Meeting Between Federal Reserve Board Staff
and Representatives of Jeffries & Company, Inc. (Jeffries)
and Porterfield, Lowenthal & Fettig LLC (Porterfield)
September 27, 2010

Participants: Matthew Eichner, Lawrence Rufrano, Karen Pence, William Treacy, April Snyder, Sebastian Astrada, and Flora Ahn (Federal Reserve Board)

Lisa Pendergast and Michael Sharp (Jeffries); and Andrew Lowenthal and Brendon Weiss (Porterfield)

Summary: Staff of the Federal Reserve Board met with representatives of Jeffries and Porterfield about commercial mortgage-backed securities (CMBS) and the Federal Reserve Board's responsibilities under section 941 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. Jeffries' representatives provided Federal Reserve Board Staff with a presentation on the performance of the CMBS market through the financial crisis and their overall views on risk retention. A copy of the handout provided by Jeffries at the meeting is attached below. The handout formed the basis for discussions at the meeting and summarizes the issues discussed.

Commercial Real Estate and

Commercial Mortgage-Backed Securities

2010 CMBS: A Volatile Road to Recovery

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Jefferies

Table of Contents

Key Themes in the Commercial Real Estate Debt and Property Markets

Key Themes

- **CMBS Lending Markets Beginning to Defrost**
  – Ten new-issue CMBS since June 2008
  – Healthier regional banks and life companies cautiously lend:
    - Lending bifurcated by loan size and acquisitions vs. refinancings
    - Banks still holding underwater assets

- **The Role of the U.S. Government and Changing Regulation**
  – TALF for New-Issue and Legacy CMBS set to expire
  – RTC-2: Loan Sales + Securitization
  – FAS 166/167
  – Regulatory Reform: Skin in the game for CMBS issuers, rating agency reform + Scarlett Letters

- **CRE Property Values Decline 25% to 60%+ Peak to Trough**
  – Capitalization rates rise on deteriorating fundamentals and sharply higher financing costs, but will bifurcate by distressed and non-distressed assets
  – Net cash flow falls as recession takes holds on

Key Themes

- **CMBS Delinquency Rate Poised to Rise to 10%; Surpass Highs of Previous Cycle**
  - Aggressive pro-forma underwriting assumptions fail to materialize
  - Borrowers of ‘seriously’ underwater assets with negative cash flow capitulate (imminent defaults)
- **Projected 14% Average Cumulative Loss in CMBS Pools Exceeds <10% Average of Previous Cycle**
    - Cumulative losses highest on 2006 to 2008 vintages at 8% to 20%
- **Rating Agency Considerations**
  - Rating agencies render themselves obsolete as arbiters of credit risk, but will play a role going forward
  - Does the rating agency model change and do securitized bonds get the “Scarlet” letter
  - Silver lining is ‘squeaky clean’ new-issue CMBS on sharply lower property values
  - Not just CMBS downgrade concerns…master servicers and special servicers face serious operational risks
- **Going “TALF-less”: Secondary CMBS Spreads Sharply Tighter from November 2008 Widest Levels**
  - CRE fundamentals provide redemption for super-senior AAA bonds, but bode poorly for non-AAAs
  - CMBS extension risk/loan modifications and rising cumulative losses weigh heavy on investor psyches
  - 2010: The year of the credit bond – not for amateurs
  - CMBS IOs that benefit from extension risk

Have the U.S. Government Programs Helped Commercial Real Estate / CMBS?

Is There an Afterlife for Securitization, the U.S. Treasury Says 'Yes'

- "…40% of consumer lending has historically been available because people buy loans, put them together and sell them." *Secretary Timothy Geithner, U.S. Department of the Treasury*

"Because this vital source of lending has frozen up, no financial recovery plan will be successful unless it helps restart securitization markets for sound loans made to consumers and businesses – large and small.'

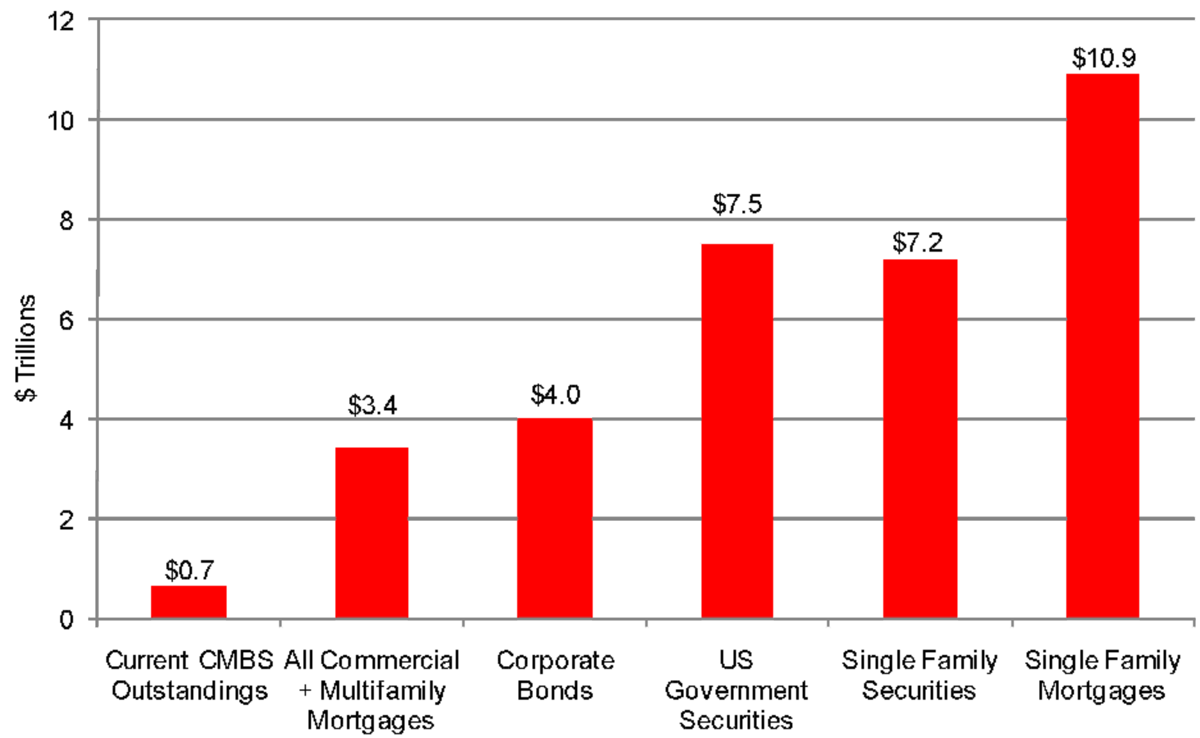
- This lending program will be built on the Federal Reserve's Term Asset Backed Securities Loan (TALF) Facility… with capital from the Treasury and financing from the Federal Reserve.

Regulatory Reform Update

- **Financial Reform**
  - **March 15, 2010 Proposed Senate Bill**
    - **Risk Retention**. Securitizers to retain economic interest of at least 5% of credit risk of any asset transferred to ABS. Securitizers are issuers who initiate a transaction by selling/transferring assets to an issuer. Retention percentage can be lowered if assets meet certain underwriting standards. Rules prohibit securitizer from directly/indirectly hedging or transferring risk. Separate rules regarding duration of retention & permissible forms of retention apply for distinct asset classes. Rules provide for total or partial exemption of any securitization 'as may be appropriate in the public interest or for the protection of investors." Regulations are to be jointly developed by the OCC, FDIC and SEC: appropriate banking agency enforce rules for banking institutions, and SEC for all others. The House bill differs in that it specifically allows for customized retention for CMBS, given the concept of third-party purchaser of first loss position (B-piece buyer)
    - **Enhanced Disclosure**: The SEC must adopt rules to impose more stringent disclosure requirements for ABS:
    - **Credit Rating Agency Reform.** No mandate of differentiated symbols for structured finance products. Numerous oversight and reporting requirements for CRAs, including new office with the SEC to regulate them, annual examinations, and requirement that analysts meet qualifications standards to be developed by the SEC.

- **Changes in Securitization Accounting and Capital Requirements**
  - The underlying loans of a securitization be consolidated on the balance sheet of the issuer/sponsor. This is the first-loss investor for CMBS

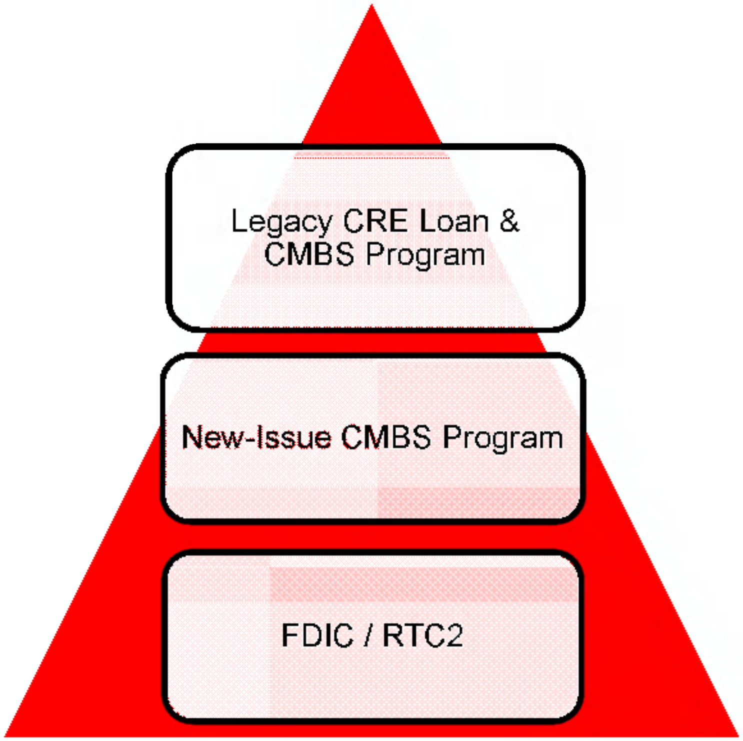
Outstanding Debt Market Size Comparison



Source: CREFC, Federal Reserve, Flow of Funds, Intex Solution, Inc. as of 09/10

U.S. Government Plays Integral Role in Thawing Frozen Capital Sources

- **Federal Reserve and U.S. Treasury introduced Term Asset-Backed Securities Loan Facility (TALF) in 3/09 to:**
  - Stabilize the CMBS marketplace and drive distressed prices higher over time
  - Drive down lending costs and encourage new lending as CMBS spreads tighten



- **Program Objectives:**
  - Restore liquidity to the CMBS market
  - Stem CRE property value declines
  - Lower commercial-mortgage defaults

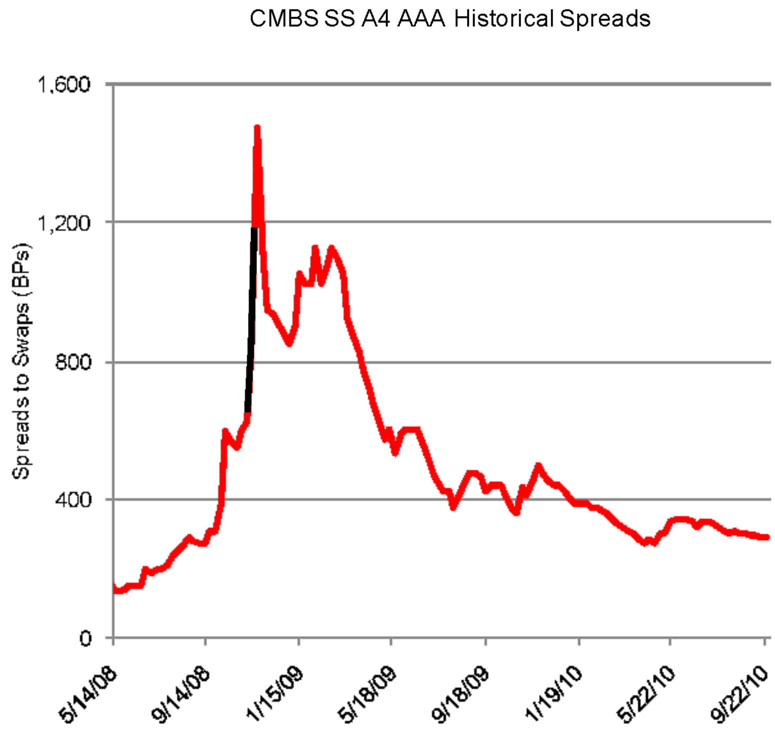
Legacy CMBS TALF Successful But Quirky

CMBS TALF Subscription Volume

Subscription	Legacy CMBS TALF Requested	Legacy CMBS TALF Settled	New-Issue CMBS TALF Settled
Jun-09	$0	$0	$0
Jul-09	$668,940,185	$668,940,185	$0
Aug-09	$2,283,323,490	$2,148,314,045	$0
Sep-09	$1,401,924,696	$1,351,097,649	$0
Oct-09	$2,124,921,093	$1,930,574,358	$0
Nov-09	$1,417,579,146	$1,329,532,153	$72,248,483
Dec-09	$1,324,853,713	$1,282,444,544	$0
Jan-10	$1,453,433,253	$1,325,983,320	$0
Feb-10	$1,255,719,991	$1,133,023,281	$0
Mar-10	$1,259,670,126	$857,002,698	$0
Total	**$13,190,365,693**	**$12,026,912,233**	**$72,248,483**

Source. New York Federal Reserve

Legacy CMBS TALF Pushes CMBS Prices Higher



Source: Jefferies & Co. as of 9/24/10

Public-Private Investment Funds (PPIFs) for Legacy CMBS Securities: Underwhelming

- **PPIP finally underway in October 2009**
- **Allows Treasury to partner with leading investment management firms to:**
  - Increase the flow of private capital to the CMBS marketplace
  - Provide upside potential for U.S. taxpayers as Treasury equity capital is invested side-by-side with private funds
- **Approved Fund Managers raise private capital and receive matching equity capital from Treasury**
  - Treasury will invest up to $30 billion of equity and debt in PPIFs
  - Partnerships dissolve 8 years from closing date with option by Treasury to extend
  - Fun Managers must invest a minimum of $20 million of firm capital into the PPIF
  - Full-turn election: Treasury debt financing up to 100% of the total equity of the PPIF
    - Warrants equal to 2.5%, no additional debt other than UST leverage is permitted
  - Half-turn election: Treasury provides up to 50% of the capital commitment
    - Warrants equal 1.5% and additional third-party debt permitted via TALF
- **Eligible CMBS**
  - Issued prior to 2009 and secured directly by mortgage loans, leases, or other assets; Originally rated AAA

Public-Private Investment Funds for Legacy CMBS Securities

- **Approved fund managers and initial closings**
  - AllianceBernstein, LP and its sub-advisors Greenfield Partners, LLC and Rialto Capital Management, LLC – (CLOSED)
  - Angelo, Gordon & Co., L.P. and GE Capital Real Estate (CLOSED)
  - BlackRock, Inc. (CLOSED)
  - Invesco Ltd. (CLOSED)
  - Marathon Asset Management, L.P. (CLOSED)
  - Oaktree Capital Management, L.P. (CLOSED)
  - RLJ Western Asset Management, LP. (CLOSED)
  - The TCW Group, Inc. (CLOSED, FROZEN)
  - Wellington Management Company, LLP (CLOSED)

- PPIFs have completed initial and subsequent closings on approximately $6.2B of private sector equity capital and matched 100% by Treasury for $12.4 billion of total equity capital. (as of December 01, 2009)
- Treasury also provided $12.4 billion of debt capital, representing $24.8B of total purchasing power.
- PPIFs have drawn-down approximately $4.3B of total capital (as of 12/31/2009)
- Following an initial closing, each PPIF may execute for two more closings over the following six months to receive matching Treasury equity and debt financing, with a total Treasury equity and debt investment in all PPIFs equal to $30B ($40B including private investor capital).

