

# Ride The Wave



We listen . . .

**MBA Commercial Real Estate  
Finance Convention**

**February 6 & 7, 2012**



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

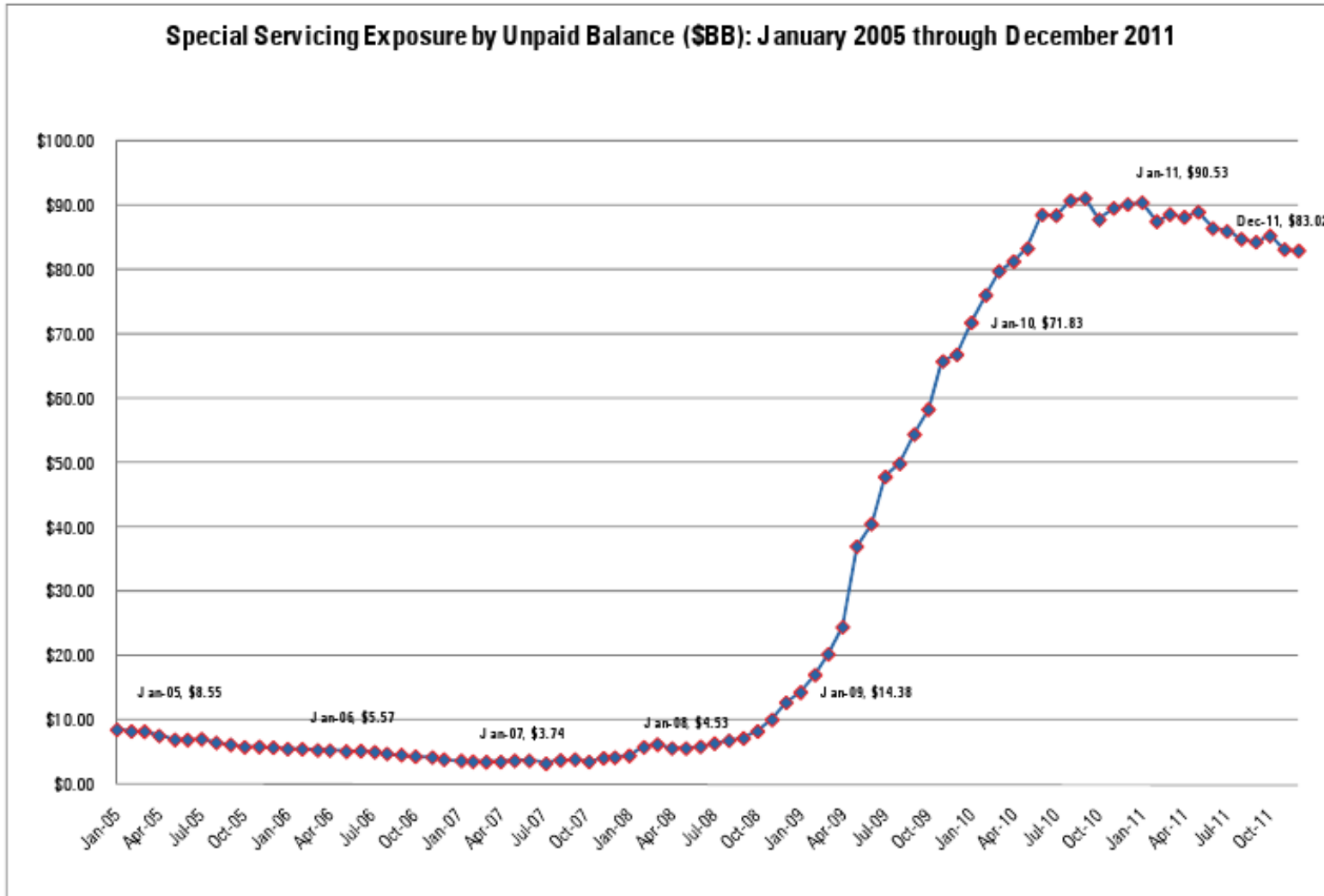


- Founded in 2005 by Ann Hambly
  - Former Chairperson of MBA COMBOG
  - CEO of servicing for Prudential, Nomura, GE, B of A, and BNY
- Advocated over \$11 billion to date
- Current pipeline is almost \$6 billion
- National company based in Dallas, Texas
- Average loan size = \$30 million, with loans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

