

CMBS: Credit Risk Workshop (Europe)

A two-day workshop to develop a structured approach to assessing the risks and returns of CMBS asset classes.

TARGET AUDIENCE

Credit risk managers, regulators, investors, hedge funds, servicers and other market participants wanting to expand their knowledge of European CMBS in the context of the current environment.

COURSE OBJECTIVES

Specifically participants will be equipped to:

- Use a structured approach to understand the risk profile of securitised commercial mortgage debt by evaluating the asset quality and transaction structure, including servicing
- Understand the impact of key real estate variables on risk assessment models
- Evaluate cash flow waterfall priorities and other structural protections
- Discuss implications of current market conditions on CMBS performance
- Assess the relative risks and rewards of European CMBS asset classes, such as single borrower, multi-borrower, sale/leaseback and synthetic structures.

CONTENT

INTRODUCTION

Analytic approach to credit

- A structured four-step approach to security specific analysis: purpose, payback, risks and structure
- Application of the structured approach to various types of CMBS securities
- Parties to the transaction and their roles.

RISKS TO REPAYMENT

Collateral analysis

- Identifying key variables which impact the likelihood of default and severity of loss
- Importance of property quality on cash flow
- Examining rent rolls for tenant quality and lease terms
- LTV and DSCR
- Stressing cash flows: the use of historical performance data in sizing credit enhancement
- Model approach: deriving credit enhancement requirements
- Multi-jurisdictional issues

SERVICER AND ORIGINATOR EVALUATION

- Types of servicers and their roles
- Challenges for servicers in the current environment
- Loss mitigation: capabilities and strategy
- Servicer ratings: why, how and impact on credit enhancement
- Assessing replacement risk
- Risks related to originators.

STRUCTURE

Credit enhancement

- Sizing: assessing the level of credit enhancement required for target ratings
- Understanding and evaluating the differing types of credit enhancement: internal versus external

Note Profile

- Waterfall structures: protecting the priority of payments
- Sources and applications of funds: sequential and pro rata
- Expected and rated maturity
- Available funds caps: investor perspective
- Use of excess spread in CMBS transactions
- A/B notes and the importance of intercreditor agreements

Structural safeguards

- Access to liquidity and limitations; providers of liquidity
- Establishing, maintaining and adjustments to reserve funds
- Mitigating risk through the use of swaps
- Addressing counterparty risk
- Synthetic transactions and reference pools
- Substitution of assets
- Further advance controls: criteria hurdles
- Loan covenants

Legal safeguards

- Isolation of assets
- True sale vs. synthetic structures
- Representations and warranties
- Events of default.

MONITORING PERFORMANCE

- Surveillance: evaluating and predicting collateral performance
- The need for disclosure: timely and adequate reporting
- Incorporating current market conditions into the rating analysis
- Interpreting performance to identify early warning signals.

MARKET CONDITIONS

- State of the commercial market and the impact of the recession
- Valuation issues
- Lack of refinancing options
- Government programs.

