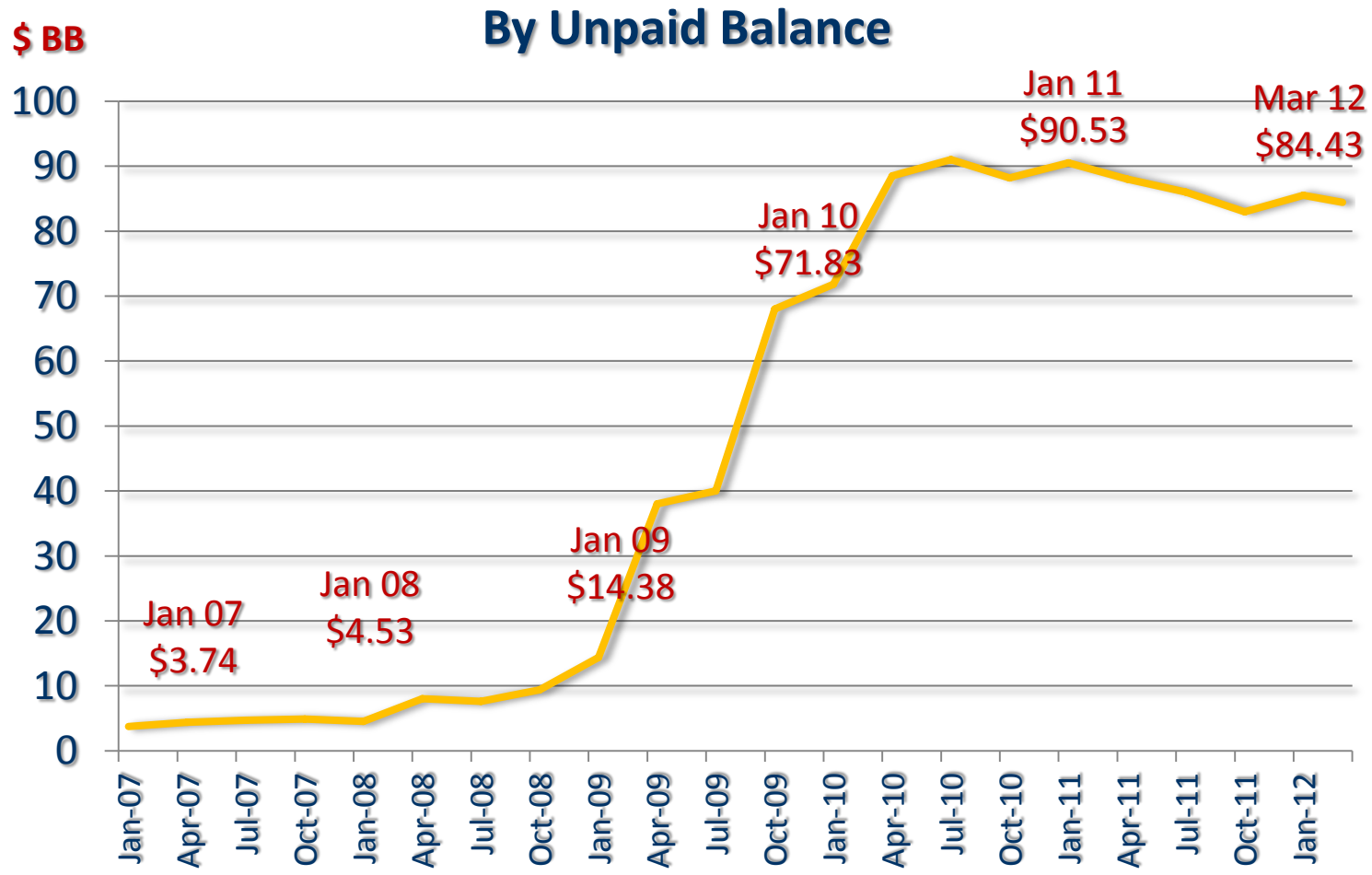
- Las Vegas Retail Property
- $17 MM loan
- Property value = $7 MM
- Borrower negotiated AB structure with special servicer:
  - 'A' note of $8 million, $3 million of new capital and 50 percent split of proceeds to trust.
  - Documentation in final stages
- Due to other losses in the CMBS pool, CCR changed and appointed a different special servicer.
- New special servicer scheduled note auction.
- Borrower negotiated direct sale of the note for $10 million.
- RESULT: Borrower ended up owning his whole note for significantly less than under the AB structure.

