



**MBA's Commercial Real Estate Finance/  
Multifamily Housing Convention & Expo**

## How is Competition Affecting Underwriting?

February 7, 2006

CREF Convention

Orlando, FL





## **How is Competition Affecting Underwriting?– Agenda**

- A. Welcome and Introductions**
- B. Panelist Insights**
- C. Panel Discussion and Debate**
- D. Questions & Answers**
- E. Summary**



## **How is Competition Affecting Underwriting?– Introductions**

**Kim S. Diamond – Managing Director, Standard & Poor's**

The Credit Rating Agency Perspective

**Thomas Pacha – Fremont Investment & Loan, SVP - Chief Credit Officer**

Construction Lender Perspective

**Michael L. Roch – Metropolitan Life Insurance Company, Director**

Life Company and Bank Perspective

**Catherine Quinn – PPM Finance, Inc., VP – Portfolio Analytics and Capital Markets**

Moderator and Life Company Perspective



## How is Competition Affecting Underwriting?– Panelist Insights

### Is the tide shifting or is the surf up?

#### Kim S. Diamond

- higher overall leverage combined with more complex debt stacks
- larger % of IO loans and/or loans with IO periods
- relaxation/elimination of structural enhancements (funded reserves, lockboxes, etc.)
- growth in CRE CDO transactions and expected development of robust CRE synthetics market

#### Thomas Pacha

- Fremont is primarily a non-recourse structured lender that underwrites the risk inherent in each transaction versus more broad underwriting limits.
- Positive trends include real estate being a favored asset class resulting in big cash inflow into the sector, a good economy with job growth, and relatively low interest rates.
- Areas to watch are higher construction costs, some profit margin squeeze, global instability and how it relates to interest rates, currency values and oil prices, low cap rates, and intense competition.



## How is Competition Affecting Underwriting?– Panelist Insights

### Is the tide shifting or is the surf up?

**Michael Roch**

**Trends:**

- Competition for mortgages continues to be fierce
- Proceeds and Spread continue to win deals
- Structure counts especially IO provisions
- Borrowers continue to chip away at Lenders' standards

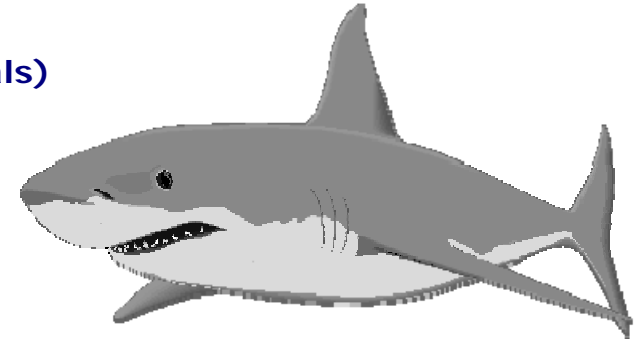
**Results:**

- Full Leveraged loans with little room for error
- Underwriting standards remain aggressive to win deals
- Appraisal parameters will continue to be pushed especially rental growth rate assumptions
- Despite interest rate increases, cap rates will remain in the current ranges for 2006. However we are starting to see some resistance to further compression
- Off-setting these risks are improving real estate fundamentals, still historically low interest rates, and hopefully no near term recession.

## How is Competition Affecting Underwriting?– Panel Discussion and Debate

### Shark-Filled Waters?

-  What concerns you the most?
-  What Unique/Interesting Structures are you seeing?
-  Thoughts/Concerns/Trends on Interest Only
-  How High Can You Go - Higher LTVs/LTCs and how are we getting to those values?
-  Release and Substitution Rights (even on single asset deals)
-  Are Lenders improving their positions in any way?
-  What happens when cap rates go up?





