

The Great Mysteries of CMBS

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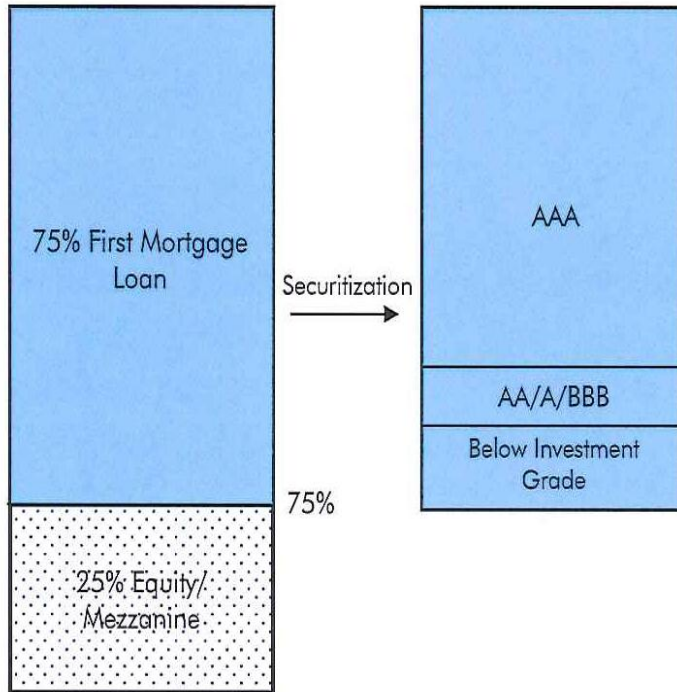
- **Defaults**
 - What caused them?
 - How much CMBS is there in the market?
 - Historical default trends
 - Defaults by year of origination
- **CMBS Parties\Role and Motivations**
- **Who are the Special Servicers?**
- **What is the Servicing Standard & Why do you Care?**
- **Primary Drivers in a CMBS Restructure**
- **What it takes to have a Successful CMBS Restructure**
- **Why are there so few REOs?**
 - What is happening to the loans?
 - Note Sales as a resolution method

Presented by



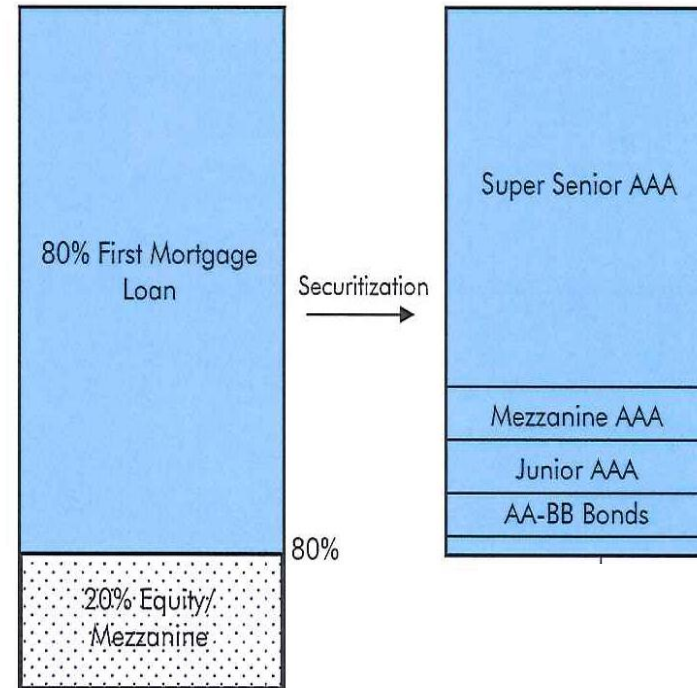
Ann Hambly

Pre 2005



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

2005 (88% of CMBS Market)



