GREGORY D. BYNUM
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Real Estate Services

August 30, 2010

Via Email

Mr. Phil Angelides, Chairman
Mr. Bill Thomas, Vice-Chairman
The Financial Crisis Inquiry Commission
1717 Pennsylvania Avenue, NW, Suite 800
Washington, DC 20006-4614
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Dear Committee,

The financial crisis has had a debilitating impact on the local commercial real estate market through influences not always directly related to commercial properties, their occupancies and/or the borrowers. In general, the local commercial real estate market has been impacted through the failure of multiple banking institutions with local locations, by the diminished availability of financing, by the negative influence of the dismal local housing market, and by unemployment and the general economic conditions within California and the United States overall. Thankfully, the local commercial market is not overbuilt and enjoys reasonable vacancy rates in most

reduction in leased space of 26,586 square feet. Significant loss of lease income and costs associated with releasing are ongoing at this time.

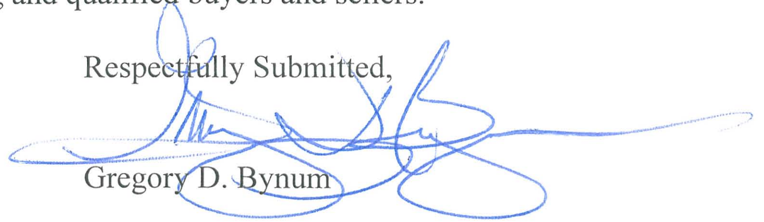
The failed institution of which we were a banking customer created a different kind of stress and financial impact. The first indicator that we would be impacted was that the institution reneged on their *written* commitment to do a take-out loan on an existing building reconstruction that was complete and ready for the takeout loan. The proposed loan was fully supported by a long-term lease for 100% of the building. This was a low loan to value (54%) loan and had a very strong debt coverage ratio, approximately (180+ %). This circumstance caused our company to spend a significant amount of time and money to obtain a new loan. We also lost a significant advantage in a committed interest rate that was approximately 1% more expensive from the new lender. When the interest rate, fees and time to refinance are analyzed, the discounted financial impact on this one project was in excess of $200,000.

Another of our loans at this same institution has been in jeopardy since the actual failure of the bank. It is a classic development loan which coupled a construction loan with a takeout loan at completion. Although the acquiring institution promised to renew the construction loan until occupancy could be obtained, they repeatedly failed to do so and ultimately moved the loan to "Special Assets" and generated a short-term "Forbearance Agreement." It became clear, even though we had made all payments on time, that the "Special Assets" group was unaware of it and was under the impression they were working with a borrower who was not keeping up its payments. Regardless of that new information, no change in their approach was considered. My question is if they are treating borrowers who pay their obligations like this, how are they treating those who do not? The lack of a desire by the lenders to work with solid borrowers and companies sends a disquieting message to others and promotes uncertainty and instability in the marketplace.

Another area of concern has been the lack of available financing through the collapse of the Commercial Mortgage Backed Securities market. At one point (prior to August, 2008), this financing mechanism accounted for 30-50% of commercial financing that took place. In my experience, these types of commercial loans were underwritten with significant and appropriate attention to detail and were supported by reasonable market-oriented valuations, debt coverage and loan to value. That being said, it appears that when the market lost confidence in the residential mortgage backed securities market (because of the careless underwriting on many of the high leverage loans that had no documentation to verify the borrowers' ability to repay) the commercial markets collapsed by association. As a result, the conduit (CMBS) lenders disappeared and that portion of commercial lending no longer existed. That in turn put all the pressure on banks and insurance companies to cover the demand. Banks, most of whom were over committed as a percentage of their recommended capital, had no ability or desire to help meet those commercial needs. They needed to reduce their portfolios of commercial real estate loans. Naturally, underwriting guidelines changed dramatically to compensate for the demand/supply imbalance and put many owners and properties in jeopardy of being unable to find financing without adding substantial

capital in the process. This in turn dampened demand and the viability of properties needing refinancing or permanent financing. It also served to create a lack of confidence in the market and uncertainty as to how long it would be before some normalcy returned. Transactions stopped and activity related to buying, selling and building came to a virtual standstill. Transactions that were viable could find no financing, and where there was lending available, appraisals and appraisers were projecting their own emotional biases into overly conservative valuations that made accomplishing a transaction impossible. Everyone in the process, the FDIC, the lenders and appraisers were compounding the problem with highly conservative conclusions at each level of review that made financing virtually impossible. Therefore, credit was virtually unavailable even with willing and qualified buyers and sellers.

Respectfully Submitted,



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