

Note Sales by Special Servicers



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Market Activity and Relative Value

The general tone in the CMBS market continues to improve along with that of the overall credit markets. The one conduit deal in the market, the \$1.2 billion JPMCC 2008-C2, priced yesterday and exemplifies the areas of renewed interest.

We continue to see the shorter paper outperform. However, we still see value in parts of the shorter average life triple-A curve. Below triple-As there is still hardly any trading on the cash side. The bid offer spread remains relatively wide and accounts remain reluctant to trade.

We continue to see some opportunities for paired trades within the CMBX market as well. We still feel that generally CMBX 06-1 offers cheap protection (is trading too tight) and CMBX 06-2 is too narrow compared to CMBX 07-1.

Note Sales by Special Servicers

We believe there are two main reasons why discussing loan sales coming directly out of CMBS trusts (often referred to as a "Note Sale" by the servicers) is timely. First of all, the resolution of a troubled CMBS loans via a note sale has become an increasingly popular workout strategy. Secondly, there are currently two independent portfolios marketed by Mission Capital for the note sale by the special servicers directly out of CMBS trusts with the combined balance exceeding \$220 million.

The relatively low loss severity, compared to other loan resolution techniques, is the main advantage of using a note sale strategy in the disposition of distressed assets from a CMBS pool.

Table 1: CMBS Spreads for Week Ending 4/25/08

	4/25/2008	4/18/2008	CHG	6 MO AVG	6 MO LOW	6 MO HI
5 YR AAA (tight win)	288.5 (S+210.0)	306.5 (S+220.0)	-18.0 (-10.0)	297.4 (S+214.9)	149.0 (S+78.0)	468.8 (S+375.0)
7 YR AAA	323.8 (S+245.0)	340.5 (S+255.0)	-16.8 (-10.0)	319.2 (S+236.0)	153.3 (S+80.0)	519.8 (S+425.0)
7 YR AAA SB	283.8 (S+205.0)	300.5 (S+215.0)	-16.8 (-10.0)	288.8 (S+205.6)	144.3 (S+71.0)	494.8 (S+400.0)
10 YR AAA (30% SS)	229.3 (S+165.0)	231.5 (S+165.0)	-2.2 (0.0)	225.9 (S+157.9)	136.8 (S+69.0)	387.0 (S+305.0)
10 YR AAA (AM)	334.3 (S+270.0)	336.5 (S+270.0)	-2.2 (0.0)	313.6 (S+245.6)	153.8 (S+85.0)	546.5 (S+475.0)
10 YR AAA (AJ)	519.3 (S+455.0)	541.5 (S+475.0)	-22.2 (-20.0)	456.6 (S+388.6)	185.8 (S+118.0)	852.0 (S+775.0)
10 YR AA	614.3 (S+550.0)	616.5 (S+550.0)	-2.2 (0.0)	558.3 (S+490.2)	222.8 (S+155.0)	1,067 (S+995.0)
10 YR A	889.3 (S+825.0)	891.5 (S+825.0)	-2.2 (0.0)	784.6 (S+716.5)	327.8 (S+260.0)	1,372 (S+1,300)
10 YR BBB	1,414 (S+1,350)	1,416 (S+1,350)	-2.2 (0.0)	1,340 (S+1,272)	667.8 (S+600.0)	2,172 (S+2,100)
CMBX 07-1 BBB	- 1,129.9	- 1,152.5	- -22.6	- 890.4	- 315.8	- 1,982.5
10 YR BBB-Minus	1,889 (S+1,825)	1,916 (S+1,850)	-27.2 (-25.0)	1,630 (S+1,562)	787.8 (S+720.0)	2,472 (S+2,400)
CMBX 07-1 BBB-	- 1,632.5	- 1,650.0	- -17.5	- 1,102.8	- 413.3	- 2,335.4
10 YR BB	2,639	2,667	-27.2	1,871	1,000	2,814
CMBX 07-1 BB	- 2,101.3	- 2,111.7	- -10.4	- 1,441.4	- 690.0	- 2,467.9
5 YR Swap	78.5	86.5	-8.0	82.5	68.5	109.3
10YR Swap	64.3	66.5	-2.2	68.1	60.0	87.0

Source: Merrill Lynch

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Refer to important disclosures on page 9. Analyst Certification on page 8.