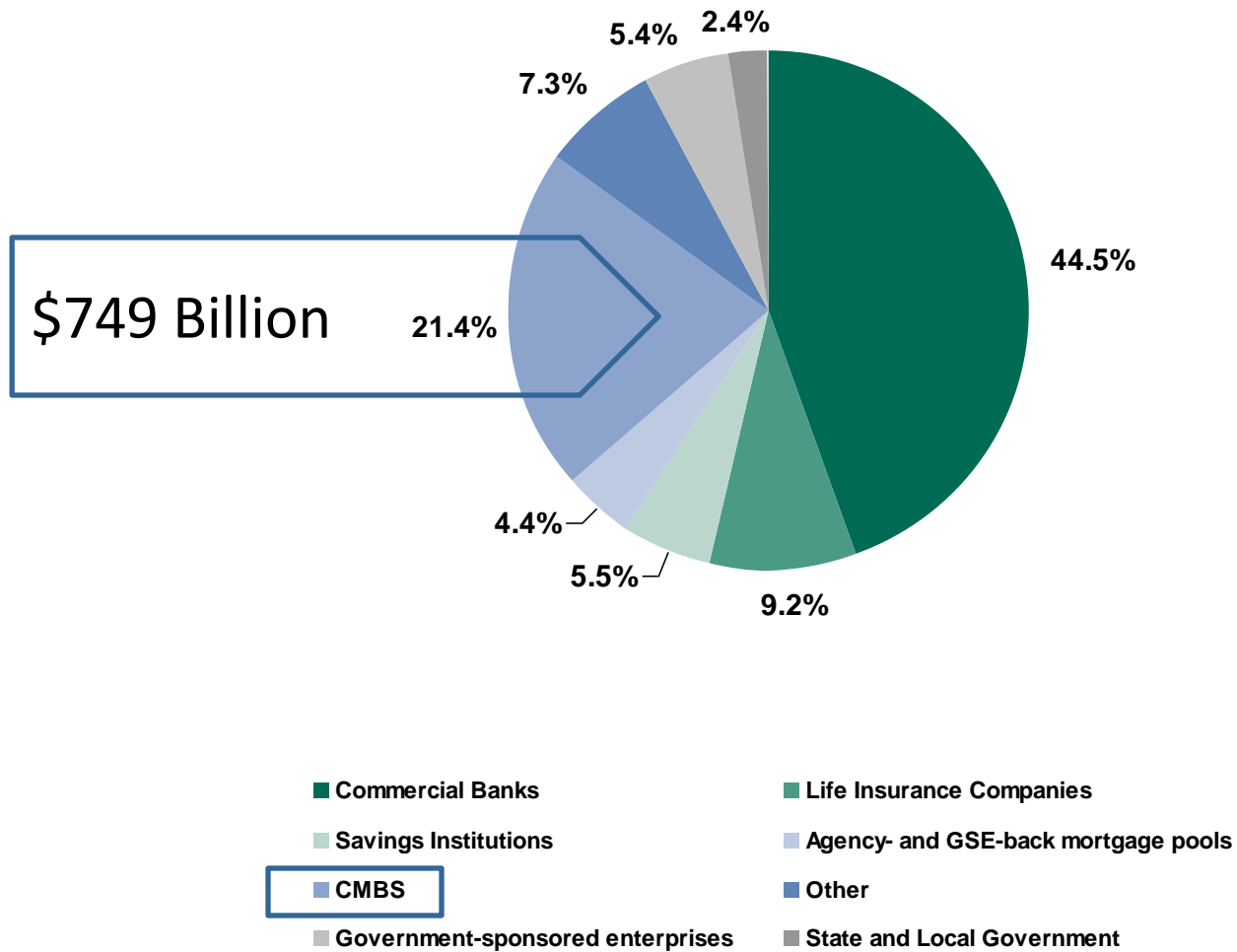
- AAA represented 90% of the first mortgage
- Mostly I/O loans
- Little lender protection
- 2007 CMBS issuance: \$230B

