

Hosted by:



1ST SERVICE SOLUTIONS, INC.

Welcomes you to this informative **WEBINAR**



Former Member of President's Council



Former Board Member



Former COMBOG Chairperson



Former Board Member



Member of Capital I Markets Forum

top 10 things

YOU DIDN'T KNOW

about restructuring CMBS

Speaker:



Ann Hambly

1ST SERVICE SOLUTIONS

Ann Hambly

- 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, and has been at the forefront of setting industry standards for commercial real estate.

Mike Meisenbach, CPA

- 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.

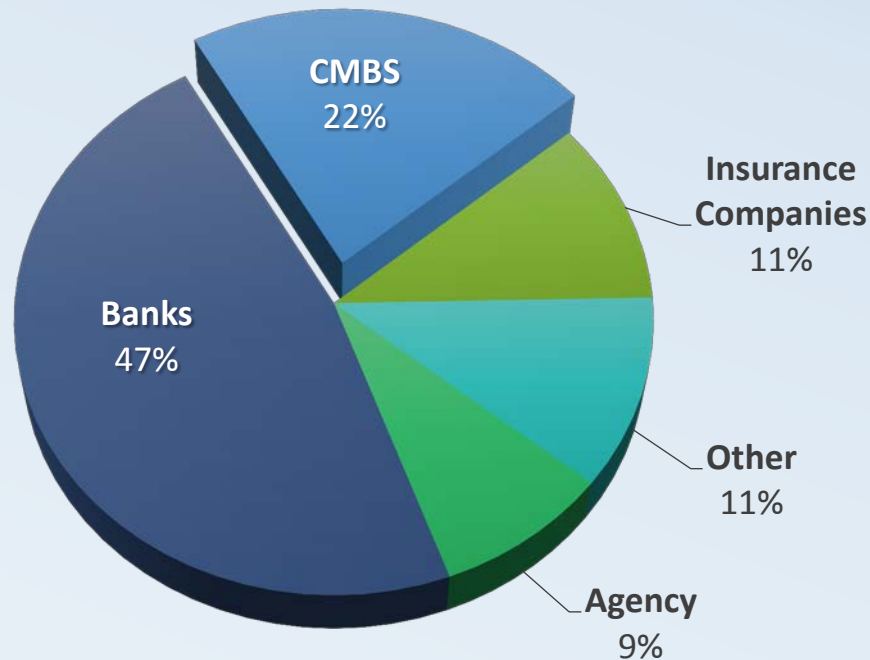


CMBS MARKET OVERVIEW

MARKET OVERVIEW

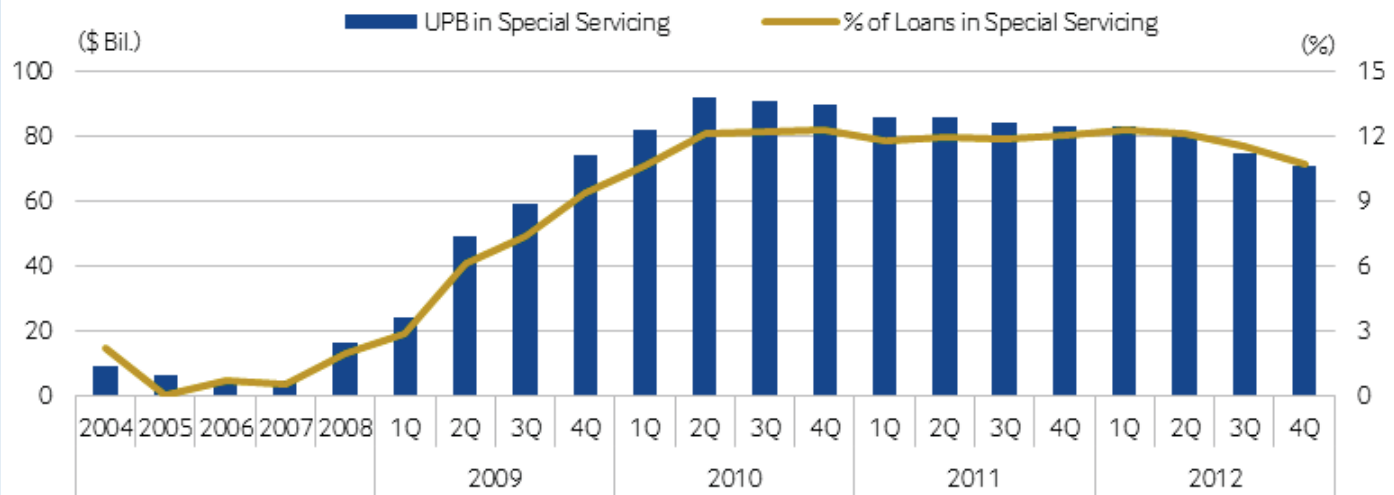
Outstanding Real Estate Loans = \$3,062.8 Billion

