



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

Defeasance

THERE IS NO STOPPING THIS TRAIN





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Presenters:

**Lisa Traylor, Director
Wachovia Securities**

**Roy Chun, Managing Director
Standard & Poor's**

**T.J. Maher, Managing Director
Wachovia Securities**

**Doug Carlile, Partner
Causey Demgen & Moore Inc.**

**Paul Donohue, Partner
Alston & Bird, LLP**





The benefits of a defeasance:

- Majority of the loans contributed to CMBS transactions have defeasance as the only option.
- Certainty of cash flow – at the time of defeasance, securities are matched to cover the remaining debt service payments including the balloon payment to the Maturity Date.
- Flexibility – provides borrower the ability to free the property for refinance or sale opportunities.
- Increased credit quality – AAA credit securities are being substituted for the mortgaged property.



Securities: How are they structured?

- Securities – The securities to be provided must be “government securities” as defined in the REMIC regulations, which include U.S. Treasuries, Fannie Mae and Freddie Mac obligations.
- Determination of securities is governed by the loan documentation and the pooling and servicing agreement.
- Yield Maintenance vs. Defeasance

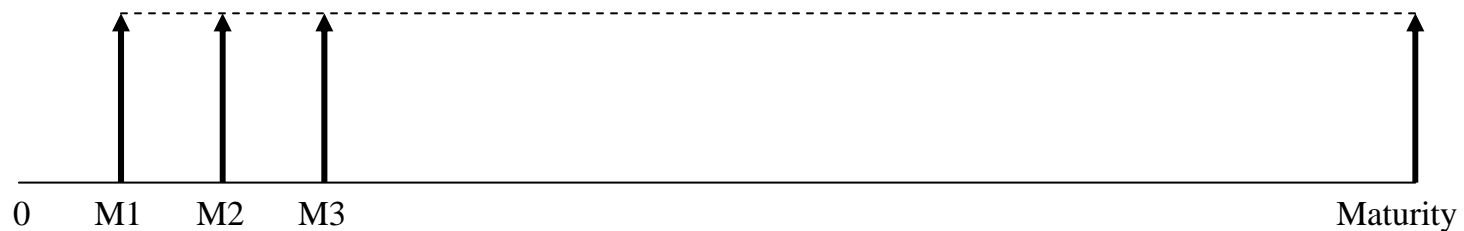


Typical CMBS Defeasance Structures

Type 1: Monthly Coupons & Final Balloon Payment



Type 2: Monthly Level Debt Service





Treasury Issuance Spectrum

T-Bill	T-Note				T-Bond
6-m on th Weekly on Thursdays	2-year Monthly Mature on Last	3-year Quarterly Mature on 15th	5-year Monthly Mature on 15th	10-year Quarterly Mature on 15th	30-year N/A* Mature on 15th

* US Treasury will resume the issuance of treasury bonds in the near future.

Examples:

	CUSIP	Coupon	Maturity		CUSIP	Coupon	Maturity
T-Bill	912795XJ5	0.000%	6/29/2006	5-year	912828EM8	4.500%	11/15/2010
T-Bill	912795XK2	0.000%	7/6/2006	5-year	912828EQ9	4.375%	12/15/2010
T-Bill	912795XL0	0.000%	7/13/2006	5-year	912828ES5	4.250%	1/15/2011
2-year	912828EK2	4.250%	10/31/2007	10-year	912828DV9	4.125%	5/15/2015
2-year	912828EP1	4.250%	11/30/2007	10-year	912828EE6	4.250%	8/15/2015
2-year	912828ER7	4.375%	12/31/2007	10-year	912828EN6	4.500%	11/15/2015
3-year	912828DT4	3.750%	5/15/2008	30-year	912810FJ2	6.125%	8/15/2029
3-year	912828EC0	4.125%	8/15/2008	30-year	912810FM5	6.250%	5/15/2030
3-year	912828EL0	4.375%	11/15/2008	30-year	912810FP8	5.375%	2/15/2031