U.S. CRE Outstanding Debt



Total \$3.5 Trillion

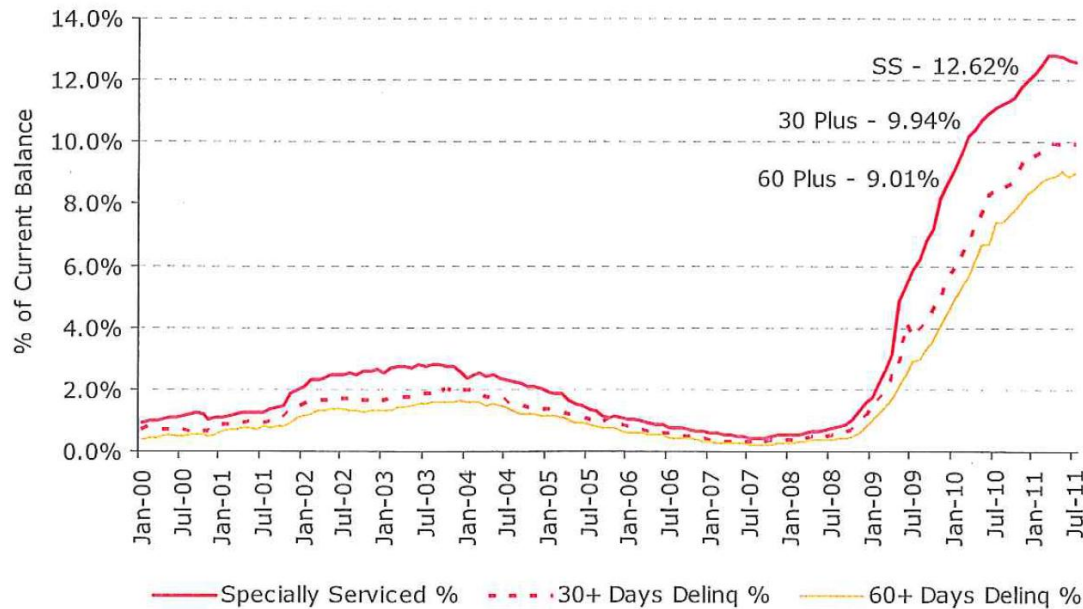
BY CAPITAL SOURCE



CMBS Defaults



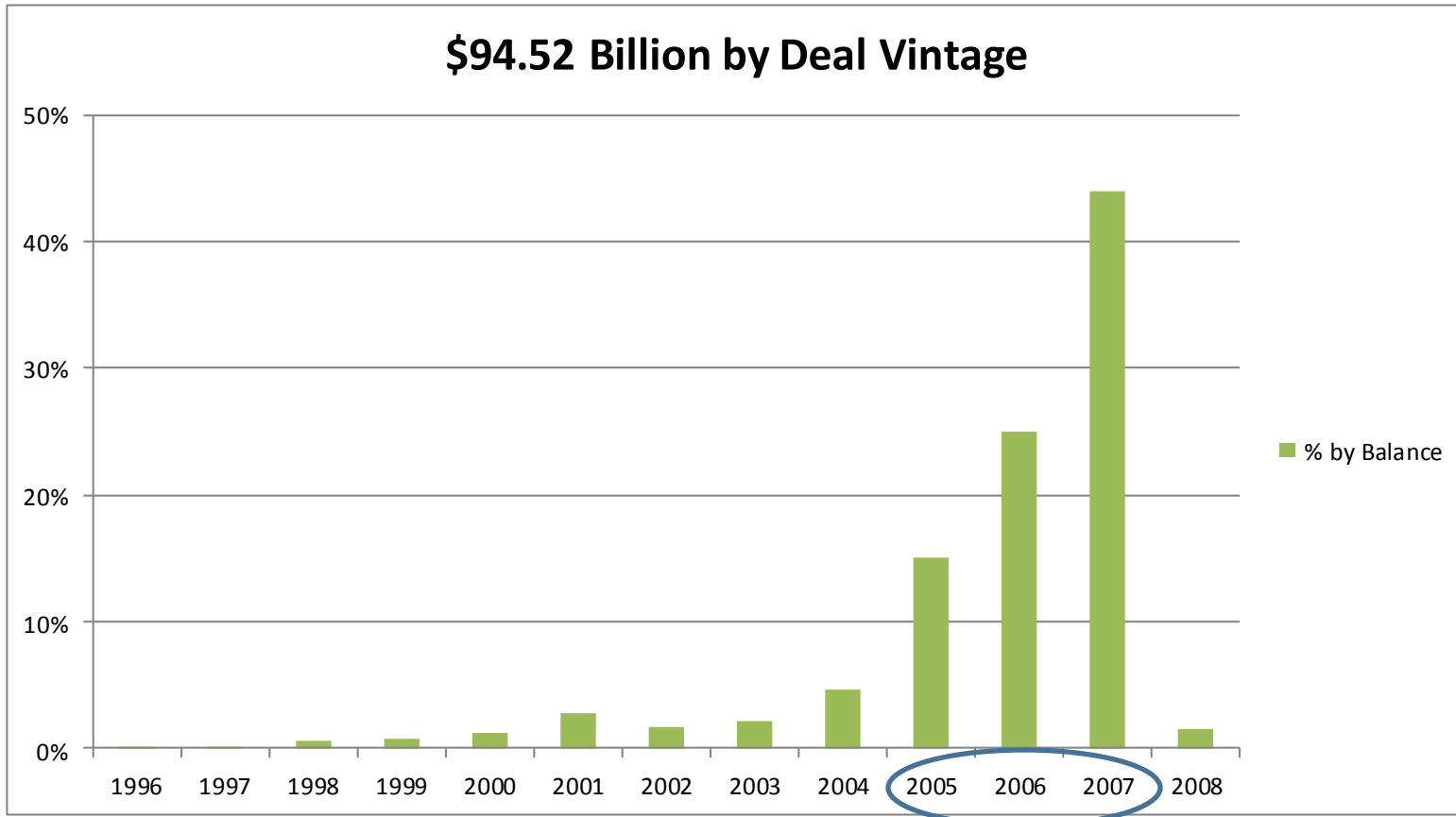
Exhibit 1: Delinquency and Special Servicing Rates (1995 - 2008 Transactions)



\$94.52 Billion

Source: Wells Fargo Securities, LLC, and Intex Solutions, Inc.

Defaults by Year of Origination



84%

Parties \ Roles and Motivations



Loan Funded	Investment Banking Firm Creates Pool	Rating Agencies	Bonds are Sold	Special Servicer is Assigned
<p>Borrower</p> <p>Lender</p> <p>Loan contributed to Pool</p> <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> <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>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>

Current Dynamics at Play



- The lowest rated bond holder is the CCR
- Losses hit the lowest rated bonds
- As losses occur, the CCR changes
- As CCR changes, so can the special servicer

AAA

AA

A

BBB

BB

B

UR



Rank	Company	Amount (\$ millions)	Number of Loans	Avg. Loan Size (\$m)
1	LNR Partners, Inc (U.S.)	\$209,238	15,784	\$13.3
2	CWCapital LLC & CWCapital Asset Management	\$162,757	12,365	\$13.2
3	C-III Asset Management LLC	\$120,766	12,443	\$9.7
4	PNC Real Estate / Midland Loan Services, Inc.	\$60,364	5,590	\$10.8
5	Berkadia Commercial Mortgage LLC	\$40,232	7,157	\$5.6
6	Bank of America Meryll Lynch	\$19,371	182	\$106.4
7	Wells Fargo (including Wachovia)	\$18,420	1,018	\$18.1
8	KeyBank Real Estate Capital	\$15,317	2,358	\$6.5

