



REO and CRE Loan Workouts

**Dealing with Distress in Commercial Real Estate
Construction Lending**

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Agenda

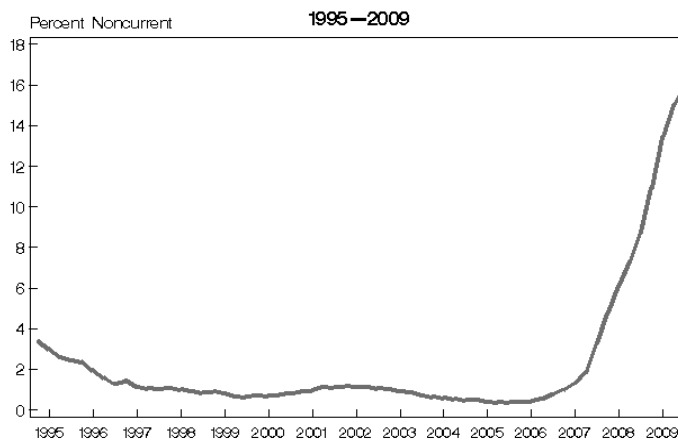
- Introduction
- Commercial Real Estate Industry Market Overview
- Debt Markets and Construction
- REO and Workout Challenges
- Developing the Strategy
- Conclusions
- Questions and Answers

Introduction

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The Big Picture

Noncurrent Rate on Real Estate Construction and Development Loans

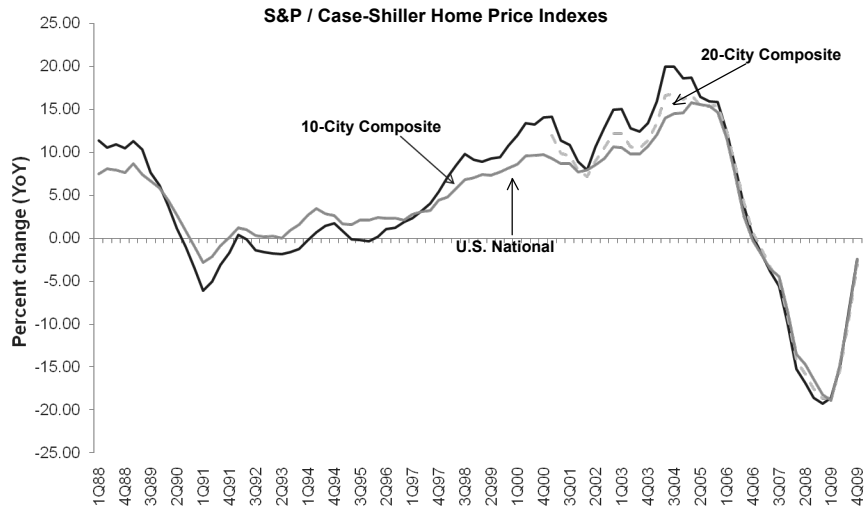


Source: FDIC Quarterly Banking Profile - February 2010

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Housing Prices – Less Worse



Source: S&P Case-Shiller Home Price Indices February 2010

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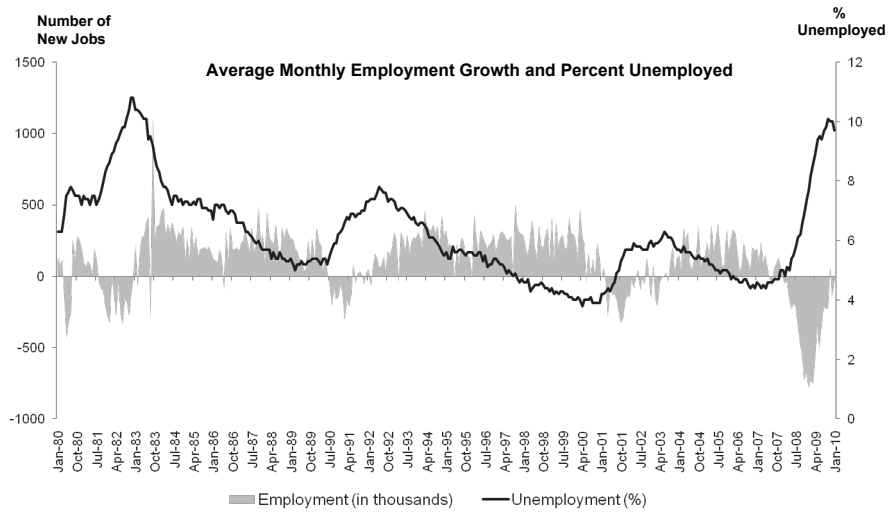
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CRE Industry Market Overview:

Did anyone see where the market went?

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Demand = Employment Comparison With Prior Downturns



Source: BLS, 3/3/10 (12/09 and 1/10 data are preliminary)

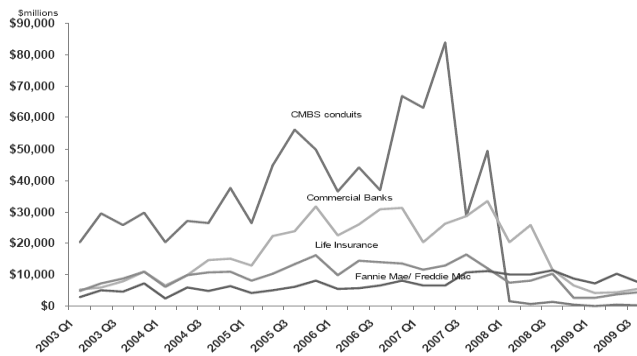
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Commercial Real Estate Mortgage Profile – Origination Volume

CMBS originations have almost disappeared, while life company and bank originations have stabilized, and originations at Fannie Mae and Freddie Mac also remained stable through the crisis.

