MEMORANDUM

TO: File No. S7-14-11

FROM: Jay Knight
Special Counsel
Office of Structured Finance
Division of Corporation Finance
U.S. Securities and Exchange Commission

RE: Meeting with Representatives of CRE Finance Council

DATE: February 22, 2012

On February 1, 2012, Katherine Hsu, Rolaine Bancroft, Jay Knight, David Beaning, and Steven Gendron of the Division of Corporation Finance, and Eric Emre Carr of the Division of Risk, Strategy, and Financial Innovation participated in a meeting with the following representatives of the CRE Finance Council ("CREFC"):

- Stephen Renna, CEO, CREFC
- Michael Flood, VP, CREFC
- Martin Schuh, CREFC
- Warren Friend, Managing Director, BlackRock Solutions
- Timothy Gallagher, Managing Director, Morgan Stanley
- Scott Sinder, Steptoe & Johnson
- Joseph Philip Forte, Alston & Bird LLP

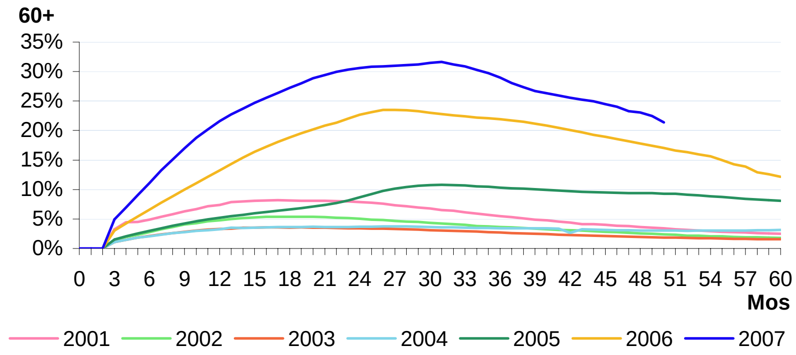
The participants discussed topics related to the Commission's March 30, 2011 proposals regarding credit risk retention. A handout is attached to this memorandum.

