Solano EDC Breakfast Event

Commercial Finance Update
“Defrosting the Market”

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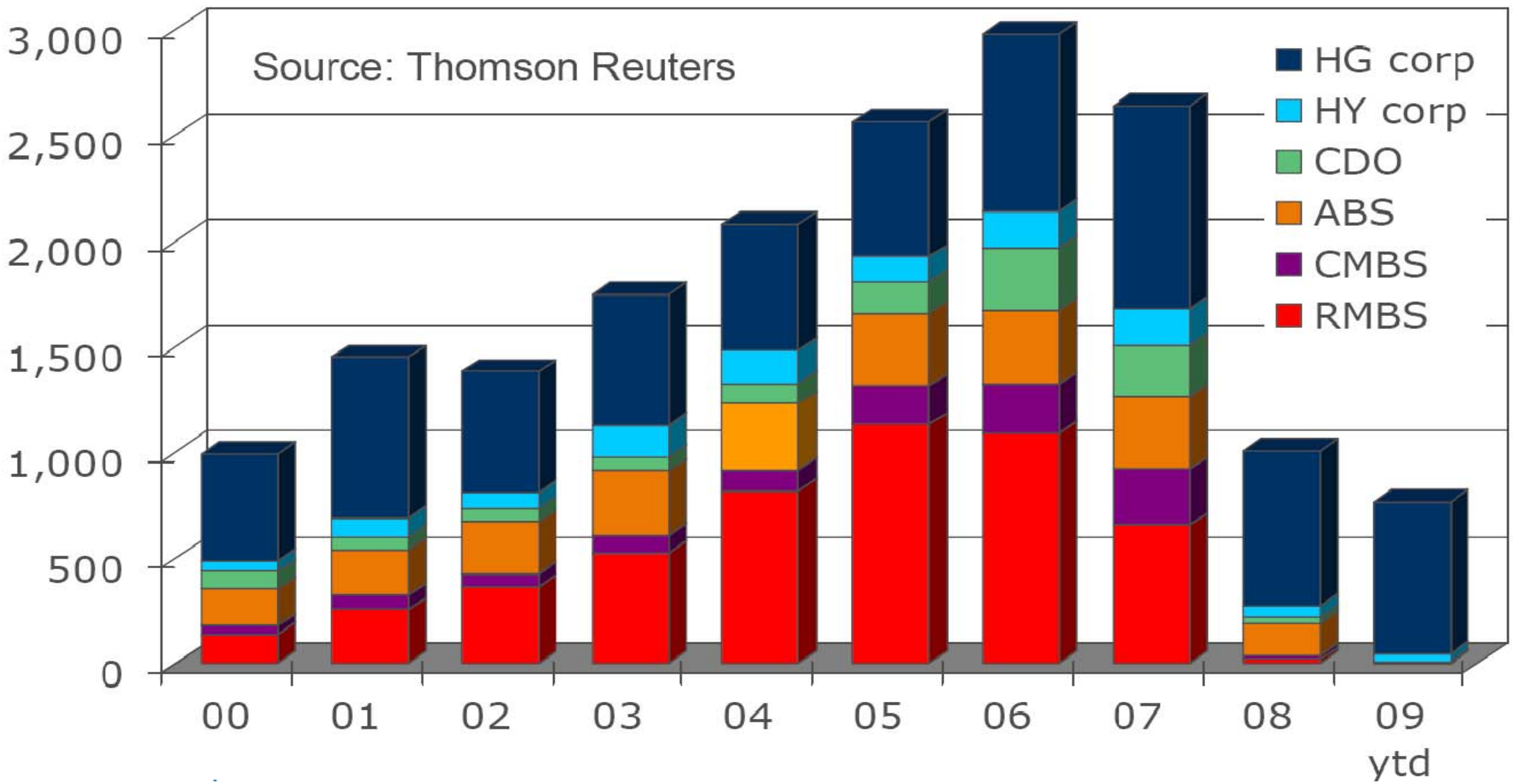
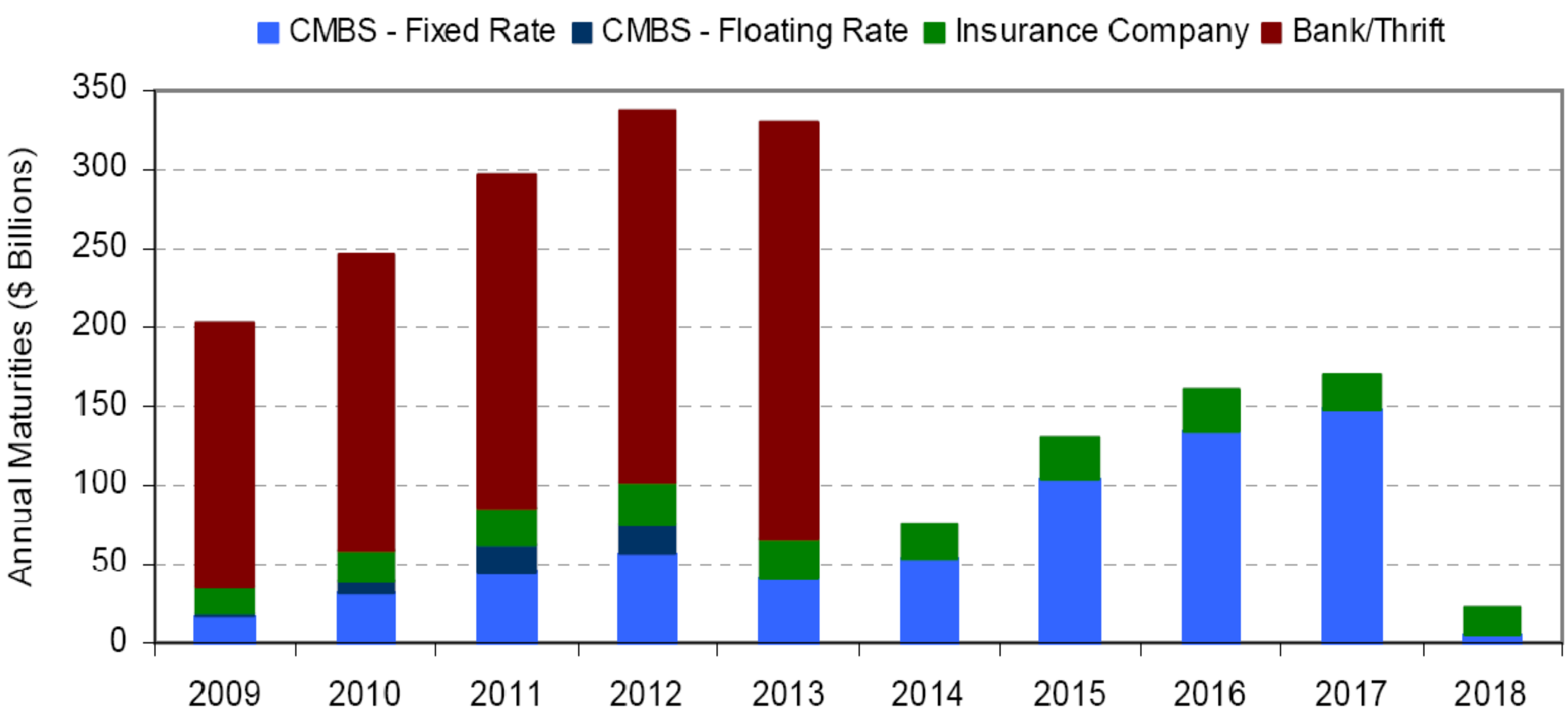
Shutting Tight

