











**US Commercial Credit Risk  
Portfolio Management**

# **Commercial Real Estate “CRE” Monthly Update**

**May 2015**

# May 2015 YTD Snapshot

(\$ in Millions)

| Metric (\$MM)                  | May-14 | Jun-14 | Sep-14 | Dec-14  | Mar-15  | Apr-15  | May-15       | MAY '15 Budget | MAY'15 vs. Budget   |
|--------------------------------|--------|--------|--------|---------|---------|---------|--------------|----------------|---|
| <b>Exposure</b>                | 5,192  | 5,268  | 5,427  | 5,732   | 6,016   | 6,160   | <b>6,314</b> | --             | --  |
| <b>Outstandings</b>            | 3,903  | 3,900  | 3,848  | 4,051   | 4,323   | 4,413   | <b>4,343</b> | <b>4,038</b>   |  305       |
| <b>Delinquency</b>             | 3.5    | 10.8   | 0.4    | 0.0     | 1.0     | 0.0     | <b>0.0</b>   | --             | --  |
| <i>Ratio</i>                   | 0.09%  | 0.28%  | 0.01%  | 0.00%   | 0.02%   | 0.00%   | 0.00%        | --             | --  |
| <b>Nonaccrual</b>              | 70.4   | 67.1   | 61.0   | 47.9    | 41.3    | 38.7    | <b>23.4</b>  | <b>38.2</b>    |  -14.8     |
| <i>Ratio</i>                   | 1.80%  | 1.72%  | 1.58%  | 1.18%   | 0.96%   | 0.88%   | 0.54%        | 0.95%          |  -0.41%    |
| <b>Criticized Outstandings</b> | 281    | 271    | 228    | 198     | 190     | 188     | <b>208</b>   | --             | --  |
| <i>Ratio</i>                   | 7.20%  | 6.94%  | 5.93%  | 4.88%   | 4.39%   | 4.27%   | 4.78%        | --             | --  |
| <b>Classified</b>              | 200    | 154    | 175    | 143     | 142     | 143     | <b>127</b>   | --             | --  |
| <i>Ratio</i>                   | 5.13%  | 3.95%  | 4.55%  | 3.53%   | 3.28%   | 3.24%   | 2.93%        | --             | --  |
| <b>NPL</b>                     | 119    | 0      | 108    | 91      | 92.1    | 88.8    | <b>73.2</b>  | --             | --  |
| <i>Ratio</i>                   | 3.06%  | 0.00%  | 2.82%  | 2.24%   | 2.13%   | 2.01%   | 1.68%        | --             | --  |
| <b>Net Charge-Offs YTD</b>     | 0.3    | 0.2    | -0.1   | 0.8     | -0.1    | -0.09   | <b>4.85</b>  | <b>2.7</b>     |  2.2       |
| <i>YTD Annualized Ratio</i>    | 0.02%  | 0.01%  | 0.00%  | 0.02%   | -0.01%  | -0.01%  | 0.27%        | 0.16%          |  0.11%     |
| <b>VMG (local) YTD</b>         | -25.3  | -28.6  | -35.1  | -47.2   | -6.6    | -9.2    | <b>-19.7</b> | --             | --  |
| <i>Risk Premium</i>            | -0.65% | -0.70% | -1.56% | -1.22%  | -1.26%  | -0.95%  | -1.02%       | --             | --  |
| <b>Provision YTD</b>           | -8.6   | -14.3  | -12.8  | -5.1    | 15.1    | 18.8    | <b>28.5</b>  | <b>3.52</b>    |  25.0      |
| <i>Cost of Credit</i>          | -0.87% | -0.87% | -0.77% | -0.13%  | 0.43%   | 0.56%   | 0.79%        | 0.18%          |  0.61%   |
| <b>ALLL</b>                    | 43.1   | 39.7   | 39.2   | 49.2    | 55.6    | 56.9    | <b>57.3</b>  | <b>50.1</b>    |  7.2     |
| <i>Ratio</i>                   | 1.10%  | 1.02%  | 1.02%  | 1.21%   | 1.29%   | 1.29%   | 1.32%        | 1.24%          |  0.08%   |
| <i>ALLL/Nonaccrual</i>         | 61.27% | 59.20% | 64.29% | 102.76% | 134.46% | 146.88% | 245.42%      | 131.13%        |  114.29% |
| <b>Mora</b>                    | 104.4  | 101.2  | 62.0   | 56.2    | 48.6    | 46.0    | <b>30.6</b>  | --             | --  |

