Lender Perspective

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Greer Advisors, LLC

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Goals of Presentation

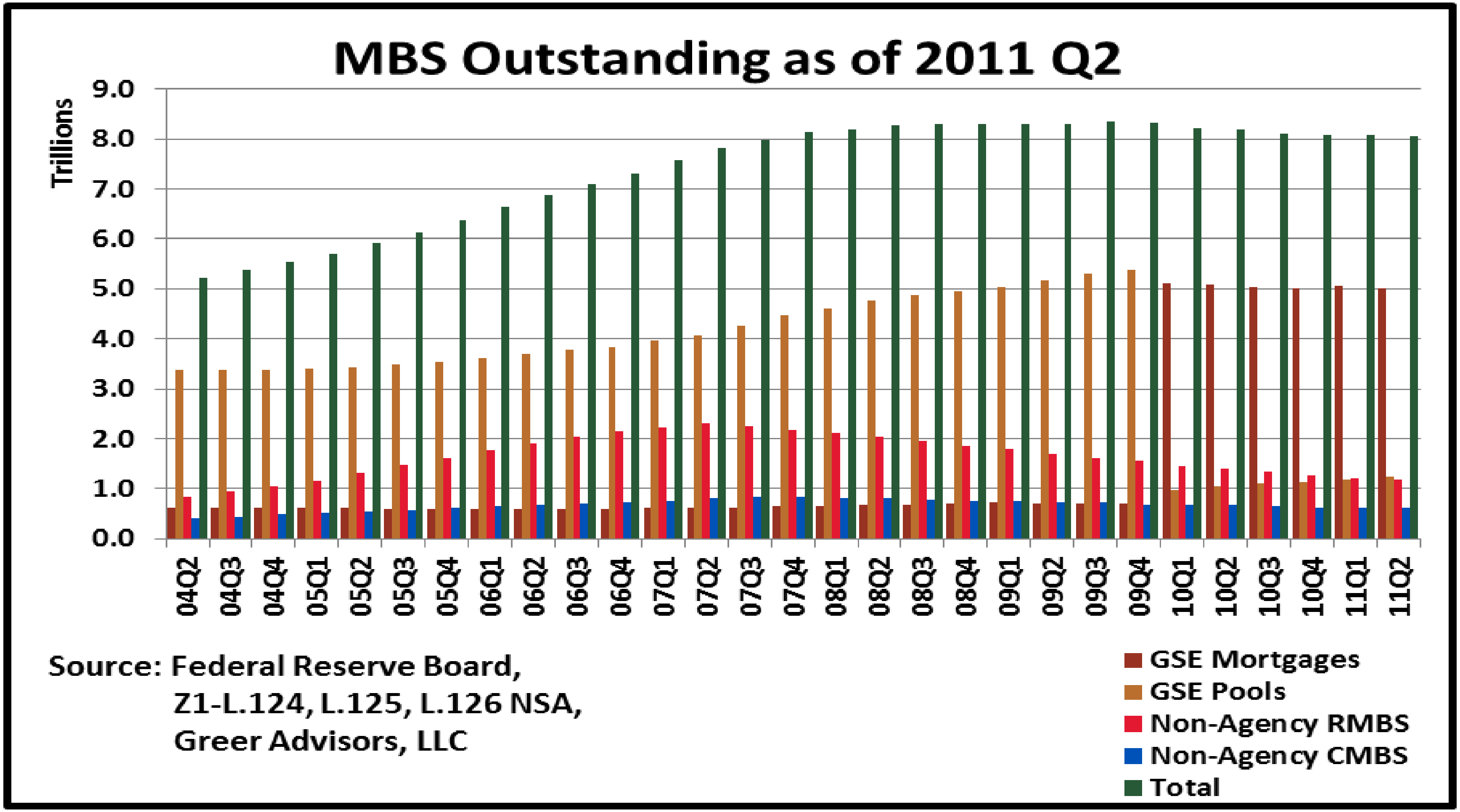
- Financial Instruments
- Lending Overview
- Financial Regulations
- Deleveraging
- Current Trends
- Outlook & Forecast

