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1ST SERVICE SOLUTIONS, INC.

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WEBINAR



The Real Estate Roundtable

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CMBS MARKET OVERVIEW



Speaking:

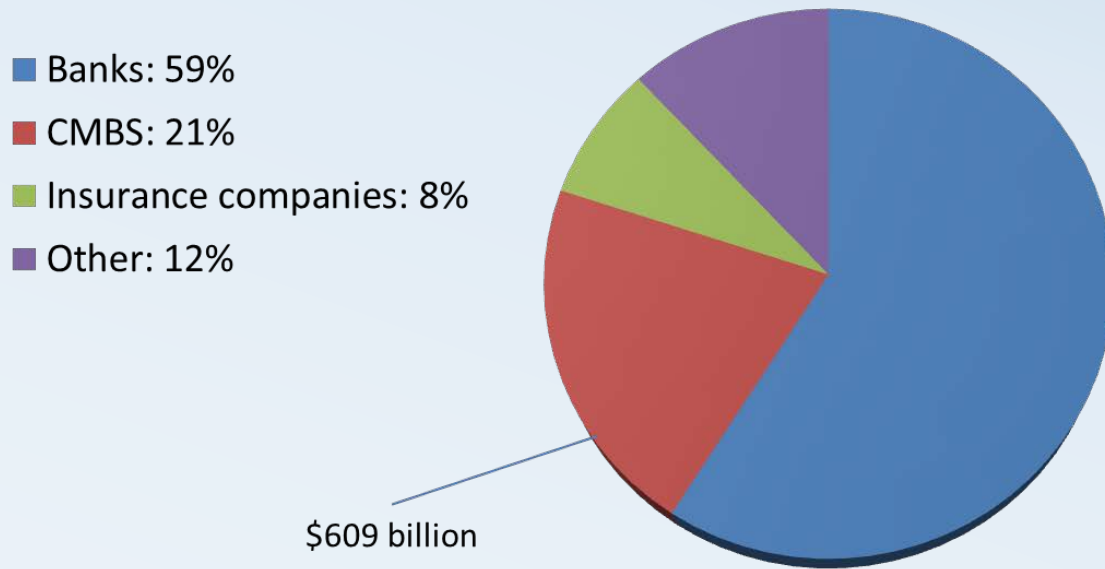


Ann Hambly, 1st Service Solutions

Ann Hambly created 1st Service Solutions in 2005 recognizing the need for a borrower advocate in commercial real estate. Hambly has over 30 years of commercial real estate servicing experience and has served as the CEO of servicing for Prudential, Bank of New York, Nomura, and Bank of America. In 2011 she was recognized as one of the most influential woman in commercial real estate by National Real Estate Investor. She has also been recognized as one of the top 25 CEOs across all industries in a book called True Leaders. She has been at the forefront of setting industry standards for commercial real estate and has led many initiatives for industry groups that included attorneys, rating agencies, master and special servicers, trustees, and bondholders.

MARKET OVERVIEW

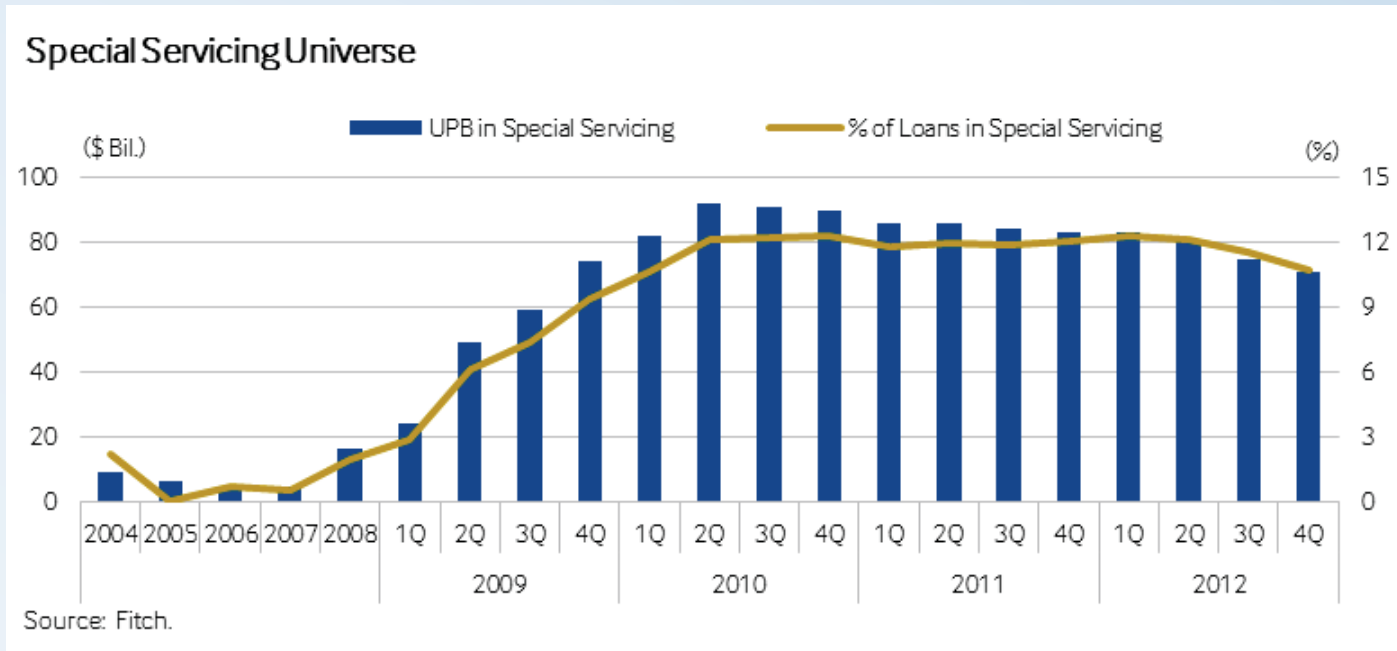
Outstanding Real Estate Loans = \$2.9 Trillion



