

# CMBS Loan Restructures: Reach the Summit!



Speaker:  
**Ann Hambly**  
Founder & Co-CEO

# About 1<sup>st</sup> Service Solutions



- Founded in 2005 by Ann Hambly
  - Former Chairperson of MBA COMBOG
  - CEO of servicing for Prudential, Nomura, GE, B of A, and BNY
- Advocated over \$11 billion to date
- Current pipeline is over \$6 billion
- National company based in Dallas, Texas
- Average loan size = \$30 million, with loans ranging from \$2-\$300 million

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# Tackling a Restructure . . .



**can be daunting without proper guidance and gear.**

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# Agenda



- CMBS Market
- Parties/Roles & Motivations
- CMBS Maturities
- CMBS Restructures
- Case Studies
- Q&A

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# CMBS Market



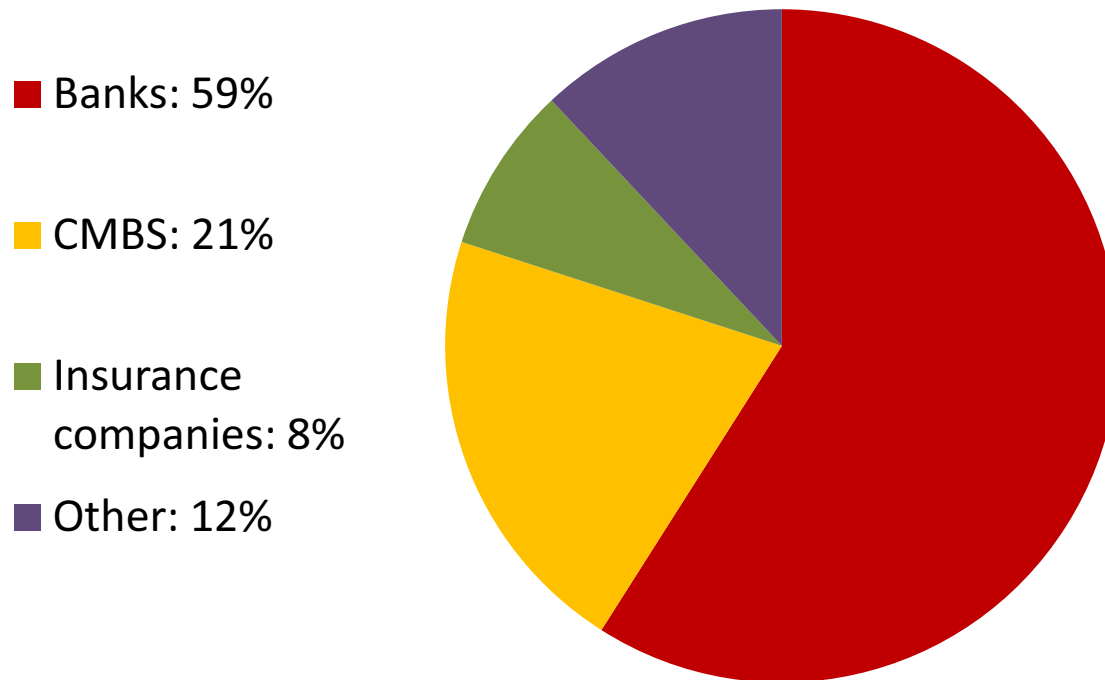
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# Market Overview



Outstanding real estate loans = \$2.9 trillion



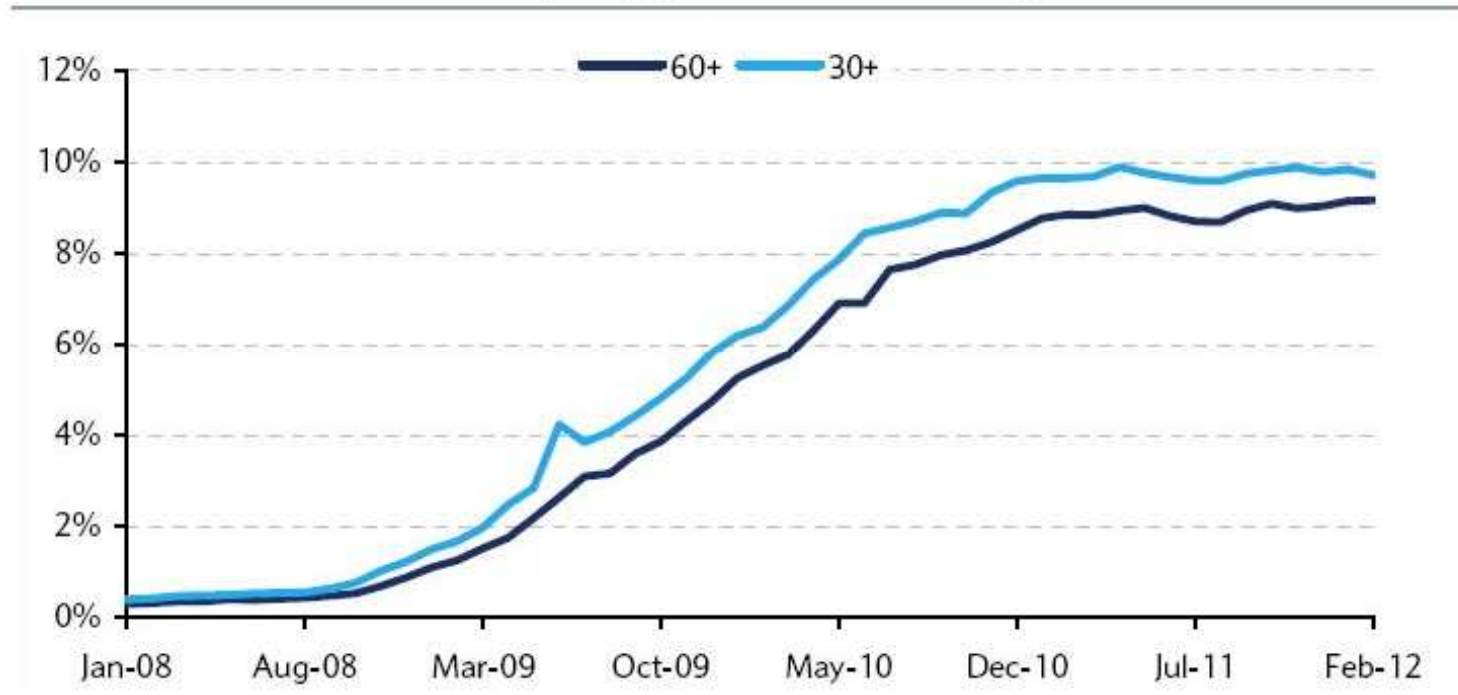
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# CMBS Loans in Special Servicing