Quarterly Commercial/Multifamily Mortgage Bankers' Originations, by Investor Group



Commercial Real Estate Investment Transaction Volume To Grow in 2010: Transaction volume remained artificially low in 2009, as banks, CMBS service providers, and other lenders delayed transactions in distressed assets. Analysts expect that some of these assets will come to market in 2010, potentially increasing sales volume by 20-30 percent from 2009. Analysts also believe that prices, already down 40 percent from their peak in October 2007, may decline another 10 to 20 percent to meet buyers' expectations. Banks likely will begin writing off losses on distressed assets in 2010, which indicates that capital accumulating on the sidelines will start to be deployed. As a result, many highly leveraged buildings, many without the capital necessary to attract tenants, will transfer to new ownership, removing what was a major impediment to recovery in the investment market. (Grubb & Ellis Company, a leading real estate services and investment firm)

Source: Flow of Funds Accounts, Federal Reserve Board of Governors, 3Q09 MBA Commercial / Multifamily Mortgage Debt Outstanding, Grubb & Ellis

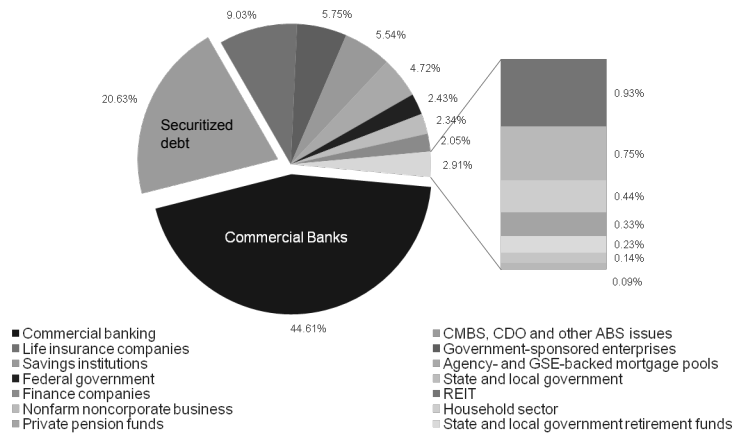
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Commercial Real Estate Mortgage Profile – Outstanding Debt

Of the \$3.43 trillion commercial and multifamily mortgage debt outstanding as of 3Q09, commercial banks continue to hold the largest share of commercial/multifamily mortgages with \$1.53 trillion, or 45 percent of the total.

Commercial Multifamily Mortgage Debt Outstanding by Investor Group
3Q09: \$3.43T; 2Q09: \$3.46T



Source: Flow of Funds Accounts, Federal Reserve Board of Governors, 3Q09 MBA Commercial / Multifamily Mortgage Debt Outstanding, Grubb & Ellis

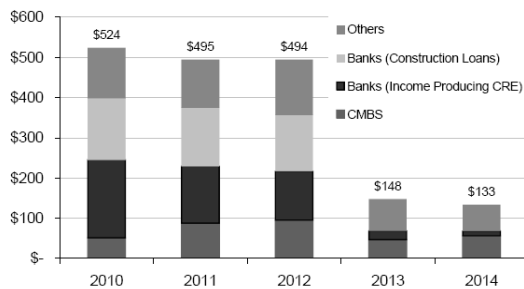
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CRE Debt Maturities

Near-term CRE debt maturities have increased as 'amend & extend' dominates lender practices, and approximately \$1.5 trillion of CRE loans (including construction) is set to mature by the end of 2012. Loan maturities will consist primarily of commercial bank mortgages and construction loans in the near term, owing to their shorter duration. CMBS loans have sizable upcoming maturities in 2011–12 and in 2016–17, corresponding to 5- and 10-year loans originated during the peak securitization wave in 2005–07.

Commercial Real Estate Debt Maturities (\$Bn)



Construction Loans a Key Concern

•Maturing construction loans, which are 2–3 years in duration, will have been written during the peak of the credit bubble, and often included sizable interest reserves that are rapidly being exhausted as developers fail to reach pre-recession pro forma cash flow projections.

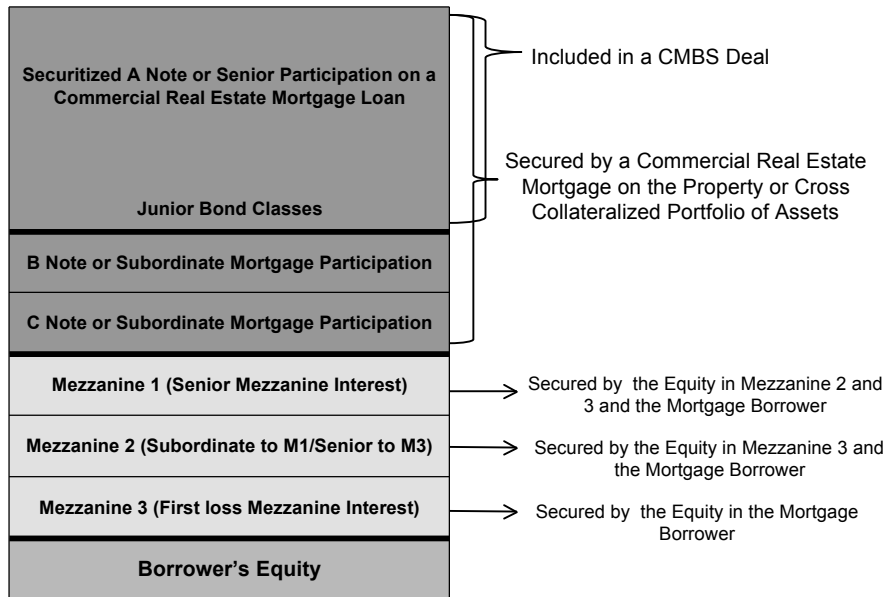
Distressed CRE Presents Opportunity to Investors: "CRE distress will present buyers with attractive investment opportunities, albeit at a gradual pace. With incentives to avoid large-scale foreclosures and liquidations, lenders will likely extend performing loans and modify delinquent loans; however, as leasing velocity improves in 2010, there should be an offsetting incentive to transfer assets to owners with the funds necessary to optimally manage them. In cases where this transfer does not occur, capital-starved, "zombie assets" will deteriorate. We expect this to result in opportunities for well-capitalized investors (including many public REITs), despite the lack of widespread REO liquidations. Massive liquidations are unlikely, despite a flood of maturities in 2010–12. We expect a vast majority of loans to be modified and extended, particularly in CMBS." -Morgan Stanley

Source: Commercial Real Estate 2010: Investment Cross-Currents, Morgan Stanley, January 7, 2010