As of year-end 2012



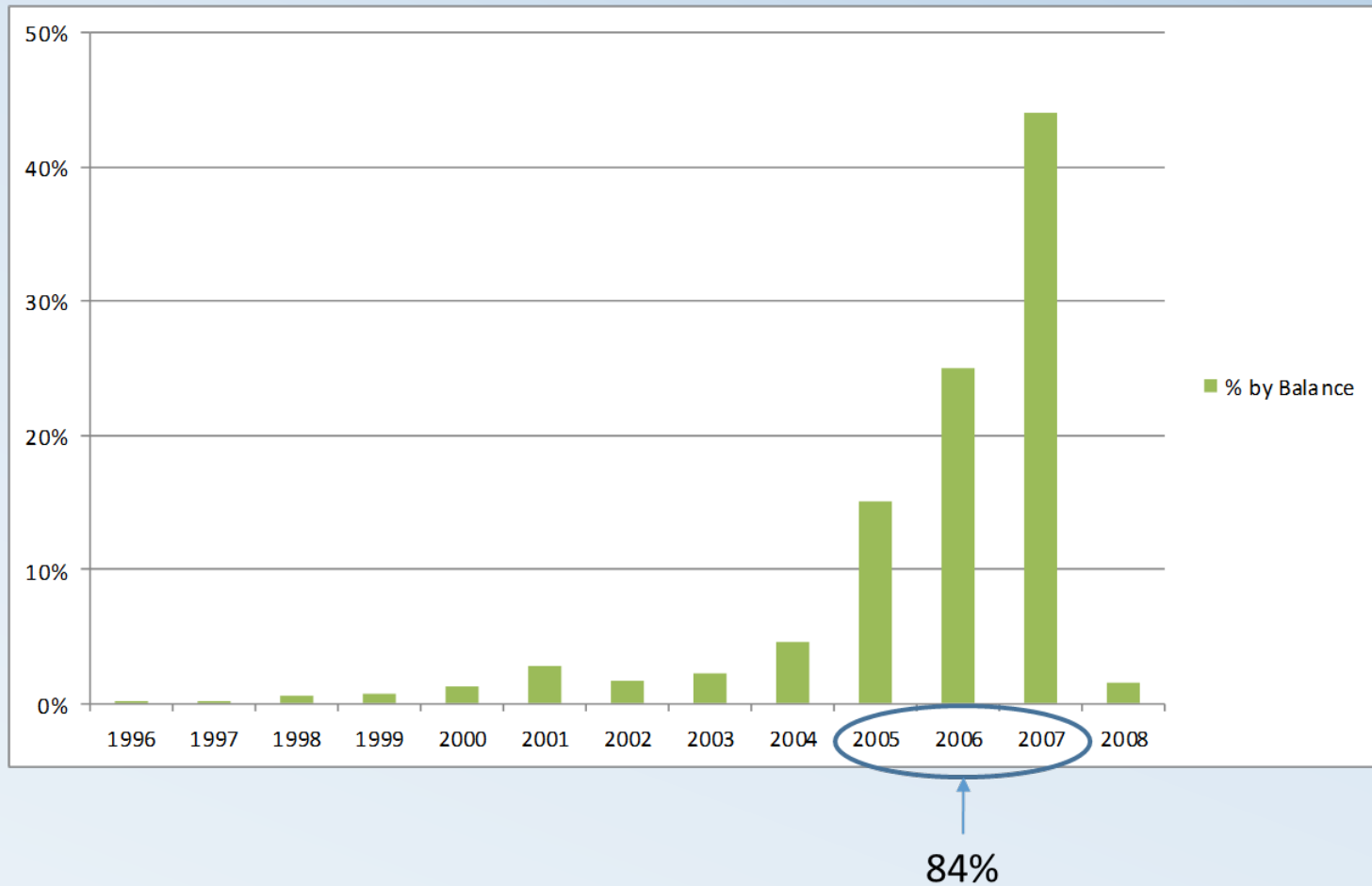
LOANS IN SPECIAL SERVICING

Special Servicing Universe



Source: Fitch.

