FDIC
Federal Deposit Insurance Corporation
3501 Fairfax Drive, Arlington, VA 22226-3500 Legal Division

February 7, 2012

**TO:** Executive Secretary

**FROM:** Phillip E. Sloan, Counsel
Legal Division

**SUBJECT:** Meeting with CRE Finance Council Related to Section 941 of the Dodd-Frank Wall Street Reform and Consumer Protection Act

Please include this memorandum in the public file on the Notice of Proposed Rulemaking relating to Credit Risk Retention (RIN 3064-AD74), 76 Fed. Reg. 24090 (the "NPR").

On February 2, 2012 FDIC staff (George Alexander, Preston Gilmore, Thomas Lyons, Kathy Russo and Phil Sloan) met with representatives of the CRE Finance Council (CREFC) (Michael Flood, Martin Schuh, and Steve Renna), Blackrock (Warren Friend), Steptoe & Johnson LLP (Scott Sinder) and Alston & Bird LLP (Joseph Forte) to receive comments on the NPR.

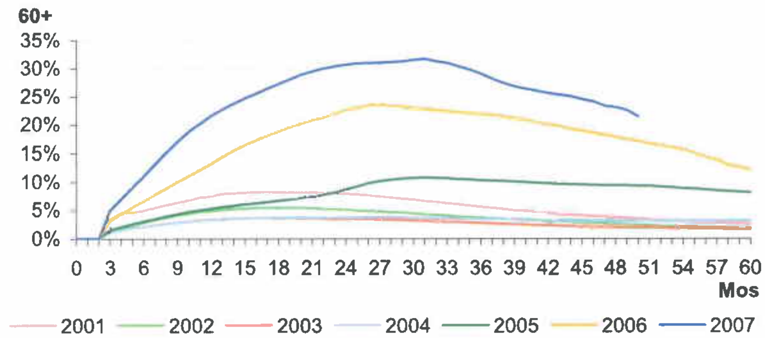
The discussion focused on the proposed Premium Capture Cash Reserve Account and other matters relating to the securitization of commercial mortgages.

The attached charts were distributed at the meeting by CREFC.

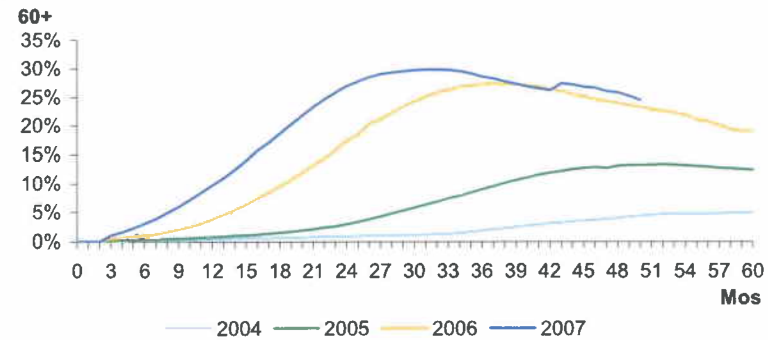
# Residential Performance by Loan Type

60+ day delinquencies of "bubble" vintage US MBS loans show ramp-up within 36 months

