

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

The overall goal of this two-day workshop is to equip those connected to the European CMBS market with the analytic skills and understanding to assess the risk and rewards inherent in CMBS.

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 model
- 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

The goal of this section is to highlight components of CMBS issuance and establish a framework of analysis for CMBS.

Analytic approach to credit evaluation

- A structured four-step approach: purpose, payback, risks and structure
- Application of the structured approach to various types of CMBS securities
- Parties to the transaction and their roles
- Exercise: comparing single- and multi-borrower transactions.

RISKS TO REPAYMENT

The goal of this section is to consider issues related to the collateral, the servicers and the originators which could affect CMBS 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
- Exercise: evaluating sustainability of property cash-flows
- Exercise: estimating loan loss levels and credit enhancement.

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

- The goal of this section is to understand document provisions relating to the priority of payments and other structural features of CMBS.

Credit enhancement

- Sizing: assessing the level of credit enhancement required for target ratings
- Understanding and evaluating the differing types of credit enhancement: internal vs. 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
- Exercise: analyzing provisions of documents to evaluate the impact on cash-flow waterfalls.

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
- Exercise: examining differences between synthetic and true-sale transactions.

Market conditions

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

Case Study

The goal of this case study is for course participants to apply the CMBS analytic framework to examine the evolution of a CMBS single-borrower transaction.

MONITORING PERFORMANCE

- The goal of this section is to understand how market conditions affect CMBS performance
- Surveillance: evaluating and predicting collateral performance
- The need for disclosure: timely and adequate reporting
- Incorporating current market conditions into the rating analysis
- Exercise: anticipating rating changes through surveillance.

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