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



#10

The Special Servicer Can and Does Change!



WHO ARE THE SPECIAL SERVICERS PRE CMBS 2.0?

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

Rank	Servicer	Market Share (%)
1	LNR Partners	23.6%
2	CWCapital Asset Management	23.5%
3	C-III Asset Management	21.2%
4	Midland Loan Services, Inc.	12.4%

WHO ARE THE POST 2.0 SPECIAL SERVICERS & CCR?

	Special Servicer	Market Share (%)
1	Midland Loan Servicing	43.9
2	Wells Fargo	16.1
3	Rialto Capital	14.9
4	KeyCorp	8.2
5	CWCapital	7.3
6	Torchlight Loan Servicing	5.3
7	Berkadia	1.1

Buyers of CMBS B-Pieces in 2012

	Special Servicer	Market Share (%)
1	Rialto Capital	33.8
2	Eightfold Real Estate Capital	25.9
3	Raith Capital	11.4
4	BlackRock Financial	10.4
5	CBRE Capital	6.3
6	CIBX Commercial Mortgage	4.0
7	Basis, Artemis Real Estate	3.7
8	Torchlight Investors	3.4
9	H/2 Capital Partners	1.0

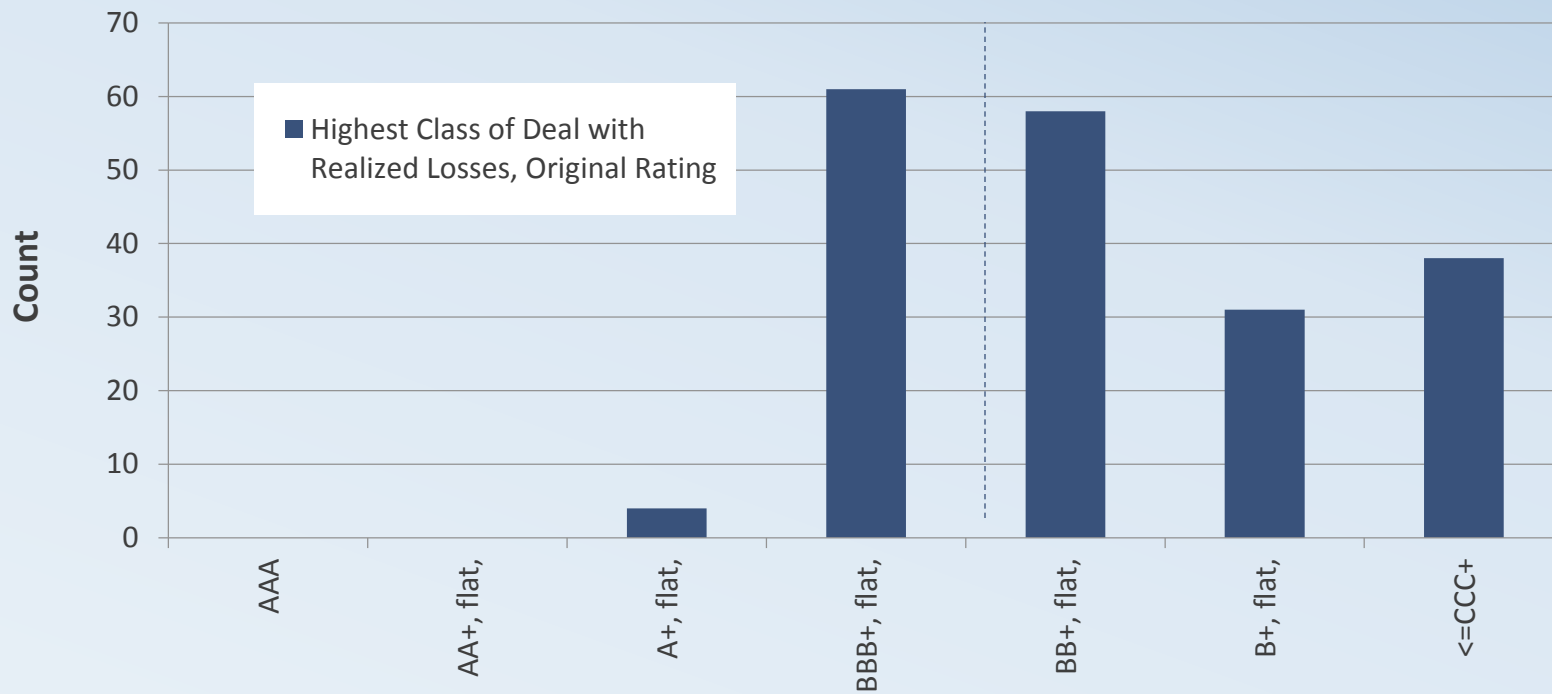


#9

What Happens When Losses Get up to Investment Grade?