Sample Sufficiency Report

Example of a Treasury Defeasance

Name	Testing	Total Requirement	6,000,000.00	TSY 2Y	4.374
Delivery Date	01/24/2006	Securities Only Cost	5,785,641.90	TSY 3Y	4.328
Cash	156.25	Total Cost	5,785,798.15	TSY 5Y	4.320
FIFO CHECK	36			TSY 10Y	4.389
Sec01	464.64			TSY 30Y	4.564

DATE	PRINCIPAL	INTEREST	REQUIREMENT	Sufficiency	CUSIP	Description	Coupon	Maturity	Par Amount	Price	Total Money
01/31/2006	-	7,185.00	-	7,341.25	912828CB4	UST 1.625 02/28/06	1.625%	02/28/2006	192,000	99.75	192,785.84
02/28/2006	192,000.00	51,341.25	-	250,682.50	912828CD0	UST 1.500 03/31/06	1.500%	03/31/2006	245,000	99.49	244,927.01
03/01/2006	-	-	250,000.00	682.50	912828CF5	UST 2.250 04/30/06	2.250%	04/30/2006	244,000	99.43	243,897.53
03/31/2006	245,000.00	4,925.00	-	250,607.50	912795XE6	UST Bill 06/01/06	0.000%	06/01/2006	247,000	98.47	243,230.62
04/01/2006	-	-	250,000.00	607.50	912828CM0	UST 2.750 06/30/06	2.750%	06/30/2006	243,000	99.29	241,724.95
04/30/2006	244,000.00	5,832.50	-	250,440.00	912828CQ1	UST 2.750 07/31/06	2.750%	07/31/2006	243,000	99.13	244,106.87
05/01/2006	-	-	250,000.00	440.00	912833CQ1	UST IO Str 08/15/06	0.000%	08/15/2006	200,000	97.66	195,315.64
05/31/2006	-	3,536.25	-	3,976.25	912828CW8	UST 2.500 09/30/06	2.500%	09/30/2006	247,000	98.66	245,658.44
06/01/2006	247,000.00	-	250,000.00	976.25	912828CY4	UST 2.500 10/31/06	2.500%	10/31/2006	247,000	98.52	244,793.17
06/30/2006	243,000.00	7,031.25	-	251,007.50	912828DD9	UST 2.875 11/30/06	2.875%	11/30/2006	246,000	98.66	243,782.24
07/01/2006	-	-	250,000.00	1,007.50	912828DF4	UST 3.000 12/31/06	3.000%	12/31/2006	246,000	98.65	243,164.44
07/31/2006	243,000.00	7,185.00	-	251,192.50	912828DJ6	UST 3.125 01/31/07	3.125%	01/31/2007	246,000	98.68	246,439.94
08/01/2006	-	-	250,000.00	1,192.50	912828DN7	UST 3.375 02/28/07	3.375%	02/28/2007	2,950,000	98.84	2,955,815.20
08/15/2006	200,000.00	-	-	201,192.50							
08/31/2006	-	49,781.25	-	250,973.75							
09/01/2006	-	-	250,000.00	973.75							
09/30/2006	247,000.00	3,087.50	-	251,061.25							
10/01/2006	-	-	250,000.00	1,061.25							
10/31/2006	247,000.00	3,087.50	-	251,148.75							
11/01/2006	-	-	250,000.00	1,148.75							
11/30/2006	246,000.00	3,536.25	-	250,685.00							
12/01/2006	-	-	250,000.00	685.00							
12/31/2006	246,000.00	3,690.00	-	250,375.00							
01/01/2007	-	-	250,000.00	375.00							
01/31/2007	246,000.00	3,843.75	-	250,218.75							
02/01/2007	-	-	250,000.00	218.75							
02/28/2007	2,950,000.00	49,781.25	-	3,000,000.00							
03/01/2007	-	-	3,000,000.00	-							



Adding Agencies to Permitted Securities Universe

- More maturity dates and coupon structures will be available to defease the obligation.
- Agencies trade cheaper than Treasuries.

