



The Effect of Countercyclical Constraints on Loan Returns

Comparing UK and German CMBS loan performance

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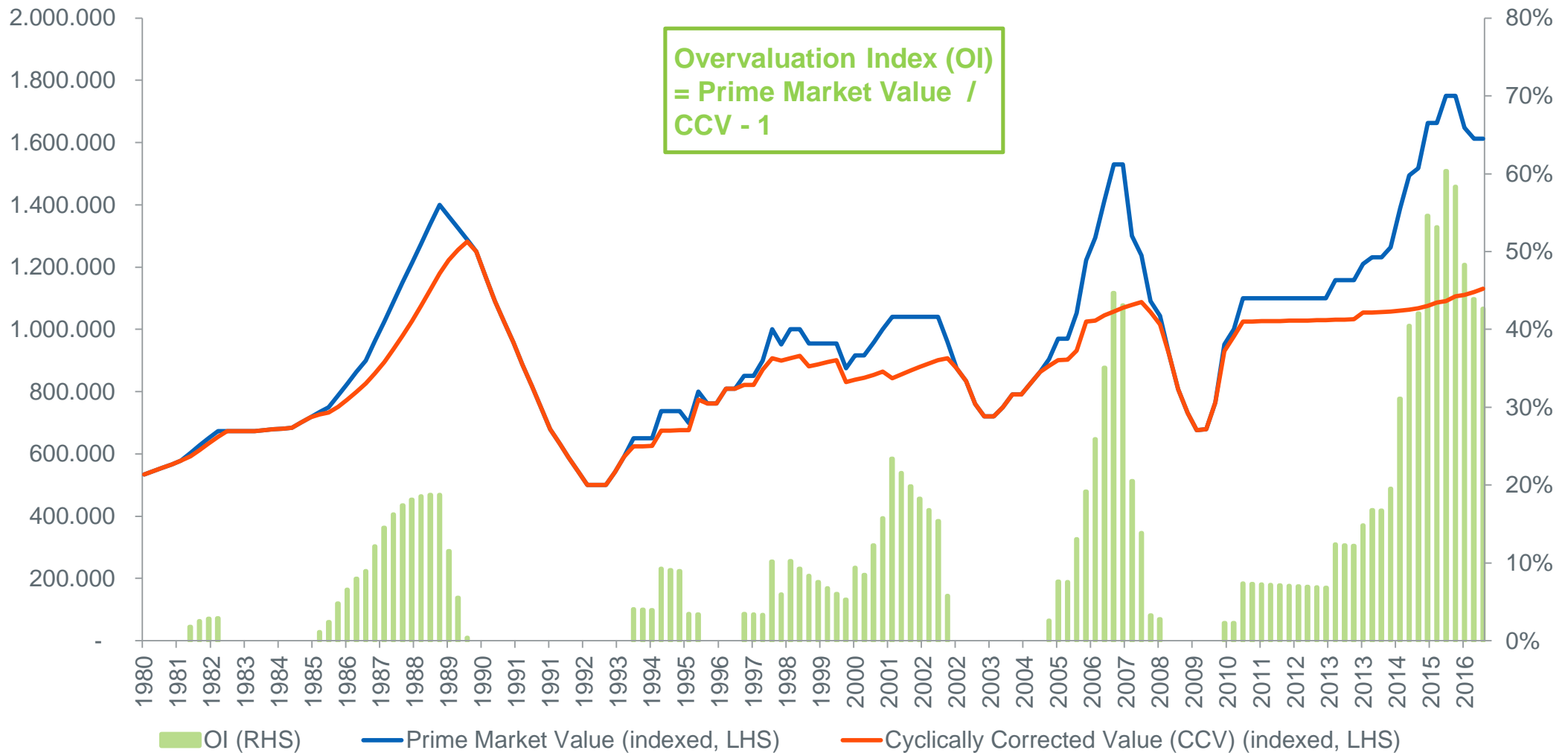
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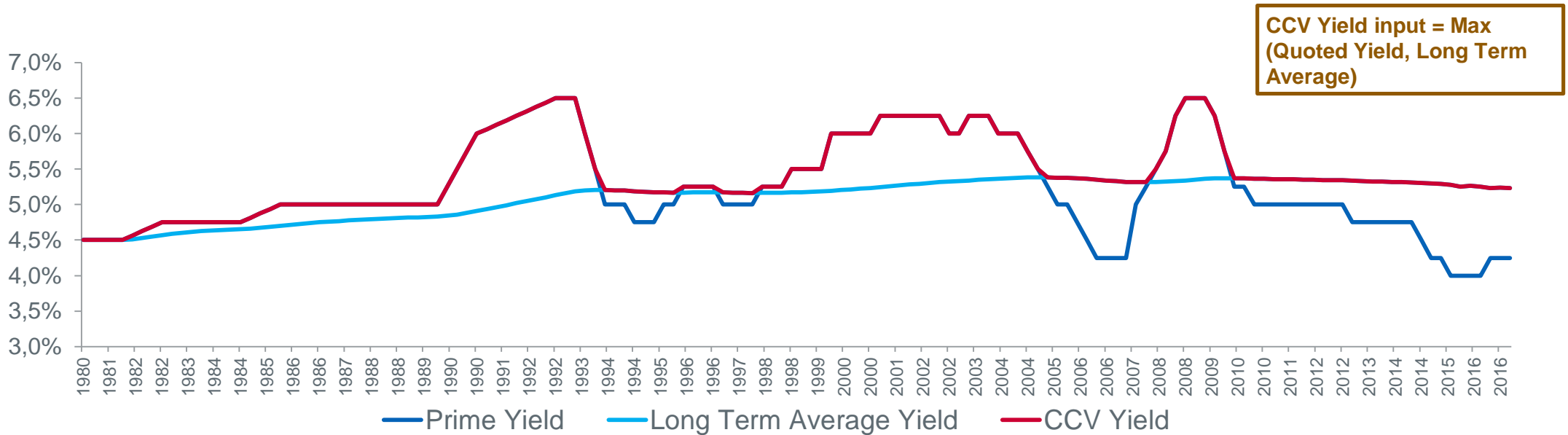
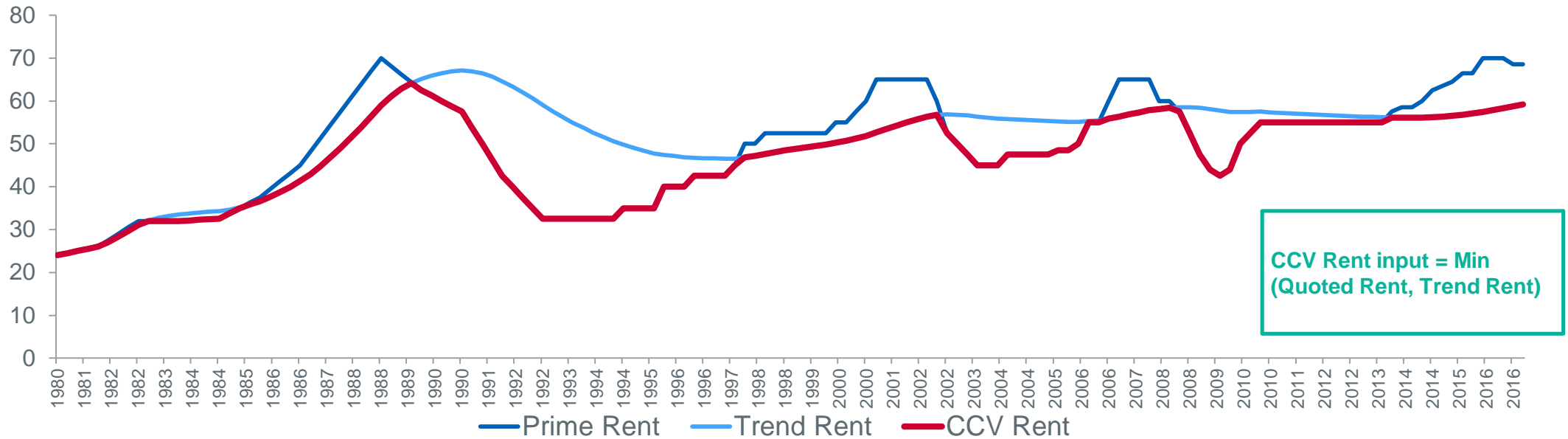