## **How is Competition Affecting Underwriting?– Panel Discussion and Debate**

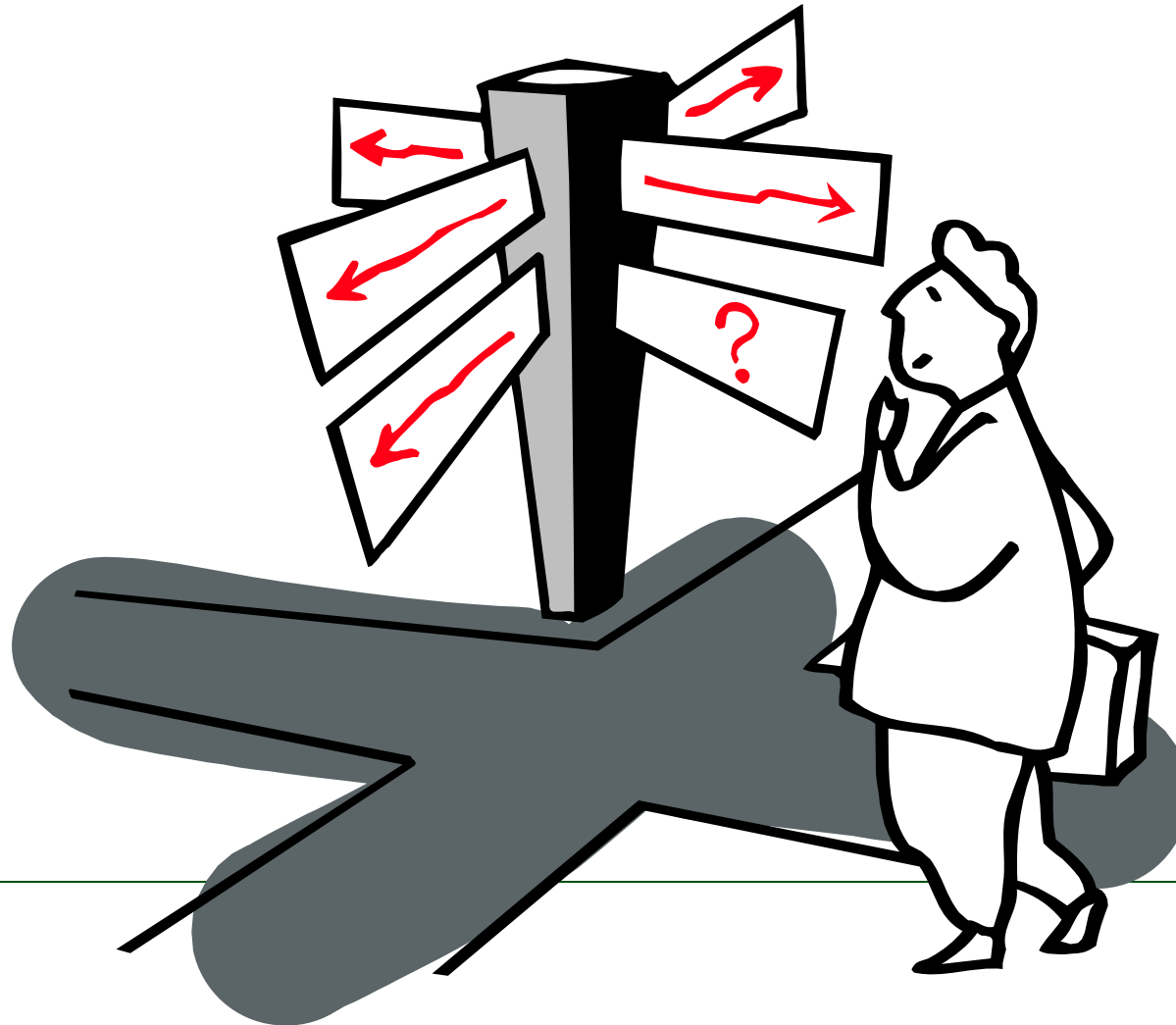
### **In Search of Higher Spreads/Yields**

- Are your firms offering new higher risk products or products outside of your expertise?
- TICs anyone?

### **Is all of this a new paradigm or a cyclical response?**



## How is Competition Affecting Underwriting?— Questions & Answers



## How is Competition Affecting Underwriting?— Summary