Inputs Native Results Official Results FIFO & Float Schedule Fees

Deal Code: Input Type:

Payment

Date Requested: Loan Number:
 Delivery Date: First Monthly PMT Date:
 Contact: Last Monthly PMT Date:
 Settlement Date: Monthly Debt Service:
 Balloon PMT Date: Balloon PMT:

Defeasance Instructions

FIFO Restraint (days): Float?:
 Holidays: Rounding:
 Include Cash In FIFO: Sufficient Days:
 Calculate Fees: Include Cash In Float:

Defeasance Fee Parameters

Servicer: S&P Consent Required: Partial Defeasance / Crossed Loan:
 Current Balance: Fitch Consent Required: NY Style Defeasance:
 Days of Notice: Moody Consent Required: Wachovia Successor Borrower:
 Custodian: Special Servicer Consent Required: Successor Borrower Entity Created:

Runs

Portfolio Name	Run Name	Valuation Date	Executed By	Up To Date	Delivery Date	Native Cost	Cost of Securities	Cash	Total Fees	Final Co
Portfolio 250	Run 273	01 /23/2006 12:32	Do Kim	<input checked="" type="checkbox"/>	01 /24/2006	11,061,062.59	11,061,547.08	479.38	0.00	11,061,726.4
Portfolio 251	Run 274	01 /23/2006 12:33	Do Kim	<input checked="" type="checkbox"/>	01 /24/2006	11,013,751.48	11,014,269.69	1.74	0.00	11,014,271.4

In this example, the Agency defeasance portfolio is cheaper than the treasury alternative by roughly \$47k.





Adding Agencies to Permitted Securities Universe - Continued

- It is possible to end up with bigger gaps between the P&I dates and the defeasance requirement dates by using Agency securities. However, the total cost of portfolio is still much cheaper with Agencies over Treasuries.

UST 4.00% 8/31/2007 = 99.3906



AGY 4.00% 8/17/2007 = 99.0352



Sample Quotes

Inputs Native Results Official Results FIFO & Float Schedule Fees

Deal Code: **DK-Testing** Input Type: **Payment** New Deal Delete Deal

Payment Date: **BDSEPT22** /2006
BDSEPT33 /2006
BDSEPT8 /2006
BDSEPT95 /2006
DEC47 /2006
DEC81 /2006
DK-Testing /2006
FEB18A /2006

Loan Number: **0**
 First Monthly PMT Date: **3 / 1 /2006**
 Last Monthly PMT Date: **2 / 1 /2009**
 Monthly Debt Service: **\$ 250,000.00**
 Balloon PMT Date: **3 / 1 /2009**
 Balloon PMT: **\$ 3,000,000.00**

Defeasance Instructions
 FIFO Restraint (days): **120** Float?: **No**
 Holidays: **NYC** Rounding: **Yes**
 Include Cash In FIFO: Sufficient Days: **0**
 Calculate Fees: Include Cash In Float:
 Treasury:
 Agency:
 FHLB:
 Muni:

Defeasance Fee Parameters
 Servicer: **Wachovia** S&P Consent Required: Partial Defeasance / Crossed Loan:
 Current Balance: **\$ 0.00** Fitch Consent Required:
 Days of Notice: **0** Moody Consent Required:
 Custodian: Special Servicer Consent Required: Wachovia
 Successor B:

Runs

Repo Rate	TSY 2Y	TSY 3Y	TSY 5Y	TSY 10Y	TSY 30Y	Status 1	Status 2	Status 3	Universe TimeStamp	Tbill Curve
4.180	4.365	4.322	4.311	4.379	4.553	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	01/23/2006 12:32	BASIS (CRV USD 0LIBOR3M LAST 1/23/06 1
4.180	4.365	4.322	4.311	4.379	4.553	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	01/23/2006 12:32	BASIS (CRV USD 0LIBOR3M LAST 1/23/06 1

All deals are saved in our database

The permitted securities universe can be quickly changed to get both TSY and AGY portfolio costs.

All quotes are time-stamped w/ market rates for transparency



“Second Set of Eyes”

What goes into issuing the accountant's report?

➤ Accounting Report – Verification that the securities exist and are sufficient to pay the remaining payments of principal and interest under the Note.

