Commercial Loan Special Servicing
August 2011
Table of Contents

SECTION I
Cornerstone Real Estate Advisers LLC Overview

SECTION II
Special Servicer Overview – Public vs. Private
What is Special Servicing?
Who are Special Servicers?

SECTION III
Cornerstone Special Servicing
Cornerstone Special Servicing
Special Servicing Loan Examples
Cornerstone Real Estate Advisers LLC Overview
Cornerstone’s Investment Philosophy

Cornerstone’s philosophy is to invest its clients’ capital prudently in private and public real estate debt and equity, using state of the art research and cycle-tested experience to guide its decisions.
Cornerstone Overview

- Assets under management: Over $32 billion of private and public real estate interests as of June 30, 2011*

- Competencies cover broad spectrum of private and public real estate: market strategies available in funds and individually managed accounts
  - Private equity real estate
    - Core, value-added and developmental strategies
    - Multifamily, office, retail, industrial and hotel properties in US
    - Office, retail and industrial properties in the UK and Europe
  - Domestic and Global Public Real Estate Equity Securities
  - Real estate debt
    - Commercial whole loans
    - CMBS
    - Residential loan pools and other real estate debt

- Member of MassMutual Financial Group

*Cornerstone and its subsidiaries manage or service over $32 billion of real estate equity and debt in private and public markets. This total comprises assets of Cornerstone Real Estate Advisers ($30.2 billion) and its U.K. subsidiary Cornerstone Europe ($1.9 billion).
Cornerstone Overview

Cornerstone assets under management: Over $32 billion of private and public real estate interests as of June 30, 2011*

*Cornerstone and its subsidiaries manage or service over $32 billion of real estate equity and debt in private and public markets. This total comprises assets of Cornerstone Real Estate Advisers ($30.2 billion) and its U.K. subsidiary Cornerstone Europe ($1.9 billion).

1Assets include Babson Capital Management LLC and its subsidiaries Babson Capital Europe Limited and Cornerstone Real Estate Advisers.

2Babson Capital Cornerstone Asia Limited is a Hong Kong affiliate and member of the MassMutual Financial Group and provides Cornerstone with advisory and distribution services in the Asia-Pacific region.
Cornerstone Overview:
Global Real Estate Organization
## Cornerstone Overview

### Broad real estate investment capabilities

<table>
<thead>
<tr>
<th>U.S. Equity Investments</th>
<th>Core</th>
<th>Value-added</th>
<th>Development</th>
<th>UK/European Private Equity</th>
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</thead>
<tbody>
<tr>
<td>Open-end Fund</td>
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<table>
<thead>
<tr>
<th>Property Types</th>
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<tbody>
<tr>
<td>Multifamily</td>
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<tr>
<td>Office</td>
<td>✓</td>
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<tr>
<td>Retail</td>
<td>✓</td>
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<tr>
<td>Warehouse, R&amp;D</td>
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<td>Hotels</td>
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<table>
<thead>
<tr>
<th>Debt Investments</th>
<th>Core Mortgage</th>
<th>Public CMBS</th>
<th>Mezzanine/High Yield Debt</th>
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<td>✓</td>
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<td>Separate Account</td>
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<table>
<thead>
<tr>
<th>Real Estate Securities</th>
<th>U.S.</th>
<th>Global</th>
</tr>
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<td></td>
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<td>✓</td>
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<table>
<thead>
<tr>
<th>Other Real Estate</th>
<th></th>
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<tbody>
<tr>
<td>Affordable Housing</td>
<td>✓</td>
</tr>
<tr>
<td>Property Index Certificates (PICs)</td>
<td>✓</td>
</tr>
</tbody>
</table>
Cornerstone Overview

Real Estate Private Equity Experience\(^1\)

- Managed discretionary and non-discretionary funds and separate accounts since 1994
- Currently manages assets, both domestically and internationally, with a gross market value of approximately $9.8 billion
  - Thirteen separate accounts (ten U.S. and three U.K. clients) comprise six public and seven corporate accounts having a gross market value of $5.8 billion
  - Cornerstone manages the Cornerstone Patriot Fund, an open-end core fund with an approximate total asset value of $1.3 billion
- Since 2000, Cornerstone has managed seven discretionary, closed-end commingled funds that incorporate value-added strategies focused on creating portfolios of apartments, hotels or multiple property types
- Cornerstone has been involved with the development of properties of all types, with a gross development cost in excess of $3 billion