# Bad News

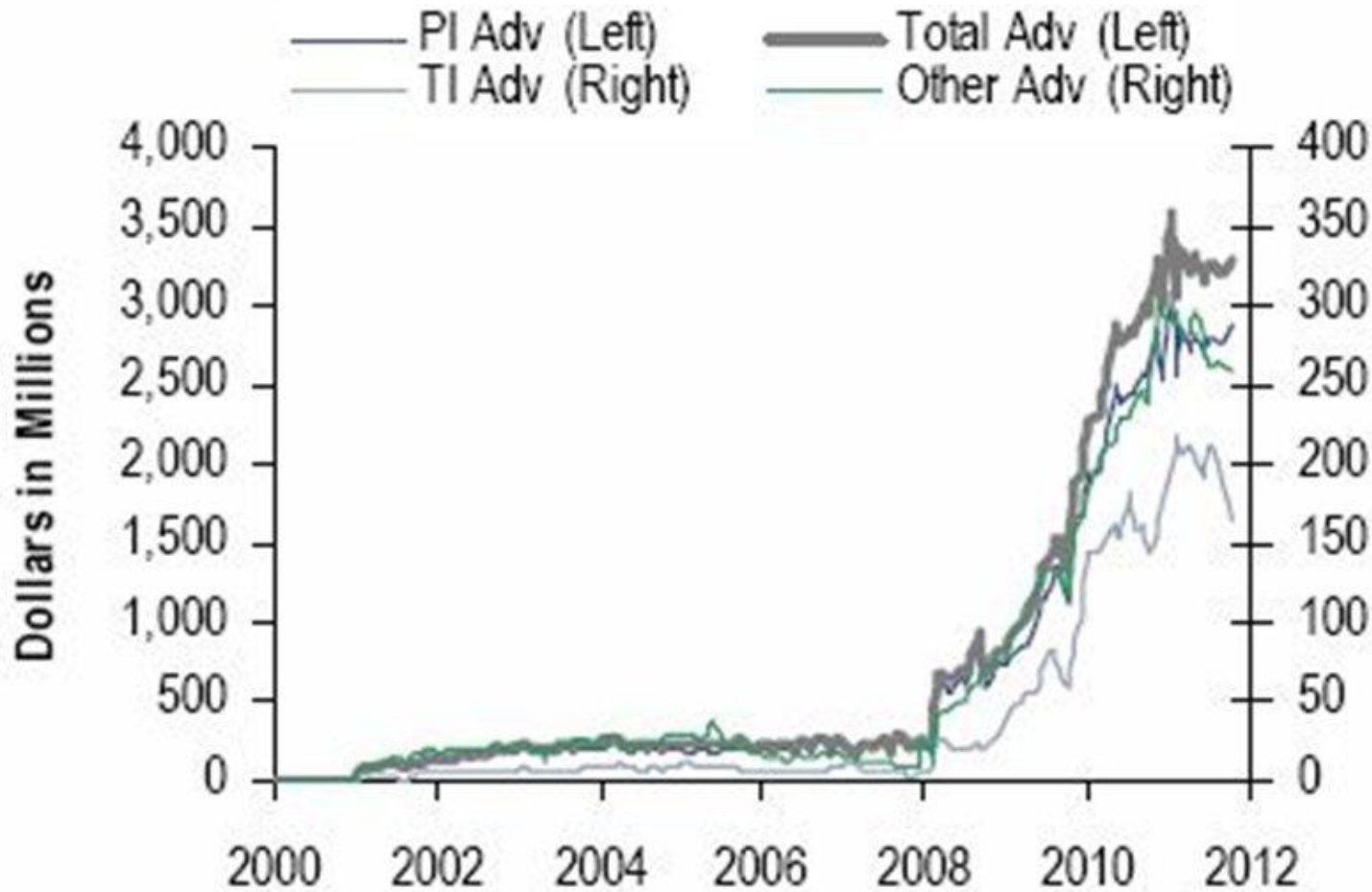


# CMBS Loans in Special Servicing