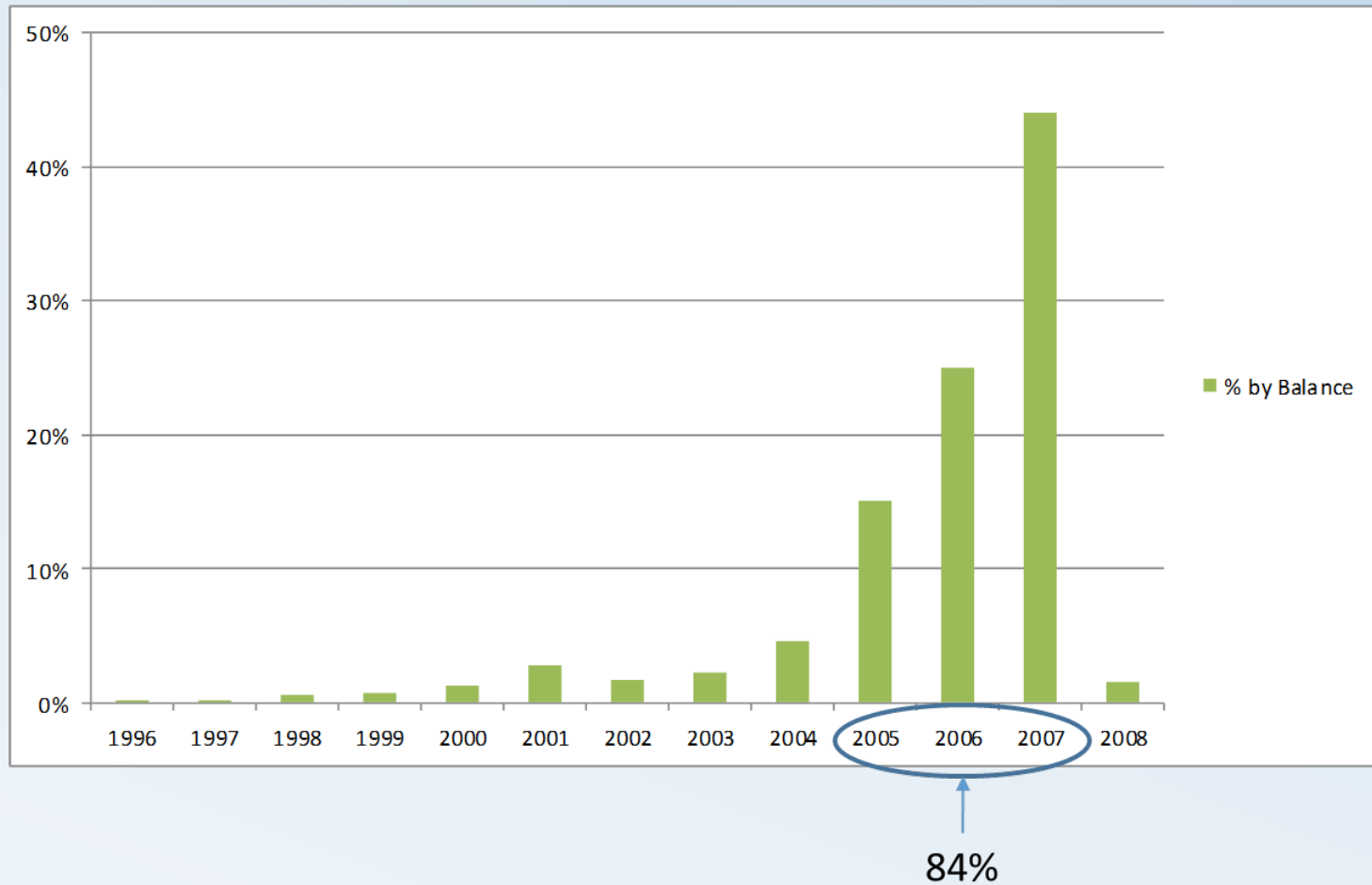
\$609 billion



LOANS IN SPECIAL SERVICING



DEFAULTS BY YEAR OF ORIGINATION



WHY DID LOANS ORIGINATED IN 05, 06 AND 07 DEFAULT?

Loan underwriting

- Pro forma rents
- Interest only – no amortization
- No reserves – required new borrower capital to fund TI, LC

Bonds

- 90% of the loan was put in AAA