Delinquency (% of current balance)

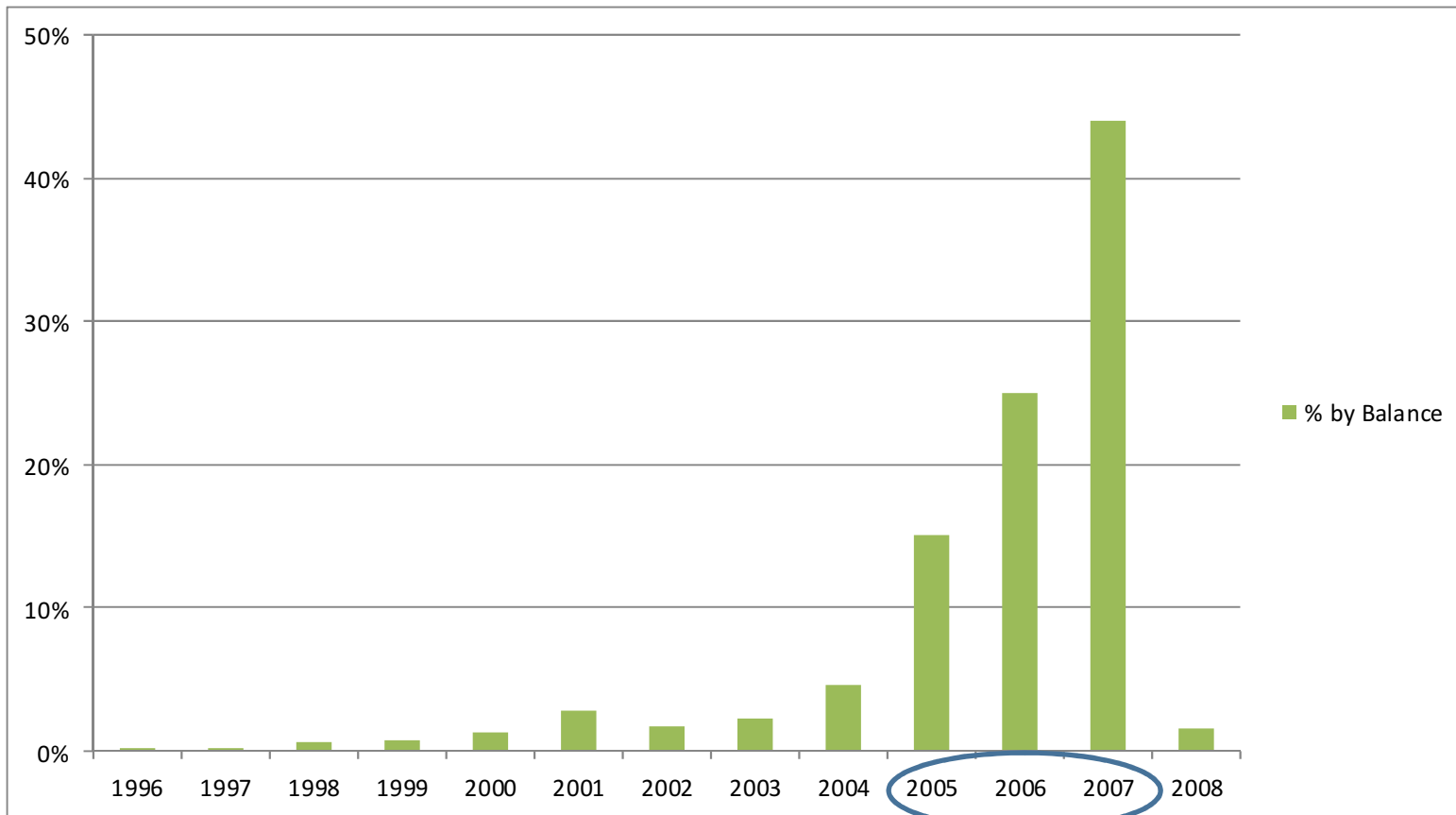


Source: Intex, Barclays Capital

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# Defaults by Year of Origination