Speaker:
Ann Hambly

CMBS Special Servicing Today

Speaker:
Ann Hambly

CMBS Loans in Special Servicing

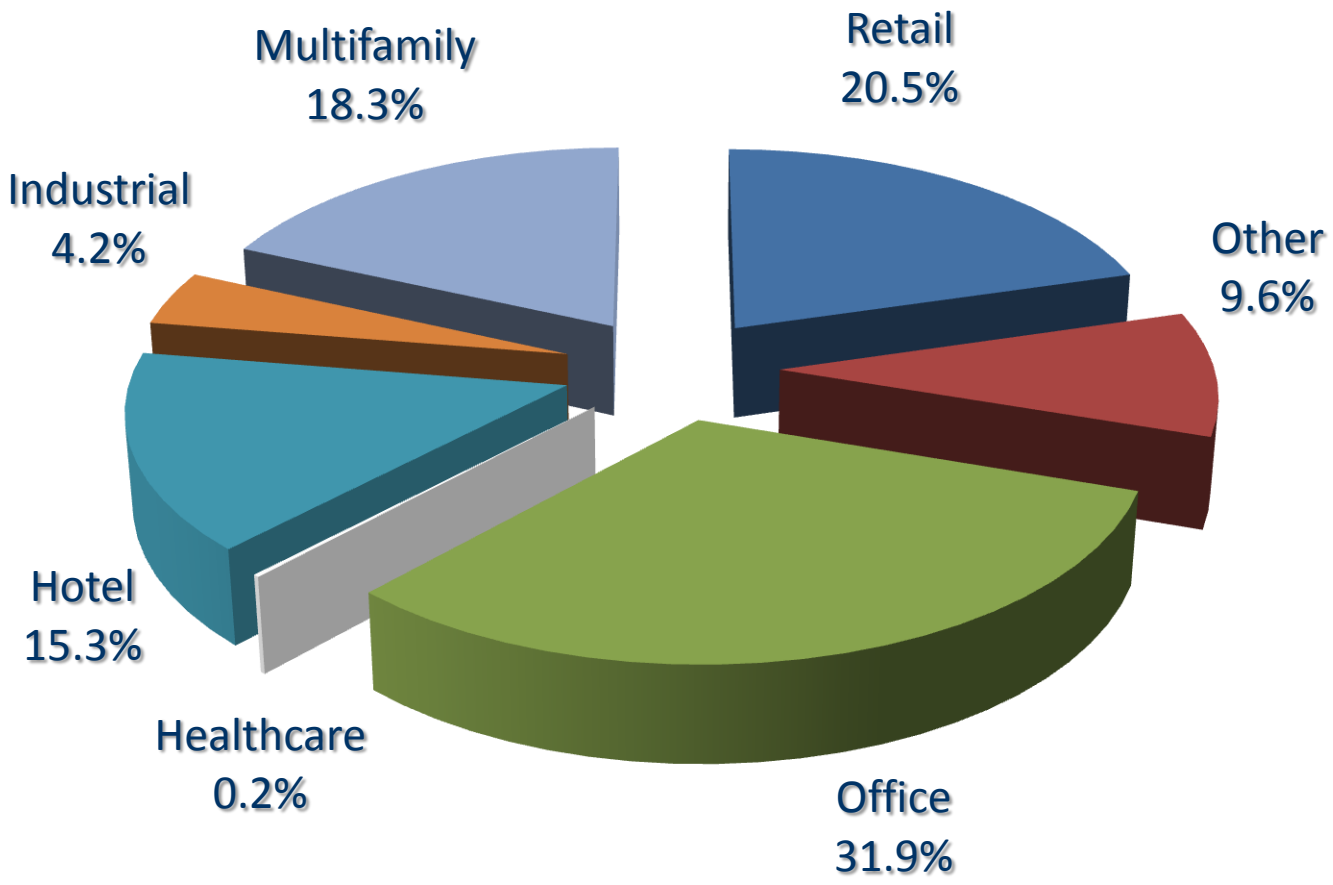


Source: Morningstar, April 2012

Speaker:
Ann Hambly

CMBS Loans In Special Servicing

