Presentation Questions & Answers

Questions are in black as presented. Ann Hambly, CEO and Founder of 1st Service Solutions, has answered in red.

1. **How does a borrower determine who is the B-piece buyer or CCR?** Although the CCR does determine the ultimate outcome for a borrower, it is nearly impossible for a ***borrower*** to find out who the CCR is on a specific pool. The data is publicly available on public pools, but it requires first-hand knowledge of the CMBS structure and access to a specific database. This is a service we provide to our clients.

2. **What is used to determine the value of the DPO amount?** Many factors are used to determine the discounted pay off (DPO) amount, but the single biggest factor is the current as is value of the real estate and the time it will take the special servicer to foreclose.

3. **What are the limits on loan extensions?** A loan will generally not be extended longer than 3 years.

4. **What is the difference between a discounted pay-off versus a write down and when is one used over the other?** A discounted pay-off results in the complete release of the lien in exchange for a specific amount of cash and therefore, there is no further market or default risk to the Trust. A write down leaves the debt in place, but 'right sizes' it and always requires some cash contribution from the borrower. **Don't they both have cancellation of debt tax issues?** There are many factors that can influence tax issues in either scenario. In the case of a DPO, it is possible to actually purchase the note and thereby possibly delaying potential tax consequences. A borrower should always seek the guidance of a tax advisor.

5. **Do you have a standard calculator that special servicers use?** 1st Service Solutions has created a model that basically mimics the calculations performed by the special servicers. This provides the borrower with some insight on how the special servicer will be viewing any restructure request.

6. **How many special servicers abate default interest and what % is abated?** There are many factors that are involved in determining whether or not default interest will be waived, including who the special servicer is.

7. **Please discuss best way to contact special servicer as note buyer of note going through foreclosure.** The special servicers are inundated with potential note buyers in today's market and not inclined to work with a single note buyer for a single property. To ensure that they provide the trust with the best outcome, they will broadly market the note rather than sell individually. The best way to increase the odds of purchasing a note from the special servicer is if you work with the current owner/borrower and present a joint solution.

8. **Why are proceeds shared between borrower & B note holder? Shouldn't 100% go to B note holder rather than borrower?** To recap how the AB structure works, the A note is essentially the current market value of the property and is first to be paid back at payoff. The new capital contributed by the borrower is then paid second along with a preferred rate of return. All remaining proceeds are then split between the borrower and the B note (up to the B note amount) to ensure that all parties are fully aligned and incentivized to maximize the value of the real estate.

9. **On the A/B restructure, why is there an appraisal in the event of a refinance?** The appraisal is the only true way to determine market value at the time of the pay 'off' of the note. **More specifically, where do the additional funds over the refinance come from to cover the borrower and B note holder?** Any difference between the new loan amount and the current market value of the real estate have to be funded by the borrower (or another source available to the borrower)

10. **Can you get to a special servicer based on an imminent default versus an absolute default?** Absolutely, and it is the preferred method of getting a loan transferred to the special servicer. This is part of the service we provide to our clients.

11. **Where have the majority of most restructurings occurred? (Payment Modification, etc.).** This is very dependent on the specific special servicer, the term left on the loan, the value of the real estate as compared to the loan amount and many other factors, so it is very difficult to give a general response on the types of restructures that have been done. Plus restructures have really just started to happen in CMBS over the last year, so there is little in the way of historical data.

12. **Is there ever FOD income for lender?** The lender (Trust) will not have forgiveness of debt income in any scenario.

13. **On an A/B note restructure, where the refinancing does not pay off the B note in full, what happens next?** The remaining portion of the B note is written off and forgiven.

14. **Why would the borrower buy back its own note after the note was sold at steep discount?** The borrower would potentially buy their own note in scenarios where they can buy it at an amount that is either equal to market value of the real estate or less, or where there are significant tax consequences if they get foreclosed upon.

15. **Can the defeasance provisions (where applicable) be modified or eliminated as part of a restructure?** Yes

16. **Don't the special servicers keep the default interest? Why would they waive it?** The special servicer often does keep the default interest. They would be compelled to waive it when that waiver alone will result in a better outcome to ALL the bond holders than not waiving it.

17. **What is the typical discount for a note sale? Discounted payoff?** There is no typical discount for a note sale or discounted pay-off. The discount will be a result of the market value of the real estate versus the current debt amount. On AVERAGE, the discount/loss rate for DPOs is 50 – 60% and for note sales – 70%.

18. **How is prepayment penalties dealt with in a DPO?** In a discounted pay-off situation, all prepayment penalties would typically be waived.

19. **What events typically trigger the carve-out guaranties during a modification period?** The specific carve-out guarantee provisions for each loan are contained in a guarantee agreement and would need to be reviewed for that loan. They generally fall under the category of "bad boy" events (stealing, waste, bankruptcy, etc.).

20. **Has Dodd Frank or other industry standards or regulation put new U/W standard in place to avoid CMBS debacle again?** While there are certainly significant changes being put into place as a result of the Dodd Frank act (commonly referred to as "CMBS 2.0"), it is not clear that these changes will actually prevent another "CMBS debacle again".

21. **Is it reasonable to ask the lender to agree that the B-Note will be subordinate to new equity even if the loan goes into default again but the property is sold or refinanced, or should the documents provide that the B-Note remains subordinate only if the loan is repaid before maturity?** Yes

22. **70% loss means note sale at 30% of UPB?** 70% loss means the note was sold for 70% LESS than the UPB (unpaid principal balance).

23. **What does your crystal ball tell you about the next creative approach to financing?** I have been in the commercial real estate business for over 30 years, and wish I had that crystal ball!

1st Service Solutions was the first firm dedicated to serve exclusively as a borrower advocate and since its creation in 2005, has completed over $8 Billion of CMBS assumptions and restructures on a national basis. www.1stservicesolutions.com

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