- Financial Instrument Overview

Loans

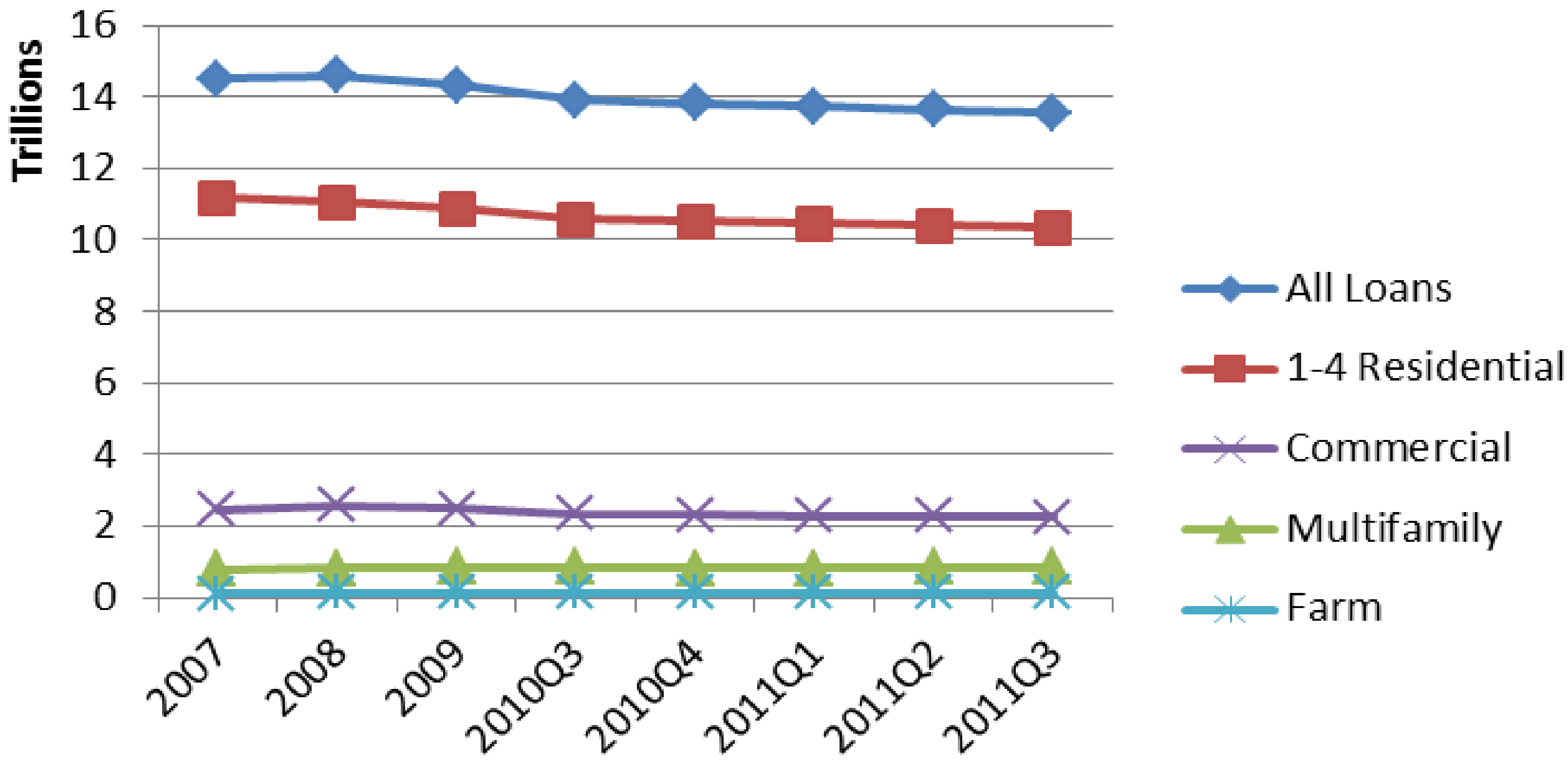
- Players in California: Borrower / Lender / Trustee
- Loan Sources: Banks, S&Ls, REITs, Insurance Companies, Pension Funds, Mortgage Banks, Other Private Sources
- 1970s brought New Business Model – Securitization (Mortgages turned in Bonds, aka Securities)
- Three Men Changed the Industry, first with Residential
- Ranieri/Solomon, Fink/1st Boston/Blackrock, Maxwell/FNMA
- One man credited with Commercial – Ethan Penner
- Credit Enhancements – LoC, Guarantees, PMI (Insurance)
- Then….New Derivatives – Credit Default Swaps

MBS Outstanding's in U.S. - Dropping



- Lending Overview

Mortgage Debt Outstanding



Source: Federal Reserve Board, Greeer Advisors, LLC

Residential Lending

- Savings & Loans were original “major” lender for SFRs
- Commercial Banks rarely did SFR lending, except for “high net worth” individuals
- Late 1960’s brought rate disintermediation (i.e. mismatch)
- Late 1960’s/ Early 1970’s FNMA/Freddie/Ginnie took off
- Freddie bought S&L Mortgages
- Ginnie created securitized pool in 1970, FHA & VA
- At first, only GSEs securitized. Rules Changed & IB’s joined
- Soon IB’s did all non-FHA/VA MBS

Commercial Real Estate Lending

- Traditionally Commercial Banks
- Life Companies joined in, then Mortgage Banks opened
- Late 1980's, early 1990's brought CMBS – Ethan Penner
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- Financial Regulations

Wall Street Reform & Consumer Protection Act

- Dodd-Frank - 16 Titles – See Summary on Wikipedia
  - 243 Rules to be created (reportedly >50% are not done)
  - 67 Studies required (most are not done)
  - 22 New Periodic Reports
- Restructure of Regulators, merge OTS in FRB
  - Financial Stability Oversight Council (New)
  - Office of Financial Research (New)
- Keys for Real Estate:
  - Rating Agency Reform
  - Securitization Reform (nominal change due to QIB clawbacks)
  - Derivatives – minimal change thus far due to "netting"
  - Major Changes for Residential Lending (Consumer Protection)
  - Nominal Changes for Commercial Lending
  - Lobbying Not Done

Existing Regulations

- FIRREA – Fin. Inst. Reform Recovery Enforcement Act
  - Put into Volume 12 of Code of Federal Regulations (CFR)
  - 5 Bodies – FRB, FDIC, OCC, OTS, NCUA
  - Each has its own section, e.g. 0-199 = OCC
- Dodd-Frank requires re-interpretation of FIRREA
- Still in Development
- Lobbying not Done
- Buzzwords: Non-Competitive, Competitive Disadvantage, Drive Costs Up, Higher Interest, Decrease Value, Decrease Liquidity

- De-Leveraging

Residential Deleveraging

- “No-documentation” or “doc-light” loans are gone
- Sub-prime with major lenders – Gone, back to hard money
- Reduced Underwriting Ratios
- Loan to Value – 80% now norm. 125% Gone
- Front-End Ratio – Back to 32%
- Back-End Ratio – Back to 28%
- Credit Score Drives Rate
  - >750 = Gold Borrower
  - 600-750 = Slightly Higher Rate, but loan is available
  - <600 = difficult to finance = sub-prime = hard money

