


Value Investing Opportunities in Legacy CMBS

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The Investment Opportunity

Background:

- **CMBS bonds issued by CMBS Trusts total over \$680 billion.** Commercial Mortgage Backed Securities (“CMBS”) have been a popular investment for sophisticated investors and financial institutions seeking attractive long term returns for the past 18 years. See Chart A.
- **CMBS bonds are usually secured by a diversified pool of commercial real estate loans (typically between 100 and 300 loans) secured by first lien mortgages and mostly 10 year loan maturities.** Property types include retail, office, apartment, industrial and hotels. Most properties have been in operation for several years and were considered stabilized when the CMBS loan was closed.
- **CMBS bond credit ratings range from AAA (investment grade) to B- (below investment grade) for each CMBS issue.** See Chart B. Higher credit rated bonds receive first priority cash flow from mortgage loans and therefore have a lower risk and lower return. The lowest rated bonds receive last priority cash flow from the mortgage loans and therefore have a higher risk and higher return. See Chart C.

Current CMBS Bond Market:

- **CMBS bond prices have declined dramatically since the summer of 2007.** See Chart D. The recent widespread credit market dislocation resulted in numerous CMBS bond rating downgrades. The prospect of continued lower economic activity combined with liberal underwriting standards used in recent vintage CMBS loans leads many to believe delinquencies will increase in the future. Consequently, pricing of lower level AAA rated bonds (rating at issuance), otherwise known as “AJ’s”, have moved from 100% of face value in April 2007 to a low of 20% of face value in March 2009 and back up to 32% in July 2009. BBB rated bonds have moved from 96% of face value in April 2007 to a low of 6.5% in May 2009 and back up to 7.0% in July 2009.
- **CMBS bond yields have increased dramatically since the summer of 2007.** AJ’s recently trading at a discounted price of 32% produced a yield to maturity of approximately 25% (before losses). BBB bonds recently trading at a discounted price of 7.0% produced a yield to maturity of approximately 95% (before losses).

Value Investment Strategy:

- **The pricing between CMBS bonds is fairly consistent even though the quality of the real estate loan collateral varies significantly between CMBS Trusts.** There is a wide variation in the underlying loan collateral quality between similarly rated and priced CMBS bonds.
- **Hartland, in conjunction with its parent company, McCary Stevens Associates, Inc. (“MSA”), has developed a proprietary analytical process to assess the quality of the loan collateral securing the CMBS bond.** Hartland uses a unique bottom-up methodology, using its own proprietary process and experienced mortgage underwriters to estimate the ability of each loan to pay its debt service through its respective loan maturity.
- **Through its analytical process, Hartland estimates the timing of potential loan debt service defaults and potential loss severities on a loan by loan basis.** Hartland “stresses” the cashflow potential and timing from each property. The result is a more granular view of the loan collateral and the potential impact on cash flow paid to bondholders over time, which has a significant impact on overall yield.
- **Hartland uses the results of its proprietary process to identify value investing opportunities in the cmbs market.** Hartland can distinguish between a CMBS Trust which has loan collateral with a higher risk profile and a CMBS Trust which has loan collateral with a lower risk profile. Hartland can weigh the risk/reward characteristics between the various bonds and also weigh the risk/reward characteristics between different rated bonds within the same CMBS Trust.
- **Hartland’s ability to uniquely analyze publicly traded CMBS bonds will allow it to select bonds which have more favorable risk/return characteristics which the CMBS bond market has not priced in.**

Hartland's Advantage:

