MEDALIST DEFEASANCE

REAL ESTATE FINANCIAL SERVICES

Wells Fargo Policy Change Regarding Defeasance

Wells Fargo has always allowed the securities portfolio to be structured to the open window rather than final maturity. This reduced the defeasance cost by approximately three months of interest.

This policy has changed recently without notice. Unless the documents specifically state the defeasance will be calculated to the open window, borrowers are now required to defease through final maturity, increasing the defeasance cost substantially. There will be no exceptions made.

We spoke with the Head of Defeasance at Wells this morning to get a better understanding of the change. Traditionally, Wells has allowed the calculation to the prepayment window because it was understood the Successor Borrower (SB) would prepay at that time; however, there is nothing in the loan documents that explicitly allows this. The bank's new policy reflects a more conservative interpretation of the loan documents. It is also more consistent with other servicers.

In the last two weeks, we have encountered two defeasances where decisions to refinance were made assuming the portfolio could be structured through the open window. Had the borrowers been aware of the new higher costs, they may not have moved forward with the refinance. As it is, the borrowers got stuck with the unexpectedly higher defeasance cost.

This also creates a potential conflict of interest for Wells if it appoints itself as Successor Borrower. If Wells prepays the loan three months early and captures the residual value, it would have an incentive to appoint itself SB and treat the residual as a new profit center. The Head of Defeasance at Wells said the bank plans to hold all securities to final maturity to avoid this conflict.

This addresses the concerns about the conflict of interest, but still results in a much higher defeasance cost because there is no residual recognized. ***Instead, we would highly recommend the borrower instruct Wells to appoint an approved Successor Borrower like us. We will share the residual with the borrower, which helps offset the higher defeasance costs. Wells understands the cost impact of the new policy and will not fight a borrower about appointing an SB that will share the residual.***

If you have a CMBS loan serviced by Wells that you might be defeasing, please contact us to obtain an accurate cost estimate. We can also provide an estimate on the residual value that could make the difference between moving forward with a sale/refi or holding off.

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