

CMBS Loan Restructures: Your Menu of Options



Speaker: Ann Hambly

About 1st 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

CMBS Special Servicers

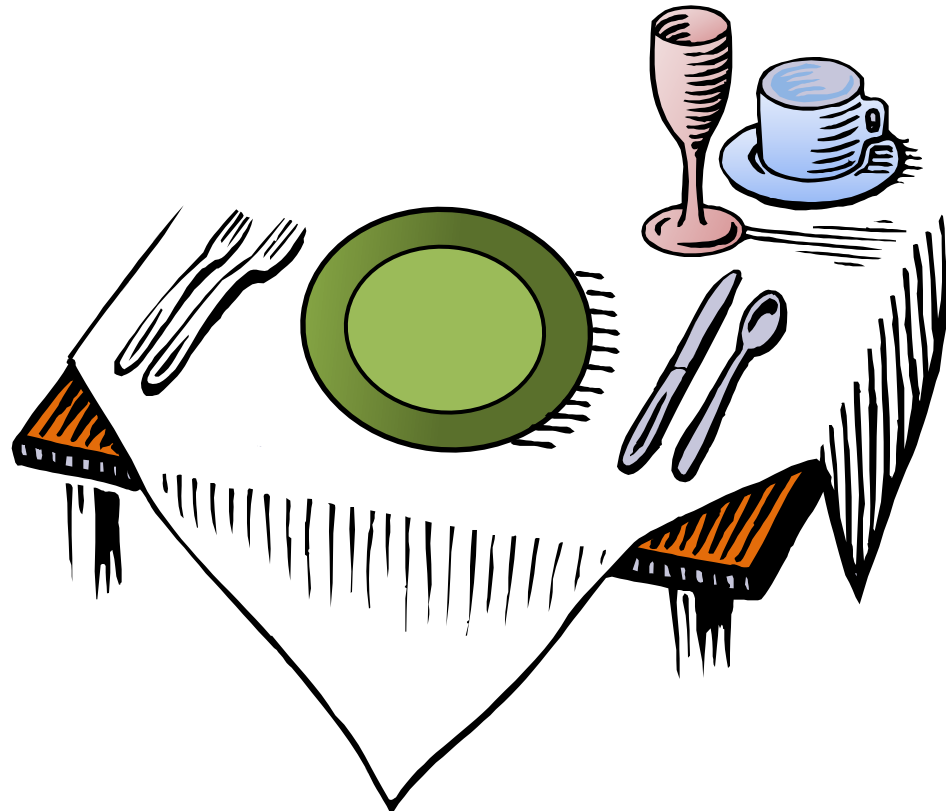
MENU

*Loan Restructure Alternatives
for The Borrower*

Taking a Seat at the Table...

What you need to know:

- PNA
- NPV
- PSA
- NCF
- Guarantee



Have your wallet ready

- Special Servicers
 - LNR
 - CW Capital
 - CIII
 - Top 3 Account for more than 80 % of all the business and are now owned by companies that have more aggressive “real estate-like” return targets and alternative investment motivations
- Attorneys
- CCR
- Receivers