Public-Private Investment Funds for Legacy CMBS Securities

PPIF Progress Report

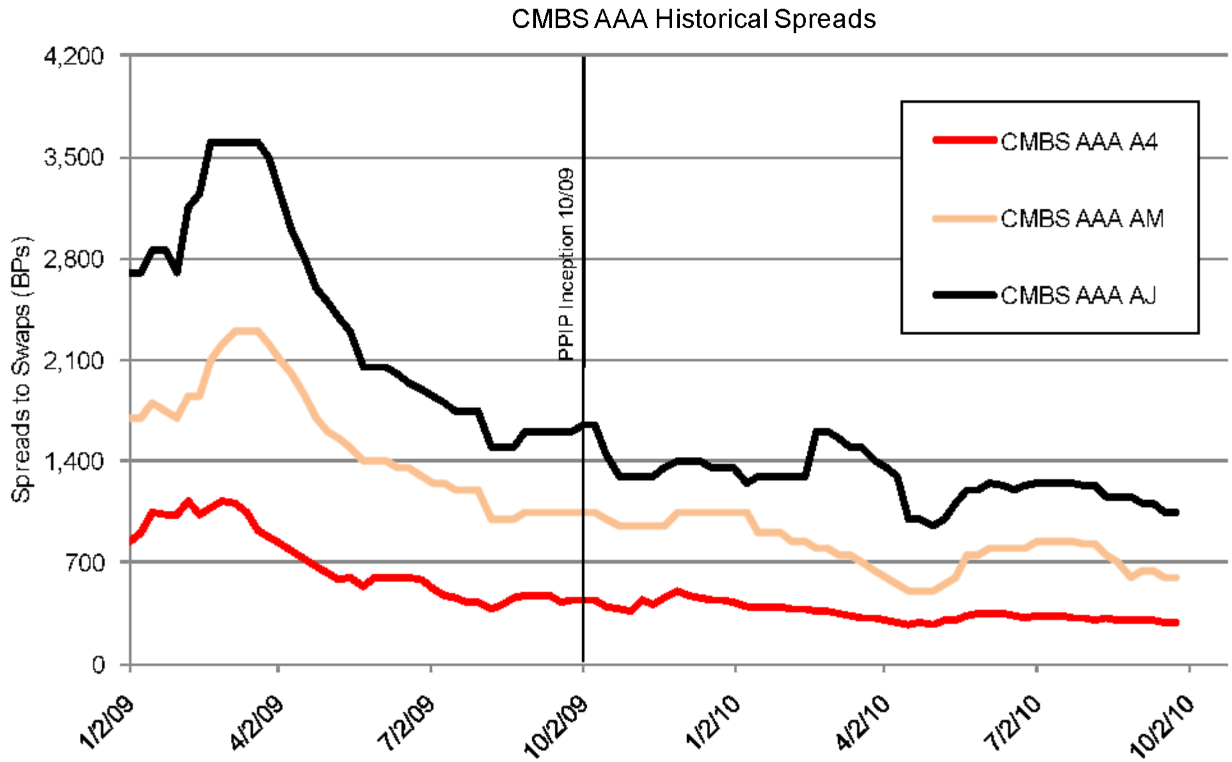
Fund	Closing Date	Closed Equity and Debt Capital ($MM) Private Equity	Treasury Equity	Treasury Debt	Purchasing Power	Performance Inception Date	Net Perf.**
AG GECC PPIF Master Fund, L.P.	10/30/2009	653	653	1,307	2,614	11/12/2009	3.9%
AllianceBernstein Legacy Securities Master Fund, L.P.	10/2/2009	1,060	1,060	2,121	4,241	10/23/2009	-0.6%
Blackrock PPIF, L.P.	10/2/2009	582	582	1,164	2,329	10/16/2009	1.0%
Invesco Legacy Securities Master Fund, L.P.	9/30/2009	506	506	1,012	2,024	10/13/2009	2.8%
Marathon Legacy Securities Public-Private Investment Partnership, L.P.	11/25/2009	400	400	800	1,600	12/15/2009	-1.4%
Oaktree PPIP Fund, L.P.	12/18/2009	456	456	912	1,823	NA	NA
RLJ Western Asset Public/Private Master Fund, L.P.	11/5/2009	505	505	1,010	2,021	11/23/2009	3.3%
UST/TCW Senior Mortgage Securities Fund, L.P.*	9/30/2009	1,014	1,014	2,028	4,056	10/19/2009	70.0%
Wellington Management Legacy Securities PPIF Master Fund, LP	10/1/2009	1,017	1,017	2,033	4,066	10/19/2009	1.2%
Total Closed		**6,194**	**6,194**	**12,387**	**24,774**		
Total Allowable		**10,000**	**10,000**	**20,000**	**40,000**		

Source: US Treasury.

* On January 4 2010, Treasury and TCW entered into an agreement to terminate this fund when key investment professionals left the firm. Pursuant to the agreement, all limited partners were released from capital commitments and the PPIF's holdings were liquidated. Treasury did not incur any loss as a result of the termination and currently expects, based on preliminary reports it received from the fund manager, that the TCW PPIF limited partners (private investors and Treasury) will realize a profit. TCW limited partners will have the ability to re-allocate capital to other PPIFs.

** Performance is net of management fees and expenses attributable to Treasury. NA = Not Applicable as the fund has not drawn down capital as of 12/31/09.

Super-Senior, Mezzanine, Junior AAA Spreads Tighter, Not So Much from PPIP



Source: Jefferies & Co.

New-Issue CMBS TALF: Also Underwhelming

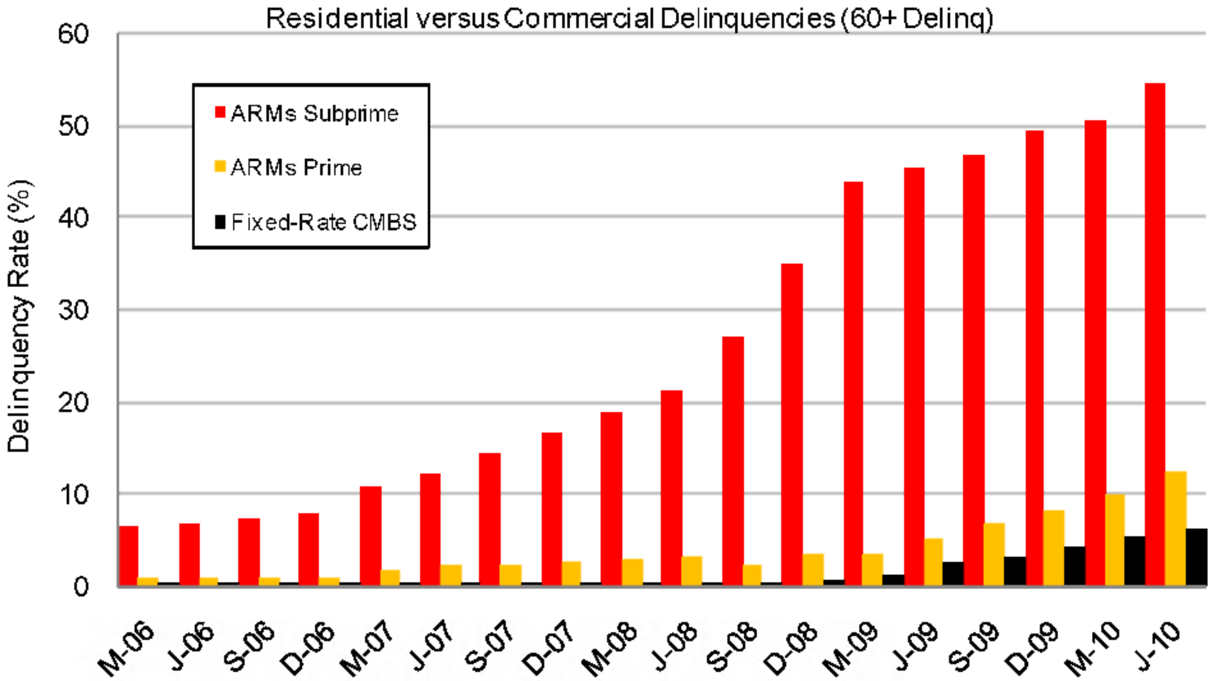
Program Parameters

- **May 1, 2009.** Fed expands eligible collateral to include new-issue CMBS under TALF
- **Issuer.** Must not be an agency or instrumentality of the U.S. or a GSE
- **Eligible Collateral.** Cash fixed-rate P+I CMBS issued on or after 1/1/09. Highest long-term IG rating from 2 or more agencies; not junior to other securities w/ claims on same pool of loans
- **Asset Types**
  - Fully-funded, 1st-priority, fixed-rate commercial mortgage loans; fee or leasehold interests in one or more income-generating commercial properties in U.S./territories
  - CMBS, other securities or interest-rate swap/cap instruments or other hedging instruments or IO loans not eligible
- **Origination Dates.** All mortgage loans must be originated on or after July 1, 2008
- **Underwriting**. Then-current in-place, stabilized/recurring NOI and then-current property appraisals
- **Available Loans.** Three- and five-year TALF loans – same rates and haircuts apply as in legacy CMBS TALF
- **TALF Loan Principal Repayment**. All CMBS principal cash flows applied to TALF loan in proportion to advance rate
- **Capping of interest on 5-year TALF loan**
  - Excess interest on the CMBS bond over interest on TALF loan remitted to the TALF borrower, until:
  - Excess interest equals 25% of haircut amount within one full year; or excess interest equals 10% and 5% of the haircut in years four and five, respectively

Drivers of CMBS Loan Performance

CMBS Loan Performance versus Residential

- **Subprime ARM delinquencies at 54.6% as of 2Q10**
- **Prime ARM delinquencies sharply lower at 12.3% as of 2Q10**
- **Fixed-rate CMBS delinquencies at 8.29% as of 2Q10**

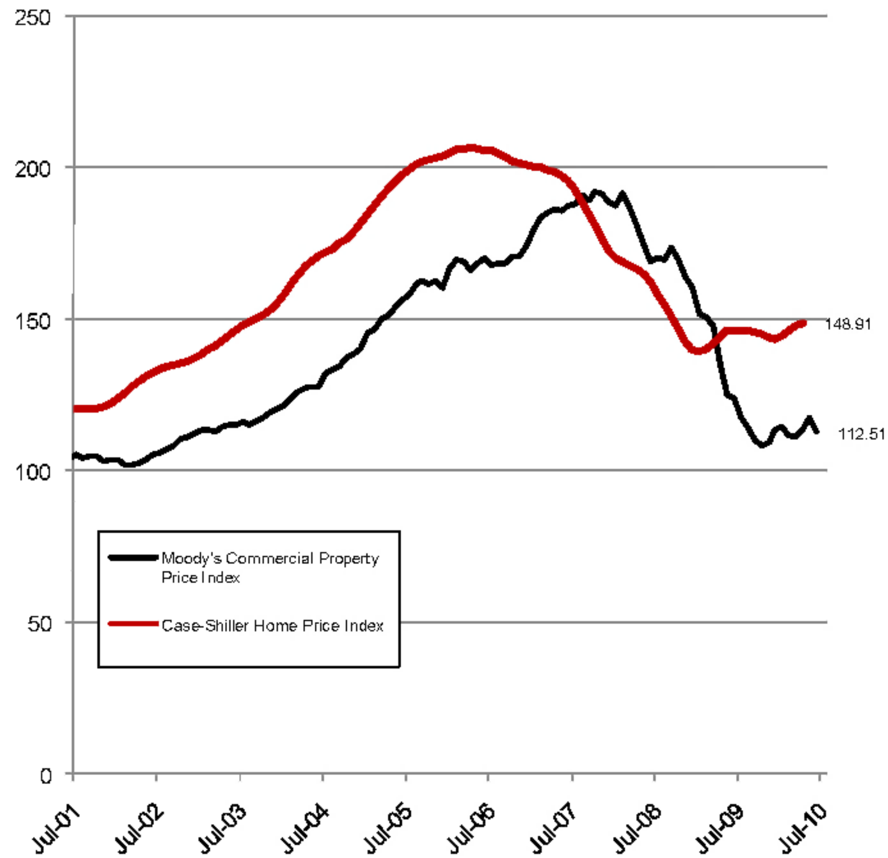


Source: Jefferies & Co.

CRE Property Valuations Plummet by 41%

- **Single-Family Residential Home Prices (as of 07/10)**
  - Lower by 27.9% from 7/06 peak
- **Commercial Property Prices (as of 06/10)**
  - Lower by 41.4% from 10/07 peak
  - Declines will vary by asset type/quality/location
- **By Property (peak thru 2Q10)**
  - Retail: -39.25%
  - Office: -30.81%
  - Industrial: -35.29%
  - Multifamily: -30.46%

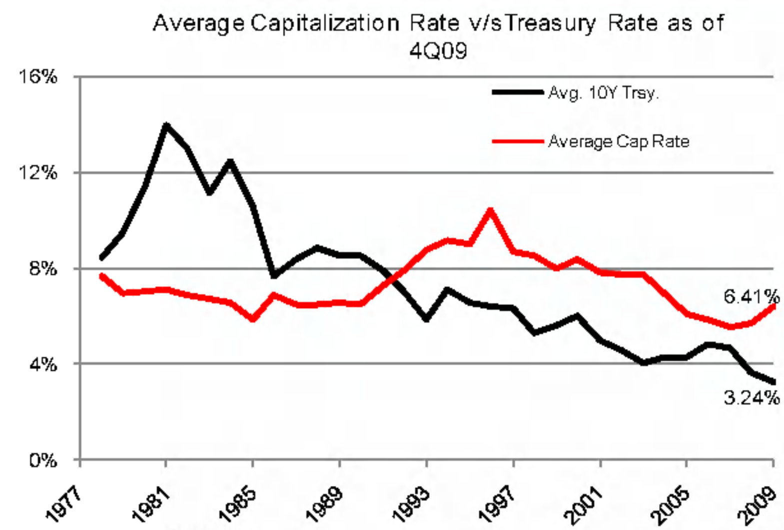
Residential Vs. Commercial Real Estate Values



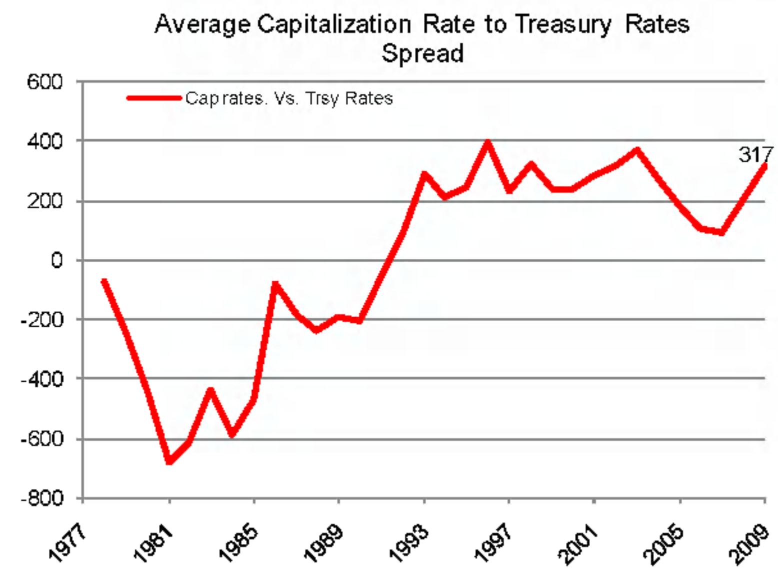
Sourcce: Bloomberg

Capitalization Rates: A Dysfunctional Measure in Current Crisis

- **Early-'90s crisis pushed cap rates up 400 bps to 9.62%**
  - Excess supply: Tax-code changes spur development
  - Lack of demand: Recession
- **1995 - 2008 cap rates plummet to historical lows**
  - Seven consecutive YOY declines; falling 38% from '00 thru '08, before rising in '09
- **Cap rates now dysfunctional as property transaction volume plummets**
- **Debt yields.** Key barometer of risk
  - Lenders require >10% debt yields (ratio of NOI/NCF and Debt)



Source: NCREIF, Jefferies & Co.



Source: NCREIF, Jefferies & Co.

Aggressive Underwriting/Increased Leverage = Higher Losses

- **Growing number of performing loans with DSCRs less than 1.0x spell more trouble ahead**
  - 10% to 20% decrease in NOI; Recent vintage loans pressured by overly aggressive pro-forma underwriting, expiring IO payment periods, pending maturities

Conduit/Fusion Fixed-Rate CMBS Deal Composition and Credit Statistics

	2010	2009*	2008*	2007*	2006*	2005*	2004	2003	2002
Total Issuance ($B)	4.71	1.36	10.74	188.55	161.76	136.44	74.17	52.88	34.36
Avg. Deal Size ($B)	0.67	0.45	1.34	3.60	2.61	2.18	1.24	1.17	1.01
Avg. Loan Size ($M)	12.23	11.28	14.18	17.94	14.52	13.93	11.63	9.95	8.25
Largest Loan %	-	13.10	11.64	9.97	9.48	8.69	10.35	9.10	8.77
Avg. AAA Credit Enhancement (%)	24.00	21.52	13.55	12.00	12.02	12.67	13.81	16.78	19.56
Avg. BBB- Credit Enhancement (%)	-	-	4.14	3.12	3.06	3.33	3.61	4.47	8.10
% of IO Loans (Partial)	-	-	49.25	30.22	45.20	41.86	NA	NA	NA
% of IO Loans (Term)**	-	-	30.05	55.82	29.15	21.79	34.62	13.32	6.11
Moody's Stressed DSCR	1.54	1.52	0.91	0.91	1.00	1.05	1.19	1.28	1.27
Moody's Stressed LTV (%)	73.00	65.20	106.72	111.24	100.50	96.40	87.67	83.51	85.98
Subordinate Debt***	47.00	-	39.80	54.63	43.73	39.64	28.90	27.24	8.58
B-notes (%)	6.40	-	4.91	8.09	6.90	7.07	10.19	13.09	7.88
IG Rated Loans (%)	-	-	6.48	7.04	11.83	13.90	22.04	22.94	14.32

Sources: Jefferies & Co., Fitch, S&P, and Moody's. *2005 thru 2009 represent AJ CE. **2002-2005 IO percentages reflect initial and term IO loans combined. ***In-place and allowable.