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A Quick look at a large CMBS: Existing Complicated Debt Structures

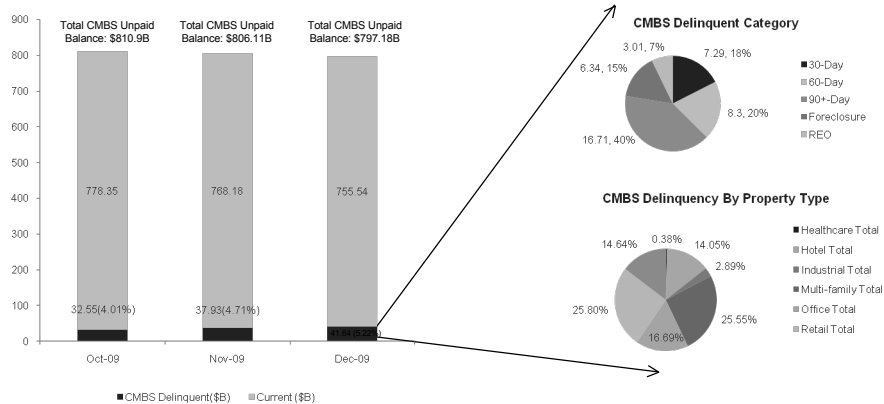


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CMBS Delinquency Rates Among Major Investor Groups:

The overall unpaid balance of CMBS delinquencies reached \$41.64 billion as of December 2009, an increase of 380 percent over the \$8.68 billion total reported in December 2008. In December 2009, retail loans topped multifamily loans as the most significant contributor to overall CMBS delinquency, accounting for 1.35 percent of the CMBS universe and 25.8 percent of total delinquency.



RealPoint Research expects retail delinquency to increase further in 2010, as consumer spending continues to suffer from the pervasive weakness of the U.S. economy. Industry analysts also anticipate that store closings and retailer bankruptcies will continue, along with growing balloon maturity default risk. S&P forecasts that CMBS delinquency rates will rise into the 7s by 2011.

Source: Monthly Delinquency Report, Realpoint Research, January 2010

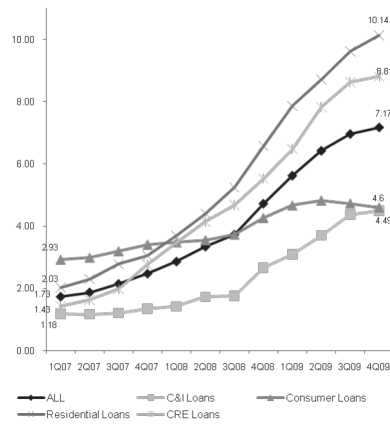
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Bank CRE Loan Quality: Higher Credit Losses

CRE loans had the second highest delinquency and charge-off rates across all banks. The delinquency ratios and charge-off ratios rose from 1.43 percent and 0.11 percent in 1Q07 to 8.81 percent and 3.05 percent, respectively, in 4Q09. According to Fitch Ratings, default rates on commercial mortgages could reach 12 percent by 2012.

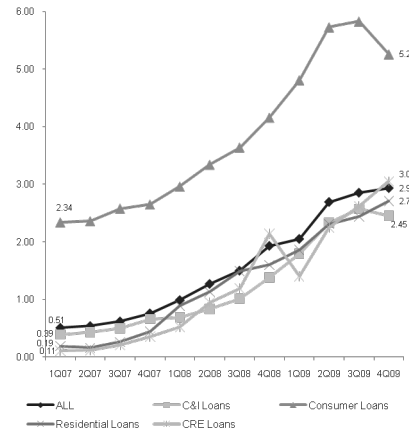
Delinquency Rate Across All Banks



Source: Federal Reserve

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Charge-Off Rate Across All Banks

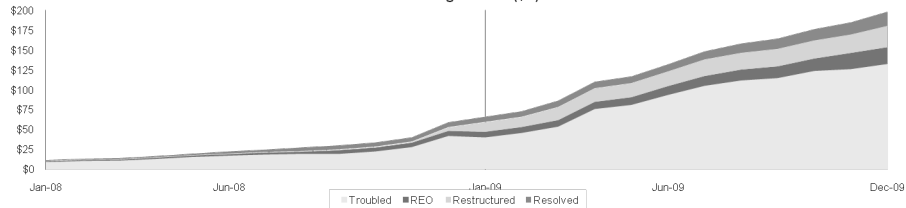


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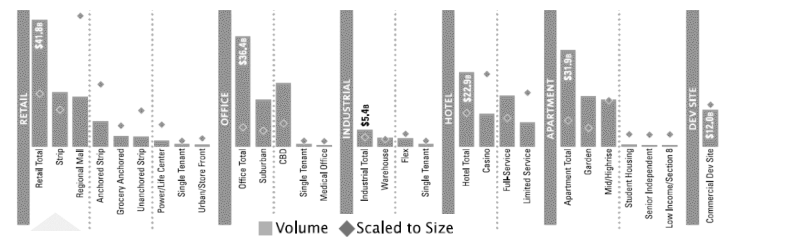
Distress in Commercial Properties:

By the end of 2009, nearly \$200 billion in CRE had become distressed, of which \$17 billion was resolved (sold or refinanced). Due to increasing pressure on lenders to liquidate, and with the encouragement of industry regulators, an increasing portion of distressed situations are being restructured in some way. Banks have extended the terms of many CRE loans, hoping that property values or occupancy levels will improve before long. Retail and Office segments have the highest volume among distressed property types.