By Property Type

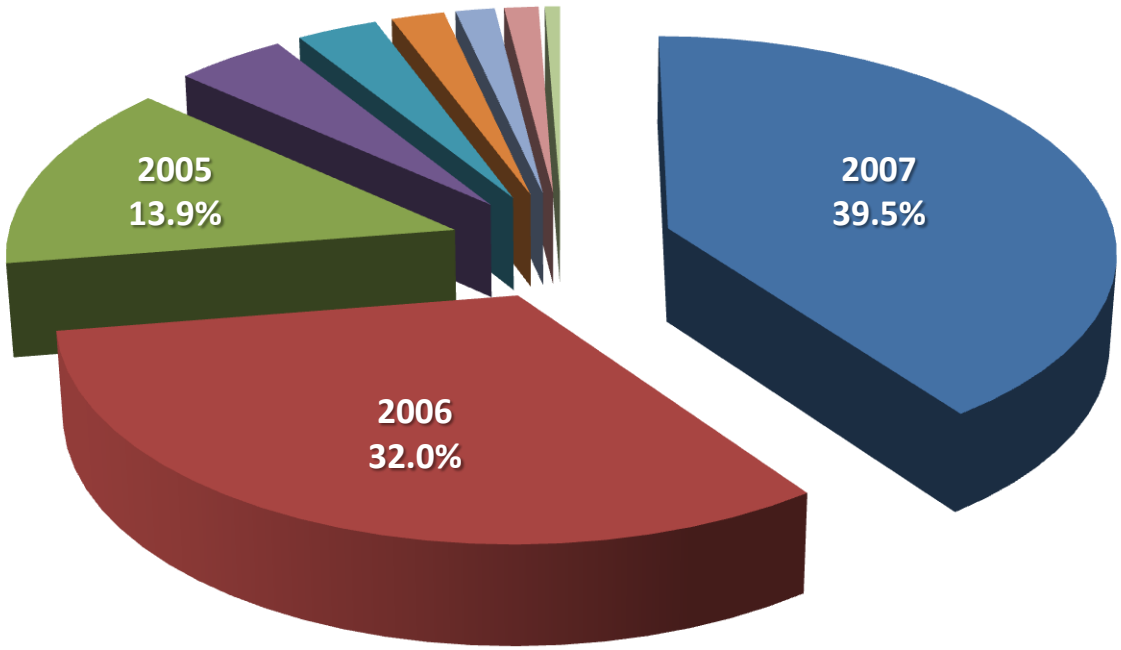


Source: Morningstar, April 2012

Speaker:
Ann Hambly

CMBS Loans in Special Servicing

By Year of Securitization



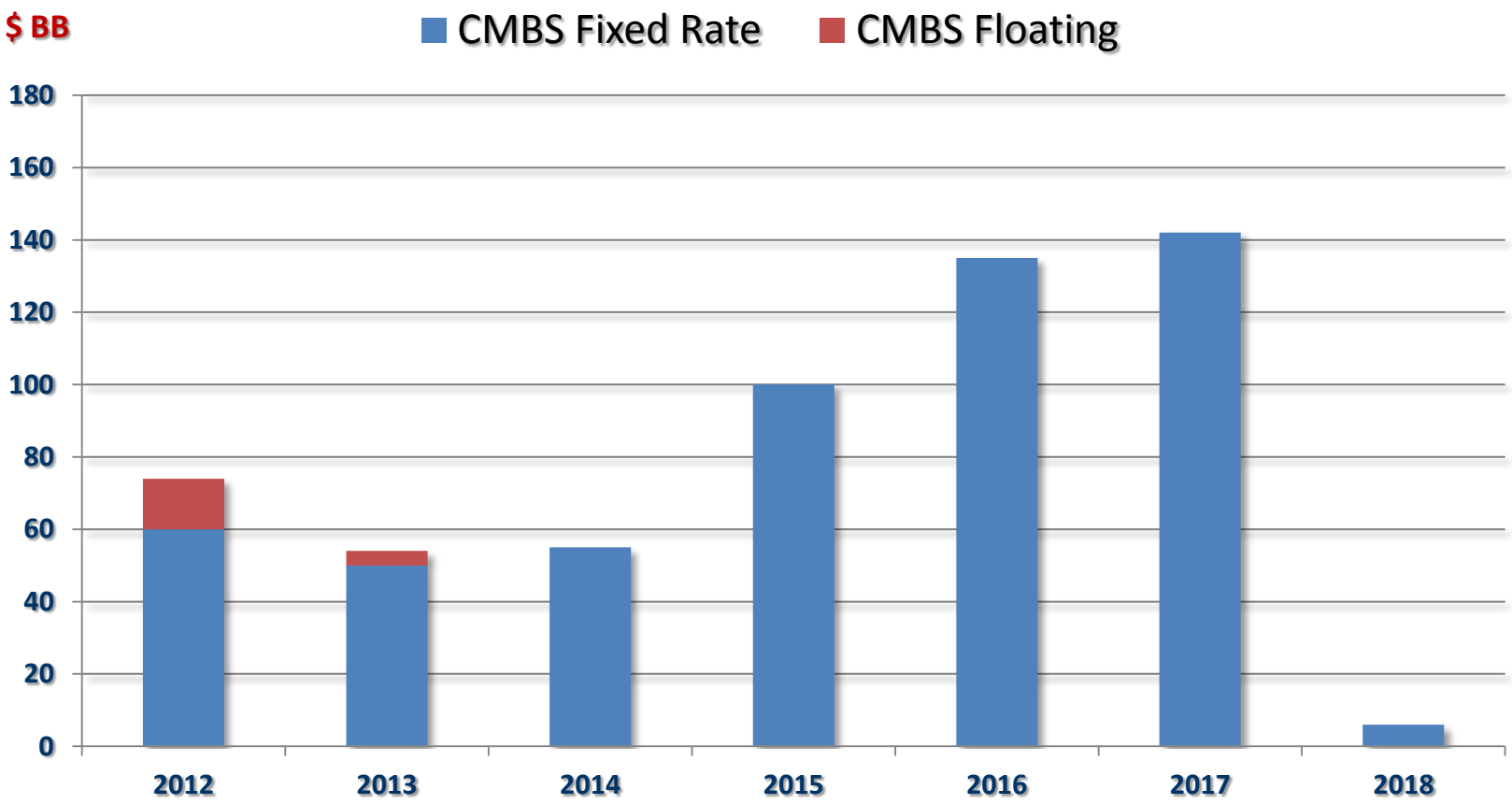