84%

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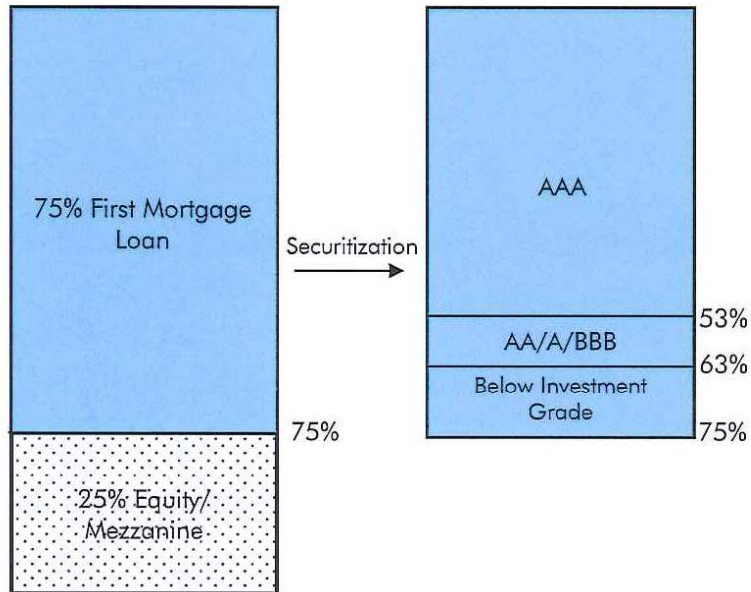




# How Did We Get Here?

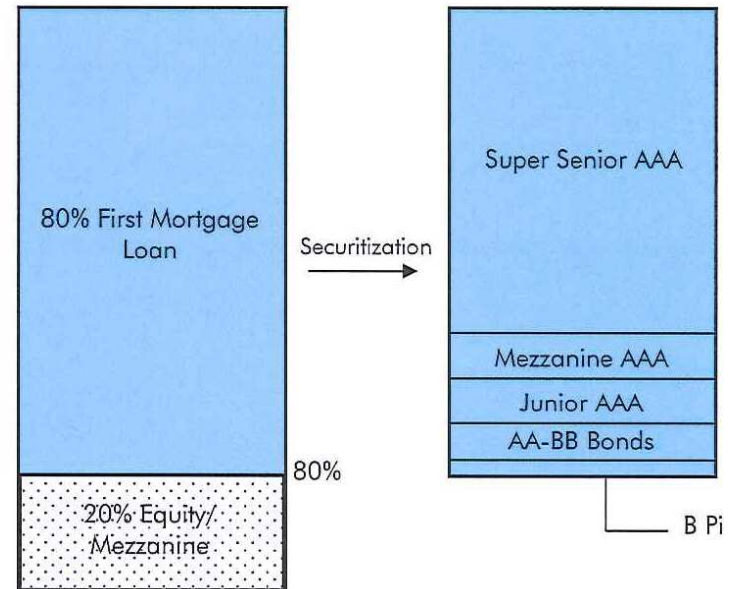


Original Model



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

2005 – 2007 – 88% of CMBS Market



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

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# Parties/Roles & Motivations



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# Parties



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

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# Who Are The Special Servicers?



Rank	Company	Amount (\$millions)
1	LNR Partners, Inc (U.S.)	\$192,304
2	CWCapital LLC & CWCapital Asset Mgmt.	\$158,949
3	C-III Asset Management LLC	\$112,238
4	PNC Real Estate/Midland Loan Services	\$62,953
5	Berkadia Commercial Mortgage LLC	\$28,176
6	Torchlight Loan Services	\$26,000
7	Wells Fargo	\$25,016
8	Bank of America Merrill Lynch	\$16,755
9	KeyBank Real Estate Capital	\$13,400
10	ORIX Capital Markets, LLC	\$7,497

85%



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# Who Owns Them?



## Top Three Special Servicers:

- **LNR**
  - Recapitalized by a group of five opportunistic buyers (Vornado Realty Trust, Cerberus, Oaktree, iStar Financial and Aozora Bank)
  - \$27.1 billion in UPB of loans in Special Servicing
- **CW Capital**
  - Bought by Fortress Investment Group
  - \$20.2 billion in UPB of loans in Special Servicing
- **C-III**
  - Formerly Centerline, bought by Island Capital, and changed name to C-III
  - Island Capital also acquired JE Robert's Servicing platform recently
  - \$16.1 billion in UPB of loans in Special Servicing