Bond issuance, $ billion, annualized

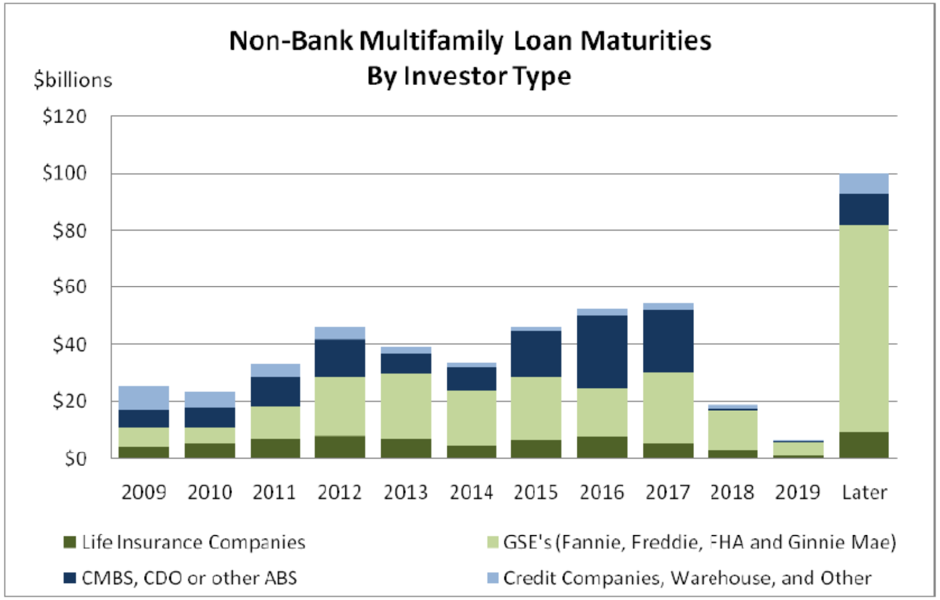


Estimated Maturity Profile of Commercial Mortgages in CMBS, Bank and Life Company Portfolios



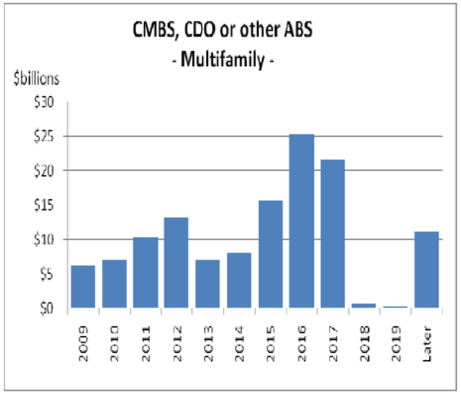
Source: Deutsche Bank, Intex, Trepp, Mortgage Bankers Association, Federal Reserve

Non-Bank Multifamily Loans



Commercial Mortgage-backed Securities (CMBS), Collateralized Debt Obligations (CDOs) and other Asset-backed Securities (ABS)

Of $128 billion of multifamily mortgages held in CMBS, CDOs or other ABS, $6.3 billion will mature in 2009, followed by $7.1 billion in 2010, meaning approximately 10 percent of the outstanding balance will mature this year and next. Subsequent years will see volumes of maturities rise then fall, including $10.5 billion of current unpaid principal balance maturing in 2011, $13.3 billion maturing in 2012, $7.1 billion maturing in 2013, and $8.1 billion maturing in 2014. As the 10-year loans that were made in 2005, 2006 and 2007 begin to mature, volumes will again rise, hitting $15.8 billion in 2015, $25.5 billion in 2016 and $21.6 billion in 2017. Maturing volume falls to $0.8 billion in 2018 and $0.4 billion in 2019. Loans maturing after 2019 have a current UPB of $11.1 billion.

