Communication Between Federal Reserve Staff
And Industry Representatives
June 15, 2011

Participants: Adam B Ashcraft (Federal Reserve Bank of New York)

Summary: Staff from the Federal Reserve Bank of New York participated in two discussions sponsored by the Real Estate RoundTable. The agenda and list of participants for each discussion is attached.

The first discussion occurred at the Joint Real Estate Capital Policy Advisory Committee Research Committee Meeting. Federal Reserve staff was given a list of questions in advance and responded personal views and not those of Federal Reserve Bank of New York or the Federal Reserve System. Audience participants discussed whether they had any concerns about the current deterioration in underwriting, and whether or not the B-piece model was a sustainable form of credit intermediation. There were mixed views about whether or not underwriting had reached unhealthy levels, and one participant expressed a view that it was the presence of CRE CDOs which made the B-piece model an ineffective form of disciple during the recent credit cycle.

The second discussion was a panel format, where Federal Reserve Staff was asked to highlight some of the key issues around risk retention and commercial mortgage-backed securities (CMBS). Federal Reserve Staff focused discussion on the amount of required risk retention relative to market norms, the timing of sponsor compensation and the Premium Capture Account, the need for B-piece investors to have liquidity, and the role of the Operating Advisor. There was no opportunity for the audience to ask questions.

Enclosures (3)

The Real Estate Roundtable

RESEARCH COMMITTEE

AND

REAL ESTATE CAPITAL POLICY ADVISORY COMMITTEE MEETING

MANDARIN ORIENTAL HOTEL
WASHINGTON, DC

JUNE 15, 2011

ANTICIPATED ATTENDEES

Michelle Adams	Tishman Speyer
Frederick L. Allen	Allen, Matkins, Leck, Gamble, Mallory & Natsis, LLP
Michael Anikeeff	The Johns Hopkins University
Steven D. Bandolik	Deloitte Financial Advisory Services
Mark Begor	GE Capital
Albert P. Behler	Paramount Group, Inc.
Michael Bilerman	Citi Investment Research
Stephen Blank	The Urban Land Institute
Jacques Brand	Deutsche Bank
Martin D. Bronstein	The Situs Companies
Gary Buechler	Lend Lease Americas Inc.
Tiffany Butcher	The JBG Companies
Steve Campbell	AMB Property Corporation
Sam Chandan	Real Estate Economics
Lynn Cherney	Spencer Stuart
John Cibinic	Beekman Advisors, Inc.
Martin J. Cicco	Evercore Partners
Jeffrey B. Citrin	Square Mile Capital Management LLC
Bruce R. Cohen	Wrightwood Capital
Frank G. Creamer, Jr.	FGC Advisors, LLC
Joseph A. DeLuca	Joseph A. DeLuca, Inc.
Michael Depatie	Kimpton Hotels
Peter F. Donovan	CB Richard Ellis, Inc.
De Anne C. Dunn	Edens & Avant
William J. Ferguson	FPL Advisory Group
Joseph Philip Forte	Alston & Bird, LLP
Warren H. Friend	BlackRock Solutions

As of 6/24/2011

Shane Garrison	Inland Western Retail Real Estate Trust, Inc.
Alex P. Gilbert	Artemis Real Estate Partners
Matthew T. Golden	Beacon Capital Partners, LLC
Patricia Goldstein	Emigrant Bank
Alan L. Gosule	Clifford Chance US, LLP
Arthur A. Greenberg	Green Courte Partners, LLC
Steven Grimes	Inland Western Retail Real Estate Trust, Inc.
Patrick Halter	Principal Real Estate Investors
Ann Hambly	1st Service Solutions
E. Davisson Hardman	Warburg Pincus
Charles B. Harrison	REIT Funding, LLC
C. Scott Harrison	REIT Funding, LLC
Darrell Harvey	The Ashforth Company
Charles N. Hazen	Hines REIT
Lonny Henry	J.P. Morgan Securities Inc.
Jonathan W. Hipp	Calkain Companies, Inc.
Gary Horbacz	Prudential Financial
Jackson Hsieh	UBS Investment Bank
Robert J. Ivanhoe	Greenberg Traurig, LLP
David M. Jacobs	E2M Partners, LLC
James Kahler	First Washington Realty, Inc.
Michael Katz	Sterling Equities
Edmond A. Kavounas	Rockwood Capital, LLC
Scott M. Kelley	ACA Advisors, LLC
Gretchen Kelly	The PNC Financial Services Group, Inc.
Richard A. Kessler	Benenson Capital Partners, LLC
Jeffrey P. Krasnoff	Rialto Capital Management LLC
Robert W. Lehman	Ernst & Young LLP
Gregory H. Leisch	Delta Associates
Youguo Liang	Prudential Real Estate Investors
Diana C. Liu	Artemis Real Estate Partners
Anthony J. LoPinto	Korn/Ferry International
Robert J. Lowe	Lowe Enterprises, Inc.
Matthew J. Lustig	Lazard Freres & Co., LLC
Bruce W. MacEwen	Portman Holdings
Victor B. MacFarlane	MacFarlane Partners
Ronald K. McDonald	RMC Development, LLC
Guy Metcalfe	Morgan Stanley
Thomas F. Moran	Moran & Company
Glenn R. Mueller	Dividend Capital Group
Philip W. Norwood	Faison
Jay Nydick	Alliance Bernstein
John H. Pelusi, Jr.	Holliday Fenoglio Fowler, L.P.
George S. Perry	Malkin Properties
Jennifer Platt	International Council of Shopping Centers