- **Independent, Buy Side Credit Culture:** Hartland's principals are experienced, insurance company trained, buy-side commercial mortgage underwriting and due diligence professionals. They formed their own independently owned company in 1993 (McCary Stevens Associates, Inc.) and have been providing underwriting and due diligence services to CMBS investing clients ever since. They are well positioned to evaluate commercial mortgage loans serving as collateral to CMBS bonds from an investor's perspective. They have re-underwritten over \$50 billion in CMBS commercial mortgage loans on behalf of their institutional clients.
- **Experience with Multiple Real Estate Market Down-cycles:** Hartland's principals have personally experienced at least one and some two or three, real estate market down-cycles over the last 30 years. This experience provides Hartland with the perspective needed to effectively evaluate commercial mortgages and their likely performance over time.
- **Only Senior Analysts on Staff:** Hartland comprises one of the largest and most experienced underwriting and due diligence teams in the country based in Hartford, CT. Its ten full-time underwriters each have between 15 and 30 years experience in the commercial real estate industry (see biographies below).
- **Active Management:** Constant surveillance of market conditions will enable Hartland to take advantage of commercial mortgage investment opportunities as soon as they arise. By anticipating changing market conditions, Hartland will make adjustments to investment buy/hold/sell decisions to enhance total investor returns.
- **Significant Barriers to Entry:** Very few investment managers have the expertise and capacity to perform a bottom-up, loan by loan foundational, buy-side underwriting in this segment of the distressed commercial real estate market. Even fewer are able to devote the ongoing resources to properly analyze thousands of collateralized loans in more than 200 CMBS bond issues. Hartland has already devoted thousands of man-hours towards differentiating and identifying hundreds of legacy CMBS bond purchase opportunities. And Hartland plans to continue its surveillance of this asset class to identify ongoing value opportunities in this continually changing environment.

Chart A

CMBS Market Has Grown Significantly to \$680 Billion

- The issuance of CMBS increased dramatically over the past 10 years and a liquid secondary market developed.
- The credit crisis, however, has reduced new issuance to zero and lowered liquidity across the secondary market. While this environment provides better investment opportunities to investors, it requires a hold-to-maturity patience.
- CMBS issues are composed of the following ratings (approx.):

