

# NAIOP Commercial Real Estate Credit and Capital Advisory Board

April 9, 2009

Greg Walz, Northwestern Investment Management Company  
Treasurer, NAIOP Executive Committee  
Chairman, NAIOP Commercial Real Estate Credit and Capital Advisory Board

Since the last Capital Markets Advisory Board update there have been numerous initiatives proposed. The following is a summary of the most important. It should be noted many details still have not been addressed.

## Public-Private Investment Program for Legacy Assets ("PPIP")

- Goal is to use \$75 - \$100B in TARP & private capital to generate \$500B in purchasing power to accomplish the following:
  - Maximize the Impact of Each Taxpayer Dollar
  - Shared Risk and Profits with Private Sector
  - Private Sector Price Discovery: Private sector investors compete to establish price
- Legacy Loan Program ("LLP") – FDIC to provide loan guarantees and Treasury co-invests with private investors to buy existing loans.
  - Banks identify the assets they want to sell and may participate in profits on assets sold.
  - FDIC will conduct an auction of pools of assets to the highest bidder. Private investors would have access to Treasury funds co-investing 50% of the equity with the investor providing the balance.
  - The financing would be guaranteed by the FDIC. The FDIC would provide financing up to a 6-to-1 debt to equity financing (86%). Talk is now that FDIC would issue notes directly to sellers of loans instead of providing guarantees.
  - Private investor would control and manage the asset until final liquidation subject to FDIC oversight.
  - Example: Bank decides to market a portfolio of existing loans at \$100. A private investor is willing to buy the portfolio at \$84. The FDIC decides it would provide 6 to 1 leverage (about 86% LTV) or \$72. The \$12 equity would be split 50/50 between the investor and Treasury. So the investor would invest \$6. Profits or losses would be split with the Treasury 50/50.
- Legacy Security Program ("LSP")
  - Treasury would approve a group of asset managers with a demonstrated track record to purchase existing AAA rated CMBS issues
  - Treasury will match the equity from the asset managers.

- Treasury will provide debt for the investment between 100% to 200% of the equity.
- Example The fund manager raises \$100 and the Treasury co-invests \$100. Treasury from PPIP will provide a loan between \$100 to \$200. Thus the fund would have between \$300 to \$400 to purchase AAA securities.
- Questions
  - What are the terms of the warrants to be issued to the Treasury under PPIP?
  - What are the details on the legacy TALF program that will determine the maximum nonrecourse loan available under LSP.
  - Terms and interest rate of the loan under TALF. Current term is 3 years but investors are trying to get a 5 year term or Treasury to match loans with the term of the CMBS issues.
  - What are the terms and rate of the FDIC note issued to the selling bank under LLP?
  - Control rights: Where there are multiple equity investors pari passu w/ Treasury equity, how will control rights be allocated as it concerns the workout process?
  - Compensation: Treasury stated that executive compensation restrictions will not apply to passive Private Investors. What constitutes passive private investors and what requirements may be imposed on sellers of assets and asset managers?

#### TALF Update

- In March \$8.1B of TALF-eligible securities came to market and \$4.7B was purchased using TALF funding. In April four deals came to market offering a total of \$2.6B of which \$1.71B was purchased. No CMBS has been allowed to come to market yet. When will TALF start purchasing CMBS?
- Current spreads in the secondary market on Senior AAA CMBS are about the same as the start of the year but have come in slightly with the announcement of LSP.

#### Mark to Market

- The Financial Accounting Standards Board (“FASB”) voted to relax the mark to market rules. For assets in which the markets are dysfunctional. It now allows entities to value loans on a hold-to-maturity basis rather than looking at the most recent trade of that or similar securities.
- The hope that this change will allow companies to increase the value of assets held in their portfolio which would reduce losses and increase capital. For banks, this should increase their capacity to lend.

#### CMBS

- Freddie Mac is expected to launch a \$1B securitization of multifamily mortgages in the next few months. Deutsche Bank would be the underwriter.
- The securitization would be comprised of approximately 60 loans and would be sold in at least two tranches.

- Freddie Mac is considering providing a guarantee for the senior tranche.
- 10% of the securitization would be subordinate class.
- Freddie would try to increase the securitization's transparency.