Stephen Plavin	Capital Trust
George Ratiu	National Association of Realtors
Allison Reid	Starwood Hotels and Resorts Worldwide, Inc.
Debbie Riley	GE Capital Markets, Inc.
Philip A. Riordan	GE Asset Management
George Rizk	The Baupost Group
Jeffrey Rogers	Integra Realty Resources, Inc.
Ralph Rosenberg	Kohlberg Kravis Roberts & Co.
Howard Roth	Ernst & Young LLP
Stuart A. Rothstein	Apollo Global Management
Alexander S. Rubin	Moelis & Company
Sheridan Schechner	Barclays Capital
Gregory W. Schultz	First American Title Insurance Company
Michael Semko	National Apartment Association
Andy Siwulec	PNC Real Estate
Craig H. Solomon	Square Mile Capital Management, LLC
Jan Sternin	The Situs Companies
Angela Sung	Real Estate Board of New York
Jeffrey L. Swope	Champion Partners, Ltd.
John J. Szymanski	Stout Causey & Horning
James M. Taylor	Eastdil Secured / Wells Fargo
James A. Thomas	Thomas Properties Group
Jason Tompkins	Edens & Avant
David A. Twardock	Prudential Mortgage Capital Company
Robert Underhill	Shorenstein Properties LLC
Robert Utter	The Pyramid Companies
Earl E. Webb	Avison Young - Chicago, LLC
Seth Weintrob	Morgan Stanley
Kevin J. Wenzel	MetLife
Ben Williams	Spencer Stuart
Allan F. Winn	Ballard Spahr
David L. Winstead	Ballard Spahr
Jamie Woodwell	Mortgage Bankers Association
Vijay Yadlapti	National Association of Realtors
Dennis Yeskey	AlixPartners LLP

The Real Estate Roundtable

SPECIAL JOINT SESSION
REAL ESTATE CAPITAL POLICY ADVISORY COMMITTEE (RECPAC)
RESEARCH COMMITTEE
MEETING

RECPAC
P. SHERIDAN SCHECHNER, CHAIR
D. MICHAEL VAN KONYNENBURG, VICE-CHAIR

RESEARCH COMMITTEE
RAY TORTO, CHAIR

WEDNESDAY, JUNE 15, 2011
9:30 AM – 11:30 AM

MANDARIN ORIENTAL HOTEL, ORIENTAL BALLROOM A
1330 MARYLAND AVENUE, SW
WASHINGTON, DC

AGENDA

I. WELCOME AND INTRODUCTION

II. THE VIEW FROM THE U.S. HOUSE OF REPRESENTATIVES: THE BUDGET, FINANCIAL SERVICES REGULATION, GSE REFORM, JOB CREATION

- HONORABLE JOHN CAMPBELL (R-CA), U.S. HOUSE OF REPRESENTATIVES, HOUSE FINANCIAL SERVICES COMMITTEE, HOUSE BUDGET COMMITTEE, JOINT ECONOMIC COMMITTEE

III. MAKING SENSE OF THE PROPOSED RISK RETENTION RULES: WHAT DOES IT ALL MEAN FOR THE COMMERCIAL MORTGAGE BACKED SECURITIES MARKETS?