Recent Examples of Steep Commercial Property Valuation Declines

- **$3.0bn Stuyvesant Town and Peter Cooper Village (WBCMT 07-C30, WBCMT 07-C31, MLCFC 07-5, MLCFC 07-6, CWCI 07-C2)**
  - Fitch valued the $5.4b property at $1.8b in late 2009
  - Interest shortfalls rise to originally-rated 'BB' class
- $**125.2mm Promenade Shops at Dos Lagos (JPMCC 08-C2)**
  - $170mm original value falls to $69.6mm
  - Interest shortfalls rise to originally-rated 'AA' rated class
- **$115.6mm Boscov's Portfolio Loans (BACM 06-3)**
  - $182.7mm original value falls to $40.5mm;
  - Interest shortfalls rise to originally-rated 'AA' rated class
- **$81.1mm West Oaks Mall Loan (GCCFC 06-GG7):**
  - $109.8mm original value falls to $13.6mm (liquidated in 12/09 with a loss of 78.5mm)
  - Interest shortfalls rise to originally-rated 'BBB-' rated class
- **$225mm Riverton Apartment Loan (CD 07-CD4)**
  - $260mm original value falls to $108mm
  - Interest shortfalls rise to originally-rated 'BBB' rated class

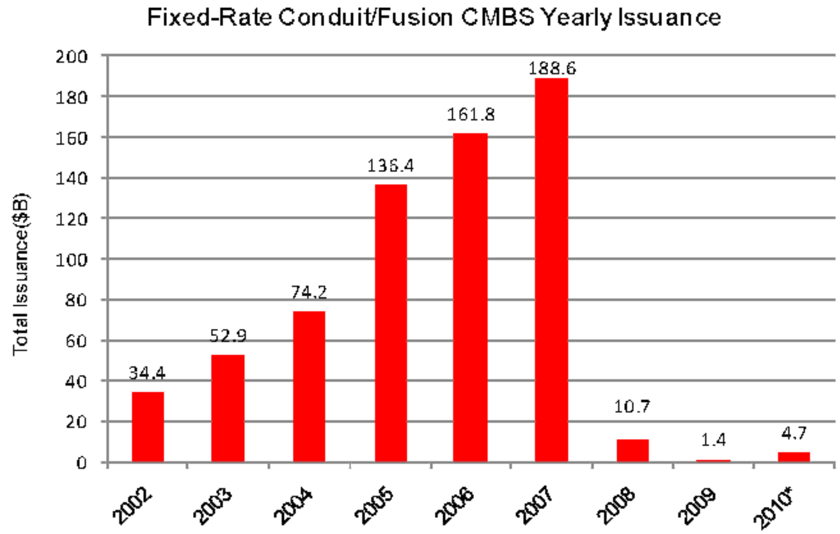
Weighing the Risks of Default in a Commercial-Mortgage Pool

- **Reasons for borrowers to hold on...**
  - Focus on long-term returns
  - Property net cash flow covers debt service
  - Significant ‘scarcity’ value and attractive features of current loans
    - Low mortgage rates, high percentage of full-term or partial-term interest-only periods
  - Negative tax consequences in a default associated with debt forgiveness

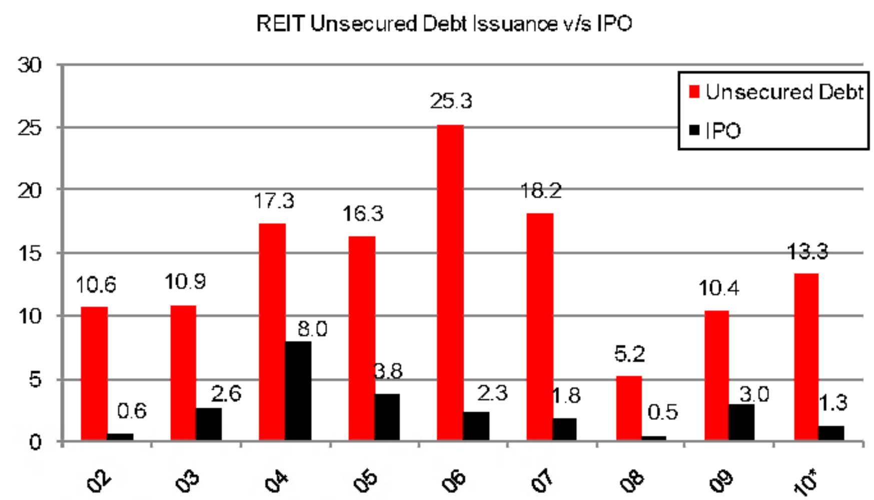
- **And reasons not to**
  - Sharp declines in CRE values coupled with declining net cash flow act as disincentives to carry property until conditions improve, particularly in significant cash take-out via current loan
  - Massive public-to-private deals in ‘05-’07 of property value peaks suggest little incentive to go “out of pocket” to pay debt service
  - Maguire Properties gives back seven large office properties; Lembi Group gives back 51 multifamily properties (1,500 units) to lender UBS

Detailed Analysis of Current Loan Performance and Trends

CMBS Issuance Plummets, REIT Surprises to the Upside

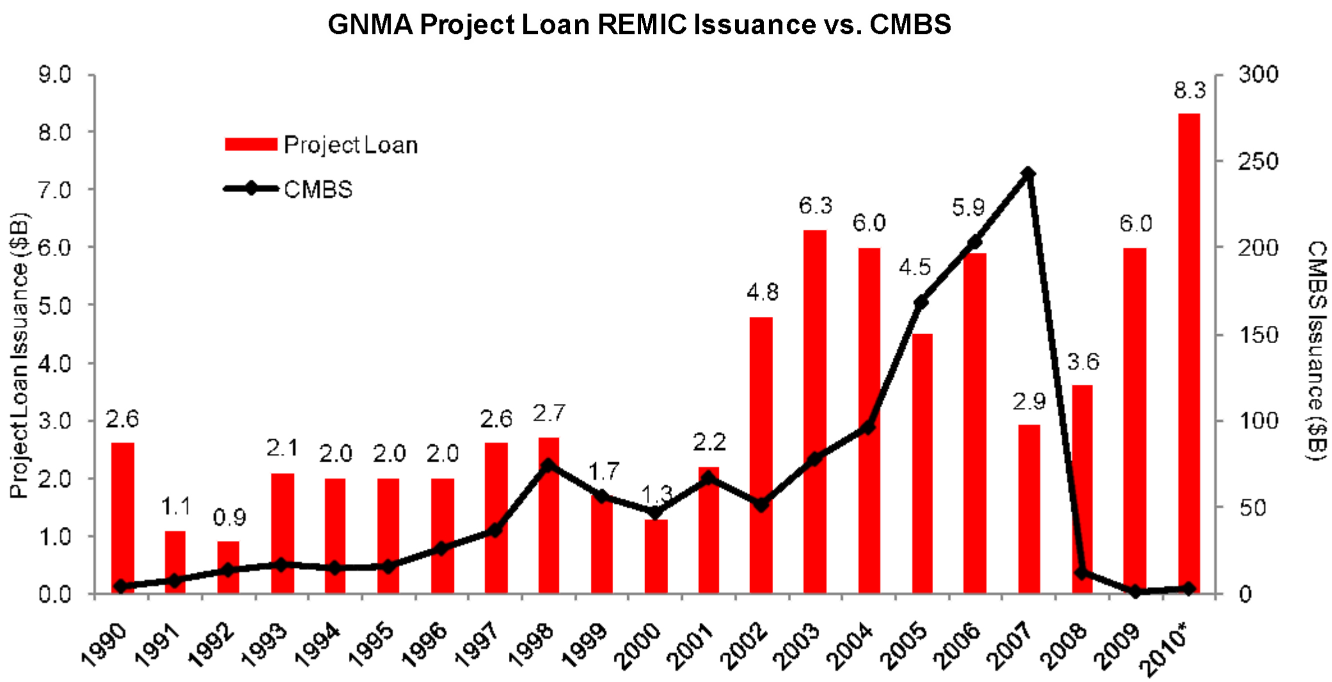


Source: Jefferies & Co.



Sources: SNL Financial, NAREIT® * As of 8/10

GNMA Project Loan REMIC Issuance Soars



Sources. Bloomberg, Intex Solutions, Inc., Jefferies & Co. *YTD 2010

2009 - 2010 YTD Agency CMBS Issuance Expands

- GNMA continues to issue Project Loan multifamily/healthcare backed REMIC securities
  - Total $6.0 billion in 2009; $8.3 billion YTD 2010
- FHLMC begins securitizing it's multifamily loans beginning on 06/09
  - Total $7.7 billion; $6.6 billion from 2009 to YTD 2010
- FNMA begins securitizing it's 10/9.5 DUS multifamily loans in 10/09
  - Total $4.1 billion from 2009

Commercial Mortgage Delinquencies Plague FDIC Insured Institutions

- **"Problem List" expands to 15-Year High – largest amount of assets since June 30, 1994 (as of 2Q10)**
  - 57 institutions were merged into other institutions in 2009, 45 institutions failed, during the quarter
  - FDIC's "Problem List" rose to 829 institutions with combined assets of $403 billion

- **Sheila Bair, FDIC Chairman:**
  - "Commercial real estate is a looming problem. It's going to be a bigger driver of bank failures toward the end of this year and into next year." (9/2/09)

FDIC Insured Institutions Loan Performance: All Loans Secured by Real Estate (as of June 30, 2010)

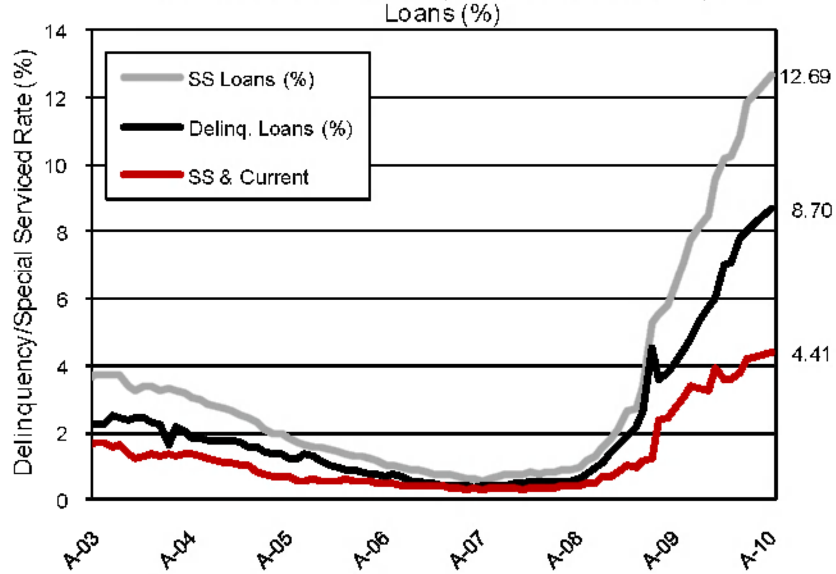
	Loans Outstanding ($B)	30-89 Days Past Due (%)	Non-Current** (%)	Total Past Due (%)	Charged-Off (%)
All Loans Secured by Real Estate	$4,336.80	1.96	7.32	9.28	1.97
Construction and Development*	$383.30	2.36	16.87	19.23	5.14
Nonfarm nonresidential	$1,081.00	1.14	4.28	5.42	1.12
Multifamily residential real estate	$214.70	1.06	4.16	5.22	1.20
Home equity loans	$654.50	1.16	1.71	2.87	2.89
Other 1-4 family residential	$1,874.30	2.79	9.75	12.54	1.65

Source. FDIC, *Construction and development loans includes loans for all property types under construction, as well as loans for land acquisition and development. **Non-current loan rates represent the perentage of loans in each category that are past due 90 days or more or that are in non-accrual status.

Fixed-Rate CMBS Delinquencies to Rise to >10% by Year-End 2010

- **Fixed CMBS delinquency rate up 466 basis points YOY (as of 08/10)**
  - 8.7% delinquency rate
  - Previous all-time high of 7.53% in 6/92 (Life co. loans)
  - Exceeds previous CMBS universe high of 2.48% in 10/03
- **Delinquent plus current & special serviced loans at 13.11%**
- **Dollar volume of delinquent loans more telling than rate…**
  - $55.6 billion in 08/10 vs. $28 billion in 08/09
- **Drivers of CRE performance post-9/07**
  - Reduced sources of capital
  - High levels of leverage on CRE loans
  - U.S. recession
  - Overly optimistic cash-flow assumptions/minimal to no upside in property valuations

Fixed-Rate Conduit CMBS Special Serviced & Delinquent Loans (%)

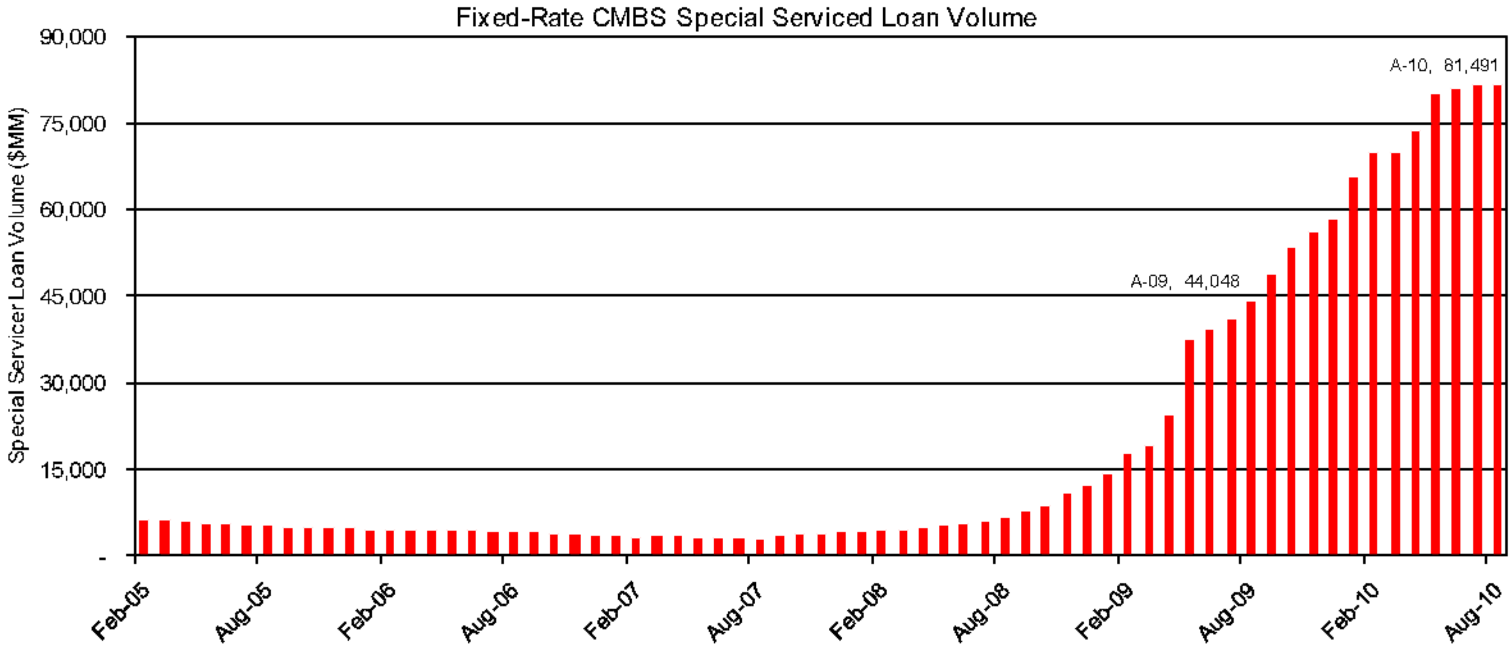


Sources: Jefferies & Co. and Intex Solutions, Inc.

Special-Servicer Loan Volume Soars

- **Many loans moving directly from current status to special servicing as borrowers cry "Imminent Default"**
  - 2005 vintage five-year loans main driver of increased SS loans in 2010

- **Sharp upward volume in SS loans raises concerns of interest shortfalls reaching higher up the capital stack**



Sources: Jefferies and Intex Solutions, Inc.