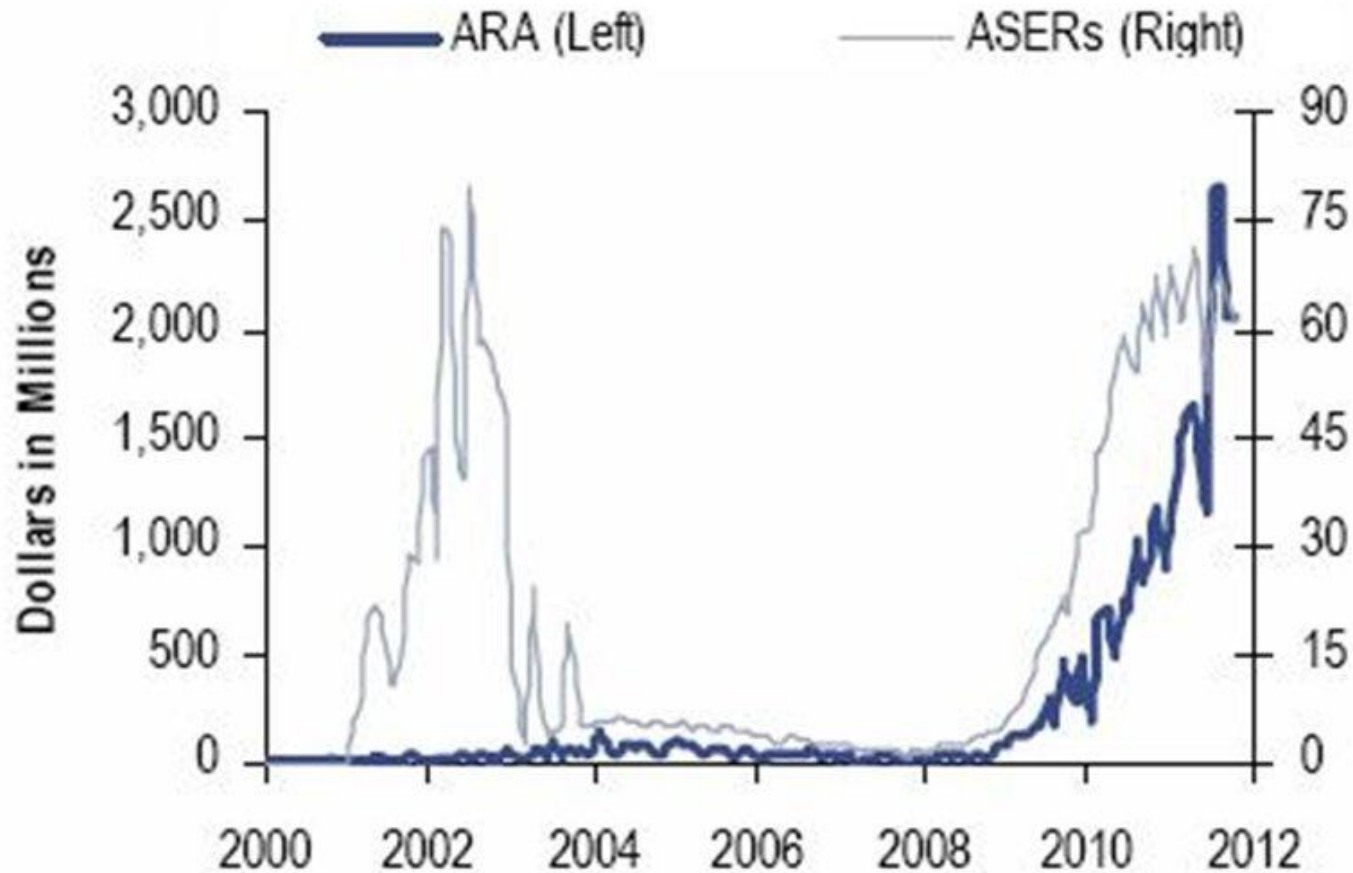
Source: Morningstar Report January 2012 Report