AAA	83%
AA	4%
A	4%
BBB	4%
Below	5%

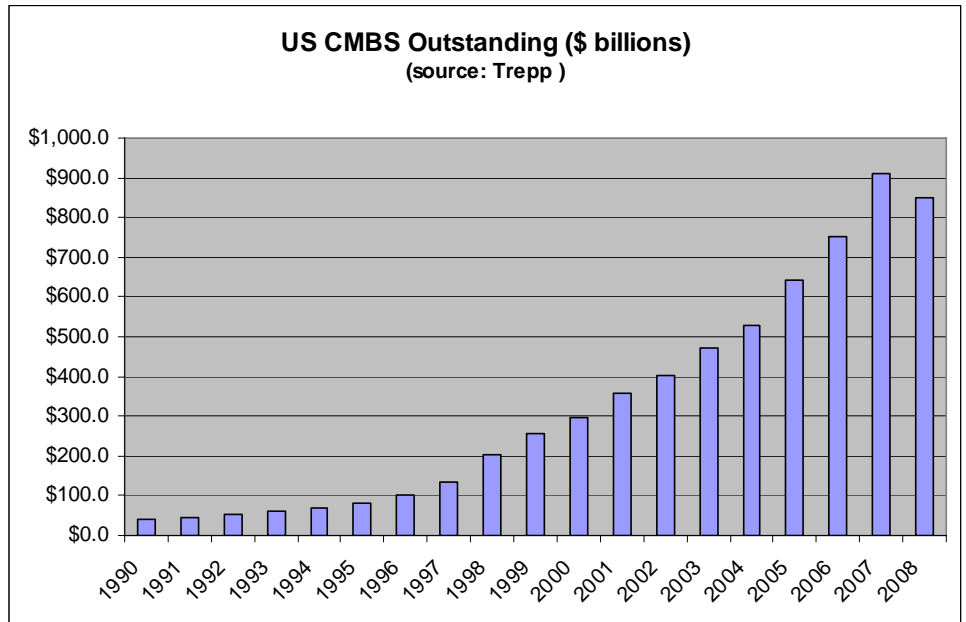
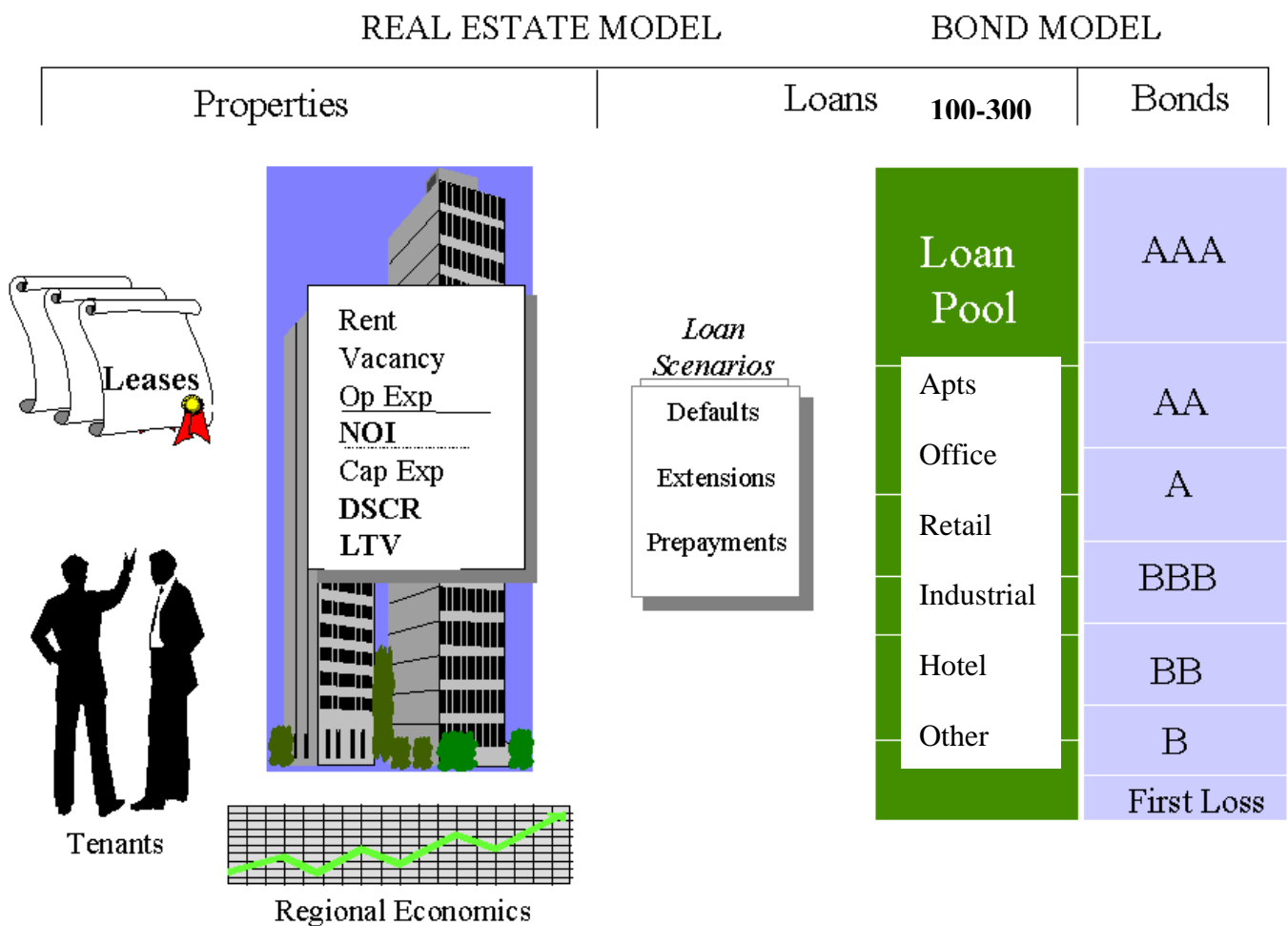


