

U.S. Commercial
Mortgage
Special Report

CMBS YE 2009 Servicing Update

Resolution Trends, Special Servicing Loan Volume, and Staffing Levels

Analysts

Stephanie Petosa
+1 212 908-0720
stephanie.petosa@fitchratings.com

Alyson Weems
+1 212 908-0305
alyson.weems@fitchratings.com

Richard Carlson
+1 312 606-2373
richard.carlson@fitchratings.com

Related Research

Applicable Criteria

- [U.S. Commercial Mortgage Servicer Rating Criteria, June 19, 2009](#)

Summary

CMBS special servicers resolved \$8.7 billion loans in 2009, compared with \$5.03 billion in 2008. While special servicers resolved over 50% more loans in 2009 versus 2008, the percentage of the loans resolved in special servicing declined from 31% to 11% due to the substantial increase of loans transferred into special servicing.

The number of loans transferring to the special servicer is growing exponentially. As of Dec. 31, 2009, there was close to \$74 billion (4,435 loans) in special servicing, compared with \$16 billion (2,019 loans) at year-end (YE) 2008. Fitch Ratings expects the number of loans transferred to special servicing will be approximately 20% of outstanding CMBS by 2012.

Also, given the increasing number of distressed loans, continued lack of liquidity, and declining property valuations, recoveries declined to 86.6% in 2009 from 94.7% in 2008. The primary contributor to the decrease came from loans resolved with a loss. Recoveries on loans resolved with losses declined to 36.7% in 2009 from 53.6% in 2008. In fact, the recovery rate on loans resolved with losses has been declining since 2007, when the recovery rate was 65%.

On a positive note, during 2009, over 75% of the loans transferred out of special servicing were either returned to the master servicer as corrected or paid in full with almost no losses. This transfer percentage fluctuated from 60% in 2006 to 90% in 2009. The 2009 recovery rate for these loans was consistent with the results dating back to 2006. Many the loans that returned to the master servicers were modified; it remains to be seen how well those modifications will prevent the loans from returning to the special servicing. Any modified loan whose underlying property cannot stabilize to a point where it can refinance will likely be transferred back to the special servicer.

Fitch provides quarterly trends related to CMBS servicing. This report focuses on recovery trends, special servicer volume, and staffing levels. For its analysis of CMBS servicers, Fitch monitors CMBS special servicing portfolio volume and is provided quarterly data directly from 28 Fitch-rated special servicers. The resolution data analyzed for this report include both Fitch and non-Fitch-rated CMBS transactions, representing 1,056 loans totaling \$8.7 billion of CMBS loans resolved since January 2009. Even with the increased number of loans, the average number of assets per asset manager has remained constant since third-quarter 2009 at 16 assets per asset manager.

2009 Recovery Trends

Overall recoveries for 2009, which include loans with and without losses, averaged 85%, lower than the 95% average for 2008 and only slightly lower than the 2007 and 2006 average of 88%. Recoveries for recently resolved CMBS loans were lower in 2009, as special servicers have been operating in a market with limited liquidity and varying, though mostly declining, values. Recovery rates for loans with losses averaged 36.7% for 2009, down from previous years, as shown in the table on page 2. Contributing factors to the lower recoveries for loans with losses are both market driven (i.e. valuation challenges and access to capital) and asset driven (e.g. origination vintage and loan size).

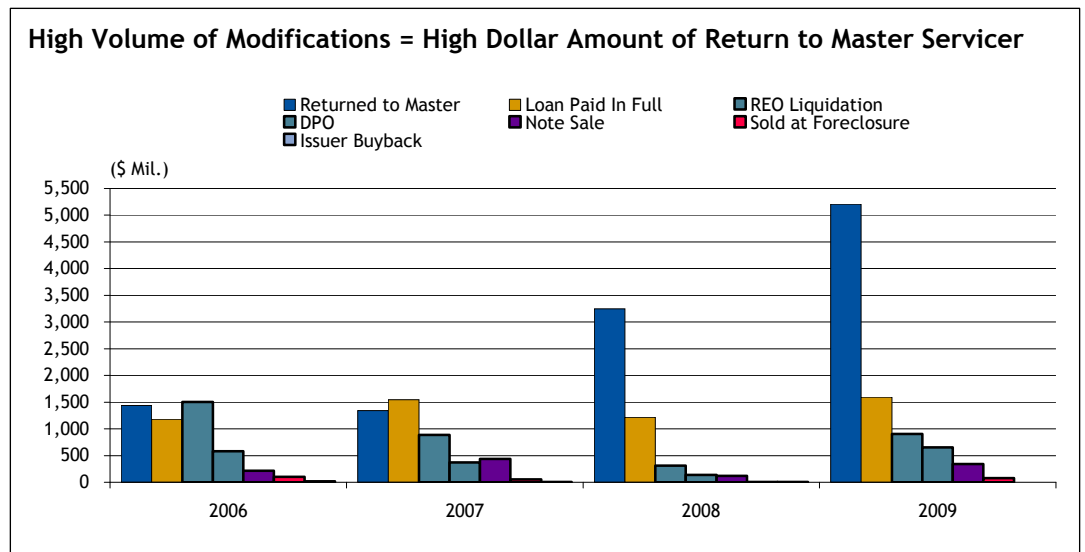
The table below highlights the resolutions and recoveries of loans with losses and shows the decrease in 2009, compared with 2006–2008