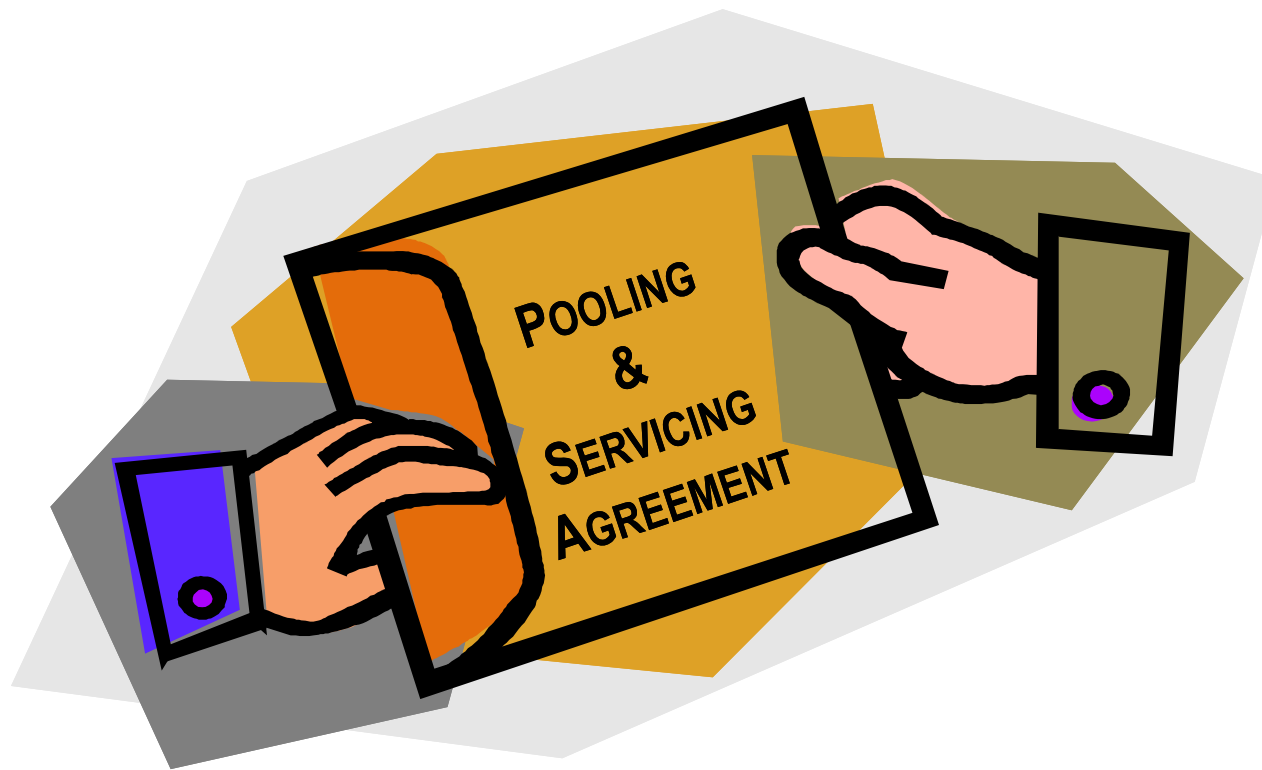
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# Servicing Standard



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



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# Special Servicing Fees



- Special Servicing Fees
  - Typically 25 basis points on loans in Special Servicing
- Resolution Fee
  - Historically 1% of resolved loan balance
    - Modification fee
    - Extension fee
    - Resolution fee paid by Trust
    - “Double Dipping”
- Late fees/default interest
- Interest on bond investment
- Affiliations
  - Brokerage firms
  - Mortgage banking firms
  - Note auction firms

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# How Losses Affect 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)