\(^1\) As of June 30, 2011
Cornerstone Overview

Equity ($10.9 Billion GMV)
June 30, 2011
($ in millions unless otherwise noted)

Property Type

- Retail: $2,484 / 25%
- Office: $1,908 / 19%
- Residential: $1,638 / 17%
- Hotel: $2,897 / 30%
- Industrial: $679 / 7%
- Land: $209 / 2%

Geography

- U.S. East: $2,889 / 29%
- U.S. Midwest: $674 / 7%
- U.S. West: $3,449 / 35%
- U.S. South: $917 / 9%
- Germany: $67 / 1%
- Sweden: $571 / 6%
- Finland: $709 / 7%
- U.K.: $538 / 6%

Strategy: U.S.

- Core: $2,686 / 34%
- Value Added: $4,647 / 59%
- Opportunistic: $596 / 7%

European

- Core: $538 / 28%
- Core Plus: $1,280 / 68%
- Value Added: $67 / 4%

R.E. Securities

- Global: $84 / 9%
- U.S.: $878 / 91%

Note: Distributions are based on U.S. and European direct real estate assets (gross market value) and REITS. Cornerstone also manages debt products. Assets under management include both discretionary and non-discretionary accounts, as well as portfolios managed for MassMutual.
Cornerstone Overview

Real Estate Lending Experience

- Since 1989, Cornerstone has originated, underwritten, closed and serviced 1,548 real estate debt investments totaling $32.0B of capital invested

- Since 1999, Cornerstone has invested more than $23.3B of client capital in various core separate accounts

- Over the last decade Cornerstone has originated, underwritten, closed and managed 118 transitional and high yield investments, in four mezzanine funds and a separate account totaling $1.5B in invested capital

- In 2010, closed 2 core mortgage funds totaling $1.25B of investor capital

In 2010, Cornerstone integrated Babson Capital Management LLC’s Real Estate Finance Group into its operations. Lending and debt servicing activities, prior to 2010, while conducted by the team at Cornerstone, occurred at an affiliated firm.

1 As of June 30, 2011
Cornerstone Overview

North American Real Estate Debt Portfolio ($20.7 Billion) ¹
June 30, 2011 ($ in millions unless otherwise noted)

Product Type

- Commercial Whole Loans $12,228 / 59%
- CMBS $4,173 / 20%
- Residential Loan Pools $2,501 / 12%
- REIT $585 / 3%
- Other $1,236 / 6%
- Office $5,035 / 41%
- Industrial $1,568 / 13%
- Hotel $614 / 5%
- Retail $1,326 / 11%
- Other $393 / 3%

Geography

- West $4,250 / 34%
- Southwest $1,969 / 16%
- Midwest $1,739 / 14%
- Northeast $1,650 / 13%
- Canada $565 / 5%
- Mid-Atlantic/Southeast $2,166 / 18%

Property Type

- Commercial Whole Loan Diversification ($12.3 Billion) ²

¹ Excludes serviced assets in securitization where Cornerstone also acts as the investment adviser (at book value)
² Includes all commercial mortgage loans managed or serviced (at book value)
Assets under management include both discretionary and non-discretionary accounts, as well as portfolios managed for MassMutual.
Cornerstone Overview - European operating platform

- UK / Northern European focus
- Full service encompassing:
  - Investment management
  - Specialist asset management
  - Research
  - Corporate Advisory (fund M&A, recapitalisations)
  - Business development / client servicing
- Assets under management $1.9 billion*
- 35 personnel

* June 30, 2011
(Includes direct real estate and Property Index Certificates (PICs))
Cornerstone Overview - European AUM

Private Equity – European Direct Real Estate ($1.9 Billion GMV)
June 30, 2011 ($ in millions unless otherwise noted)

Assets under management – funds versus third party mandates

- Commingled Funds: $1,347 / 71%
- Third Party Mandates: $538 / 29%

Assets under management by strategy

- Core: $538 / 30%
- Core Plus: $1,280 / 70%
- Value Add: $0 / 0%

Assets under management by geography

- Germany: $67 / 4%
- U.K.: $538 / 28%
- Finland: $709 / 38%
- Sweden: $571 / 30%
- Finland: $709 / 38%
Real Estate Loan Track Record

