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THE WEEKLY UPDATE ON REAL ESTATE FINANCE AND SECURITIZATION

Credit Suisse, 'IQ' Team Merge CMBS Deals

Faced with shrinking collateral pools, **Credit Suisse** and the **Morgan Stanley**-led "IQ" team have decided to combine their upcoming securitizations.

The two sets of issuers originally planned separate offerings totaling about $2.6 billion. But the collateral pools shriveled almost by half because some loans didn't close, others were kicked out by the B-piece buyer, and four members of the IQ team dropped out altogether.

Credit Suisse and IQ are now scheduled to bring their joint $1.4 billion offering to market in about a week. Credit Suisse will supply nearly half of the collateral pool. The rest will come from **PNC Bank** (30%), **KeyBank** (15%), **National City Bank** and Morgan Stanley. The offering will be written via IQ's shelf. Credit Suisse and Morgan Stanley will serve as co-bookrunners and co-lead managers.

The IQ team consists of a rotating group of banks and life companies assembled by Morgan Stanley. This marks the first time that Credit Suisse is participating in an IQ deal — and the first time that Morgan Stanley is sharing IQ bookrunner credit with another dealer. The combination helped the deal achieve critical mass. Investor demand currently is so weak that a deal with small class sizes would likely struggle to find buyers.

The combination was simplified by the fact that both of the original deals had the same B-piece buyer — **Hillenbrand Partners** — and both were rated by **S&P** and **Fitch.**

Sources said Hillenbrand pushed aggressively to remove collateral loans that it viewed as having questionable credit quality. With the market in a sharp downturn, B-piece buyers have newfound leverage to remove loans. They are especially seizing on mortgages written in early 2007, when lax underwriting standards were peaking.

IQ's collateral pool also was reduced when **Fifth Third Bank, Prudential Mortgage Capital, Genworth Financial** and **RBC Capital Markets** all opted out of the deal. The firms decided to warehouse their loans until the market improves, rather than sell during the market's worst slump. Cincinnati-based Fifth Third would have been making its CMBS debut. Genworth was planning to contribute loans written for its portfolio.

Another factor in the downsizing: Some loans scheduled to be included in the two original deals never closed, falling apart because of sagging market conditions.

The deal marks the first time that industry heavyweights Credit Suisse and Morgan Stanley are teaming up on a pooled fixed-rate CMBS transaction. The duo did join forces in 2005 on a $1.3 billion floating-rate loan that financed **Fillmore Capital Management's** $1.9 billion purchase of nursing-home operator **Beverly Enterprises.** ❖

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THE GRAPEVINE

Layoffs in the commercial mortgage industry spread to the life-company sector this week. **Principal Life** gave pink slips to 11 staffers, or about 10% of its mortgage group. The cuts, focused on junior and mid-level employees, such as analysts and junior originators. The reductions were prompted by a slowdown in the origination of both CMBS and balance-sheet loans.

The buzz is that **Redwood Trust** is looking for a seasoned CMBS executive to manage its B-piece investments. The Mill Valley, Calif., firm has hired search firm **FPL Partners** of Chicago to recruit candidates. Redwood is seeking to replace CMBS veteran **Clay Barnes,** who left recently after a three-year stint. The firm bought the B-piece of one CMBS deal last year, down from four in 2006.

Metz Cap has joined the lender exodus from Canada. The Short Hills, N.J.,

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Borrowers Cool to Strict, Low-Spread Loans

Trying to spur business, **Credit Suisse** recently started offering below-market spreads on high-quality loans, but demand has been so weak that it is expected to discontinue the program.

The effort, unveiled to brokers at the **Mortgage Bankers Association's** annual conference in early February, was seen as a bold step reflecting Credit Suisse's confidence in the market. The bank offered to write 10-year, fixed-rate loans pegged to swaps plus 212 bp — well inside the break-even spread of 350-400 bp for securitization programs.

The spread in some cases is lower than the level currently charged by most portfolio lenders. Mortgage brokers say insurers are lending at 250-350 bp over Treasuries (equal to roughly 185-285 bp over swaps), depending on the amount of leverage and the collateral.

But even with such attractive pricing, "it's remarkable how little activity the

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Eye-Popping Yields Fail to Lure Investors

A year ago, commercial MBS dealers were offering triple-B commercial MBS at a 5.9% yield and turning away buyers. Now, an 18% yield can't attract investors.

How can that be?

CMBS veterans on the buy and sell sides cite a variety of reasons, including the decimated credibility of rating agencies, shorting of the synthetic CMBX index by speculators and uncertainty over prospects for the real estate market.

But the overriding reason, they say, is that most investors, battered by losses and reined in by senior managements, just aren't willing to buy at any price.

Many investors dipped into the market when triple-A spreads seemed so attractive at 75 bp over swaps, and then 100 bp, and then 150 bp — only to end up seeing prices fall further. At this point, they have pretty much been battered into submission, unwilling to buy when they think prices are likely to be lower in coming weeks.

By any historical measure, CMBS is selling at extraordinary yields. In the "TOP"

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