



WHERE BUSINESS HAPPENS

MBA's COMMERCIAL REAL ESTATE FINANCE/MULTIFAMILY
HOUSING CONVENTION & EXPO
Walt Disney World Swan And Dolphin, Orlando, Fla.

Underwriting is King



Monday, February 4

2:00 – 3:15 pm



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AGENDA

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



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SPEAKERS

James Palmisano, Managing Director, Standard & Poor's

Chris Duey, Managing Director, Principal Real Estate Investors

Thomas E. Kosonen, R.A., Managing Director, Bear, Stearns & Co. Inc.

John Kovarik, Chief Credit Officer, Arbor Realty Trust, Inc.

Moderator:

Catherine Quinn, Director, Helix Financial Group LLC



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PANELIST INSIGHTS

James Palmisano, Managing Director, Standard & Poor's

- The pools we're looking at now are a blend of recently originated loans and loans that were originated before the credit crunch hit.
- As a result, these pools are not fully reflective of the improved credit and underwriting standards that banker have been promising.
- That being said, the overall credit quality is improving, but is not fully back to historic standards.
- As a result, our credit support levels for recent deals are similar to where they were in early 2007.



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PANELIST INSIGHTS - continued

Chris Duey, Managing Director, Principal Real Estate Investors

As we enter 2008, we remain committed to our lending programs, however the current market conditions will lead us to be more selective and focus on the following broad points:

- Quality vs quantity
- Back to the basics - focus on the real estate fundamentals of location, sponsorship, tenancy, quality of the real estate, health of the local markets
- Return to real estate risk assessment and risk adjusted pricing
- Slowing domestic economy/recessionary pressures - how these factors will affect local supply/demand fundamentals, valuations, rent projections, corporate leasing activity/absorption, consumer sales, overall credit
- Focus on near term stress analysis on rents and valuations - how would a slowing/declining market affect LTVs and DSCRs
- Global liquidity - will it remain committed to the US real estate markets?



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PANELIST INSIGHTS - continued

Thomas E. Kosonen, R.A., Managing Director, Bear, Stearns & Co. Inc.

Forecast

- Who will be the policeman; underwriters, originators, credit committee, rating agencies, b-piece buyers?
- A need for enduring solutions to tighter underwriting standards, to hold when the market heats up.
- Although some of the changes in underwriting standards have been fairly modest, I expect they will to continue to improve, perhaps at an accelerated pace, issuers will find it increasingly difficult to place bonds collateralized by loans that are too aggressively underwritten. As new loans are originated with stricter standards, I would expect DSCRs and subordination levels will increase while LTVs fall.
- Today, selling needs to take place based on actuals. Actual financial statements are the real estate market's new, new thing.
- Manage risk and analyze uncertainty realistically.



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PANELIST INSIGHTS - continued

John Kovarik, Chief Credit Officer, Arbor Realty Trust, Inc.

Current Underwriting Trends

The past year marked the inflection point in the commercial real estate world, strongly suggesting the end of an incredible five-year bull market. As such, underwriting standards for commercial real estate mortgages have tightened. Some of these current underwriting trends are as follows:

- **Lower Leverage:** 95% financing - **GONE**
- **Higher DSCR:** underwriting to pro-forma cash flow - **GONE**
- **Return to amortizing loans:** I/O – **GONE**, with resultant less stress on the exit analysis



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PANEL DISCUSSION AND DEBATE

Then and Now - What has changed?

Terms

Pricing

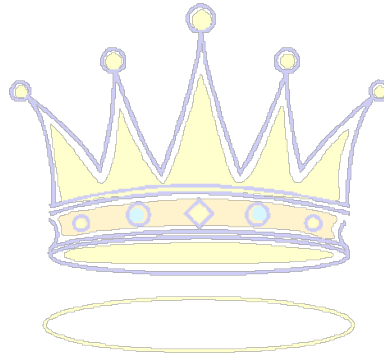
Reserves

Underwriting Approach

Third Parties

Insurance Requirements

Other



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PANEL DISCUSSION AND DEBATE - continued

Terms

LTV
DSCR
Loan Term
I/O - Amortization
Loan structures (more A/B or A/Mezzanine?)

Pricing

Spreads
Fees
Costs

Reserves

Capital reserves
Interest reserves



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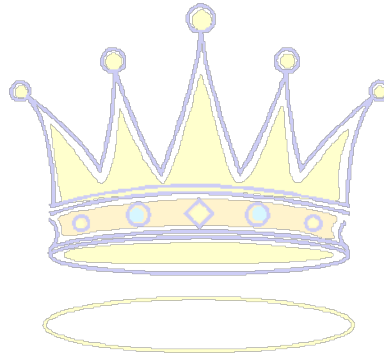


PANEL DISCUSSION AND DEBATE - continued



Underwriting Approach

Underwritten revenues
Tenant turnover
Vacancy rate
Operating expenses
Capital Expenditures



Third Party Reports

Actually being read
Preparer's Qualifications
Revisions required



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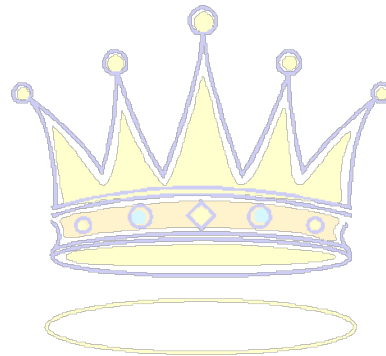


PANEL DISCUSSION AND DEBATE - continued



Insurance

Casualty
Wind Storm
Flood
Seismic
Environmental
Terrorism



Other



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PANEL DISCUSSION AND DEBATE - continued

👑 What Unique/Interesting Structures are you seeing?

👑 What concerns you the most?

👑 Are the changes temporary or permanent?

👑 Have we gone “overboard”?



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PANEL DISCUSSION AND DEBATE - continued

- 👑 Are deals getting done? By whom?
- 👑 What is the outlook for the CMBS and CDO markets?
- 👑 How are the property markets doing?
- 👑 What is your overall forecast?
- 👑 Will the King be dethroned?



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THANK YOU!

