

Artesia Mortgage CMBS, Inc.

Commercial Mortgage Pass-Through Certificates Series 1998-C1

COMMERCIAL REAL ESTATE GROUP

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Transaction Summary:

Aggregate Issue Amount

\$186,972,142

Depositor

Artesia Mortgage CMBS, Inc.

Cutoff Date

September 1, 1998

Seller

Money Back Investment
Corporation

Closing Date

September 29, 1998

Final Rated Distribution Date

June 25, 2030

Servicer

Midland Loan Services, Inc.

Special Servicer

AMRESKO Management Inc.

Trustee

LaSalle National Bank

Fiscal Agent

ABN AMRO Bank N.V.

March 29, 1999

I. Transaction Highlights

| <u>Classes</u> | <u>DCR Rating</u> | <u>Subordination</u> | <u>Initial Pass-Through Rate</u> |
|----------------|-------------------|----------------------|----------------------------------|
| A-1 | AAA | 30.00% | 5.678% |
| A-2 | AAA | 30.00% | 6.081% |
| X | AAA | Notional | 1.939% |
| B | AA | 25.00% | 6.245% |
| C | A | 19.00% | 6.493% |
| D | BBB | 13.75% | 6.941% |
| E | BBB- | 12.00% | 7.390% |
| F | BB | 7.50% | 6.968% |
| G | B | 4.50% | 6.871% |
| NR | NR | 0.00% | 6.423% |

Overview

■ The certificates evidence beneficial interest in a trust fund consisting of a pool of 227 fixed-rate mortgage loans secured by first liens on 236 multifamily and commercial properties with an outstanding principal balance of \$186,972,942 as of the cutoff date, September 1, 1998.

■ The collateral can be characterized as “micro loans” as the average loan size is \$823,666.

■ Overall asset quality is Class B-.

■ Based on DCR’s adjusted net cash flows and amortization schedules, the weighted-average debt service coverage ratio (DSCR) for the pool is 1.35X and the loan-to-value (LTV) ratio is 71.3%. The weighted-average coupon for the pool is 8.284% and the weighted-average constant after DCR’s amortization adjustments is 10.2%, which is relatively high compared to conduit loans originated in 1998. The actual weighted-average am-

ortization schedule is 21.2 years, which is low relative to other conduits.

■ The closing date was September 29, 1998, and the final distribution date is June 25, 2030.

Parties to the Transaction

■ Money Back Investment Corporation (MBIC) is the mortgage loan seller. MBIC’s parent company is Bacob Bank s.c., a Belgian bank with an investment-grade rating and \$75 billion in consolidated assets.

■ The servicer for this transaction is Midland Loan Services, Inc. The special servicer is AMRESKO Management Inc. The trustee is LaSalle National Bank, and the fiscal agent is ABN AMRO Bank N.V.

■ All parties have been approved by DCR for this transaction.

■ The depositor is Artesia Mortgage CMBS, Inc., a wholly owned subsidiary of MBIC.

Strengths

■ *Diverse by Loan Size* – The largest single loan is 1.2% of the pool. However, DCR combines crossed loans when analyzing a transaction; thus, the largest loan size concentration is composed of three crossed loans representing 2.0% of the pool, the largest three loans in aggregate represent 4.3% and the largest five loans in aggregate represent 6.4%.

■ *High Percentage of Traditional Property Types* – Approximately 96.1% of the pool is composed of traditional property types (retail, multifamily, office and industrial) that have generally maintained liquid refinancing markets.

■ *Significant Amount of Escrows* – Approximately 29% of the pool by initial loan balance escrows for ongoing capital expenditures, 76% escrows for taxes, 70% escrows for insurance, all of which is above average for small-loan originators.

■ *Strong Borrowers* – Approximately 222 of the 227 loans in the pool representing 98% of the pool had FICO scores completed on the borrowers (if individuals) or on the principals of the borrowing entity. On a weighted-average basis, the scores indicated Class A borrowers according to DCR parameters.

■ *Short Amortization Schedules* – Forty-three loans, representing 19.5% of the pool, have amortization schedules which, at the request of the borrowers, are less than 20 years. The weighted-average amortization term for the pool is 21.2 years. Additionally, 24.5% of the pool fully amortizes.

■ *Above-Average Asset Summary Information* – MBIC provided above-average asset summary information in comparison to other small-loan originators.

Risks and Concerns

■ *Geographic Concentration* – Approximately 22.4% of the properties are located in California, which typically has a higher incidence of natural disasters than other regions of the country. No seismic studies were completed on the California properties at the time of origination.

■ *Reduced Third-Party Due Diligence* – Generally, loans with original balances of less than \$1 million had a reduced engineering report consisting of either a physical condition and deferred maintenance assessment or only a roof inspection. Additionally, only 50% of the pool had a Phase I; 35% had a limited-scope environmental assessment; and 15% only had a database search performed.