Table 2: Spread Relationship for Week Ending 4/25/07

	Current			6-Month Average		Series Average ¹	
	Treasury	Weekly Change	LIBOR	Treasury	LIBOR	Treasury	LIBOR
5-Year							
AAA CMBS	289	-18	210.0	297.4	214.9	100.0	48.5
AAA Cards	209	-8	130.0	166.6	84.1	69.5	10.1
A Industrials	171	-8	92.0	162.3	79.8	86.8	35.2
Agency	59	-8	-19.7	72.5	-10.9	43.7	-13.9
Swaps	79	-8		82.5		59.4	
10-Year							
AAA CMBS	230	-2	166.0	226.9	158.9	106.9	43.0
AAA Cards	229	-12	165.0	182.9	114.9	85.9	21.9
A Industrials	174	-10	111.4	173.0	105.0	103.9	42.8
CC Pass-throughs	229	-19	33.4	243.1	25.5		
Agency	59	1	-2.7	66.1	0.3	56.2	-6.7
Swaps	64	-2		68.1		64.0	
10-Year Relationships							
AAA/AA	384	0		331.3		29.4	
AA/A	275	0		226.3		25.0	
A/BBB	525	0		555.2		78.0	

¹Series data is weekly back to September 1997.

Table 3: Synthetic Market Snapshot

	CMBX.2			CMBX.3		
	4/25	4/18	Chg	4/25	4/18	Chg
AAA	84.6	86.7	-2.1	100.9	104.5	-3.6
AJ	248.3	246.7	1.6	310.7	301.8	8.9
AA	329.6	314.2	15.4	444.0	405.5	38.5
A	447.1	422.5	24.6	573.6	558.3	15.2
BBB	745.7	786.7	-41.0	1,129.9	1,152.5	-22.6
BBB-	1,053.3	1,093.3	-40.0	1,632.5	1,650.0	-17.5
BB	1,983.7	1,992.5	-8.8	2,101.3	2,111.7	-10.4

Source: Merrill Lynch, Markit

Market Activity and Relative Value

The general tone in the CMBS market continues to improve along with that of the overall credit markets. Over the past week the flows have been reasonably good and we have seen buying from a broad base of investor types. The flows have, not surprisingly, remained concentrated in the higher part of the capital structure.

The one conduit deal in the market, the \$1.2 billion JPMCC 2008-C2, priced yesterday and exemplifies the renewed interest. The triple-As appeared to be well received, and some tranches were able to be completed inside of the earlier price talk. The 10-years came at S+167, S+267 and S+395 for the super-seniors, AMs and AJs respectively. The super-seniors came a few basis points inside some earlier price talk and the tranche was, interestingly, split into a fixed and floating rate components. The 5-year, pricing at S+195, also appeared to be in demand coming inside earlier price talk and was reportedly oversubscribed.

The floating rate portion of the above deal is worth noting as there has been very weak demand for this sector. We think there is some value in floating rate bonds at current levels, as this sector (backed by floating rate collateral) has not enjoyed the same tightening as fixed rate bonds. That said, we also believe that the bulk of dealers' whole loans are comprised of unsecuritized floating rate positions, so the pending supply will likely keep this sector cheap for a bit longer.

As a side note, we continue to advocate delaying the launch of the new CMBX index till there are 25 distinct new deals to include, such as this deal that just priced, rather than have significant overlap with CMBX 07-2.

While the back end of the triple-A curve was largely unchanged week-over-week in the cash market, we continue to see the shorter paper outperform. We still see value in parts of the shorter average life triple-A curve. There also remains a strong preference in the market for slightly seasoned paper compared to the 2007 vintage.

We also continue to believe that in triple-A space the cash/synthetic basis remains relatively wide. As we have been discussing, although the funding costs for the cash market have certainly increased, which should exert pressure on the basis, we think buying cash / buying protection at a differential around 60 bp remains a good long term trade.