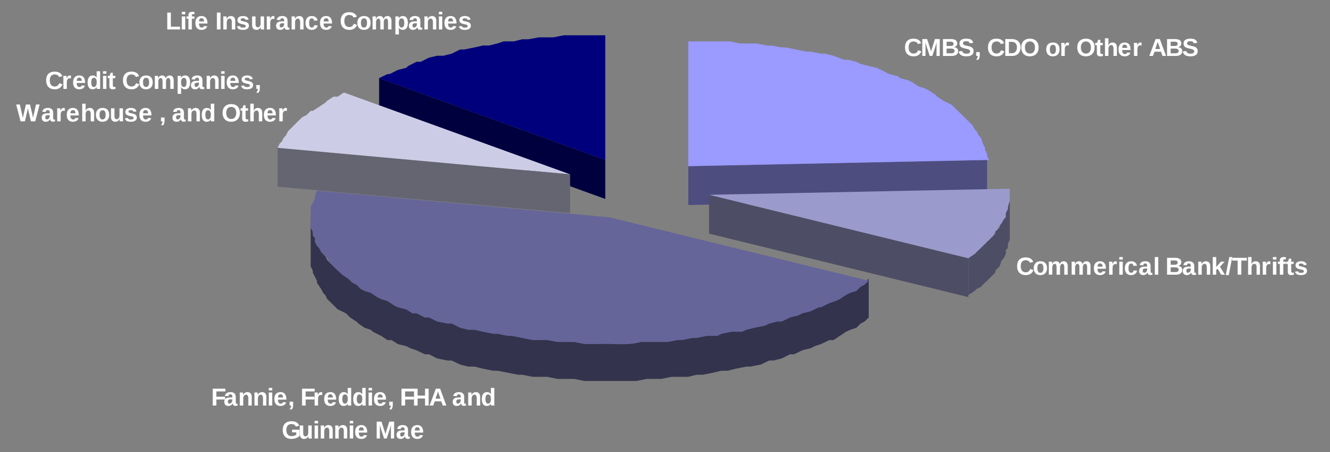


Because CMBS mortgages are held in a trust, servicers have some limits on how they deal with the maturing mortgages. In general, servicers have greater discretion in extending and modifying fixed-rate CMBS mortgages, and more proscribed discretion in extending and modifying floating-rate mortgages. In either case, a servicer manages the process to maximize benefits to the trust. CMBS master servicers have no discretion with respect to forbearance, extension or modification of either fixed-rate or floating-rate loans, other than those activities which are specifically provided for in the loan documents. The special servicer has significant discretion in providing forbearance, extension or modification of either fixed-rate or floating-rate loans, subject to the servicing standard. The servicing standard requires

Table 2. Multifamily Totals By Investor Type

($ billions)	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Later	TOTAL
CMBS, CDO or other ABS	$6.3	$7.1	$10.5	$13.3	$7.1	$8.1	$15.8	$25.5	$21.6	$0.8	$0.4	$11.1	$128.2
Commercial Bank/Thrifts	$4.4	$2.8	$2.2	$0.8	$0.6	$0.5	$0.4	$0.6	$1.5	$1.7	$0.6	$30.1	$47.3
Fannie, Freddie, FHA and Ginnie Mae	$6.4	$5.3	$11.1	$20.2	$22.6	$19.0	$22.0	$16.7	$24.5	$13.5	$4.5	$72.4	$238.3
Credit Companies, Warehouse, and Other	$8.5	$5.5	$4.5	$4.5	$2.1	$1.4	$1.6	$2.4	$2.8	$1.3	$0.3	$6.7	$42.7
Life Insurance Companies	$4.5	$5.6	$7.0	$8.1	$7.1	$4.8	$6.6	$7.7	$5.4	$3.3	$1.3	$9.5	$71.1
TOTAL	$30.1	$26.3	$35.3	$46.8	$39.5	$33.9	$46.4	$52.8	$55.9	$20.6	$7.1	$129.9	$527.7