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Methodology – Overvaluation Index – London City Office Illustration



Methodology – Drilling down into rents and yields



Methodology – Loss calculation example

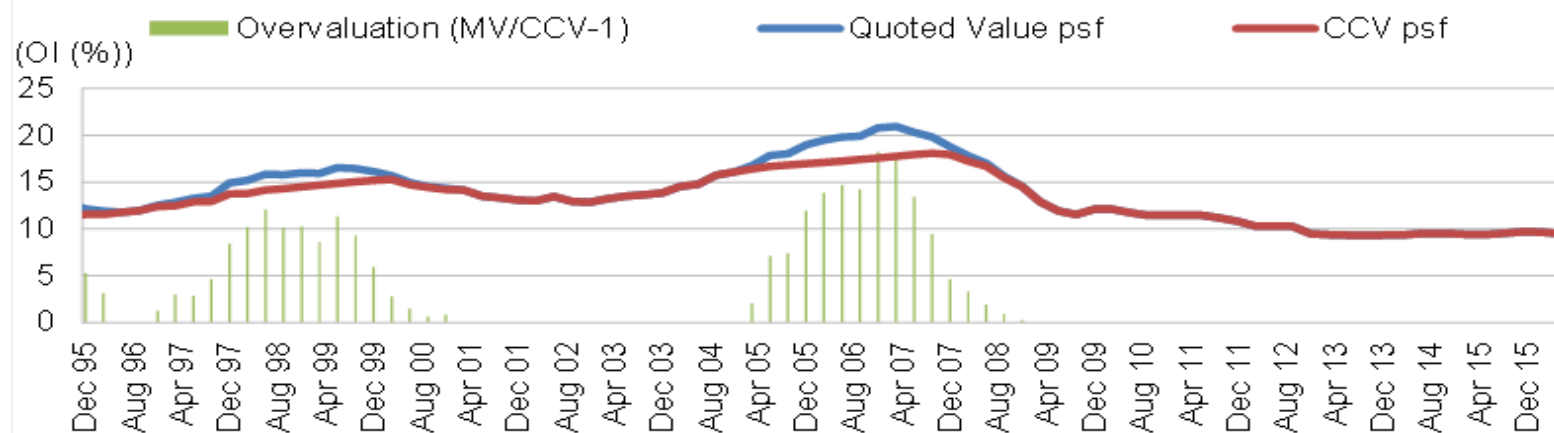


Market Value	Loan Balance (at origination) (A)	Asset Type	Closing Date	Original LTV	Loss Amount (C)	Loss Rate
3,050,000	2,400,198	Retail	Q3 2005	79.0%	686,457	29%

Assigned Market	OI	CCV	Original LTCCV	LTCCV (Loan to Cyclically Corrected Value))	Loan Balance Recalculated (B)	Loss Amount Recalculated (C – (A-B))	Loss Rate Recalculated
UK Retail West Midlands	6.9%	2,853,134	84.1%	75%	2,139,851	426,110	20%

UK Retail West Midlands Regional OI

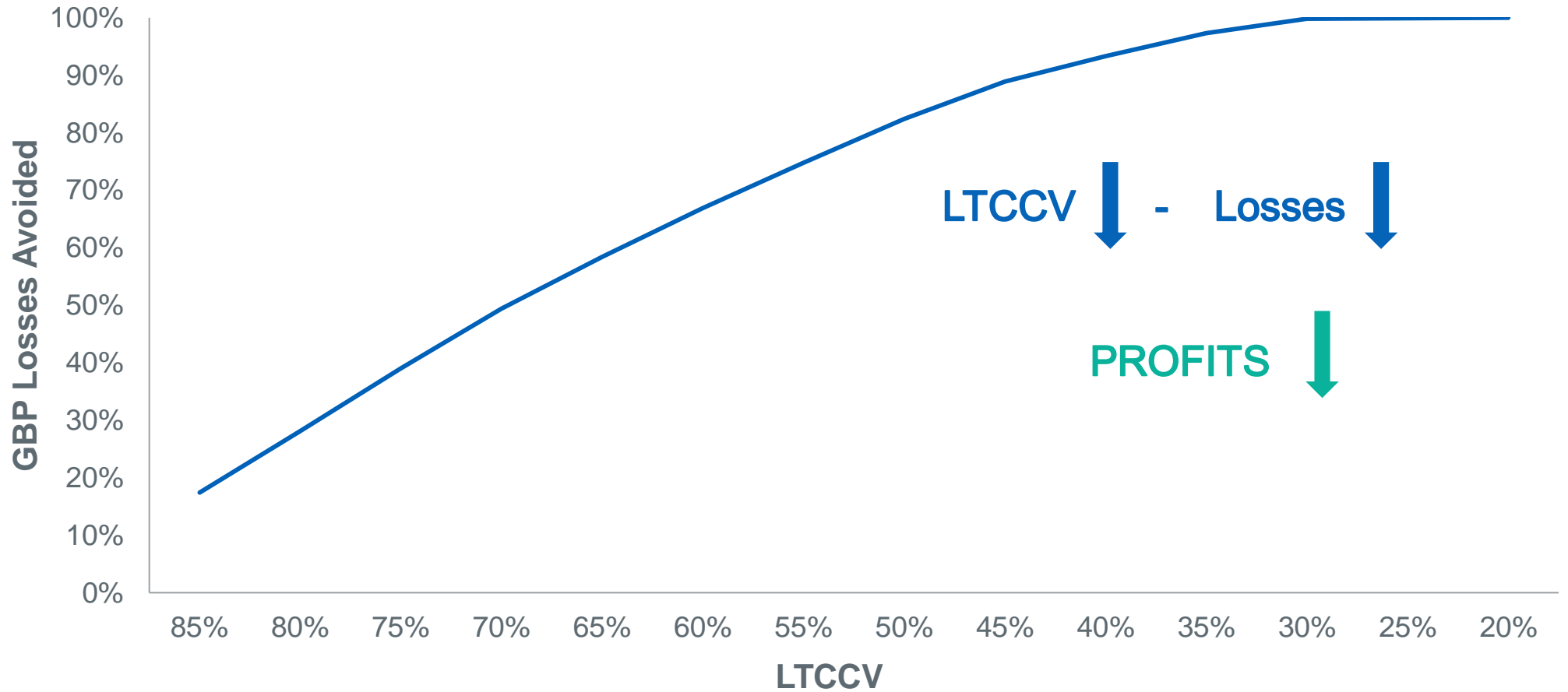
Overvaluation (MV/CCV-1)