We review various documents including:

- The promissory note
- The amortization schedule
- The defeasance account agreement

We confirm:

- Note payment details including interest day count conversion
- Type of permitted defeasance securities
- Provisions of the Note are consistent with the amortization schedule
- Payment schedule modeled by defeasance consultant is consistent with provisions of the Note and the amortization schedule prepared by the Servicer



Legal requirements under a defeasance transaction:

Borrower Responsibility – Satisfy requirements in the Loan Documents.

➤ Defeasance Documentation – Five main defeasance documents (Servicer's legal counsel will forms):

- Pledge and Security Agreement
- Account Agreement
- Assignment, Assumption and Release Agreement
- Modification, Waiver and Consent
- Certificate of Borrower

➤ Opinions:

- Borrower:* Borrower counsel opinion
- Servicer:* REMIC Opinion, Perfection Opinion
- Successor Borrower:* Enforceability Opinion, Non-consolidation Opinion

➤ Release / Transfer of Obligations / Assumption of Obligations by Successor Borrower.



Legal Requirements - Continued

- **Typical Waivers:**
 - Defeasance on a Payment Date
 - 30 Day Notice
 - Rating Agency Confirmation – Conform with current Thresholds
 - Defeasance Deposit waived

- **Major Legal Battles:**
 - Release provisions
 - Perfection of Security Interest
 - Representations and Warranties
 - Refinancing Loans



What costs are associated with a defeasance transaction?

- Securities Cost
- Third Party Charges - \$40,000 and higher
- The borrower is responsible for all costs associated with a defeasance transaction.

Do Special Servicers and Rating Agencies review defeasance transactions?

- Rating Agencies typically only review if the loan is a top 10 loan, 5% or more of the pool, top 10 borrower concentration and/or a loan size greater than \$25 mm. They request 10 business days to handle the consent.
- Special Servicer will only review if required under the Pooling and Servicing Agreement. They require 5 or more business days to handle the consent.



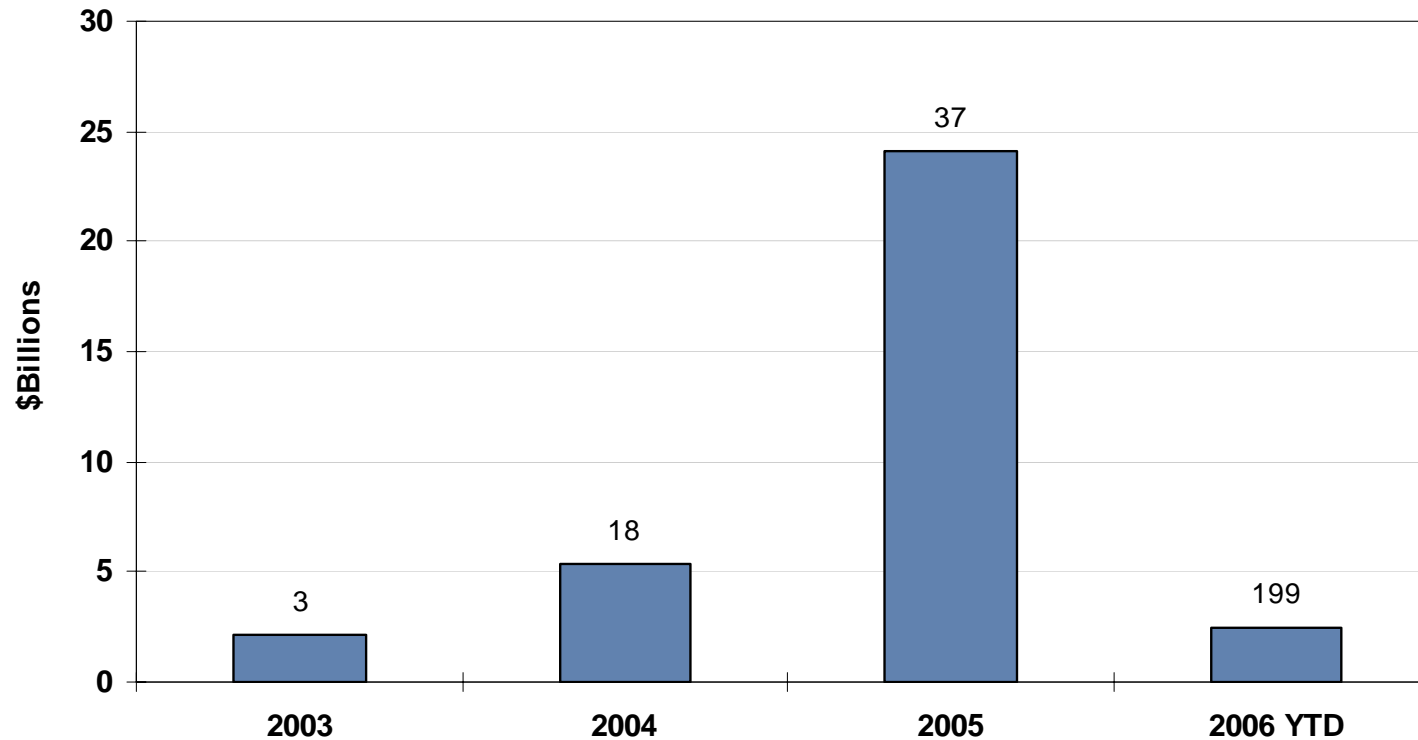
How long does a defeasance transaction take?