Chart B

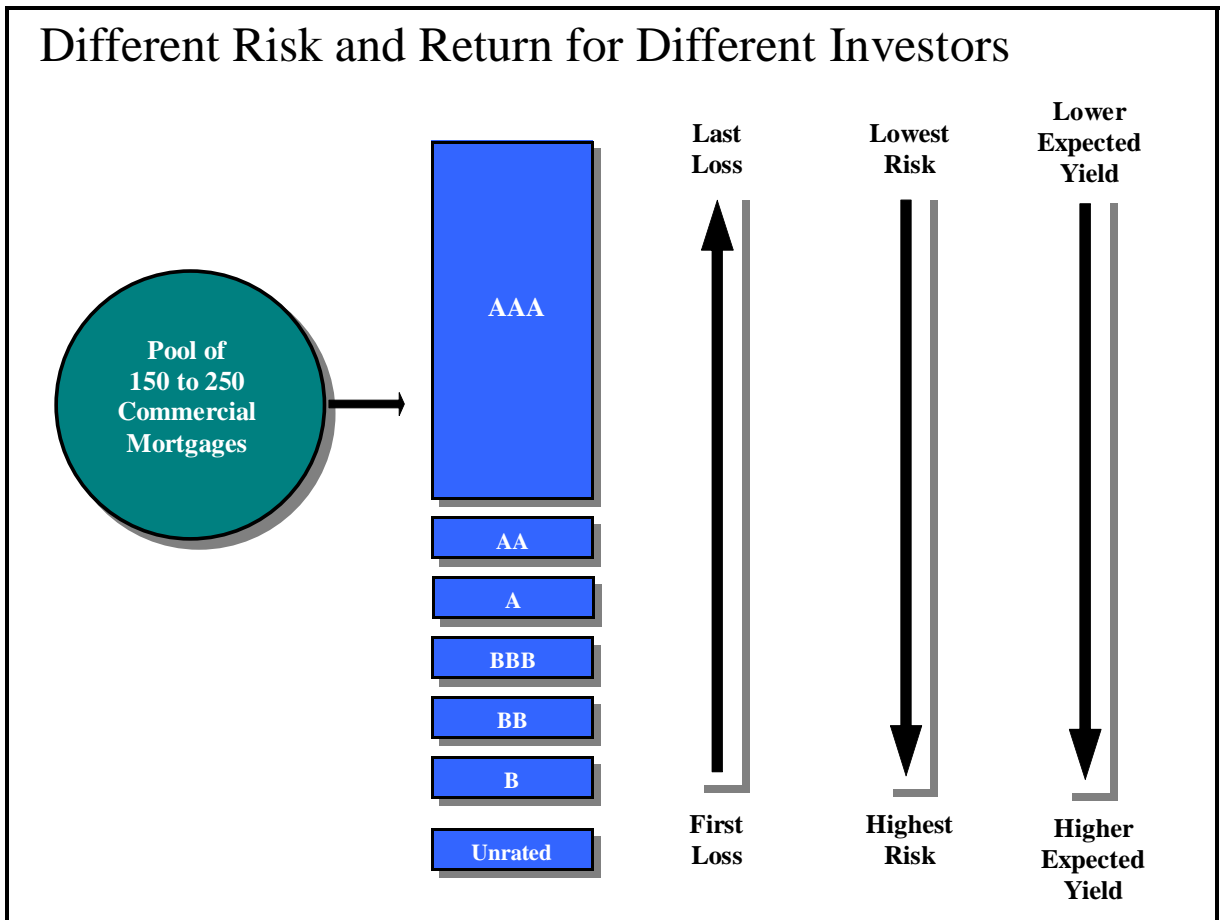
CMBS Collateral Diversified by Property Type, Location & Borrower



(Source: Trepp)

Chart C

CMBS Cash Flows From AAA to Unrated
While Losses Flow in Reverse From Unrated to AAA