Source: Morningstar, April 2012

Speaker:
Ann Hambly

CMBS Maturities

Speaker:
Ann Hambly

Projected CMBS Maturities



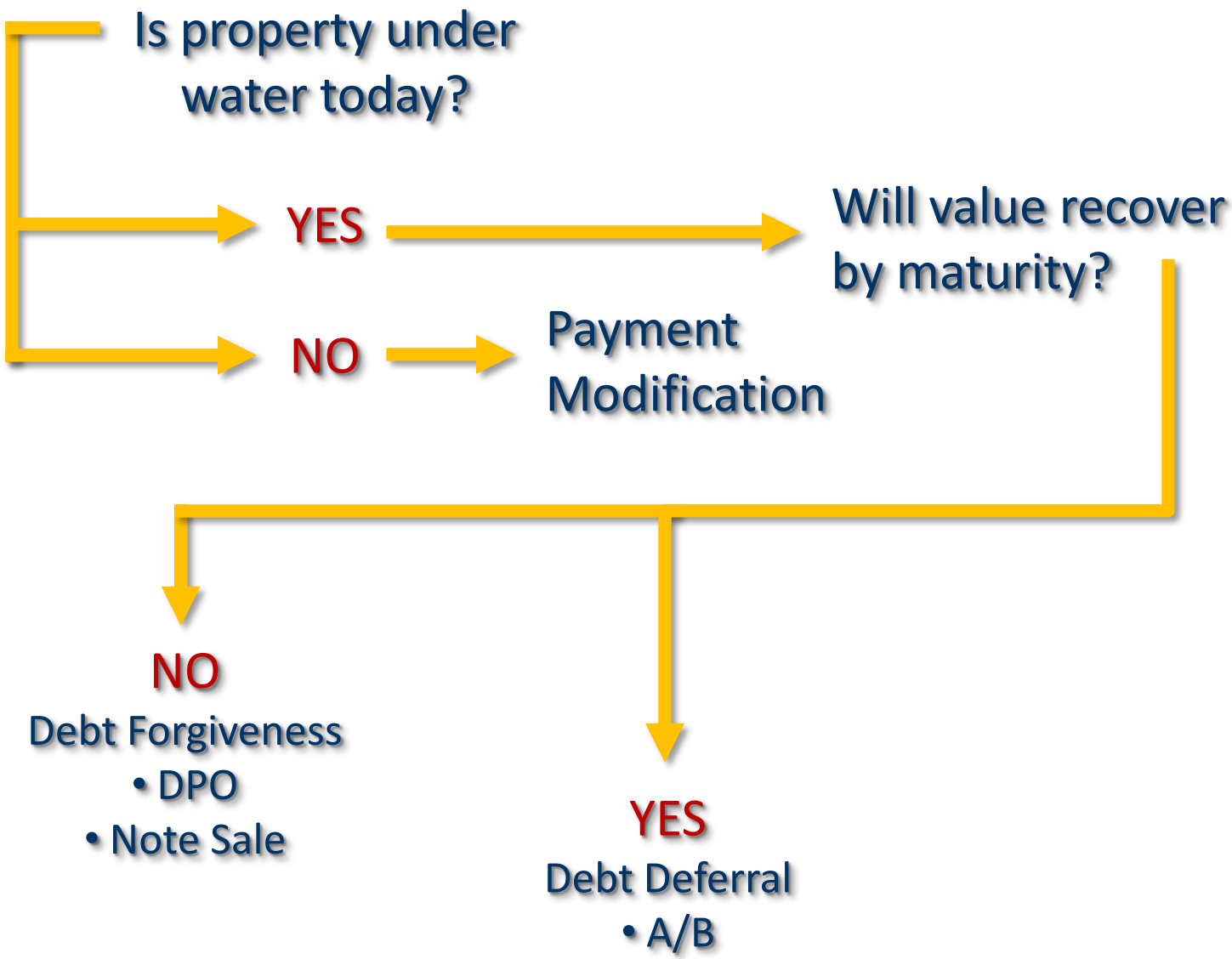
Source: Intex, Trepp, Mortgage Bankers Association, Federal Reserve, Deutsche