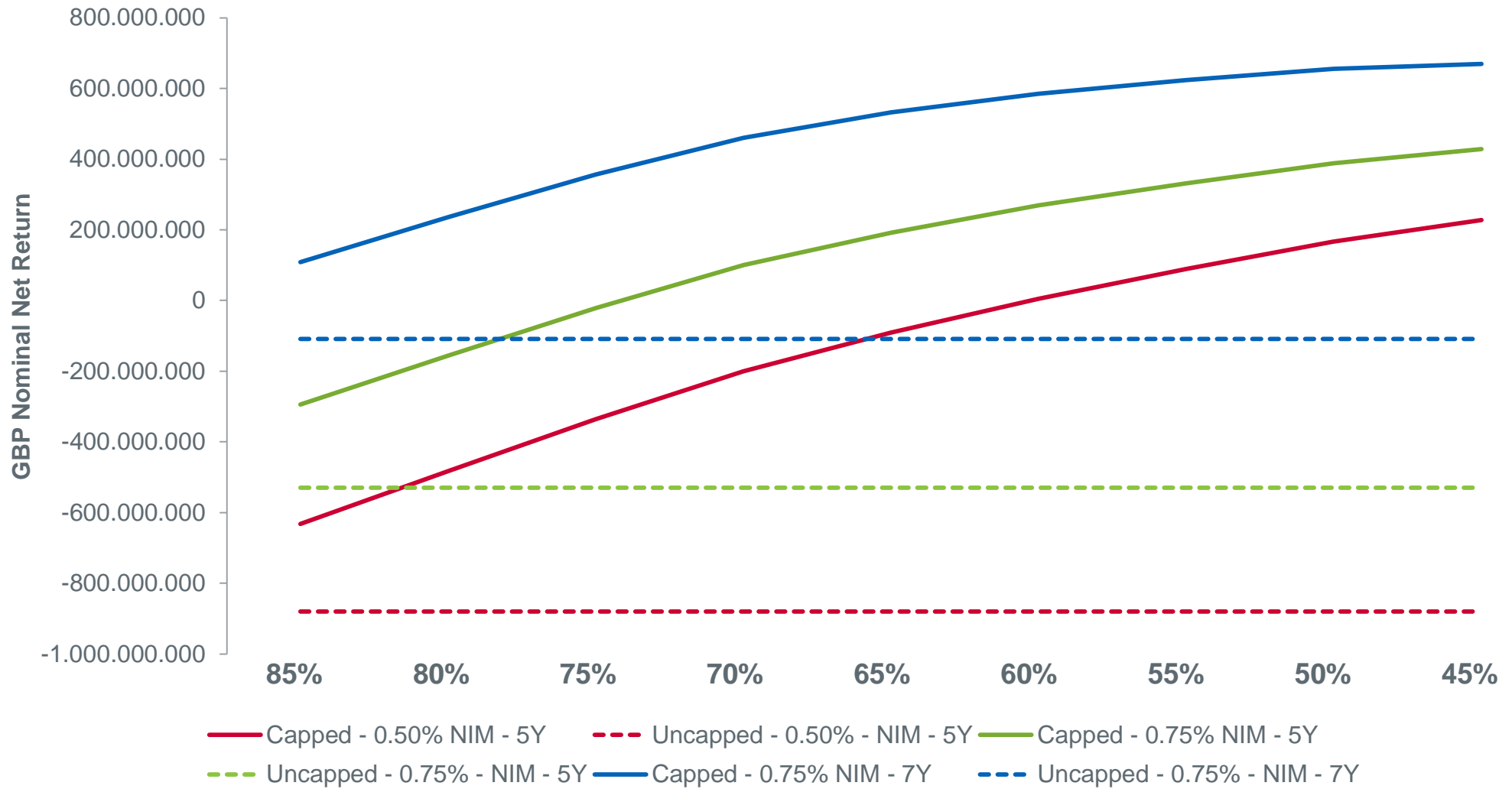
Source: Fitch, Cushman and Wakefield



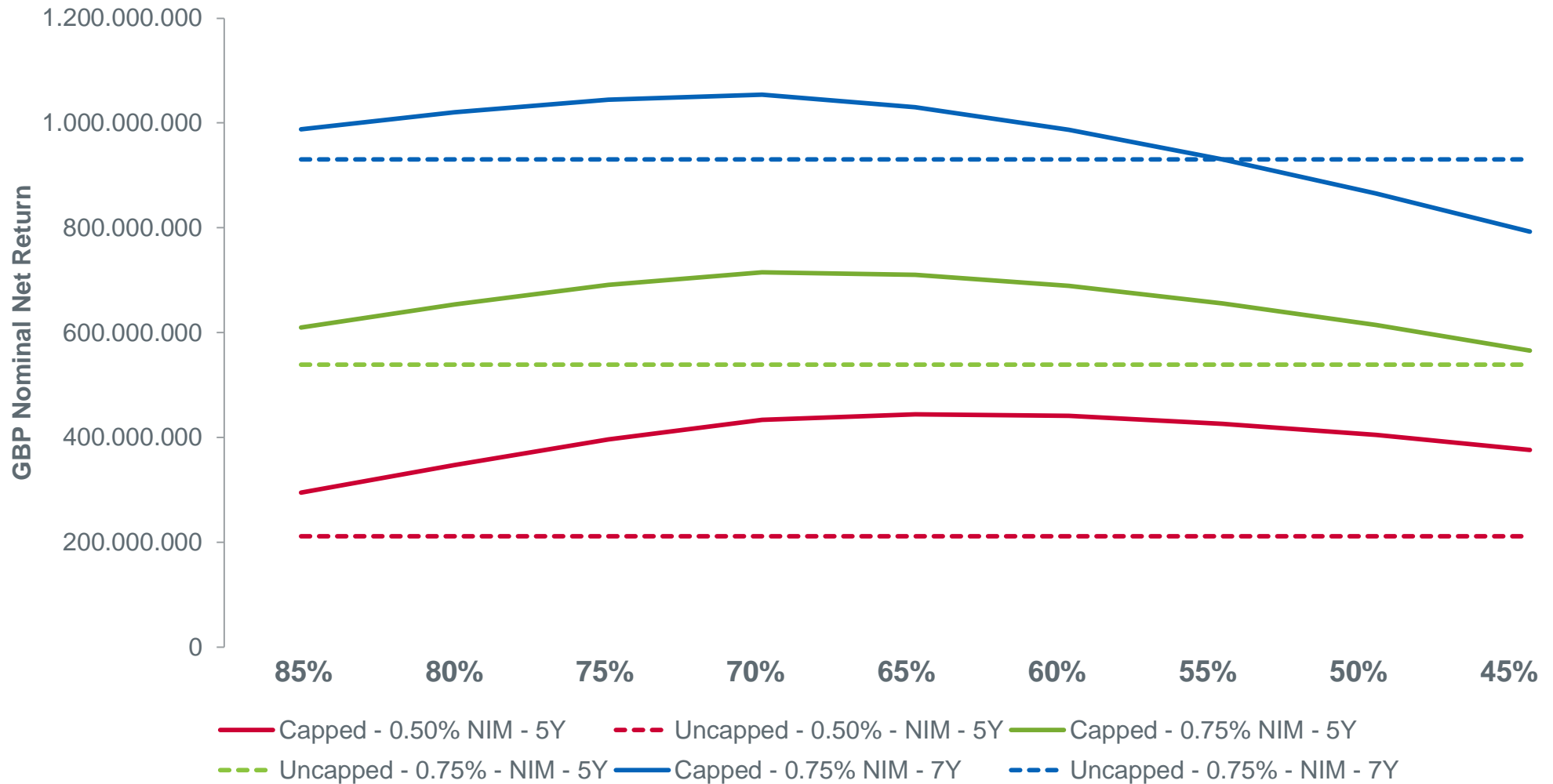
Nominal Losses Avoided by LTCCV Cap



Lending Returns by LTCCV cap, NIM and Loan Term (All loans)