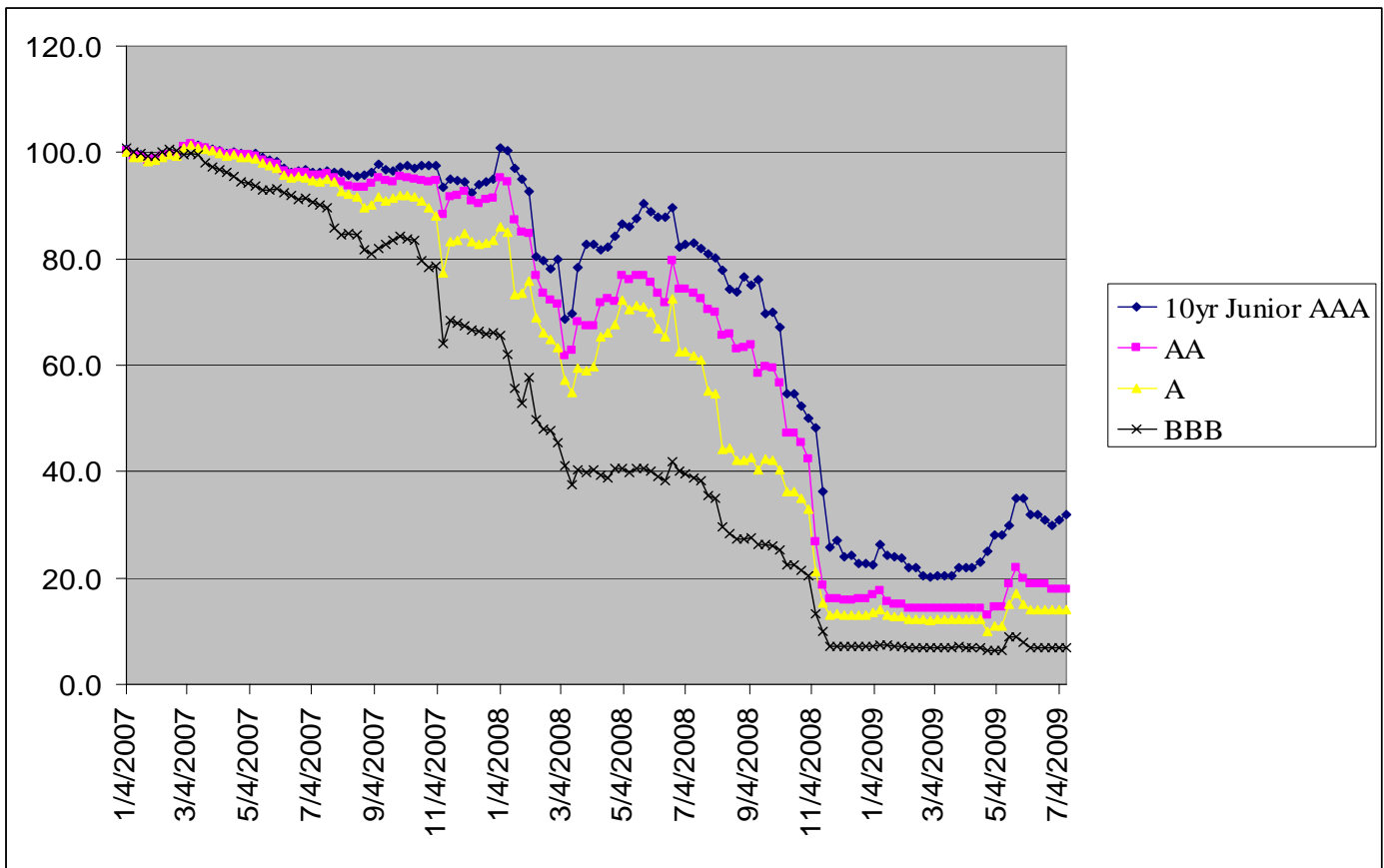


(Source: CMSA)