- Prior to 2005 only 70% of the loan was put in AAA
- Creation of the Super senior AAA

Market stress – volume

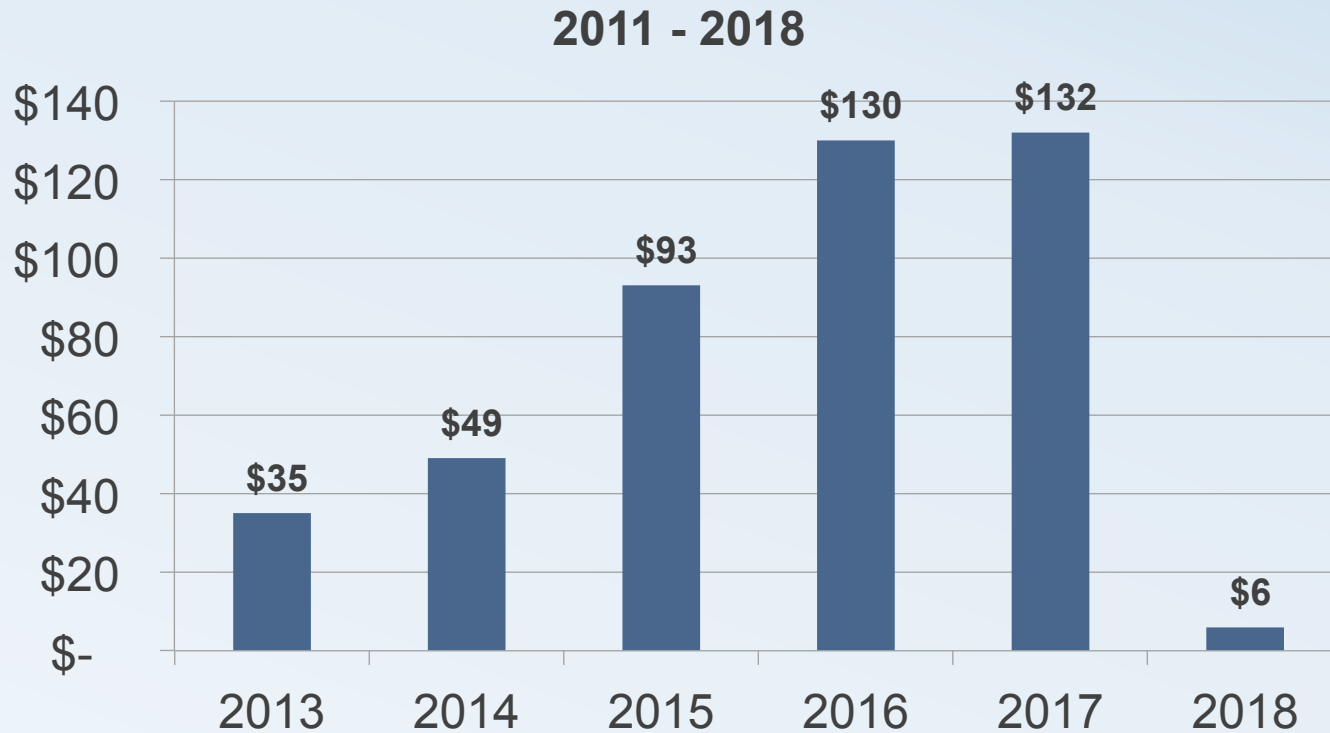
- In 1995 CMBS issuance was \$14 Billion
- In 2007 CMBS issuance was \$230 Billion

88% of the entire CMBS portfolio was originated in the years 2005 - 2007



CMBS MATURITIES

How are we going to refinance all this?