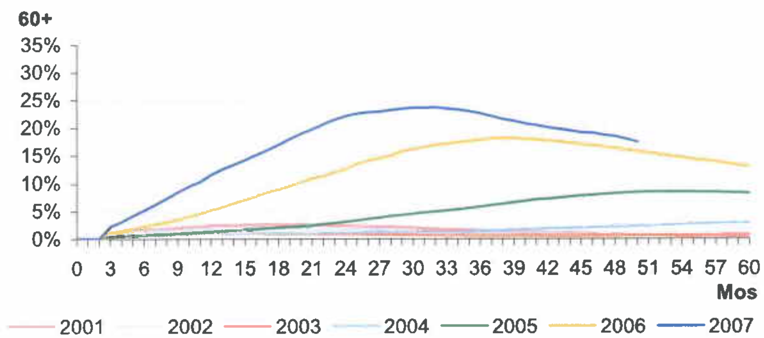
### Subprime



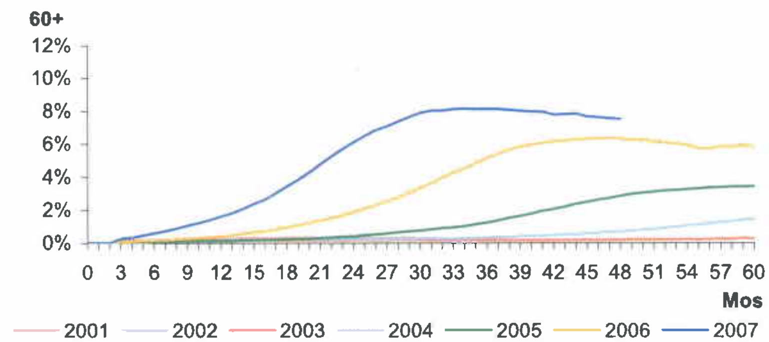

### Pay Option ARMS




### Alt A




### Prime




**Notes**

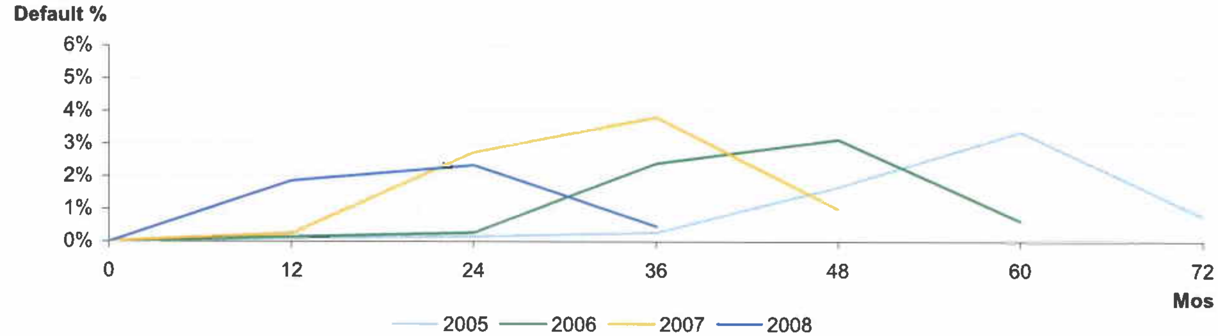
1. Bubble vintage refers to 2005, 2006 and 2007 issuances
2. 60+ day delinquencies only count new delinquencies; they do not include loans that were cured or liquidated
3. Performance data per each vintage is a weighted average by loan size
4. Source: Moody's

# CMBS Performance

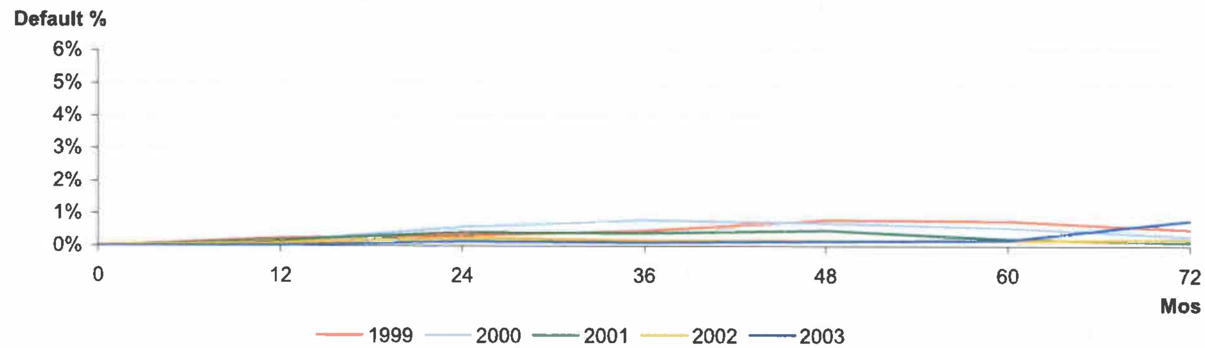
Trends are far better than in residential MBS, but slope of defaults is similar