Commercial Deleveraging

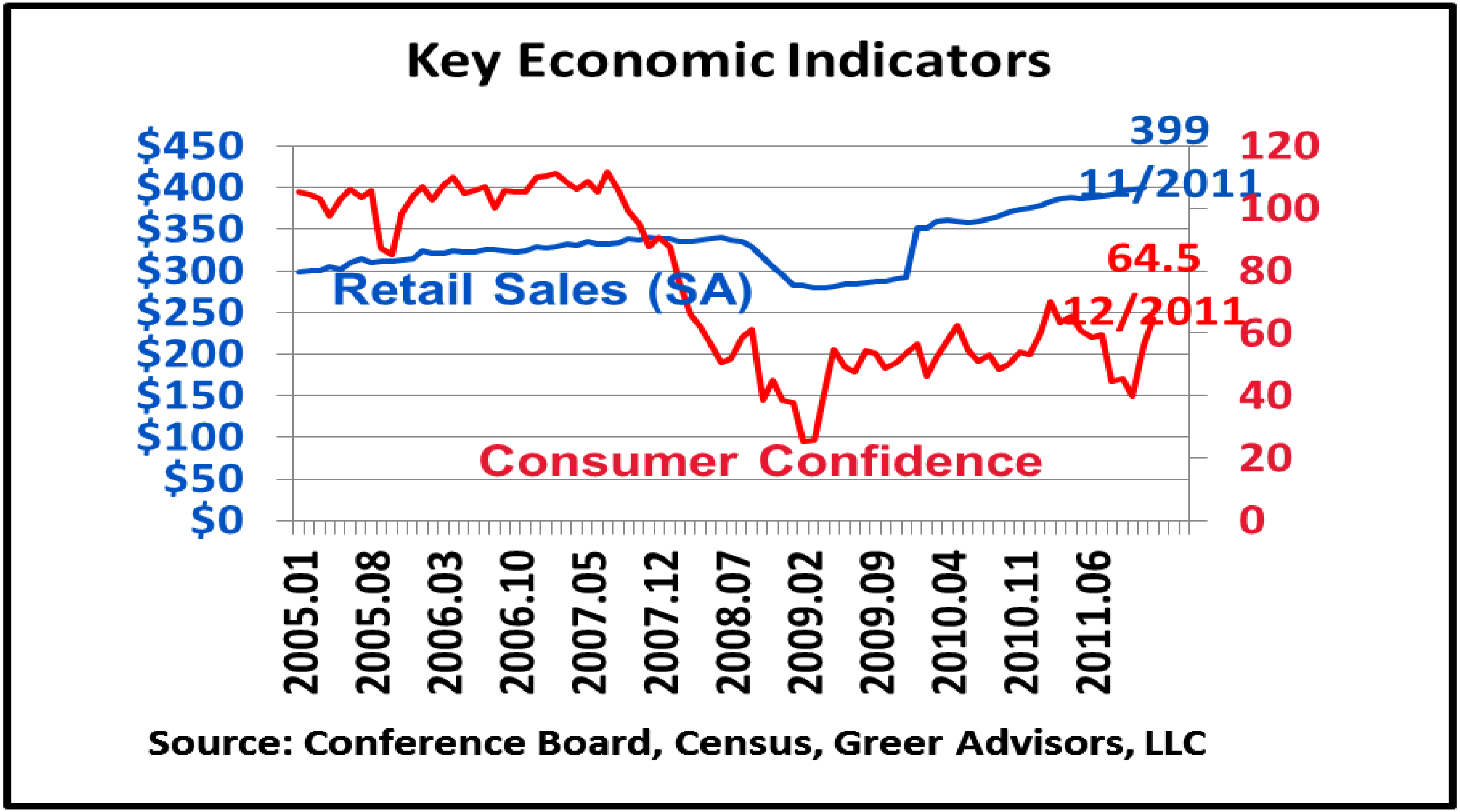
- Income in Place Counts
- Recourse is Back
- Rents are lesser of Actual or Market
- Vacant Space is Considered Detriment
- LTV and Debt Service Coverage Ratios drive Interest Rate
- LTV above 75% now very difficult
- DSC below 1.20 now very difficult
- Equity Investors demand much higher yields
- Separation of Class – Flight to Quality