Total Outstanding Distress (\$B)



Source: Federal Reserve



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Source: Troubled Assets Radar, Real Capital Analytics, February 2010

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Some of the Larger Commercial Real Estate Distress Deals 2009/10

Property Type	Location	Date	Name	Area (square feet/Roomst)	Price (\$)	Buyer	Seller
Hotel	Las Vegas	Mar-09	Treasure Island Hotel & Casino	2,885	775,000,000	Ruffin Cos	MGM Mirage
Office	Manhattan	Jan-10	299 Park Avenue	1,049,280	625,000,000	Rockpoint Group	UBS Bank Corp
Office	Manhattan	Jul-09	Worldwide Plaza	1,600,000	590,333,250	George Comfort & Sons JV	Macklowe Properties by Eastdil Secured
Office	Boston	Jan-09	One Beacon Street	1,017,168	508,000,000	Allianz Immobilien GmbH	Macklowe Properties by Eastdil Secured
Industrial	St Louis	Nov-09	Chesterfield Village	1,300,000	435,000,000	Monsanto Company	Pfizer Corp
Retail	No NJ	Sep-09	Freehold Raceway Mall	1,666,812	372,352,733	Heitman Capital Mgmt	Macerich
Office	Manhattan	Feb-09	Sotheby's HQ	493,000	370,000,000	Sothebys / 1334 York LLC	Sachsenfonds JV RFR Holdings LLC
Office	Manhattan	Mar-09	Bertelsmann Bldg (office)	906,287	355,000,000	CBRE Investors	Macklowe Properties
Retail	Denver	Aug-09	Flatiron Crossing	722,855	347,333,000	GI Partners	Macerich
Office	Manhattan	Sep-09	HSBC HQ	865,000	330,000,000	IDB Group JV Midtown Equities	HSBC Holdings
Industrial		Jun-09	Unknown	6,864,694	311,123,160	Stockbridge Real Estate Partners JV Texas Teachers Retirement Fund	ProLogis
Retail	NYC Boroughs	Jul-09	Queens Center	966,499	306,117,000	Cadillac Fairview	Macerich
Dev Site	Manhattan	Jan-10	fmr Drake Hotel	24,280	305,205,035	CIM Group	Macklowe Properties
Retail		Oct-09	Kimco PL Retail LLC	1,900,000	301,483,811	Kimco Realty	DRA Advisors
Retail	Phoenix	Sep-09	Chandler Fashion Center	1,325,379	296,079,278	Heitman Capital Mgmt	Macerich
Office	DC	Feb-09	Techworld	757,904	265,000,000	JBG Cos	John Akridge Companies JV Seaton Benkowski Partners
Hotel	Orange Co	Nov-09	St Regis Monarch Beach Resort	400	245,000,000	Eastdil	Citigroup
Retail	Orlando	Dec-09	Prime Outlets Orlando	773,368	234,948,564	Simon Property Group	Lightstone Group
Office	San Francisco	Jul-09	Electronic Arts HQ	660,000	233,000,000	Electronic Arts Inc	Selco Service Co
Office	No NJ	Jan-09	Sanofi-Aventis HQ	669,703	230,000,000	Inland American Real Estate Trust	Gramercy Capital Corp JV SL Green

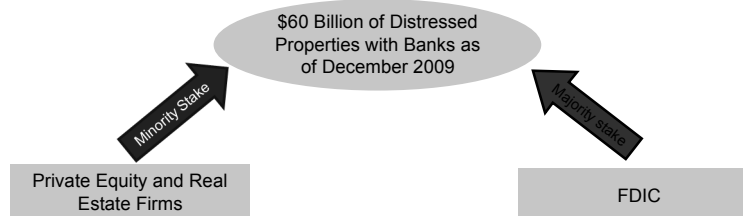
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Source: RCA, as of February 2010

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FDIC-Assisted Distressed Deals

Deals Involving the FDIC are Becoming More Common



Since May 2008, the FDIC has sold distressed CRE through ten deals, with its equity interest ranging from 50 percent to 92.5 percent. Some of the notable recent deals were:

- In February 2010, **Lennar Corporation** purchased 40 percent stake in a portfolio of 5,500 residential and commercial estates in Georgia, Nevada, and Arizona for \$243 million – a discount of 60 percent.
- In January 2010, **Colony Capital Acquisitions** purchased 40 percent stake in 1200 distressed properties in Georgia, California, Nevada, and Florida for \$90.5 million – a discount of 78 percent.
- In October 2009, **Starwood Capital Group** purchased 40 percent stake in Corus Bank's portfolio of 12,000 condos in Miami, Las Vegas, Atlanta, and Los Angeles for \$554 million – a discount of 55 percent

Source: FDIC, Wall Street Journal, Associated Press, Reuters, Bloomberg

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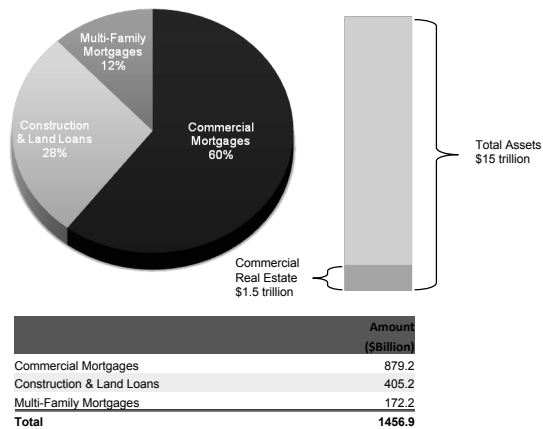
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Debt markets and construction

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Commercial Real Estate Loans

Top 1000 Banking Companies



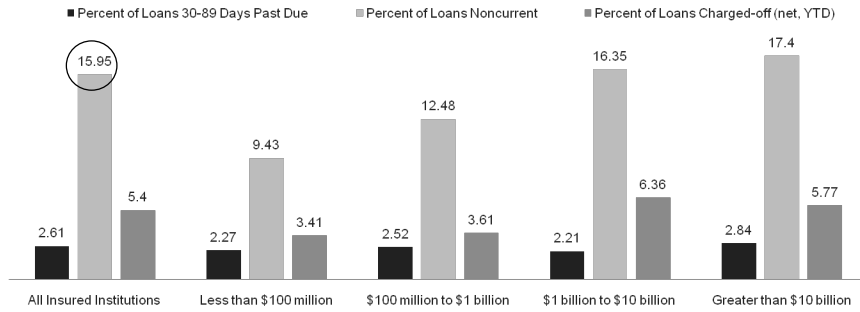
As of Sept. 30, 2009. Source: Commercial Mortgage Alert – January 15, 2010

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Construction & Development Loans

Exposure by Bank Size



Construction & Development Loans	All Insured Institutions	<100mil	100mil-1bil	1bil-10bil	>10bil
Loans Outstanding (Billions)	\$451.5	\$6.1	\$99.9	\$107.6	\$237.8

