

Current Challenges and New Solutions in Commercial Mortgage-Backed Securities (CMBS)



Harry Blanchard, Director, Moody's Analytics, has worked in the structured finance market for over twenty years on both the buy- and sell-sides. Here, he provides insight into current CMBS challenges and discusses emerging solutions for CMBS professionals managing investments. He also explains how the recent incorporation of CMBS into Moody's Analytics Structured Finance Portal can help improve the capabilities of CMBS professionals.

Key Topics Covered:

- » Emerging CMBS challenges
- » New tools that resolve long-term frustrations for CMBS professionals

Q. What are the real-world issues, obstacles and frustrations that professionals trading in commercial mortgage-backed securities are dealing with today?

A. Issuance is the key challenge for today's CMBS professionals. In 2016, for many reasons, issuance was down approximately 30% year-over-year, at \$65-67 billion versus \$95 billion in 2015. Another major challenge is risk retention. This regulation has probably been the hottest topic in the structured products market for quite some time, and it is now coming to fruition. Banks and issuers have been reluctant to conduct business as usual because of the uncertainty of risk retention on the overall arbitrage of the deal, and also the reserves they must keep on the balance sheet against their securitization. There have been three transactions this year that have been risk-retention compliant. Happily, the upcharge in coupon for these transactions was less than anticipated. A third issue is that there are massive maturities that the market must deal with for the next 12 to 18 months, and the market is not replacing the burn-off with originations at the same pace. These topics concern market participants because they could affect pricing of product next year.

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Q: You have been deeply involved with the incorporation of the CMBS asset class into Moody's Analytics Structured Finance Portal. How can the Portal's functionality help CMBS professionals manage the concerns you outlined?

A: The Moody's Analytics Structured Finance Portal is designed to enable professionals to navigate the CMBS market on a real-time basis. It has comparison and benchmarking capabilities, so, for instance, if we take a risk-retention "test case" and compare it to an "average" conduit deal and dig into the credit specifics of those deals, we could see stark differences between the two deals. This data is laid out in the Portal in such a way that it is not only informative but simple to manage, visually pleasing, and easy to manipulate and change on the user's side.

Q: You spent many years on the "user side." How has your professional experience informed the development of the CMBS functionality on the Portal?

A: Traditionally, there have been a handful of providers for data analytics in the CMBS market. Some are used for analytics, and some are used more for informational and surveillance purposes. The CMBS component of Moody's Analytics Structured Finance Portal is designed specifically to address shortcomings in the marketplace. The Portal is innovative, with a fresh, modern look and feel, but more importantly, it is flexible. We built in the ability to customize it for our users, and have developed different modules, widgets, and screens, on request. We want every user to not only have access to the functionality they need, but also benefit from updates and innovations that have been developed for other subscribers. We are focused on delivering new, visually pleasing, and innovative modules to help all our clients.

Q: What can you tell us about the data that is included in the Portal, and its effect on the CMBS industry?

A: We have assembled an extensive library of transactions from the CMBS universe. We have collected and enhanced data on bonds, loans, collateral, and property that spans over 20 years of history. There are certain institutions that need this depth of data, for example large, sophisticated investors, who run and build their own models. That being said, small investors without resources to do extensive analytics, could also benefit from the Portal. Its customization capabilities and customer-centric focus, combined with high-value data make it a comprehensive problem-solver for anyone working with the CMBS asset class.

Q: Any final thoughts about challenges in the CMBS market?

A: We are at an interesting time in the CMBS market right now. From a maturity standpoint, we are faced with loans originated in 2006, 2007, and 2008, which are now coming due. These loans might be the most dubious credit and problematic vintages of our market, when underwriting was at its worst, and loans had the highest propensity for losses. As a result, investors now need sophisticated, data- rich tools to help them overcome these challenges.

About Moody's Analytics

Moody's Analytics, a unit of Moody's Corporation, helps capital markets and credit risk management professionals worldwide respond to an evolving marketplace with confidence. The company offers unique tools and best practices for measuring and managing risk through expertise and experience in credit analysis, economic research and financial risk management. By offering leading-edge software and advisory services, as well as the proprietary credit research produced by Moody's Investors Service, Moody's Analytics integrates and customizes its offerings to address specific business challenges.

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