Discounted Payoffs Accounted for 35 Percent of CMBS Liquidations Since 2010

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A total of $28.38 billion, or 44.7 percent of the $63.55 billion of CMBS loans that were resolved since the beginning of last year were liquidated in one way or another, according to Fitch Ratings.

Their special servicers recovered a total of 69.7 percent of the loans' balance at the time of their transfer to special servicing.

That means that $35.17 billion, or 55.3 percent of the total volume of resolved loans were returned to master servicing.

Roughly 70 percent of that balance was modified in one way or another - 16 percent of that volume saw its maturity date get extended while 54 percent had combination modifications, where multiple loan terms might have been changed. And nearly 30 percent of the balance that was returned to master servicing wasn't modified at all. That, Fitch said, shows special servicers' "capabilities to enforce borrowers' commitments according to their loan documents."

Loans that were modified had an average balance of $28.3 million, while those that were liquidated had an average balance of $8.1 million. The latter had also been in special servicing for an average of 14 months, according to Fitch.

The rating agency, which regularly surveys special servicers, found that discounted payoffs were the most prevalent method of liquidating loans. A total of 653 loans with a balance of $9.9 billion were liquidated and had a recovery rate of 72.8 percent. Discounted payoffs were completed in 13.8 months, on average.

Another $7.4 billion of loans were paid in full after being in special servicing for an average of 7.5 months. Their average recovery rate was 99.4 percent.

And 909 loans with a balance of $5.5 billion were liquidated through loan sales. Their recovery rate was 52 percent. Those loans spent an average 13.8 months in special servicing.

As previous Fitch special servicing studies have found, there is a correlation between how long it takes to resolve a loan and its recovery rate. The sale of foreclosed real estate, for instance, was completed in 22.3 months on average. The average recovery rate: 41.4 percent, the lowest of all resolution methods.

Each special servicer relies on every liquidation method available to resolve loans they manage. But portfolio make-up might play a role in some favoring certain methods over others.

LNR Partners, for instance, sold 389 loans with a balance of $2.15 billion, **recovering 43.6 percent of the loans' balance** when they were transferred to special servicing. The Miami company, the most active special servicer, which handles nearly one-third of all loans in special servicing, sold most, if not all of those loans through online auctions conducted **through the auction.com platform**. The loans it sold had an average balance of $5.5 million, which it has found makes them ideal candidates for sales.

The average balance of the loans it liquidated through discounted payoffs was $12.1 million.

CWCapital Asset Management, meanwhile, has sold $1.4 billion of loans, **recovering 59 percent of par on average**. It generally has relied on a more traditional sales method that is spearheaded by a loan-sales adviser. In its case, **it relies on Mission Capital Advisors**. The average balance of the loans it has sold was $8.2 million.

Fitch, meanwhile, found that the volume of loans handled by individual asset managers at the special servicers has declined to an average of 15 at the end of June from 17 at the end of 2010. It attributed the decline to the flattening of special servicing volumes. As lending markets had opened up somewhat, the pace of resolutions quickened, lessening the pressure on the special servicers.

While some servicers allocate more loans to individual asset managers than the industry average, Fitch said the workload at each servicer was "acceptable, given the composition of the servicers' portfolio."

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