‘Amazing Shrinking Denominator’ Effect to Push Delinquency Rate Higher

- **Fixed CMBS delinquency rate skewed higher by technical and fundamental factors**
- **Fundamental: Increasing Numerator (Delinquent Loans)**
  - Recession, aggressive underwriting, loan maturities, lack of capital drive up delinquencies
- **Technical: Decreasing Denominator**
  - No new CMBS issuance since July 2008 and continuing through late-2009
  - Normal amortization and loan payoffs at maturity will cause further deterioration in the denominator
    - Loans with a current balance of $39 billion scheduled to mature in 2010
- **Factoring in projected declines in outstanding universe due to loan payoffs and amortization only in 2009**
  - Assume average YTD ‘09 month-over-month increase in delinquent loans of $2.3 billion,
  - **Delinquency rate climbs to 10+% by YE10**

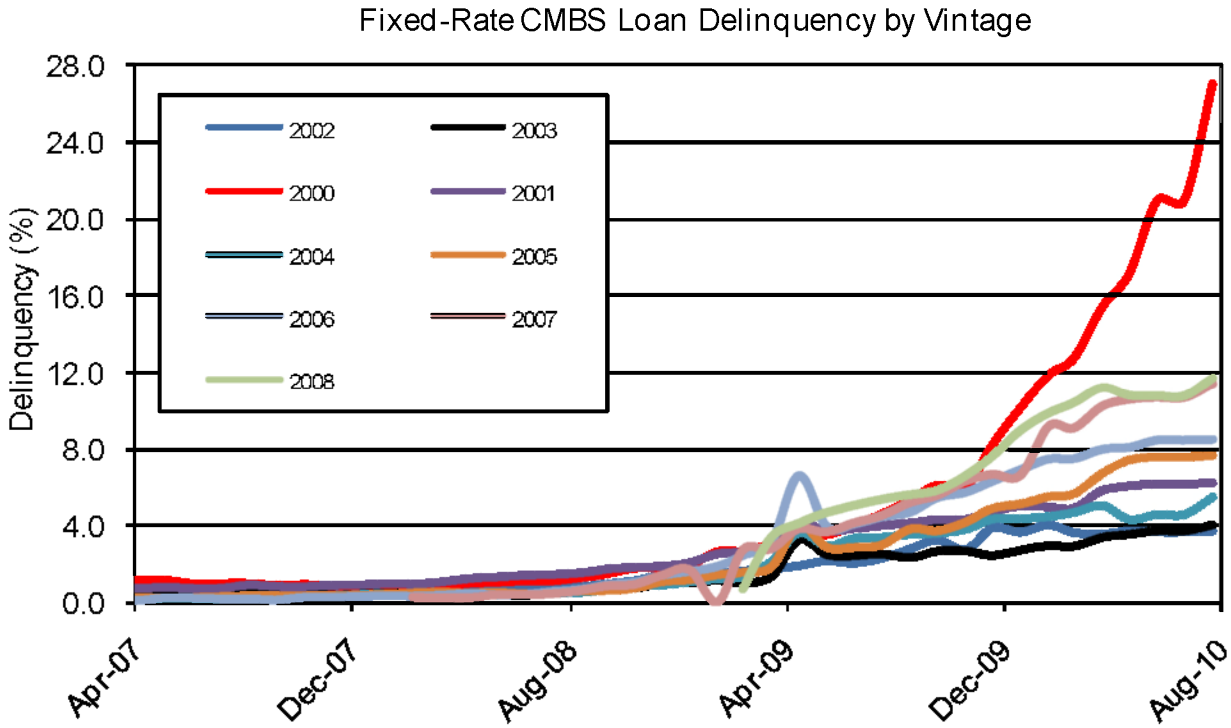
Rising Delinquency Contributors: Recent Vintages

Fixed-Rate CMBS Conduit/Fusion WA Delinquencies by Vintage (8/10)

	Orig Bal. ($B)	Curr. Bal. ($B)	30+ Del. (%)	60+ Del. (%)	90+ Del. (%)	FC (%)	REO (%)	Total Del. (%)	Cum. Loss (%)	Curr. & SS (%)	Watchlisted Loans (%)
1996	0.38	0.31	0.00%	0.00%	0.33%	4.51%	1.06%	6.37%	3.03%	0.81%	21.33%
1997	2.10	1.81	0.41%	0.00%	0.35%	0.46%	1.09%	2.30%	2.77%	5.96%	19.63%
1998	6.54	5.48	0.24%	0.18%	3.17%	2.60%	2.32%	8.51%	2.14%	6.49%	17.97%
1999	6.22	4.41	0.72%	0.84%	9.88%	3.67%	3.97%	19.12%	2.19%	6.82%	19.32%
2000	7.94	4.88	3.12%	2.03%	10.02%	4.51%	7.32%	27.04%	2.42%	13.95%	25.93%
2001	27.62	23.09	0.50%	0.32%	2.69%	1.59%	1.12%	6.26%	1.83%	2.19%	24.99%
2002	29.99	25.27	0.56%	0.30%	1.37%	0.56%	1.03%	3.83%	1.14%	1.16%	20.22%
2003	48.28	37.44	0.73%	0.38%	1.38%	0.99%	0.64%	4.12%	0.55%	4.18%	19.28%
2004	74.31	59.19	0.96%	0.29%	1.99%	1.54%	0.75%	5.54%	0.48%	4.32%	21.46%
2005	157.35	120.03	1.13%	0.86%	3.57%	1.23%	0.70%	7.66%	0.56%	5.69%	23.41%
2006	204.47	158.49	0.93%	0.54%	3.97%	1.92%	1.18%	8.55%	0.50%	3.20%	26.76%
2007	250.47	191.39	0.99%	1.12%	4.40%	3.91%	1.00%	11.47%	0.34%	5.11%	25.92%
2008	16.23	10.57	1.19%	0.51%	6.08%	2.31%	1.70%	11.78%	0.49%	2.48%	27.48%
Total	831.91	642.37	0.96%	0.73%	3.65%	2.27%	1.04%	8.70%	0.58%	4.41%	24.50%

Source: Jefferies & Co., Intex Solutions, Inc.

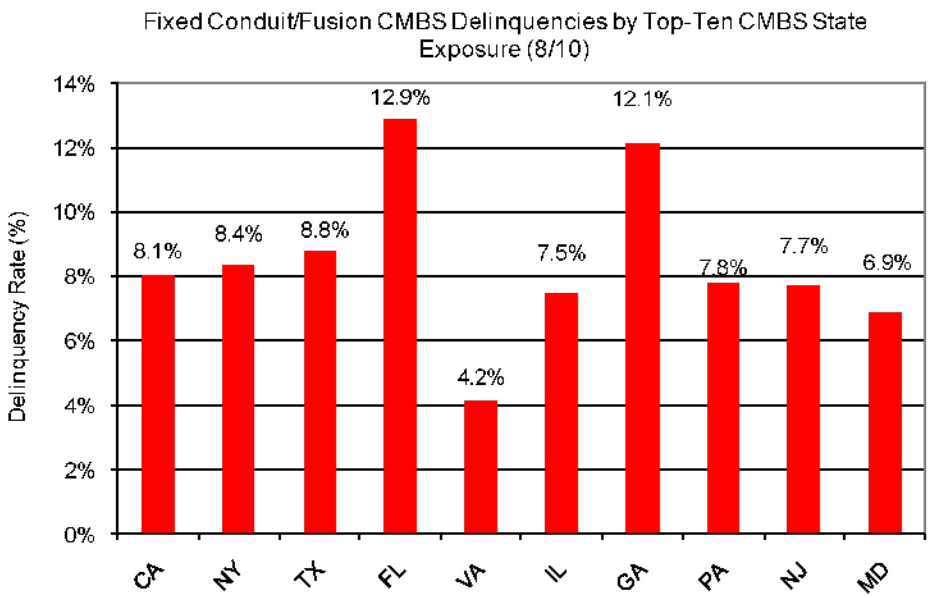
Historical Delinquency Rates by Seasoning



Sources: Jefferies & Co. and Intex Solutions, Inc.

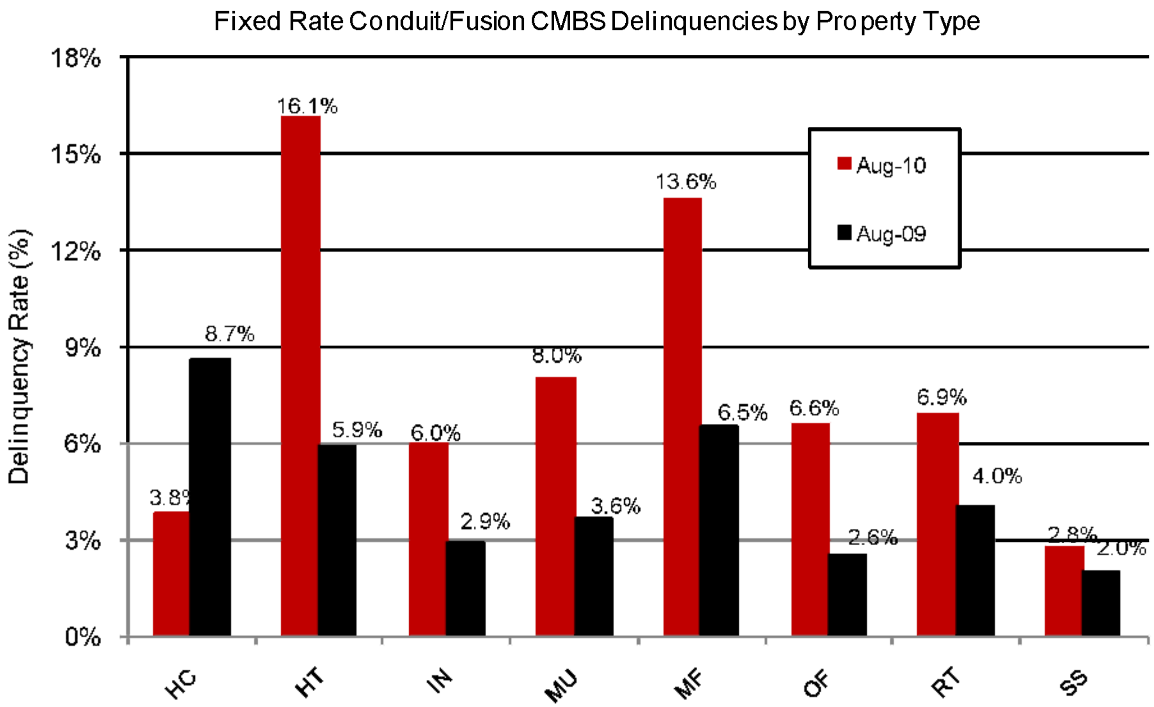
Delinquency Rates by Top 10 States

- **California: Maguire Properties forfeiture of office highlights CA woes: $95b of fixed-rate CMBS loans in state**
- **Texas and Florida: High unemployment rates and some of the highest foreclosure rates in the U.S. hurt multifamily**
  - 5,297 Loans outstanding in Texas
  - 3,840 Loans outstanding in Florida



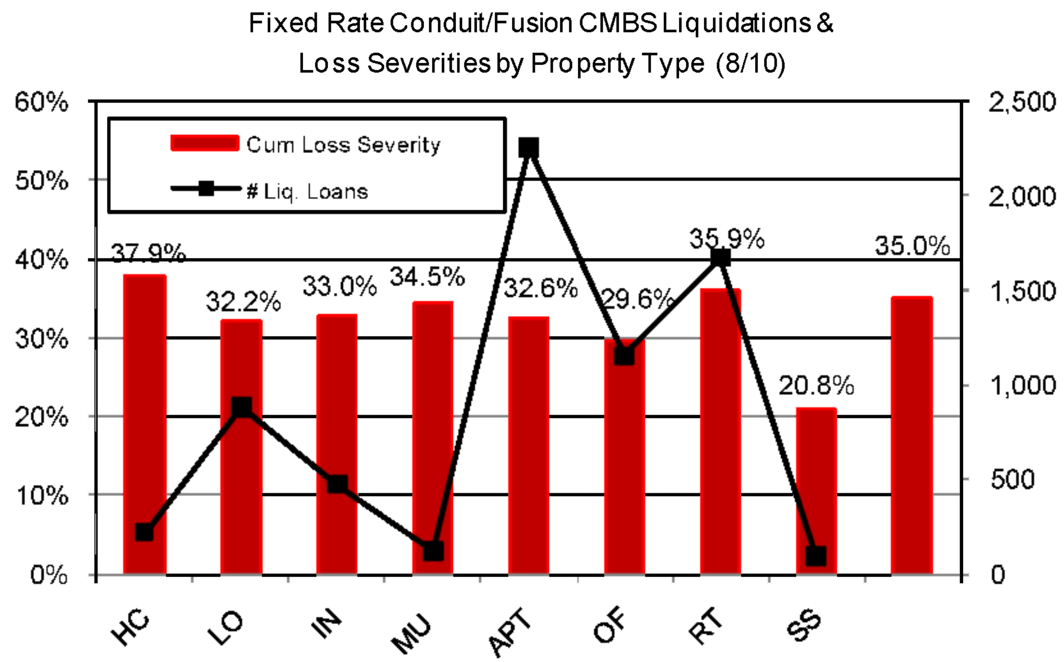
Sources: Jefferies and Intex Solutions, Inc.

Hotel and Multifamily Assets Lead Delinquencies



Sources: Jefferies & Co. and Intex Solutions, Inc.

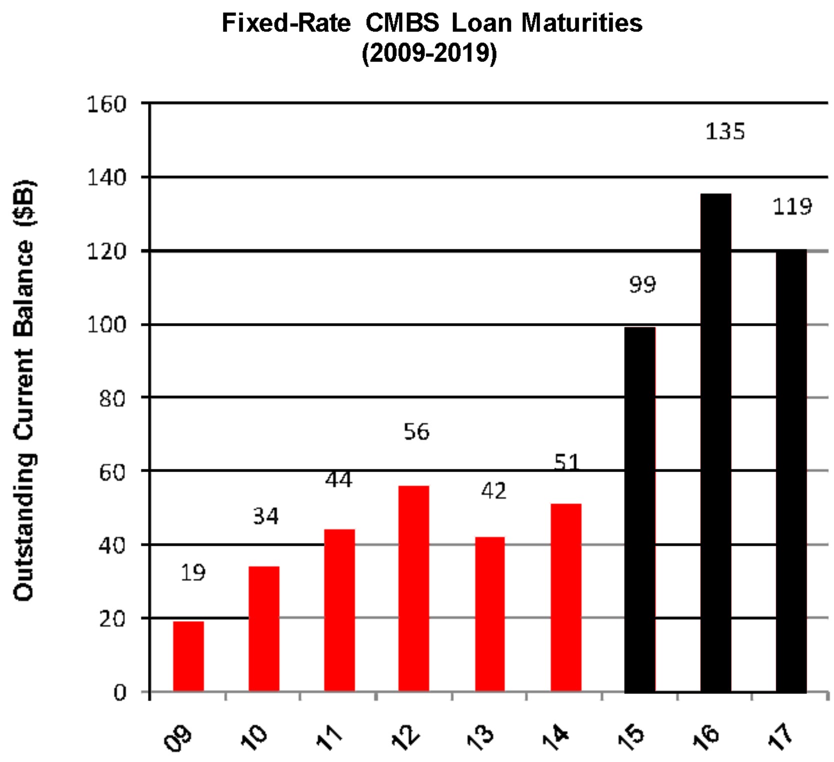
Average Sub-35% Loss Severities But on Limited Liquidations



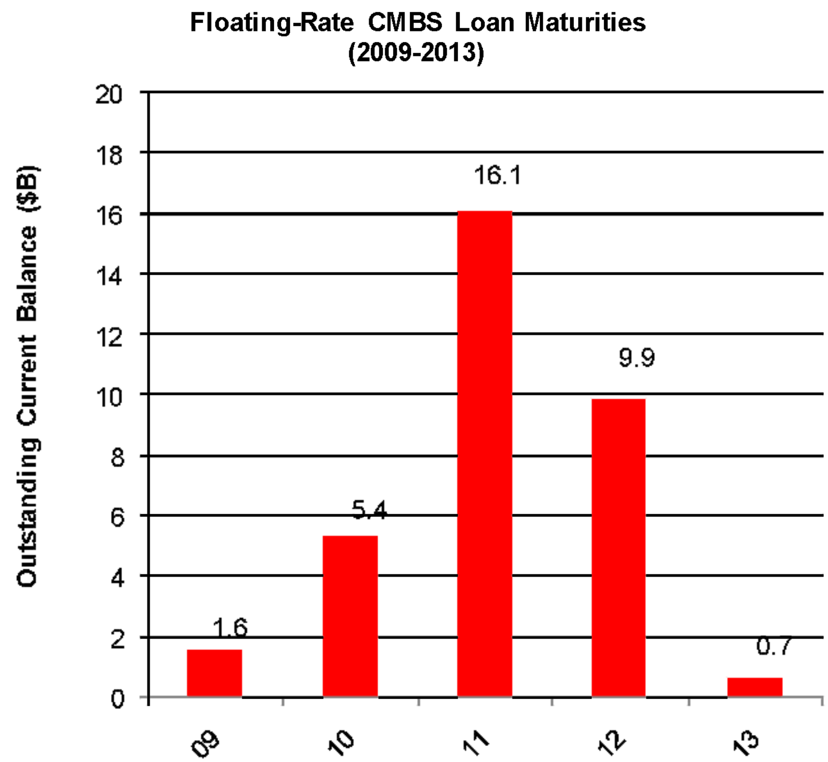
Sources: Jefferies and Intex Solutions, Inc.

The Refinance Conundrum: CMBS Fixed- and Floating-Rate Loan Maturities

CMBS Loan Maturities “Manageable” But Overall Volume Overwhelming



Sources. Jefferies and Intex Solutions, Inc.



Sources. Jefferies and Intex Solutions, Inc.

- Despite CMBS maturities of <$60 billion annually over next 5 years, overall commercial real estate loan maturities (banks, insurance companies and CMBS) loom large at $200 to >$300 billion annually between 2010 and 2013.