- Current Trends

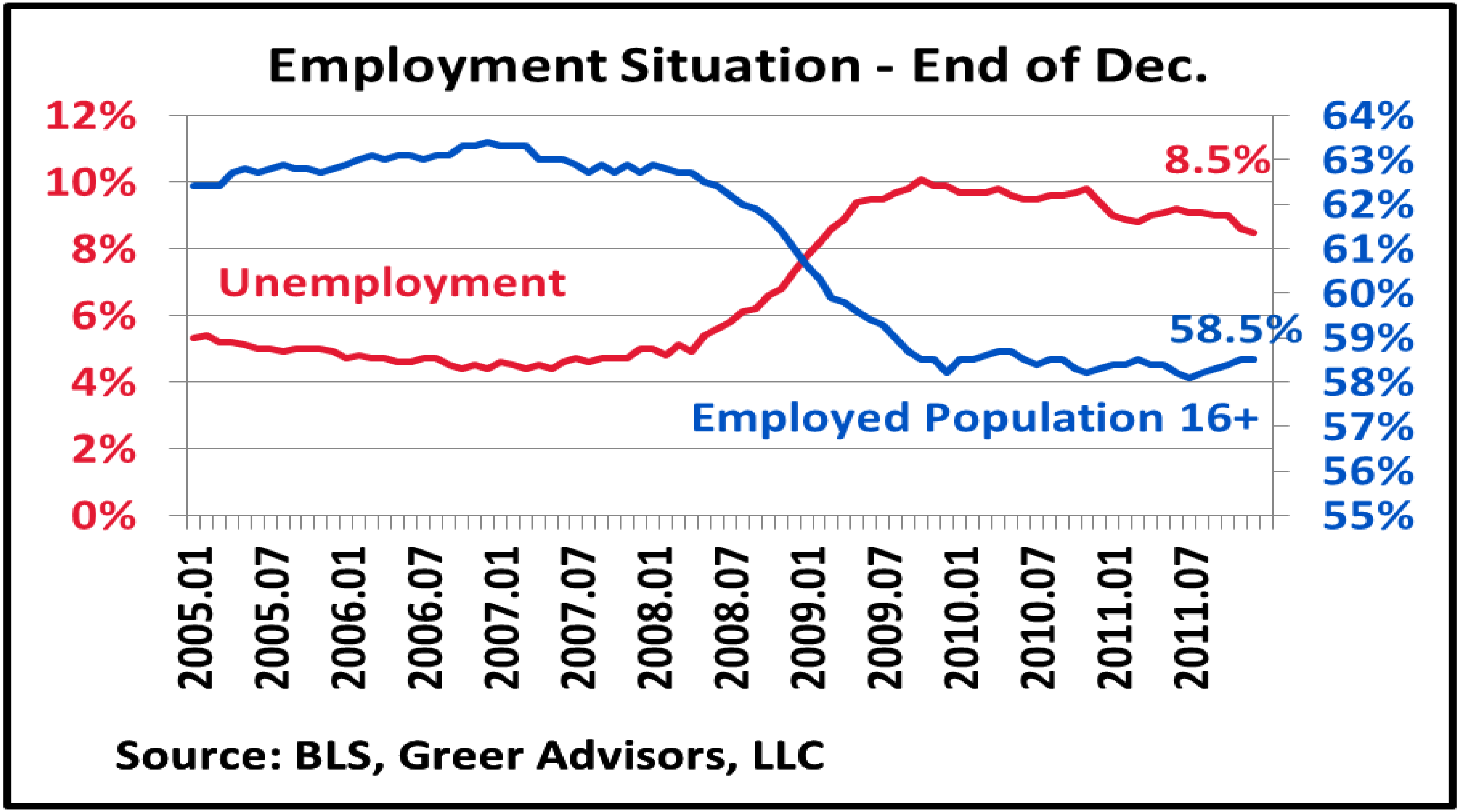
Trend Summary

- Consumer Confidence Remains Poor – Hits Housing, Not Sales
- Retail Sales are OK
- Unemployment Remains High
- Risk Remains Priced High
- Separation of Class = Flight to Quality = REITs are Back
- MBS – Remains Down
- Sales are Up, Prices are Up, Class A Cap Rates are Down