Speaker:
Ann Hambly

CMBS Restructures

Speaker:
Ann Hambly

Restructure Decision Tree



Speaker:
Ann Hambly

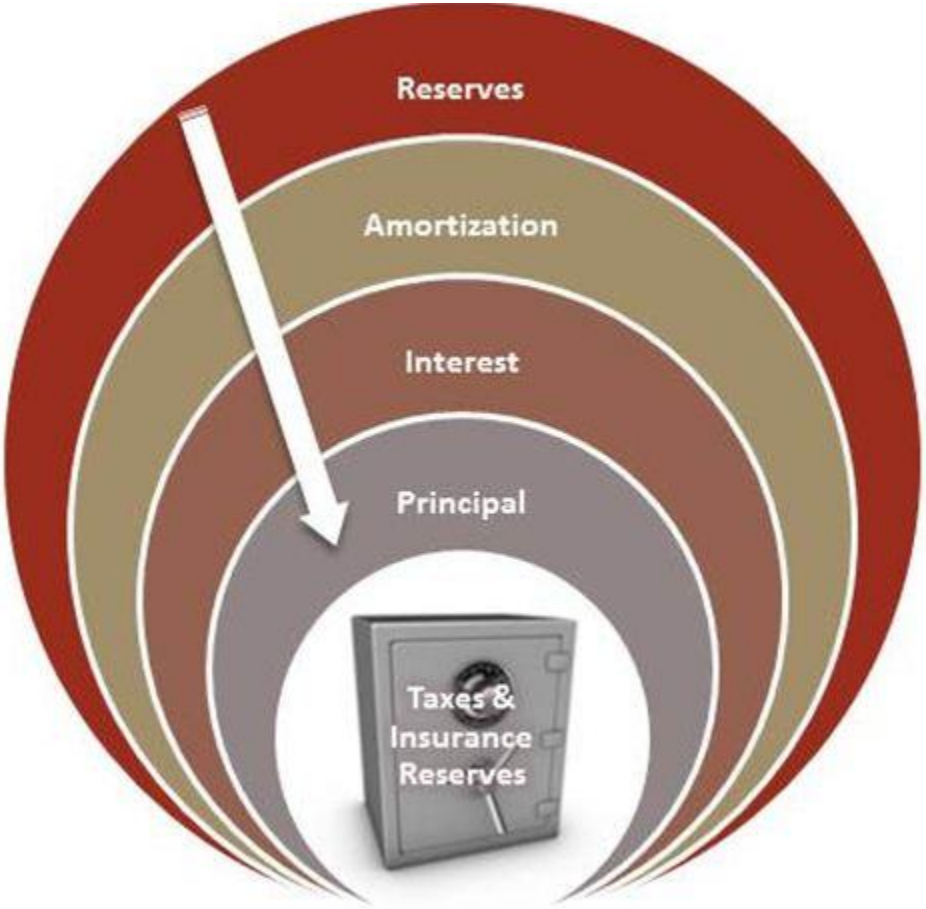
Four Basic Types of Restructures

- Payment Modification
- Debt Deferral
- Debt Forgiveness
- Maturity Date Extension