Chart D

Investment Grade CMBS Prices Have Declined Significantly

With the Recent Credit Market Distress:
 AJ Bonds now 32% of face value returning approx. 25% YTM
 BBB Bonds now 7% of face value returning approx. 95% YTM
 (Source: Trepp)



Biographies

Richard Burton – Partner

Partner of Hartland and MSA, joined 13 years ago in 1996. Mr. Burton has over 20 years of commercial real estate experience. Prior to MSA, he spent 10 years with Aetna's real estate department originating and underwriting commercial mortgage loans. He also was a commercial mortgage loan workout specialist actively managing a \$450 million problem loan portfolio, negotiating loan restructurings, initiating foreclosures, managing litigation during foreclosure and bankruptcy, testifying in court and directing property receivers. Mr. Burton also worked in the property management area managing wholly owned and foreclosed properties. He directed the foreclosure takeover and management of these properties, and negotiated and / or managed the negotiation of over 1.2 million square feet of leasing in these properties. In addition, he managed the successful sale of numerous properties, designed and directed construction redevelopment projects, negotiated settlements with tenants in bankruptcy, and designed and implemented a property reporting format for all on-site property managers. Prior to his real estate experience, Mr. Burton spent 9 years as an active duty Coast Guard Officer after graduating with a BS in Computer Science from the Coast Guard Academy (1976). His duties included being Assistant Professor at the Coast Guard Academy teaching Strategic Planning, Accounting and Finance. Mr. Burton received his MBA with High Honors from the University of Connecticut (1982).

Robert Buscher

Mr. Buscher joined Hartland and MSA 8 years ago in 2001. He has over 20 years of commercial real estate experience. Prior to joining MSA, Mr. Buscher was a real estate advisor to various insurance, industrial and financial companies including Continental Wingate, United Technologies and The Hartford insurance company in the areas of loan underwriting and lease management. Mr. Buscher also worked at the Boston branch of Criimi Mae where he helped establish a regional underwriting office and oversaw the production and approval of over \$150 million of commercial mortgage loans. Mr. Buscher began his real estate career at MassMutual, where he spent fourteen years including mortgage loan closing and servicing; loan underwriting; research and new product development; equity acquisitions; and management of the Northeastern regional office. Prior to joining MassMutual Mr. Buscher worked as a lawyer in Baltimore/Washington and Western Massachusetts specializing in real estate and housing law. Mr. Buscher earned a BA from The Johns Hopkins University (1970) and his JD from the University of Maryland School of Law (1973).

Biographies, continued

Philip Gonsalves – Partner

Partner of Hartland and MSA, joined 10 years ago in 1999. Mr. Gonsalves has over 15 years of commercial real estate experience. Prior to joining MSA, Mr. Gonsalves was Vice President in charge of underwriting and operations for QuestCap, a conduit originator / underwriter based in Norwalk, CT. While at QuestCap, the company originated and underwrote commercial mortgage loans for its mortgage banking affiliates network. The network comprised 15 active mortgage banking companies representing 30 different regions across the country. Prior to joining QuestCap, Mr. Gonsalves underwrote commercial mortgage conduit loans for PaineWebber, managed a loan portfolio sale for a national lender and helped manage Aetna's commercial mortgage portfolio loans. He also spent six years with Fleet Bank and Centerbank in their commercial mortgage departments both in credit administration / approval and working out commercial mortgage loans. Mr. Gonsalves began his commercial real estate career with a regional appraisal company, valuing both commercial and residential real estate. Mr. Gonsalves earned his BA from Boston College (1983), and has completed numerous Appraisal Institute courses.