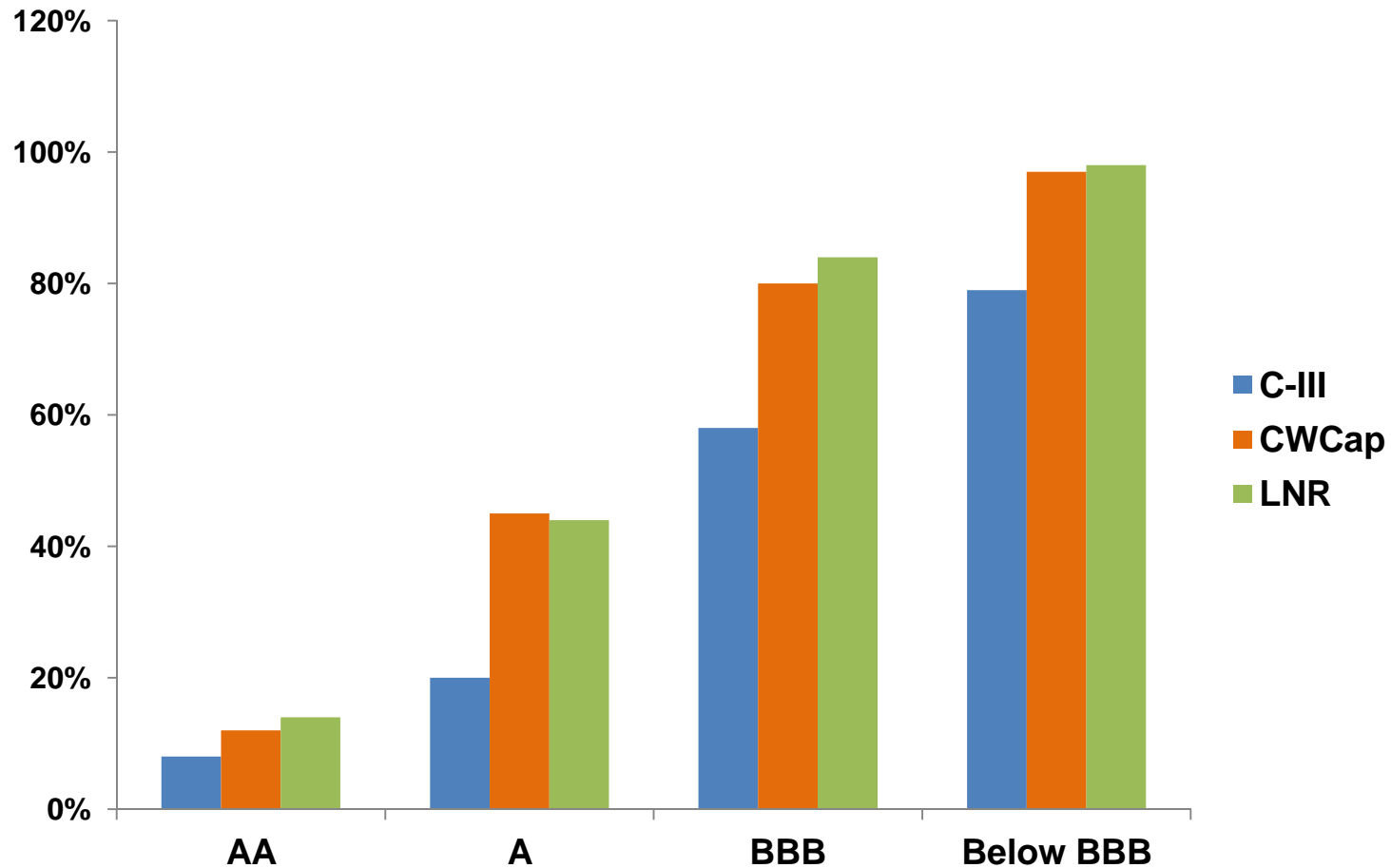
	Original Face Amt of Bond	Losses	Current Bond Amt
AAA	50	–	50
AA	20	–	20
A	10	5	5 (CCR)
BBB	10	10	0
B	6	6	0
UR	4(CCR)	4	0

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# Shares of Bonds Taking Interest Shortfalls