Real estate debt origination / underwriting experience and investment performance summary

<table>
<thead>
<tr>
<th>Year</th>
<th>No.</th>
<th>Originated</th>
<th>Writedowns</th>
<th>Net Recovery</th>
<th>Average Loan Size</th>
<th>Weighted Averages</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>No.</td>
<td>Total</td>
<td>Percentage</td>
<td>Maturity</td>
</tr>
<tr>
<td>1989</td>
<td>108</td>
<td>$1,104,192,870</td>
<td>35</td>
<td>($115,058,721)</td>
<td>10.4%</td>
<td>$110,933,833</td>
</tr>
<tr>
<td>1990</td>
<td>89</td>
<td>871,233,166</td>
<td>32</td>
<td>(79,254,349)</td>
<td>9.1%</td>
<td>25,435,698</td>
</tr>
<tr>
<td>1991</td>
<td>23</td>
<td>197,368,498</td>
<td>7</td>
<td>(13,529,648)</td>
<td>6.9%</td>
<td>1,842,134</td>
</tr>
<tr>
<td>1992</td>
<td>37</td>
<td>337,835,201</td>
<td>4</td>
<td>(28,016,393)</td>
<td>8.3%</td>
<td>(26,250,509)</td>
</tr>
<tr>
<td>1993</td>
<td>17</td>
<td>142,664,043</td>
<td>1</td>
<td>(80,447)</td>
<td>0.1%</td>
<td>(80,447)</td>
</tr>
<tr>
<td>1994</td>
<td>38</td>
<td>246,858,376</td>
<td>3</td>
<td>(5,013,142)</td>
<td>2.0%</td>
<td>(5,075,866)</td>
</tr>
<tr>
<td>1995</td>
<td>54</td>
<td>791,530,390</td>
<td>4</td>
<td>(8,538,747)</td>
<td>1.1%</td>
<td>(8,938,567)</td>
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<tr>
<td>1996</td>
<td>77</td>
<td>864,992,913</td>
<td>1</td>
<td>(438,631)</td>
<td>0.1%</td>
<td>(1,090,542)</td>
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<tr>
<td>1997</td>
<td>60</td>
<td>939,582,437</td>
<td>0</td>
<td>-</td>
<td>0.0%</td>
<td>-</td>
</tr>
<tr>
<td>1998</td>
<td>77</td>
<td>1,494,502,039</td>
<td>0</td>
<td>-</td>
<td>0.0%</td>
<td>-</td>
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<tr>
<td>1999</td>
<td>91</td>
<td>1,751,547,276</td>
<td>3</td>
<td>(4,187,861)</td>
<td>0.2%</td>
<td>4,685,256</td>
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<tr>
<td>2000</td>
<td>64</td>
<td>1,446,455,740</td>
<td>1</td>
<td>(898,794)</td>
<td>0.1%</td>
<td>398,328</td>
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<tr>
<td>2001</td>
<td>66</td>
<td>2,006,558,162</td>
<td>1</td>
<td>(1,157,173)</td>
<td>0.1%</td>
<td>(1,157,173)</td>
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<tr>
<td>2002</td>
<td>65</td>
<td>1,520,854,020</td>
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<td>-</td>
<td>0.0%</td>
<td>-</td>
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<tr>
<td>2003</td>
<td>60</td>
<td>1,656,416,274</td>
<td>0</td>
<td>-</td>
<td>0.0%</td>
<td>(8,694,713)</td>
</tr>
<tr>
<td>2004</td>
<td>79</td>
<td>2,333,151,710</td>
<td>0</td>
<td>-</td>
<td>0.0%</td>
<td>-</td>
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<tr>
<td>2005</td>
<td>139</td>
<td>2,921,556,710</td>
<td>1</td>
<td>(23,864,223)</td>
<td>0.8%</td>
<td>(23,864,223)</td>
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<tr>
<td>2006</td>
<td>167</td>
<td>3,867,720,820</td>
<td>9</td>
<td>(95,747,133)</td>
<td>2.5%</td>
<td>(88,136,755)</td>
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<tr>
<td>2007</td>
<td>115</td>
<td>3,002,440,596</td>
<td>7</td>
<td>(40,121,763)</td>
<td>1.3%</td>
<td>(34,195,183)</td>
</tr>
<tr>
<td>2008</td>
<td>45</td>
<td>1,550,888,341</td>
<td>3</td>
<td>(17,982,075)</td>
<td>1.2%</td>
<td>(17,982,075)</td>
</tr>
<tr>
<td>2009</td>
<td>16</td>
<td>435,149,232</td>
<td>0</td>
<td>-</td>
<td>0.0%</td>
<td>-</td>
</tr>
<tr>
<td>2010</td>
<td>50</td>
<td>1,791,938,615</td>
<td>0</td>
<td>-</td>
<td>0.0%</td>
<td>-</td>
</tr>
</tbody>
</table>