■ *Balloon Risk* – 73.0% of the pool has a balloon payment due at maturity, and 2.5% of the pool is interest only loans.

■ *Secondary Debt* – Six loans, representing 3.0% of the pool, are encumbered by additional debt, which DCR views as hard seconds.

■ *High Percentage of Single-Tenant/Owner-Occupied Properties* – Seventy-three loans, or 31.9% of the mortgage loans, are secured by properties that are entirely owner-occupied or occupied by a single tenant.

Mitigating Factors

■ *Geographic Concentration* – Although 22.4% of the pool is located in California, the properties are geographically diverse across numerous MSAs. Specifically, 13.4% is located in Northern California and 9.0% is located in Southern California. Additionally, these properties are located in 45 different ZIP codes; no more than 1.2% of the properties are located in the same ZIP code. Also, in preparation for the securitization, MBIC hired a seismic engineering firm to conduct a seismic analysis on a property-by-property basis. For properties that had PMLs in excess of 20%, DCR reduced the values by an amount equal to the excess of the PML greater than 20%.

■ *Reduced Third-Party Due Diligence* – DCR recognizes that originators of small balance loans will perform reduced scope third-party due diligence. DCR realizes that the costs associated with third-party due diligence are generally a fixed component of the overall closing costs of a commercial loan. As the loan balance decreases, the percentage of the loan proceeds that the closing costs represents increases. However, the subordination levels were increased to take into account the reduced scope of third-party due diligence. Additionally, when available, DCR used the higher of the engineer's estimate or DCR's minimum capital expenditure parameter. If an engineer's estimate was not provided, DCR applied its maximum capital expenditure parameter by property type when determining the property-specific cash flows.

■ *Balloon Risk* – Balloon risk is lessened by the ability of the servicer to modify loan terms and extend balloon payments.

■ *Secondary Debt* – The balance of the secondary financing was added to the related loan balance of the first mortgage loan, and the sum was used to calculate the DSCR and LTV.

■ *High Percentage of Single-Tenant/Owner-Occupied Properties* – For single-tenanted properties, DCR assumes the tenant defaults and vacates the property. Accordingly, DCR marks the rents to market, applies a vacancy factor for anticipated downtime and deducts market leasing costs.

Summary Loan Statistics: Three Largest Loans

| Property Name | % of Pool | Property Type | Property Quality | DCR DSCR ¹ | DCR LTV ² | Stated DSCR | Stated LTV | NCF Variance | Value Variance |
|--|-----------|-------------------------|------------------|-----------------------|----------------------|--------------|--------------|--------------|----------------|
| 41 & 51 James St. 141 Moonachie Century Center | 2.01% | 3 Crossed Industrial | C+ B- C+ | 0.99X ³ | 75.3% | 1.10X | 68.5% | -9.8% | -9.0% |
| Sunrise Village Apts. | 1.19% | Multifamily | B- | 1.47X | 72.0% | 1.60X | 66.9% | -0.2% | -7.1% |
| Grand Forks Apts. | 1.10% | Multifamily | B- | 1.40X | 73.5% | 1.53X | 70.6% | -3.9% | -3.9% |
| Aggregate Pool | — | — | B- | 1.35X | 71.3% | 1.49X | 62.7% | -8.9% | -11.3% |

¹ Calculated based on DCR's adjusted net cash flows and adjusted amortization schedules.

² Calculated based on DCR's adjusted values.

³ Actual debt constant is 11.4%, as the loan amortizes on a 15-year schedule.

41 & 51 James Street, 141 Moonachie, Century Center

The collateral for the three cross-collateralized, cross-defaulted loans is three industrial properties composed of small warehouse and limited distribution space located in New Jersey. The properties have between 2-10% finished office space and at least one truck loading dock. All of the properties are located in urban markets, situated among mixed commercial and limited residential land uses. Tenancy is a mix of owner occupants and third-party tenants. Three of the six tenants are third-party tenants. The properties benefit from convenient expressway access and good proximity to local markets served by their tenants. It is anticipated that these properties should outperform the market for occupancy due to their below-market rents.

Sunrise Village Apartments

The property is a 132-unit, garden-style apartment complex built in 1966 in North Mankato, Minn. The unit mix is one- and two-bedroom apartments. Amenities include a laundry room, outdoor swimming pool, clubhouse and tennis courts. The latter are currently out of service due

to deferred maintenance. However, the multibuilding complex appears to be in good condition and well-maintained. The subject is located in an area consisting of multifamily, single-family and industrial uses. The industrial properties do not appear to create a nuisance for the residential area, but rather create employment opportunities for the residents. Competitive properties were similar or slightly newer than the subject property.

Grand Forks Apartments

The loan is secured by four small multifamily properties located in Grand Forks, N.D. The average number of units in each property is 35. The four properties' quality varies, though is generally regarded to be Class B-. All properties are located in an established residential area. The properties have convenient access to arterial roadways and retail shopping districts.