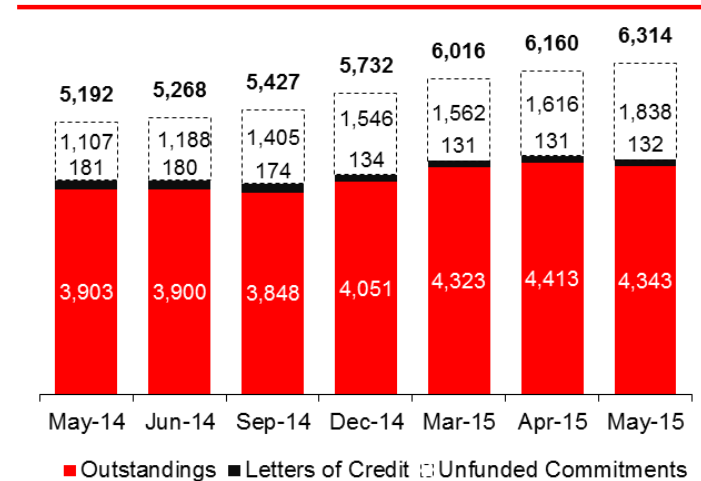
Note: Budget data as of 3/18/15.

# CRE: Credit Exposure Overview

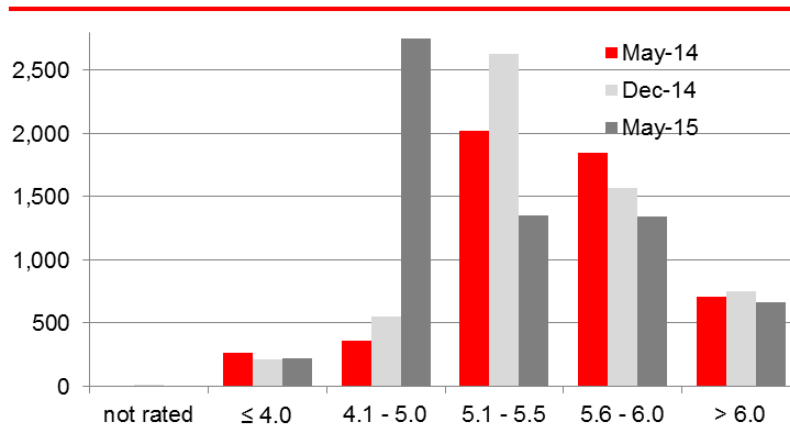
(\$ in Millions)

- The portfolio has grown by 22% over the last year to \$6,314MM. Over the last three months outstandings have remained flat in the \$4,300MM range. Outstandings are up \$440MM as compared to the same period last year.
- In the month of May there were 10 new facilities in the amount of \$257MM.
- Portfolio Quality continues to be strong with 89% of the portfolio rated No FEVE, of the loans booked in May eight were No FEVE and two were rated a Monitor.
- The rating distribution remains stable, with 96% of the portfolio rated Pass and Low Pass.

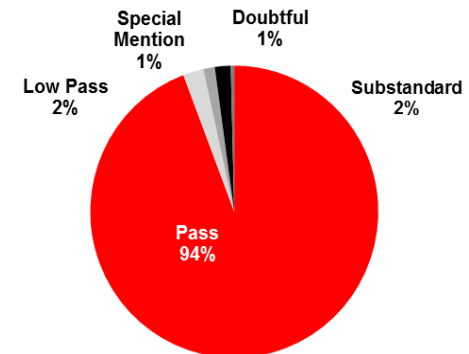
## Exposure



## Exposure by Obligor Rating



## Exposure by Reg. Rating



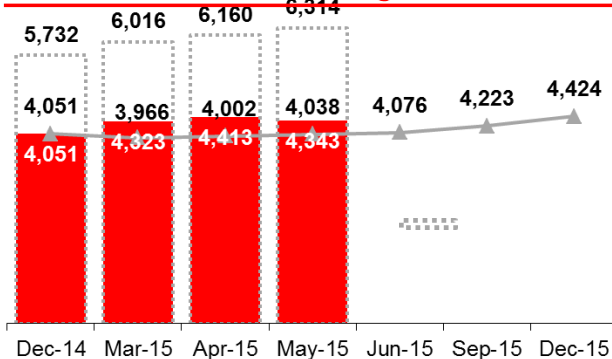
- Sources: The Exposure Chart is based on the 5/31/15 Credit Metrics report. The Exposures by ORR and Regulatory Rating are derived from Monitoring's FEVE report as of 5/31/15.

