CMBS Delinquency Rate Nears 9% - Up 21 BPs in August after Leveling in July - Rate Now 8.92%

Commentary: The delinquency rate for commercial real estate loans in CMBS accelerated in August. This comes after two successive months in which the increases in the delinquency rate had moderated.

The August numbers may give ammunition to those who argue that the commercial real estate crisis is far from over.

The rate in August was up 21 basis points after an increase of only 12 basis points in July.

Even at 21 basis points, the rate of increase is well below the average jump of 35 basis points per month over the previous 11 months (after backing out the Stuyvesant Town impact in March).

Overall, the percentage of loans 30 or more days delinquent, or in foreclosure or REO, jumped 21 basis points in August, putting the overall delinquency rate at 8.92%.

The increase for seriously impaired loans saw a similar jump. The percentage of loans seriously delinquent (60+ days in foreclosure, REO, or non-performing balloons) was up 20 basis points.

The number of loan modifications remains elevated. This will continue to put some downward pressure on the delinquency number as troubled loans get resolved and move from the delinquency category. REO loans that are liquidated will have a similar impact.

Separately, the average loss severity in 2010 for liquidated loans has been 45%. However, if the losses are backed out for loans where shortfalls have been 2% or less, that percentage jumps to 60%.

<table>
<thead>
<tr>
<th>Delinquency Status</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current</td>
<td>90.81</td>
</tr>
<tr>
<td>30 Days Delinquent</td>
<td>0.77</td>
</tr>
<tr>
<td>60 Days Delinquent</td>
<td>0.57</td>
</tr>
<tr>
<td>90 Days Delinquent</td>
<td>3.12</td>
</tr>
<tr>
<td>Performing Matured Balloon</td>
<td>0.28</td>
</tr>
<tr>
<td>Non-Performing Matured Balloon</td>
<td>0.86</td>
</tr>
<tr>
<td>Foreclosure</td>
<td>2.63</td>
</tr>
<tr>
<td>REO</td>
<td>0.97</td>
</tr>
</tbody>
</table>

1 - Loans that are past their maturity date but still current on interest are considered current.

The Numbers

- Delinquencies jump to 8.92% - Increase 21 basis points
- Percentage of loans 30 or more days delinquent or in foreclosure:
  - August: 8.92% | July: 8.71% | June: 8.59%
- Delinquency level of 8.92% is once again the highest in history of CMBS industry
- If defeased loans were taken out of the equation, the overall delinquency rate would be 9.49% - up 21 basis points
- Percentage of loans seriously delinquent (60+ days, in foreclosure, REO, or non-performing balloons) at 8.15% - up 20 basis points - the highest level for this category as well
Historical Perspective

- One year ago, the delinquency rate was 4.03%
- Six months ago, the delinquency rate was 6.72%
- One year ago, the rate of loans seriously delinquent was 3.08%
- Six months ago, the rate of loans seriously delinquent was 5.97%

% 30+ Day Delinquent

Retail Delinquency Rate Drops - Other Major Property Types Up

- Retail rate falls 14 basis points - only major property type to improve
- Hotel delinquencies jump 51 basis points - at 18.92% still the highest among the major property types
- Multifamily rate increases 53 basis points - second highest delinquency rate among major property types at 14.53%
- Office delinquencies up 22 basis points - now 6.57%
- Industrial rate moves higher by 52 basis points - still best performer among major property types
CMBS Spreads Tighten Again in August; Mezzanine AAA's Soar

Commentary: Spreads on CMBS super seniors fell again in August but the real action was in mezzanine AAA bonds (AMs). Overall, spreads tightened 15 to 30 basis points for the month of August for recent vintage super senior bonds.

With Treasury yields continuing to drop, some AAA bonds are approaching prices of $110.

AM bond prices jumped by $5 to $10 in some cases.

The dollar prices on some AM bonds now exceed par for higher quality names from 2005 and 2006. Many 2007 AM bonds are now trading above $90. At various points in late 2008 and early 2009, these bonds were quoted at 30 cents on the dollar or less.

The strength in AM bonds began to lift the prices for junior AAA bonds (AJs) late in the month. Credit bonds (those rated single-A or lower) from vintages 2005 and earlier continued to attract strong bids.

The Numbers

- Recent vintage 10-year super senior spreads fell about 15 to 30 basis points in August
- Average 2007 super senior now 307 basis points over swaps. One year ago the average 2007 super senior was 572 basis points over swaps
- Highly regarded 2005 AM bonds now trading at or above par; similar 2006 AMs are in the high $90's; strong 2007 AM bonds are in the low $90's
- AM prices equate to spreads of 350 to 425 basis points over swaps for high quality names

About Trepp

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