REALIZED LOSSES AT YEAR-END 2012



LOSSES & THE CCR

Passive versus active CCR

Out of 192 2005 CMBS pools, 65 have losses reaching investment grade bonds

No single voice on investment grade bonds

10 days deemed approved language

Losses expected to hit AJ (Junior AAA) in 2013 for the first time



#8

What Happens When the Special
Servicer Changes?



RECENT CASE STUDY

\$17MM loan

Property value = \$7MM

- Anthracite was CCR/ Midland was Special Servicer
- Midland agreed to A/B Structure with A Note of \$8MM & \$3MM of new capital from borrower
- Documentation of A/B in final stages
- Anthracite BK
- Midland replaced by LNR
- LNR put note in Note Auction (Auction.com)
- Likely recovery to Bondholders in Note Auction < \$7MM
- LNR agreed to give Borrower a DPO @ \$9MM
- Anticipated losses to Trust with Midland restructure = \$0
- Real losses to Trust with resolution & DPO = > \$10MM



#7

What are Special Servicicers Really Obligated to do?



SERVICING STANDARD

“Maximize return to all bondholders regardless of the special servicer’s own interest based on a net present value of all options available”

Options:

- 1) Borrower’s modification
- 2) Foreclose and sell immediately
- 3) Foreclose and sell within 3 years
- 4) Note sale

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

WHAT ALSO FACTORS INTO THEIR DECISION?

Bond position

Length of time before control changes

Affiliated companies

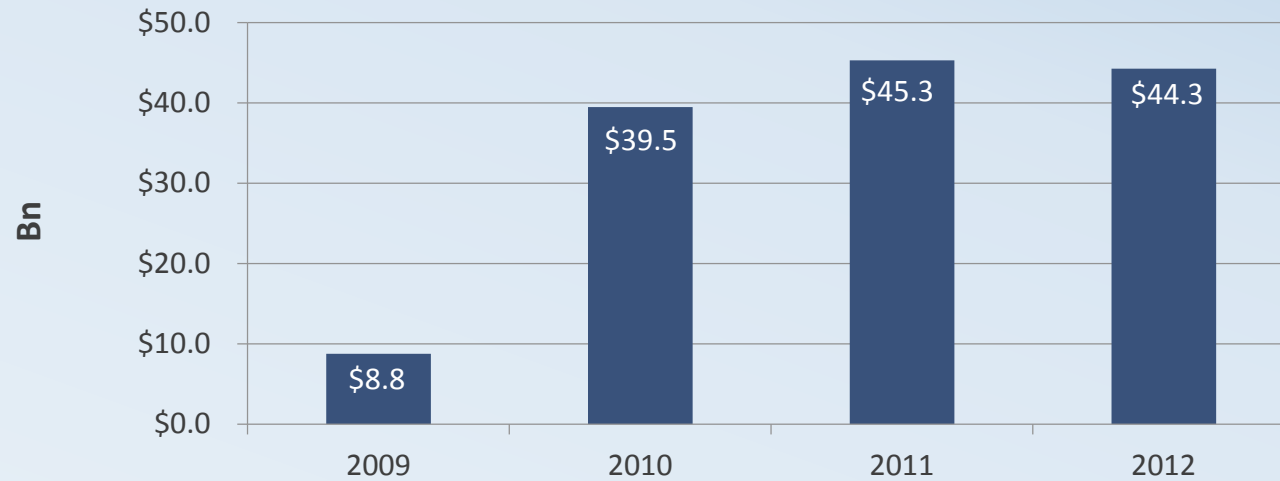


#6

What Kinds of Modifications are Really Getting Done?