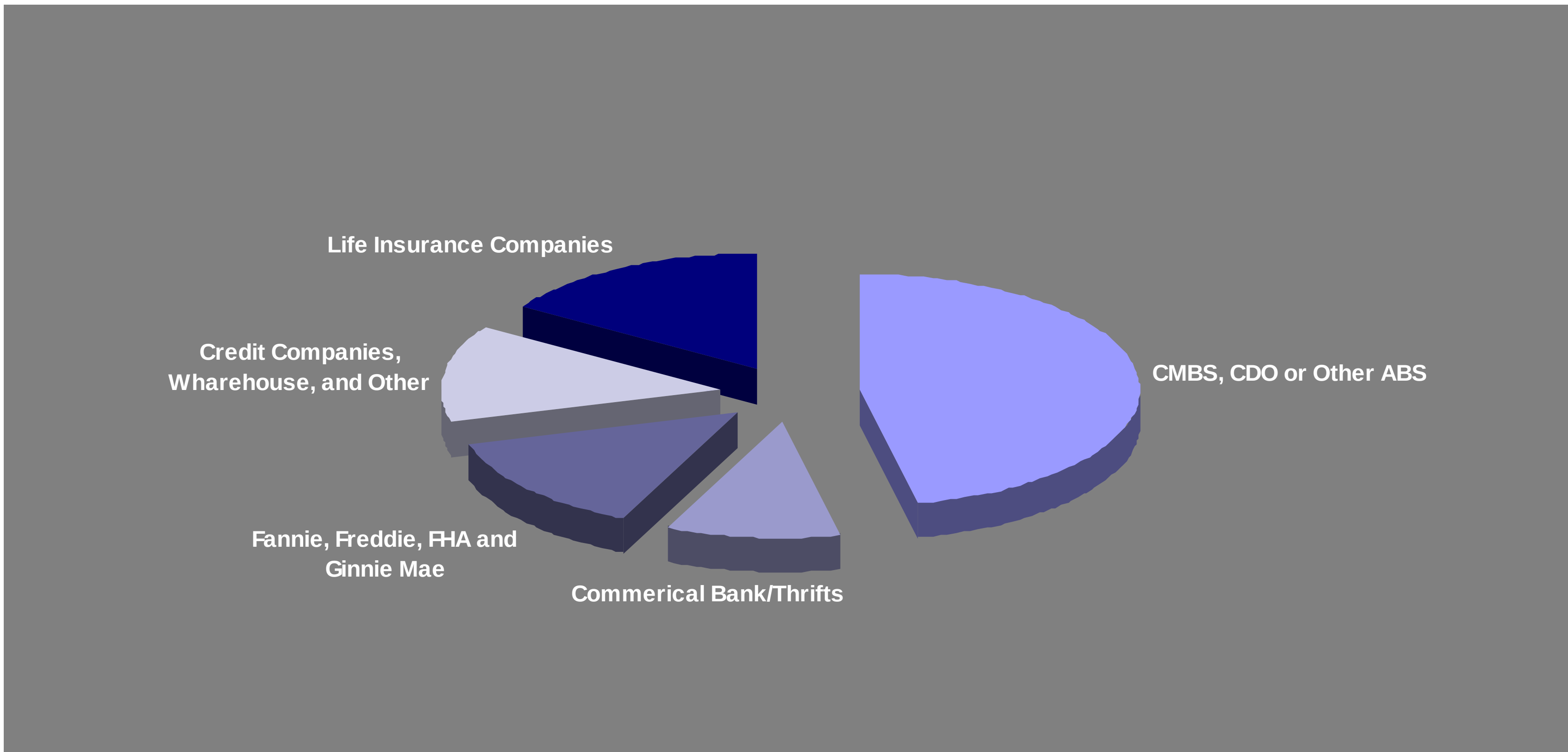
Note: Total may not equal sum of years as a result of outstanding balance of loans that matured in previous years.



($ billions) Totals from 2009-2019

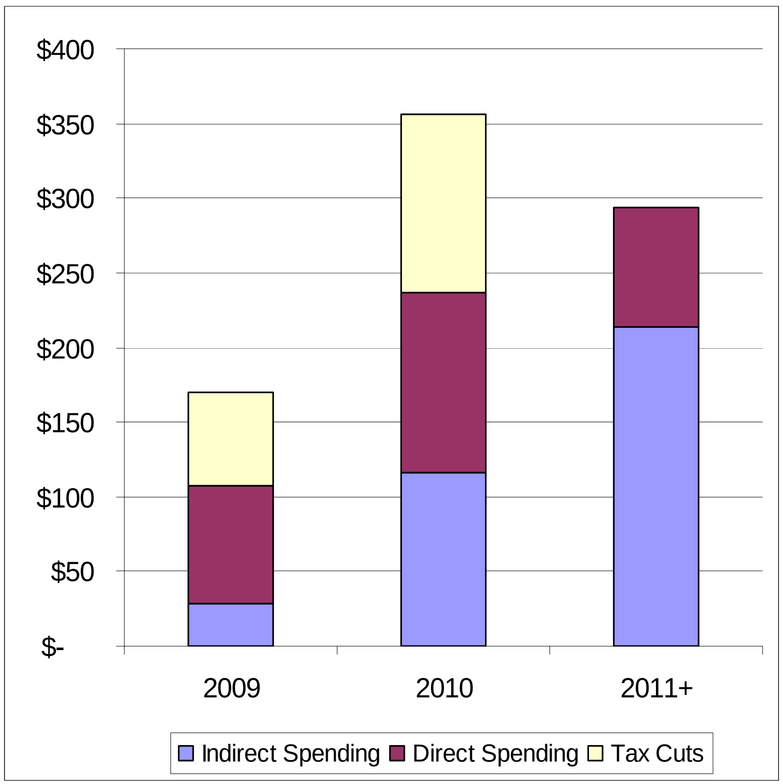
Table 1. Total Maturities By Investor Type