# Master Servicer Advances



Source: Trepp & CIRA

# Appraisal Reductions & ASERs

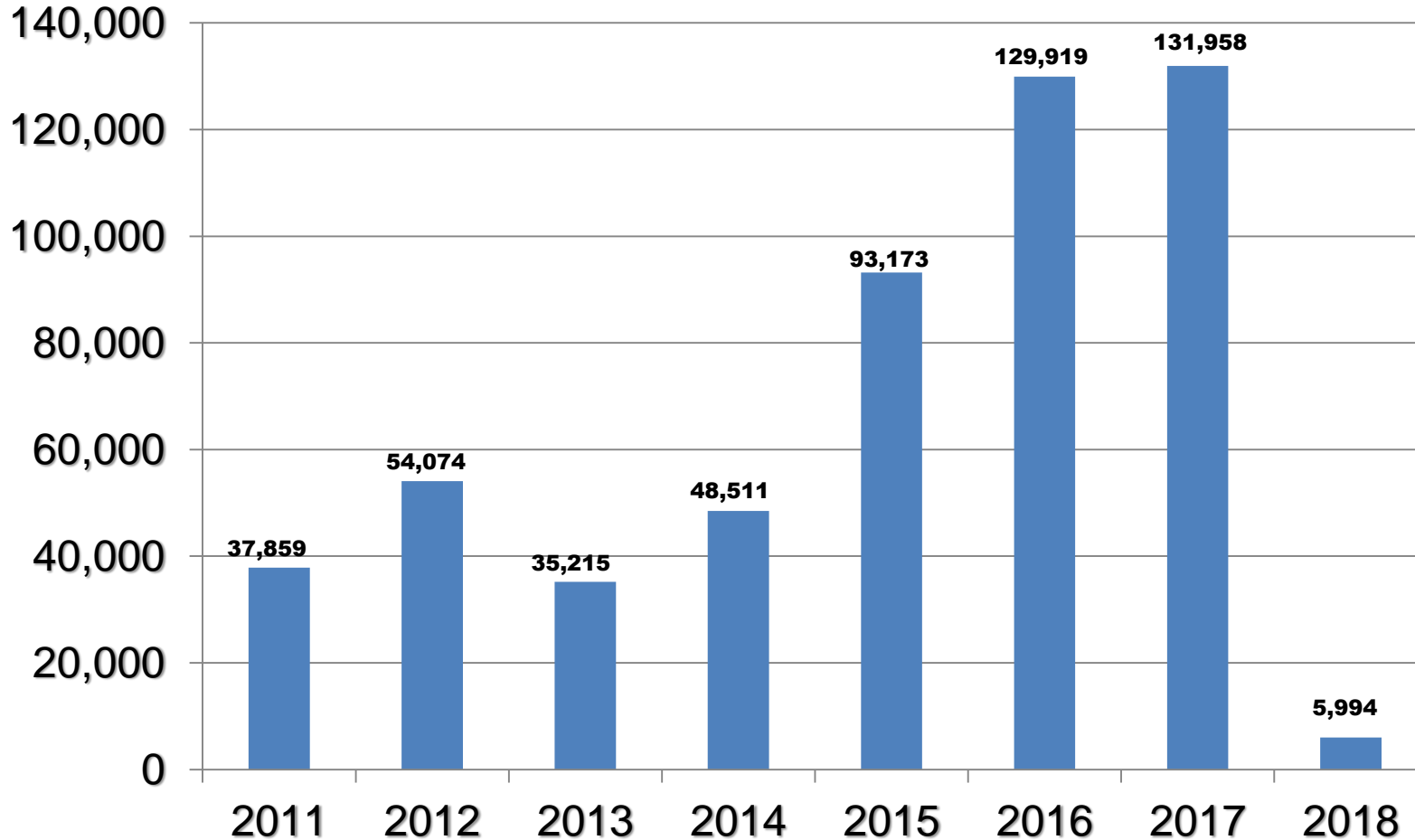


