

March 18, 2002

Summary Minutes Portfolio Investors Committee
Sunday, February 3, 2002
3:30 PM- 4:30 PM
Americas Seminar Room, Ballroom Level
Walt Disney World Dolphin Hotel
Lake Buena Vista, Florida

Chair:

Jeffrey J. Williams
David L. Babson & Company

Vice Chairs:

Michael P. Kelly
New York Life Investment Management, LLC

Mike Prior
Protective Life Corporation

Lucinda Scheer
Guardian Life Insurance Company of America

MBA Staff Representative:

Jonathan McKetney

(Note: Vice Chair Lucinda Scheer was unable to attend the meeting.)

The meeting convened at 3:30 PM.

Mr. Williams welcomed members in attendance to the CREF Convention and to the Committee meeting. He gave a brief review of the agenda for the meeting.

Mr. Kelly addressed members in attendance about the Committee's goal of providing a template for loan participation agreements. He gave a brief summary on the Committee's document standardization efforts during 2001 that resulted in the template for Co-Lending and Management Agreement. He informed attendees that the Co-Lending template is available for member use on the MBA website. Feedback from members and website use data indicated that the document is well utilized by the investment community. Many members indicated that the document provides efficiencies and streamlining during the negotiation process with other lenders. Given the feedback from members on the usefulness of the document and the goal of document standardization, the leadership of the Committee believes that it would be beneficial to the membership to continue its mission by adapting the work on the Co-Lending template. To achieve this goal the leadership had decided to form a working group to create a standard form of loan participation document.

Mr. Kelly informed the membership that he has been asked to chair the working group. He informed members that a strong core of real estate professionals contributed to the creation of the Co-Lending template and that the working group for the loan participation agreement would ask them to participate in this working group. He also asked members in attendance to submit their names or the names of their designees for participation in the working group. He requested that all interested parties contact Jonathan McKetney, MBA Director Portfolio Investors Committee, before March 1 for consideration in the working group.

Mr. Williams thanked Mr. Kelly for leading the working group and then asked attendees to introduce themselves and give their company affiliation. He then informed the group that the leadership of the Committee had established three goals for the coming year: and that he had requested that each of the Vice Chairs chair a working group to further these goals. The working groups and chairs are as follows: Loan Participation Agreement, Mr. Kelly; Regional Life Insurance Company Forums, Ms. Scheer and; MBA Non-Member Outreach, Mr. Prior.

Mr. Williams then addressed the members in attendance on behalf of Ms. Scheer, the working group chair, and informed them about the regional forum meetings that are being planned for 2002. He informed the group that the previous forums held in Chicago and

Hartford were beneficial to the membership in that they provided an opportunity for senior level executives involved in commercial real estate finance to gather in a smaller group in order to share their thoughts and concerns regarding the current state of the real estate markets and to get an update on the latest activities of the MBA and the Portfolio Investors Committee.

Mr. Williams informed the group that based on conversations with the leadership and the real estate industry calendar that three locations and dates have been proposed. The locations and dates are as follows: Atlanta, GA on either April 9 or 11; Chicago, IL on June 18 or 25 and; at a location on the West Coast (probably California) to be determined on either September 17 or 24. He requested feedback from the committee members regarding the locations and dates. In addition members were asked to assist the Committee's by volunteering to provide meeting space for the forums in their offices or other facilities they may have available for 10-15 people to meet. He then requested that members provide their responses to Jonathan McKetney before March 1 so that a final list of locations, dates and sites can be provided to the leadership of the Committee for their consideration, finalization and announcement to the membership of the Committee.

Mr. Williams then asked Mr. Prior to give an update on the efforts to attain new members to the MBA and the Portfolio Investor Committee. Mr. Prior explained that the intent is to not only to increase membership in the MBA, but also to provide life company members and non-members with an opportunity to share their concerns and issues with a more diverse group. As part of that effort a strategy has been devised to identify and market to life insurance companies that are non-members of the MBA with over 20% of their portfolio or over \$200M invested in real estate assets. Based on this research a report identified 14 non-member companies.

Mr. Williams informed the members that a list of those companies is included in the kit folders for the meeting and asked them to review the list for completeness and edits and to assist the efforts of the working group by letting them know if they have personal contacts that may be used by the MBA as a way of introduction to the companies listed. Once the list is finalized the MBA will begin marketing the companies identified.

Mr. Williams then informed the members about the Chief Investment Officer and Mezzanine Financing panels as well as the Co-Lending vs. Participation roundtable that would take place during the Convention and may be of particular interest to members of the Committee.

Mr. Williams then introduced Jack Nowakowski, formerly of the American Council of Life Insurers (ACLI) to provide the Committee with an industry update and market data. Mr. Nowakowski said that he would comment on the ACLI Commercial Mortgage Commitment Survey, concerns about staffing at the ACLI and their ability to continue providing industry reports that are utilized by life companies given his recent resignation.

Highlights of the ACLI report are as follows:

- Commercial loan volume during 2001 was greater than 2000 by 14% and recorded the third highest loan volume on record, indicating a strong market
- Office allocations during 2001 were 34%, the lowest quarterly allocation since the third quarter of 1997. For the entire year of 2001 it was 41% indicating a scaling down of allocations of office during the year
- Industrial allocations achieved a record for the second straight year accounting for 13.2% of allocations
- Contract rates on mortgages were at the lowest levels in the last three years
- Spreads edged up near the end of the year from record lows during the year
- Forecast for 2002 based on survey responses to the ACLI indicate about an 18% increase in allocations for commercial property financing. If that were to occur, 2002 would be a record volume year. This could be curtailed if the major issue of terrorism insurance is not resolved in the near future.
- Given that insurance exclusions have been granted for loans over \$25 million in most states, allocation goals may be hard to meet as deals over \$50 million represent 25% of total volume of reporting companies
- Retail allocations for 2002 have been trimmed by most reporting to the survey
- Commercial delinquency rates during the last quarter of 2001 were 0.185%, a reporting series low. Forecasts indicate that there will be a slight increase in 2002 to about 0.25%, still relatively low and indicative of a strong real estate market and prudent underwriting

Mr. Nowakowski indicated that ACLI staffing levels have decreased significantly over the last five years leaving knowledge void. However, he indicated that the ACLI intends to continue issuing the survey. Information from participating institutions should still be reported to the ACLI and they are working on staffing the reporting area responsible for reports. Mr. Williams thanked Mr. Nowakowski for all his work over the years and wished him well at his new company.

Mr. McKetney informed members about the Education Task Force Survey that was included in the kit folders and asked them to fill it out and send back to MBA as soon as possible.

Mr. Williams commended the MBA for its continuing efforts regarding efforts to assist in the resolution of the terrorism insurance issue and about the usefulness of the MBA website as a source of industry information.

Mr. Williams thanked those in attendance for participating at the meeting.

Mr. Williams adjourned the meeting at 4:30 PM.

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