($ billions)	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Later	TOTAL
CMBS, CDO or other ABS	$90.5	$61.9	$51.5	$60.4	$48.0	$53.0	$98.2	$136.6	$137.1	$7.2	$3.4	$53.8	$805.5
Commercial Bank/Thrifts	$46.5	$26.6	$15.3	$10.9	$4.8	$2.6	$3.3	$4.0	$10.1	$5.8	$1.1	$37.8	$173.3
Fannie, Freddie, FHA and Ginnie Mae	$6.4	$5.3	$11.1	$20.2	$22.6	$19.0	$22.0	$16.7	$24.5	$13.5	$4.5	$72.4	$238.3
Credit Companies, Warehouse, and Other	$57.6	$33.0	$21.8	$22.4	$10.0	$7.6	$9.1	$10.3	$10.9	$5.1	$1.6	$37.5	$234.8
Life Insurance Companies	$16.8	$19.8	$23.1	$26.1	$24.8	$20.6	$25.7	$27.3	$21.4	$16.3	$6.5	$43.9	$272.9
TOTAL	$217.9	$146.5	$122.8	$140.0	$110.2	$102.8	$158.3	$195.0	$204.0	$47.8	$17.0	$245.4	$1,724.9



($ billions) Totals from 2009-2019

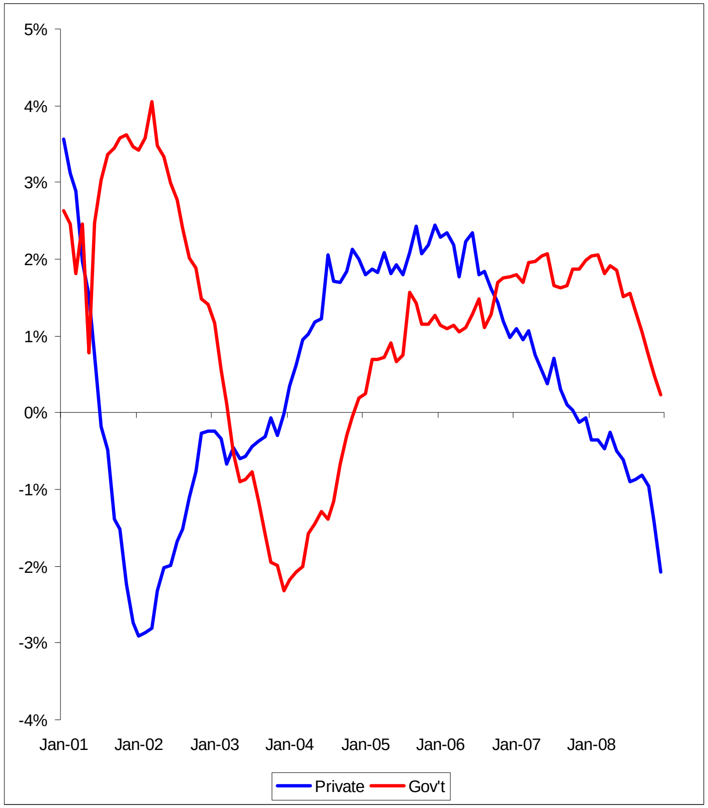
Government Contribution to Recovery: Fed's



CBO Estimates of Fiscal Impact of Stimulus Package (HR1, billions $)

- Many of the usual tools for stimulating the economy are limited in today's climate:
  - Interest rates have hit a floor, and haven't filled the hole left by securitized lending.
  - Tax cuts go under the mattress.
- The only arrow left in the quiver is government spending…
- Unfortunately, the majority of spending and tax cuts from the stimulus package passed by the House won't occur until FY 2010.

Government Contribution to Recovery: State



YoY Chg in CA NFP Employment, Private Sector vs. Gov't

- The 2001 recession precipitated a fiscal crisis in CA, but the employment impact didn't hit until 2003 – offsetting private sector job gains and delaying the recovery.
- Our $40b fiscal crisis has now surpassed the $38b projected deficit that triggered Gov. Davis' recall, with no solution in sight…
- Contraction in state spending may offset much of the federal stimulus.
- If we follow the 2001 pattern, state government will be a drag on CA job growth until 2011!