Below triple-As however there is still hardly any trading on the cash side. The bid offer spread remains relatively wide and accounts are still reluctant to trade. Spreads on the mezzanine tranches have also given up some ground this week, judging by the synthetic market, with the CMBX.3 tranches mostly 10-20 bp wider. It feels like the short covering rally that has dominated spreads has largely played out.

We continue to see some opportunities for paired trades within the CMBX market as well. We still feel that generally CMBX 06-1 offers cheap protection (is trading too tight) and CMBX 06-2 is too narrow compared to CMBX 07-1. For example, it makes no sense to us that the triple-As on CMBX 07-1 and CMBX 07-2 are virtually on top of each other but that CMBX 06-2 triple-As are 15 bp tighter.

One trade we had been recommending was buying protection on (synthetically shortening) CMBX 06-2 single-As versus selling protection (going long credit) on the CMBX 07-1 single-As. As Chart 1 shows, this spread differential has come in a lot and is now hovering at its Q4 2007 levels. Longer term we still like this trade, but believe the differential will be market directional over the near term.

We still like the variation of this trade we recommended last week: buying protection on the CMBX 06-2 As and selling protection on the CMBX 07-1 AAs. We also still like selling protection on 07-2 triple-As and buying 06-1 AJs that we discussed last week as well.

Chart 1: CMBX 07-1 Single-As - 06-2 Single-As



Source: Merrill Lynch, Markit

In Other News...

Centro gets a small extension

Centro, the large retail operator that is facing significant debt refinancing problems, announced earlier this week that it received a one week extension on the \$4.2 billion of debt that was set to expire on April 30th (see [Centro Properties Group, 30 April 2008](#) by our colleague Juan Sanabria). We have been following the Centro story for some time and did a CMBS Exposure report on the company at the end of last year (See [Centro CMBS Exposure, 19 December 2007](#)).

CMBS Downgrade Update

On April 25th, S&P lowered some of the classes of LBUBS 2006-C1, a deal that is in CMBX 06-1. The downgrade impacted only four classes, the highest of which, Class N, had an original rating of double-B minus. As a result none of the constituents in the CMBX index were directly impacted.

We highlighted this deal on our CMBX Rating Watch table last week. The deal only had 0.80% in the 60+-day delinquency bucket and another 0.25% that was performing and specially serviced. Nevertheless, as we have been discussing for some time, we believe the rating agencies are going to be quick to react to any problems that pop up in the 2005 to 2007 vintages. Especially the later two years.

This is the eighth CMBX deal to have a rating action (including the MSC 2006-IQ11 which has only been put on watch) and the second deal from the CMBX 06-1 series. CMBX 06-2 currently leads the count with three deals downgraded and one on watch. CMBX 07-1 deals have experienced two downgrades.

Note Sales by Special Servicers

There has been a substantial increase in activity in the secondary whole loan market over the past year. This involves the sale of actual loans, or pieces of loans, rather than loans in a securitized form. The rise in activity has occurred for several reasons including the virtual shut down of the new issue CMBS market, a small rise in problem loans and the amalgamation of funds looking for high yield opportunities within the commercial real estate sector. We believe we are likely to see note sales used as a popular resolution strategy for loans that are extending at their balloon date, an increasing phenomenon we discussed a few weeks back.

We thought it would be interesting to look at this growing trend in secondary CRE loan market activity as well as the main players. While there is no organized repository of information of such transactions, we have pieced together what we have seen transpire in this market, and discuss its impact on CMBS.

There are four main groups of loan sellers active in the secondary CRE whole loan market: conduit originators, commercial banks, insurance companies, and special servicers. Each of these four groups has its own unique incentive to sell whole loans.

