1ST SERVICE SOLUTIONS, INC.

1ST SERVICE SOLUTIONS®

The Real Estate Roundtable

Former Member of
President's Council

CRE Finance Council
The Voice of Commercial Real Estate Finance

Former Board
Member

MORTGAGE BANKERS ASSOCIATION®

Former COMBOG
Chairperson

NMHC National Multi Housing Council®
Apartments: Smart Communities, Smarter Living

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NAIOP

Member of
Capital Markets
Forum

CMBS MARKET OVERVIEW

Speaking:

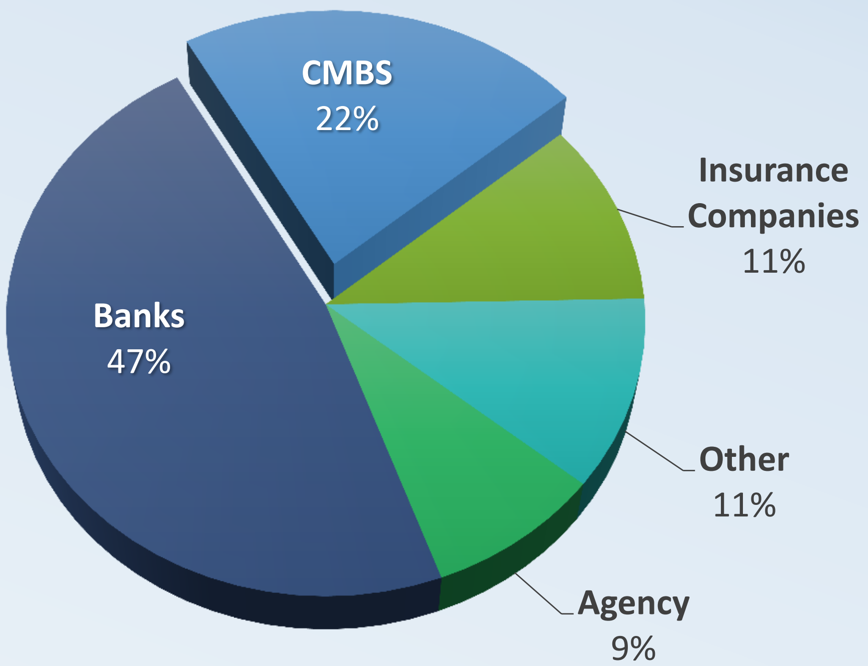
Ann Hambly, 1st Service Solutions

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.