Source: FDIC Quarterly Banking Profile – Q4-2009

Regional Concentration of Construction & Land Development Loans

Fourth Quarter 2009 Regional Data

Construction & Development Loans	New York	Atlanta	Chicago	Kansas City	Dallas	San Francisco
Percent of Loans 30-89 Days Past Due	3.4	2.3	2.8	2.3	2.2	3.0
Percent of Loans Noncurrent	17.8	15.9	16.1	14.1	9.7	23.3
Percent of Loans Charged-off (net, YTD)	3.6	5.3	6.7	4.4	3.3	9.5
Loans Outstanding (Billions)	62.4	163.2	75.5	40.1	63.3	47.0
Total Loans/Leases (Billions)	1396.9	2024.4	1437.2	750.7	520.6	1160.1

Construction and Development Loan Concentration - The median ratio of construction and development loans divided by total risk-based capital as of the end of the listed period for FDIC-insured institutions headquartered in the state. Source: FDIC Quarterly Banking Profile – Q4 2009

Description of Geographic Regions:

New York - Connecticut, Delaware, District of Columbia, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Puerto Rico, Rhode Island, Vermont, U.S. Virgin Islands

Atlanta - Alabama, Florida, Georgia, North Carolina, South Carolina, Virginia, West Virginia

Chicago - Illinois, Indiana, Kentucky, Michigan, Ohio, Wisconsin

Kansas City - Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota

Dallas - Arkansas, Colorado, Louisiana, Mississippi, New Mexico, Oklahoma, Tennessee, Texas

San Francisco - Alaska, Arizona, California, Hawaii, Idaho, Montana, Nevada, Oregon, Pacific Islands, Utah, Washington, Wyoming

Top 20 Banking Companies...

In Construction & Land Loans

Rank	Bank Name	Total Assets (\$000)	Constr. and Land Mortgages (\$000)	Nonperforming C&L Mortgages (\$000)	Nonperforming/ C&L Mortgages (%)
1	Bank of America, Charlotte	\$2,252,813,550	\$39,335,302	\$5,331,229	13.6
2	Wells Fargo, San Francisco	1,228,625,000	36,403,000	6,134,000	16.9
3	BB&T, Winston-Salem, N.C.	165,329,114	15,983,282	1,680,495	10.5
4	PNC Financial, Pittsburgh	271,449,905	10,835,330	3,468,125	32.0
5	Regions Financial, Birmingham, Ala.	140,169,410	9,885,971	1,562,763	15.8
6	U.S. Bancorp, Minneapolis	265,058,000	9,554,000	1,560,000	16.3
7	BBVA Compass Bancshares, Birmingham, Ala.	67,792,708	8,948,297	1,238,819	13.8
8	SunTrust Banks, Atlanta	172,814,097	8,745,914	1,788,947	20.5
9	J.P. Morgan, New York	2,041,009,000	8,456,000	924,000	10.9
10	Fifth Third Bancorp, Cincinnati	110,740,377	8,127,144	1,794,563	22.1
11	Synovus Financial, Herndon, Va.	34,610,480	7,189,778	871,972	12.1
12	Zions Bancorporation, Salt Lake City	53,425,093	7,145,415	1,135,599	15.9
13	Marshall & Ilsley, Milwaukee	58,664,466	6,315,778	1,013,257	16
14	Keycorp, Cleveland	96,985,260	5,606,303	926,754	16.5
15	M&T Bank, Buffalo	68,997,450	5,360,384	399,977	7.5
16	Comerica, Detroit	59,752,866	4,444,625	752,054	16.9
17	FBOP Corp., Oak Park, Ill.	19,577,143	4,265,938	509,642	11.9
18	Huntington Bancshares, Columbus, Ohio	52,510,852	4,101,918	777,448	19
19	Capital One Financial, McLean, Va.	168,503,921	3,316,596	400,338	12.1
20	Citizens Financial, Providence, R.I.	150,538,243	3,118,961	257,884	8.3
TOTAL		7,479,366,935	207,139,936	32,527,866	15.7

Source: Commercial Mortgage Alert January 15, 2010

Recent Construction Loans in the News

Fontainebleau Las Vegas	Carl Icahn's bid for the Fontainebleau Las Vegas, the stalled casino project was accepted by the US bankruptcy Court in Miami. The bid, \$106 million for the project, plus \$50 million in financing during bankruptcy proceedings. Since the Spring of 2009, the casino has stood at 70% complete. Using the \$50 million supplied by Mr. Icahn's debtor-in-possession financing, a small crew has been working to plug the gaps in the glass exterior to protect it from the elements while a plan for the building is finalized. (Wall Street Journal, January, 2010)
Stearns Bank NA	The Minnesota bank and Utah corporation that bought distressed assets from the Federal Deposit Insurance Corp paid about 22 percent and 29 percent, respectively, on the dollar for portions of loan pools. Stearns Bank NA in St. Cloud, Minnesota, paid \$32.2 million for \$146.5 million of residential construction loans. The entire pool was valued at \$732.7 million. (Thomson Reuters 2009)
Citigroup	U.S. Senator Charles Schumer called on Citigroup to give up its legal battle with developer Robert Congel to resume lending to the expansion of the Carousel Center shopping mall. Citigroup is engaged in a legal battle over a \$155 million loan to the stalled project. In May of 2009, Citigroup stopped funding the project after concerns of cost overruns, construction delays and lack of signed leases. However, in July of 2009 a state Supreme Court judge agreed with the developer; that decision was upheld in November by the Appellate Division of State Supreme Court in Rochester. Citigroup has asked permission to appeal to the Court of Appeals in Albany. (The Post-Standard, 2010)
Starwood Capital Group	The FDIC sold \$4.5 billion of troubled real estate loans seized from Corus Bancshares group to private investment firms led by the Starwood Capital Group. Starwood and its partners agreed to pay \$554 million for a 40% equity stake in the portfolio while the FDIC kept a 60% share. Total purchase price of the transaction came to about \$2.8 billion – roughly 60 cents on the dollar, a 40% discount. (New York Times, 2009)

REO and Workout Strategy

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What's the Approach?