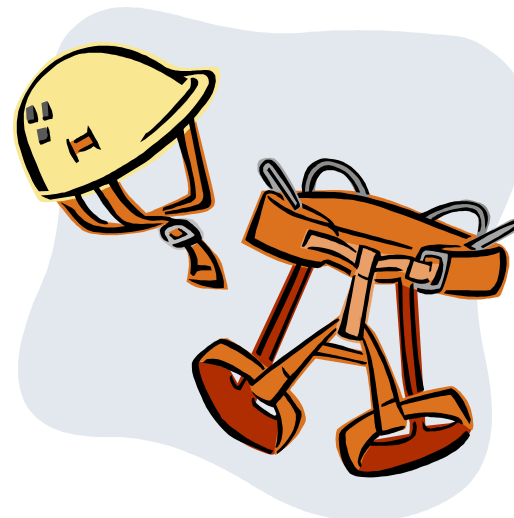


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# CMBS Maturities



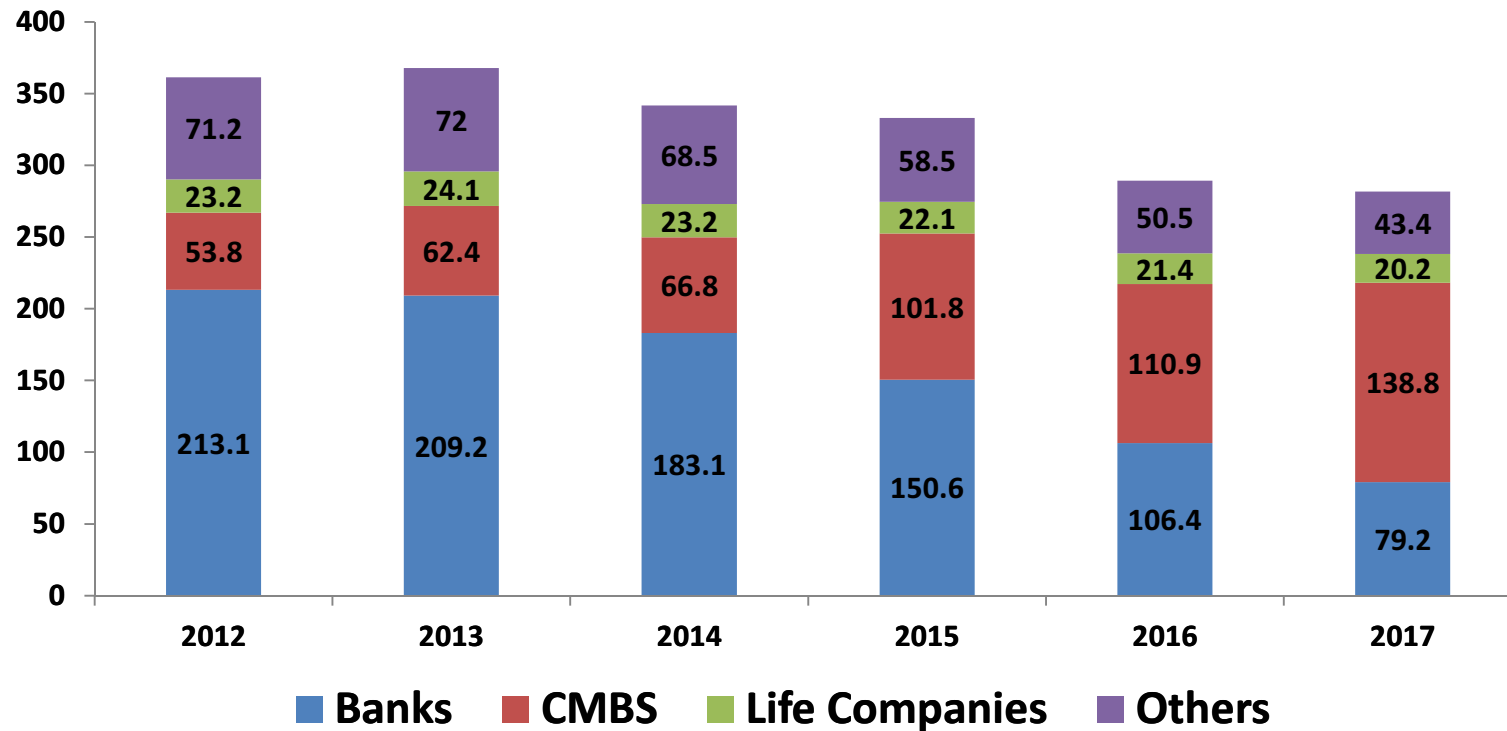
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# CMBS Maturities



- There are massive scheduled loan maturities coming due that will need to be refinanced. In the next 5 years the total amount is estimated to be \$1.7 Trillion.



Source: Foresight Analytics

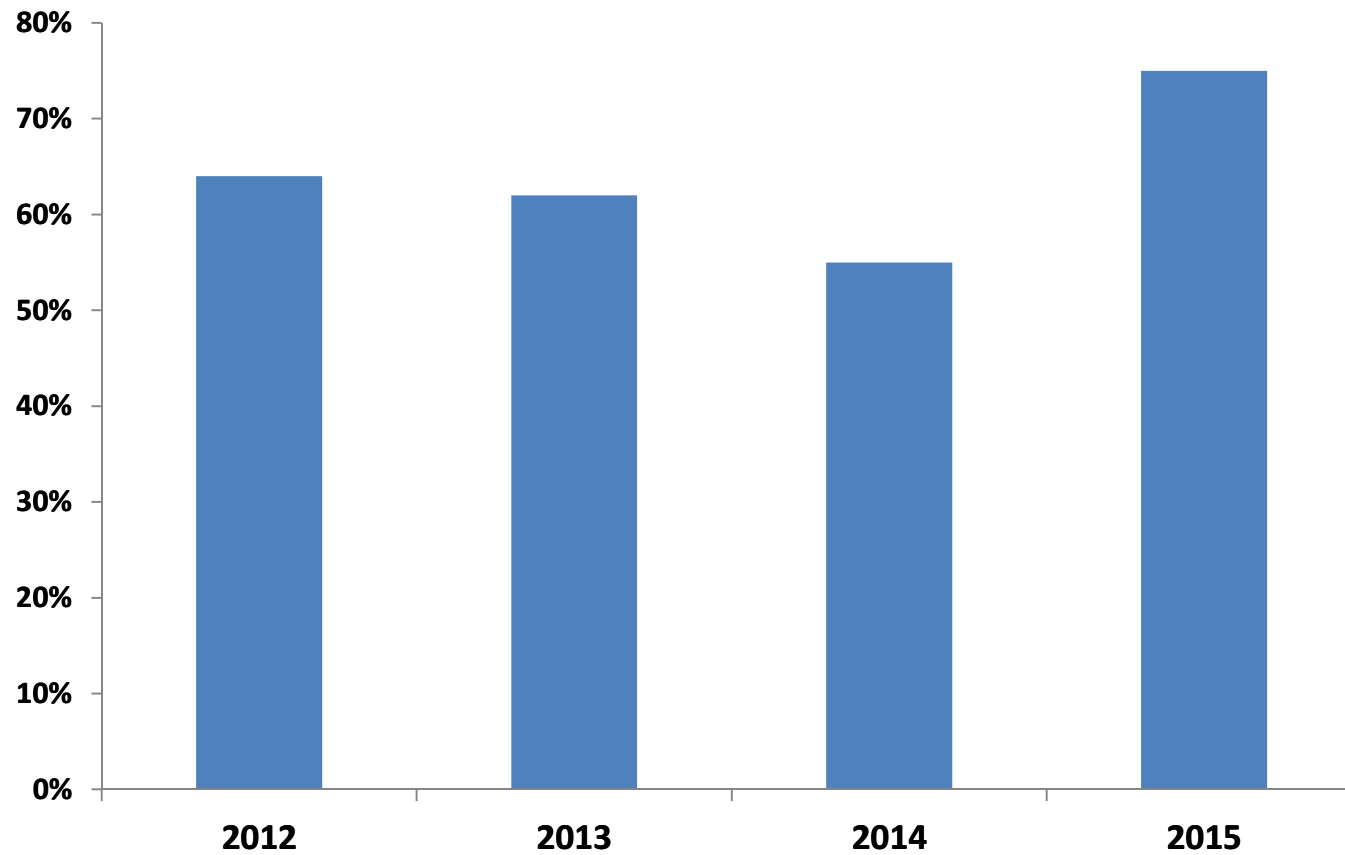
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# Most Maturing Mortgages are Under Water