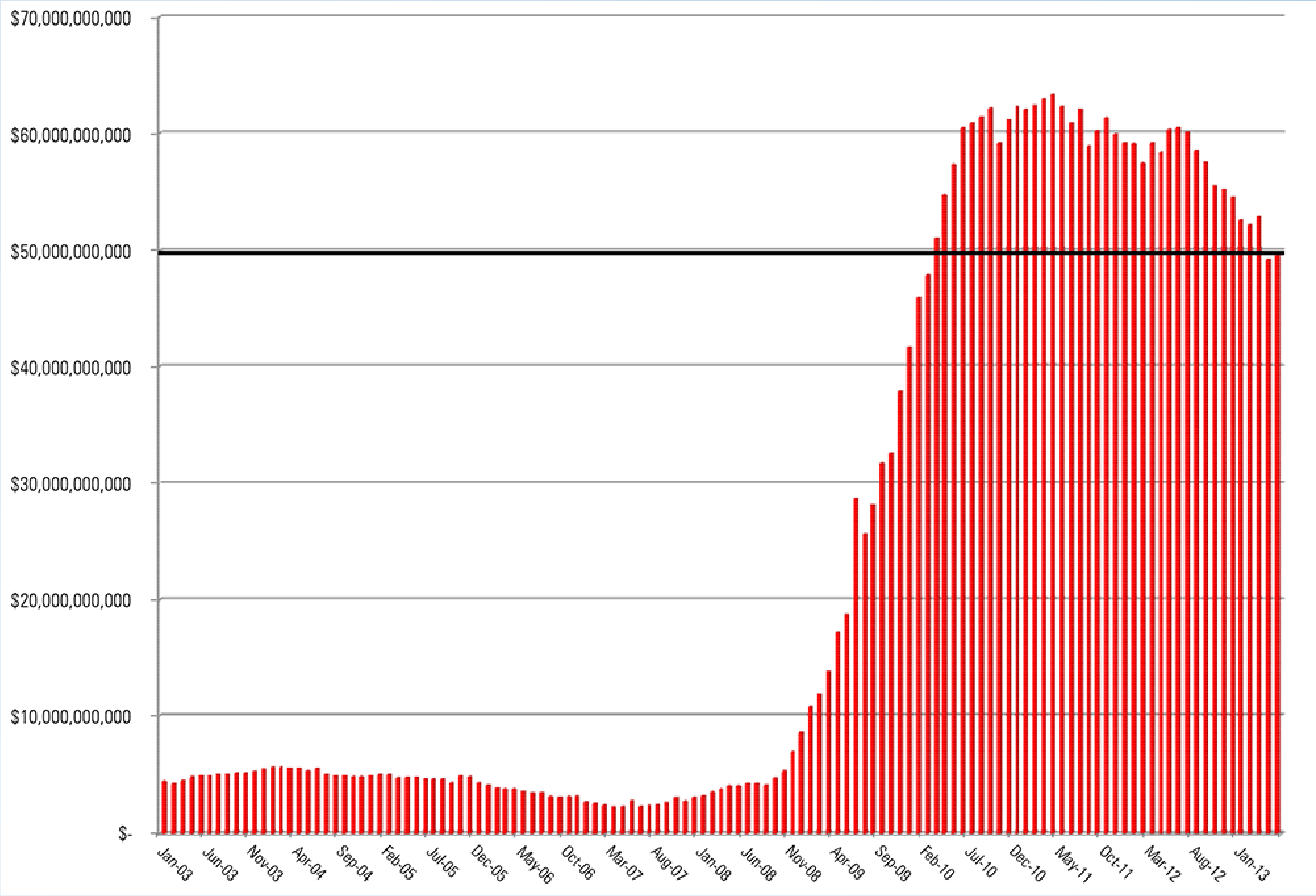
MARKET OVERVIEW

Outstanding Real Estate Loans = $3,062.8 Billion

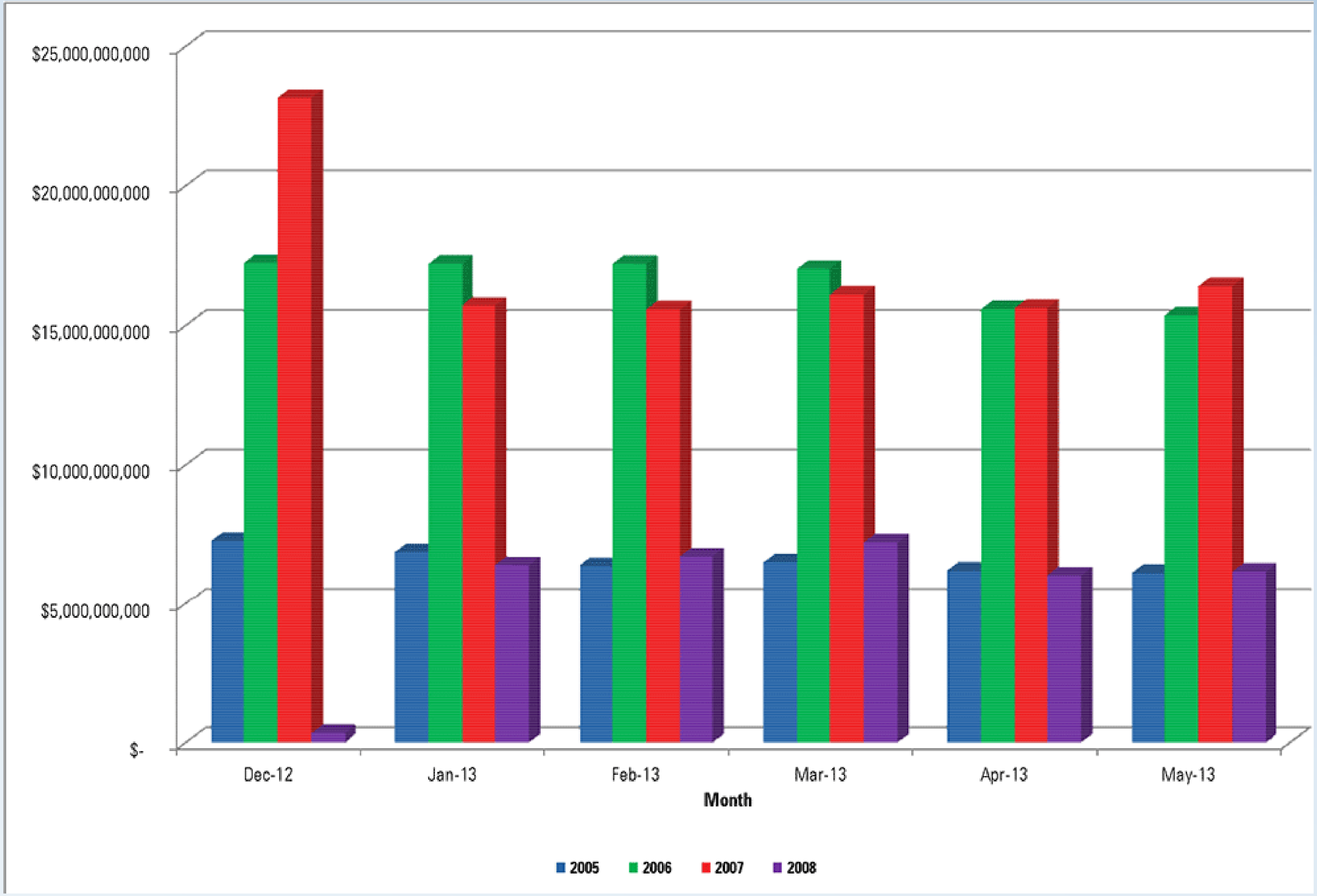
As of year-end 2012



LOANS IN SPECIAL SERVICING



DEFAULTS BY YEAR OF ORIGINATION



WHY DID LOANS ORIGINATED IN 05, 06 AND 08 DEFAULT?

Loan underwriting

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

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 - 2008

MATURITIES

There’s an avalanche of CMBS loans maturing

CMBS MATURITIES IN THE NEXT 12 MONTHS

Prop Type	Loan Count	Unpaid Balance	% of Loans Maturing	% of Total CMBS Universe	% of Total Prop Type UPB	% of Maturing Loans Delinq.	% of Maturing Loans with Special Servicer	% of Maturing Loans on Morningstar Watchlist
HC	8	$ 549,765,515	1.08%	0.08%	24.34%	0.00%	0.22%	0.22%
HT	130	$11,427,703,523	22.55%	1.59%	16.15%	0.07%	0.24%	3.12%
IN	297	$ 1,675,017,596	3.31%	0.23%	6.69%	0.28%	0.49%	1.97%
MF	1,095	$ 5,992,824,536	11.83%	0.83%	2.84%	0.58%	1.37%	3.02%
MX	348	$ 7,089,356,969	13.99%	0.98%	12.07%	1.07%	1.14%	2.38%
OF	659	$12,448,609,977	24.57%	1.73%	7.37%	1.20%	2.52%	13.21%
RT	1,347	$11,486,595,218	22.67%	1.59%	6.25%	0.67%	0.85%	5.89%
Totals	**3,884**	**$50,669,873,335**	**100.00%**	**7.03%**		**3.88%**	**6.83%**	**29.81%**

2013 – 2014 MATURITIES

TYPICAL TERMS

- Two main types of loans maturing in these years:
  - 7 year – originated in 2006 – 2007
  - 10 year – originated in 2003 – 2004 - MAJORITY OF MATURITIES

TYPICAL loan characteristics for the 10 year deals:

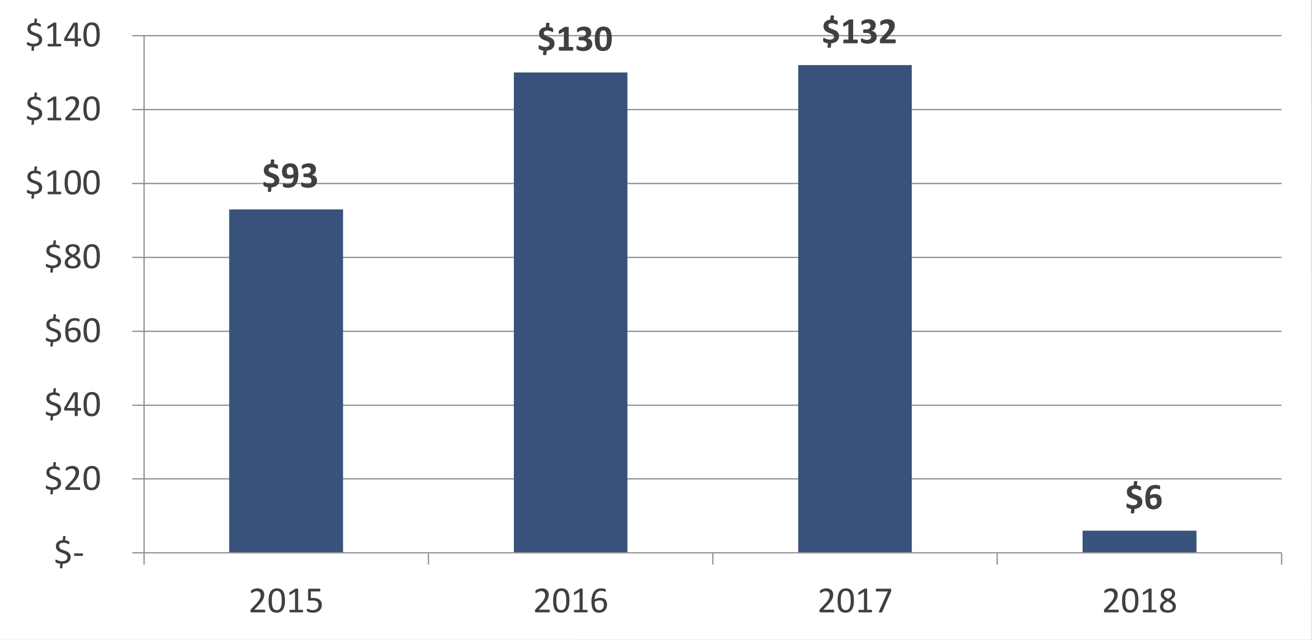
- Amortizing – not interest only
- Not highly overleveraged at origination in 2003 and 2004
- Underwriting standards were less aggressive than later years
- ***Most should be able to be refinanced in existing capital markets***

TYPICAL loan characteristics for the short term deals:

- Interest only
- HIGHLY leveraged at origination
- Very aggressive underwriting standards
- ***Likely not able to refinance in existing capital markets***

CMBS MATURITIES

2015 - 2018



2015 – 2018 MATURITIES

Deutsche Bank

- "At least 2/3rds of CMBS loans maturing between 2009 – 2018, $410 Billion will unlikely qualify for refinancing at maturity without significant equity infusions from borrowers"

2015 – 2018 MATURITIES

The Future Refinancing Crisis in CRE

- "More than 80% of 2007 CMBS vintage loans will unlikely qualify for refinance and borrowers will need at least $100 Billion in additional equity to help loans qualify"

2015 – 2018 MATURITIES

TYPICAL loan characteristics for loans maturing between 2015 – 2018

- Interest only with little or no principal amortization
- HIGHLY leveraged at origination
- No reserves - potentially capital starved properties
- Pro forma rents used in underwriting

GENERAL FUNDING AVAILABLE

FUNDING AVAILABLE

SR. Debt	Rates	LTV / DSCR
CMBS **Agency** **Life Co.** **Bank**	Competitive market	65-75% 120 DSCR
Mezz Debt	Low to mid teens	65%-80% 115 DSCR
Preferred Equity	Mid teens – 20% No ownership position	80%-90% Breakeven
JV	Borrower gives up part ownership	

OPTIONS

OPTIONS

1. **Full payoff at maturity**

2. **Full payoff in 1-2 years = Extension**
   - Paydown
   - Fee
   - plus Modification, if warranted

3. **Discounted payoff**
   - Property value must be less than the current debt
   - Not determined by new loan amount

4. **Short Sale (DPO plus sale)**
   - Property value must be less than the current debt
   - 2 transactions carefully coordinated