Source: Trepp & CIRA

# CMBS Maturities 2011-2017



In millions



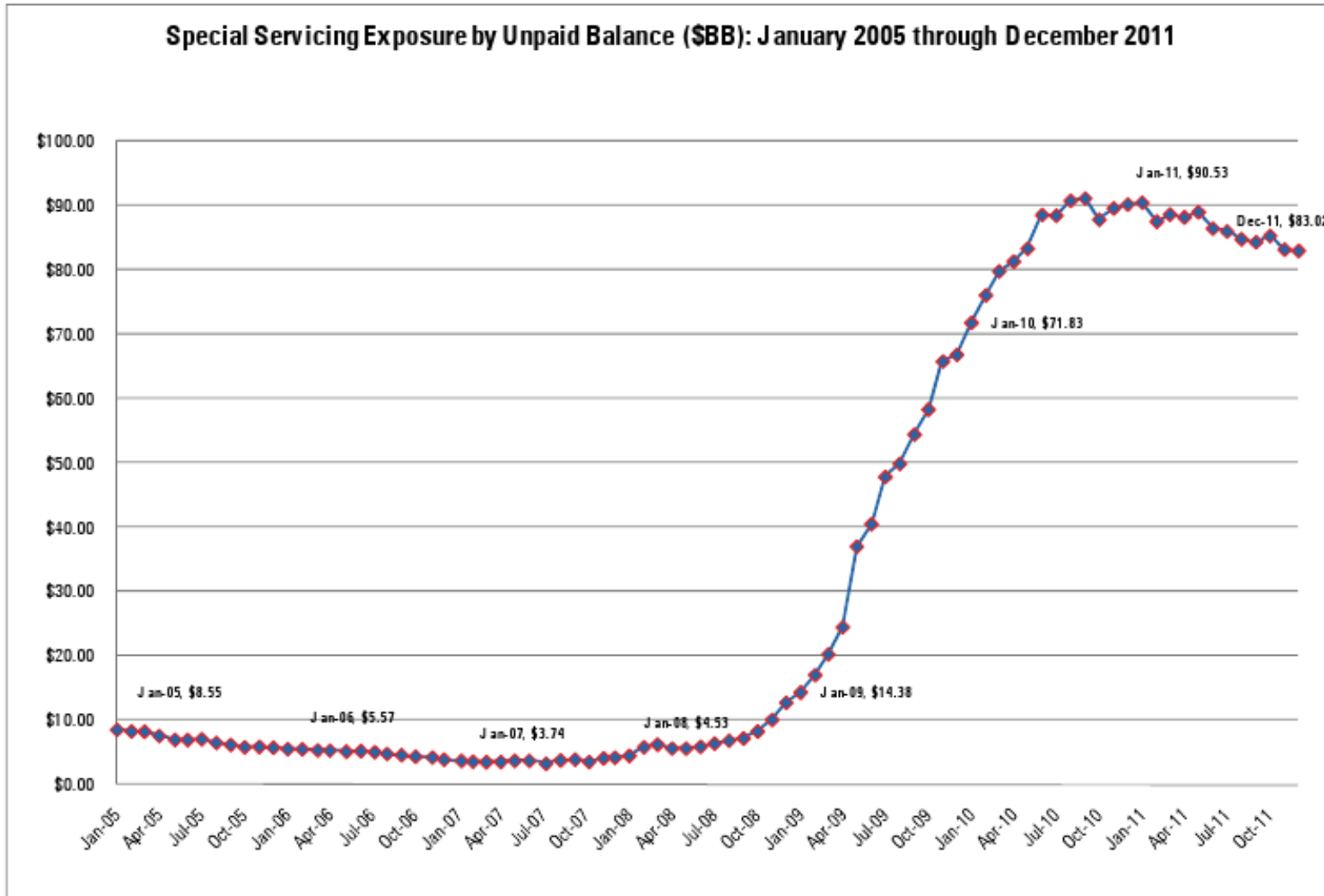