# CRE: Performance vs. Budget

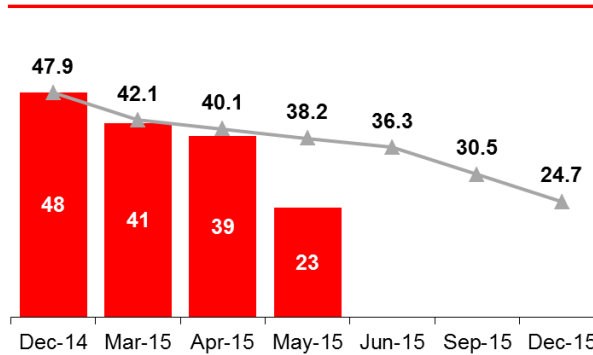
(\$ in Millions)

- CRE continues to outperform their budget with outstandings 7.6% ahead of budget, this is due to new originations and usage of existing commitments.
- The increase in net charge-offs is due to a planned note sale, the subject was a non-performing (36% leased / 19% occupied) office building in Stamford, CT. The note was sold for \$4.98MM, principal balance was \$9.13MM. It is expected that net charge-offs will return to historical levels next month.
- The increase in provisions and ALLL is attributable to the new risk rating system and the lower risk ratings assigned to construction loans.

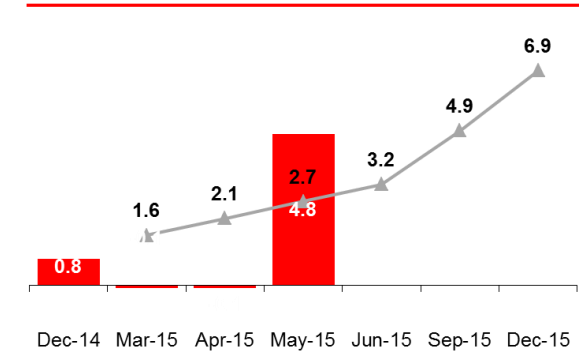
## Outstandings



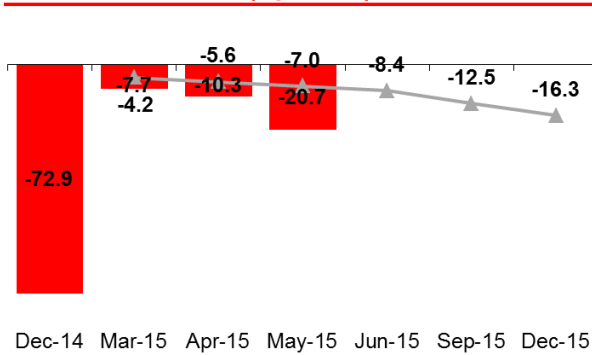
## Nonaccrual Loans



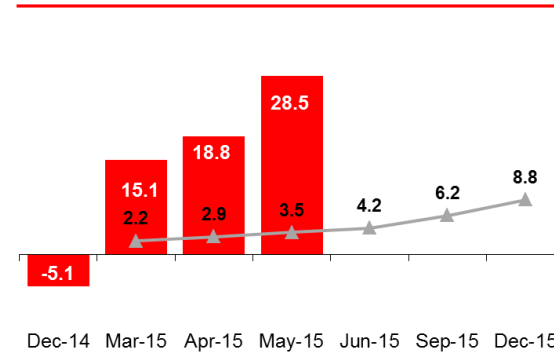
## Net Charge-Offs YTD



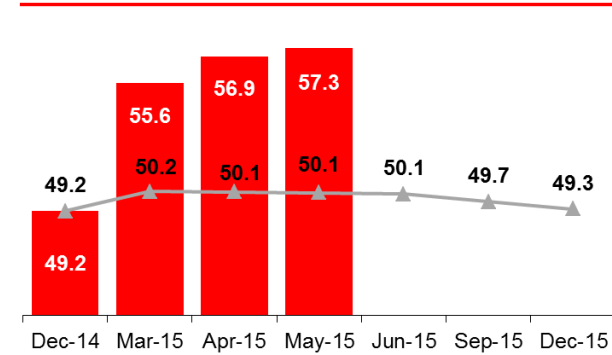
## VMG (Spanish) YTD



## Provision for Credit Losses YTD



## ALLL



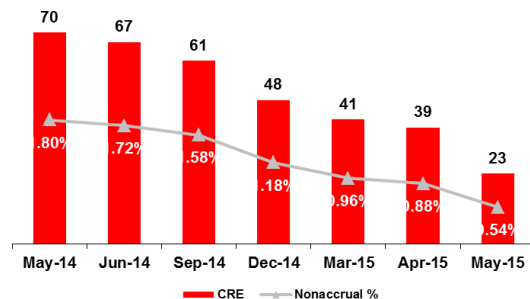
— Actual (YTD) — Budget (YTD)