Speaker:
Ann Hambly

Payment Modification

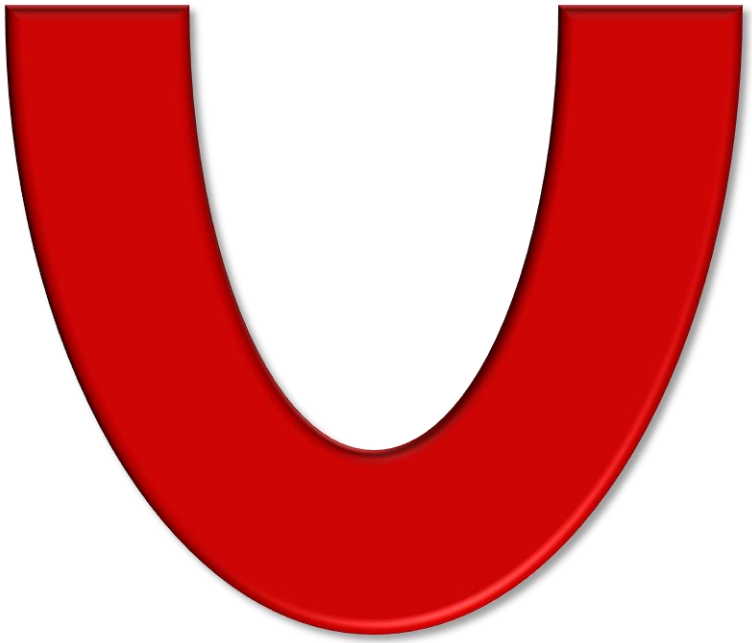
- When reduction of payment alone will cure “all ills”
- Typically for properties not under water



Speaker:
Ann Hambly

Debt Deferral

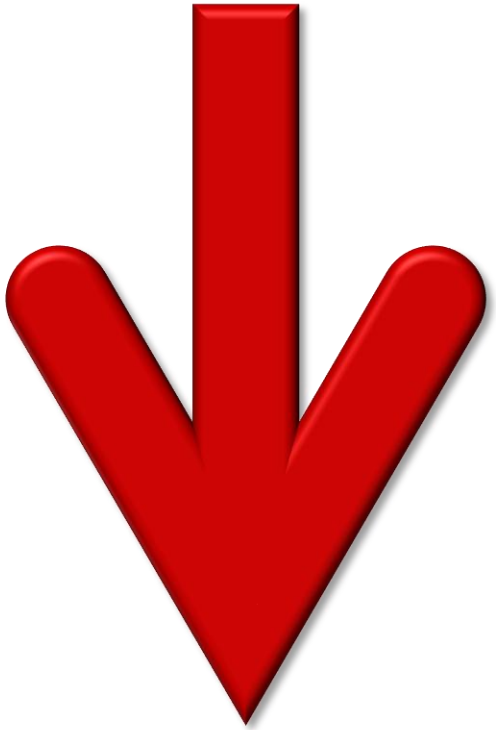
- Property under water today
- Some or all of value will be recovered by maturity date
- Borrower must make meaningful capital contribution



Speaker:
Ann Hambly

Debt Forgiveness

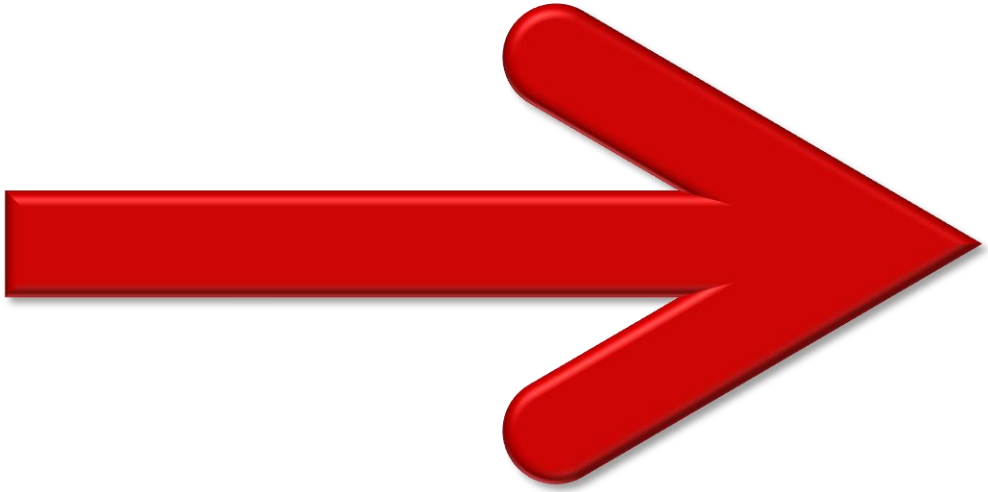
- Property under water today
- Little to no value will be recovered by maturity date
- Can be executed through:
  - Short Sale
  - Note Sale ($1 for $1)
  - Discounted Payoff



Speaker:
Ann Hambly

Maturity Date Extension

- Performing loans only
- Borrower must make pay down at time of extension (typically 10%)
- Cost= 1% per 12-month extension



Speaker:
Ann Hambly

What Drives the Decision?