5. **Foreclosure / Deed in Leiu**

FULL PAYOFF VS. DISCOUNTED PAYOFF

Property Value

Current Loan Amount

NOT

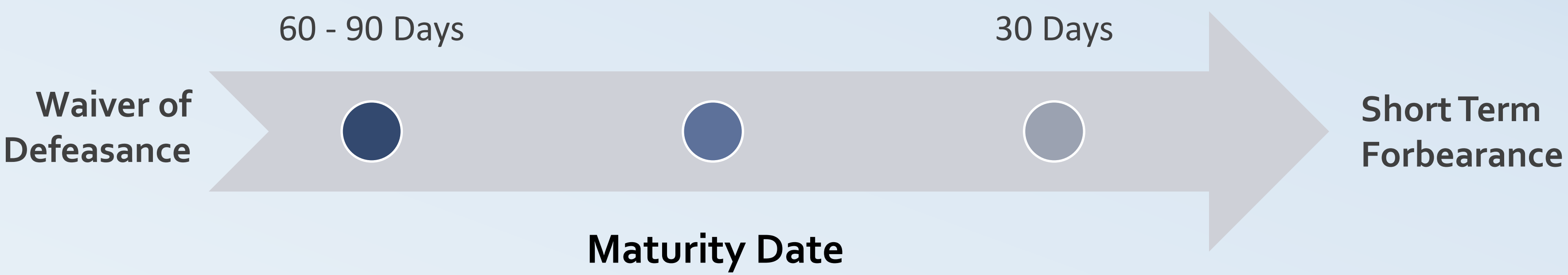
Property Value

New Loan Amount

PROCESS

IF YOU CAN PAYOFF IN FULL AT MATURITY

1. **Congratulations!**
2. **The actual payoff date is very important**



EXTENSION & FULL PAYOFF

Extension

- Property value is equal to or greater than the loan
- Insufficient new loan proceeds to pay loan off
- Time will cure all

Extension terms

- 1 – 2 years
- Typically a pay down required
- 1% fee per year extension

Process

- Contact your master servicer a year prior to the maturity to notify them that you CANNOT pay off at maturity
- Provide evidence of refinance efforts
- Know your special servicer and their specific extension requirements
- Be prepared to pay the loan down! Some special servicers will foreclose without this pay down

EXTENSION & MODIFICATION

Extension & Modification

- Property value
- Insufficient new loan proceeds to pay loan off
- Time makes value better

Modification

- Payment only
- Some debt forgiveness

Process

- Contact your master servicer a year prior to the maturity to notify them that you CANNOT pay off at maturity
- Provide evidence of refinance efforts
- Process will require CMBS modification experience

DISCOUNTED PAYOFF

Property value is less than current loan

Process

- Contact your master servicer a year prior to the maturity to notify them that you CANNOT pay off at maturity because the property value is less than the current loan amount
- Let the master servicer know that an extension is not going to be adequate and that you need your current debt reduced
- Your loan will get transferred to the special servicer

Discounted pay off amount is determined based on many factors

- Not based on potential new loan proceeds
- The ultimate recovery amount a special servicer can get for the property through foreclosure and sale of the property
- Depending on many variables, can be greater than the ‘as is’ appraised amount of property
- Must be able to pay off at DPO amount in 60 – 90 days from approval
- Bridge lenders may be best source of financing
- Will likely require new money from borrower even with high leverage bridge loan

SHORT SALE

Short Sale

- Property value is less than current loan
- Borrower does not have interest or cannot meet the terms of the discounted pay off

Process

- Contact your master servicer a year prior to the maturity to notify them that you CANNOT pay off at maturity because the property value is less than the current loan amount
- Let the master servicer know that an extension is not going to be adequate and that you need your current debt reduced
- Your loan will get transferred to the special servicer

Important considerations

- Short sales are not called short sales
- The process is very different based on the particular special servicer
- Special servicer will not be a party to the sales process
- Acts like 2 separate transactions that require careful coordination

Benefits

- Borrower = no foreclosure and possible upside (walk away fee, hope note, etc)
- Buyer = off market purchase of 'distressed property'
- Trust = market recovery of distressed loan without time and expense of foreclosure

SUMMARY

The top 10 things to remember if you have a maturing CMBS loan:

1. You are in good company
2. Start thinking about your options about a year prior to your maturity date
3. Remember that the actual date of pay off maters on a CMBS loan even if you can pay the loan off in full
4. Notify your master servicer early if you cannot pay the loan off in full at maturity
5. No action will result in a foreclosure
6. Your pay off will be determined on the property value – not the amount of new loan proceeds you can get
7. Be prepared to put new money into the deal to get an extension and/or a modification
8. Industry experts predict that 80% of 2007 originated CMBS loans will not qualify for refinancing at maturity
9. You do have options and it is important that you understand what those options are
10. You need an experienced advocate on your side

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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