# CRE: Credit Quality Metrics

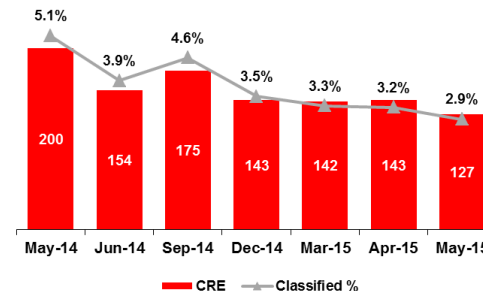
(\$ in Millions)

- Non-accrual loans continue on a downward trend, non-accruals declined to \$23MM in May from \$39MM and \$70MM for the same period last year.
- Criticized loans increased by \$20MM, this is related to 44 Lexington Associates LLC (\$32.6MM) being downgraded from an SRR 5.7 to a 4. The subject loan is a participation with Susquehanna Bank, for the period ended 12/31/2014 the Borrower did not meet their DSC covenant. In March the Lead Bank sent the Borrower a letter requesting an \$11MM paydown, which would resize the loan and would yield a DSC of 1.30x for the period ended 12/31/2014. Hyatt has modified their rewards programs, which has hurt the subject cash flow. Therefore, The Borrower has requested to cut ties with Hyatt and operate as an independent, this was rejected. The Bank group is working with a Borrower on a plan to right size the loan and cure the default.

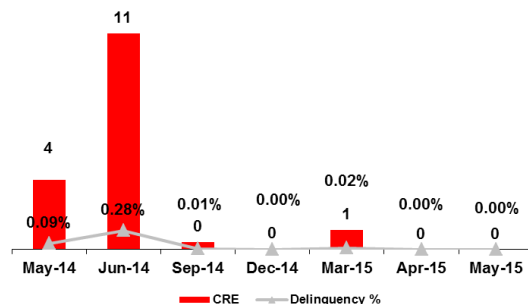
## Nonaccrual Loans



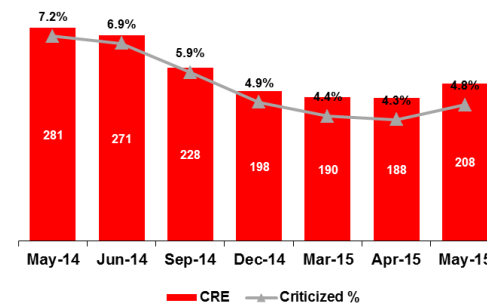
## Classified Loans - outstandings



## Delinquency



## Criticized Loans - outstandings



Source: SBNA Solvency - Budget data as of 3/18/15.

Note: **Classified** = Substandard + Doubtful + Loss.

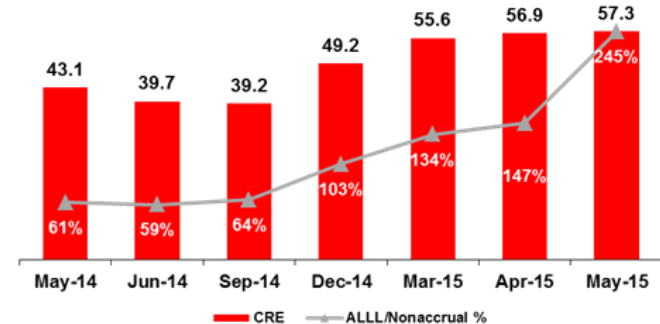
**Criticized** = Classified + Special Mention

# CRE: Credit Quality Metrics (2 of 2)

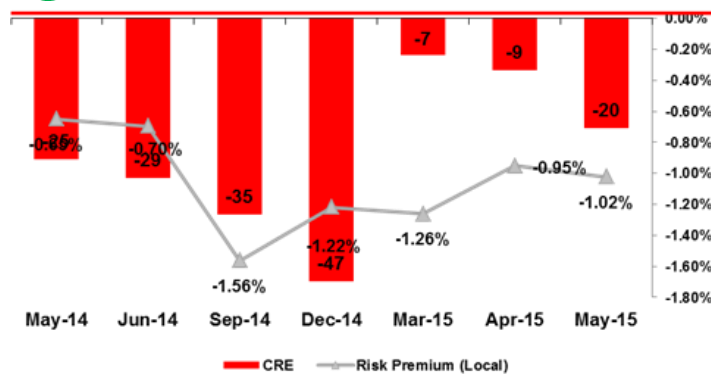
(\$ in Millions)

- The allowance and coverage continue to increase month over month, it is assumed that the increase is due to the implementation of the changes in the risk rating policy.
- The ALLL increased by \$400M to \$57.3MM or 245% of existing non-accruals.