- SHERIDAN (SCHECKY) SHECHNER, MANAGING DIRECTOR, AMERICAS CO-HEAD, REAL ESTATE INVESTMENT BANKING, BARCLAYS CAPITAL, MODERATOR

- ADAM ASHCRAFT, VICE PRESIDENT AND HEAD OF STRUCTURED PRODUCT , FEDERAL RESERVE BANK OF NEW YORK

IV. OPPORTUNITIES IN ASSET SALES: AN UPDATE ON THE FDIC'S PLANS REGARDING ASSET SALES FROM DISTRESSED BANKS

- TIM KRUSE, SENIOR CAPITAL MARKETS SPECIALIST, FEDERAL DEPOSIT INSURANCE CORPORATION

V. NATIONAL POLICY UPDATE

VI. OTHER ITEMS

Moderator

Sheridan Schechner Managing Director, Americas Co-Head, Real Estate Investment Banking, Barclays Capital; Schecky.Schechner@barclayscapital.com

Panelist

Adam Ashcraft Vice President and Head of Structured Product, Federal Reserve Bank of New York; adam.ashcraft@ny.frb.org

Making Sense of the Proposed Risk Retention Rules: What Does it All Mean for the Commercial Mortgage Backed Securities Markets?

Possible Questions

Adam Ashcraft, Vice President and Head of Structured Product, Federal Reserve Bank of New York

1. As part of the *Dodd–Frank Wall Street Reform and Consumer Protection Act,* financial regulators continue the process of developing hundreds of implementing regulations. The recently proposed 367-page draft risk retention rules unveiled in March by six federal bank regulatory agencies must have been an interesting process. How is it working with such a diverse group with such a diverse level of expertise? What has been the most surprising part of the process?

2. One of the most talked about provisions is the proposed requirement that the originator (or an approved B piece buyer) hold 5% of the market value of the transaction – not 5% of par. Given current conditions where the bottom 5% of a transaction trade at significantly less than par, this provision would require the B piece to buy between 8-10% of the transaction. In economic terms, this change would result in higher spreads to the borrower. Higher spreads means less transactions and lower refinancing levels of the existing wall of CMBS maturities. Could you discuss the rationale for the 5% of market value provision and have the consequences outlined been considered? How serious an impact are these proposed rules in terms of the state of the commercial real estate markets today and the refinancing of maturing CMBS loans over the next 5 years?

3. The Premium Capture Cash Reserve Account is one of the more challenging provisions. In summary, this provision requires any originator to take any profit and subordinate that profit to the first loss position. A form of first loss to the first loss. Could you discuss the rationale for the PCCRA and how it is intended to work?

4. One possible solution that we advocate to make the PCCRA more workable may be to restructure the calculation for the PCCRA amount to simulate what portfolio lenders, such as life companies, create in their own portfolios. The concept would be to create an IO strip on a loan-by-loan basis (the “Excess IO”) The amount of IO created would be the excess over what is needed to achieve CMBS gross proceeds that would equal the cost basis of the loan. The originator would then receive this excess interest over time as the loan performs. Additionally, if the loan goes into special servicing, this excess

interest would be available for any loan restructuring. Do you think this approach might work?

5. One of the rationales behind the proposed risk retention rules is to prevent the “excesses” from the pre-crash era from re-occurring. What are you hearing from originators? How frothy is it?
6. People also have concerns about the liquidity restrictions. Under the current proposed regulations, the B piece buyer cannot transfer, finance, or hedge its purchase. We understand the rationale behind the provision as in the pre-crash period, folks would re-securitize a collection of B pieces and have no further exposure. However, if the B-piece buyer cannot transfer its interest, there will be few, if any, B-piece buyers willing to purchase the securities. There have been many suggestions made (time restrictions, or resale to only qualified B-piece buyers”. Are there some ideas that might make sense?
7. There is an exemption for qualified commercial loans, but most people seem to think that the criteria are too conservative. Do you think we could find some middle ground here?
8. In the proposed regulations, there are also issues surrounding the removal of the Special Servicer. It would seem to be important to for B-piece buyers to control of the appointment of special servicers, which work out troubled CMBS loans and not lose control to another entity, the Operating Advisor? Could you discuss the rationale for this provision?
9. Wouldn’t it be useful to establish a non-arbitrary standard by which the Operating Advisor evaluates the special servicer – possibly something based on maximizing the net present value (NPV) of the loan without consideration of the impact of such action on any specific bondholder class?   Also, how about an appeal process if the Operating Advisor wants to remove the Special Servicer?
10. Clearly, the intent is that there will be more regulation than is currently surrounding CMBS. What are your thoughts on how the six Agencies monitor the application and administration of the Proposed Rules to ensure that such application and administration is balanced, consistent and otherwise conforms to the Agencies’ intentions?
11. Before we open it up to questions from the audience, is there anything you would like to ask this group?