Attachment

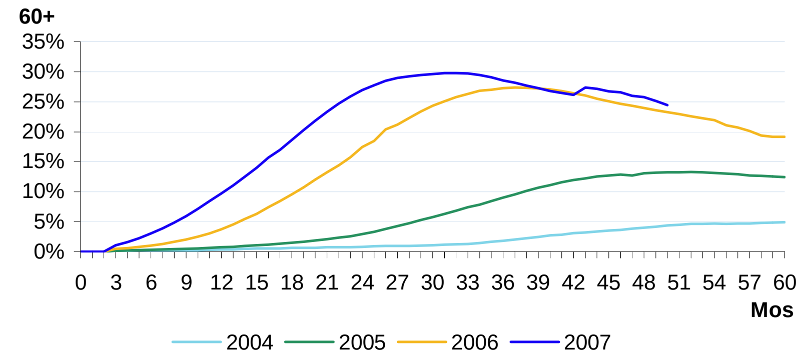
Residential Performance by Loan Type

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

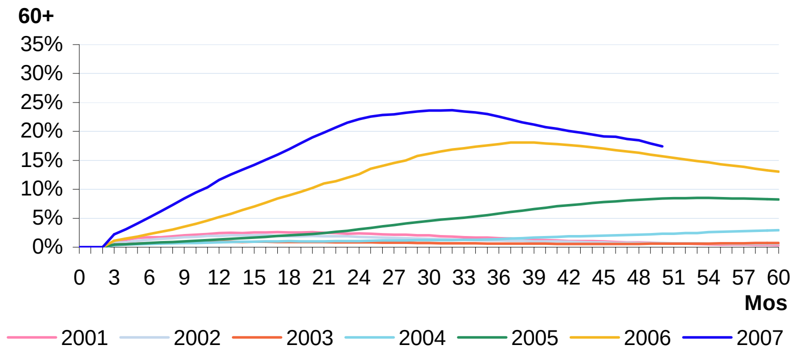
Subprime



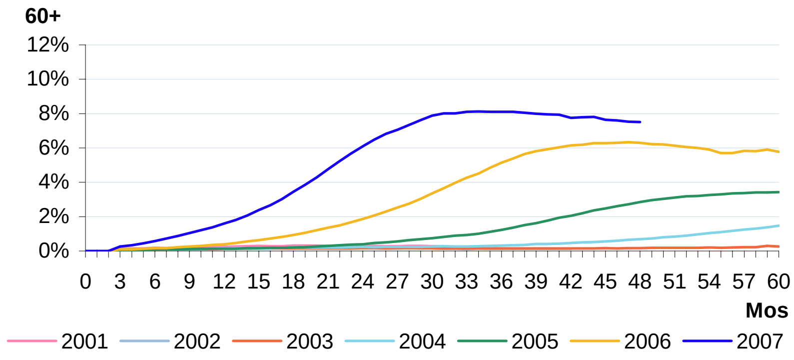
Pay Option ARMS



Alt A



Prime



Notes

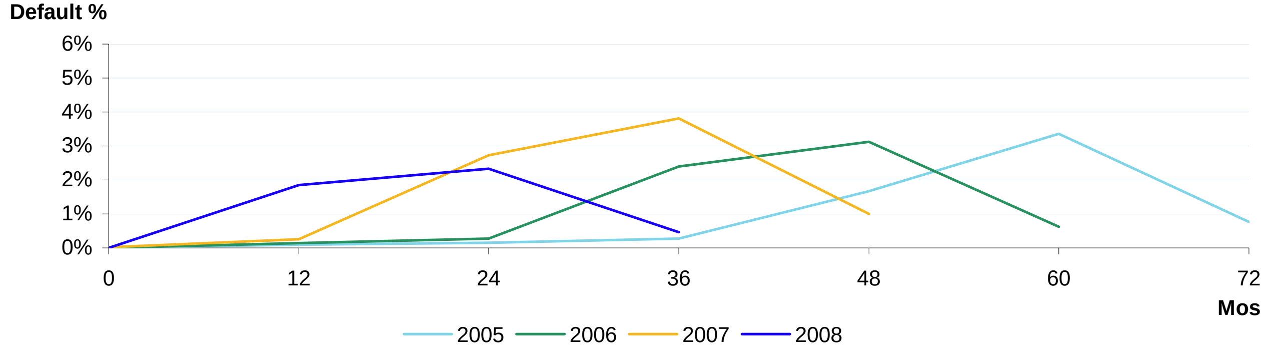
1. Bubble vintage refers to 2005, 2006 and 2007 issuances
2. 60+ day delinquencies only count new delinquencies; they do not include loans that were cured or liquidated
3. Performance data per each vintage is a weighted average by loan size
4. Source: Moody’s

CMBS Performance

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

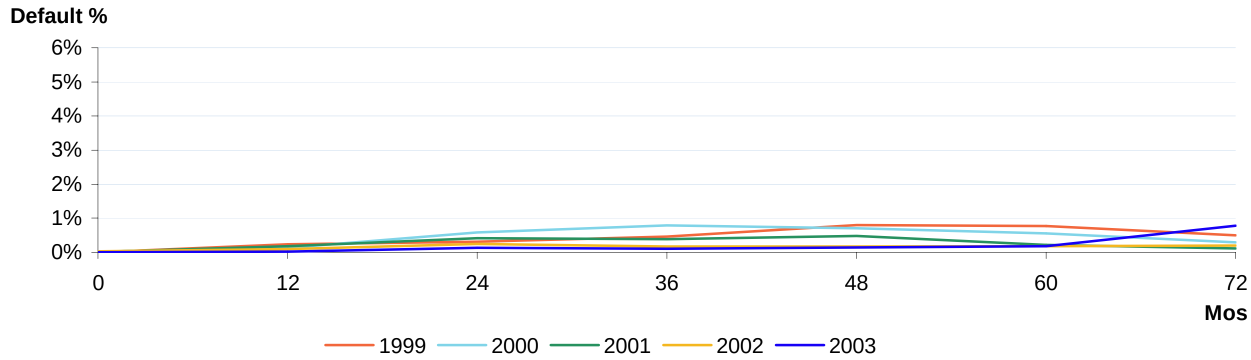
- CMBS has performed well relative to residential mortgage securities
  - The worst performing vintage, 2007, hit a peak default of 3.81% in 2010, approximately three years post issuance