The conduit originators are selling the loans that were initially intended for securitization, but remained unsecuritized due to closure of the new issue CMBS market (mostly floating rate loans) or loans that were excluded from origination due to poor underwriting (fixed rate loans). Commercial banks appear to be selling whole loans mostly due to the balance sheet pressure and in an effort to downsize their CRE holdings and due to concerns about the near term credit performance of the CRE market. Insurance companies often sell whole loans in order to diversify and manage their risk or to limit their portfolio exposure to specific geographic areas, property types and borrowers. (They often simultaneously buy other whole loans in this endeavor.) Finally, special servicers, who currently account for a somewhat smaller portion of the secondary CRE whole loan market, sell loans directly from CMBS trusts as a loss-management strategy, in order to maximize the returns to the respective trusts of problem loans.

The kind of entity, that is selling the whole loan, is often very closely related to the characteristics of the marketed portfolio and can explain the substantial variations in the bids we see from prospective buyers. For example, conduit originators and portfolio lenders are regularly selling performing loans which often trade only at a minimal discount (depending on how much pressure they are under to sell). On the flip side, special servicers are often selling non-performing loans frequently with unresolved credit or bankruptcy issues. These loan sales face substantially deeper discounts.

On the other side of the equation, there are four main groups of CRE whole loan buyers active in the secondary market: hedge funds, opportunity funds, insurance companies, and developers. Commercial banks, that used to be among the active buyers, are now better sellers given the balance sheet considerations.

Loan sale advisors, who act as an intermediary connecting whole loan buyers and sellers, play an important role in this market. There are a number of active advisors in the secondary whole loan market including Eastdil Secured, CB Richard Ellis, Carlton Advisory, Mission Capital, DebtX, etc. It appears that these advisors tend to specialize in certain areas. **For example, Mission Capital seems to be the most active loan sale advisor cooperating with the special**

servicers on the sale of troubled CMBS being sold directly from Trust¹. Such a specialization makes a lot of sense, as every group of sellers (and special servicers in particular) might require a somewhat different set of documents and legal opinions to enable the loan sale under the existing loan documents (and, in the case of CMBS, deal documents).

We believe there are two main reasons why discussing loan sales coming directly out of CMBS trusts (often referred to as a “Note Sale” by the servicers) is timely. First of all, the resolution of a troubled CMBS loans via a note sale has become an increasingly popular workout strategy. Secondly, there are currently two independent portfolios marketed by Mission Capital for the note sale by the special servicers directly out of CMBS trusts with the combined balance exceeding \$220 million. If these two dispositions (discussed in detail below) are closed, the concentration of note sales, as a percentage of the total CMBS loan dispositions will increase substantially in 2008 versus a year ago.

The two loan portfolios currently marketed for sale by Mission Capital are the \$202 million MBS (Michael B. Smuck) Portfolio and a \$20 million portfolio with loans from WBCMT 2003-C7². The MBS Portfolio marketed by Mission consists of 21 loans (out of 65 total CMBS loans associated with Michael B. Smuck), or \$202 million by balance (of \$926 million total outstanding as of March 2008 remittance)³. Thus, the loans listed in the Mission Offering memorandum represent approximately 22% of the entire CMBS Smuck exposure (on a dollar basis and 32% on a loan-count basis) (Table 4).

Table 4: \$202 million Michael B. Smuck Portfolio marketed by Mission Capital via the Note Sale