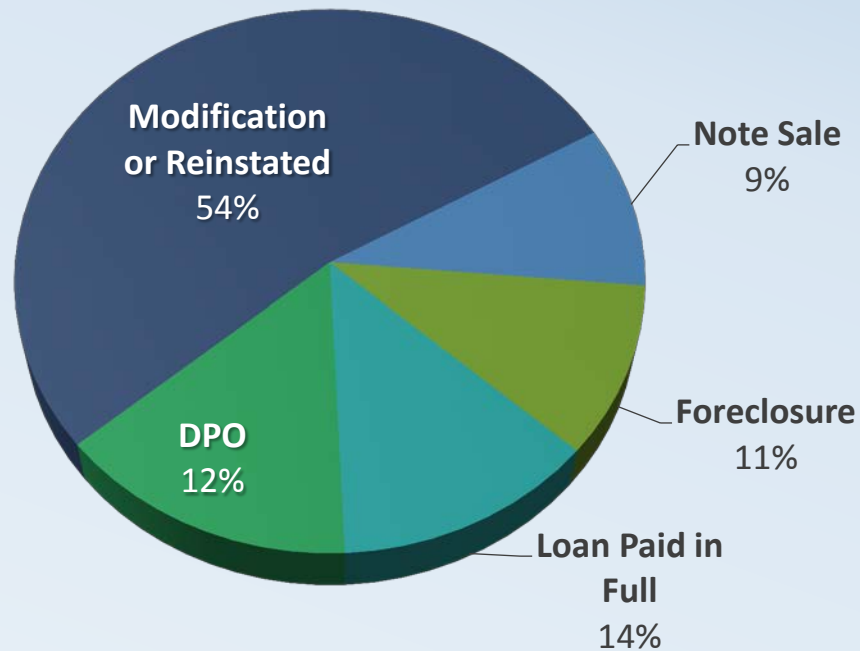


HISTORY OF CMBS DEFAULT RESOLUTION



CMBS RESOLUTION TYPES

As of year-end 2012





#5

What Drives the Special Servicer's Decision to do a Note Auction?



CONSIDERATIONS FOR A NOTE AUCTION

Market confirmation of price

Speed

Fees

RECENT CASE STUDY

\$6MM Loan

Property Value = \$3.1MM

- Office building in Nashville, Tennessee
- Loan originated in 2006
- The property suffered significant vacancy issues and the borrower was unable to continue making their payment
- The loan was transferred to the special servicer (C-III)
- DPO offer was submitted to C-III for the appraised amount
- Discussions ensued with C-III and 1st Service Solutions
- Borrower had significant tax consequences and therefore, was willing to pay a higher amount for the note/property than market
- To ensure that the borrower was paying market, C-III opted to place note in an upcoming sealed bid note auction.
- Borrower successfully purchased their own note at the auction at an amount that was lower than the amount they were willing to pay for the DPO



#4

What is an Appraisal Reduction,
and What is it NOT?



ARA (APPRAISAL REDUCTION ACT)