	Pre-Acquisition	Acquisition	Asset Management	Disposition
Strategy	<ul style="list-style-type: none"> Assess loan and REO portfolio Define REO hold/sell strategy Portfolio management strategy 	<ul style="list-style-type: none"> Develop cost reduction and revenue enhancement strategy 	<ul style="list-style-type: none"> Develop asset and operations management strategies 	<ul style="list-style-type: none"> Revisit disposition strategies
Process and Organization	<ul style="list-style-type: none"> Establish REO Program Office Evaluate infrastructure and operating model 	<ul style="list-style-type: none"> Communicate with internal and external stakeholders Establish asset management and portfolio operations 	<ul style="list-style-type: none"> Manage operations Monitor performance 	<ul style="list-style-type: none"> Complete transaction Closing checklist
Valuation, Accounting and Taxes	<ul style="list-style-type: none"> Market analysis Property analysis Identify applicable valuation, accounting, tax, and regulatory standards 	<ul style="list-style-type: none"> Loan cancellation related impacts Classification of REO Determine fair value and costs to sell Set up compliance mechanisms 	<ul style="list-style-type: none"> Revenue, expense and CapEx recognition Ongoing appraisal and improvement analysis Interface with bank reporting 	<ul style="list-style-type: none"> Market disposition and timing analysis Identify profit/loss recognition for accounting and tax reporting
Hotel Advisory	<ul style="list-style-type: none"> Market and segment competitive analysis and benchmarking Contract obligations and capital needs 	<ul style="list-style-type: none"> Options for operations Preliminary cost savings and revenue enhancement opportunities Management compensation structure 	<ul style="list-style-type: none"> Ongoing operational performance metrics Ongoing benchmarking and best practices Management team oversight 	<ul style="list-style-type: none"> Options to market and sell properties Arrangement to market and package properties
Construction Advisory	<ul style="list-style-type: none"> Condition assessment Identify risks and issues Develop completion plan and contracting strategy 	<ul style="list-style-type: none"> Implement completion strategy Improvement cost-benefit analysis 	<ul style="list-style-type: none"> Monitor construction cost and schedule Remedial monitoring 	<ul style="list-style-type: none"> Exit Strategy Cost segregation

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Pre-acquisition



Key Objectives

- Assess loan restructuring versus foreclosure options
- Understand the REO portfolio and determine the appropriate strategy to onboard, manage, and dispose of the assets
- Determine infrastructure required to bring assets in-house
- Understand physical condition issues of assets
- Determine timing for acquisition, litigation challenges and immediate capital needs
- Management company and brand relations (Hotels)

Key Considerations

- Have all of the loan restructure options been analyzed?
- What should be your strategy for taking on the REO?
- Does bank have the required skills and capabilities to evaluate, operate and dispose the assets? If not, who does and how will you utilize these resources (hire, outsource, manage)?
- How are the assets currently performing?
- What are the underlying risks of taking on these assets?
- What is the required operational infrastructure and business model at both the asset and portfolio level?

Pre-acquisition

Key Activities

Strategy	<ul style="list-style-type: none"> ▪ Define decision making framework to evaluate loans and incoming properties ▪ Assess potential risks for taking on the assets ▪ Determine operational strategy and requirements 	
Process and Organization	<ul style="list-style-type: none"> ▪ Define required infrastructure and operating model ▪ Establish REO Program Office 	<ul style="list-style-type: none"> ▪ Evaluate outsourcing requirements as necessary
Valuation, Accounting and Taxes	<ul style="list-style-type: none"> ▪ Market analysis and site inspections ▪ Appraisal review by asset 	<ul style="list-style-type: none"> ▪ Cash flow analysis and accretion/dilution impacts ▪ Financial analysis of acquisition by asset ▪ Identify and communicate valuation, accounting and tax implications
Hotel Advisory	<ul style="list-style-type: none"> ▪ Review properties and assess fundamentals ▪ Review current operator and contractual terms ▪ Identify preliminary options for operations ▪ Establish relationship with management company and brand ▪ Competitive analysis and benchmarking 	<ul style="list-style-type: none"> ▪ Assess quality issues ▪ Develop REO Hotel Plan ▪ Analyze capital needs and obligations ▪ Highest & best use analysis for REO
Construction Advisory	<ul style="list-style-type: none"> ▪ Condition and cost assessment ▪ Account for and validate cost to date and estimate cost to complete ▪ Reconcile PO's to payments ▪ Identify construction related risks/issues 	<ul style="list-style-type: none"> ▪ Develop completion plan and contracting strategy ▪ Identify contractor/subcontractor claims or liens ▪ Identify potentially fraudulent activities

Pre-acquisition

Key Deliverables / Outcomes

- REO Project Management Office Plan, including :
 - Organization, processes, roles and responsibilities, and leading practices
 - Identification of outsource providers as necessary
- Asset Assessment Reports including
 - Initial strategy by asset
 - Market study, comparables, appraisal, construction status (if applicable)
 - For hotels assets, a detailed business and legal summary of management, franchise and any labor agreements, detailed CapEx, FF&E needs and obligations plan.
- REO Day-One Checklist, including
 - Accounting, valuation, and tax action items
 - Key operational activities for on-boarding of assets
- Financial Impact Report (Due diligence reports)
 - Estimated impact for valuation, accounting, and taxes (including property taxes)
 - Estimated cash requirements (short and long term)

Acquisition



Key Objectives

- Implement infrastructure
- Classify, value and record assets
- Understand contractual terms
- Analyze any "headline risk" associated with the acquisition
- Budget capital needs upon acquisition

Key Considerations

- Are there any immediate opportunities to improve revenues or reduce costs?
- What are the limitations and opportunities afforded by the current contractual terms and options to modify?
- What are the near term funding needs and obligations, including CapEx, cash flow shortfalls, and potential litigation, and how will it be funded?
- What events are triggered by the transfer of ownership?