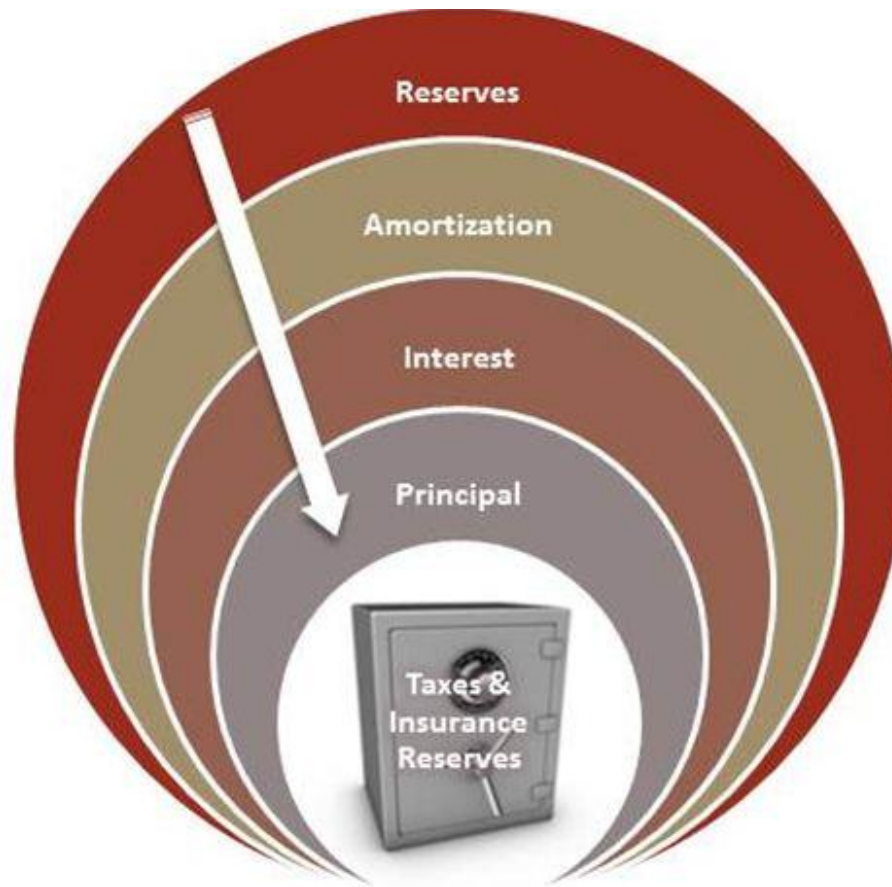


THE MENU

- ~ *Payment Modification*
- ~ *Debt Deferral*
 - ~ *AB Structure*
- ~ *Debt Forgiveness*
 - ~ *Discounted Payoff*
- ~ *Maturity Date Options*

Payment Modification

- When reduction of payment alone will cure “all ills”
- Typically for properties not under water



Debt Deferral



- Property under water today
- Some or all of value will be recovered by maturity date
- Loan is over \$10MM
- Borrower must make meaningful capital contribution
- Typical waterfall of A/B Structure
 - “A” Note
 - New capital plus pref
 - 50/50 split of proceeds to “B” note and borrower

Case Study



- 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

Debt Forgiveness



- Property under water today
- Little to no value will be recovered by maturity date
- Loan is under \$10 million
- Can be executed through:
 - Short Sale
 - Principal Writedown (\$1 for \$1)
 - 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

Extension of Maturity Date



- Performing loans only
- Borrower must make pay down at time of extension (typically 10%)
- Cost= 1% per 12-month extension

What Will You Be Able to Order?