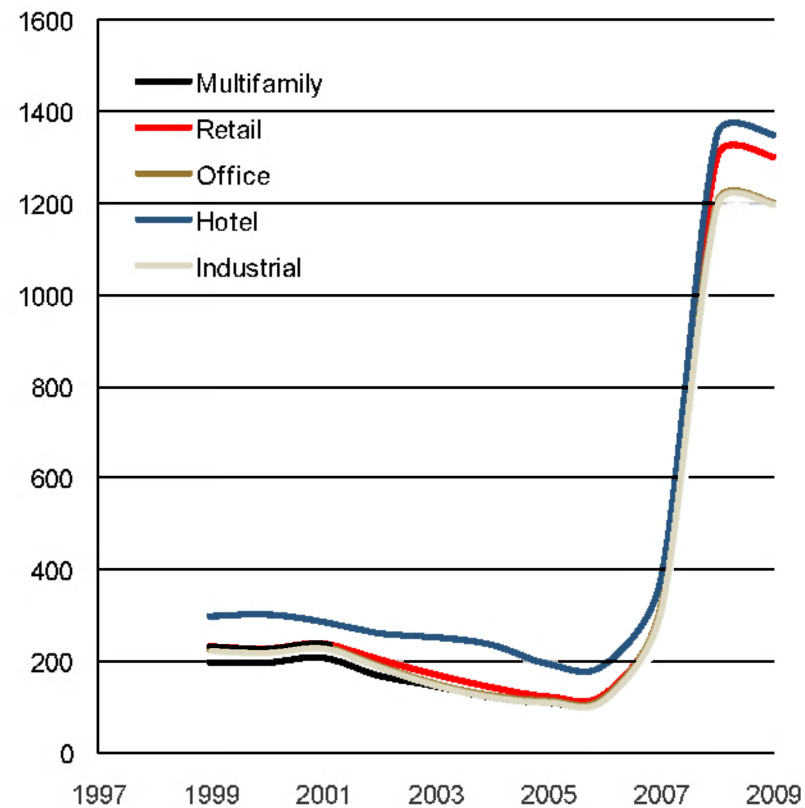
CMBS Spreads / Balance-Sheet Issues Improve, Still No 'Real' Conduit lending

Commercial Mortgage Spreads to Treasurys

Vintage	Multifamily	Retail	Office	Industrial	Hotel
1999	195	233	223	223	298
2000	194	228	221	221	302
2001	205	239	230	230	286
2002	166	205	188	188	261
2003	143	172	149	149	252
2004	118	144	123	123	236
2005	107	124	112	112	194
2006	115	129	119	119	192
2007	315	315	315	315	378
2008	1200	1300	1200	1200	1350
2009	1200	1300	1200	1200	1350

Source: Jefferies

Historical Commercial Mortgage Financing Spreads by Asset Type



Source: Jefferies

- Life Companies lending on high quality, conservatively underwritten assets with cap rates and mortgage rates of <7% (as of 1Q10)

Ability to Refinance Depends on Vintage/Seasoning

- **Majority of loans maturing in 2010 were originated in 2000 and 2005**
  - Amortizing
  - Higher loan coupons at origination than today
  - Higher cap rates at origination and thus equity build-up as cap rates much lower today
- $9.2B of fixed rate10-year 2000 vintage loans mature in 2010
- $15.6B of fixed rate5-year 2005 vintage loans mature in 2010 – not as well protected as 2000 vintage loans

Average Commercial Mortgage Fixed Rate Coupons and Capitalization Rates by Vintage

Vintage	Avg. Coupon (%)	Avg. Cap Rate (%)	Avg. Loan Spread (BPs)	Avg. Pool LTV (%)	Avg. 10 Trsy. (%)
1998	8.25	8.56	300	69.3	5.25
1999	7.99	8.45	234	69.2	5.64
2000	8.35	8.64	233	69.4	6.02
2001	7.38	8.41	238	68.7	5.00
2002	6.61	7.98	202	68.9	4.59
2003	5.73	7.67	173	66.8	4.00
2004	5.75	7.25	149	68.9	4.26
2005	5.58	6.79	130	68.7	4.28
2006	6.14	6.36	135	68.0	4.79
2007	7.91	5.74	328	69.1	4.63
2008	10.00	5.36	635	66.8	3.65

Sources: Jefferies, Trepp, NCREIF. *Across all property types.

Refinance Activity

Status of Fixed-Rate Loans with 2010 Final Maturities (as of 06/10)

Status	Loan Count	Balance ($)	Maturities 1H10 (%)	Maturities FY09 (%)	Maturities FY08 (%)
All 1H10 Maturities	1,957	17,458,706,456			
Loans Paid-Off	1,472	12,611,288,565	72.2%	62.9%	82.0%
Full Payoff at Maturity	643	5,184,006,366			
Payoff Prior to Maturity	679	6,442,544,333			
Payoff with Prepay. Penalty	150	984,737,866			
Loans Liquidated	156	1,340,994,294	7.7%	3.2%	4.4%
Disposition	109	966,648,980			
Discounted Payoff	47	374,345,314			
Loans Outstanding Post Maturity	329	3,506,423,597	20.1%	33.9%	13.6%
Loans Extended/Modified	59	590,052,440			
Loans Matured & Non-performing	258	2,706,991,157			
Loans Matured & Performing	9	197,850,000			
Loans ARD	3	11,530,000			

Source: Jefferies, Intex Solutions, Inc.

Largest Fixed-Rate CMBS Loans Maturing in 2010

Fixed-Rate Conduit/Fusion Loans >$150 Million Maturing in 2010

Deal	Loan	Orig. Bal. ($MM)	Curr. Bal. ($MM)	State	Prop. Type	Orig. Bln. Term	MR. DSCR	MR. NCF	MR Fin. Date	Sponsor/Borrower
CD06CD2	Villas Parkmerced	550.00	550.00	CA	MF	60	1.10	34,606,100	9/30/2009	Stellar Mgt & Rockpoint Grp
JPC05LD4	Regency Portfolio	349.73	317.42	-	RT	60	1.92	15,391,000	6/30/2009	Macquarie et al
LBUB05C5	Providence Place	273.60	258.53	RI	RT	60	1.77	23,490,100	9/30/2008	GGP
GCC05GG5	Lynnhaven Mall	251.00	233.88	VA	RT	60	1.24	20,202,500	3/31/2008	GGP
MLT05MC1	The Westchester Mall	200.00	200.00	NY	RT	60	1.79	44,128,000	6/30/2009	SPG
MLT05C01	The Westchester Mall	100.00	100.00	NY	RT	60	1.79	44,128,000	6/30/2009	SPG
LBUB06C6	Reckson Portfolio I	196.07	196.07	-	OF	60	2.50	8,067,350	6/30/2009	NA
LBUB05C7	Reckson Portfolio I	196.07	196.07	-	OF	60	2.15	12,047,700	9/30/2009	Reckson Australia Op. Co. et al
JPC05LD5	2 Grand Central Tower	190.00	190.00	NY	OF	60	2.12	15,401,100	9/30/2009	Two Grand Central Tower
MSC04HQ3	Arundel Mills	187.00	187.00	MD	RT	84	3.16	27,598,100	9/30/2005	The Mills LP et al
JPC05C13	DRA-CRT Portfolio I	180.90	180.90	-	OF	60	1.67	8,178,020	6/30/2006	DRA - CRT
WBC04C14	Park Place Mall	190.00	176.44	AZ	RT	66	-	13,667,300	9/30/2008	GGP
BACM0503	Ridgedale Center	190.00	175.74	MN	RT	60	1.20	3,621,120	3/31/2009	Ridgedale Center, LLC
CSM06C01	Saint Louis Galleria	180.00	167.25	MO	RT	60	1.88	5,024,790	3/31/2009	Saint Louis Galleria LLC
MLT05CP1	Highwoods Portfolio 56	160.00	160.00	-	OF	60	1.13	9,081,010	6/30/2009	Capital Partners
GECC05C3	Oakland City Center	150.00	150.00	CA	OF	60	3.24	22,836,400	12/31/2008	Shorenstein Realty Inv et al

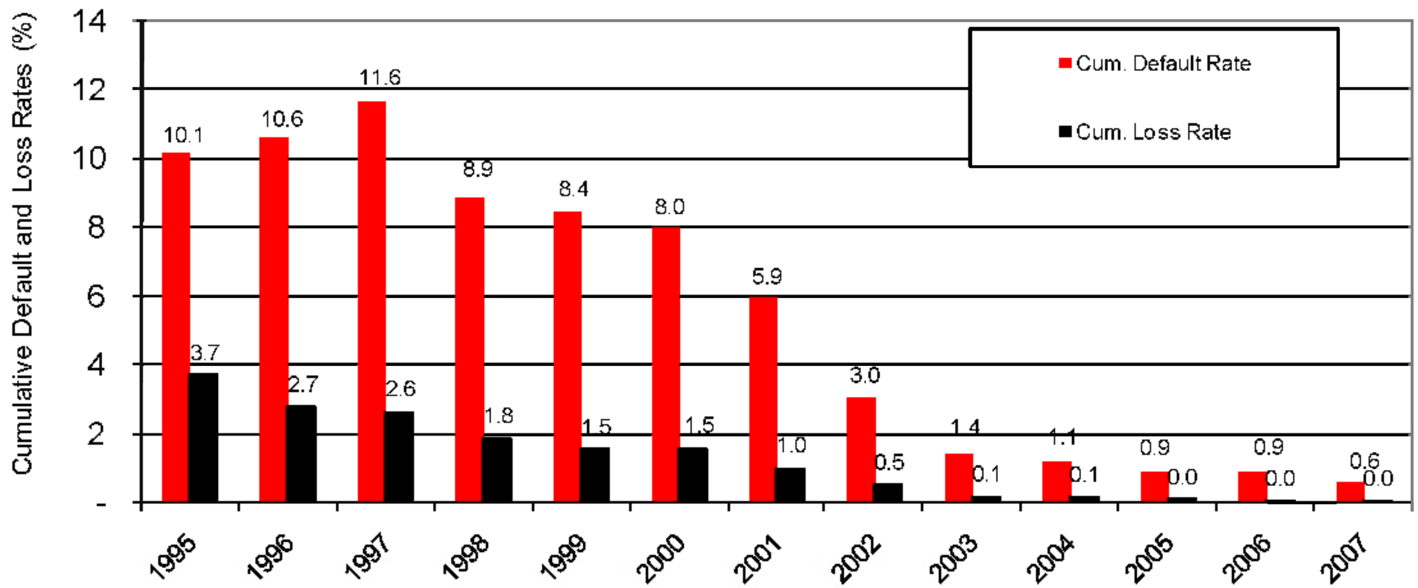
Source: Jefferies & Co., Intex Solutions, Inc. (as of 01/10)

CRE Loan Historical and Projected Default and loss Seasoning Curves

Historical CMBS Loan Defaults and Losses Modest to Date

- **10.1% to 11.6% cumulative defaults on '95-'97 vintage fixed-rate CMBS pools**
- **2.7% to 3.7% cumulative losses on '95-'97 vintage fixed-rate CMBS pools**
- **Minimal defaults in years 1-3, climbing in years 4-7, then stabilizing/falling thereafter**
- **Losses follow by 12 to 18 months, longer in stressed real estate/financing markets**

Fixed-Rate Commercial Mortgage Default and Loss Rates - All Property Types by Vintage

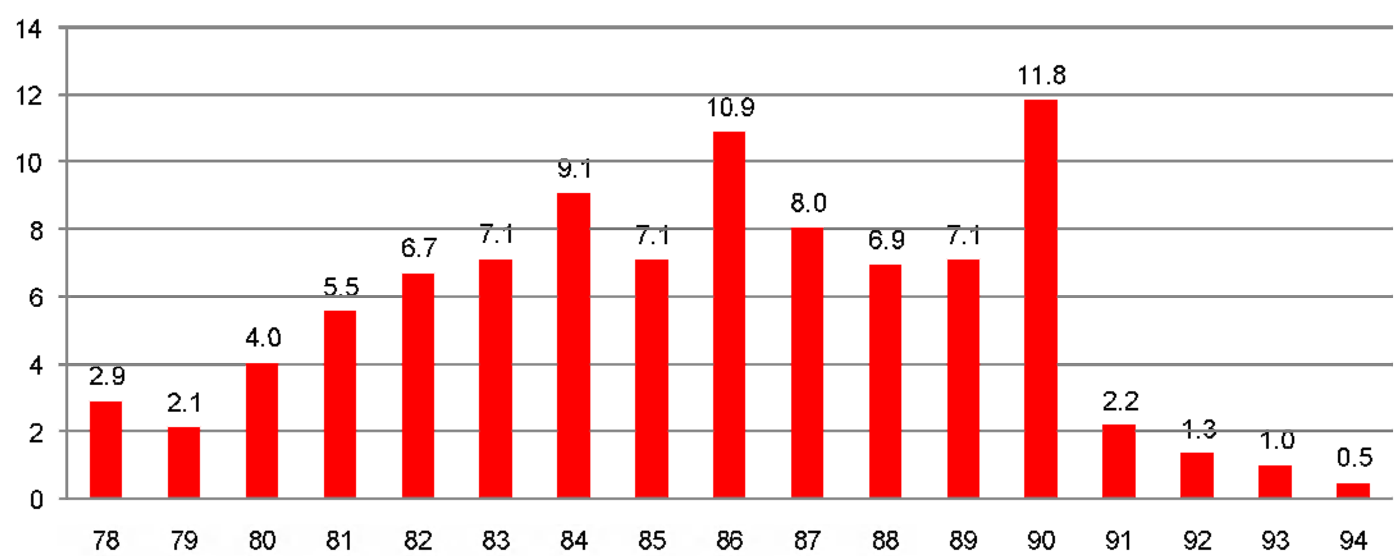


Sources: Jefferies and Intex Solutions, Inc. As of 03/09

Worst-Case Historical Scenario...Breaking the “Historicals”

- **Late-1980s/early-1990s represent worst CRE period since the Great Depression**
  - CRE supply glut meets recession
  - 1986: 10.9% cumulative losses
  - 1990: 11.8% cumulative losses
- **Current cycle expected to exceed previous high in cumulative losses**

Commercial Mortgage Losses (1978-1994)



Sources. Intex Solutions, Inc., Various studies conducted by Howard Esaki, Masumi Goldman, Steven L'Heureux, and Mark Snyderman.

Even Historical CMBS Losses of 2.7% to 3.7% Hit Recent-Vintage BBB-

- **Defaults would have to rise to 60% before principal loss on SS AAA bonds (50% loss severity)**
- **Historical loss of 3.7% hits BBB- bonds with 3.11% average credit enhancement**
- **'04-'08 BBB- /lower-rated bonds-levered and binary risk, interest shortfalls stress credit IO relative value**

Fixed-Rate CMBS Credit Enhancement (%)

Date	SS AAA	Jr. AAA	AA	A	BBB	BBB-	BB	B
1996		31.5	25.3	19.7	14.8	12.6	7.9	3.3
1997		30.3	24.1	18.5	13.3	11.5	6.0	3.0
1998		28.8	23.7	18.7	12.6	10.9	5.8	3.2
1999		27.0	22.3	17.3	12.3	10.5	6.1	2.9
2000		22.2	17.8	13.7	9.6	8.3	4.5	2.1
2001		21.0	17.4	12.9	9.1	8.0	4.6	2.4
2002		20.7	16.1	12.3	8.1	7.1	4.4	2.2
2003		16.5	13.7	10.0	6.7	5.4	3.5	1.9
2004		13.7	11.3	8.3	5.0	3.7	2.9	1.7
2005	30.0	12.9	10.5	7.9	4.6	3.4	2.6	1.7
2006	30.0	12.0	10.0	7.5	4.2	3.1	2.4	1.5
2007	30.0	12.1	10.0	7.6	4.3	3.2	2.5	1.6
2008	30.0	13.5	11.3	8.5	5.2	4.1	3.1	2.2

Sources: Jefferies, Intex Solutions, Inc., and Commercial Mortgage Alert.

CRE Default & Loss Vectors: Base Stress

- **Base-Case Stress Scenario Defined:**
  - Historical Experience of CRE loans originated from '72-'07
  - Accounts for full economic/CRE cycles
- **Historical Defaults and Losses**
  - Cumulative Default Rate: 13.65%
  - Cumulative Loss Rate: 3.76%

Base-Case Scenario

Fixed-Rate Commercial Mortgage Pools: The Experience of 1972-2007 Vintage Loans

Year	CDR (%)	Rem. Balance (%)	Loss by Year of Seasoning (%)	Cumulative Loss (%)
0	0.25	99.75	0.00	0.00
1	0.94	98.81	0.00	0.00
2	1.31	97.50	0.10	0.10
3	1.43	96.07	0.33	0.43
4	1.56	94.51	0.40	0.83
5	1.54	92.97	0.46	1.29
6	1.58	91.39	0.43	1.71
7	1.14	90.25	0.21	1.92
8	1.03	89.21	0.58	2.50
9	0.78	88.43	0.39	2.89
10	0.88	87.56	0.33	3.22
11	0.63	86.92	0.25	3.47
12	0.57	86.35	0.29	3.76
Total	13.65		3.76	

Sources. Intex Solutions, Inc., Various studies conducted by Howard Esaki, Masumi Goldman, Steven L'Heureux, and Mark Snyderman.

Commercial Real Estate Default & Loss Vectors: Moderate-Stress

- **Moderate Stress Scenario Defined**
  - ’80 to ‘90 vintages
  - Mortgage performance from ‘80-’00
- **Economic Environment**
  - 3 recessions (9/74 to 3/75, 6/80 to 12/80, 12/90 to 3/91)
  - Prolonged periods of growth (6/75 to 3/80, 12/80 to 9/90, 6/91 to 12/07)
- **Commercial Real Estate Environment**
  - Wide range of cap rates: 6.65% to 9.62%
- **Historical Defaults and Losses**
  - Cumulative Default Rate: 20.36%
  - Cumulative Loss Rate: 7.06%

Moderate Stress Scenario

Fixed-Rate Commercial Mortgage Moderate-Stress Scenario: The Experience of 1980-1990 Vintage Loans

Year	CDR (%)	Rem. Balance (%)	Loss by Year of Seasoning (%)	Cumulative Loss (%)
0	0.25	99.75	0.00	0.00
1	0.97	98.77	0.00	0.00
2	1.92	96.86	0.10	0.10
3	2.13	94.73	0.35	0.45
4	2.51	92.21	0.70	1.15
5	2.89	89.32	0.78	1.93
6	3.56	85.76	0.90	2.83
7	1.83	83.93	1.04	3.87
8	1.56	82.37	1.23	5.10
9	0.63	81.73	0.65	5.75
10	1.34	80.40	0.58	6.33
11	0.56	79.84	0.23	6.57
12	0.21	79.64	0.49	7.06
Total	20.36		7.06	

Sources. Intex Solutions, Inc., Various studies conducted by Howard Esaki, Masumi Goldman, Steven L'Heureux, and Mark Snyderman.