1989 - 2010 1,537 $31,275,437,427 113 -$433,889,227 1.4% -$72,170,804 $19,734,067 7.5 6.90% 69.1% 1.70

Note: Please see “Endnotes to the Real Estate Loan Track Record” on the following page to reference notes cited in the table above.

As of December 31, 2010. Prospective investors should bear in mind that past performance is not indicative of future results and that the Fund may not achieve its objectives and may realize substantial loss.
Endnotes to the Real Estate Loan Track Record

(1) “Real Estate Loans” represents the following classification of debt investments at the time of origination: core, construction, mezzanine, and transitional.

(2) “Funding Years” represents the year the initial (or whole) amount of debt was advanced to borrower. This includes debt investments that may have been originated prior to 1989, as stated in the table, but which were subsequently renegotiated and assigned a new loan number. Assignment of a new loan number distinguishes the debt investment from a debt investment whose maturity may have simply been extended.

(3) “Real Estate Loans Number” represents the count of all debt investments originated in that year, including those which were renegotiated and assigned a new loan number.

(4) “Real Estate Loans Originated” represents the dollar sum of all debt investments originated in that year, including those which were renegotiated and assigned a new loan number.

(5) “Writedown Number” represents the number of debt investments originated in a given year (or renegotiated and assigned a new loan number) which ultimately defaulted. The default most likely occurred in another year.

(6) “Writedown Total” represents the total dollar amount of all the differences between the book value and the market value of the debt investment at the time they were written down, shown in the year of funding.

(7) “Writedown Percentage” represents writedowns as a percentage, by dollars, of originations.

(8) “Net Recovery” represents the proceeds from the sale of a former asset which had become real estate owned (“REO”), except for thirteen assets that remain in the portfolio and for which the December 31, 2010 market value has been substituted for the sales proceeds; plus all net income received while the property was REO; less the cost of any capital additions; less the beginning market value of the property at the time it became REO; plus the writedown taken on the debt investment at the time the property became REO. (Sales Proceeds + Net Income - Capital Additions - Beginning Market Value + Writedown).

(9) “Average Loan Size” represents the average commitment for all debt investments funded in that year. (Sum of debt investments originated / Number of debt investments originated).

(10) “Weighted Average Maturity” represents the sum of the term (in years) of each debt investment weighted by the amount of each debt investment relative to the total amount of the sample. ((Each debt investment originated / Sum of debt investment originated)*Term in years).

(11) “Weighted Average Coupon” represents the sum of the coupon of each debt investment weighted by the amount of each debt investment relative to the total amount of the sample. ((Each debt investment originated / Sum of debt investments originated)*Coupon).

(12) “Weighted Average LTV” represents the sum of the loan to value ratio (“LTV”) of each debt investment weighted by the amount of each debt investment relative to the total amount of the sample. ((Each debt investment originated / Sum of debt investments originated)*LTV).

(13) “Weighted Average DSC” represents the sum of the debt service coverage ratio (“DSC”) of each debt investment weighted by the amount of each debt investment relative to the total amount of the sample. ((Each debt investment originated / Sum of debt investment originated)*DSC).