- Top 3 = 75% of business
- Top 8 = 98 % of business

- **Special Servicer Servicing Standard-** maximize return to all bond holders without regard to your own position and no benefit of 20/20 hindsight

Pooling & Servicing Agreement



Primary Drivers in a Restructure



- **Market conditions**

- Improving or deteriorating market
- Primary or tertiary

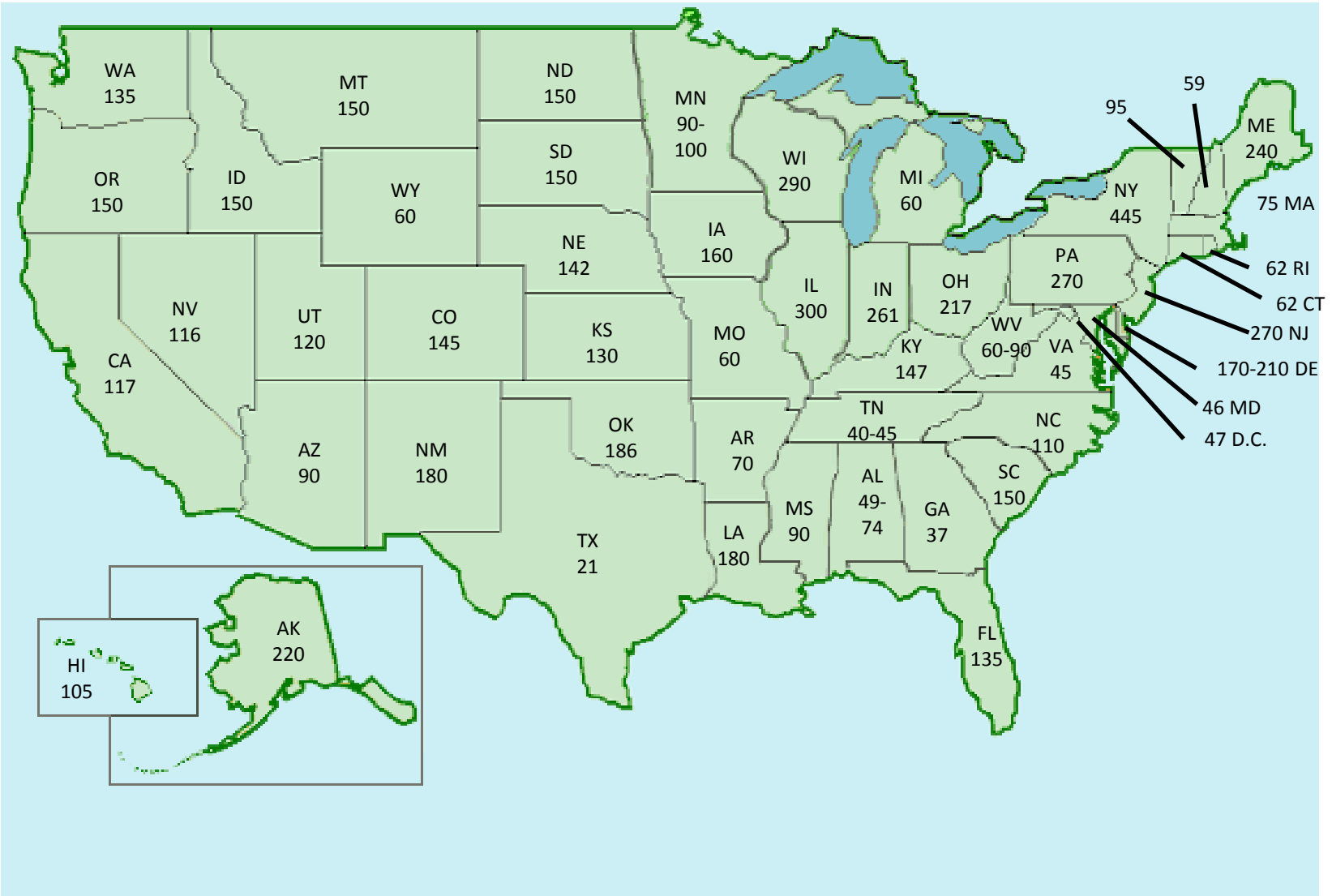
- **Maturity date of Loan**

2012 _____ 2017

