CMBS: Credit Risk Workshop (US)

Develop an-depth analytic approach to assessing the credit risk and structural aspects of CMBS transactions and assess the impact of current market conditions.

TARGET AUDIENCE

A two-day workshop for investors, regulators, credit risk managers, fund management professionals, servicers and other market participants wanting to expand their knowledge of CMBS in context of the current market environment.

COURSE OBJECTIVES

Participants will be equipped to:

- Use a structured approach to evaluate the risk profile of CMBS by assessing the collateral characteristics, the credit enhancement available, and the anticipated cash-flow from the underlying assets
- Understand a default model for CMBS, focusing on the key variables that drive collateral performance and the stress scenarios utilized
- Assess the risks to each tranche in the transaction by unravelling its position in the cash-flow waterfall and the level of any remaining subordination / support
- Identify any risks arising from the servicers' capabilities and business model
- Discuss implications of current market conditions and government programs on CMBS transactions.

CONTENT

INTRODUCTION

Analytic approach to credit

- A structured, four-step approach to security specific analysis: purpose, payback, risks, and structure
- Applying the approach to CMBS
- Originator motivations and sources of repayment
- Parties to a transaction and their roles.

RISKS TO REPAYMENT

Collateral Analysis

- Key variables which impact the likelihood of default and severity of loss
- Understanding property cash-flow analysis issues
- Reviewing the Fitch CMBS Multiborrower Rating Model: loan by loan analysis
- Applying stresses to default probability and loss severity assumptions
- Impact of correlation
- Assessing large loans
- Deriving final credit enhancement levels by rating category.
- Servicer and originator evaluation
- Types of servicers and their roles: primary, master and special
- Servicer creditworthiness: challenges to servicers in the current environment
- Loss mitigation: capabilities, strategy and procedures
- Servicer events of default
- Assessing replacement risk
- Risks related to originators.

STRUCTURE

Credit Enhancement

- Understanding and evaluating different types of credit enhancement
- Comparing support at loan level vs. transaction level.

Note profile

- Waterfall structures: priority of payments
- Unravelling payment flows: sources and applications of funds
- Use of excess spread to create interest-only classes
- Mechanics of loss allocation to investors
- Expected and legal maturity: extension risk
- Anticipated repayment date (ARD) loans
- Considerations when structure includes multifamily loan group
- Available funds cap risk: investor perspective
- Impact of A/B notes on waterfalls.

Structural safeguards

- Establishing, maintaining and monitoring reserve funds
- Access to liquidity and limitations
- Impact of interest shortfalls
- Hedging to mitigate interest rate risks
- Understanding defeasance
- Types of additional debt
- Issues related to pari passu loans
- Loan level covenants.

Legal safeguards

- Isolation of assets - securitization structures survive originator bankruptcy
- Reps and warranties – reliability / risks when the originator is not solvent
- Rights of the controlling class and potential conflicts.

Market conditions

- The state of the commercial market and the impact of the recession
- Illiquidity and the impact on spreads
- Valuation issues
- Resecuritizations
- Impact of government programs: TALF & PPIP.

MONITORING PERFORMANCE

- Surveillance: evaluating and predicting collateral performance
- The role of the servicer in mitigating losses
- Assessing credit enhancement levels in context of recent collateral performance
- Understanding loss allocation and the impact on tranche performance
- Credit trends: assessing rating migration risk.

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