Grand Forks experienced a citywide flood during the spring of 1997. These properties were moderately affected and all repairs have either been made or funds are being held in a reserve account for the completion of the repairs.

II. Aggregate Pool Statistics

DCR Net Cash Flow and Value Variances, Property Quality and Cap Rates (based on sampled properties)

| | <u>Net Cash Flow Variance</u> | <u>Value Variance</u> | <u>Average Property Quality</u> | <u>Average Cap Rate</u> * | <u>Cap Rate Range</u> |
|-----------------------|-----------------------------------|---------------------------|-------------------------------------|-------------------------------|---------------------------|
| Anchored Retail | -12.3% | -12.4% | A-/B+ | 9.0% | 8.8-9.3% |
| Unanchored Retail | -9.2% | -10.8% | B/B- | 9.7% | 9.0-11.3% |
| Multifamily | -7.0% | -7.2% | B-/C+ | 10.0% | 8.5-12.8% |
| Office | -12.9% | -15.6% | B-/C+ | 9.5% | 9.0-12.0% |
| Hotel | -9.3% | -6.6% | B+ | 10.0% | 10.0% |
| Industrial | -6.5% | -10.0% | B-/C+ | 9.1% | 8.5-10.0% |
| Self Storage | -1.6% | -49.2% | B- | 10.5% | 10.5% |
| Aggregate Pool | -8.9% | -11.3% | B- | 9.6% | 8.5-12.8% |

* Cap rates are applied to DCR's adjusted net cash flows.

DCR DSCR and LTV

| | <u>DCR DSCR</u> * | <u>DCR LTV</u> |
|-----------------------|-------------------|----------------|
| Anchored Retail | 1.33 | 77.6% |
| Unanchored Retail | 1.38 | 70.0% |
| Multifamily | 1.34 | 72.2% |
| Office | 1.30 | 74.7% |
| Hotel | 2.07 | 44.9% |
| Industrial | 1.32 | 67.8% |
| Self Storage | 1.58 | 77.5% |
| Aggregate Pool | 1.35 | 71.3% |

* Calculated based on DCR's adjusted net cash flows, amortization schedules and values.

DCR DSCR and LTV Information^{1, 2}

Debt Service Coverage Ratio Stratification

Weighted-Average DSCR: 1.35X

| <u>Range</u> | <u># Loans</u> | <u>% of Pool</u> |
|-------------------|----------------|------------------|
| Greater than 2.0X | 14 | 4.4% |
| >1.8X to 2.0X | 8 | 3.2% |
| >1.6X to 1.8X | 18 | 6.7% |
| >1.4X to 1.6X | 39 | 18.0% |
| >1.2X to 1.4X | 78 | 36.0% |
| >1.0X to 1.2X | 62 | 28.7% |
| >0.8X to 1.0X | 5 | 2.9% |

Loan-to-Value Ratio Stratification

Weighted-Average LTV: 71.3%

| <u>Range</u> | <u># Loans</u> | <u>% of Pool</u> |
|-------------------|----------------|------------------|
| Greater than 100% | 1 | 0.1% |
| >90% to 100% | 5 | 1.7% |
| >80% to 90% | 31 | 15.6% |
| >70% to 80% | 98 | 46.6% |
| >60% to 70% | 53 | 23.2% |
| >50% to 60% | 22 | 8.5% |
| Less than 50% | 14 | 4.3% |

¹ Based on DCR's adjusted net cash flows, amortization schedules and values. These figures may not necessarily agree with the prospectus supplement and private placement memorandum.

² The total number of loans may not agree with the prospectus supplement as all cross-collateralized, cross-defaulted loans have been combined with their respective crossed loans when calculating the DSCRs and LTVs in the accompanying charts.

III. Other Factors

■ DCR inspected 120 properties representing 58.4% of the pool and determined stabilized cash flow and values on 90 properties representing 43.4% of the pool. DCR's sample included the 10 largest loans and a random sample of the remaining pool by property type and loan size.

■ Amortization schedules were shortened when necessary in calculating debt service coverage ratios to reflect the age and estimated remaining economic life of the properties. This artificially stresses the DSCRs to more appropriately assess the risks of the assets with the greatest likelihood of obsolescence. DCR shortened amortization schedules on 16.3% of the pool, which is significantly less than the amount typically adjusted on conduit pools.

■ The pool has no borrower/management concentration in excess of 5%.

■ Five loans representing 2.9% of the pool are cross-collateralized and cross-defaulted within two subpools composed of two and three loans, respectively.

■ One property representing 0.5% of the initial pool balance is secured by a first lien on a leasehold interest. The ground lease rent was accounted for in DCR's stabilized net cash flow. The ground lease grants the lender notice and cure rights. Additionally, the ground lease's primary term plus automatic renewal periods extend at least 10 years beyond the loan term.

■ The average age of the properties based on the more recent of year built or year renovated is 15 years, which is typical of conduit pools. **DCR**

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