- **Loan size**

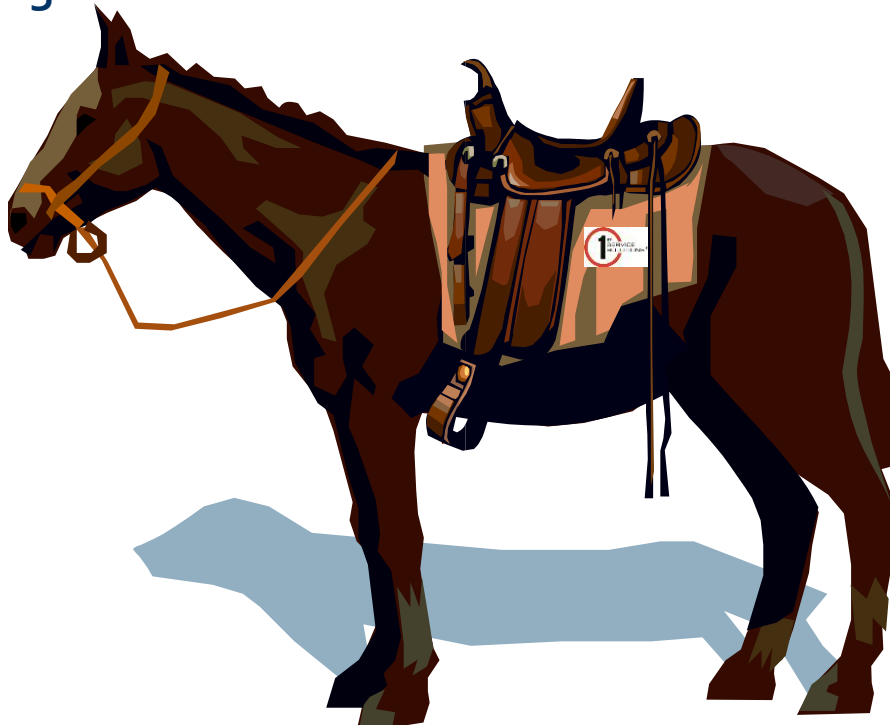
\$10MM

Location of Property



- Hotel- reprice daily
- Office/Retail- long term market adjustments
- Capital Availability

Will Servicer get a better outcome with borrower or foreclosing?





- **Property as is Value**
 - Hold Costs
 - Advances to bond holders
 - Taxes & insurance
 - Capital expenses
 - Selling & Disposal
 - Legal & Foreclosure Costs
 - Net Estimated Recovery Amount