- The loan documents will require a certain number of days for the borrower to give notice of a payoff or a defeasance. This requirement is commonly waived but it will be Servicer discretion.
- A typical defeasance can close comfortably within 2 weeks. This will vary if more time is needed for Rating Agency and/or Special Servicer consent.
- Three Day Closing Process
 - Day 1 – Purchase securities
 - Day 2 – Close real estate transaction; Escrow all monies
 - Day 3 - Securities delivered; Mortgage Released



Trends

CMBS Defeasance (by loan balance, count, and year defeased)

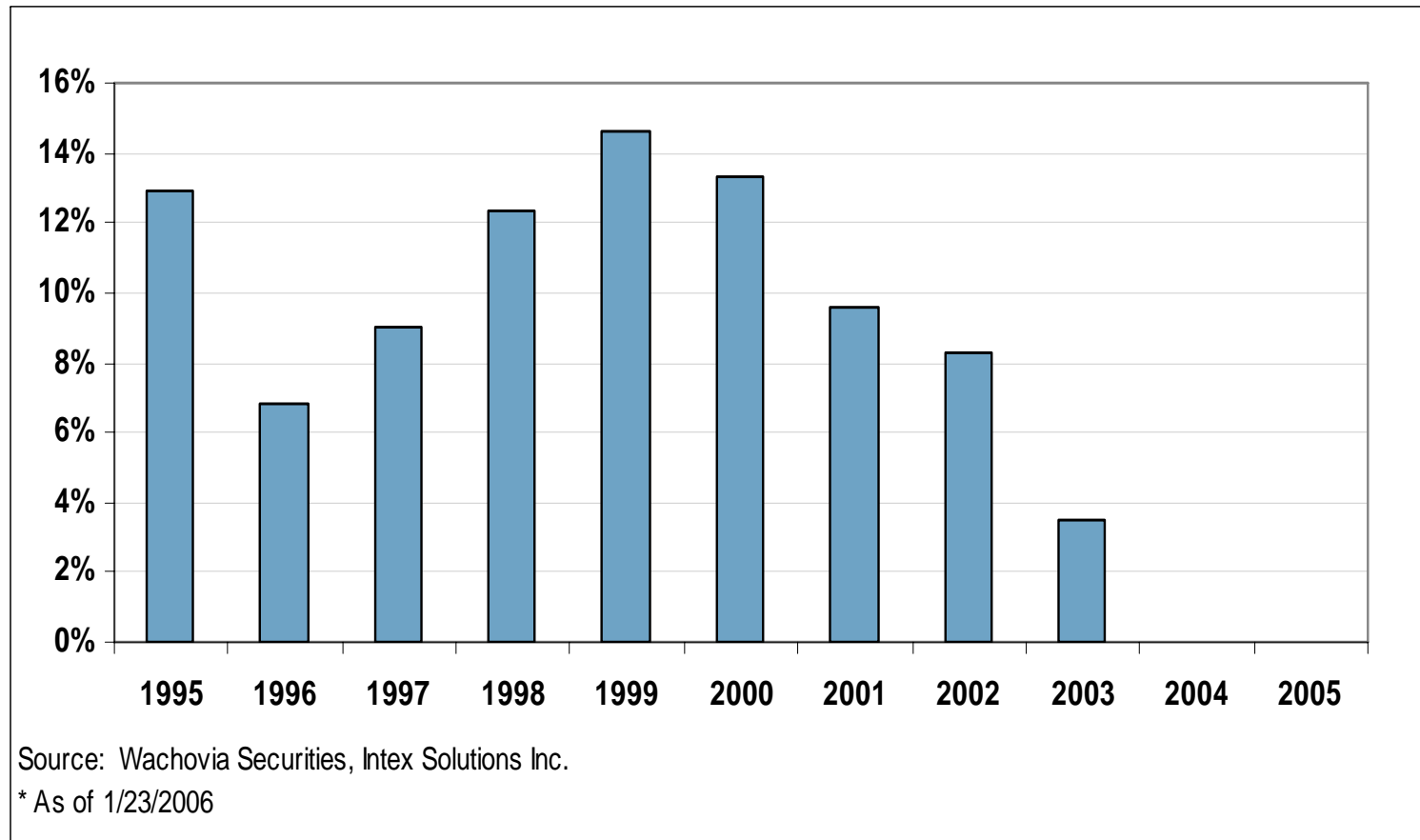


Source: Wachovia Securities and Intex Solutions.

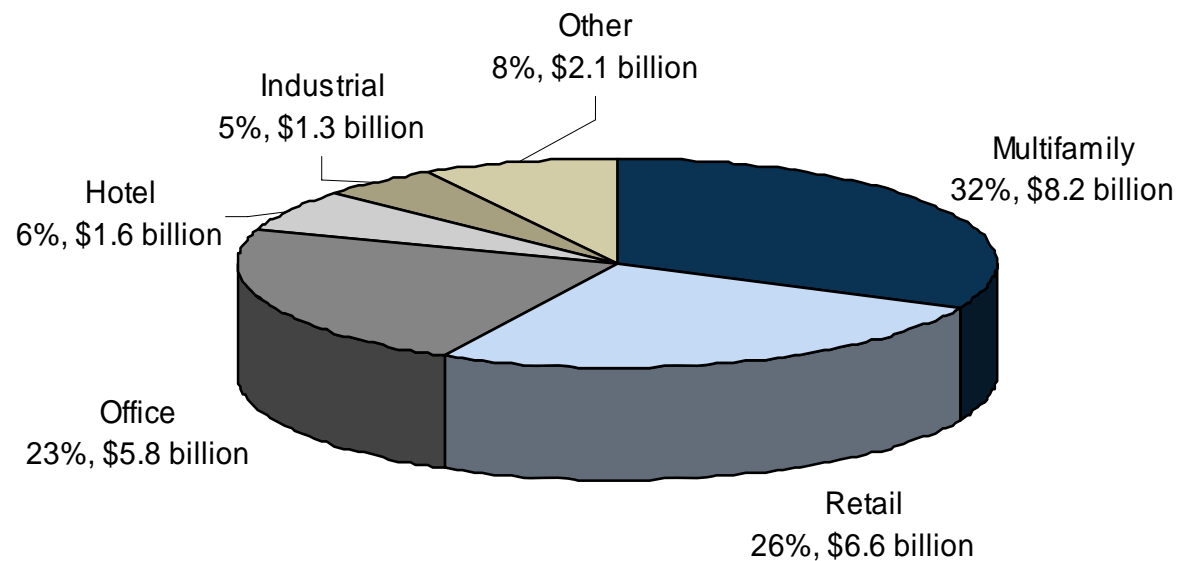
* As of 1/23/2006



Percentage of CMBS Collateral Defeased by Deal Vintage (by value)