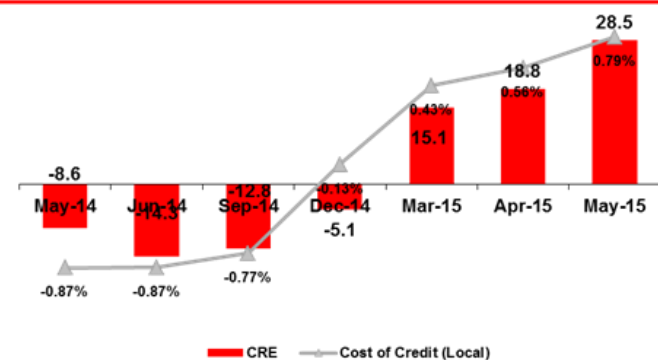
## Allowance & Coverage



## VMG & Risk Premium



## Provision & Cost of Credit

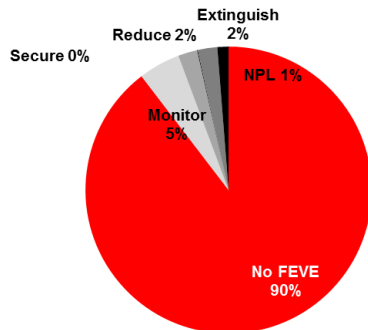


# CRE: FEVE Trends

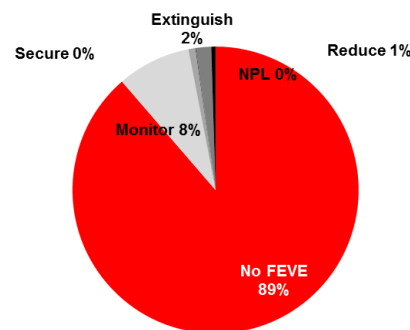
- Portfolio Quality remained stable with 89% of Binding Exposure rated No FEVE, down slightly from 90% for the same period last year.
- The recent downgrades to Monitor have all been related to construction loans and the delays in the process. The CPs and RMs will continue to monitor and address any other issues as needed.

| Master One Obligor | Apr '15 FEVE | May '15 FEVE | Binding Exposure | Comment               |
|--------------------|--------------|--------------|------------------|-----------------------|
| <b>UPGRADES</b>    |              |              |                  |                       |
| Northland Fund 1   | Reduce       | No FEVE      | \$ 3.4           | Strong performance    |
| <b>DOWNGRADES</b>  |              |              |                  |                       |
| Magnum Real Estate | No FEVE      | Monitor      | \$ 36.0          | Construction delays   |
| CAB Bedford        | No FEVE      | Monitor      | \$ 25.5          | Permit issue / delays |
| LIC Res LLC        | No FEVE      | Monitor      | \$ 35.0          | Construction delays   |

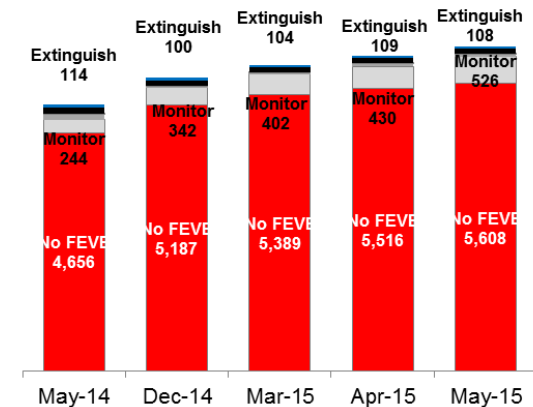
FEVE Distribution 5/31/14



FEVE Distribution 5/31/15



FEVE Portfolio Distribution



# CRE: New Originations

| YTD 5/31/15 Stats                           |            |                  |
|---|------------|------------------|
|   | #          | Binding Exposure |
| Total Facilities booked                     | 29         | 731,262,564      |
| Thereof Facilities with Exceptions          | 8          | 217,158,144      |
| Total Exceptions recorded                   | 10         | 217,158,144      |
| Thereof CP                                  | 0          |                  |
| Thereof UG                                  | 10         |                  |
| Total Obligors                              | 27         |                  |
| Total WARR                                  | 5.3        |                  |
| Average Tenor                               | 3.5 years  |                  |
| Average Deal Size                           |            | 25,215,950       |
| Total Obligors w/Exceptions                 | 8          |                  |
| Total WARR on Facilities w/Exceptions       | 5.1        |                  |
| Average Tenor on Facilities w/Exceptions    | 3.11 years |                  |
| Average Deal Size of Facilites w/Exceptions |            | 36,419,768       |