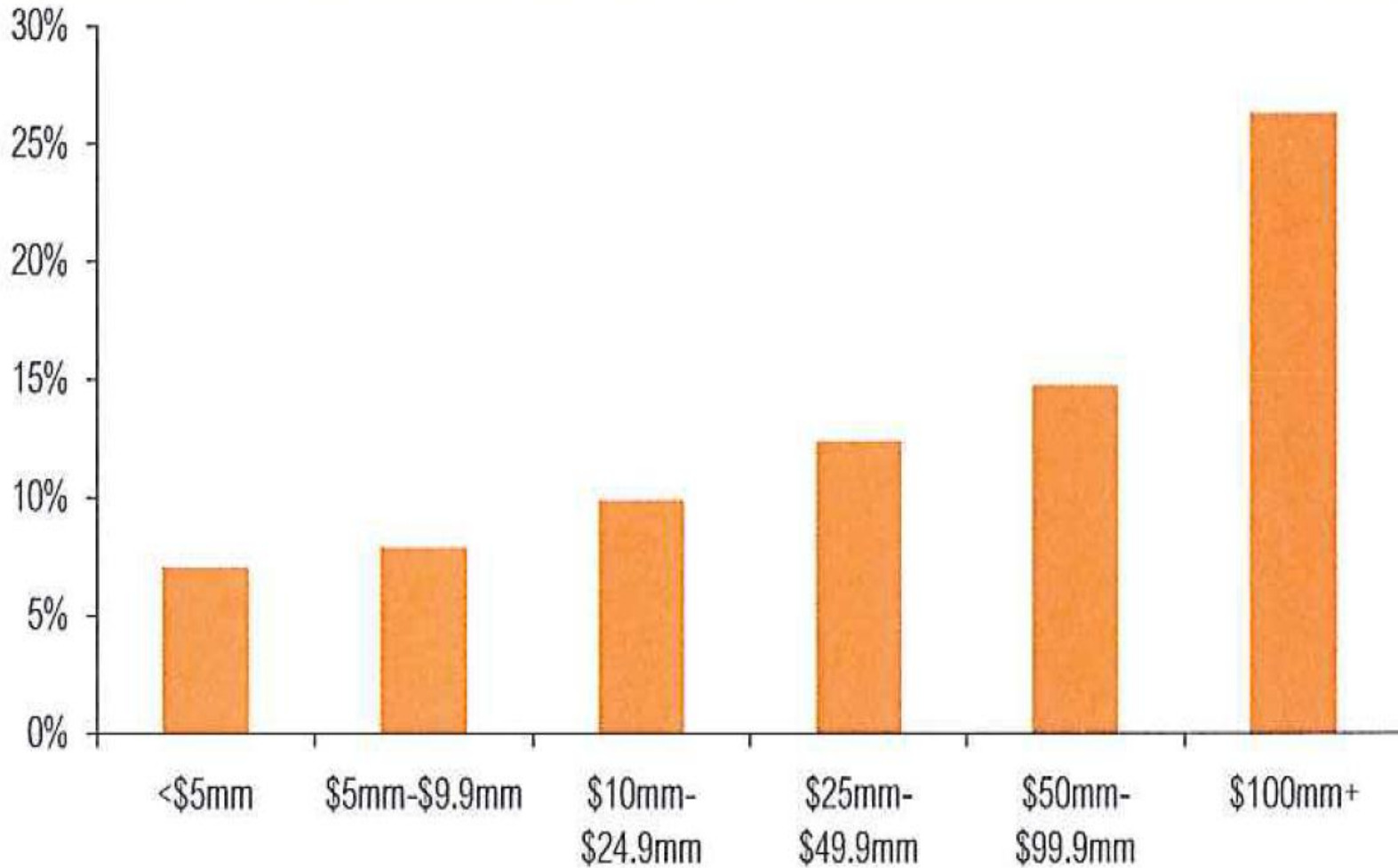
- Understand WHO you are negotiating with and what their drivers and motivations are
- Know the “menu of options” for each special servicer
- Present a well thought out, written plan in a timely manner to the special servicer
- Ensure that you know the ultimate exit strategy for the asset
- Have an experienced advocate on your side

What is Happening to the Defaulted Loans?



- **In 2009- Virtually no defaults & no resolutions**
- **In 2010- (Last 2nd Q)**
 - \$27B resolved
 - \$16B Restructured
 - \$11B Liquidated
- **75% of all restructures were on loans > \$50MM**
- **Typical Loss Severity**
 - 50-60% on restructures
 - 60-70% on note sales
 - >70% on REOs

Modification Strategy by Loan Balance





- Live auction format
- Borrower will not likely know auction is happening
- Borrower can bid on own note
- Benefit of note sales to special servicer
- Motivation of note buyers

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