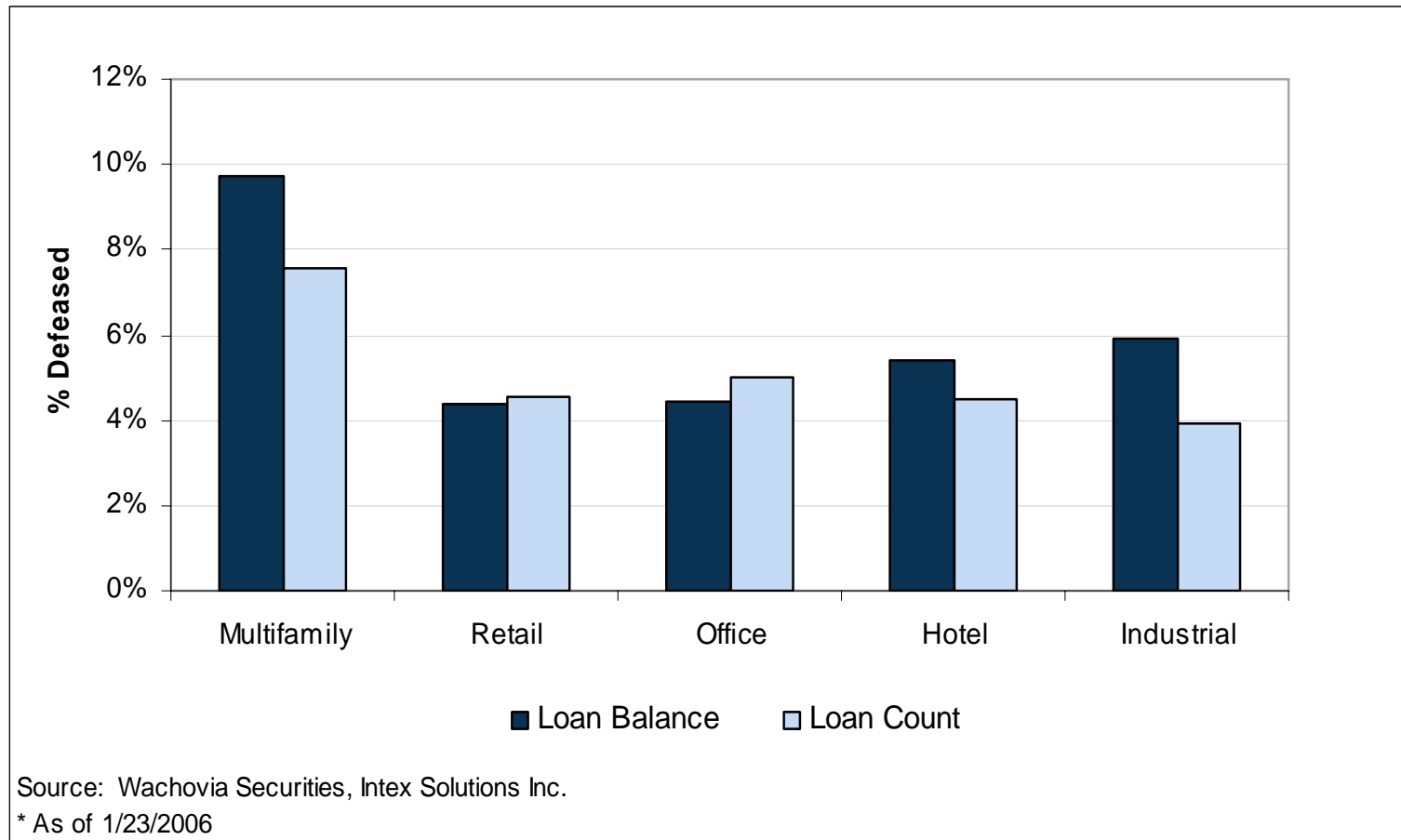
Defeased Loans by Property Type (by balance)



Source: Wachovia Securities, Intex Solutions Inc.