■ % of Maturing Commercial Mortgages Under Water



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# CMBS Restructures



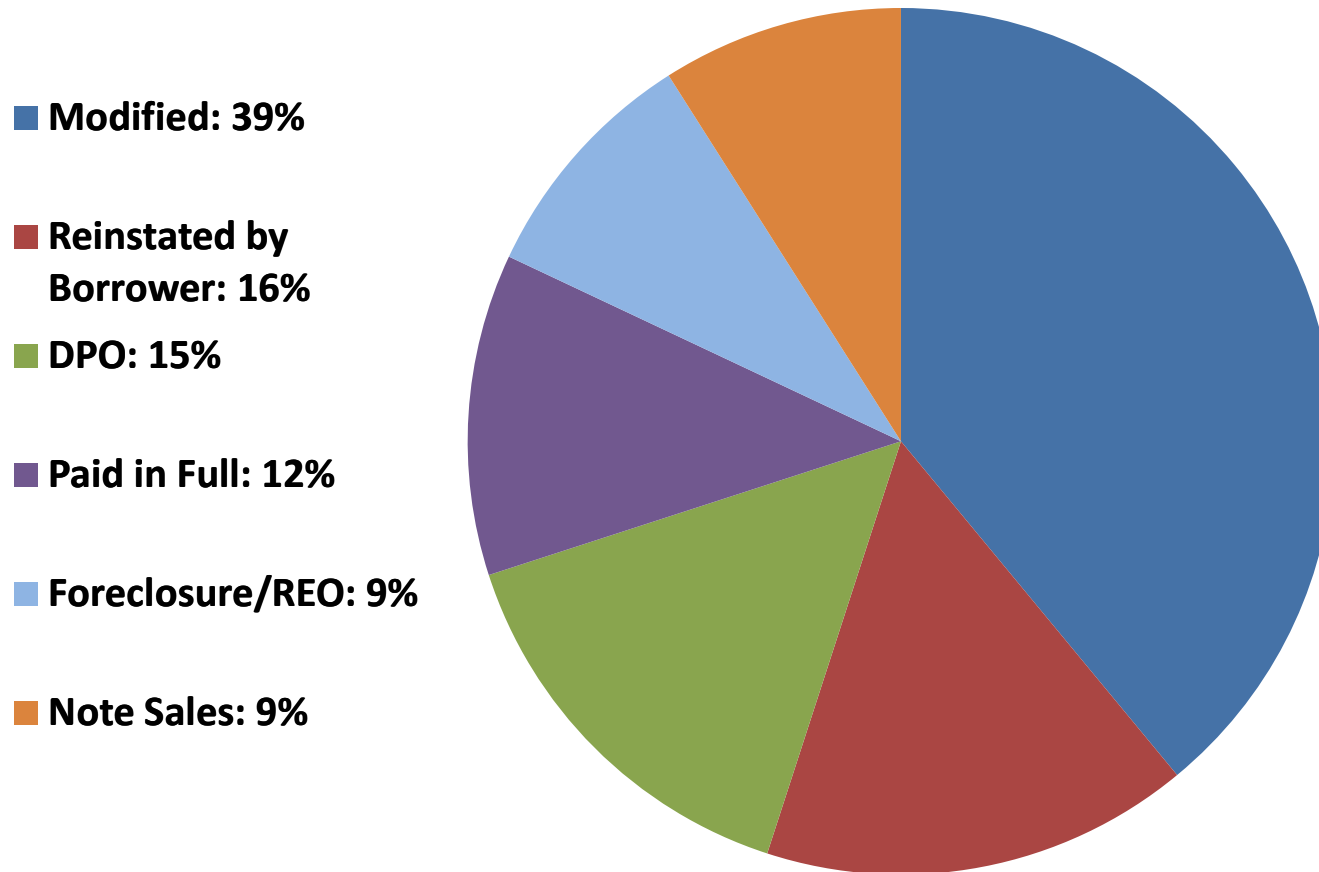
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# Restructure Types 2010-June 2011



**\$63.5 Billion Resolved from Jan. 2010-June 2011**



**\$82 billion has been resolved since 2007**

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# What Does It Take to Get One Done?