- CMBS has performed well relative to residential mortgage securities
  - The worst performing vintage, 2007, hit a peak default of 3.81% in 2010, approximately three years post issuance
- Comparing the normalized vintages of 1999-2003 to the distressed vintages of 2005-2008, it is apparent that material underwriting issues surface within the first three years post issuance, a similar trend to residential MBS

**CMBS Defaults in Distressed Vintages**




**CMBS Defaults in Normalized Vintages**




**Notes**

1. Defaults are defined as the first incidence of 90+ day delinquency
2. Source: Morgan Stanley Research

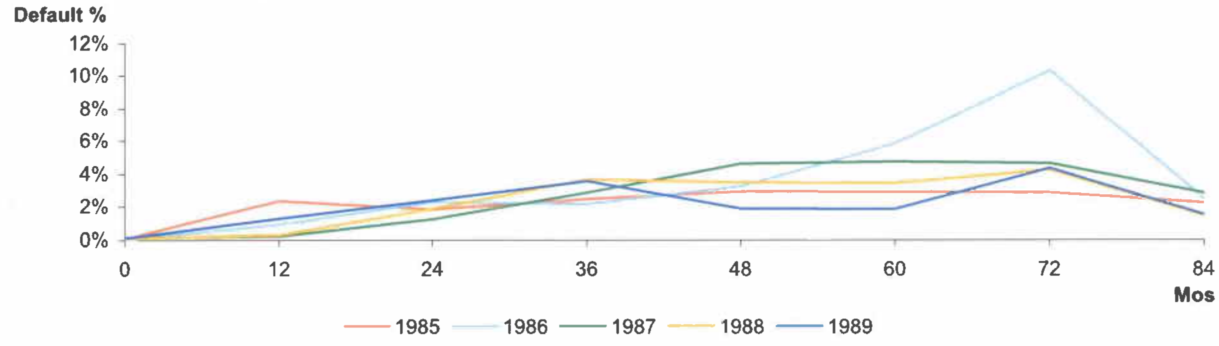
# Historic Commercial Loan Performance

ACLI performance data shows similar ramp-up trends during years with poor underwriting

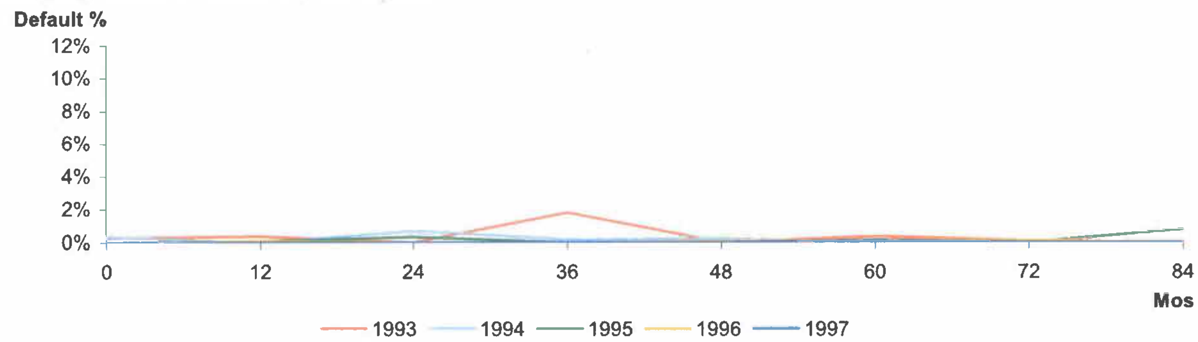
- Commercial real estate loan data from the American Council of Life Insurers shows that 1980s distressed defaults were significantly higher than 2000s distressed defaults and tended to peak three to six years after issuance

- Normalized default curves from the mid 1990s generally show peaks before the three year period

Life Company Loan Defaults by Loan Size




Life Company Loan Defaults by Loan Size




**Notes**

1. Defaults are defined as the first incidence of 90+ day delinquency
2. Source: Howard Esaki and Masumi Goldman, CMSA, Winter 2005