

Summary Minutes Capital Markets Committee
Sunday, February 4, 2001
2:00 PM- 3:00 PM
Marina Ballroom, Salon G
San Diego Marriott Hotel & Marina
San Diego, California

Chair:

Kieran Quinn, President and CEO
Column Financial

Vice Chairs:

Deborah McAneny, President
John Hancock Real Estate Finance, Inc.

Joseph P. Forte, Esq., Partner
Thacher, Proffitt & Wood

Brian F. Stoffers, Executive Vice President
L. J. Melody & Company

Invited Guests:

Eric M. Hillenbrand, Managing Director
Banc One Capital Corporation

**Christopher Hoeffel, Senior Managing
Director**
Bear, Stearns & Company

Kenneth A. Rivkin, Managing Director
Credit Suisse First Boston

Vice Chair Deborah McAneny called the meeting to order at 2:00 p.m. She welcomed all in attendance and thanked them for their participation. Ms. McAneny introduced the committee vice-chairs and the invited guests. She informed the audience that each of these individuals represented a specific aspect of the capital markets for commercial mortgage lending; mortgage banker; Wall Street conduit; life company conduit/portfolio lender; B-piece buyer and legal/transaction documentation.

(Note: With the exception of Chair Kieran Quinn and Vice-Chair Barry Reiner, who were unable to attend the meeting, all other chairs were in attendance.)

Ms. McAneny then introduced Ken Rivkin and informed the audience that he would present an overview of the capital markets in 2000 and his forecast for 2001. A copy of his presentation is available for viewing on the MBA website at www.mortgagebankers.org under, Commercial Finance, Committees, Capital Markets.

Highlights from Mr. Rivkin's presentation included:

- Deal size and the number of securitizations decreased during 2000.
- There was a significant increase in floating rate deals during 2000.
- Office, retail and specialty assets (self-storage facilities, assisted living, etc.) have

fallen out of favor for investors.

- CMBS spreads have been erratic due to their corresponding relationship to corporate bonds which during 2000 experienced pricing volatility.
- During 2001, average deal size should remain relatively constant with a slight increase in the number of securitizations and dollar volume.
- More floating rate deals will come to the market.
- Conclusion: All markets, with a few exceptions, appear to be at or near equilibrium and in general markets will improve over last year's performance.

Ms. McAneny then called upon Mr. Stoffers for his insights:

- The type of deals brought to the market changed during 2000, with the first half of the year dominated by floating rate transactions and the last half dominated by fixed rate structures.
- More capital is available, with most marketplaces appearing to be reasonably in balance.
- The pipeline for 1st quarter 2001 is very strong, however cautious optimism is in order due to the prospect of a possible recession. Said recession will not be created by or include real estate and if recession does come to pass it will be caused by some other factor -- energy concerns out west, increasing energy prices from foreign sources, the fall of the tech markets, etc. The overriding concern is the possibility of recession, which would cause tighter lending requirements and thus a reduction in loan volumes.

Ms. McAneny then called upon Mr. Hoeffel for his commentary:

- Credit decisions are not being made on real estate fundamentals, but rather on the needs of the securitization marketplace, especially the B-piece buyers of CMBS.
- B-piece buyers more selective as to which loans are included in pools to be brought to the market which resulted in curtailment in lending practices by originators and the exclusion of certain property types from securitization pools (i.e. theaters, assisted living facilities).
- Ms. McAneny posed the following question, "What is your firm doing to alleviate the problems regarding B-piece buyers?" Response indicated that many Wall Street firms are stepping up to provide financing for/to B-piece buyers. Ken Rivkin concurred.

Ms. McAneny offered the following perspectives:

- Recognized that the strategy for many life companies has evolved due to demutualization and the resulting demands for profitability from the public/corporate markets. As a result, securitization has become a tool to grow earnings and in addition it is being increasingly utilized to manage real estate portfolios amongst insurance companies.
- During 2001, there is the expectation of increased activity coming from insurance companies as they adjust to their changing role in the real estate community.
- Credit fundamentals are reasonably sound with some concern regarding issuances to dot.com and retail.
- Internet opportunities will be available in terms of more efficient processes within institutions, rather than through whole loan origination.

Chris Hoeffel posed the following question, "What are life companies spreads in relation to CMBS bonds?" and "Why not invest in CMBS versus whole loans?" Life company spreads are slightly lower than CMBS, however, many insurance companies are more confident of their own credit analysis because they believe that their analysts have a greater ability to evaluate credit which is deemed to be their competitive advantage.

Ms. McAneny then called upon Eric Hillenbrand for his commentary:

- Indicated that there is not a dearth of activity, but a lack of educated B-piece buyers.

- B-piece buyers have become more concerned about securitizations due to their being in the first loss position and the fact that they retain this risk through many business cycles. This has and will continue to result in B-piece buyers doing more due diligence, including an increased level of site inspections, reporting and analysis of individual loans that will be placed in securitization pools.
- Raised concerns regarding FASB 140 (Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities—a replacement of FASB Statement No. 125) and its potential effect of creating contingent liabilities for the issuer. The possible ramifications are being investigated by the MBA.

Ms. McAneny then introduced Joe Forte and his comments were as follows:

- Indicated that the CMBS Loan Document Integrity Task Force had made significant progress over the last few months and informed the audience that a preliminary report will be distributed to the COMBOG membership and at other venues during the CREF Convention. Comments to the document were requested from the audience upon their review and it was suggested that this document would be considered an industry "best practice" when finalized. The Task Force is now discussing enforcement of the document.
- Requested monetary support and involvement from the membership on the MERS Task Force, co-chaired by Rick Jones of Dechert and Mary Anne Ashmore of LaSalle Bank N.A., which is a subgroup of the CMBS Loan Document Integrity Task Force.

Ms. McAneny then polled the audience as to how much business they expect to do with Wall Street conduits during 2001? Increasing, same and decreasing? The responses were about even in all categories.

Ms. McAneny thanked the participants for their participation. She informed those in attendance that the next Committee meeting will be held Sunday, October 14, 2001 in Toronto, Canada in conjunction with the MBA's 88th Annual Convention.

The meeting adjourned at 3:00 p.m.

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