Recovery Analysis by Year

	Sum of UPB at Transfer Date (\$)	Recovery Rate (%)	Number of Loans
2009			
Total Recoveries	8,786,115,118	86.6	1,056
Recoveries With Losses	1,850,911,529	36.7	409
Recoveries With No Losses	6,935,203,589	99.9	647
2008			
Total Recoveries	5,053,522,051	94.7	705
Recoveries With Losses	564,266,281	53.6	151
Recoveries With No Losses	4,489,255,770	99.9	554
2007			
Total Recoveries	4,638,316,097	87.7	711
Recoveries With Losses	1,613,039,818	64.9	282
Recoveries With No Losses	3,025,276,280	99.9	429
2006			
Total Recoveries	5,039,766,783	85.9	831
Recoveries With Losses	1,987,294,538	64.6	290
Recoveries With No Losses	3,052,472,245	99.8	541

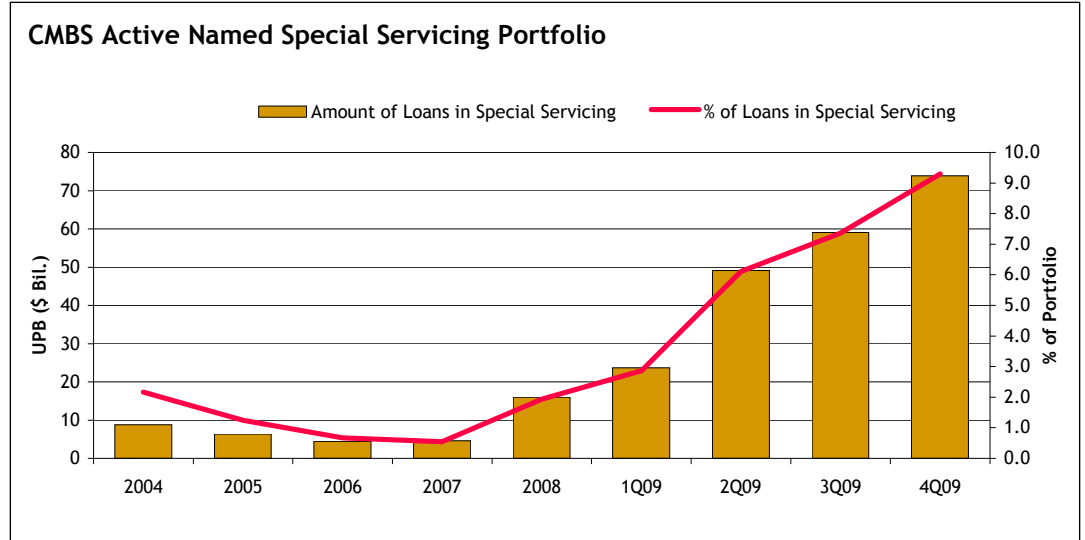
Note: The resolution methods used for loans without losses were “returned to master servicer” and “paid in full”; resolution methods used for loans with losses were “discounted payoff,” “sold at foreclosure,” “REO liquidation,” or “note sale.” This report now includes non-Fitch rated deals for 2006–2008, which were not included in the published CMBS servicing updates. UPB – Unpaid principal balance.

The percentage of performing loans in special servicing has never been at the levels experienced in 2009; almost 50% comprises loans transferred for imminent default or are matured loans with current payments. Volume in terms of loans moving out of special servicing has increased approximately 62% by UPB and between 65% and 70% by loan count over the previous four years. Limited access to cash and/or credit is at levels not experienced in previous years, as reflected in the lower recovery rates and volume for REO liquidations and foreclosure sales.