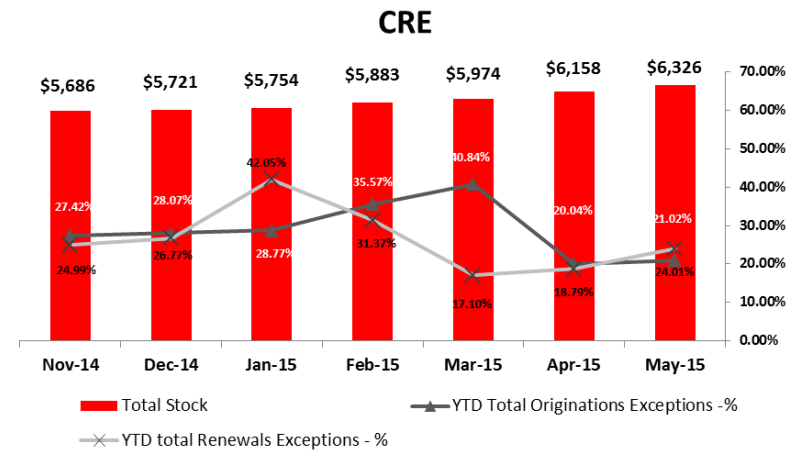
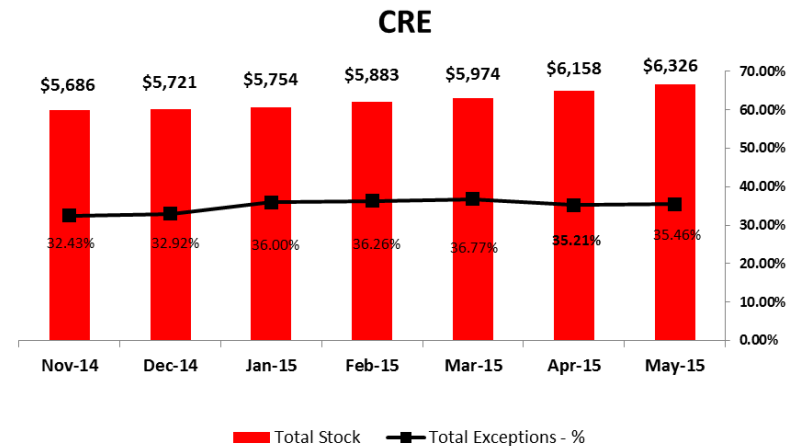
- New CRE Originations YTD are \$731MM, originations were derived from 27 obligors with an average deal size of \$25MM, the average deal size appears to be appropriate given the size of the portfolio.
- Of the new loans originated YTD 29.7% were originated with an exception on a exposure basis and 27.6% were originated with an exception on a facility basis.



# CRE: Exceptions Management

- CRE accounts for a relatively large amount of exceptions (26.5%) based on the size of the portfolio (10.2%).
- Of the exceptions reported on a facility level as of YTD 5/31/2015, all are related to Underwriting Guideline exceptions.
- Per the CRE Regional Credit Officer, the high amount of exceptions can be attributed to the legacy portfolio as loans are booked with the exceptions and these exceptions are often not cleared unless the loan is modified or re-booked.

| 5/31/2015                    | BANK     | CRE     | % of Portfolio |
|------------------------------|----------|---------|----------------|
| Total Facilities             | 73,593   | 1007    | 1.37%          |
| Total Portfolio              | \$62,145 | \$6,326 | 10.20%         |
| Total Exceptions Facilities  | 1320     | 106     | 8.03%          |
| Total Exceptions Exposure    | \$8,479  | \$2,243 | 26.45%         |
| Policy Exceptions            | 11       | 0       | N/A            |
| Policy Exceptions \$MM       | \$48     | 0       | N/A            |
| UW Guideline Exceptions      | 1309     | 106     | 8.10%          |
| UW Guideline Exceptions \$MM | \$8,433  | \$2,243 | 26.60%         |



# Open Regulatory, Internal Audit, and Loan Review Issues - Tracking

| MRA /RPA  | DESCRIPTION / CONCLUSION   | STATUS       | TARGET DATE |
|---|--|--------------|-------------|
| <b>MRA: Risk Rating Integrity</b>                           | Revised Risk Rating Methodology that places greater emphasis on objective measures of a Borrower's current and prospective financial condition including cash flow, profitability, liquidity and solvency. | Done         | 4/30/2015   |
| <b>MRA: Quality of MIS and Level of Portfolio Analytics</b> | Develop comprehensive portfolio analytics  | In progress. | 6/30/2015   |
| <b>MRA: Credit Administration</b>                           | Modify primary loan approval document to provide a comprehensive, succinct summary of the key risks, mitigates, transaction rationale and risk rating justification.                                       | Done         | 5/31/2015   |

# APPENDIX

- TOP 20
- CRE CONCENTRATION LIMITS

# CRE: Top 20

- The Top 20 relationships have binding exposure of \$1.833MM and account for 29% of the CRE Bind Exposure.
- Biggest change this month CPT Atlanta increased by \$26MM to \$76MM and Red Apple increased by \$25MM to \$60MM.
- The increase in the CPT Atlanta and Red Apple relationships moved Hossein Fateh and Alexandria Real Estate out of the Top 20.

