

Lending Exec Aims to Streamline Repayment of Securitized Mortgages

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By Orest Mandzy, Commercial Real Estate Direct Managing Editor.

A former investment banker is promising clients a relatively painless way of repaying commercial mortgages that been securitized.

Rob Finlay, who previously worked for the lending units of Deutsche Bank and Credit Suisse First Boston, has formed Commercial Defeasance, LLC in Charlotte, N.C. The firm helps borrowers deal with the defeasance provisions of securitized mortgages.

Put simply, defeasance is the repayment of a securitized mortgage using Treasury securities.

Usually borrowers whose loans are securitized are restricted from repaying their mortgages. They can get around those restrictions via defeasance -- that is, by substituting Treasury securities with comparable payment and yield characteristics for the loan that they plan to repay. So a borrower with at \$10 million mortgage that produced \$700,000 of cash flow per year for 10 years would have to substitute a Treasury security with a similar cash flow.

But the process of capitalizing on increased property values by refinancing securitized mortgages isn't simple. Borrowers generally have to negotiate with an investment bank to select the substitute securities and professionals -- attorneys, accountants, servicers, trustees and ratings agencies. As a result, a nominal volume of loans are defeased.

But things could change. Finlay estimates that many real estate investors whose mortgages were securitized in 1996-1998 could be sitting on substantial paper gains. A streamlined defeasance process could prompt them to pull the trigger and refinance or sell their holdings.

"It makes sense for the borrower and the bond buyer.", Finlay told Commercial Real Estate Direct, "It's not as expensive as a prepayment" and the commercial mortgage-backed securities deals credit quality improves because Treasuries have been substituted for mortgages.

Finlay got the idea to launch Commercial Defeasance when, as a lender for Deutsche Bank, a client expressed frustration with the process of prepaying a securitized mortgage. So a month ago, he quit the lender and started lining up a cadre of firms that would facilitate the defeasance process. He has also tried standardizing certain documents necessary to complete a defeasance, making the task easier for a deal's servicers, trustee and attorneys. "They should like this," Finlay said. "We provide them with a consistent package every time.."

It is not clear how large a market Finlay is trying to capture. Few securitized

loans have been retired in that fashion, but Finlay is confident that because the commercial real estate market is at or near its peak, some borrowers will examine the strategy closely in order to tap the increased value of their holdings.

Finlay will generally charge a base processing charge plus a fee based on the amount of the mortgage that is being retired.