THE PARTIES IN A CMBS STRUCTURE

• **Loan originator/ primary servicer**

- Primary borrower interface

• **Master Servicer**

- Has to be rated
- Has advancing obligations
- Typically a large bank

• **Special Servicer**

- Handles defaulted loans
- Is appointed by the CCR
- Top 3 control majority of the market

• **Controlling class representative (“CCR”)**

- Lowest rated bond holder at any given time
- Appoints the special servicer

• **Rating agencies**

- Rates the bonds and servicers

• **Trustee**

- Provides accounting, reporting and cash to the bond holders
- Is a back-up advancer if the Master servicer defaults

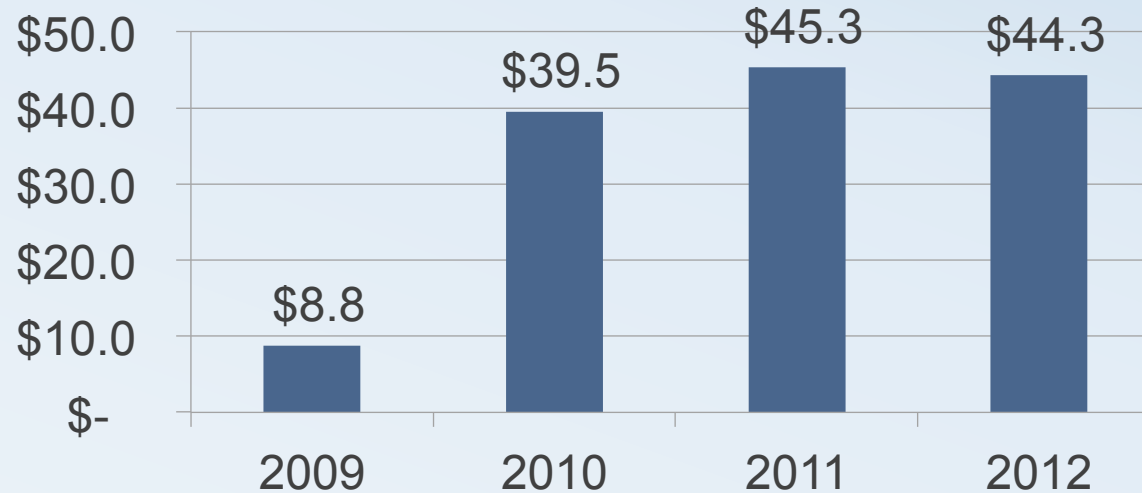
WHO ARE THE SPECIAL SERVICERS?

Top 4 Servicers – servicing more than 80% of all CMBS loans

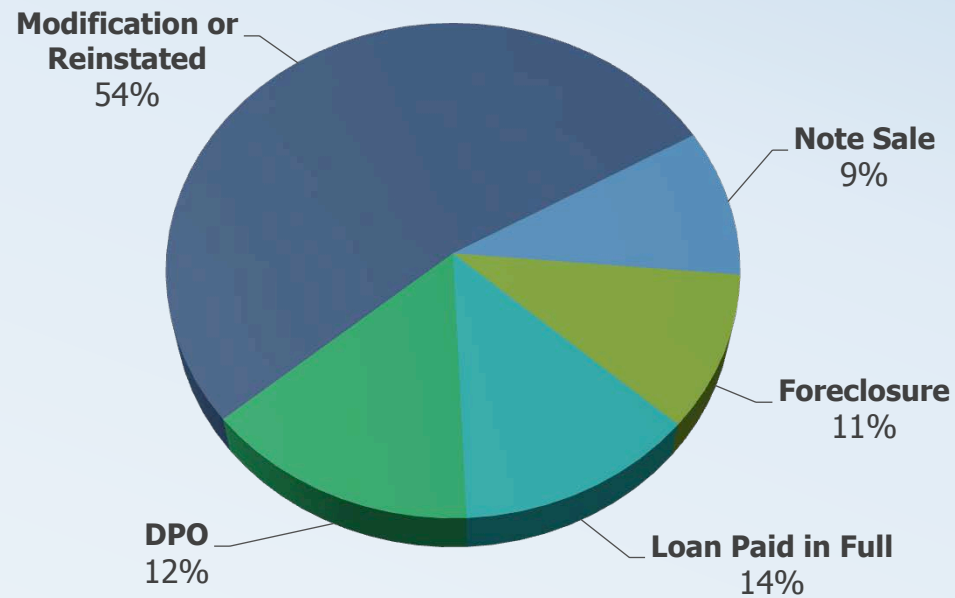
Rank	Servicer	UPB (\$Mil.)
1	LNR Partners	\$143,792
2	CWCapital Asset Management	\$143,503
3	C-III Asset Management	\$129,487
4	Midland Loan Services, Inc.	\$75,566

HISTORY OF CMBS DEFAULT RESOLUTION

In billions



CMBS RESOLUTION TYPES



MODIFY OR FORECLOSE?