CRE Default and Loss Vectors: Moderate to Severe Stress

- **Moderate to Severe Stress Scenario Defined**
  - '84 to '87 vintages
- **Economic/CRE Environment**
  - '80s CRE boom due to '81 Economic Recovery Act
  - Tax Reform Act of '86 reduces demand
  - Early'90s recession
- **Historical Defaults and Losses**
  - Cumulative Default Rate: 31.6%
  - Cumulative Loss Rate: 9.3%

Moderate-Severe Stress Scenario (Adjusted)

Fixed-Rate Commercial Mortgage Severe-Stress Scenario: 1984-1987 Vintage Loans

Year	CDR (%)	Rem. Balance (%)	Loss by Year of Seasoning (%)	Cumulative Loss (%)
0	0.00	100.00	0.00	0.00
1	0.92	99.08	0.00	0.00
2	2.28	96.80	0.28	0.28
3	2.14	94.66	0.68	0.96
4	3.25	91.41	0.89	1.85
5	5.82	85.59	0.95	2.80
6	10.30	75.29	0.98	3.78
7	2.47	72.82	1.59	5.37
8	1.31	71.51	1.75	7.12
9	0.24	71.27	0.85	7.97
10	2.32	68.95	0.60	8.57
11	0.23	68.72	0.25	8.82
12	0.31	68.41	0.50	9.32
Total	31.59		9.32	

Sources. Intex Solutions, Inc., Various studies conducted by Howard Esaki, Masumi Goldman, Steven L'Heureux, and Mark Snyderman.

CRE Default and Loss Vectors: Severe Stress

- **Severe Stress Scenario Defined**
  - '86 experience with '07-'08 loss levels

- **Historical Defaults and Losses**
  - Cumulative Default Rate: 31.6%
  - Cumulative Loss Rate: 14.22%

Ultra-Severe Stress Scenario

Fixed-Rate Commercial Mortgage Severe-Stress Scenario: 1986-Plus

Year	CDR (%)	Rem. Balance (%)	Loss by Year of Seasoning (%)	Cumulative Loss (%)
0	0.00	100.00	0.00	0.00
1	0.92	99.08	0.41	0.41
2	2.28	96.80	1.03	1.44
3	2.14	94.66	0.96	2.40
4	3.25	91.41	1.46	3.86
5	5.82	85.59	2.62	6.48
6	10.30	75.29	4.64	11.12
7	2.47	72.82	1.11	12.23
8	1.31	71.51	0.59	12.82
9	0.24	71.27	0.11	12.93
10	2.32	68.95	1.04	13.97
11	0.23	68.72	0.11	14.08
12	0.31	68.41	0.14	14.22
Total	31.59		14.22	

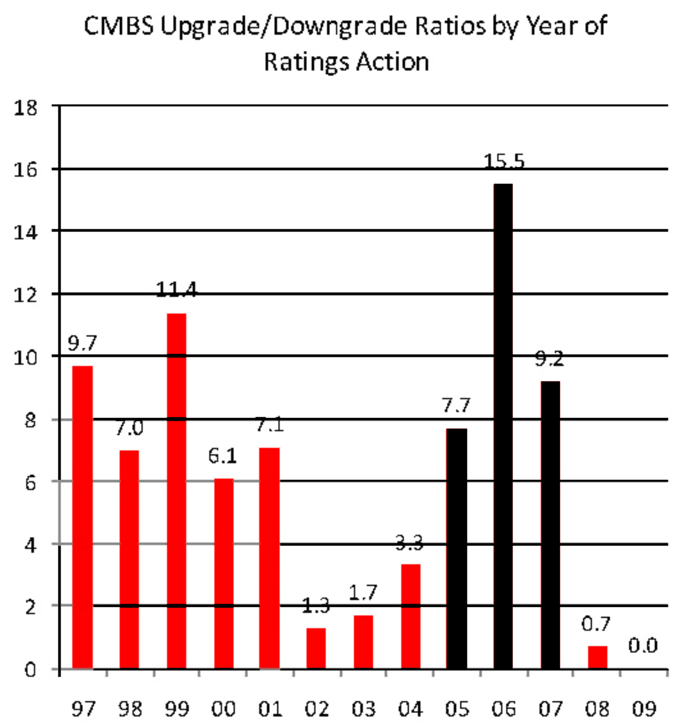
Sources. Intex Solutions, Inc., Various studies conducted by Howard Esaki, Masumi Goldman, Steven L'Heureux, and Mark Snyderman.

Rating Agency CMBS Actions

CMBS Bond Ratings Change Course: Downgrades Lead Upgrades

- **Ten years of historically high upgrade/downgrade ratios**
  - High levels of defeasance
  - Strong pool performance
  - Rising property valuations
  - Amortization

- **As of 2008 inverted upgrade/downgrade ratios going forward**
  - Reduced credit enhancement on more recent CMBS
  - Reduced defeasance
  - Growing volume of watch listed loans
  - Refinance risk on 2005-2007 vintage loans
  - Inability to reach pro-forma cash-flow assumptions
  - Changes to rating agency models



Sources: S&P, Fitch and Moody's

S&P Proposed Changes in Conduit/Fusion CMBS Rating Methodology

- **Property evaluation criteria unchanged**
- **Criteria updates**
  - Established new 'AAA' CE levels to withstand declining commercial-property income
    - CE target of 20% deemed sufficient to allow AAAs to withstand extreme economic downturn without defaulting
  - Refined cap rates for greater specificity and consistency from one pool to another
  - Introduced a standardized method to assess loan and geographic concentrations
  - Employed a forward-looking CRE forecast to determine the expected loss for the transaction
  - Refined surveillance methodology for projected losses
- **S&P's new model projects losses of 20% or more on most '07 conduit/fusion pools;**
  - 25%, 60% and 90% of most senior bonds within the '05, '06 and '07 vintages respectively may be downgraded
  - '00 to '04 CMBS bonds will see downgrades to a lesser degree
- **The change in rating methodology affected the ratings outlooks on 3,563 tranches from 217 transactions**

S&P Downgraded Super Senior Classes in 2009

Class	# of Downgrades
A1-A	77
A1	1
A2	5
A3	22
A4	68
A5	11
AAB	5

Source: Standard and Poors

Moody’s and Fitch: More Gradual Approach Than S&P, Same Ultimate Rating

- Moody’s
  - Expected loss estimate of 5% on average for 2006-2008 conduit and fusion deals
  - “Super-duper Aaa-rated classes for late vintage deals, with 30% credit enhancement and a six times multiple of current expected loss, are unlikely to experience downgrades. “

    June 2009, Sector Comment - Moody’s Structured Finance – Update To February U.S. CMBS Ratings Sweep: Super-Duper Aaa’s Unlikely to Experience Downgrades

- Fitch
  - Completed review of 78, 2006-2008 vintage CMBS transactions ($230.4 billion)
  - Affirmed 80% ($186.1 billion) of the tranches and downgraded 20% ($44.3 billion)
  - “Fitch affirmed all 492 super senior 'AAA' classes in its rated portfolio ($164 billion), along with seven junior 'AAA' classes ($1.1 billion) and 88 mezzanine 'AAA' classes ($17.6 billion).”

    16 Oct 2009 , Fitch Completes Analysis on 2006-2008 Fixed Rate U.S. CMBS

CMBS Master Servicers Face Downgrade Risk

Details on Largest Master Servicers

	Fitch		S&P	
Master Servicer	Curr. Rating	MR Action	Curr. Rating	MR Action
Berkadia Comm. Mort. LLC	CMS2+	Affirmed 11/12/09	Strong	Affirmed 12/11/2009
Wells Fargo Bank, N.A.	CMS2-	Downgraded 8/12/10	Above Avg.	Downgraded 3/25/2010
Midland Loan Services, Inc.	CMS1	Affirmed 9/22/2009	Strong	Affirmed 4/7/2009
Bank of America Merrill Lynch	CMS2+	Affirmed 11/12/2009	Strong	Affirmed 9/17/2007
KeyBank Real Estate Capital	CMS1	Affirmed 9/18/2009	Strong	Affirmed 2/9/2009
GEMSA Loan Services	CMS1-	Affirmed 12/8/2009	Strong	Affirmed 8/14/2008
Prudential Asset Resources	CMS2	Affirmed 8/19/2010	Above Avg.	Raised 3/08/2010
Bank of New York	CMS3+	Affirmed 6/16/2010	Average	Affirmed 3/5/2010
Pacific Life	CMS2+	Affirmed 7/22/2010	Above Avg.	Affirmed 12/23/2008

Sources. Intex Solutions, Inc., FitchRatings, Moody's Investors Service, Standard & Poor's, Bloomberg *Unlisted

CMBS Special Servicers Face Downgrade Risk

Details on Largest Special Servicers

	Fitch		S&P	
Special Servicer	Curr. Rating	MR Action	Curr. Rating	MR Action
LNR REFSG	CSS2	Affirmed 8/27/2010	Strong	Affirmed 3/16/2010
CWCapital Asset Mgmt., LLC	CSS1-	Downgraded 9/22/2010	Strong	Affirmed 7/22/09
C-III Asset Management LLC	CSS1-	Affirmed 6/22/2010	Strong	Affirmed 12/17/2008
Midland Loan Services, Inc.	CSS1	Affirmed 9/22/2009	Strong	Affirmed 4/7/2009
Berkadia Comm. Mort. LLC	CSS2	Upgraded 11/12/09	Strong	Affirmed 12/11/2009
J.E. Robert Co.	CSS2+	Downgraded 2/18/2010	Strong	Affirmed 5/11/2009
ING Clarion Capital Loan Services	CSS2+	Affirmed 7/31/2008	Above Avg.	Assigned 8/26/2009
KeyBank Real Estate Capital	CSS2+	Affirmed 9/18/2009	Strong	Affirmed 2/9/2009
Bank of America Merrill Lynch	CSS2	Upgraded 11/12/09	Above Avg.	Raised 1/26/2009
Wells Fargo Bank, N.A.	CSS2-	Upgraded 8/12/10	Above Avg.	Affirmed 5/19/2009

Sources. Intex Solutions, Inc., FitchRatings, Moody's Investors Service, Standard & Poor's, Bloomberg

The Commercial Real Estate Space Markets

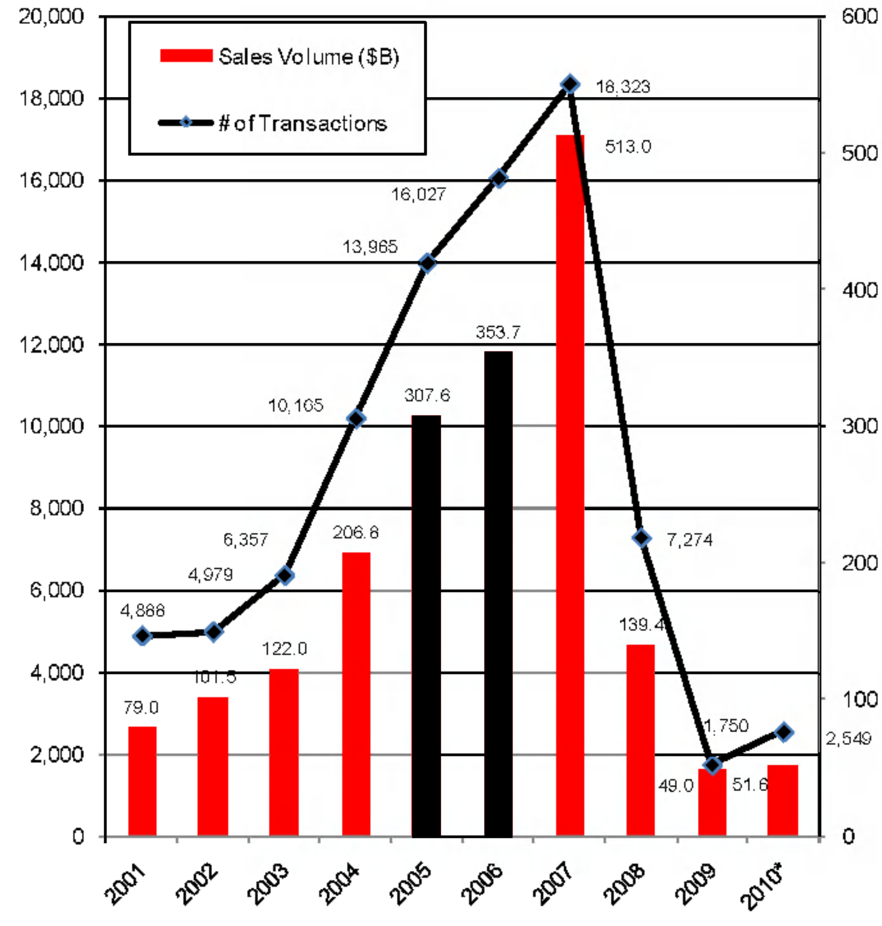
Constrained Capital and Uncertain Valuations Slash CRE Transactions

- **Commercial-property transactions down sharply**
  - -73% in 2008
  - -74% in 2009 (dollar volume)
  - Reduced credit availability
  - Deteriorating fundamentals

- **2004-2007: Surge in property transactions**

- **2007: Peak in transaction volume,**
  - $513 billion in volume via 7,274 transactions
  - Driven by public to private mega deals
  - 2007 CRE investors now underwater

CRE Transaction Volume (All Asset Types)



Sources: Jefferies and RCA * as of 08/10

'05-'07 Public-to-Private M&A Activity Suggests Key Borrowers Underwater

- **Massive shift in CRE from public to private hands at the 'top of the market' in valuations**
  - 2005: $14.8 billion through 9 transactions
  - 2006: $136.1 billion through 41 transactions
  - 2007: $138.7 billion through 27 transactions

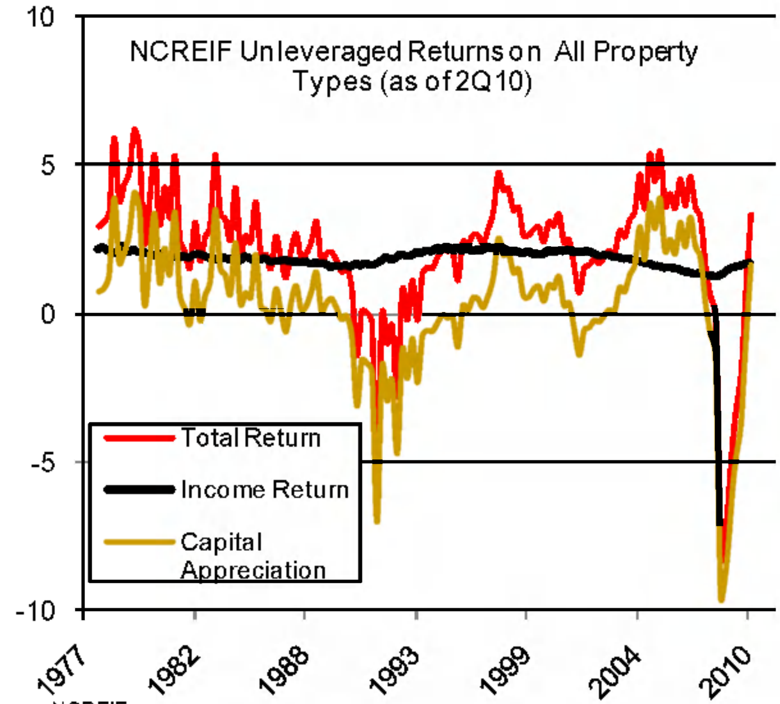
M&A Activities 2005-2007

Acquirer	Target	Acquirer Type	Total Value ($B)
2005			
ING Clarion	Gables Residential Trust	Private Equity Joint Venture	4.90
Prologis	Catellus Development Corp.	Public REIT	3.82
DRA Advisors	Capital Automotive REIT	Investment Advisor	1.80
The Lightstone Group	Prime Group Realty Trust	Private Real Estate Company	1.50
Camden Property Trust	Summit Property Group	Public REIT	1.10
2006			
Blackstone Group	Equity Office Properties Trust	Private Equity	39.00
Fertitta Colony Partners	Station Casinos	Private Equity	8.80
Blackstone Group, Brookfield Prop. Co.	Trizec Properties, Inc.	JV-Private Equity & REOC	6.50
Developers Diversified Realty Corp.	Inland Retail Real Estate Trust Inc.	JV-Private REIT	6.20
SL Green Realty Corp.	Reckson Associates Realty Corp.	Public REIT	6.00
2007			
Apollo Management, TPG Inc.	Harrah's Entertainment	Private Equity	28.00
Blackstone Group	Hilton Hotels Corp.	Private Equity	26.00
Tishman Speyer, Lehman Brothers	Archstone-Smith	Private C0/Brokerage	22.00
SPG, Farallon	Mills Corp.	Public REIT	7.90
Morgan Stanley Real Estate	CNL Hotel & Resort	Private Equity	6.70

Source: Jefferies

NCREIF Unleveraged CRE Equity Returns for all Property Types

- **Annual returns peaked in 2005**
  - Total Return: 18.72%
  - Income Return: 6.59%
  - Capital Appreciation: 12.13%