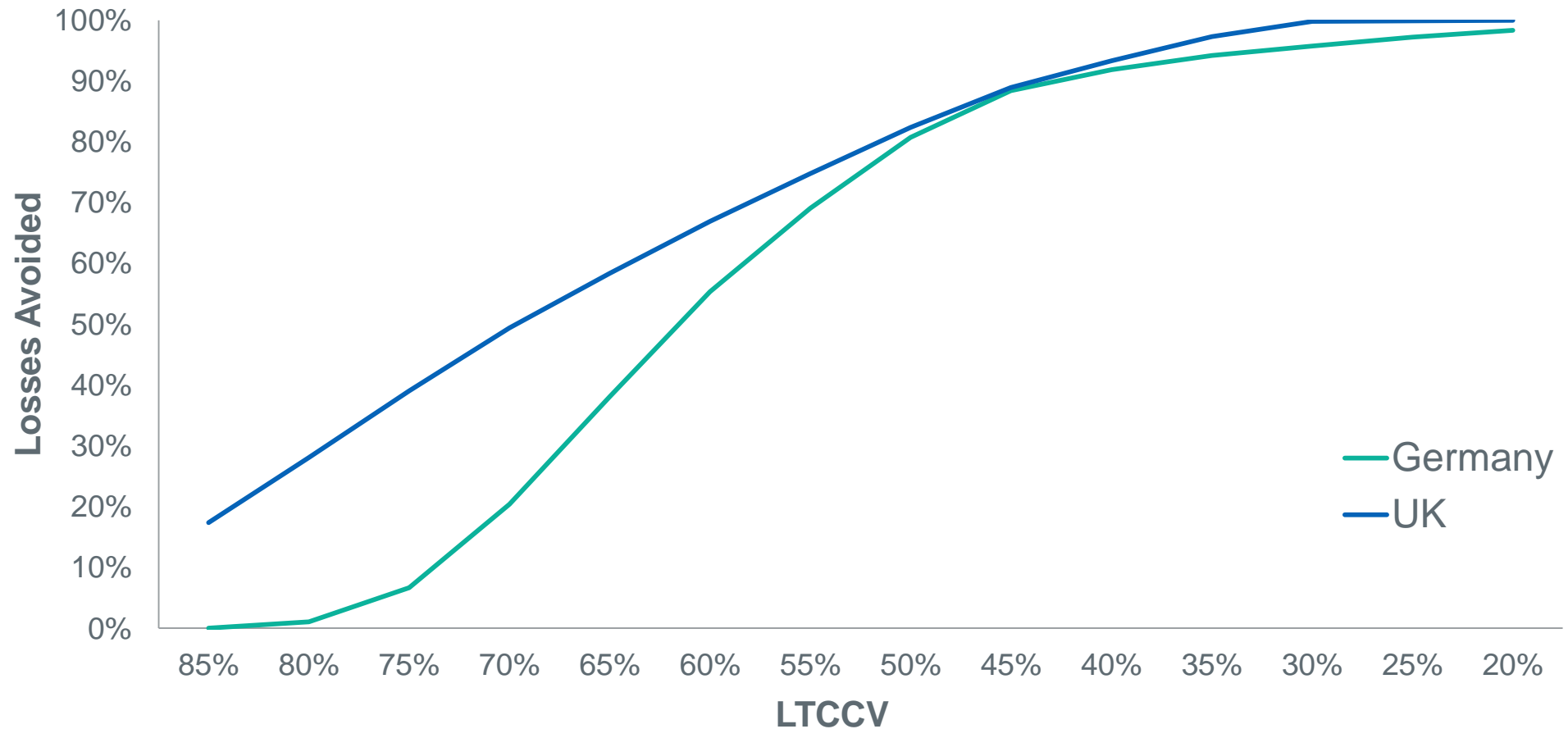


Lending Returns by LTCCV cap, NIM and Loan Term (Loans on Low Quality Property Removed)

