

# CRE CDO: Credit Risk Workshop (US)

A two-day workshop to understand the commercial real estate (CRE) CDO product. Focusing primarily on cash-flow transactions; but will also cover synthetic structures.

## TARGET AUDIENCE

Investors, bankers, issuers, counterparties, asset managers and those involved in credit risk evaluation and management.

## COURSE OBJECTIVES

The aim of this workshop is to increase the participants' understanding of the commercial real estate (CRE) CDO product. The workshop will focus primarily on cash-flow transactions but will also introduce synthetic structures.

Specifically, participants will be equipped to:

- Appreciate the rationale for CRE CDOs from the perspective of the issuer and the investor
- Use a structured approach to evaluate the underlying assets (CUSIP and non-CUSIP), asset manager, counterparties and transaction structures
- Understand the impact of key variables on risk assessment models
- Critique the structure to identify and assess the risks and protections afforded different parties.

## CONTENT

### INTRODUCTION

- Defining the CDO product
- Why CRE CDOs? Motivations behind the deal
- Structured approach to analysis: purpose, payback, risks and structure

### RISKS TO REPAYMENT

#### Underlying assets

- Defining the underlying commercial real estate collateral: whole loans, B-notes, mezzanine debt, CMBS, and REIT debt
- Identifying the key variables which impact likelihood of default and recovery
- Fitch VECTOR model approach: quality of individual assets and the overall portfolio
- Default probability: the use of credit ratings and default matrix to calculate weighted average rating factors
- Recovery rate: capital structure, security and adjustments to standard assumptions
- Analysing the non-CUSIP assets using a real estate multiborrower model
- Asset correlation: why and to what extent?
- Understanding portfolio credit quality under various stress scenarios

#### Asset manager

- Scope of manager's role
- Methodology for rating CDO asset managers
- Impact of asset manager ratings on default rates
- Issues specific to CRE assets

#### Counterparty

- Uncover and evaluate counterparty risk
- De-linking the notes from counterparty downgrade risk

## STRUCTURE

### Note profile

- Ramp-up, reinvestment and amortization periods
- Waterfall structures: protecting priority of payments
- Unravelling payment flows: sources, applications and redistribution of funds
- Expected and legal maturity; optional redemption features

### Structural safeguards

- Eligibility criteria and target portfolio characteristics
- Coverage tests: rationale, definitions and implications
- Access to liquidity
- Understanding sales, trading and reinvestment limitations and controls

### Features specific to synthetic transactions

- Default, recovery and loss determination in synthetics
- Understanding the charged assets and inherent risks
- Defining credit events

### Credit enhancement

- The role of credit enhancement: loss allocation
- Sizing: how the level of credit enhancement is determined for the target ratings
- Excess spread and the role it plays in different structures

### Legal safeguards

- Bankruptcy remoteness and non-consolidation
- Validity of transfer / perfection of security
- Representations and warranties

### Pricing

- Relative value: comparing returns across various SF asset classes

## MONITORING PERFORMANCE

- The need for disclosure: timely and adequate reporting
- Servicing the underlying portfolio
- Surveillance: expectations versus performance through the cycle
- Interpreting performance to identify early warning signals.

### Learning Paths