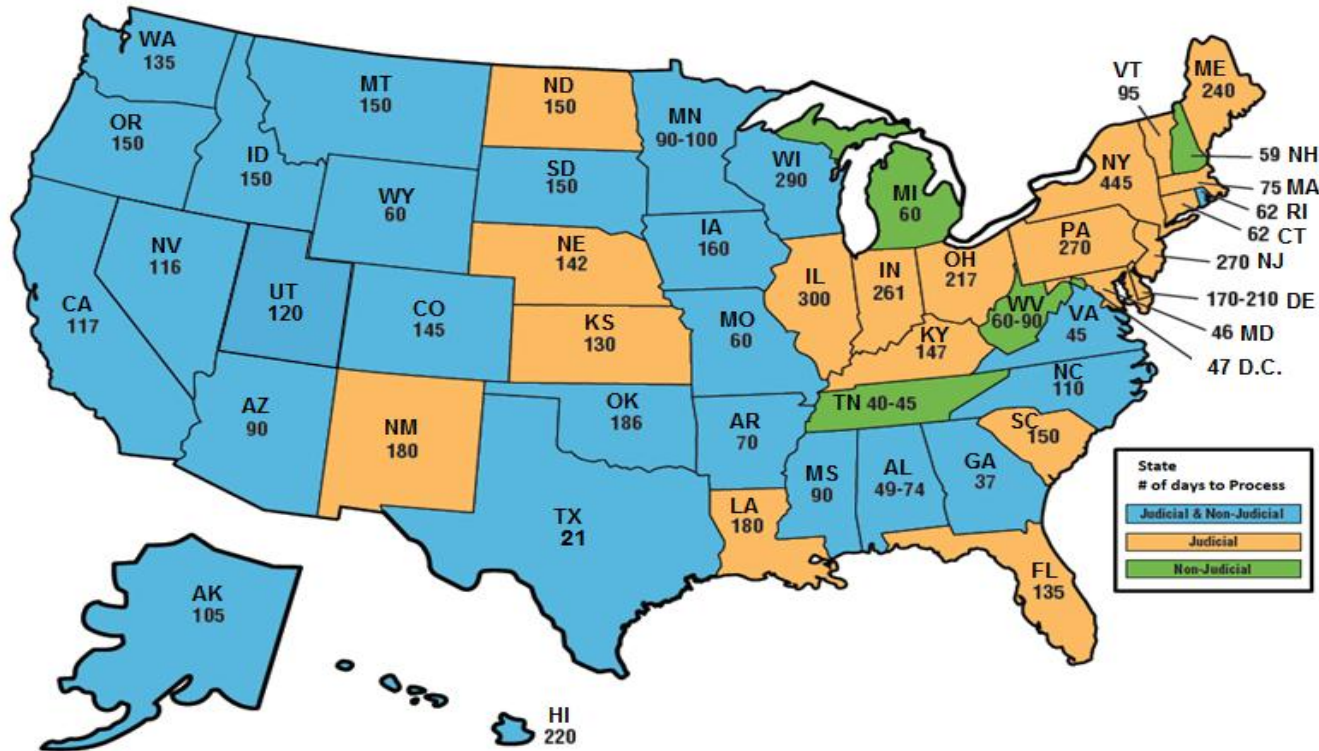
What are the Factors?

- Market conditions
- Maturity date of Loan
- Loan size
- Property type
- Location of property



Location Of Property Drives NPV

Days to Foreclose by State



Ingredients Needed For Good Result

- Model
- Menu
- Managers
- Magnitude of Deals Done
- Manage/Set Borrower's Expectations



Price of the Dinner

- Bring Current/Advances
- Reserves
- Modification Terms
- Appraisal
- Legal



CMBS Resolutions



- 18-month period: 1/2010-6/2011
- Total Resolutions of \$63.5 Billion:
 - 39% were Modified
 - 15% were DPOs
 - Only 9% were Foreclosures

Ann Hambly's Resume



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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. She has been at the forefront of setting industry standards for commercial real estate and has led many initiatives for industry groups that included attorneys, rating agencies, master and special servicers, trustees, and bondholders.

Hambly is sought after as a featured speaker for conferences that include CMBS borrowers, lenders, and attorneys. She is currently on the Federal Reserve Bank of Atlanta's 'think tank' for commercial real estate and was recently asked to do a presentation to the Federal Reserve about some problems in the CMBS industry and commercial real estate in general.

She has led CLE courses for attorneys and has been a featured speaker for groups as large as 4,000. She is also a frequent author of articles for publications like Wall Street Journal, France, Scotsman Guide, Globe Street, Hotel News Now and others.

Hambly was the Chair of the Commercial Board of the MBA in 2003. In that role, she had the opportunity to present industry changing events to the House of Representatives, Congress and other leaders in our Nation. She is currently a member of the prestigious Real Estate Roundtable and the NAIOP / Capital Markets Forum. She has served on many boards in addition to the MBA including: CMSA, (CREFC), NMHC and RECRA. She also led the CEO Servicer Roundtable for many years which included the CEOs of all the major servicing organizations in the Nation.