In 2010, Cornerstone integrated Babson Capital Management LLC’s Real Estate Finance Group into its operations. Lending and debt servicing activities prior to that date, while conducted by the team at Cornerstone, occurred at an affiliated firm.
Section II

Special Servicer Overview
Public vs. Private Market
Public Market Servicing Structure

Commercial Mortgage Backed Securities (CMBS)
The three servicing roles associated with every CMBS transaction--primary, master and special servicing--can be performed by related entities or independent parties, but the responsibilities associated with each role remain consistent across CMBS transactions

- **Primary Servicers:**
  - Maintain direct contact with borrowers of performing loans by performing the day-to-day servicing functions
  - Monitor the performance of loans and collateral

- **Master Servicers:**
  - Responsible for protecting the interests of CMBS certificate holders
  - Oversee the performance of primary servicers
  - Provide liquidity to CMBS transaction by advancing payments for delinquent loans
  - May operate as a primary servicer while also fulfilling its master servicer role

- **Special Servicers:**
  - Loan is transferred to a special servicer from a master servicer when it either becomes nonperforming or is in imminent danger of becoming so
  - Maximizes recoveries on nonperforming loans or real estate owned assets for the certificate holders
  - Expertise in working with delinquent borrowers on distressed assets, underwriting loan extensions, litigation, foreclosures and asset disposition
Roles of a CMBS Servicer

Master Servicer

- Responsible for overall loan servicing & trustee reporting "in the best interests of the trust".
- Duties include:
  - Payment collection and delivery to trustee
  - Advancement of late payments to trustee
  - Collection of property surveillance reports for bond holders
  - Transition of loans to and from special servicer

Trustee

- Responsible for distributing funds and reports gathered by the master servicer to the bond holders. Duties include:
  - Holding the mortgage documents
  - Ensuring the master servicer acts in accordance with the servicing agreements (PSA)
  - Issuing the certificate of beneficial ownership

Bond Holders

AAA Bond
AA Bond
A Bond
BBB Bond
BB Bond
B Bond
non-rated

Conducts the work-out or foreclosure process for non-performing loans.
Various types include:
- those retaining first loss positions
- those investing in "B" pieces in return for special servicing rights
- those appointed solely based on expertise

Cash flow pay-outs are in priority of bond rating. After the first bond is paid, remaining funds flow to the second bond and so forth, creating a "waterfall" effect.

Source: KeyBank Real Estate Capital – NCREIF Conference March 2011
Special Servicing – Public vs. Private

- **Master Servicer - Public**
  - Oversees the administration of loans & distribution of cash flow to investors
  - May bid to be both master and special servicer
  - Special servicer may be a separate company to whom loan is transferred when the loan gets into trouble

- **Special Servicer - Public**
  - Special servicer’s functions outlined in a Pooling & Servicing Agreement (PSA)
  - Has wide latitude to foreclose, modify the loan in order to maximize the cash flow to the investors – particularly the first loss investor

- **Master Servicer – Private**
  - Oversees the administration of loans & distribution of cash flow to lender
  - Typically is both master and special servicer
  - Special servicer is separate unit of lender to whom loan is transferred when loans get into trouble

- **Special Servicer – Private**
  - Special servicer’s functions outlined in internal policies & procedures
  - Has wide latitude to foreclose, modify the loan in order to maximize the cash flow to the lender
Special Servicing – Public vs. Private

- Public Special Servicer typically holds a portion of the first loss piece to align its interests with the first loss investor.
- First loss alignment may tend to favor postponement of the exercise of remedies if there is a value loss.
- First loss Investors often appoint special servicers.
- Special Servicer concerned with maximizing the value to the investors.
- Special servicer is responsible for the administration and disposition of troubled loans.

- Cornerstone Special Servicer typically represents the senior debt position.
- Typically senior debt, but first loss alignment may be the same if invested in subordinated tranche.
- Except as structured in club deals special servicers are aligned with portfolio lender.
- Special Servicer concerned with maximizing value of the lenders.
- Special servicer is responsible for the administration and disposition of troubled loans.
Special Servicing – Public vs. Private

Influencing Factors:
- Moral hazard related to treatment of a loan when the master & special servicer are the same firm
- Adverse selection – master servicer bids for a risky pool of loans where it expects to be the special servicer
- Third party fee based business
- Master servicer stops receiving revenue when loan transferred to special servicer who gets the fees

Influencing Factors:
- Not influenced by compensation related to servicing contracts
- No adverse selection. Servicing fees for club or co-lender deals are negotiated in each specific loan. All other loans originated for lender’s account
- Not a third party fee based business
- Servicing agreement determines fees. No adverse fee impact on P&L
### Top Commercial Servicers 2006 – 2010