Loan ID	Deal Name	Loan Name	Units	City	Special Servicer	Balance (3/08)	Status (3/08)
A-1	MLCFC 2006-3	Leeward Apartment Homes	256	Webster	ING Clarion Partners, LLC	14,600,000	90 days dlq
A-2	MLCFC 2006-3	Windward Apartment Homes	274	Webster	ING Clarion Partners, LLC	16,750,000	90 days dlq
B-1	CGCMT 2006-C5	Woodland Hills Village Apartment Homes	260	Humble	LNR Partners, Inc.	10,473,798	90 days dlq
B-2	JPMCC 2006-LDP9	Claridge Apartment Homes	173	Houston	LNR Partners, Inc.	9,459,238	90 days dlq
B-3	CD 2006-CD2	Lodge at Stone Oak Ranch Apartment Homes	434	Austin	LNR Partners, Inc.	33,100,000	90 days dlq
B-4	CGCMT 2006-C5	South Point Apartment Homes	128	DeSoto	LNR Partners, Inc.	4,256,614	90 days dlq
B-5	CSFB 2002-CKP1	The Fox Chase Apartments	260	Grand Prairie	LNR Partners, Inc.	9,689,614	90 days dlq
B-6	JPMCC 2006-LDP9	Chancellor Apartment Homes	224	Houston	LNR Partners, Inc.	8,661,436	90 days dlq
B-7	CGCMT 2006-C5	Forest Cove Apartment Homes	276	Seabrook	LNR Partners, Inc.	14,750,000	90 days dlq
C-1	CSFB 2003-CPN1	Huntwick Apartments	288	Houston	Midland	11,526,345	90 days dlq
C-2	JPMCC 2005-LDP1	The Belvedere Apartments	201	Houston	Midland	8,522,722	90 days dlq
C-3	JPMCC 2005-LDP1	Regents Cove Apartment Homes	272	Fort Worth	Midland	8,486,173	90 days dlq
C-4	JPMCC 2003-PM1A	The Falls Apartment Homes	256	Fort Worth	Midland	8,410,163	90 days dlq
C-5	JPMCC 2003-PM1A	Cranbrook Forest Apartment Homes	261	Houston	Midland	7,752,370	90 days dlq
C-6	JPMCC 2005-LDP1	Timbers of Pine Hollow Apartment Homes	228	Conroe	Midland	7,169,922	90 days dlq
C-7	JPMCC 2004-PNC1	Villages of Loch Katrine II	216	Houston	Midland	6,917,643	90 days dlq
C-8	JPMCC 2005-LDP1	Pine Forest Apartment Homes	161	Houston	Midland	6,719,496	90 days dlq
C-9	JPMCC 2003-PM1A	The Hills Apartment Homes	264	Fort Worth	Midland	6,314,540	90 days dlq
C-10	CSFB 2003-CPN1	Willow Tree Apartments	100	Baytown	Midland	2,923,440	90 days dlq
C-11	CSFB 2003-CPN1	Hunt Gardens Apartments	100	Baytown	Midland	3,040,378	90 days dlq
C-12	PNCMA 2001-C1	The Village of Loch Katrine I	60	Houston	Midland	1,862,370	90 days dlq
Total			4,692			201,386,262	

Source: Merrill Lynch, Trepp, Intex, Mission Capital Advisors Offering Memorandum. All properties are located in TX. The two loans in MLCFC 2006-3 were listed as located in Clear Lake, TX, by Mission Capital and as located in Webster, TX by Trepp. We believe these are, nevertheless, the same loans. For the offering Memorandum see [http://www.missioncap.com/pdfs/current_transactions/\\$202mm%20Commercial%20Loan%20Sale_Offering%20Memorandum.pdf](http://www.missioncap.com/pdfs/current_transactions/$202mm%20Commercial%20Loan%20Sale_Offering%20Memorandum.pdf)

¹ By our count, it appears that Mission Capital Advisors has executed, or is currently engaged in approximately \$1.5 billion worth of note sales directly from CMBS Trusts.

² The exact seller and property names were not identified in Mission Capital Advisors website. However, we were able to identify the associated CMBS loans by matching the basic property characteristics to specially serviced loans. Although we made every effort to ensure the accuracy of our search, we cannot guarantee that these are the exact same properties offered by the Mission Capital Advisors. The same is true for all note sale examples used in this write-up.

³ For the complete list of MBS properties in CMBS please refer to our publication dated November 9, 2007.

All of the loans marketed by Mission Capital as part of MBS Portfolio are over 90 days delinquent. They are currently securitized in 10 separate CMBS securitizations and specially serviced by three different servicers (ING Clarion, LNR Partners, and Midland). Based on the Mission Capital Offering Memorandum, it appears that the loans marketed for sale were organized in three groups (A, B, and C) and grouped by the responsible Special Servicer (see Loan ID column in Table 4). The loans A-1 and A-2 are expected to be sold together as they are backed by neighboring properties securitized in the same CMBS transaction (MLCFC 2006-3). The other 19 loans could be sold separately or in combination.