- Special Servicer Servicing Standard – Maximize return to all bondholders without regard to your own position and no benefit of 20/20 hindsight.

Pooling & Servicing Agreement

Speaker:
Ann Hambly

NPV

- NPV is calculated for all options

CURRENT APPRAISED VALUE OF PROPERTY

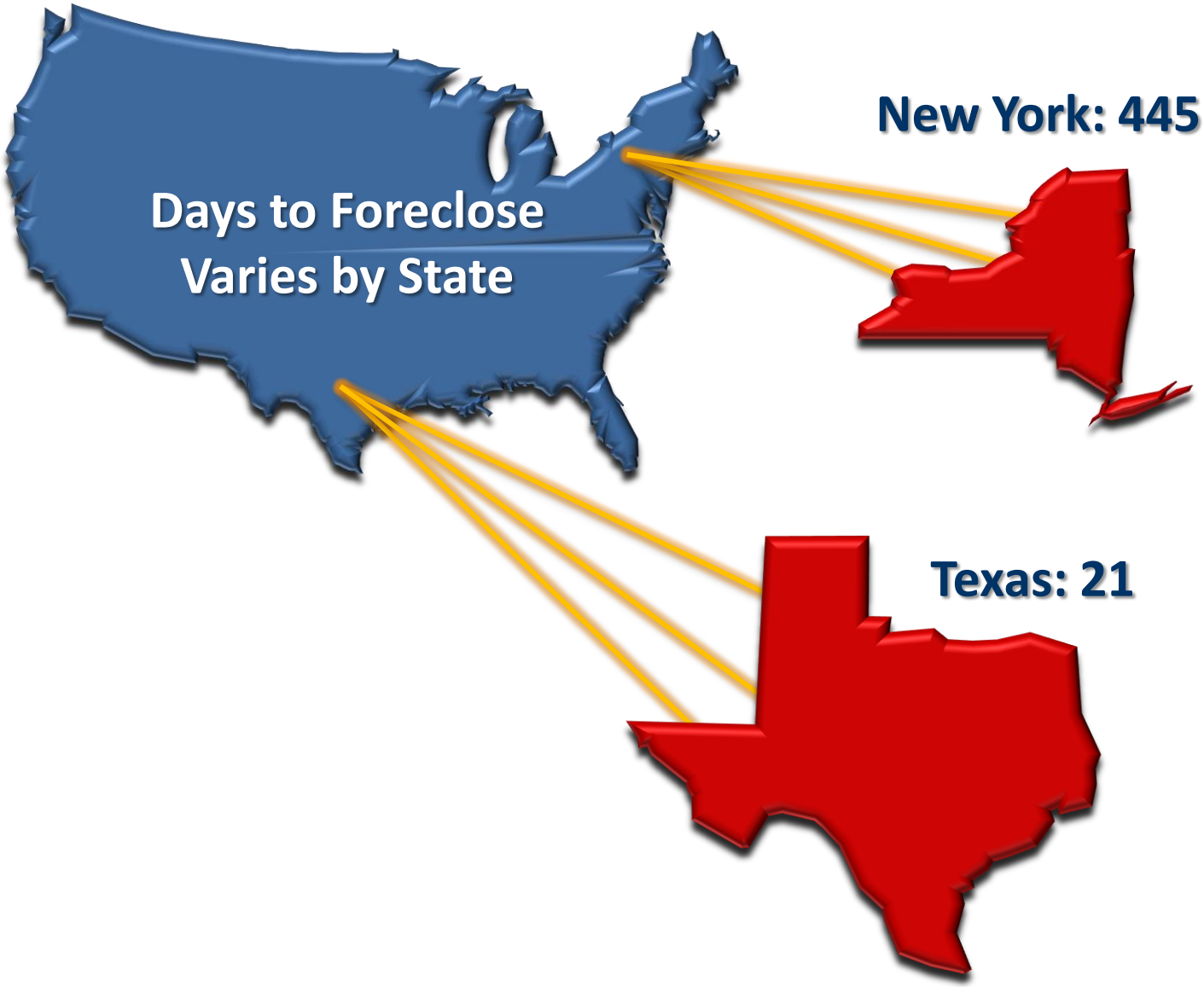
- – Hold Costs (varies greatly by state)
  - Carry Costs
  - Advancing
- – Foreclosure & Legal Costs
- – Selling & Disposal Costs
- – TI, LC
- – Property Taxes, Insurance