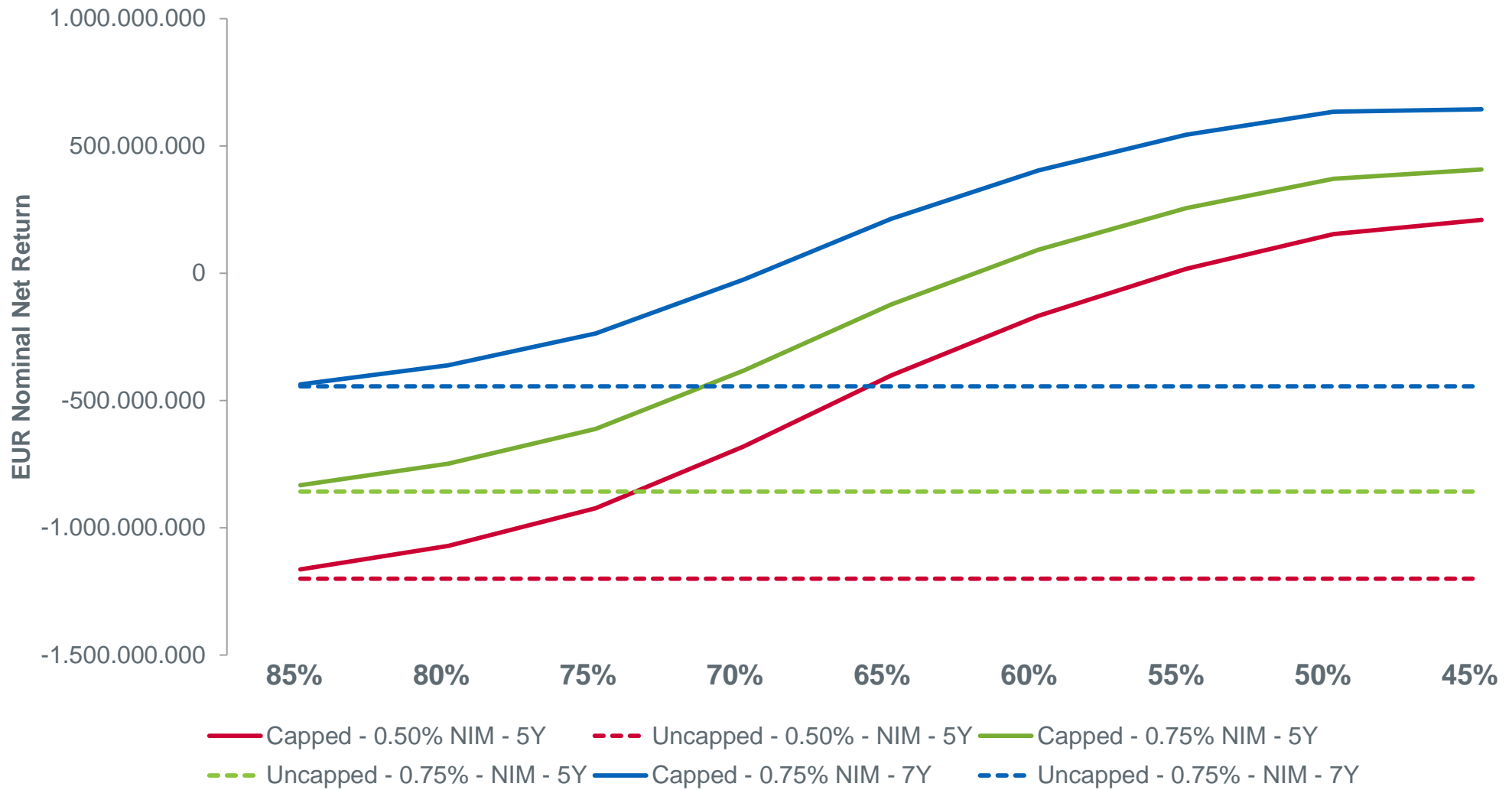




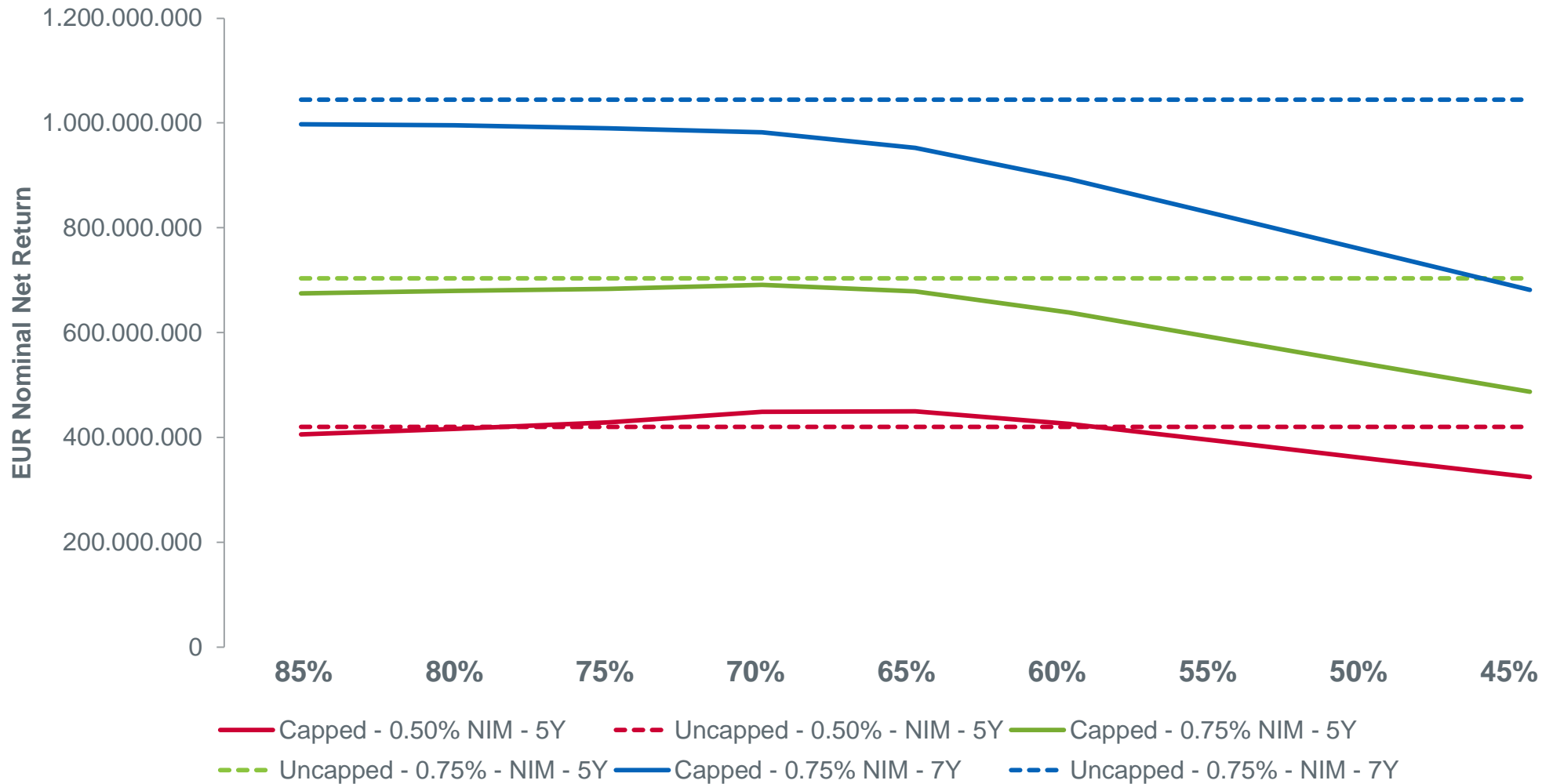
Nominal Losses Avoided by LTCCV Cap



German Lending Returns by LTCCV cap, NIM and Loan Term (All loans)