In addition to these notes currently being marketed, Mission Capital Advisors has already completed the note sale of two Smuck-related loans, that were reported as liquidated in April set of remittance reports: The Bayberrytree Apartments (JPMCC 2001-C1) and Inwood Oaks Apartments (LBUBS 2000-C4).

The second CMBS portfolio currently being marketed by Mission Capital Advisors for sale are \$20 million in notes from the WBCMT 2003-C7 transaction. These notes are being put up for sale on behalf of the special servicer (ING Clarion). This portfolio consists of two loans, both more than 90-days delinquent that share a related sponsor. Both properties have serious deferred maintenance issues, low occupancy, and a DSCR below 1.0X (Table 5). The servicer had previously reported they were pursuing a loan assumption as the primary resolution strategy but that assumption appears to have fallen through.

Table 5: \$20 million WBCMT 2003-C7 Portfolio marketed by Mission Capital via the Note Sale.

Loan ID	Deal Name	Loan Name	Units	City	Special Servicer	Balance (3/08)	Status (3/08)
A	WBCMT 2003-C7	International Village Apartments	462	Indianapolis, IN	ING Clarion Partners, LLC	11,812,082	90 days dlq
B	WBCMT 2003-C7	Regency Park South Apartments	304	Indianapolis, IN	ING Clarion Partners, LLC	7,775,041	90 days dlq
Total			766			19,587,122	

Source: Merrill Lynch, Trepp, Intex, Mission Capital Advisors Offering Memorandum.

We would think that the note sale strategy is more complicated and difficult when the loans are from multiple transactions (especially if there are different special servicers) as is the case with the \$202 million MBS portfolio. Additional challenges and risk, we would assume, arise from different sets of documents and the variety of third parties involved in the note sale process. With this in mind, we believe that there is some benefit to retaining a loan sale advisor that has had previous experience in the direct sale of loans, out of multiple CMBS securitizations. In checking our available history of recent transactions, we found at least one example of Mission Capital Advisors successfully executing a loan sale from such a multi-securitization portfolio. In July 2007, Mission Capital reported closing the sale of a \$17 million portfolio consisting of five loans with at least three of them coming from different CMBS transactions (Table 6).

Table 6: Three CMBS Loans from the \$17 million Mission Portfolio Note Sale Closed in July 2007.

Loan ID	Deal Name	Loan Name	Units	City	Special Servicer	Balance at Secur
A	GECMC 2004-C1	Sandpiper Woods Apartments	120	Colorado Springs, CO	CWCapital	4,014,510
B	SBM7 2001-C2	Woodward Heights Manor Apartments	57	Hazel Park, MI	CWCapital	1,671,518
C	DLJCM 1999-CG2	Ballenger Manor Apartments	33	Flint, MI	CWCapital	551,542
Total			210			6,237,570

Source: Merrill Lynch, Trepp, Intex, Mission Capital Advisors Offering Memorandum.

We see the relatively low loss severity, compared to other loan resolution techniques, as the main advantage of using a note sale strategy in the disposition of distressed assets from a CMBS pool. Based on a study by Fitch⁴, published in 2007 and based on the universe of loans disposed in 2006, note sales represent the third most popular disposition technique accounting for 10% of all dispositions. The two most popular strategies are the liquidation of real estate owned (56% of the total) and discounted loan payoffs (30% of the total).

Of the three most popular workout strategies, note sales had the lowest loss severity (22%) and the shortest resolution time (number of months from the transfer to the special servicer to the disposition date) (Table 7). This lower loss severity for the note sale disposition makes sense. One reason is that servicers would typically consider a note sale as an alternative exit strategy when “more traditional” workout techniques either fell through or are expected to result in a higher loss severity. The presence of multiple bidders (especially in today’s market as discussed above) helps to ensure a fair price. Compared to the foreclosure and sale of a property the note sale is typically easier to execute, brings lower legal fees and additional trust expenses. The relative ease of this strategy also, as we mentioned shortens the servicing period, as it can be executed more quickly, further reducing trust expenses.