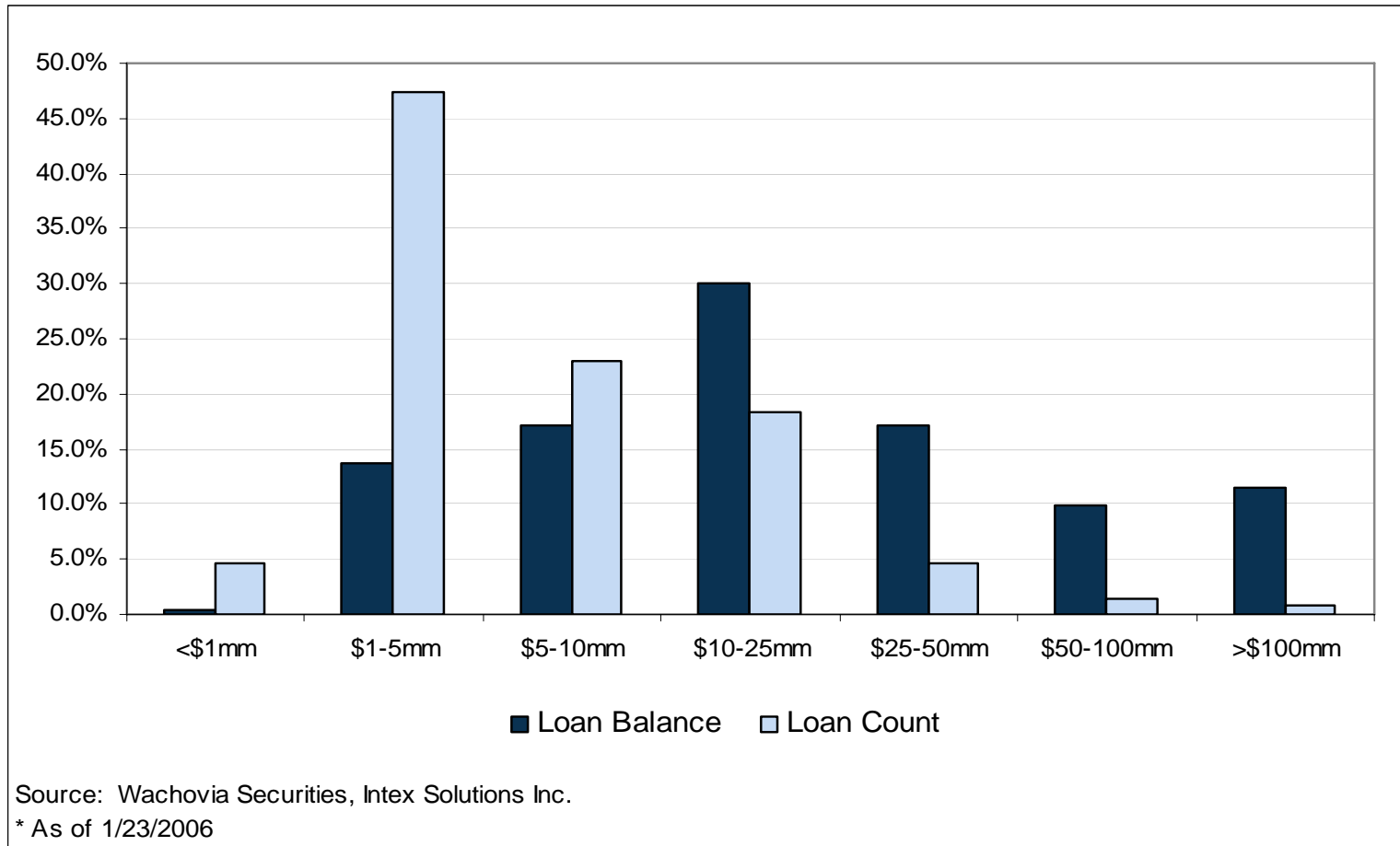
* As of 1/23/2006

Defeased Loans Within Property Type





Distribution of Defeased Loans





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Key Borrower Issues:

- Agencies vs. Treasuries
- Defeasance through the beginning of the open period
- Waiver at two-year lockout
- Mortgage Tax savings
- Shortfall Liability
- No Hidden Costs
- Float Sharing



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Best Practices:

- Start early
- Read your loan documents
- Hire experienced professionals
- Due Diligence – No Existing Defaults