German Lending Returns by LTCCV cap, NIM and Loan Term (Loans on Low Quality Property Removed)



Benefits of the Approach



- Picks up signs of overvaluation better than LTV and ICR
- Picks up rental value excess when debt yield doesn't
- Alleviates the pressure to relax property quality standards, especially when yields tighten
 - Screening property quality is the primary safeguard to returns in both UK and Germany
- **BUT** it is an adjustment to Market Value - Valuation quality is of paramount importance

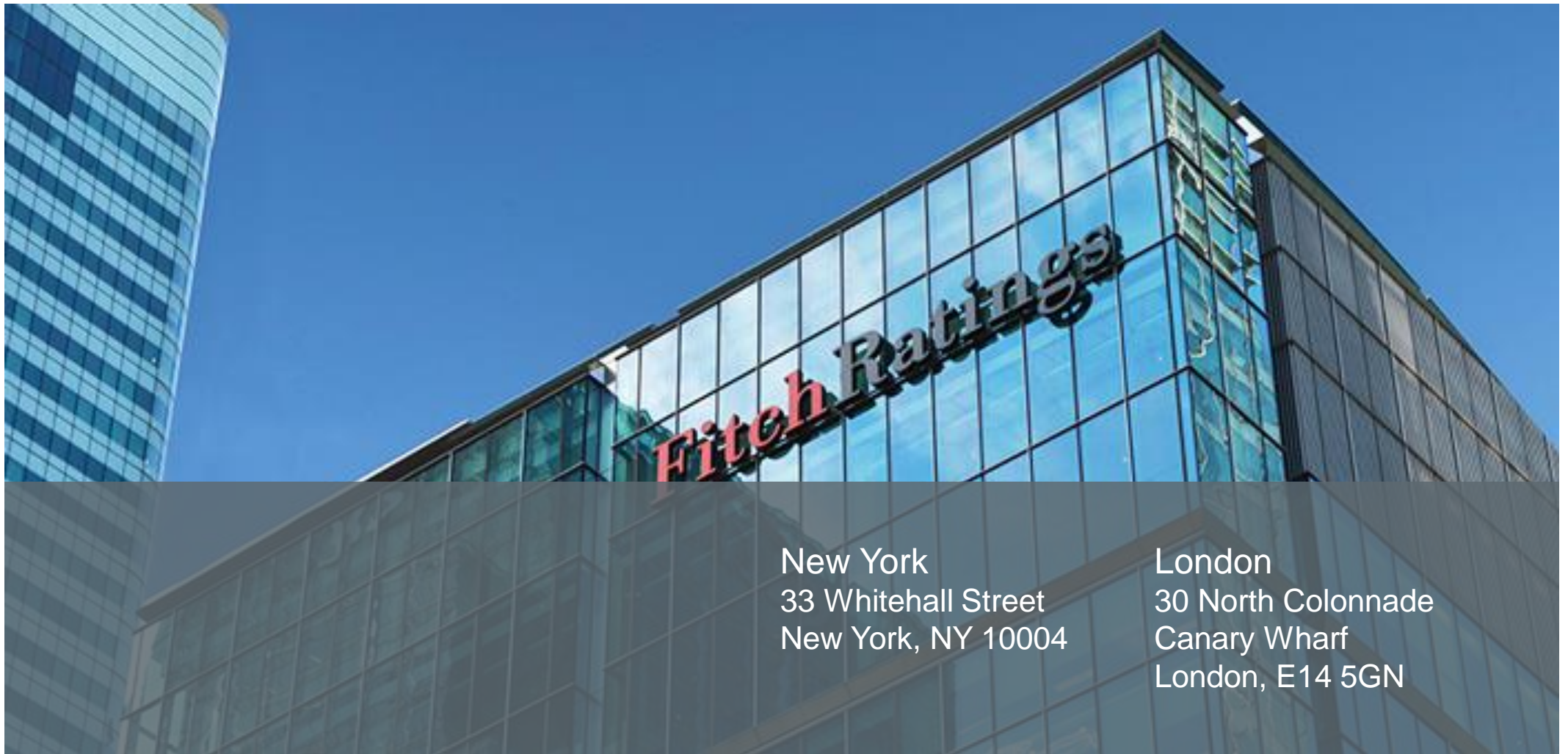
Simple, yet effective, means of managing credit risk – complementing vigilance over property quality

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