

CMBS: Credit Risk Workshop (US)

Using transaction examples and case studies, develop an-depth analytic approach to assessing the credit risk and structural aspects of legacy and CMBS 2.0 transactions and assess the impact of current market conditions.

TARGET AUDIENCE

Investors, regulators, credit risk managers, fund management professionals, servicers and other market participants wanting to expand their knowledge of key risks and features of CMBS in the current market environment.

COURSE OBJECTIVES

The overall goal of this two-day workshop is equip those connected to the CMBS market with the analytic skills and understanding to assess the risks and rewards inherent in CMBS and the evolution of CMBS 2.0.

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 current market conditions and development of CMBS 2.0.

CONTENT

INTRODUCTION

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

Analytic approach to credit evaluation

- A structured approach: purpose, payback, risks, and structure
- Originator motivations and sources of repayment
- Parties to a transaction and their roles
- Exercise:* comparing risks and structures of 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 repayment of CMBS.

Collateral Analysis

- Key variables impacting the likelihood of default and loss severity
- 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
- Exercise:* evaluating property level cash-flow analysis issues
- Exercise:* examining the sizing of a large loan transaction
- Exercise:* impact of collateral pool changes on rating levels.

Servicer and originator evaluation

- Types of servicers and their roles: primary, master and special
- Servicer creditworthiness and current challenges
- Loss mitigation: capabilities and procedures
- 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

- 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
- Available funds cap risk: investor perspective
- Impact of A/B notes on waterfalls
- Exercise:* analyzing provisions of documents to evaluate the impact on cash-flow 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
- Rights of the controlling class and potential conflicts
- Exercise:* highlighting covenants in large loan transactions.

Legal safeguards

Isolation of assets - structures survive originator bankruptcy
Reps and warranties – risks when the originator is insolvent.

Market conditions

- State of the commercial market and the impact of the recession
- Valuation issues
- Resecuritizations

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Case study

The goal of this case study is for participants to apply the CMBS analytic framework to examine a CMBS transaction and a large loan within the deal.

MONITORING PERFORMANCE

The goals of this section are to review rating changes and issues related to specially serviced loans.

- Surveillance: evaluating and predicting collateral performance
- Loss mitigation strategies: workouts/ loan modifications
- Assessing collateral performance and credit enhancement
- Loss allocation and the impact on tranche performance
- Exercise:* evaluating the performance of a CMBS transaction and anticipating losses or rating changes.



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