What Factors into the Special Servicer's Decision to Modify or Foreclose?

- Current value of the property – LTV
- Remaining term of the loan
- Will value recover to appropriate LTV by maturity date
- NPV of the foreclosure alternative
 - Length of time to foreclose
 - Cash flow versus advances
 - Other considerations and costs
- Special servicer's fee opportunities
 - Affiliates
 - Bond position



Dodd Frank

- Risk retention
- Operating Advisor
- PCCRA

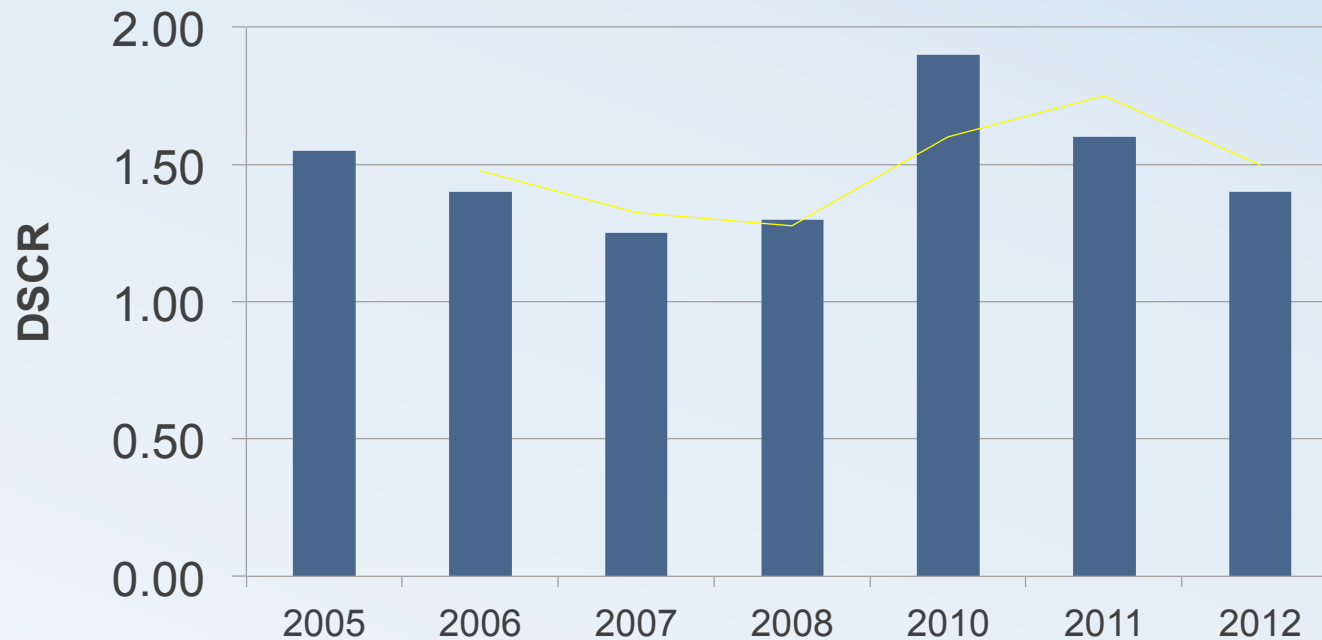
Special servicer's use of affiliates

What 2.0 didn't address

- REMIC restrictions on modifying loans
- Consistent approach to special servicer decisions

HISTORY OF UNDERWRITING STANDARDS

DSCR at Issuance



BACK TO THE FUTURE

Underwriting back to '07' levels

- Pro forma underwriting
- IO loans
- Mezz loans

Defaults on 2012 originations



How long will it take?

CONTACT INFORMATION AND RESOURCES

Resources:

- [Brochure downloadable from our website](#)
- [Informational webinars on our website](#)
- [Recent Articles under the news tab on our website](#)
- [Videos on our website](#)
- [Operating advisor rating report downloadable from our website](#)



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