

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.

