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THE WEEKLY UPDATE ON REAL ESTATE FINANCE AND SECURITIZATION

Insurers Team Up on CMBS Purchase

In an unusual move, the B-piece buyer of a commercial MBS deal now in the market has arranged for a handful of life companies to circle many of the transaction's remaining classes.

Meanwhile, spreads on synthetic commercial MBS rallied a whopping 50 bp this week, driven by **Federal Reserve** steps to provide more support for the wobbly economy. And the first floating-rate securitization of the year priced. The $1.5 billion deal, backed by a portfolio of La Quinta hotels, was led by **Merrill Lynch, UBS** and **Bank of America.**

The maneuver with the insurance companies involved an $887.2 million fusion offering co-led by **Credit Suisse** and **Morgan Stanley.** The B-piece buyer, **Hillenbrand Partners,** has agreed to buy all of the tranches ranging in grade from triple-B-plus to unrated, with a total face amount of $64.3 million.

The twist is that Hillenbrand lined up several insurance companies to buy the seven classes immediately senior to the triple-B-plus class — up to the junior triple-A tranche. Those classes total $113.1 million.

Meanwhile, Credit Suisse and Morgan Stanley continue to shop the six senior triple-A classes, totaling $709.8 million.

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THE GRAPEVINE

Fortress Investment has hired CMBS veteran **Wayne Potters** to structure large-loan transactions and maintain rating-agency relationships. Potters spent several years in **Merrill Lynch's** large-loan group before being laid off in January amid a round of cutbacks. He previously had stints in the CMBS groups of **Credit Suisse, Daiwa Securities** and **Fitch.**

CIBC has hired originator **Brett Gaffan,** who was at **Morgan Stanley** for the past six years. Gaffan, who is based in New York, will work on all of CIBC's loan products. He was the second originator hired from Morgan Stanley this year. **Joseph Korosec** recently enlisted in Atlanta, after being laid off by Morgan Stanley following a stint of nearly two years. Gaffan and Korosec are both directors. Meanwhile, CIBC is looking to hire several originators in California. The bank recently laid off about five CMBS analysts and underwriters.

Former **Merrill Lynch** executive **Mark Sweeney** has landed at **Alliance Private Capital.** Sweeney, a director, will broker loans for Alliance's clients and invest in

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DiDonato Jumps to Sorin From Capmark

Securitization veteran **Brian DiDonato** has joined hedge fund operator **Sorin Capital** to help expand the firm's commercial real estate debt portfolio.

DiDonato, who headed **Capmark's** fund business for the past six years, was named a senior partner. He will work with Sorin founder and chief executive **Jim Higgins** as a portfolio manager of commercial real estate products.

Sorin invests in fixed-income products, including commercial MBS, via a $1.6 billion hedge fund. Higgins and DiDonato will oversee efforts to broaden Sorin's investments in commercial real estate debt and equity. The duo also will work together to manage the firm's growth and overall strategy.

The hiring is a coup for Sorin, which has prospered in a down market by aggressively shorting fixed-income securities. The firm's fund has returned 14.5% annually since being formed in 2004, with a 27% net return to investors last year. Sorin, which has 25 employees, recently hired CMBS trader **Chuck Mather** from **Bank of**

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Sammann Out as Deutsche Trims CMBS Unit

Deutsche Bank laid off about 15 staffers from its U.S. commercial MBS group this week, including managing director **Todd Sammann,** a six-year veteran who headed the large-loan group.

As part of the reshuffling, Deutsche transferred its remaining large-loan staff into the mortgage syndications unit. The move reflects the collapse of the large-loan CMBS market, in which Deutsche was one of the earliest and most aggressive players. By merging the two groups, Deutsche will be able to operate more efficiently during the market slump, while retaining the ability to pursue loans when a rebound occurs.

Deutsche has now cut about two dozen CMBS staffers in the U.S. — roughly 10% of the group — since the market collapsed late last year. There have been widespread layoffs throughout the industry as the origination of CMBS loans has dried up.

Deutsche also laid off a few staffers in its commercial real estate operation in

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Insurers Don't Rush to Fill CMBS Loan Void

Even though the freeze-up in the securitization market has crippled their main rivals, insurance companies aren't increasing their lending activity.

While insurers generally expect to end up matching their origination volumes of last year, lending has gotten off to slow start in the first quarter. Among the reasons: Commercial MBS investments are relatively attractive, refinancing rates on portfolio loans have slowed, the economic slump has reduced investment needs and the financial market turmoil has prompted insurers to proceed with caution.

Allstate, Metropolitan Life, Principal Financial and other insurers said that the lofty yields now available on CMBS have made bonds — particularly older-vintage securities — more-attractive investments than newly originated loans.

Principal, for example, has focused on secondary-market purchases of CMBS in the first quarter, although the insurer still expects to originate a healthy amount of

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The arrangement with the life companies is seen as a positive development for the battered CMBS market, because it provides a guaranteed buyer pool for tranches that in recent offerings haven't always been placed.

Hillenbrand organized the insurers and evidently negotiated on their behalf. The arrangement appeared to provide benefits to all sides. The dealers locked in buyers in a tough market. The insurers presumably gained some price concessions and certainty of execution by working as a block. And Hillenbrand ensured that a transaction to which it was already committed wouldn't fall apart.

"It's a plus when more of the deal is circled," said one investor. "If the B-piece buyer is the only one hanging out there, that's not a positive. It helps to say that more of the deal is actually getting placed."

Executives at Hillenbrand and the dealers declined to comment.

The transaction is backed by loans contributed by Credit Suisse (77.1% of the collateral-pool balance), **KeyBank** (16.9%) and **National City** (6%).

The offering, only the third U.S. commercial MBS deal this year, had a circuitous path to market, reflecting the volatility in fixed-income sectors. Originally, Credit Suisse and Morgan Stanley's "IQ" brand planned separate offerings totaling $2.6 billion. But when loans fell out of their respective pools, they discussed a combined $1.4 billion offering under the IQ shelf. Later, some of the expected participants dropped out, reducing the size of the deal further and moving it to Credit Suisse's shelf.

Meanwhile, the rally on the synthetic side was driven by the Fed's moves. The cost of buying protection on recent-vintage super-senior paper plunged to 226 bp, from 277 bp earlier in the week. In the CMBS secondary market, spreads pulled in to about 250 bp over swaps for recent-vintage super-senior bonds, from about 280 bp earlier in the week.

The LaQuinta deal had been shopped since late last year. The senior triple-A class, with a 49% subordination level, priced at 225 bp over Libor (see Initial Pricing on Page 10). ❖