David McCary, CRI – Partner

Co-founder and Partner of Hartland and MSA (founded 1993). Mr. McCary has over 20 years of commercial real estate experience. His current responsibilities include overall operation of the companies including strategic planning, human resources development, banking, legal and accounting relations, new business development, and investor relations. Prior to MSA, he spent 11 years as a loan officer in the corporate lending and commercial real estate industries. He spent six years in the commercial real estate industry with Aetna Life and Casualty in Hartford, Connecticut, and, prior to that, spent five years as a corporate lending officer with Manufacturers Hanover Trust Company in New York City. While at Aetna Realty, Mr. McCary was Assistant Portfolio Manager of Aetna's CERESA I and II closed end pension client accounts. He was also an Investment Officer originating and underwriting over \$300 million in commercial mortgage loans from across the country. Mr. McCary is a member of the Commercial Mortgage Securities Association (CMSA) having served on its Executive and Nominating Committees, the Hartford CFA Society and the Chartered Realty Investors Society (CRI). A Middlebury College graduate (1980) with a BA in Economics, he earned his MBA in Finance from Dartmouth's Amos Tuck School of Business (1987), graduating with the Arnold F. Adams Award in Entrepreneurship.

Biographies, continued

Austin Mooney – Partner

Partner of Hartland and MSA, joined 10 years ago in 1999. Mr. Mooney has over 30 years of commercial real estate experience. Prior to joining MSA, Mr. Mooney was Chief Executive Officer of FGH Realty Credit Corp., a Dutch owned finance company totaling 53 employees actively making construction and interim loans on all property types in the greater New York City area. While CEO, Mr. Mooney developed a number of support services including a separate appraisal company, an in-house legal department, a property management company and a construction services company to manage FGH's mortgages and owned properties. After FGH and prior to MSA, Mr. Mooney was Director of Mortgage Origination at First Wall Street Capital Corporation where he originated both debt and equity financings for clients nationwide, and later provided commercial mortgage underwriting services to CitiCorp's conduit program. Other New York City banks Mr. Mooney worked for prior to FGH included Chemical, Bankers Trust, Marine Midland and Natwest, primarily in their real estate lending departments. Mr. Mooney was a member of the Real Estate Board of New York, serving on the Finance Committee, and the Mortgage Bankers Association. Mr. Mooney earned his BS in business administration from Wagner College (1968) and has completed numerous MAI courses.

Pamela Peck

Ms. Peck joined Hartland and MSA 5 years ago in 2004. She has over 30 years of commercial real estate experience including 20 years with Cigna, Connecticut National Bank and Barclays Business Credit, combined. While at Barclay's Ms. Peck originated, underwrote and closed commercial mortgage loans in the Midwest and Southeast. At CNB Ms. Peck performed numerous commercial mortgage loan workouts comprising \$100 million in office, industrial and multifamily properties. At Cigna, Ms. Peck was an Asset Manager responsible for over \$300 million in institutional quality office and industrial properties for Cigna's general and advisory accounts. Ms. Peck began her real estate career in New York City as a paralegal for Shea & Gould preparing documentation for equity and mortgage loan transactions, coordinating closings and handling bankruptcy related issues. While there, she focused on the zoning and architectural issues related to the air rights and successful development of the Helmsley Palace Hotel. From there she went to Schroder Real Estate where she originated, underwrote and closed approximately \$500 million of office and regional mall acquisitions. Ms. Peck completed numerous real estate and accounting courses at New York University in New York City, received Paralegal training at the Institute for Paralegal Training in Philadelphia and earned her BA in Political Science from the University of Colorado (1972).

Biographies, continued

John Saunders, CFA – Partner

Partner of Hartland and MSA, joined 9 years ago in 2000. Mr. Saunders has over 13 years of commercial real estate experience. Prior to joining MSA, he spent 10 years with Cigna's real estate department. Mr. Saunders purchased, originated, underwrote and closed commercial mortgage loans for Cigna's general account. In addition, he performed numerous commercial mortgage loan collateral reviews assessing property, market and economic risks and assigning individual quality ratings to each loan for total return analysis and risk management. Mr. Saunders also managed a \$350 million equity real estate portfolio for Cigna and its pension clients, for a number of years, coordinating all key property management activities including, leasing, financing, budgeting, capital improvements and disposition. Prior to Cigna, he worked for three years with Aetna Life and Casualty's fixed income group where he managed the department's banking relationships and income collections for its mortgage-backed security holdings. Mr. Saunders is a Chartered Financial Analyst (CFA) and a member of the Association for Investment Management and Research (AIMR). He earned a BA in economics from Bucknell University (1985) and an MBA from The University of Connecticut (1990).

