QUESTIONS from 10.24.2011 webinar
(Ethan Penner, CBRE and Ann Hambly, 1st Service Solutions)

1. What is the magnitude of the "underwater" situation? (i.e. of the 75% that are underwater w/2015 maturities, how many of those are underwater by 10% or less, 110% or lower LTV- vs those that are grossly underwater)

   It is impossible to say given that it will be determined by the value of the real estate in 2015, but it is fair to say that many, if not most, are grossly underwater.

2. Can you walk us through a recent example where CBRE brought in capital and restructured debt? Did CBRE buy the note?

   There have been a few instances. The most recent one had a borrower facing the refinancing of a matured loan that was currently about 95% LTV. He got Wells Fargo to make a new first for about 70% LTV and we provided Preferred Equity for the remainder. The borrower was able to retain ownership and a meaningful chance at participating in value recovery as the market and economy improve.

3. What is the best way for high risk rescue/low risk mezz investors to source deals?

   By joining with the existing borrower and approaching the special servicer with a joint solution

4. Define hope note

   Hope notes are really notes that MAY HAVE value in a future date. The example we gave in the webinar is where a note is bifurcated into an A and a B note. The A note is the note that is being serviced by the cash flow of the property and the B note is held until maturity in HOPES that it has value at that time.

5. What percentage of underwater loans results in DPO?

   There are a lot of factors that influence the decision to accept a DPO, including the length of time to foreclosure, the size of the loan, etc. On loans that are mature and underwater, a large percentage of those are resolved thru a DPO.

6. When doing a payment modification, how long will the lender give reduced payment? Is there an expectation that once the property can afford to pay original loan payment that the old payment will be reinstated?

   A payment modification is typically considered in instances where the cash flow of the property does not meet the current debt service payment. The payment is typically modified for the same length of time that the cash flow is short. It is definitely expected that once the cash flow increases sufficiently to meet the full debt service payment, that the payment is reinstated to its old terms.

7. Does the mortgager of the new loan capital infusion entity seek an appraisal to determine the market value or are the existing loan date metrics used as the basis for the restructuring?

   The provider of new capital will generally order a new appraisal, although if there is a timing issue or some other reason this cannot be obtained, it is not always a requirement.

8. On Ethan's slide 6 how "underwater" are these loans? What is the estimate LTV 110% is a lot different than 150%?

   The information was not provided by TREPP. The difference between resolving and recapitalizing a loan that is 150% LTV versus one that is 110% is simply the amount of write off that the current lender must take, or the size of the "hope certificate."

9. What are typical terms and provisions under which rescue capital is invested? Is the borrower entity maintained and is the rescue capital injected into that entity?

   Typically the borrower entity is maintained for a whole host of reasons. The new investor joins that borrower entity as a preferred equity investor and becomes a "noticed party" for the loan that encumbers the asset. There are no "typical" terms as each deal is very different and the solution by definition must be customized so as to work for that particular situation. There is generally a preferred yield, a portion of which is paid currently based upon available free cash flow, and the remainder accruing. The size of the accrual permitted is generally limited and is sized based upon an agreed-upon business plan for the deal. There is generally no final maturity, however, there usually is a date at which point the economics of the preferred become penal (with a much higher preferred rate and a cash flow trap, or a takeover of management) which serves as an effective final maturity date.

10. With regard to an A/B note restructure, if a future sale of the property generates sufficient proceeds to pay off the A note, borrower's additional equity pref. and 100% of the B note, is the lender entitled to 50% of excess proceeds?

    No. In general, the 'lender' on a CMBS loan is not entitled to participate in the equity on the sale. All proceeds above the full payoff of the B note is generally the borrowers' and the preferred equity provider's to split in their agreed to fashion. There may be certain instances where in a very highly leveraged loan the special servicer, as part of the negotiations, and in return for a favorable restructuring, does take some of the back end upside.