The chart above depicts the various resolution methods. While volume overall has increased dramatically, the highest percentage increase is the returned to master servicer

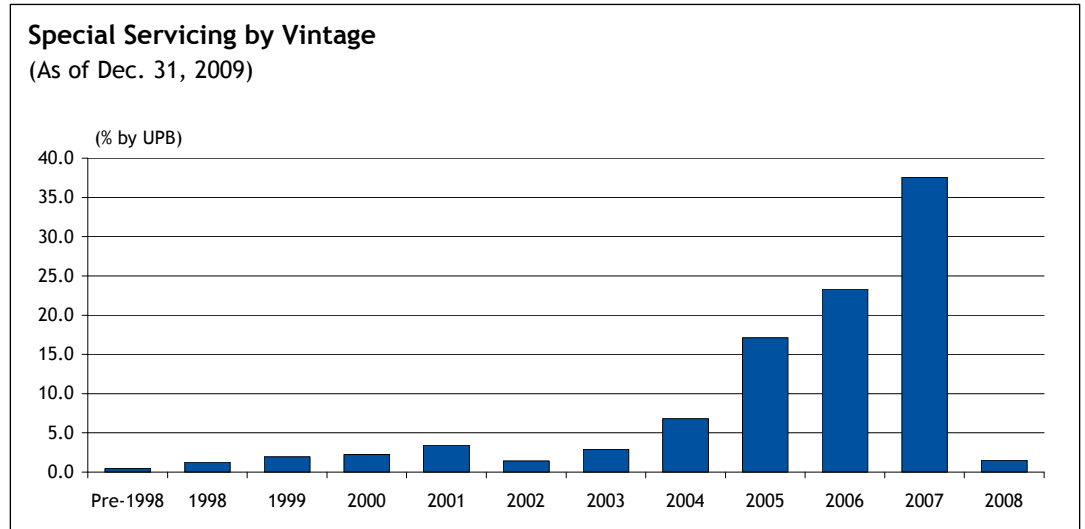
category. Many loans returned to the master servicer were modified. It remains to be seen how well those modifications will prevent the loans from returning to special servicing. If the underlying properties are not able to stabilize to a level needed to refinance the existing loans, these loans may return to the special servicer for further modifications.



YE 2009 — What's in Special Servicing?

As illustrated in the chart above, the balance of loans in special servicing increased to \$74 billion as of Dec. 31, 2009 from a trough of \$4.4 billion at YE 2007. This \$74 billion represented 9.3% of all CMBS loans by balance, up from a low of 0.54% at YE 2007. By loan count, the volume increased to 4,435 loans from 714. Approximately 49% of the loans in special servicing were current, and 52% were transferred due to imminent default. The data included information for Fitch and non-Fitch-rated CMBS transactions.

The most significant trend in recent transfers continues to be the origination vintage. As of the end of 2009, the 2006–2008 vintages accounted for 76% of all specially serviced loans by balance (and represented the years with highest origination levels). Defaults in these vintages have been increasing at much higher rates than pre-2005 originations. Based on the delinquency trends, Fitch expects delinquency rates to grow to 12% by 2012 but expects the percentage of loans transferred to special servicing to be higher at 20%.



Another trend Fitch expects to see are the effects of large obligor transfers in and out of special servicing as large sponsors work through financial stress. Large transfers, such as General Growth Properties and the Extended Stay Hotel portfolio, are examples of movements that greatly affect special servicing volume

Special Servicer Staffing Levels

Fitch continues to believe current staffing levels are at capacity for most special servicers. The majority of special servicers have manageable staffing levels because of additions to staff that have kept pace with the growth and composition of their special servicing population.

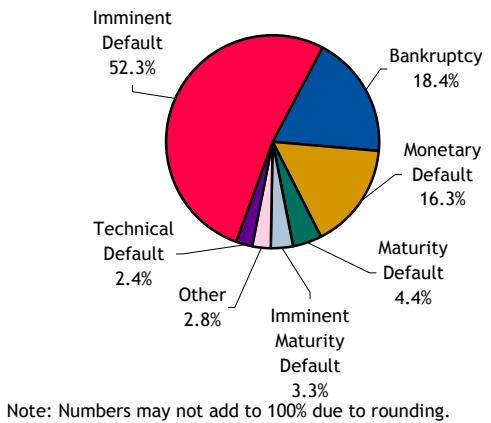
Fitch closely tracks the number of assets per asset manager at each special servicer. As of Dec. 31, 2009, the average number of assets per asset manager was 16. Within special servicers, this ratio can vary as special servicers usually attempt to have a manageable number of assets per manager based on degree of difficulty. However, this asset to manager balance is becoming an increasingly challenging goal. Most special servicers have teams with a senior asset manager, a junior asset manager, and an analyst.

Nonetheless, Fitch is concerned with the growth in the assets per asset manager this year as well as the degree of complexity of the loans being transferred. Many of the recent vintage loans have multiple layers of capital that make decision-making even more cumbersome.