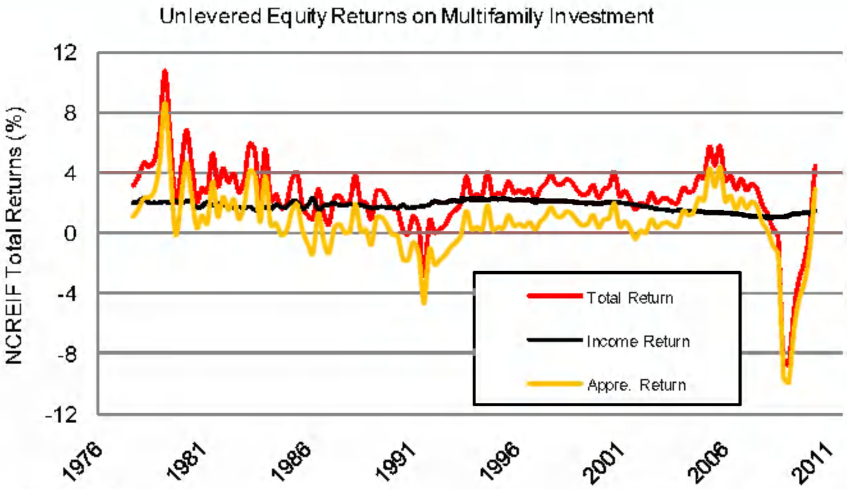


Source: NCREIF

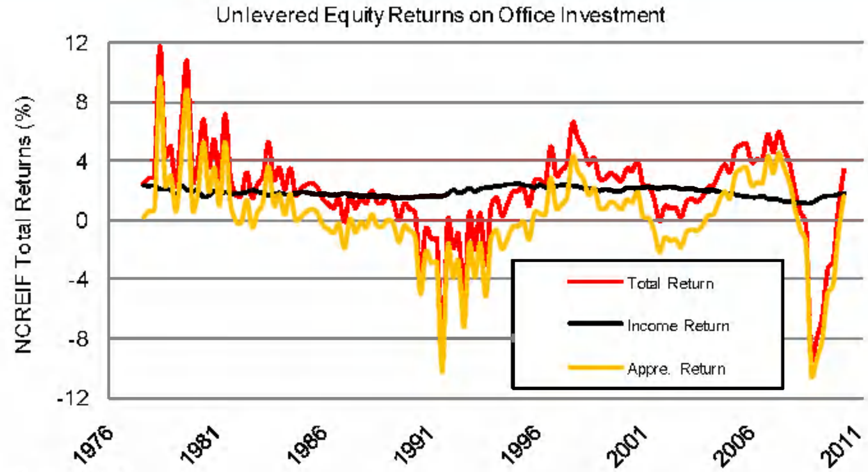
- **2009 annualized total returns are down 213% from the peak**
  - Total Return: -21.12%
  - Income Return: 5.91%
  - Capital Appreciation: -27.03%

(as of 4Q09)

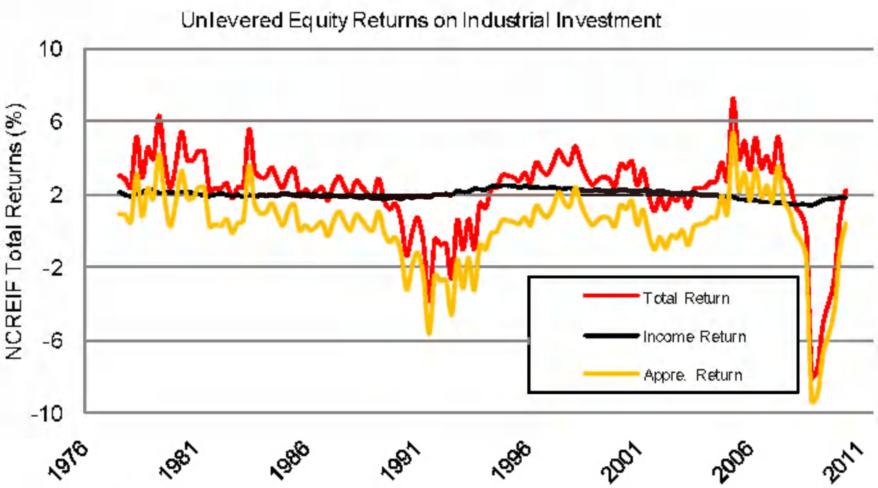
NCREIF Unleveraged Returns by Property Type as of 2Q10



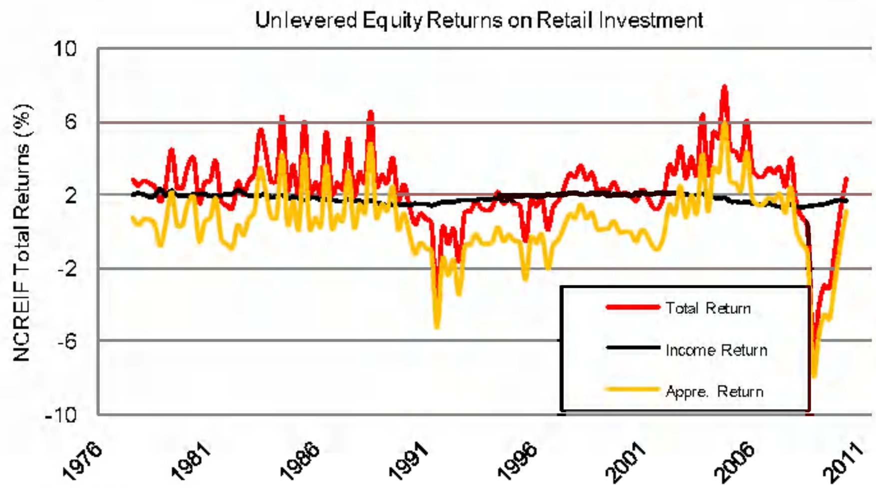
Source: NCREIF



Source: NCREIF

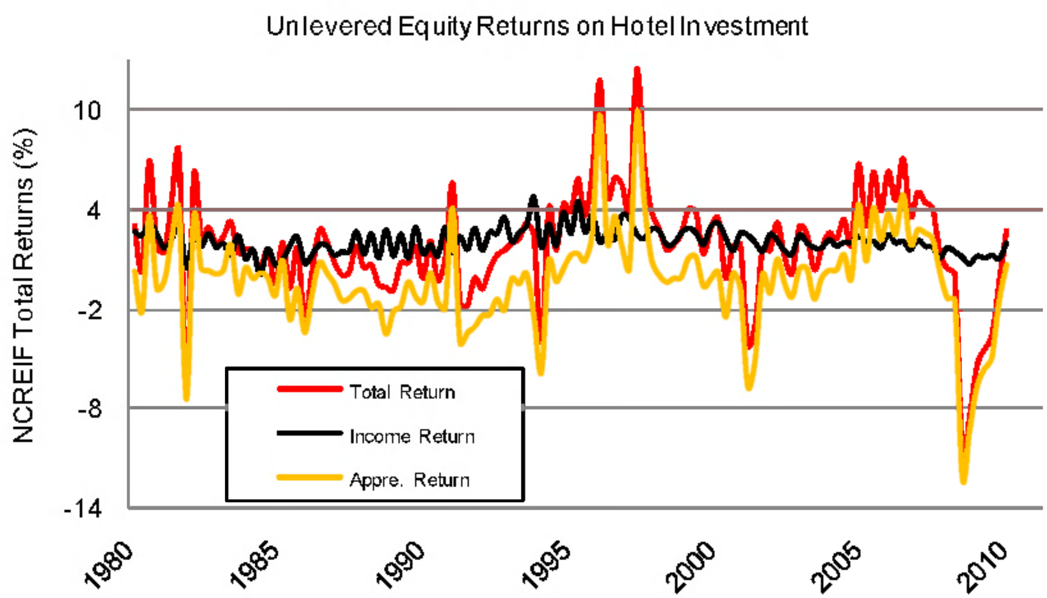


Source: NCREIF



Source: NCREIF

NCREIF Unleveraged Returns by Property Type as of 2Q10



Source. NCREIF

Office Property Market Statistics

National Office Market Fundamentals

Year	NRA (SFx1000)	Completions (SFx1000)	Vac. Rate (%)	Net Absorption (SFx1000)	Gross Asking Rent ($/SF)	Net Asking Rent ($/SF)	NCREIF TRR (%)	Cap. Rate (%)	CMBS Del. Rate (%)
2000	3,049,909	91,106	8.60	111,011	24.10	17.84	13.42	8.30	0.35
2001	3,137,792	87,883	14.20	-96,294	24.91	18.18	6.08	8.76	0.51
2002	3,210,048	72,256	16.50	-12,831	23.15	16.78	2.76	8.79	0.78
2003	3,251,520	41,472	16.80	25,013	22.19	16.00	5.56	8.22	1.79
2004	3,284,034	32,514	15.40	72,948	22.03	16.13	11.52	7.45	1.42
2005	3,321,602	37,568	13.60	89,871	22.41	16.38	18.19	6.49	0.92
2006	3,375,705	54,103	12.60	82,401	23.79	17.54	17.93	5.99	0.42
2007	3,442,669	66,964	12.50	58,371	26.33	19.01	20.39	5.19	0.23
2008	3,521,876	79,207	14.00	19,422	25.79	19.61	-7.09	5.01	0.79
2009	3,572,692	50,816	16.30	-41,113	23.97	18.87	-20.55	6.74	3.88
2010*	3,574,186	13,656	16.70	-496	23.80	18.39	3.37	7.01	6.38

Source: CBRE Econometric Advisors *As of 2Q10

Retail Property Market Statistics

National Retail Market Fundamentals

Year	Shopping Center Supply Stock (SFx1000)	Shopping Center Supply Completions (SFx1000)	Avail. Rate (%)	Net Absorption (SFx1000)	Gross Asking Rent ($/SF)	Net Asking Rent ($/SF)	NCREIF Total Return (%)	Cap. Rate (%)	CMBS Del. (%)
2000	1,431,017	40,351	6.88	50,996	na	na	7.55	8.39	0.63
2001	1,463,693	32,678	8.20	11,040	na	na	6.58	8.72	1.39
2002	1,486,964	23,276	8.45	17,621	na	na	13.10	8.59	1.70
2003	1,506,459	19,500	8.37	19,047	na	na	16.18	8.12	1.72
2004	1,527,806	21,358	7.96	25,889	13.14	13.13	21.26	7.28	0.99
2005	1,554,063	26,263	7.65	28,983	13.62	14.59	18.65	6.46	0.54
2006	1,581,756	27,705	7.83	22,683	14.55	15.93	12.73	6.09	0.25
2007	1,613,084	31,326	8.79	13,387	16.75	16.60	12.88	5.69	0.25
2008	1,640,295	27,218	10.64	-5,410	16.75	17.23	-3.98	5.85	1.38
2009	1,653,293	13,003	12.50	-19,181	15.67	16.57	-11.40	6.73	5.17
2010*	1,644,010	2,130	13.10	-3,449	14.39	16.25	2.81	6.73	6.59

Source: CBRE Econometric Advisors *As of 2Q10

Multifamily Property Market Statistics

National Multifamily Market Fundamentals

Year	Inventory (Units)	Completions (Units)	Net Absorption (Units)	Avg. Vac. Rate (%)	Avg. Rent per Unit ($)	Avg. Rent per SF ($)	Avg. Rev. per Unit ($)	NCREIF TRR (%)	NCREIF Implied Cap. Rate (%)	CMBS Del. Rate (%)
2000	12,472,270	221,707	237,936	4.30	1,342.98	0.92	1,286.71	12.41	8.15	0.51
2001	12,670,882	198,612	-514	4.60	1,248.48	0.96	1,183.68	9.06	7.97	0.83
2002	12,865,371	194,489	26,001	5.70	1,234.54	0.96	1,155.53	8.49	7.02	1.14
2003	13,043,674	178,303	136,912	6.40	1,235.27	0.94	1,152.26	2.25	6.19	2.03
2004	13,211,419	167,745	229,306	6.00	1,309.89	0.97	1,231.17	12.45	5.85	2.45
2005	13,369,252	157,833	302,424	5.10	1,364.58	1.01	1,296.35	19.67	5.32	2.09
2006	13,526,464	157,212	158,106	4.70	1,412.52	1.03	1,339.21	13.90	5.13	1.10
2007	13,694,167	167,703	151,921	5.20	1,460.97	1.08	1,383.83	10.91	4.57	1.52
2008	13,882,566	188,399	-117,310	6.30	1,449.29	1.09	1,349.72	-7.19	4.55	3.31
2009	14,072,320	189,754	108,247	7.40	1,358.63	1.04	1,256.73	-18.65	5.60	9.04
2010*	14,232,744	56,142	224,188	6.30	1,350.10	1.05	1,264.77	4.44	5.82	13.46

Source: CBRE Econometric Advisors *As of 2Q10

Industrial Property Market Statistics

National Industrial Market Fundamentals

Year	Stock (SFx1000)	Completions (SFx1000)	Avail. Rate (%)	Net Absorption (SFx1000)	Gross Asking Rent ($/SF)	Net Asking Rent ($/SF)	NCREIF TRR (%)	Cap. Rate (%)	CMBS Del. (%)
2000	11,616,090	254,549	6.70	310,670	5.65	6.03	13.35	8.82	0.53
2001	11,872,867	256,777	10.00	-141,131	5.75	6.25	9.00	8.77	1.28
2002	12,030,986	158,119	11.20	-11,556	5.67	6.00	6.54	8.59	1.97
2003	12,140,084	109,098	11.70	39,312	5.76	5.76	7.99	8.21	2.48
2004	12,286,778	146,694	11.10	205,240	5.67	5.70	11.56	7.62	2.23
2005	12,448,291	161,513	9.80	304,171	6.47	6.12	18.97	6.92	1.81
2006	12,642,861	194,570	9.50	210,769	6.24	6.21	15.99	6.34	1.02
2007	12,820,864	178,003	9.50	165,878	6.98	6.49	14.19	5.99	0.44
2008	13,008,283	187,419	11.40	-78,657	7.10	6.25	-5.59	5.97	1.10
2009	13,084,689	76,406	13.90	-258,994	6.52	5.68	-19.12	7.25	4.50
2010*	13,218,732	10,116	14.10	-24,427	6.16	5.49	2.22	7.15	6.06

Source: CBRE Econometric Advisors *As of 2Q10

Hotel Property Market Statistics

National Hotel Market Fundamentals

Year	Supply (Rooms)	Demand (Rooms)	Occ. Rate (%)	ADR ($/Rm)	RevPAR ($/Rm)	NCREIF TRR (%)	Cap. Rate (%)	CMBS Del. (%)
2000	1,842,251	1,264,591	68.64	100.40	68.92	10.39	10.75	1.73
2001	1,898,561	1,197,499	63.07	98.06	61.85	8.66	7.06	6.59
2002	1,938,501	1,192,665	61.53	95.08	58.50	7.70	7.23	8.10
2003	1,962,555	1,210,573	61.68	94.12	58.05	7.63	9.15	6.97
2004	1,973,145	1,281,841	64.96	98.19	63.79	7.82	7.30	4.23
2005	1,960,387	1,324,338	67.55	105.86	71.52	8.61	6.97	2.53
2006	1,956,862	1,324,653	67.69	115.57	78.23	8.38	7.56	0.87
2007	1,977,974	1,330,826	67.28	123.87	83.34	16.99	7.67	0.31
2008	2,023,873	1,306,792	64.57	127.12	82.08	-9.16	6.02	0.88
2009	2,089,017	1,228,970	58.83	113.32	66.67	-22.11	4.82	10.96
2010	2,112,097	1,283,770	60.80	111.93	68.03	2.70	7.90	14.84

Source: CBRE Econometric Advisors *As of 2Q10

Relative Value in Cash and Synthetic CMBS

Current CMBS Snapshot

Commercial / Multifamily Real Estate Related Spreads

Price / Spreads to Swaps/LIBOR (BPs)

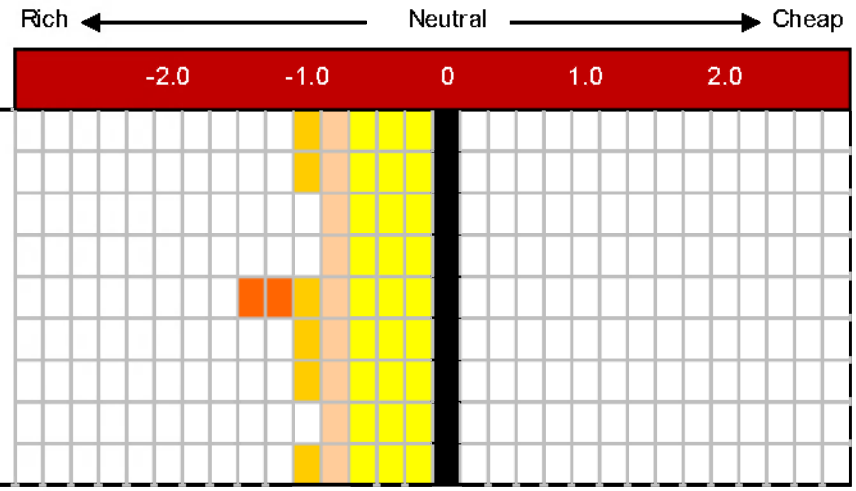
	9/24/10	YE09	9/30/09	6/30/09	3/31/09	YE08	'09 Tights	'09 Wides	'09 Avg. Sprd.	'08 Avg. Sprd.
Fixed-Rate CMBS										
AAA 3Y SS	180	275	230	285	475	800	175	775	347	331
AAA 5Y SS	245	330	400	600	1,050	1,250	330	1,350	683	427
AAA 7Y SS	265	400	460	700	1,100	1,350	400	1,400	752	448
AAA A-AB	210	370	380	475	825	1,025	310	1,200	593	376
AAA 10Y SS	290	425	440	575	875	885	360	1,125	628	353
AAA 10Y Mezz	600	1,050	1,050	1,300	2,200	1,700	950	2,300	1,410	567
AAA 10Y Jr.	1,050	1,350	1,600	1,900	3,500	2,700	1,300	3,600	2,142	848
AA	2,900	2,750	2,700	3,400	4,550	4,200	2,450	4,800	3,460	1,195
A	4,000	4,050	4,200	4,600	5,800	4,400	3,700	6,000	4,628	1,412
BBB	6,500	6,450	5,900	6,200	11,000	6,500	5,250	11,000	7,239	2,130
BBB-	10,200	7,000	7,600	8,500	11,000	8,500	6,350	12,000	8,706	2,505
Fixed-Rate AAA CMBS Relationships										
SS Vs. Mezz.	310	1,050	1,600	725	1,300	1,815	-	-	-	213
Mezz. Vs. Junior	450	1,350	610	600	2,625	815	-	-	-	282
SS Vs. Junior	760	625	550	1,325	1,325	1,000	-	-	-	495
Agency-Related Commercial/Multifamily Securities										
FNMA DUS 10/9.5	73	68	75	90	165	280	50	280	97	138
FNMA DUS 7/6.5	62	55	60	78	155	270	40	270	86	125
GNMA Proj. 3.5	65	75	82	100	140	190	65	225	92	114
GNMA Proj. 7.5	80	80	93	125	165	195	80	250	111	122
GNMA Proj. 10.5	95	90	108	135	175	200	90	275	123	130