What is it

- Proxy for expected losses to bondholders
- Basic formula –

Principal balance of loan

+ Trust expenses and advances

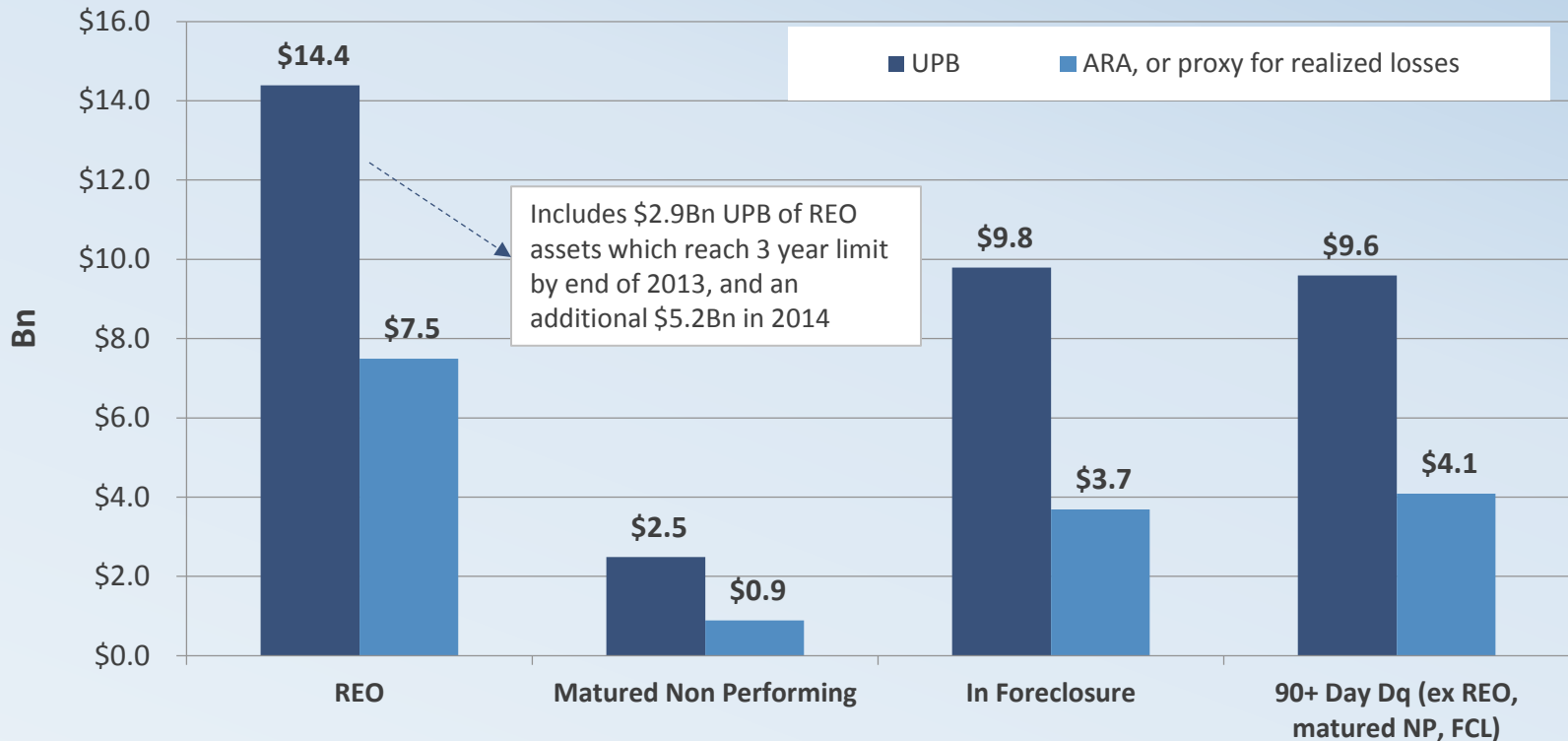
- Appraisal Amount

= **ARA**

What it is NOT

- The amount the special servicer will do a deal for

ARAs AS OF YEAR END 2012





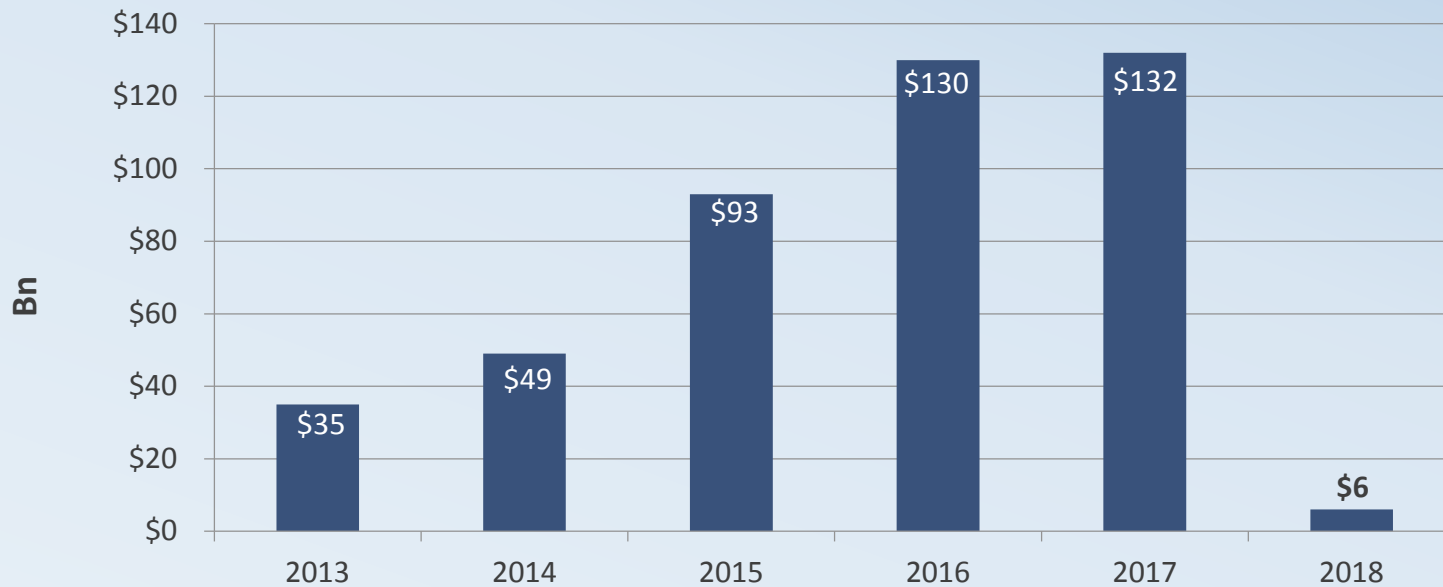
#3

What is Going to Happen to All the Maturing Loans?



CMBS MATURITIES

2011 - 2018



REMEMBER THE PROFILE OF THESE LOANS

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

WHAT TO DO WHEN YOUR LOAN MATURES

Contact master servicer at least 90 days ahead of maturity

Options:

- Full payoff
- Short term forbearance
- Extension
- Discounted payoff
- Short sale

Attempt to get refinance quotes regardless of the option you pursue



#2

How Does CMBS 2.0 Affect
All This?