| Rank         | Master One Obligor                    | MAY-15<br>ORR | MAY-15<br>FEVE       | Total<br>Binding<br>Exposure | Utilization    | Utilization |
|--------------|---------------------------------------|---------------|----------------------|------------------------------|----------------|-------------|
| 1            | BROOKFIELD PROPERTIES                 | 4.7 - 6.1     | No FEVE<br>/ Monitor | 173.8                        | 119.9          | 69%         |
| 2            | NPP DEVELOPMENT LLC                   | 5.5 - 5.6     | No FEVE              | 163.3                        | 137.9          | 84%         |
| 3            | RAANAN KATZ                           | 5.9 - 6.9     | No FEVE              | 152.8                        | 152.5          | 100%        |
| 4            | THE RELATED COMPANIES LP              | 4.7 - 6.0     | No FEVE              | 144.2                        | 100.0          | 69%         |
| 5            | VORNADO REALTY LP                     | 6.1 - 6.3     | No FEVE              | 99.7                         | 66.0           | 66%         |
| 6            | TETRIS PROPERTY LP                    | 5.7 - 6.4     | No FEVE              | 92.9                         | 91.4           | 98%         |
| 7            | JBG INVESTMENT FUND VIII              | 5.0 - 5.2     | No FEVE              | 84.5                         | 30.4           | 36%         |
| 8            | ALFRED CARPIONATO                     | 5.0 - 6.0     | No FEVE              | 83.0                         | 62.8           | 76%         |
| 9            | ADAM AMERICA RE                       | 4.5 - 5.1     | No FEVE              | 80.5                         | 30.0           | 37%         |
| 10           | METROPOLITAN PROPERTIES OF AMERICA    | 4.7 - 4.8     | No FEVE              | 80.0                         | 57.5           | 72%         |
| 11           | CPT MIDTOWN ATLANTA                   | 4.5 - 5.0     | No FEVE<br>/ Monitor | 76.0                         | 64.1           | 84%         |
| 12           | WESTWOOD MARKETPLACE HOLDINGS LLC     | 5             | No FEVE              | 76.0                         | 59.1           | 78%         |
| 13           | DIV FUNDS II                          | 5.3 - 5.4     | No FEVE              | 75.5                         | 60.2           | 80%         |
| 14           | CITY VENTURES PH2                     | 5.0 - 6.0     | No FEVE              | 73.7                         | 52.1           | 71%         |
| 15           | CAB BEDFORD                           | 4.8 - 5.0     | No FEVE<br>/ Monitor | 68.0                         | 37.5           | 55%         |
| 16           | STEPHEN R KARP                        | 5.2 - 6.3     | No FEVE              | 64.8                         | 64.8           | 100%        |
| 17           | SANFORD WEISS                         | 4.8 - 5       | No FEVE              | 64.0                         | 11.9           | 19%         |
| 18           | MAGNUM REAL ESTATE GROUP / BEN SHAOUL | 4.7 - 4.9     | No FEVE              | 60.5                         | 26.9           | 44%         |
| 19           | RED APPLE GROUP                       | 4.9 - 5.0     | No FEVE              | 60.0                         | 9.5            | 16%         |
| 20           | DLC MANAGEMENT                        | 4.7 - 5.3     | No FEVE<br>/ Monitor | 59.5                         | 59.5           | 100%        |
| <b>TOTAL</b> |                                       |               |                      | <b>1,832.7</b>               | <b>1,294.0</b> | <b>71%</b>  |