Source: Jefferies & Co. Note: YE09 figures are as of 12/24/09

CMBS Relative Value Analysis

CMBS One-Year Historical Relative Value Analysis: Five-Year Heat Map

CMBS SS AAA 5Y Avg. Life vs:	Spread Pick-Up/Give-Up (BPs) Curr.	Min.	Max.	Avg.	Z-score
FNMA DUS 7/6.5	183	180	319	213	-0.94
GNMA Project Loan 3.5Y	180	180	295	203	-0.95
Auto 3Y	225	215	330	244	-0.80
Credit Cards 5Y	210	205	300	227	-0.88
FNMA 15Y CC PT	240	240	391	287	-1.41
Swap 5Y	221	220	337	246	-1.03
Industrial A 5Y	156	155	277	186	-1.09
Financial A 5Y	38	28	169	71	-0.84
REITs	46	38	183	88	-1.00

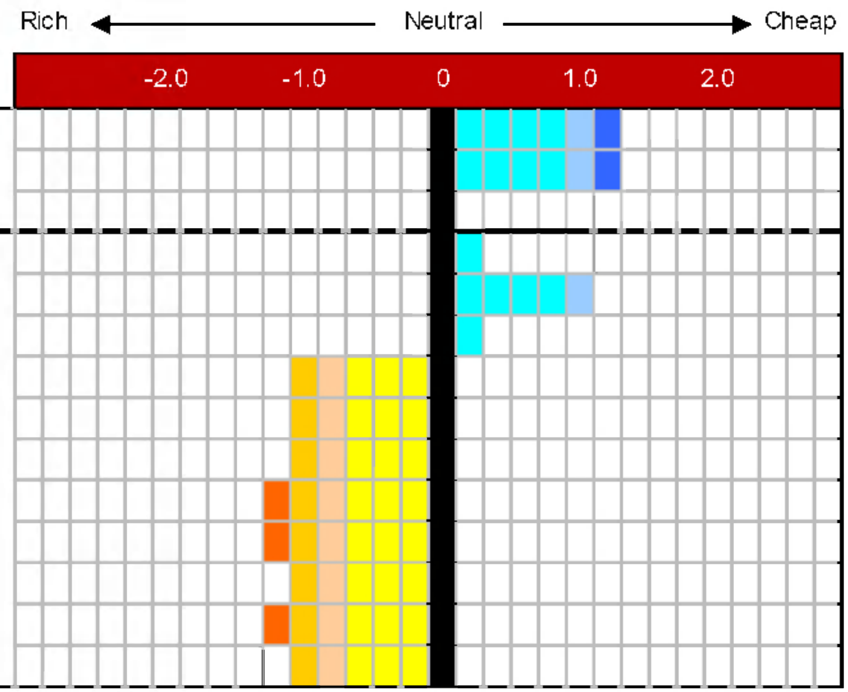


Source: Jefferies. (as of 09/24/10)

CMBS Relative Value Analysis

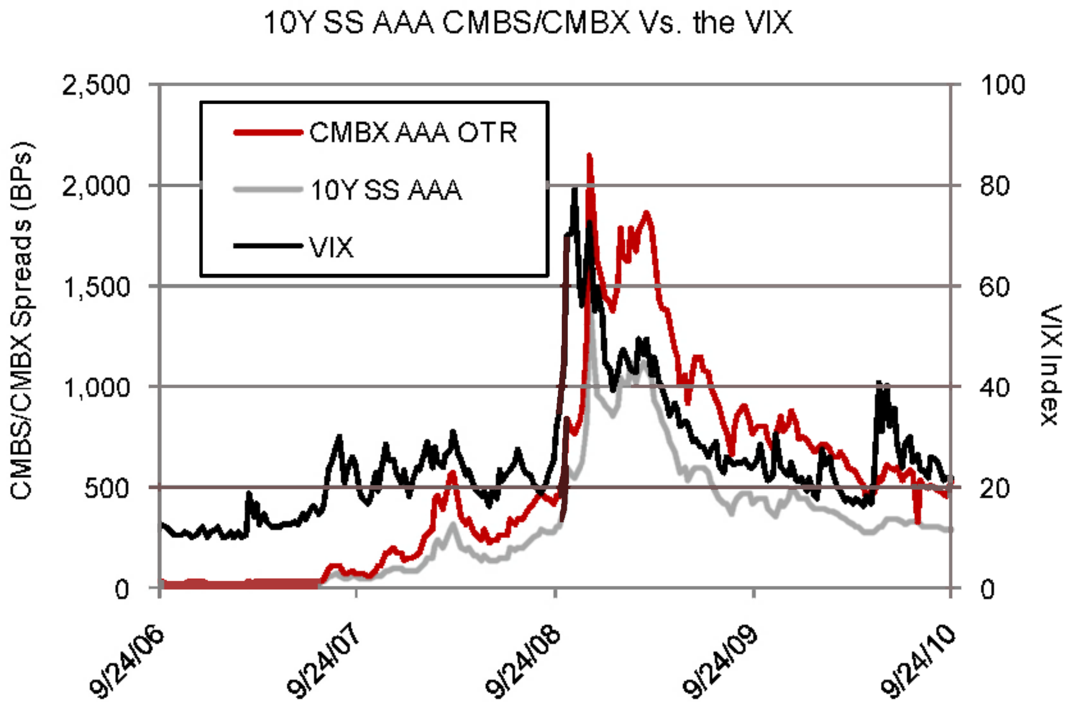
CMBS One-Year Historical Relative-Value Analysis: Ten-Year Heat Map

	Spread Pick-up/Give-up (BPs)				
CMBS SS AAA 10Y Avg. Life vs:	Current	Min.	Max.	Avg.	Z-score
CMBS AM	(310)	(650)	(215)	(443)	1.22
CMBS AJ	(760)	(1,240)	(675)	(912)	1.22
CMBS AA	(2,610)	(2,890)	(2,025)	(2,595)	-0.07
CMBS A	(3,710)	(4,310)	(3,275)	(3,777)	0.27
CMBS BBB	(6,210)	(8,380)	(4,825)	(6,854)	0.94
CMBS BBB-	(9,910)	(11,605)	(5,975)	(10,335)	0.23
FNMA DUS 10/9.5	217	215	405	269	-1.08
GNMA Project Loan 7.5Y	210	195	385	256	-1.03
GNMA Project Loan 10.5Y	195	185	380	246	-1.08
FNMA 30Y CC PT	210	202	412	272	-1.22
Swap 10Y	287	275	461	334	-1.12
Credit Cards 10Y	240	225	385	280	-1.05
Industrial A 10Y	185	185	360	234	-1.12
Financial A 10Y	47	41	234	100	-0.97



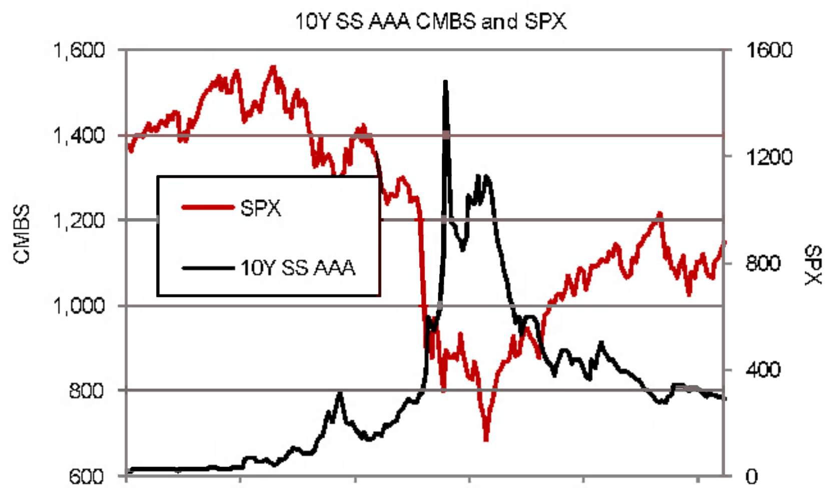
Source: Jefferies. (as of 09/24/10)

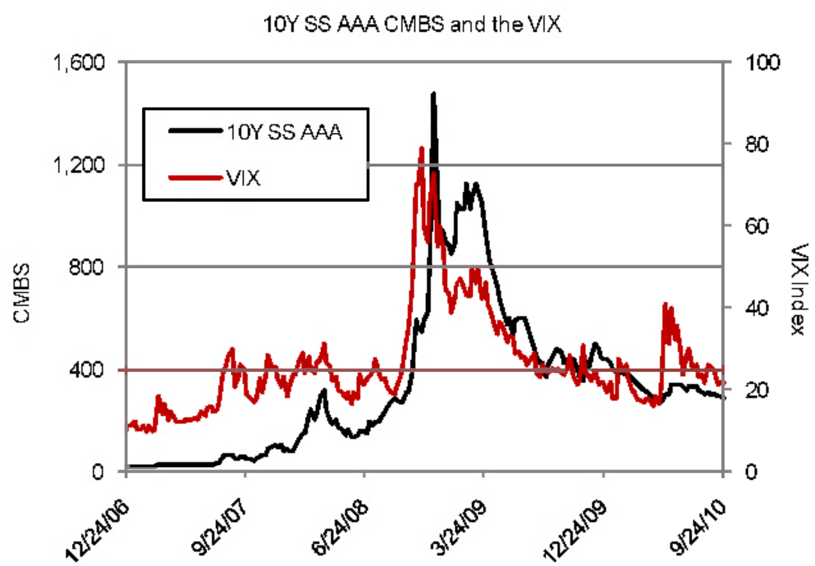
CMBS Cash and CMBX Spreads Remains Highly Correlated with Equity Volatility



Sources. Bloomberg, Markit Inc., Jefferies & Co.

CMBS Cash versus Equity Index & Equity Volatility Index





Sources. Bloomberg, Jefferies & Co.

Handicapping the CMBX Indices

- **Credit Quality/Credit Enhancement Varies by Series**
  - CMBX.1: 2nd Highest credit enhancement & less aggressive underwriting
  - CMBX.2 and CMBX.3: Historically low credit enhancement and most aggressive underwriting
  - CMBX.4: Improving credit enhancement, but aggressive underwriting
  - CMBX.5: Rating Agencies 'Find Some' religion
    - Highest CE
    - More scrutiny on assets
    - Still aggressive UW

CMBX Summary Statistics by Series

Series	Avg. Deal Size ($B)	Total Series Size ($B)	# of Loans	Avg. Loan Size ($MM)	Largest Loan (%)	UW LTV (%)	Stress * LTV (%)	UW DSCR	Stress* DSCR	IG Loan (%)	Prai-Passu (%)	B Note (%)	Sub Debt (%)	IO Initial (%)	IO Term (%)	Mdy's Prop. Score	CE (%) AJ	CE (%) BBB-	Delinq Rate** (%)	Watch-listed Loans (%)
CMBX.5	2.09	52.27	3,542	15.2	11.1	67.6	109.0	1.36	1.24	5.6	15.5	8.6	52.4	41.3	41.7	1.8	12.70	3.68	1.56	14.88
CMBX.4	3.34	83.6	5,240	17.4	10	70.1	114.9	1.37	1.28	4.8	13.5	9.5	55.7	30.8	56.0	1.6	12.32	3.36	3.13	13.28
CMBX.3	3.4	85.03	5,293	16.2	8.9	68.3	104.3	1.45	1.4	11.0	8.9	5.2	45.4	31.2	50.3	1.7	11.42	2.77	3.00	22.03
CMBX.2	2.47	61.82	4,513	14.6	9.7	68.6	101.2	1.43	1.33	9.4	7.2	0.0	43.1	49.9	24.1	1.8	12.22	3.16	3.15	22.26
CMBX.1	2.52	63.11	4,517	14.6	8.8	68.2	98.3	1.57	1.56	14.5	6.6	7.3	44.8	43.1	23.8	1.8	12.50	3.32	2.93	20.42

Source: Fitch, S&P, Moody's, *Commercial Real Estate Direct*. *Stressed Rating Agency LTV and DSCR.

CMBX Historical Pricing

CMBX Price Level & Statistics

	Fixed Rate	9/24/10	9/17/10	12/31/09	12/31/08
CMBX.NA.AAA.5	35	92.61	92.25	84.18	68.40
CMBX.NA.AM.5	50	84.13	83.29	-	-
CMBX.NA.AJ.5	98	65.05	63.32	56.23	37.15
CMBX.NA.AA.5	175	42.25	40.64	34.04	30.43
CMBX.NA.A.5	350	33.32	31.41	27.35	29.08
CMBX.NA.BBB.5	500	19.18	18.96	18.10	22.89
CMBX.NA.BBB-.5	500	18.41	18.05	16.39	21.47
CMBX.NA.BB.5	500	5.00	5.00	5.00	16.78
CMBX.NA.AAA.4	35	92.34	91.88	82.96	69.92
CMBX.NA.AM.4	50	82.59	81.61	-	-
CMBX.NA.AJ.4	96	61.00	59.43	51.23	37.96
CMBX.NA.AA.4	165	39.07	37.57	30.96	32.08
CMBX.NA.A.4	348	32.79	30.95	23.66	31.68
CMBX.NA.BBB.4	500	19.46	19.07	17.17	24.05
CMBX.NA.BBB-.4	500	18.86	18.43	16.07	21.97
CMBX.NA.BB.4	500	5.00	5.00	5.00	16.99
CMBX.NA.AAA.3	8	93.14	92.95	84.54	70.19
CMBX.NA.AM.3	50	85.36	84.82	-	-
CMBX.NA.AJ.3	147	66.88	64.07	55.09	42.41
CMBX.NA.AA.3	27	37.89	36.43	33.16	28.09
CMBX.NA.A.3	62	29.27	26.75	24.75	25.79
CMBX.NA.BBB.3	200	17.32	16.95	15.78	20.21
CMBX.NA.BBB-.3	320	15.32	15.00	14.38	21.42
CMBX.NA.BB.3	500	5.00	5.00	5.00	17.65

CMBX Price Level & Statistics

	Fixed Rate	9/24/10	9/17/10	12/31/09	12/31/08
CMBX.NA.AAA.2	7	94.29	94.20	88.89	79.82
CMBX.NA.AM.2	50	89.09	89.03	-	-
CMBX.NA.AJ.2	109	81.32	79.05	64.11	56.98
CMBX.NA.AA.2	15	59.25	58.00	41.12	43.77
CMBX.NA.A.2	25	47.55	46.64	32.78	40.51
CMBX.NA.BBB.2	60	23.04	21.64	19.82	31.32
CMBX.NA.BBB-.2	87	18.02	17.34	15.95	29.33
CMBX.NA.BB.2	180	5.00	5.00	5.00	12.53
CMBX.NA.AAA.1	10	96.24	96.11	92.50	85.92
CMBX.NA.AM.1	50	93.01	92.94	-	-
CMBX.NA.AJ.1	84	87.73	87.79	75.75	65.52
CMBX.NA.AA.1	25	75.57	73.75	56.38	51.45
CMBX.NA.A.1	35	59.73	57.57	46.19	45.66
CMBX.NA.BBB.1	76	34.86	35.23	30.20	39.89
CMBX.NA.BBB-.1	134	24.86	23.84	25.18	35.56

Sources: Markit Inc.

Markit TRX.NA Index

- **Markit launched Commercial Mortgage Total Return Swap Index on Sep. 10, 2009**
- **Designed to provide investors an opportunity to gain exposure to CMBS through TRS contracts**
  - Investors can replicate short or long positions on cash bonds independent of credit & prepayment risk
  - Attractive for Asset Managers, Hedge Funds, Prop Trading, Research & Strategy, Commercial Loan Originators, Correlation Trading Desks, Corporate Treasury Desks
- **TRX.NA index series is based on a standardized basket of 118 CMBS reference obligations underlying the CMBX.NA.AAA index series.**
- **12 contributors to the daily pricing process**

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