Acquisition

Key Activities

Strategy	<ul style="list-style-type: none"> ▪ Evaluate cost reduction and revenue enhancement opportunities (by asset and asset class) 	
Process and Organization	<ul style="list-style-type: none"> ▪ Implement operating model and infrastructure (for portfolio and by asset) ▪ Prepare and issue communications with tenants, contractors, management company, other debtors, etc. ▪ Provide transactional support (e.g. appraisal, finance, budgeting, accounting, taxes) ▪ Communications to debtor(s) 	
Valuation, Accounting and Taxes	<ul style="list-style-type: none"> ▪ Classification of REO Assets as Held for Sale or Held and Used ▪ Measurement of Fair Value per SFAS 157 and SFAS 159 ▪ Understanding tax reporting entities and tax accounting methods for acquirer(s) ▪ Tax implications of foreclosure/deed-in-lieu transactions (federal and state) ▪ Tax reporting versus GAAP reporting 	<ul style="list-style-type: none"> ▪ Compliance with requirements of: <ul style="list-style-type: none"> • FDIC's <i>Consolidated Reports of Condition and Income</i> • Office of Thrift Supervision (OTS) • Commercial Bank Supervision Manual • ASB/GAAP reporting requirements
Hotel Advisory	<ul style="list-style-type: none"> ▪ Review contractual arrangements and identify opportunities to improve revenues or reduce costs ▪ Initiate operator decision, create contract and determine additional requirements ▪ Analyze items triggered by the transfer of title 	
Construction Advisory	<ul style="list-style-type: none"> ▪ Implement completion strategy : procurement of contractors and monitoring of construction ▪ Assist with contract termination analysis and negotiation ▪ Conduct cost-benefit analysis of improvement against strategy for asset 	

Acquisition

Key Deliverables / Outcomes

- Policies & Procedures for asset management
 - Maintenance, insurance, taxes and other expenses
- Consolidated Portfolio Report including:
 - Accounting , valuation and tax reporting analysis for each asset acquisition
 - Plan for key contractual arrangements (by asset)
 - Plan for funding needs relating to cash flow shortfalls and capital improvement needs

Asset Management



Key Objectives

- Establish budget and revenue Plans for each asset
 - Including cost, revenue, leasing/occupancy, percentage complete, etc. with benchmarks to establish based on leading practices.
- Identify management with responsibility to execute / deliver on the plans and establish appropriate compensation structure
- Develop reporting processes to measure and monitor performance.
- Oversee asset management
- Identify revenue enhancements and expense savings (e.g. real estate taxes, CapEx plans in place)
- Interface with bank reporting processes

Key Considerations

- How can your bank achieve the identified goals for the properties and portfolios?
- How can your bank improve current operations?
- Are these assets under performing other comparable properties in the industry?
- Are there any industry best practices that you can implement?
- What transactions are underway (e.g. leasing, Cap Ex, contract negotiations) and do they fit within your strategy?

Asset Management

Key Activities

Strategy	<ul style="list-style-type: none"> ▪ Revisit asset and operations management strategies versus actual current state ▪ Identify opportunities for revenue enhancement and cost savings 	
Process and Organization	<ul style="list-style-type: none"> ▪ Provide functional and business support (e.g., accounting, tax reporting, portfolio management, valuation) ▪ Perform reporting, close, consolidation and modeling activities 	
Valuation, Accounting and Taxes	<ul style="list-style-type: none"> ▪ Periodic appraisals (if required by state law) ▪ Periodic annual impairment analyses per SFAS 144 ▪ Reverse lease audits (where applicable) ▪ Coordination between tax and accounting/reporting departments 	<ul style="list-style-type: none"> ▪ Analysis and proper accounting of income, expenses, and CapEx ▪ Preparation of required reports ▪ Impact of REO on regulatory capital
Hotel Advisory	<ul style="list-style-type: none"> ▪ Review operation and management processes to identify potential improvement opportunities ▪ Identify cost saving opportunities (e.g. resources redeployment, shared services) ▪ Identify revenue enhancement (e.g. occupancy, price levels, ancillary levels, market mix, marketing plan, promotions, affiliations) ▪ Determine and implement investments or changes to be made in advance of disposition 	
Construction Advisory	<ul style="list-style-type: none"> ▪ Provide independent oversight of construction costs and schedule ▪ Site visits, review invoices and change orders ▪ Assess plans to protect assets from environmental and operational liabilities 	

Asset Management

Key Deliverables / Outcomes

- Asset management plan by property
- Established budgets / targets for performance measurement
- Financial reporting by asset versus budget
 - Revenue and expenses (EBITDA, NOI, etc)
 - Monitor key performance indicators (NOI, Occupancy rates, sales etc)
 - Cash generated, expended, and required
 - Updated appraisals (for periodic assessment of "fair market value" and potential impairments, etc)
- Monitor construction and/or improvements to property

Disposition



Key Objectives

- Perform market analysis
- Identify optimal disposition strategy by asset
- Change intent if disposition is not appropriate
- Maximize the "net present value" of the return on capital

Key Considerations

- What are the best options available to you to dispose the assets?
- Are the original assumptions and assets still valid and relevant?
- Does your bank retain any position in deals in order to facilitate the disposition?
- Are there new "risks or challenges" to the current disposition plans?

Disposition

Key Activities

Strategy	<ul style="list-style-type: none"> ▪ Update assumptions and risks, and revisit strategic direction for each asset disposition ▪ Proactively market properties to qualified and interested parties 	
Process and Organization	<ul style="list-style-type: none"> ▪ Provide accounting transaction support ▪ Provide marketing and sales support 	
Valuation, Accounting and Taxes	<ul style="list-style-type: none"> ▪ Market Analysis to optimize timing of sale ▪ Proper accounting for the sale based on holding period (immediate sale versus longer-term hold) per SFAS 66 <i>Accounting for Sales of Real Estate</i> ▪ Tax impact of disposition ▪ Vendor due diligence in advance of sale process 	<ul style="list-style-type: none"> ▪ Immediate loss recognition, or profit recognition via one of the following methods: <ul style="list-style-type: none"> • Full Accrual • Installment • Cost Recovery • Reduced Profit • Deposit
Hotel Advisory	<ul style="list-style-type: none"> ▪ Assess options to package properties for sale (e.g., common markets, operations management, location, market attractiveness) ▪ Revisit initial assumptions set in pre-acquisition phase and make any required adjustments based on most recent information ▪ Proactively market properties to qualified and interested parties 	
Construction Advisory	<ul style="list-style-type: none"> ▪ Final construction audit ▪ Identification of various exit strategies and assess alternative plans of action ▪ Cost Segregation of REO assets 	