Economy – Consumer Confidence & Sales

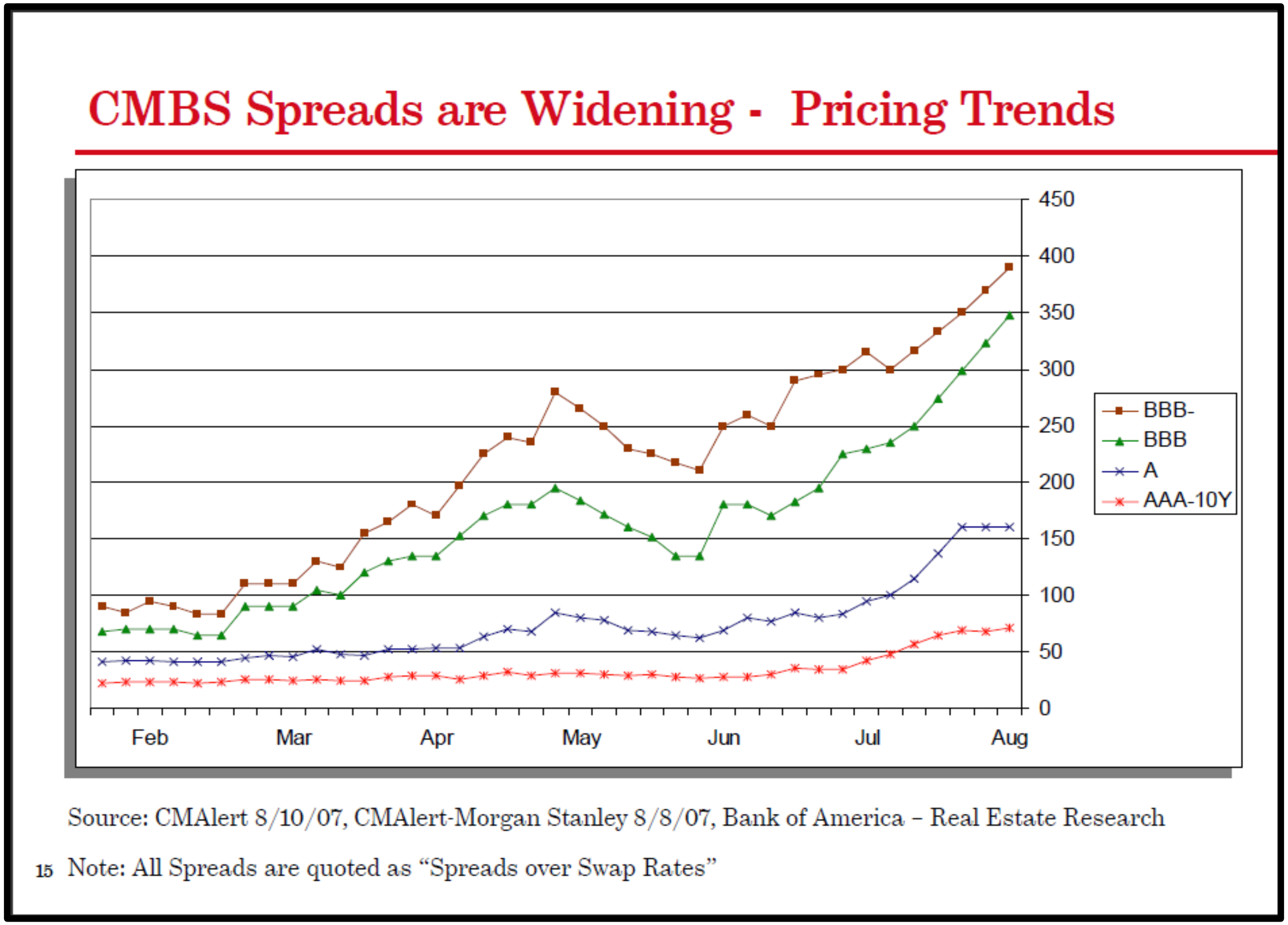


Economy – Employment



What Broke – MBS Yield Rates Rose

- Slide from 8/3/2007 Presentation



Interest –What Broke - AAA vs BB Spreads

Greer CMBS / CMBx Yield Rate™				
Tranche	Yield	Suboord	Weight of Debt	Contribution to Total
AAA	2.56%	29.76%	70.24%	1.80%
AJ	3.43%	12.70%	17.06%	0.58%
AA	5.05%	10.63%	2.07%	0.10%
A	9.48%	8.00%	2.63%	0.25%
BBB	27.15%	4.72%	3.28%	0.89%
BBB-	28.49%	3.68%	1.04%	0.30%
BB	102.19%	2.69%	0.99%	1.01%
Unrated	176.00%	0.00%	2.69%	4.73%
Implied Overall Debt Yield			100.00%	9.67%
Loan to Value Ratio				75.00%
Class-A Equity Yield | Total Yield			28.00%	14.25%
Class-B Equity Yield | Total Yield			102.00%	32.75%

Notes: ① The table is somewhat complicated, as evidenced by the numerous footnotes. Several conclusions can be drawn. 1) If the 'Implied Overall Debt Yield' is much greater than loan rates in the marketplace, the CMBS market CAN NOT recover because the required yields are too high to make debt affordable to borrowers. 2) When the spread between AAA and BB tranches is above 500 bps (now at 9,963 bps), the market can't recover because of risk aversion for lower-rated tranches. As a point of reference, January '07 AAA-BB CMBS spreads were around 65 bps. Lastly, the yields for each tranche provide tremendous insight into the required yields for each layer in the capital stack.

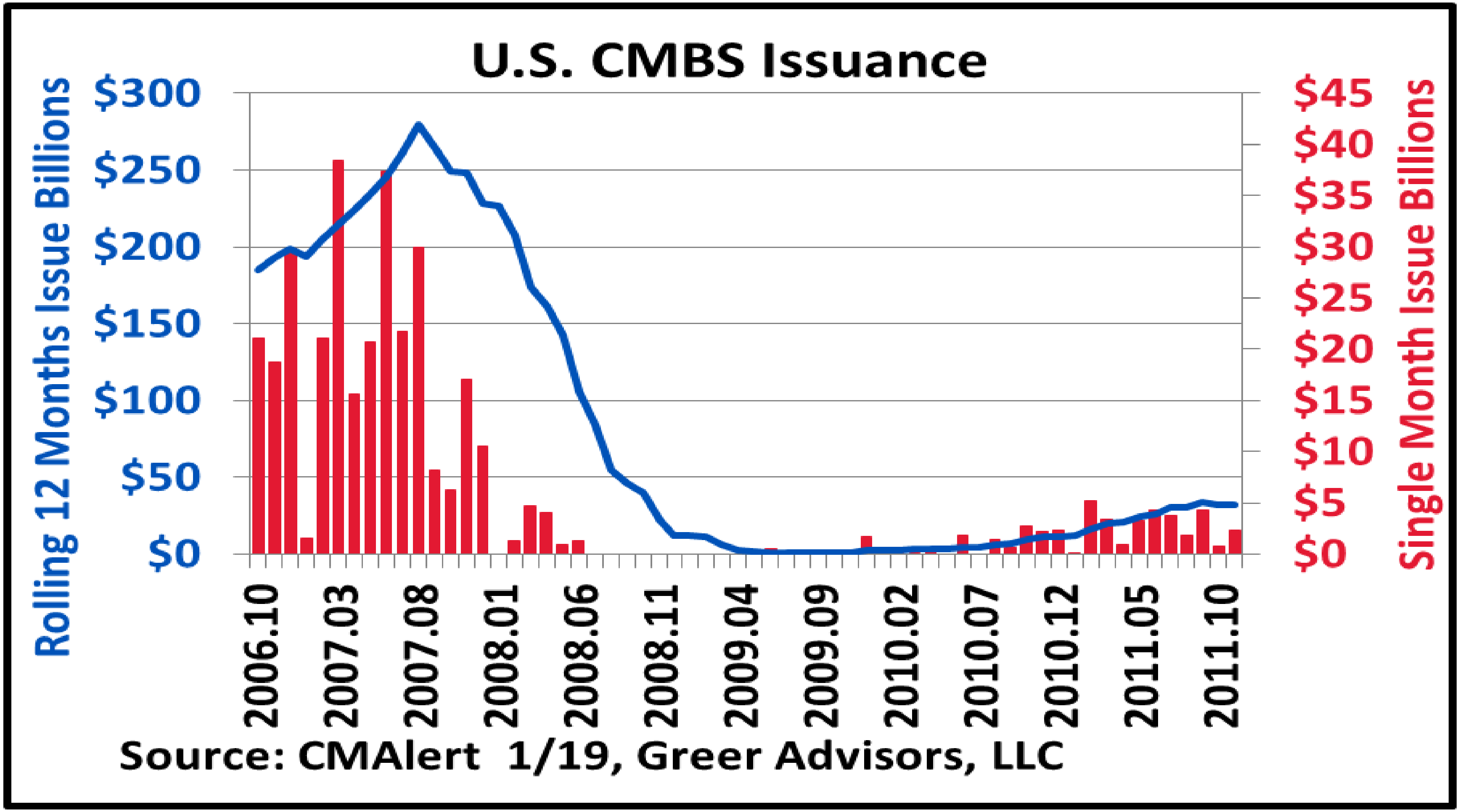
② MarkitTM Data and Calculations based on close of 1/25. Swap (10Yr) as of 1/24.