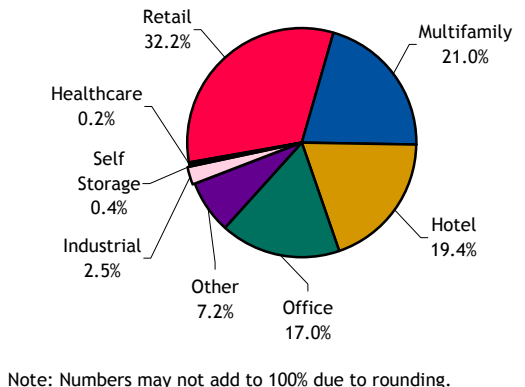
The financial condition of special servicers is also at the forefront of Fitch's servicer surveillance. A servicer's financial condition provides insight into a firm's ability to retain and expand staff. Fitch is closely scrutinizing the corporate and staff background of additions to special servicers. The review includes first a thorough financial review and then a staff review, checking for actual commercial real estate workout experience, as opposed to commercial real estate experience in originations, property management, or CMBS transaction structuring. Fitch will continue to monitor special servicing staffing and portfolio levels to assess servicer preparedness.

Fitch expects loan transfers to continue to increase, with many of these loans having the same characteristics as those currently in special servicing — large loans from the 2005–2008 vintages and maturing loans. Comparing special

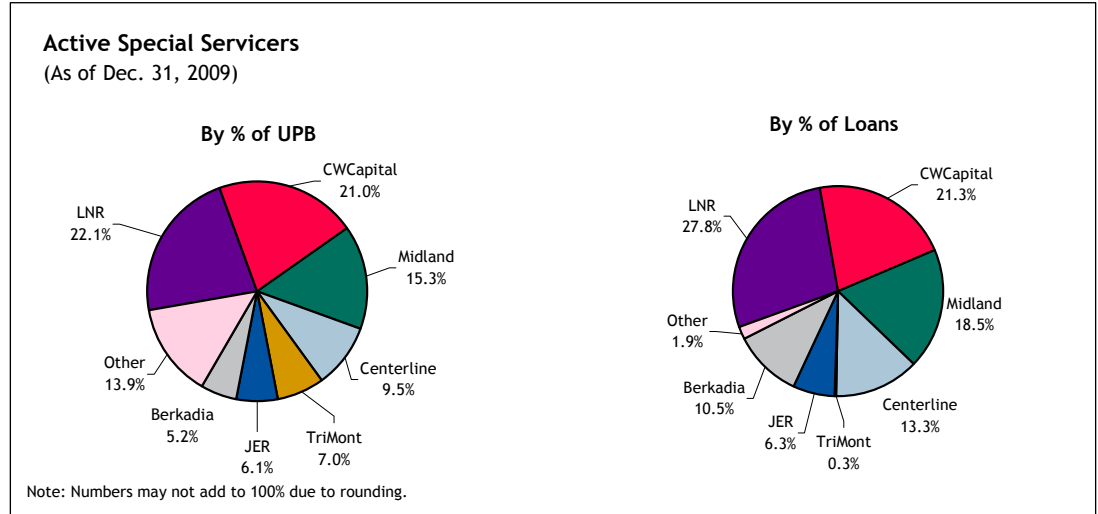
Active Special Servicing by Trigger Event
(% by UPB, As of Dec. 31, 2009)



Active Special Servicing by Property Type
(% by UPB, As of Dec. 31, 2009)



servicers by recovery results, given portfolio and resolution methodology, will be an ongoing exercise, and Fitch will publish the results of its analysis.



Methodology

For this study, Fitch compiled loss information from special servicers by using a standardized questionnaire. Data for 2006–2009 include both Fitch- and non-Fitch-rated transactions. For this report, Fitch calculated loss severity as the net realized loss amount divided by the UPB at transfer, as opposed to the original securitized loan balance used for the Fitch loss study. This measurement standard was used to more accurately measure the influence of the special servicer.

The recoveries reported in this report may differ from those reported in Fitch’s other CMBS loss studies due to the inclusion of all loans disposed and classified as paid in full or returned to the master servicer with losses greater than 1.5%. Recoveries with losses include any loan with losses greater than 1.5%, such as paid in full and returned to master servicer. Additionally, the universe of this study includes more than the Fitch-rated fixed-rate conduit universe used in Fitch’s loss study.

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTP://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](http://www.fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT WWW.FITCHRATINGS.COM. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE.

Copyright © 2010 by Fitch, Inc., Fitch Ratings Ltd. and its subsidiaries. One State Street Plaza, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. All of the information contained herein is based on information obtained from issuers, other obligors, underwriters, and other sources which Fitch believes to be reliable. Fitch does not audit or verify the truth or accuracy of any such information. As a result, the information in this report is provided “as is” without any representation or warranty of any kind. A Fitch rating is an opinion as to the creditworthiness of a security. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed, suspended, or withdrawn at anytime for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from USD1,000 to USD750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from USD10,000 to USD1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of Great Britain, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.