CMBS 2.0

Dodd Frank

- Risk retention
- Operating Advisor

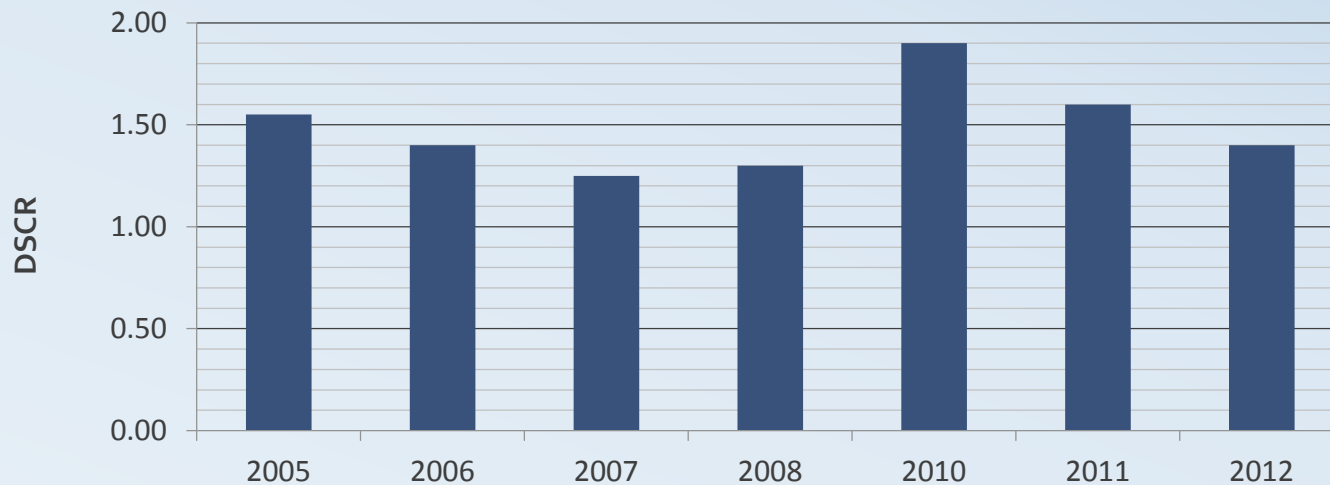
Special servicer's use of affiliates

What 2.0 didn't address

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

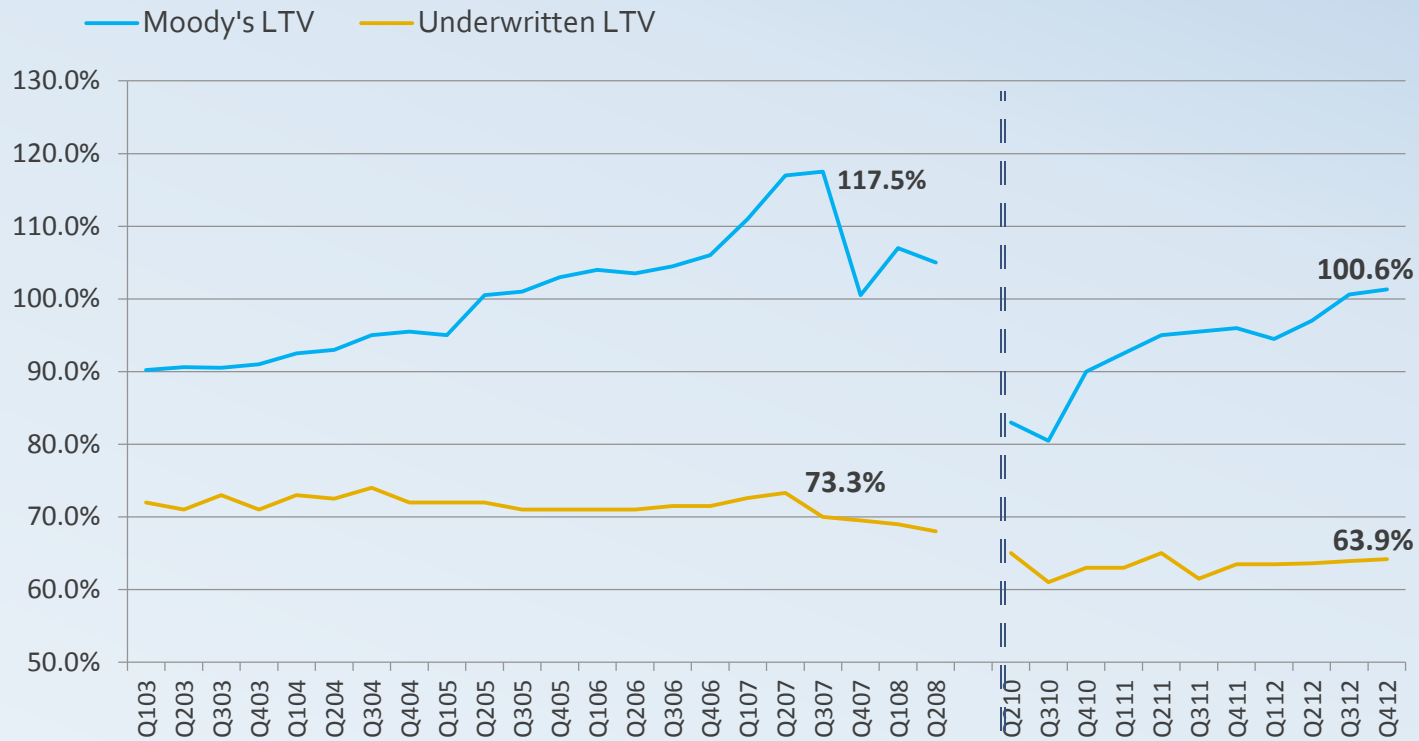
HISTORY OF UNDERWRITING STANDARDS

DSCR at Issuance



HISTORY OF UNDERWRITING STANDARDS

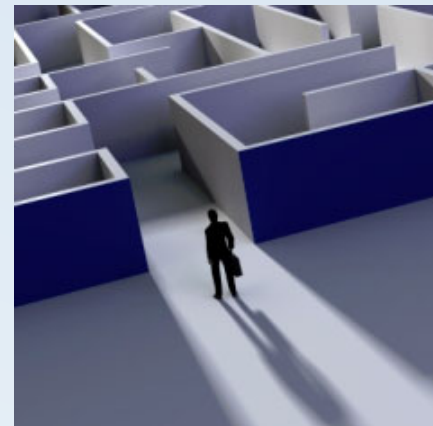
LTV at Issuance





#1

What Does a Borrower Need to Know to Modify Their Loan?



WHAT A BORROWER NEEDS TO KNOW TO MODIFY THEIR LOAN

Who the special servicer and the CCR are

What the particular special servicer will entertain based on:

- Location of property
- Size of loan
- Maturity date
- Current value of property
- Their affiliate companies

What the NPV of the other options available to the special servicer are, including advancing obligations

How to present the request to increase the odds of acceptance

How to keep the negotiation progressing even though it is one sided

WHAT A BORROWER NEEDS TO DO TO MODIFY THEIR LOAN

Sign the pre-negotiation agreement

Always remit all net cash flow

Be transparent

Proactively send a written request for the modification

Be willing to negotiate with yourself

Be patient

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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