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Commercial Mortgage

THE WEEKLY UPDATE ON REAL ESTATE FINANCE AND SECURITIZATION ALERT

Small-Balance Lending Plunges

Small-balance commercial mortgage originations took a nosedive in the first quarter, reflecting the overall market decline in lending.

Volume fell by 17%, to $24.8 billion, from the fourth quarter and by an even steeper 28% from the first quarter of last year, when originations totaled $34.3 billion, according to **Boxwood Means,** an analytics firm that follows the small-balance market.

"These numbers aren't pretty," said **Randy Fuchs,** a Boxwood principal, who noted that the quarterly volume was the lowest since his firm started tracking the small-balance market in 2006. Much of the decline was attributed to continued worries about the weakening real estate market and the loss of lending sources.

Until last year, mortgages with balances of up to $5 million were seen as the next frontier for commercial MBS. But since the subprime debacle pulled down the whole fixed-income sector, many small-balance lenders have either cut back severely on their originations or gone out of business. The most recent casualty, **Lehman Brothers Small Business Finance,** stopped making loans about two weeks ago.

Lenders that still originate small-balance mortgages — notably **First National Bank of Alaska, Imperial Capital, KeyBank, Principal Real Estate Investors** and **Royal Bank of Canada** — are selling their multi-family loans to **Fannie Mae** and **Freddie Mac.** Given the agencies' mission, only apartment and manufactured-housing loans are eligible for purchase.

While acquisition loans have dwindled, the volume of loans for refinancing has held up better: $17 billion in the first quarter, down 10% from a year earlier. Loans for refinancing accounted for 68% of first-quarter volume, up 13 percentage points from the same period last year.

Fuchs saw little cause to expect an origination rebound later in the year, given the continued softness of the economy and the bad news from the finance sector. ❖

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THE GRAPEVINE

Lehman Brothers has closed its small-business lending unit, called Lehman Small Business Finance. The subsidiary, based in Lake Forest, Calif., originated and securitized loans of up to $5 million for small businesses, which pledged their properties as support for the credits. The loans are akin to small-balance commercial mortgages, whose origination has plunged in the wake of the credit crunch (see article on Page 3).

Originator **Fred Fanganello** has joined **Capmark** as a senior vice president, based in Denver. He will focus on loans in Colorado, reporting to senior vice president **Robert Jennett.** Fanganello was previously a senior vice president at **Column Financial, Credit Suisse's** securitization unit, based in Newport Beach, Calif. Before joining Column in 2004, Fanganello spent 12 years as a principal at **Guarantee Finance,** a now-defunct Denver mortgage bank.

Pacific Life is seeking a senior real estate capital markets coordinator for its real

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ORIX Snags B-Piece Portfolio, Irking Rival

ORIX Capital Markets has agreed to buy a $500 million B-piece portfolio from **J.P. Morgan** in a transaction criticized by one major high-yield investor that wasn't given an opportunity to bid.

Market players said that J.P. Morgan didn't unload the bonds at fire-sale prices, but rather was able to negotiate a price that was not a deep discount to book value. One source put the price at "north of $200 million," but declined to be more specific. No J.P. Morgan personnel are moving over to Dallas-based ORIX as part of the transaction.

The portfolio contains the below-investment-grade bonds from more than 80 commercial MBS deals that were floated mostly between 1997 and 2002, when underwriting standards were more conservative.

J.P. Morgan assumed most or all of the portfolio via its 2004 takeover of **Bank One.** J.P. Morgan continued to operate Bank One's Chicago-based B-piece group and made limited B-piece purchases over the past few years. The size of J.P. Morgan's

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CalSTRS Seeking $2.5 Billion of Mortgages

California State Teachers plans to raise $2.5 billion of secured financing on a portfolio of unencumbered commercial properties — and is willing to consider tapping the commercial MBS market.

The giant pension system is seeking low-leverage financing, equal to only 50-60% of the portfolio's value. The most likely route would be to arrange mortgages on individual properties via multiple portfolio lenders. No single portfolio lender would be willing to take down such a large chunk of debt.

However, CalSTRS will also look into the possibility of using the CMBS market, which would enable it to raise the financing in one fell swoop.

Right now, that option looks like a long shot, given the illiquidity in the CMBS sector. But the transaction would have the hallmarks of the type of deal seen as likely to lead the CMBS sector out of the doldrums: a low leverage, plain-vanilla offering backed by quality properties owned by a single borrower with a strong

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S&P Taps Jacob as Structured-Finance Chief

David Jacob, a fixed-income researcher and structuring specialist well known in commercial MBS circles because of his long stint at **Nomura,** has landed a top job at **S&P.**

Jacob will be named global head of structured finance, according to market players. In his new position, Jacob will oversee analysts who rate CMBS, residential MBS, asset-backed and CDO transactions. Jacob and an S&P spokesman did not return calls.

Jacob is replacing **Joanne Rose,** who was S&P's structured-finance chief for nearly nine years. In January, she transferred to a newly created post — executive managing director for risk and quality policy, which entails analyzing clients' exposures to potentially shaky investments and compiling risk-related observations from various departments. **Vickie Tillman,** an executive vice president, has been filling in as

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