Table 7: Loss Severity by Disposition Type

Disposition Type	Loss Severity (%)	Resolution Time (mos)	Loan Count
REO Liquidation	35.1	30	107
Discounted Payoff	30.3	27	55
Note Sale	22.0	19	20
Sold at Foreclosure	35.9	16	7
Loan Paid in Full	2.6	42	6
Average/Total	31.8	28	195

Source: U.S. CMBS Loss Study by Fitch Ratings, dated September 18, 2007.

In many instances, the note sale strategy is used by CMBS special servicers in more difficult situations or if there are some complications associated with the asset that prohibits the implementation of a “more traditional” workout mechanism (such as a borrower bankruptcy, long-term dark tenancy, de-flagged hotels, management-intensive property types such as senior housing, asset requiring substantial maintenance, etc). Also, by engaging a note sale advisor, the servicers are essentially “outsourcing” some of their routine work and thus are able to better utilize their in-house resources to concentrate on the resolution of other distressed trust assets. This may be an important consideration if the trend toward growing delinquencies continues.

Of course there are disadvantages as well with the note sale strategy. In our view, the complexities of administrative and legal work required to execute the note sale directly from the CMBS Trust represents the main drawback of this disposition technique. Not every Pooling and Servicing Agreement even allows for the asset disposition via a Note Sale. Another serious disadvantage (at least for investors) of a note sale, in our view, is the poor reporting that we have typically seen with every step of this strategy.

Even the identification of a note sale resolution can be challenging. The standard Loan Periodic File has a special field titled “Workout Strategy”, where the note sale strategy has a separate designated code (# 5). Another source of note sale identification is the servicer commentary. However, not all note sales are identified in Loan Period File via the appropriate status code. In some cases, we find the servicer has used status “13” (Other, or TBD). In other cases, the servicer will report the resolution as a “note sale” only after the liquidation of the loan. In many instances we have noticed that the servicer’s commentary would outline a more traditional disposition technique (foreclosure or assumption), when in reality the sale asset is already actively marketed for the note sale. While there are times when the servicer is following several different strategies at once, they are not always mentioned in the commentary.

⁴ U.S. CMBS Loss Study by Fitch Ratings, dated September 18, 2007.

We have seen the Note sales resolution pursued for both conduit and non-conduit loans. We have also seen cases where a note sale might not result in a liquidation with a loss to the trust. Consider a scenario when a loan is sold at a premium, and the proceeds are sufficient to cover the unpaid balance and all of the outstanding expenses. In such a case, the note sale will result in loan payoff with no loss to the trust.

Below (Table 8) we provide some additional recent examples of CMBS assets dispositions, that we believe are likely to be Note Sales.

Table 8: Recent Examples of CMBS Dispositions via the Note Sale

Deal	Loan Name
ASC 1997-D4	Inn at Manchester
BSCMS 2003-PWR2	Monticello Crossroads Apartments
CSFB 2001-CK1	Tractor Supply Company
DLJCM 1999-CG1	Marycrest Shopping Center (3)
DLJCM 1999-CG2	Ballenger Manor Apartments
FULB 1997-C2	Daytons Bluff Community Care Center
FULB 1997-C2	St. Marys
GECMC 2004-C1	Sandpiper Woods Apartments
JPMCC 2001-C1	The Bayberrytree Apartments
LBUBS 2000-C4	Inwood Oaks Apartments
LBUBS 2001-C2	6464 Savoy Drive
LBUBS 2003-C1	Dufwin Office Building
MSC 1997-WF1	136 Fuller Road
MSC 1999-LIFE	Ten Parkway Plaza
NASC 1998-D6	The Crossing Shopping Center
SBM7 2001-C2	Woodward Heights Manor Apartments

Source: Merrill Lynch, Servicer Comments

Note that this is not a complete list of all 2007-2008 CMBS dispositions executed via the Note Sale, but, rather a list of examples we used while working on the present report. We intend to update our list of Note Sales in the future.

Analyst Certification

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