**Source:** KeyBank Real Estate Capital – NCREIF Conference March 2011

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount (Millions)</th>
<th>Number of Loans</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2010</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Wells Fargo/Wachovia Bank NA</td>
<td>462,751</td>
<td>40,292</td>
</tr>
<tr>
<td>2. PNC RE/Midland Loan Services</td>
<td>307,862</td>
<td>36,593</td>
</tr>
<tr>
<td>3. Berkadia Commercial Mtg LLC</td>
<td>202,555</td>
<td>27,360</td>
</tr>
<tr>
<td>4. Bank of America Merrill Lynch</td>
<td>133,378</td>
<td>11,441</td>
</tr>
<tr>
<td>5. KeyBank Real Estate Capital</td>
<td>124,714</td>
<td>11,247</td>
</tr>
<tr>
<td><strong>2009</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Wells Fargo/Wachovia Bank NA</td>
<td>473,807</td>
<td>41,834</td>
</tr>
<tr>
<td>2. PNC RE/Midland Loan Services</td>
<td>322,971</td>
<td>37,810</td>
</tr>
<tr>
<td>3. Berkadia Commercial Mtg LLC</td>
<td>217,874</td>
<td>30,144</td>
</tr>
<tr>
<td>4. Bank of America Merrill Lynch</td>
<td>131,744</td>
<td>9,589</td>
</tr>
<tr>
<td>5. KeyBank Real Estate Capital</td>
<td>128,450</td>
<td>11,769</td>
</tr>
<tr>
<td><strong>2008</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Wachovia Securities</td>
<td>412,863</td>
<td>91,591</td>
</tr>
<tr>
<td>2. PNC RE/Midland Loan Services</td>
<td>310,323</td>
<td>34,187</td>
</tr>
<tr>
<td>3. Capmark Financial</td>
<td>260,878</td>
<td>34,252</td>
</tr>
<tr>
<td>4. Wells Fargo</td>
<td>182,581</td>
<td>19,823</td>
</tr>
<tr>
<td>5. Bank of America</td>
<td>134,977</td>
<td>10,522</td>
</tr>
<tr>
<td>6. KeyBank Real Estate Capital</td>
<td>133,321</td>
<td>11,606</td>
</tr>
<tr>
<td><strong>2007</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Wachovia Securities</td>
<td>407,946</td>
<td>30,731</td>
</tr>
<tr>
<td>2. Midland Loan Services</td>
<td>268,552</td>
<td>28,295</td>
</tr>
<tr>
<td>3. Capmark Financial</td>
<td>258,125</td>
<td>36,827</td>
</tr>
<tr>
<td>4. Wells Fargo</td>
<td>175,600</td>
<td>20,588</td>
</tr>
<tr>
<td>5. KeyBank Real Estate Capital</td>
<td>148,572</td>
<td>13,362</td>
</tr>
<tr>
<td><strong>2006</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Wachovia Securities</td>
<td>307,834</td>
<td>27,462</td>
</tr>
<tr>
<td>2. Capmark Financial</td>
<td>273,227</td>
<td>52,575</td>
</tr>
<tr>
<td>3. Midland Loan Services</td>
<td>223,056</td>
<td>24,023</td>
</tr>
<tr>
<td>4. Wells Fargo</td>
<td>132,940</td>
<td>17,080</td>
</tr>
<tr>
<td>5. KeyBank Real Estate Capital</td>
<td>105,482</td>
<td>13,145</td>
</tr>
</tbody>
</table>
Commercial Real Estate Maturities By Year

Source: Chris Macke, CoStar
Percent of Loan Maturities Postponed to 2011

% of 2011 Maturities Not Originally Maturing in 2011

Source: Chris Macke, CoStar
Percent of Maturing Loans With LTV’s>100%

Source: Chris Macke, CoStar
Cornerstone Special Servicing

Special Servicing Loan Examples
Cornerstone Real Estate Advisers LLC Servicing

How we do it:

- Highly experienced and knowledgeable staff with regional office network of debt and equity experts
- Extensive market and property level due diligence experience
- National network of service providers including property and asset management, brokerage relationships, internal and external valuation, legal and other specialty services
- Rated CSS2 by Fitch for Special Servicing and CPS2 for Primary Servicing (CSS2 = Commercial special servicer & CPS = Commercial Property Servicer. Ratings are on a scale of 1-5)

Why we do it:

- Risk mitigation and loss minimization for clients
- Contractually obligated under servicing agreement related to selected co-lending transactions
Cornerstone Special Servicing Trigger Events

- Within 12-months of maturity without a defined exit strategy
- The occurrence of a delinquency in any payment obligation
- Projection of a payment default upon the maturity date
- Projection of inability to meet a contractual change in loan terms (partial pay-down, extension option, sales pace covenant, etc.)
- Borrower files a voluntary petition in bankruptcy or subject to involuntary bankruptcy proceeding and not dismissed within 60 days
- Some other material default has occurred or, in the servicer's reasonable judgment, is imminent and not likely to be cured within 60 days thereafter
Capital Considerations – Commercial Mortgage Loans

- **Regulatory**
  - National Association of Insurance Commissioners (“NAIC”)
    - Risk Based Capital (RBC) and Mortgage Experience Adjustment Factor (MEAF)
      - 2.6% capital charge X MEAF (floor 80% cap 175%)
      - For 2010 – 2011 Capital charge range 2.08% - 4.55%
      - 2012 proposal to eliminate MEAF and move towards a debt service and loan-to-value measures

- **Federal Regulation**
  - New capital standards
  - Securitization and retention of credit risk
  - Revamp of credit-rating industry

- **Rating Agency**
  - Proprietary capital adequacy models
Quality Rating System

- No standard; each company has their own proprietary system that will try to:
  - Reflect best practices in the industry
  - Accurately represent a timely view of the portfolio
  - Create comparability across all asset classes by mapping to public ratings

- Methodology considerations have changed over the recent years to:
  - Incorporate probability of default and loss given default metrics
  - Incorporate seniority and placement in the capital stack
Commercial Mortgage Loan Rating Factors

- Payment Risk
  - Ability of the loan to pay debt service
    - Factors considered
      - Forward Looking Debt Service Coverage
      - Positive or Negative Change from underwriting assumptions
      - Debt Service Coverage if leases roll to current market rates
      - Current LTV
      - Sponsor Capability

- Maturity Risk
  - Strength of the exit strategy or ability to refinance at maturity
    - Factors considered
      - Yield to Debt
      - Refinance Test
      - LTV at Maturity
      - Loan to Replacement Cost

The risk weighting shifts from Payment Risk to Maturity Risk as the loan seasons

- Payment Risk 75% at origination 0% in year of maturity
- Maturity Risk 25% at origination and 100% in year of maturity
Special Servicing Loan Examples

- $15.5 million loan on suburban office building 2005 vintage
- Loan was transferred into special servicing due to a pending maturity in 2010 and dramatic decline in asset value
- Borrower requested a discounted payoff
- As is MAI valuation obtained at $15.2 million
- Internal as is value of $12.4 million
- BOV not obtained
- Asset is well located in Southwest market, well occupied and maintained in good condition – mid-20% market vacancy rate
- Resolution – sold note at par with financing to a third party. New loan balance paid down to 65% of market value
Special Servicing Loan Examples

- $32.3 million loan on suburban office building – early 07’ loan
- Loan was transferred into special servicing due to a pending maturity in 2010 and expected loss of tenants
- Borrower requested a reduction in loan balance to make releasing economically defensible to equity
- Appraisal obtained at $18 million
- Internal value at $20 million
- BOV’s range from $19.75 to $27 million (investor vs. user)
- Highest offer received $25 million all cash from 1 of 15 bidders
- Asset is well located and maintained, in highly desired location mid – 20% vacancy rate in market
- Resolution – foreclosure and retained to maximize value
Special Servicing Loan Examples

- $42 million loan on a mid-west suburban office building originated in 2006
- Loan was transferred to special servicing in early 2010 due to a pending maturity default in late 2010 resulting from vacancy, weak market and projected capital needs
- Lender elects to sell note based upon intermediary assessment of value in excess of lender’s internal value
- No external valuation obtained
- Internal value of $23 million
- BOV ranged from $22.2 to $27.5 million
- Lender secures attractive bid for note, subject to lender financing and getting deed-in-lieu from borrower
- Resolution – Note sold to third party for $30 million and lender subsequently provided a $27 million bridge loan of which $13 million will be funded in the future along with the new borrower’s contribution of an additional $16 million to pay for tenant improvement and CapEx costs