③ Coupon and Price data were from MarkitTM for AAA Senior through BB bonds. MarkitTM data was used as part of the calculations by Greer Advisors, LLC to determine Spreads. Subordination levels were from MarkitTM.

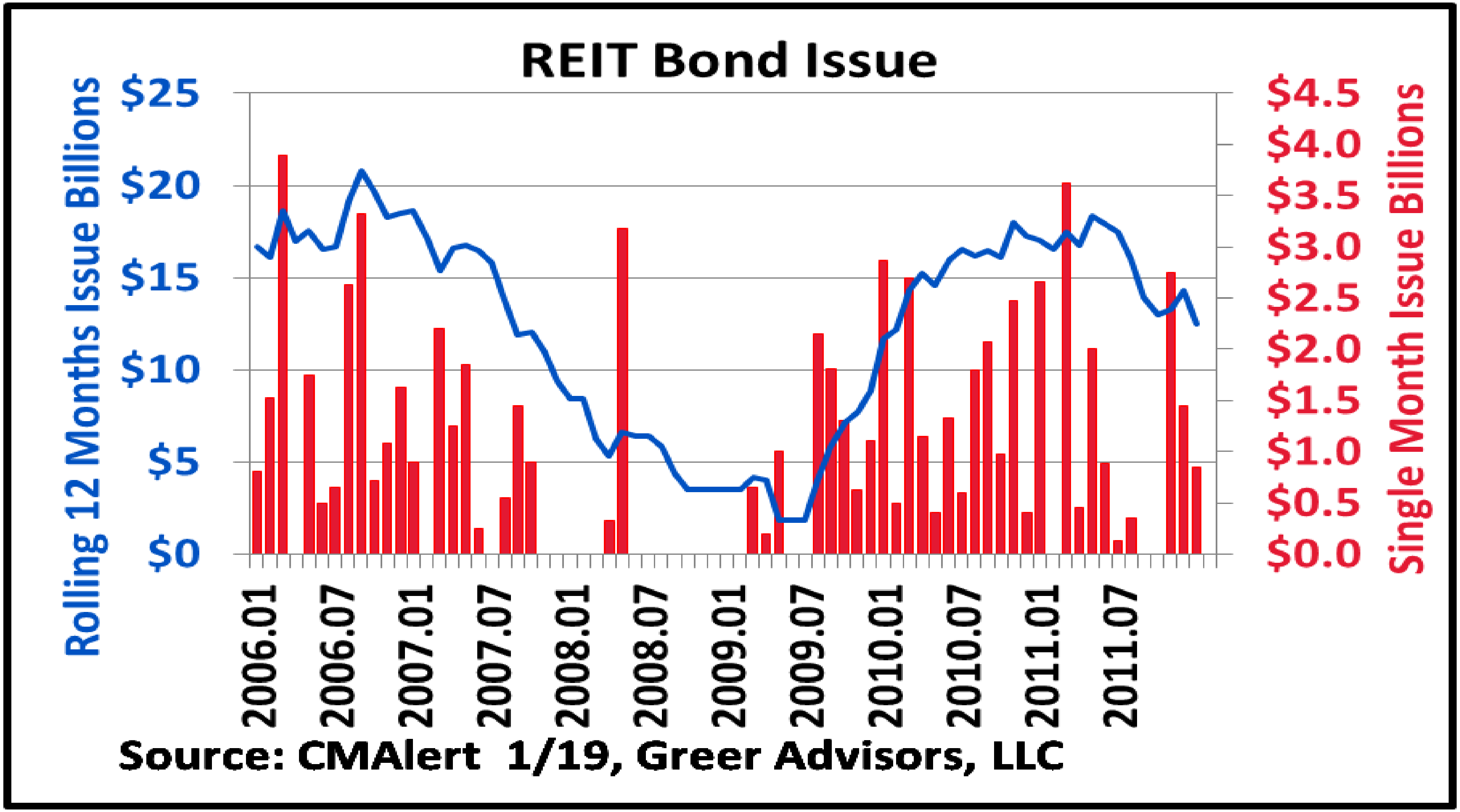
④ Profit / arbitrage opportunity for the issuer was ignored.

⑤ The yield spread for "unrated" classes were based on (BBB- yield minus BB yield) times 1.0, round to the nearest bp. Class-A property equity yield was assumed equal to the BBB- (last investment-grade piece) yield rounded to the nearest 100 bp. Class-B property equity yield was assumed equal to the BB yield, rounded to 100 bps.