- New capital
- Know the special servicer's "rulebook," drivers and motivations
- Present a well thought-out plan in writing
- Be patient
- Be transparent
- Understand the special servicer's options
- NPV

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# NPV



- In PSA
- NPV is calculated for all options

## CURRENT APPRAISED VALUE OF PROPERTY

### – Hold Costs

- Carry Costs (varies greatly by state)
- Advancing (by state)

### – Foreclosure & Legal Costs

### – Selling & Disposal Costs

### – TI, LC

### – Property Taxes, Insurance

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**NET IS THEN PRESENT VALUED USING DISCOUNT RATE**

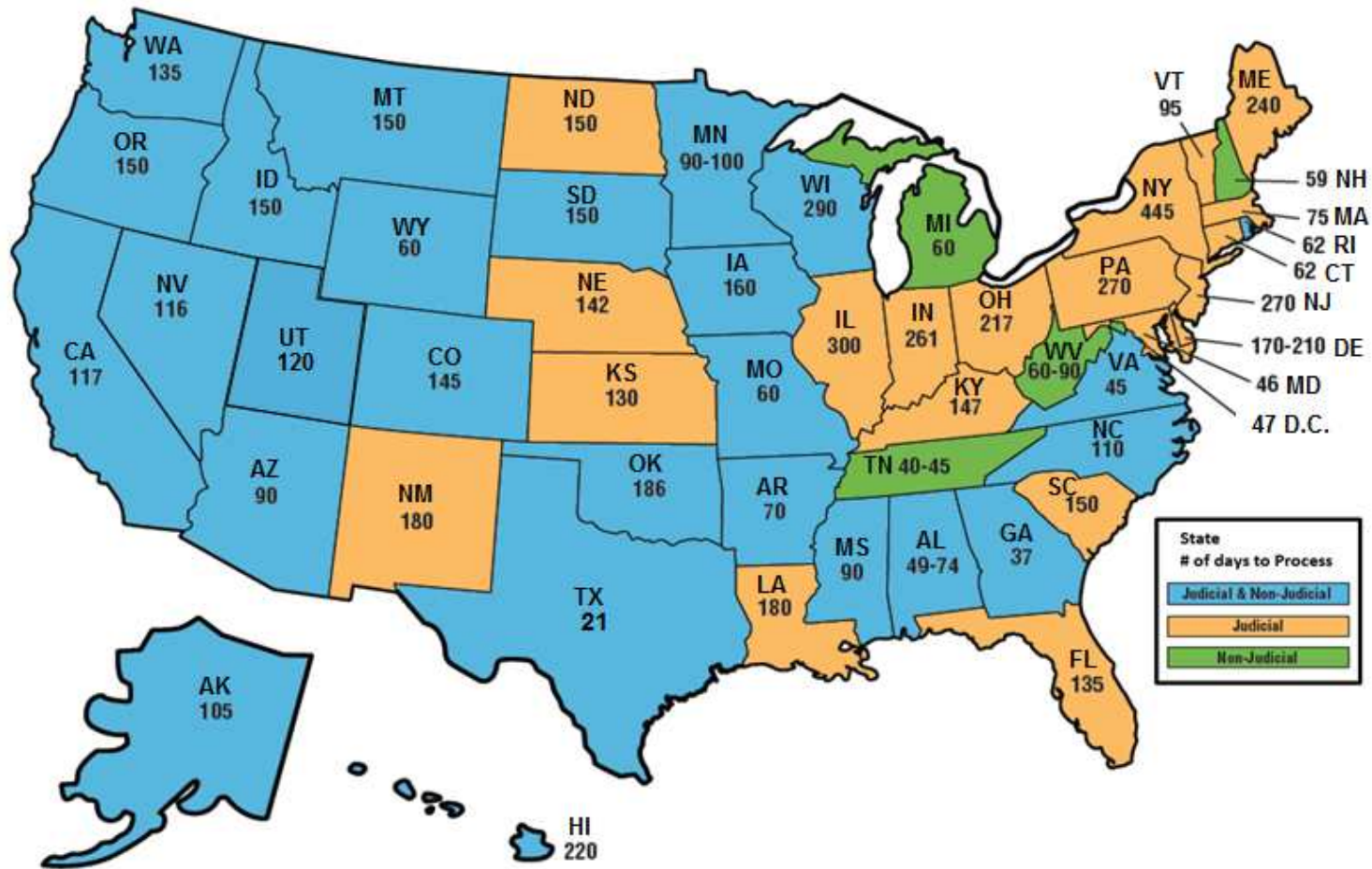
- Decision is driven off of highest NPV

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# Location! Location!



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# Primary Considerations in Restructure



- Is property under water today?
  - If **NO** = Payment modification
  - If **YES** = Will it likely recover most or all of its value by maturity?
    - If **NO** = Debt forgiveness OR DPO OR note Sale
    - If **YES** = Debt deferral OR A/B structure OR A/B/C structure
- Know your ultimate exit strategy
- Know your menu of options
  - Not all A/B structures are the same
- Hire a sherpa
- Know the ultimate decision-maker
  - CCR
  - CCR life expectancy
  - How will a change affect the outcome?

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# Case Studies



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# Case Study: Discounted Payoff



- 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



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# Case Study: Short Sale



- 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

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# Case Study: A/B Structure



- Retail
- California
- \$27 million loan
- Matures in 2017
- Special Servicer agreed to A/B 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



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# 1st Service Solutions

## Serves as your Sherpa



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# Ann's Resume



- 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.
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