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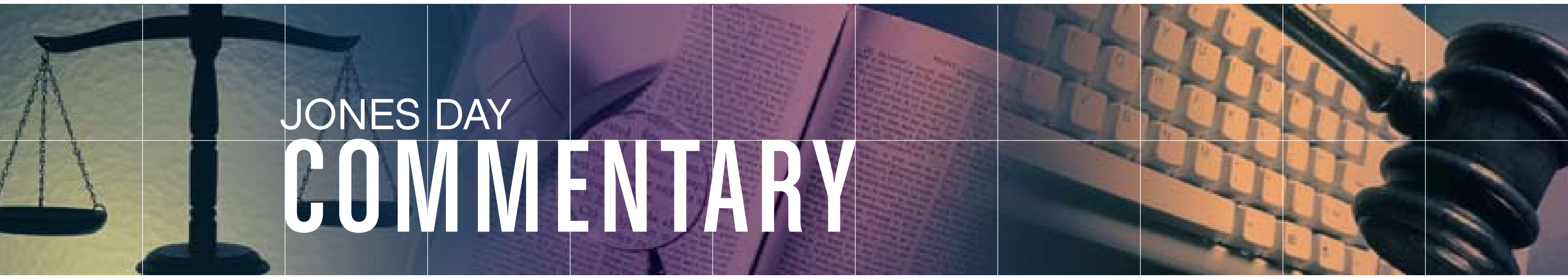

POTENTIAL REAL ESTATE OPPORTUNITIES UNDER TARP

The Treasury Department's TARP Capital Purchase Program currently provides for up to $250 billion of equity investments in eligible financial institutions. Publicly traded financial institutions had to apply to participate in the Capital Purchase Program by November 14, 2008. The Treasury has stated that it intends to close these investments in public institutions by year-end 2008. It had closed $125 billion of investments from the first nine institutions by the end of October, and by November 14 had closed the next round of investments in regional financial institutions. Of the initial $350 billion of the TARP, $60 billion remains uncommitted at this time. However, the Treasury Department recently announced that it would suspend its efforts to purchase problem assets, including illiquid mortgage-related assets.

The Capital Purchase Program is presently limited to banks, thrifts, and their eligible U.S. holding companies. Not surprisingly, numerous entities are seeking to expand the types and numbers of potential participants under TARP to include entities such as insurance companies, automakers, finance companies, securities broker-dealers, and others. Others have changed their businesses to become eligible for the TARP Capital Purchase Program. For example, CIT Corporation and Capital Source announced that they were converting their industrial loan corporations to commercial banks and becoming bank holding companies, and American Express was approved as a bank holding company. The Hartford Corporation announced an acquisition of a failing thrift and applied for TARP capital on the last day applications were being accepted from public companies.

An institution's receipt of Capital Purchase Program equity will result in a stronger balance sheet. Some of the institutions approved to receive TARP funds have indicated that they will use their improved balance sheet to make acquisitions, and the bank regulators have encouraged this. However, we expect that financial institutions also will use their improved balance sheets as an opportunity to reduce their existing REO, real estate loans, and other real estate-related assets through orderly sales. Borrowers may also find these institutions more willing to work out troubled loans as well. It is unlikely that these asset sales will occur until an institution has closed the equity investment under the Capital Purchase Program. Since the Treasury has not yet structured its Capital Purchase Program to accommodate private and mutual institutions, this process will likely continue past December 31, 2008, although most of the TARP will be invested before then.

These institutions are expected to sell all types of interests, such as whole loans, participations, strips, tranches of loans, and CMBS, RMBS, or CDO securities. Also, the FDIC is selling large volumes of these assets from failed banks. Based on prior markets when these types of transactions occurred, sellers typically have sought to sell assets on an "as is" basis and may seek to use standardized documents such as the LSTA agreements. We would also expect portfolio transactions to be effected through a managed bidding process, with streamlined documentation. Buyers in each situation should review carefully whether the proposed documents are sufficient in light of the specific transaction.

Since the Treasury will not be using TARP to purchase troubled assets, private transactions will be the sole market for these assets, and the market will lack the price stabilization promised by TARP purchases of troubled assets. Sellers with TARP capital may be more patient sellers, but they also may be more capable of financing transactions, and many investors may find it advantageous to participate in these early sales. While the TARP Capital Purchase Program may stimulate larger transactions, all types of sales are expected, including joint ventures and "good bank/bad bank" structures, which will involve bank regulatory as well as real estate considerations. Some selling institutions may finance the buyer's acquisition of the assets, but traditional nonrecourse financing may continue to be difficult to obtain. This will be particularly true for institutions seeking to reduce their real estate concentrations and satisfy heightened levels of capital required by their regulators. The willingness of a financial institution to provide nonrecourse financing will depend on that institution's objectives and the financial accounting and regulatory treatment of the sales transactions.

A financial institution that does not receive TARP funds may still be motivated to dispose of its real estate assets as a more active market develops for these assets. Similarly, increasing amounts of assets held by failed depository institutions that are taken over by the FDIC are available for purchase. Nineteen banks have failed this year through November 14, including two of the largest banks to ever fail, and more failures are likely, including undercapitalized financial institutions whose applications for TARP capital are denied. In 2008, most of the loan and REO of failed banks have been retained by the FDIC for later disposition. These dispositions may be effected through FDIC contractors, such as DebtX® and First Financial Network.

Although the original TARP program of purchasing assets appears dead for now, the Capital Purchase Program will provide opportunities for financial institutions receiving funds to dispose of their real estate assets. While some institutions may have planned to delay asset sales until the Treasury began purchasing assets, the recent change in the TARP's focus will likely cause institutions to accelerate their plans to sell real estate-related assets. The markets and the government programs and actions are fluid and subject to rapid change. All of this will create opportunities for buyers of distressed real estate loans and properties who are prepared to act as the opportunities arise. During the S&L crisis of 1988 to 1994, many real estate assets were disposed of at distressed prices that enabled buyers to realize substantial profits as the markets recovered, and the current period may present similar long-term opportunities to consider.

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