# CRE: Concentration Limits

| Portfolio Segment                   | 5/31/15<br>Binding<br>Exposure | 5/31/15 Ratio<br>Tier I<br>Cap + ACL | Limit Tier I<br>Cap + ACL | 5/31/15<br>(Under) Over<br>Limit | 5/31/15<br>Limit<br>Utilization | Exposure<br>Change from<br>3/31/15 |
|-------------------------------------|--------------------------------|--------------------------------------|---------------------------|----------------------------------|---------------------------------|------------------------------------|
| <b>TOTAL INVESTMENT CRE LIMIT</b>   | <b>17,604</b>                  | <b>167.7%</b>                        | <b>200.0%</b>             | <b>(3,385)</b>                   | <b>83.9%</b>                    | <b>30</b>                          |
| <b>CRE PROPERTY TYPE SUBLIMITS</b>  |                                |                                      |                           |                                  |                                 |                                    |
| Multifamily                         | 9,360                          | 89.2%                                | 105.0%                    | (1,659)                          | 84.9%                           | 248                                |
| Retail                              | 2,166                          | 20.6%                                | 30.0%                     | (982)                            | 68.8%                           | 1                                  |
| Office                              | 2,270                          | 21.6%                                | 35.0%                     | (1,403)                          | 61.8%                           | 19                                 |
| CCRC                                | 231                            | 2.2%                                 | 6.0%                      | (399)                            | 36.6%                           | (12)                               |
| Co-Op                               | 1,126                          | 10.7%                                | 17.0%                     | (658)                            | 63.1%                           | 0                                  |
| Residential Condominium             | 363                            | 3.5%                                 | 5.0%                      | (161)                            | 69.3%                           | (6)                                |
| Residential Development             | 182                            | 1.7%                                 | 2.5%                      | (81)                             | 69.2%                           | (1)                                |
| Industrial/Warehouse                | 418                            | 4.0%                                 | 10.0%                     | (632)                            | 39.8%                           | (18)                               |
| Hospitality                         | 467                            | 4.5%                                 | 9.0%                      | (477)                            | 49.5%                           | (7)                                |
| REIT                                | 351                            | 3.3%                                 | 7.0%                      | (383)                            | 47.8%                           | (35)                               |
| All Other Property Types            | 669                            | 6.4%                                 | 15.0%                     | (905)                            | 42.5%                           | (159)                              |
| <b>CONSTRUCTION / LAND SUBLIMIT</b> | <b>2,764</b>                   | <b>26.3%</b>                         | <b>30.0%</b>              | <b>(385)</b>                     | <b>87.8%</b>                    | <b>317</b>                         |
| <b>INTEREST ONLY SUBLIMIT</b>       | <b>3,744</b>                   | <b>35.7%</b>                         | <b>40.0%</b>              | <b>(453)</b>                     | <b>89.2%</b>                    | <b>189</b>                         |
| <b>BRIDGE FINANCING</b>             | <b>252</b>                     | <b>2.4%</b>                          | <b>5.0%</b>               | <b>(273)</b>                     | <b>48.0%</b>                    | <b>82</b>                          |

Dollars in Millions

Source: SBNA Solvency - data as of 5/31/2015.

# CRE: Concentration Limits

| Portfolio Segment                                       | 5/31/15<br>Binding<br>Exposure | 5/31/15 Ratio<br>Tier I<br>Cap + ACL | Limit Tier I<br>Cap + ACL | 5/31/15<br>(Under) Over<br>Limit | 5/31/15<br>Limit<br>Utilization | Exposure<br>Change from<br>3/31/15 |
|---|--------------------------------|--------------------------------------|---------------------------|----------------------------------|---------------------------------|------------------------------------|
| <b>TOTAL INVESTMENT CRE LIMIT</b>                       | <b>17,604</b>                  | <b>167.7%</b>                        | <b>200.0%</b>             | <b>(3,385)</b>                   | <b>83.9%</b>                    | <b>30</b>                          |
| <b>In Footprint*</b>                                    | <b>16,088</b>                  | <b>153.3%</b>                        | <b>200.0%</b>             | <b>(4,901)</b>                   | <b>76.6%</b>                    | <b>346</b>                         |
| <i>NY/NJ Multifamily</i>                                | 6,239                          | 59.4%                                | <b>70.0%</b>              | (1,107)                          | 84.9%                           | 176                                |
| <i>NY/NJ Other CRE</i>                                  | 4,234                          | 40.3%                                | <b>65.0%</b>              | (2,587)                          | 62.1%                           | 103                                |
| New England   | 2,784                          | 26.5%                                | <b>55.0%</b>              | (2,988)                          | 48.2%                           | 11                                 |
| Mid-Atlantic  | 2,831                          | 27.0%                                | <b>55.0%</b>              | (2,941)                          | 49.0%                           | 56                                 |
| <b>Out of Footprint</b>                                 | <b>804</b>                     | <b>7.7%</b>                          | <b>20.0%</b>              | <b>(1,295)</b>                   | <b>38.3%</b>                    | <b>20</b>                          |
| Pacific West  | 68                             | 0.6%                                 | <b>5.0%</b>               | (457)                            | 12.9%                           | (0)                                |
| Midwest   | 98                             | 0.9%                                 | <b>5.0%</b>               | (427)                            | 18.6%                           | (4)                                |
| South Atlantic  | 433                            | 4.1%                                 | <b>10.0%</b>              | (616)                            | 41.3%                           | 24                                 |
| <b>Unsecured, Unidentified &amp; Non CRE Collateral</b> | <b>713</b>                     | <b>6.8%</b>                          | <b>n/a</b>                |                                  |                                 |                                    |

Dollars in Millions