Disposition

Key Deliverables / Outcomes

- Disposition options by asset or bundles of assets
 - Market analysis performed
- Method of accounting for disposition
- Asset due diligence, including:
 - Valuation, accounting, and tax issues identified
 - Expenses, obligations, commitments, and contingencies
 - Updated appraisals
- Identification of possible retained interests in certain assets

Developing Strategies for Distressed Construction loans

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Distressed Asset Restructuring Considerations

Issues to Consider for Restructuring Distressed Assets

- Borrower Level of Cooperation
- Borrower Financial Condition
- Legal Options from Existing Agreements
- Current Asset Business Plan
- Potential New Equity Sources
- Proposed Exit Strategy
- Additional Funding Requirements
- Recent Collateral Valuations
- Marketability of Asset
- Collateral Condition (e.g., Deferred Maintenance Issues)
- Existence of Unpaid Real Estate Taxes or Other Existing/Pending Liens
- Additional Estimated Costs to Be Incurred (e.g., Foreclosure, Holding, and/or Transaction Costs)

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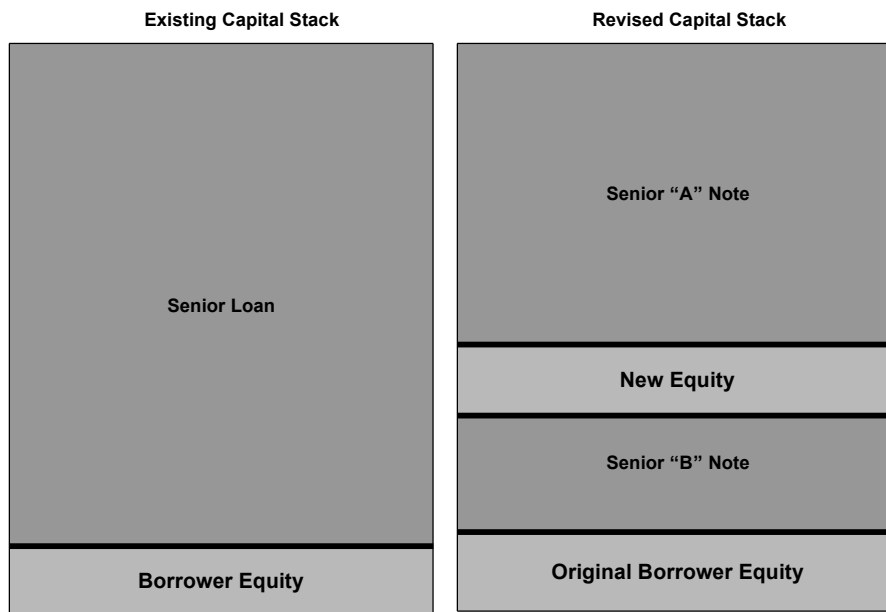
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Distressed Asset Strategies:

Options For Restructuring, Modifying, Extending or Liquidating Defaulted or Credit Impaired Assets

- Accrue or Change Interest Rates
- Reduce or Defer Principal
- Bifurcate Notes -- A/B Structure
- Forbearance
- Foreclose or Accept Deed in Lieu of Foreclosure
- Extend Maturity
- Release or Substitute Collateral
- Approve Subordinate Financing or New Equity
- Accept Discounted Payoff
- Sell Defaulted Loans or REO Properties

Representative Outcome: Loan Restructure



What Are Some of My Options with Construction Loans?

Troubled Project Diagnostics	Project Completion & Construction Monitoring	Asset Tracing & Litigation
<ul style="list-style-type: none"> ▪ Conduct site visits ▪ Assess expenditures-to-date and cost-to-complete estimates ▪ Look at schedule and percent complete ▪ Analyze contractor/subcontractor claims ▪ Assess outstanding payables and lien waiver analysis ▪ Analyze disbursements against contract requirements ▪ Identify potentially suspicious actions and transactions ▪ Assess loss reserves 	<ul style="list-style-type: none"> ▪ Develop a completion strategy including a project completion schedule ▪ Negotiate final trade contractor settlements ▪ Monitor cost forecasts and cash flow 	<ul style="list-style-type: none"> ▪ Investigate misappropriate funds ▪ Conduct background checks and database searches of individuals and companies ▪ Analyze construction claims and mechanics liens ▪ Estimate damages and potential causes of delay

Trouble Project Diagnostics

- Site Visit
- Assessment of expenditures-to-date and cost-to-complete estimates
- Schedule and percent complete analysis
- Analysis of contractor/subcontractor claims
- Outstanding payables and lien waiver analysis
- Analyze disbursements against contract requirements
- Identify potentially suspicious actions and transactions
- Assess loss reserves



Project Completion and Construction Monitoring

- Assist in the implementation of a completion strategy, including either managing procurement of a completion contractor or providing oversight and monitoring of the existing project team
- Assess and advise clients in their negotiations of final trade contractor settlements, including advice with regard to completion agreements
- Provide independent oversight of certain performance and financial activities, including monitoring funds disbursements to trade contractors
- Monitor cost forecasts and cash flow analyses
- Assist management in its development and monitoring of a project completion schedule
- Advice on procurement and contract administration
- Assist management in its development and monitoring of a project completion schedule
- Advice on procurement and contract administration

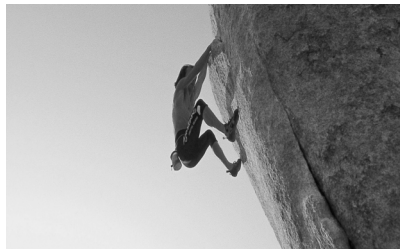


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Asset Tracing and Litigation Support

- Investigate and assist with the tracing of misappropriate funds
- Sources and uses of funds analysis
- Background checks and database searches of individuals and companies
- Analyze construction claims and mechanics liens
- Estimate damages and potential causes of delay
- Document review, litigation support and expert witness testimony, as necessary
- Analysis of outstanding claims
- Document review, litigation support and expert witness testimony, as necessary
- Analysis of outstanding claims



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Questions & Answers

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