Source: Citigroup Global Markets

# Good News



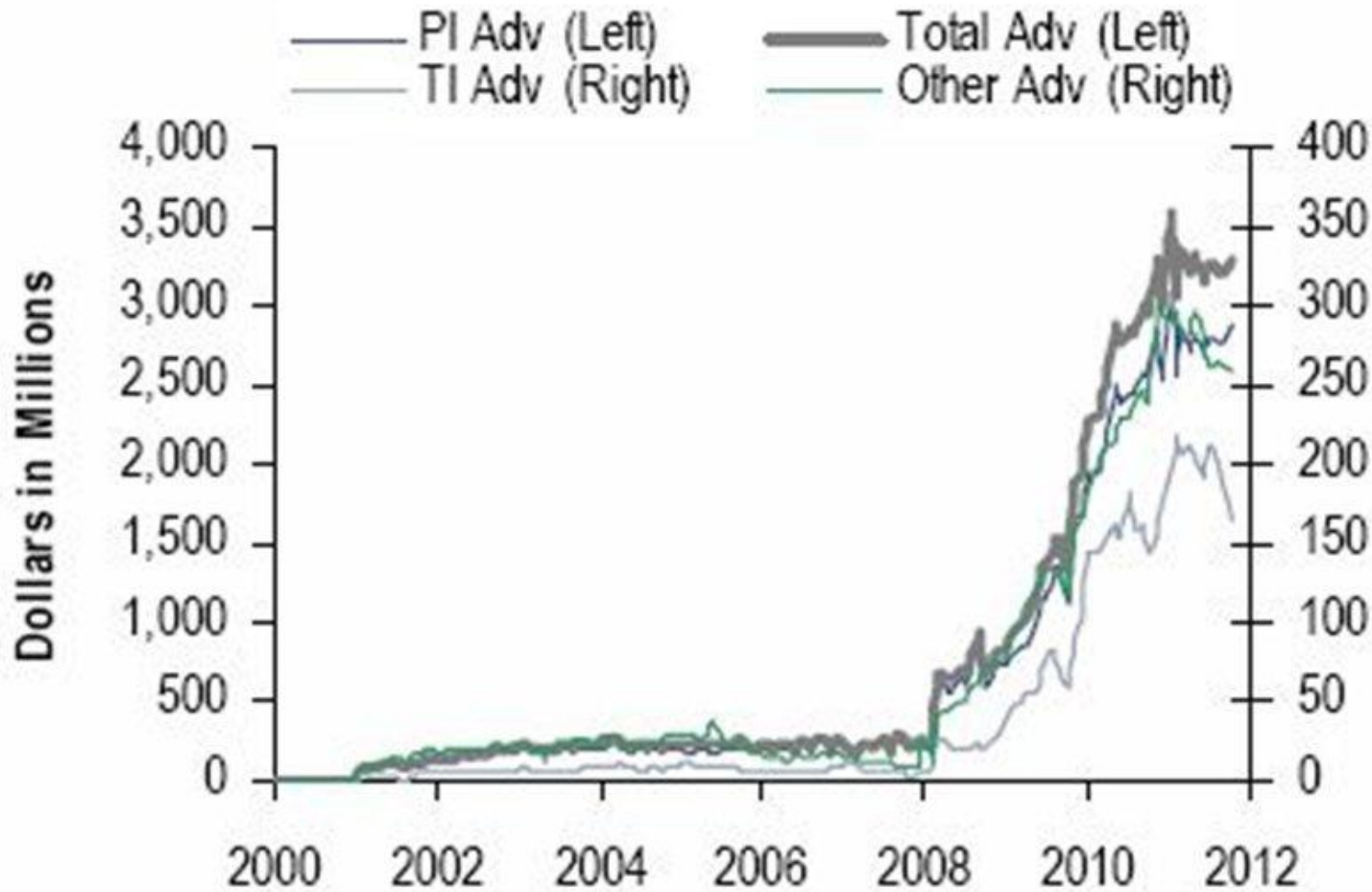


# CMBS Loans in Special Servicing