John Stevens, CRI – Partner

Co-founder and Partner of Hartland and MSA (founded 1993). Mr. Stevens has over 30 years of commercial real estate experience. Prior to MSA, he spent 15 years in Aetna's commercial mortgage real estate area underwriting and investing in commercial mortgage loans. He was Region Head for the West Coast Region (including California, the Pacific Northwest and Mountain States) and later was responsible for loan production in the Mid-Atlantic Region. Mr. Stevens was also a voting member on Aetna's commercial mortgage investment committee. During market downturns, he restructured maturing loans, negotiated early loan prepayments, appraised real estate collateral securing mortgages, identified event risks in mortgage portfolios and developed strategies to mitigate loan losses. Prior to joining Aetna, Mr. Stevens was a commercial real estate analyst at State Mutual Life in Worcester, MA, where he underwrote mortgages, acquired real estate equity properties, and managed owned properties in the Midwest, Mid-Atlantic and Southeast. Prior to that, Mr. Stevens worked for MassMutual Economic & Realty Research, Inc. as a Real Estate Analyst. He is a Board Member of the Urban Suburban Affordables (a Hartford Area Non-Profit housing organization). A Pittsburg State University (1970) graduate with a BA in Economics, he earned his Masters Degree in Urban Economics at the University of Missouri (1971).

Biographies, continued

Thomas Taylor, CFA

Mr. Taylor joined Hartland and MSA 7 years ago in 2002. Mr. Taylor has over 25 years of commercial real estate experience with more than 15 years at financial institutions including Aetna Life and Casualty, the Phoenix Companies, and Security Capital. Prior to joining MSA, Mr. Taylor was a Principal of Old Main Street Investors, a private investment, property development, and consulting company. As a principal, Mr. Taylor was responsible for forming partnerships to purchase commercial real estate, primarily apartment complexes, warehouses, and office buildings from institutional sellers. Additional responsibilities included valuing and positioning portfolios of commercial mortgages for sale for several institutional clients. Prior to forming Old Main Street Investors, Mr. Taylor was a commercial mortgage workout specialist for the Phoenix Companies, where his work included restructuring, foreclosing and selling problem loans with an aggregate principal balance of over \$500 million. Mr. Taylor has also worked as an underwriter in the commercial mortgage loan area of Aetna Life and Casualty and as a commercial mortgage portfolio manager for Security Capital Credit Corporation. Mr. Taylor has completed numerous Appraisal Institute Courses and is a member of the CFA Institute. He has a BA degree from Amherst College (1971) and an MBA from the Wharton School (1977) at the University of Pennsylvania.

Raymond Todd

Mr. Todd joined Hartland and MSA 6 years ago in 2003. He has over 20 years of commercial real estate experience. He spent five years at Chase Manhattan Bank as a commercial mortgage loan officer originating and underwriting commercial mortgage loans primarily out of Chase's Chicago office. Mr. Todd next joined Centennial Development Corp. in Tyson's Corner VA as Vice President of Finance where he managed this commercial real estate development company's financing needs. Todd next joined Cheslock, Bakker Associates, a boutique real estate investment bank in Stamford, CT where he participated in the underwriting and closing of over \$700 million of commercial mortgage loans, which became collateral for various CMBS securitizations. Most recently, Mr. Todd spent six years with Access Management Company, a New Jersey based manager and developer of self-storage properties, where he was vice president of finance. His responsibilities included managing all finance and accounting. While there, he supported the company's growth from six to twelve properties under management. Mr. Todd earned his BA from the University of Pennsylvania (1977) and his MBA from the University of Virginia (1979).

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