CMBS Defaults in Distressed Vintages



- 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 Normalized Vintages



Notes

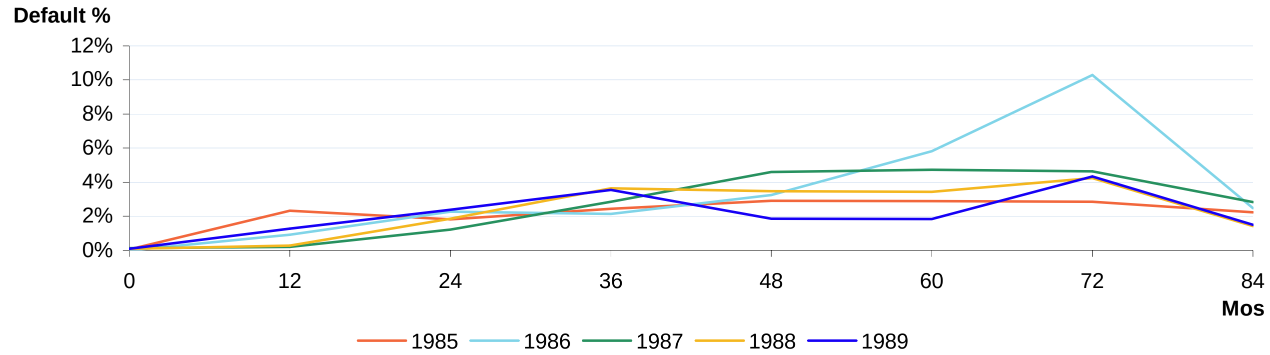
1. Defaults are defined as the first incidence of 90+ day delinquency
2. Source: Morgan Stanley Research

Historic Commercial Loan Performance

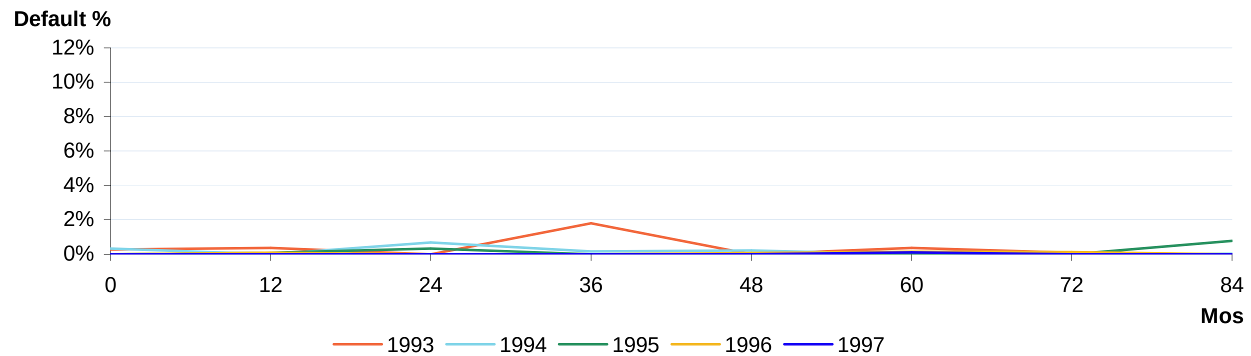
ACLI performance data shows similar ramp-up trends during years with poor underwriting

- 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