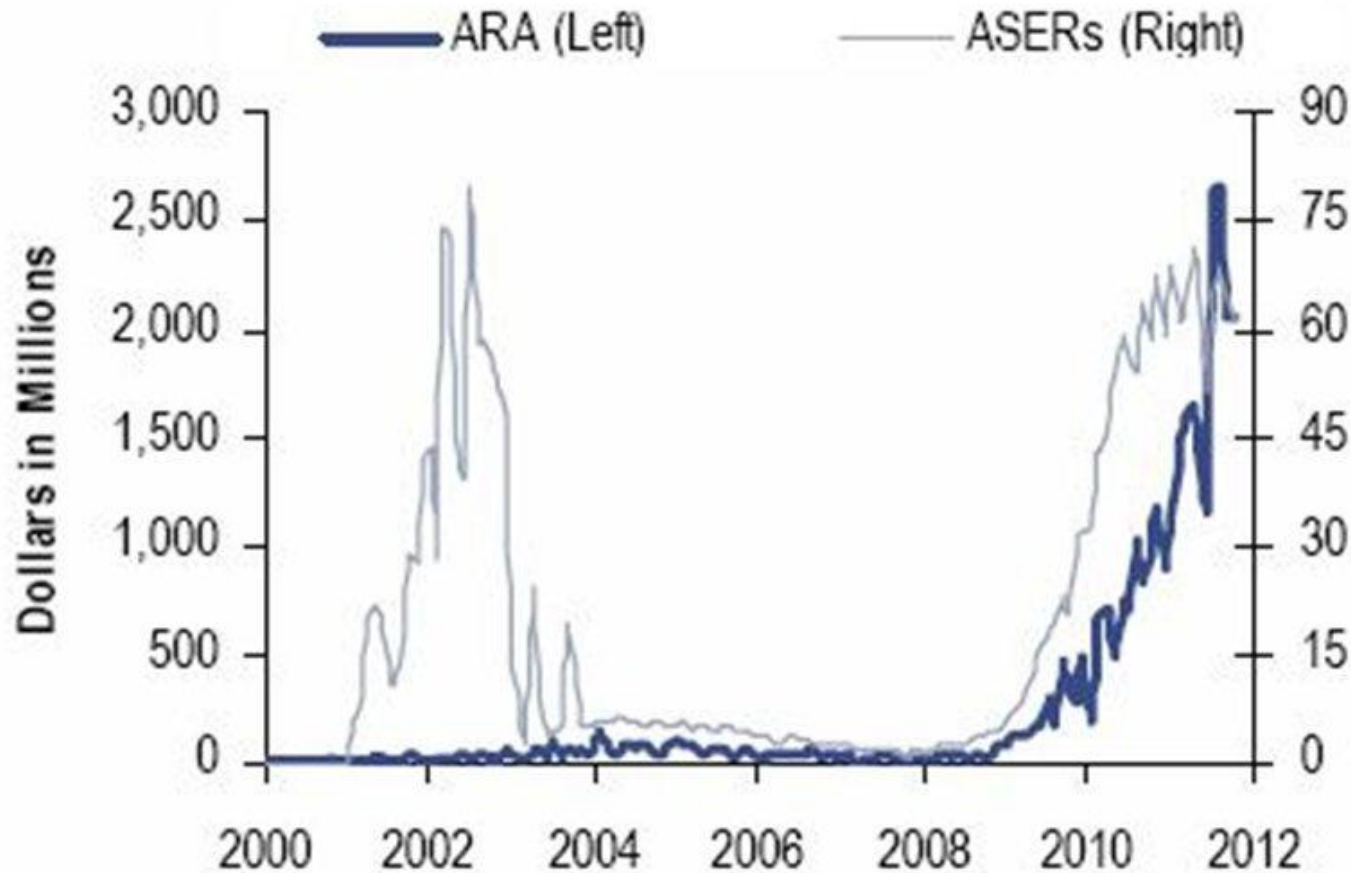
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# Master Servicer Advances