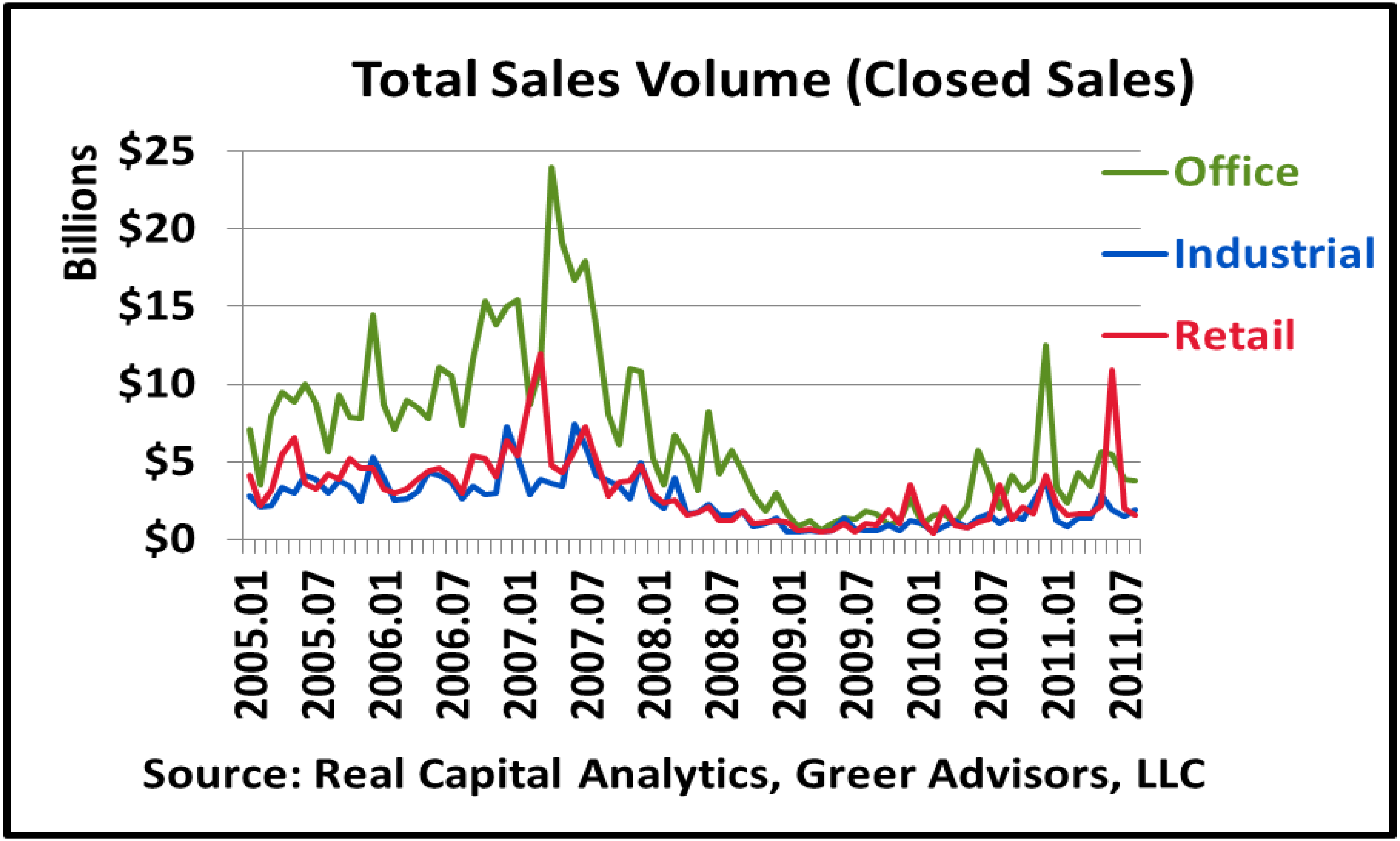
CMBS Issuance



REIT Bond Issuance



Commercial Real Estate Sales Volume



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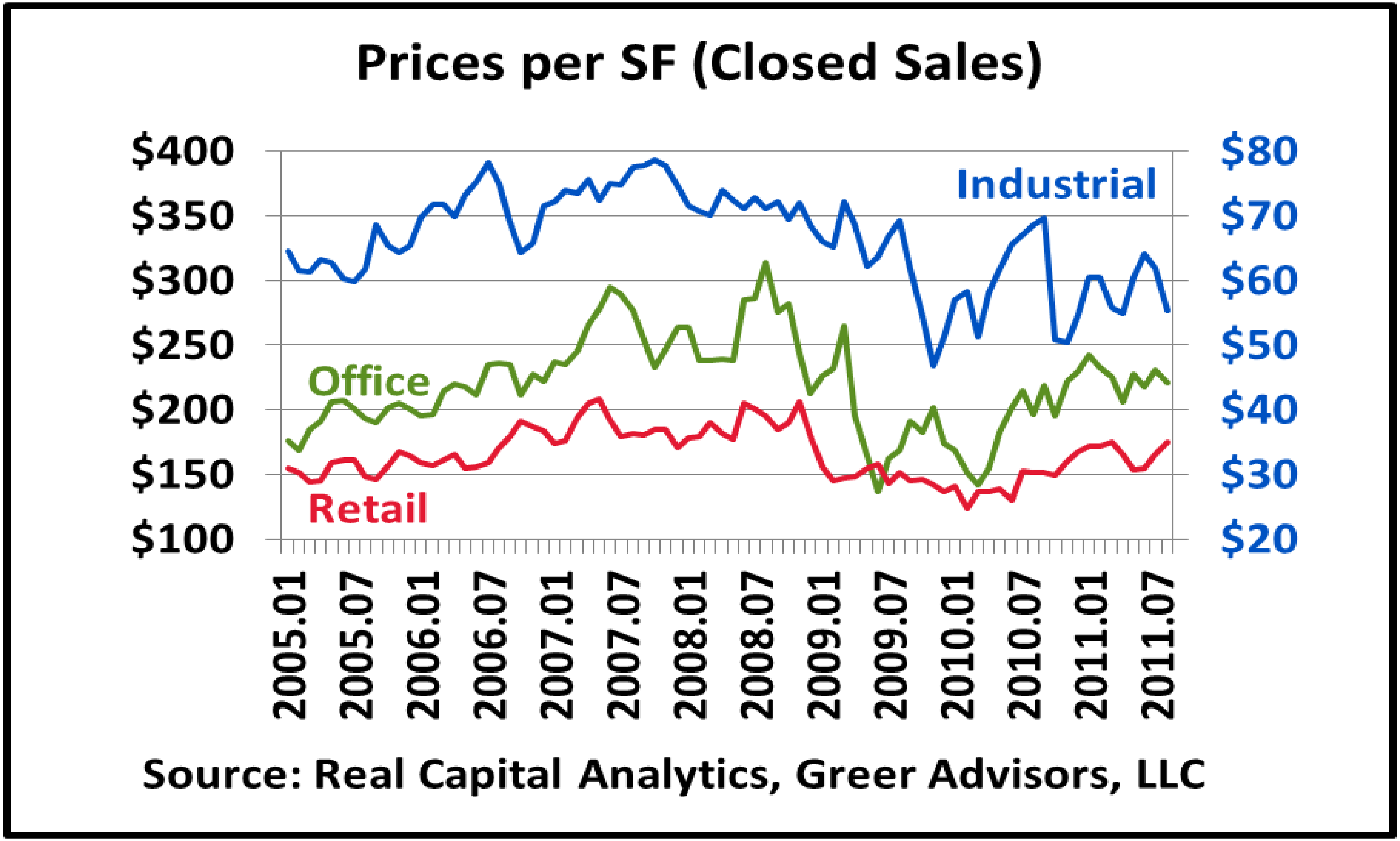
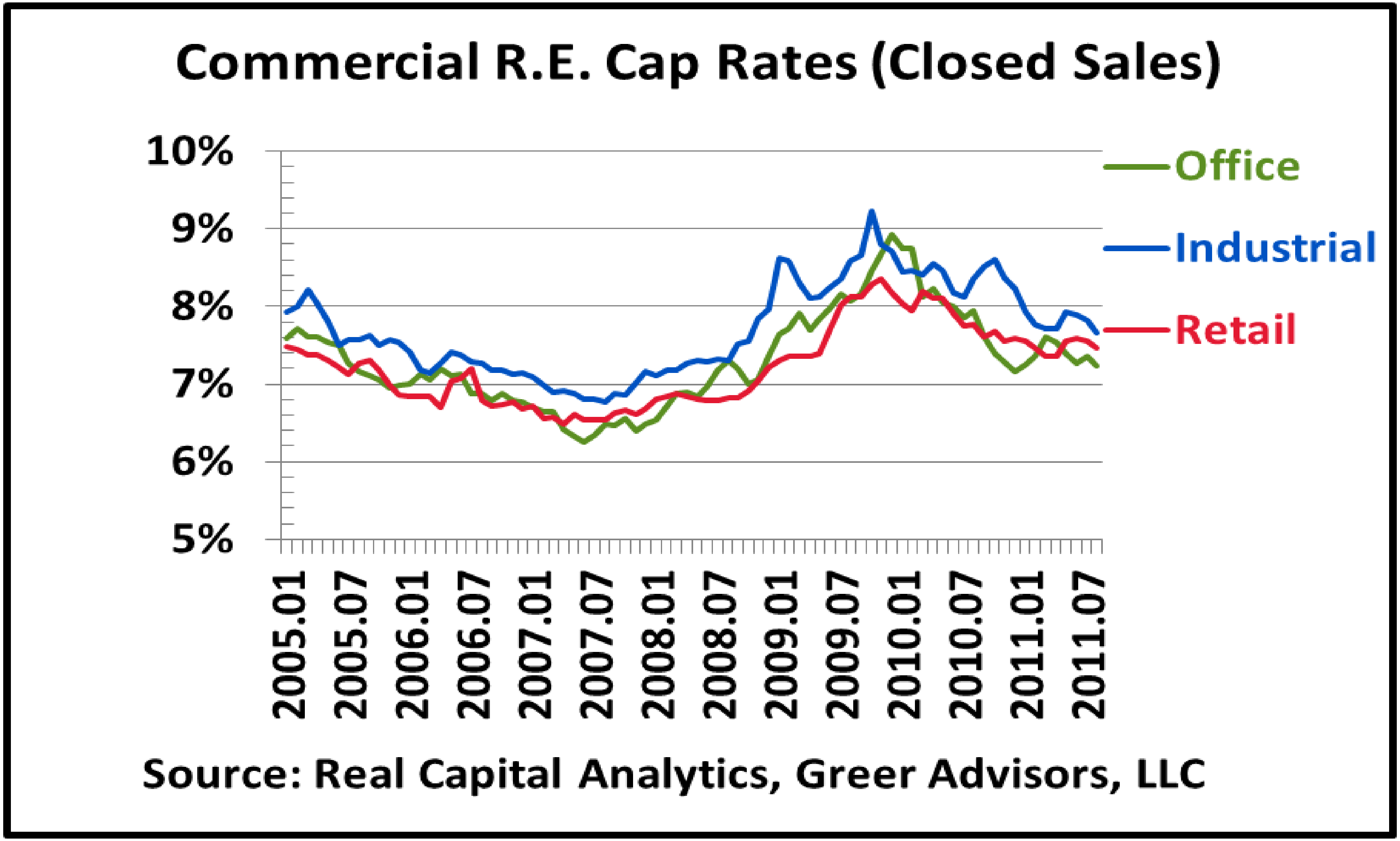
Commercial Real Estate Prices $$ PSF



Commercial Real Estate Cap Rates



- Outlook & Forecast

Conclusions

- MBS Loss Rates Remain at All Time Highs
- Class A vs. B/C Cap Rate Spreads are Larger than Ever
- Reduced Leverage for ALL loans, More RECOURSE
- SBA will remain Only Source for High Leverage
- MBS – Very Very Slow Return. Need New Business Model
- Insurance Co's, Fannie/Freddie and Some Lenders are Active
- CASH WILL REMAIN KING!
- Rents / Vacancies Remain better than early 1990s

Questions / Answers

Greer Advisors, LLC

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