

**PORTFOLIO INVESTORS COMMITTEE MEETING
MORTGAGE BANKERS ASSOCIATION
SUNDAY, FEBRUARY 6, 2005
10:00 A.M. -11:00 AM
SAN DIEGO, CALIFORNIA**

Committee Leadership

Chair

Thomas Jensen, Allstate Investments

Vice Chairs

E.J. Burke, Key Bank

Don Dibble, Jefferson Pilot Financial

Robert O'Rourke, Guardian Life Insurance

MBA Staff

Leanne Tobias

Katie Schwarting

The Portfolio Investors Committee of the Mortgage Bankers Association (MBA) met on Sunday, February 6, 2005 at 10:00 AM in San Diego, California. The meeting was led by Committee Chair Thomas Jensen of Allstate Investments and by Vice Chairs Don Dibble of Jefferson Pilot Financial and Robert O'Rourke of Guardian Life Insurance.

Mr. Jensen welcomed participants to the meeting and introduced Committee Vice Chairs and MBA staff to the audience.

Portfolio Investors Committee 2005 Program Initiatives. Mr. Jensen then initiated discussion of the Committee's 2005 program initiatives. Three regional forums for senior executives of portfolio lenders will be held in 2005:

- Robert O'Rourke and Guardian Life Insurance Company will host a New York City forum on April 12, 2005.**
- E.J. Burke and Key Bank will host a forum in Dallas on June 22, 2005.**
- A West Coast forum will also be scheduled for Fall 2005.**

Katie Schwarting of MBA briefed the Committee on MBA's Portfolio Servicers' Executive Roundtable, to be held at MBA's Asset Administration and Technology Convention in May 2005. The invitation-only forum was developed to address the specific needs of servicers for portfolio lenders.

Basel II and Federal Reserve Roundtable. Leanne Tobias of MBA briefed the meeting on the Committee's Basel II activities. With the June 2004 approval of

international guidelines for capital setaside requirements, implementation of Basel II shifts to the federal level. Federal banking regulators, led by the Federal Reserve Board, will be evaluating risk setaside standards for commercial real estate lending. New regulations are expected to be implemented in early 2008. The Federal Reserve Board has asked MBA to arrange meetings with its members to provide industry expertise on appropriate standards for acquisition, development and construction (ADC) lending. The first such meeting was held in September 2004. E.J. Burke and Key Bank are sponsoring a roundtable session on ADC lending with the Federal Reserve in Cleveland in early Spring 2005.

Joseph Forte of the Dechert law firm commented that the development of the Basel II guidelines are likely to have a significant effect on portfolio lenders in Europe. Heretofore, Europeans have conducted a great deal of their commercial and multifamily real estate lending on a relationship basis. Non-performing loans have grown significantly in Germany and elsewhere. The enactment of the Basel II guidelines, which require significant setasides for poorly performing real estate investments might lead to more transparency in European markets, Mr. Forte noted.

Terrorism Risk Insurance Act Update. Mr. Jensen next introduced Brendon Weiss, legislative director for Congressman Vito Fossella (R- New York) and Jon Skarin, legislative director for Congressman Michael Capuano (D- Massachusetts). Messrs. Skarin and Weiss briefed the Committee on the outlook for extension of the Terrorism Risk Insurance Act (TRIA).

TRIA was enacted in response to the real estate market slowdown caused by inadequate terrorism insurance after September 11, 2001. TRIA requires that insurance carriers continue to offer terrorism insurance coverage on the same terms as other perils, and provides for federal reimbursement of insurers for most losses incurred in federally-certified foreign terrorism attacks which produce aggregate damages of \$5 million or more. MBA championed the enactment of TRIA to ensure the continued health of the commercial and multifamily real estate markets. Unless extended by Congress, TRIA will sunset on December 31, 2005. Insurers are already beginning to exclude from coverage terrorism losses that take place after December 31, 2005, should TRIA not be renewed. MBA strongly supports the extension of TRIA.

Messrs. Weiss and Skarin discussed the likelihood of TRIA extension beyond December 31, 2005. They noted that Congress would strongly prefer private market solutions to the provision of terrorism insurance, and that reductions of federal involvement are favored. Messrs. Weiss and Skarin also predicted that, at best, Congress might support a one-time extension of TRIA of no longer than two years, through December 31, 2007, and that extension is more likely to occur if private market solutions have been proposed by industry.

Mr. Jensen noted that lending on high-profile properties and on properties in locations considered at higher risk for terrorist attacks might cease or drop sharply if TRIA is not extended, adversely affecting the commercial real estate industry. Mr. Forte observed that terrorism insurance coverage for commercial and multifamily real estate would be unlikely to be available in the absence of TRIA or a similar publicly-supported program. It was noted that portfolio lenders should participate in MBA's April 19-20, 2005 Legislative Policy Conference in order to educate Congress on the need for TRIA, and that MBA members contact their Senators and Representatives to urge TRIA extension.

OFAC/USA Patriot Act Update. Robert O'Rourke briefed the Committee on implementation by the Treasury Department's Office of Financial Assets Control (OFAC) under the USA Patriot Act. Section 326 of the USA Patriot Act and supporting Treasury Department regulations require that financial institutions implement "reasonable and practicable" procedures to (1) verify the identity of any person opening an account; (2) maintain records of the information used to verify the person's identity; and (3) determine whether the person appears on any list of known or suspected terrorists or terrorist organizations. Lending to any entity listed on OFAC's list of known or suspected terrorists or terrorist organizations is prohibited. The federal regulations may be viewed at the following link:

http://www.mbaa.org/cmnewslink/pdf/326_Final_Rule_Banks.pdf

Mr. O'Rourke noted that the federal regulations mandate that portfolio lenders and other financial institutions monitor the transfers of limited partnership interests, as well as other commercial real estate lending activities. He observed that there is wide variation in the practices employed by portfolio lenders in complying with the USA Patriot Act, and that the Treasury Department has issued general regulations for lender compliance, rather than detailed procedures. It was agreed that individual financial institutions should have the flexibility to develop the most appropriate OFAC compliance procedures for their institutions, but that MBA should consider exploring the possibility of developing a "best practices" manual on OFAC compliance.

Mold and Seismic Initiatives. Katie Schwarting briefed the Committee on the release of MBA's draft paper on mold. The paper will be open for industry comment through Wednesday, March 23. The paper may be viewed at the following link:

<http://www.mortgagebankers.org/cref/docs/2005/Consolidated%20Paper%20-%20FINAL%20DRAFT.pdf>

Ms. Schwarting also advised the Committee of the creation of MBA's new Seismic Working Group. The mission of the Seismic Working Group is to produce a handbook on the new seismic standards for commercial real estate. Members of the Portfolio Investors Committee are invited to join the Seismic Working Group.

Mr. Jensen thanked all participants for their interest in the work of the Portfolio Investors Committee. The meeting was adjourned at 11:00 AM.