Source: Trepp & CIRA

# Appraisal Reductions & ASERs

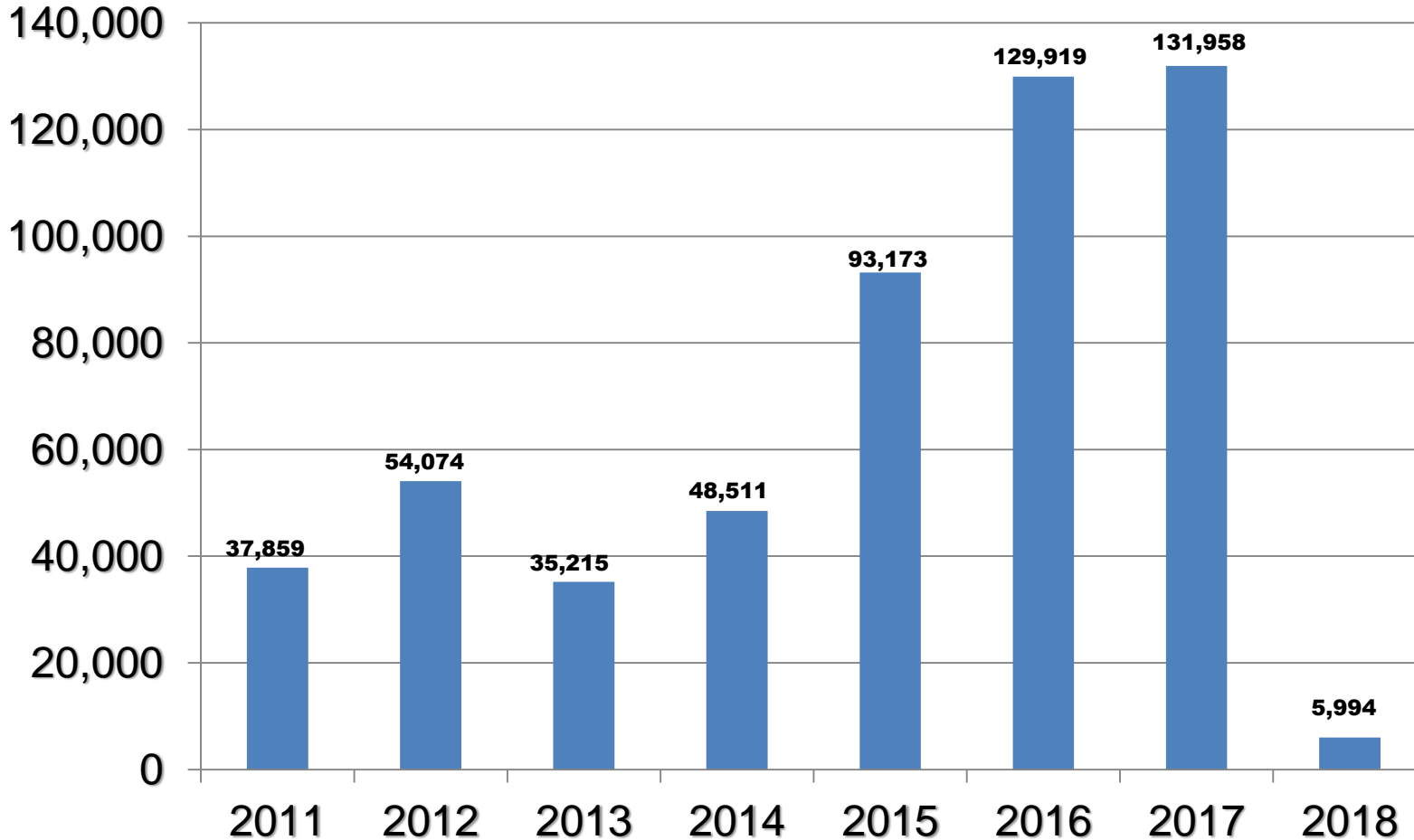


Source: Trepp & CIRA

# CMBS Maturities 2011-2017



In millions



Source: Citigroup Global Markets



# **A Play in Three Acts**

# Act I

Mine the Opportunities

# Act I

**Value of Property  
is Less than Debt**

**Borrower Has  
No Money to  
Recapitalize  
Property**

**Upcoming  
Cash Flow  
Shortfall**

**Upcoming  
Maturity**

**Borrowers Wants  
to Sell Property  
& Make Profit &  
Property Upside  
Down**

**Buyer Needs  
to Assume  
Existing Debt**

**Performing Loan  
Request – Lease  
Approval**

**Borrower Wants  
to Give Back the  
Property**

# Act II

1st Service Solutions  
Becomes Borrower's Advocate



- **Steeper discount**
  - NPV Calculation
  - Hands-on experience in special servicing
  - Ensuring a proper hearing
- **Higher probability of modification – 5 M's**
  - Model
  - Menu
  - Managers
  - Magnitude of deals done - \$6 billion to date
  - Manage borrowers' expectations
- **Insurance**
  - 3rd party
  - No conflict of interest (no debt or equity)
  - No other agenda

# Act III

## Execution

- **Modification of existing debt**
  - New capital
  - Mezzanine loan
  - New partnership structure
  - Walkaway fee / Hope note to borrower
  - Short sale
  
- **DPO & Maturing Loan**
  - New capital
  - Permanent loan
  - Mezzanine loan
  - Bridge financing
  - Walkaway fee / Hope note to Borrower
  - Short sale

# Case Study: Discounted Payoff



- Office building
- Michigan
- Original loan placed 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



# Fees



**Origination Fee**

**\$350,000**



**Referral Fee**

**\$13,000**

# Case Study: Short Sale



- Industrial (multi-tenant building)
- New York
- \$48 million loan
- \$10.1 million NPV

## Solution

- Special Servicer agreed to \$12 million discounted payoff
- Special Servicer agreed to give borrower 4 months to close with new buyer
- Borrower sold property for \$18 million
- Borrower netted \$6 million in profits less brokerage commission
- New buyer obtained \$12 million loan

# Fees



**\$500,000**



**\$120,000**



**\$13,000**

# 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
- 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

# Fees



**\$240,000**



**\$13,000**



**Take a Surfboard and . . .**

**Ride the Wave!**



We listen . . .