NET IS THEN PRESENT VALUED USING DISCOUNT RATE

- Decision is driven off of highest NPV

Speaker:
Ann Hambly

Location Of Property Drives NPV



Speaker:
Ann Hambly

Types of Restructures Actually Being Done

Speaker:
Ann Hambly

AB Structure Successfully Closed

- Retail
- California
- $27 million loan
- Matures in 2017
- Special Servicer agreed to AB Structure
  - $12 million A Note
  - $15 million B Note
  - $3 million new capital from borrower
- Current value of property = $12 million
- A few of the existing partners were able to contribute $1 million
- TI, LC needs for 2 years= $3 million

Solution

- Brokerage firm found new capital/buyer (REIT)
- REIT brought in $2 million of $3 million required
- New ownership structure
- REIT gets 100% control of property and management
- Broker received a sales commission based on $8 million purchase price (2/3 of $12 million)
- No immediate tax consequences to existing partnership since note stayed in place
- No other consideration to existing owners

Speaker:
Ann Hambly

DPO Successfully Closed

- Office building
- Michigan
- Loan originated in 2006
- $95 million loan
- Current value of property = $51.5 million
- NPV = $34.2 million

Solution

- Special Servicer agreed to $35 million discounted payoff
- Special Servicer agreed to 120-day closing
- Borrower obtained new loan equal to discounted payoff amount = 100% financing

Speaker:
Ann Hambly

Short Sale Successfully Closed

1ST SERVICE SOLUTIONS®
We listen . . .

- Industrial (multi-tenant building)
- New York
- $48 million loan
- Loan originated in 2003
- Current value of property = $20 million
- NPV = $10.1 million

Solution

- Borrower sold property for $18 million
- Special Servicer agreed to $12 million discounted payoff
- Special Servicer agreed to give borrower 4 months to close with new buyer
- Borrower netted $6 million in profits less brokerage commission
- New buyer obtained $12 million loan

Speaker:
Ann Hambly

Top 10 Must-Haves

1. Know where the value of your property is TODAY.
2. Have a clear plan for the near-term and long-term of your property.
3. Have new capital to put to use.
4. Understand who you are negotiating with.
5. Understand what their motivations are.
6. Have a clear exit plan.
7. Submit a clear, comprehensive road map of the value creation for your property.
8. Be transparent.
9. Be prepared to remit all your net cash flow throughout the process.
10. Patience.

Speaker:
Ann Hambly

Ann's Resume

- **CONTACT ANN**
  - 817.756.7220
  - ahambly@1stsss.com

- Founded 1st Service Solutions in 2005, recognizing the need for a borrower advocate in commercial real estate.
- 30 years of CRE servicing experience, including CEO of servicing for GE, Prudential, Bank of New York, Nomura, and Bank of America.
- At the forefront of setting CRE standards throughout her career:
  - Current member of prestigious **Real Estate Roundtable**, the **NAIOP Capital Markets I-Forum** and the **Federal Reserve Bank of Atlanta's** "think tank" for commercial real estate.
  - 2003 Chairperson of the **MBA's** Commercial Board, and in that role presented industry-changing initiatives to Congress.
  - Chairperson of **CEO Servicer Roundtable**, comprised of the major servicing firms across the nation .
  - Other board positions, including **CREFC** (f.k.a. CMSA), **NMHC** and **RECRA**.
- Named one of six *National Real Estate Investor*'s 2011 Most Influential Women in Commercial Real Estate and a True Leaders Top 25 CEO, a recognition crossing all industries.
- Sought-after speaker for CMBS borrowers, lenders, and attorneys groups as large as 4,000. Also has led CLE courses for attorneys.
- Frequent author of articles and quoted source for publications such as *Wall Street Journal, Scotsman Guide, Globe Street, Hotel News Now* and France Media publications.

Speaker:
Ann Hambly

Mike's Resume

- **CONTACT MIKE**
  - 817.756.7221
  - mike@1stsss.com

- Nearly three decades of commercial real estate advisory and capital markets experience, working directly with principals, lenders and private, institutional and foreign investors.
- Professional affiliations including SIOR, CCIM, NAIOP, Mortgage Bankers Association and Real Estate Roundtable.
- Five years at Ernst &Young in the firm's real estate consulting practice, working with banks, institutional investors, owners and the FDIC.
- A 17-year stint at Lee & Associates, a national commercial real estate advisory firm with more than 600 agents and 38 offices.
  - Served as president of investments and capital markets advisory services.
  - #1 investment sales broker company-wide over a 16-year period.
  - #1 producer company-wide in 2005.
- Member of the Real Estate Roundtable and the Real Estate Capital Policy Advisory Committee (RECPAC).

Speaker:
Ann Hambly

Q&A

Speaker:
Ann Hambly