Using CMM® for Stress Testing Analysis:

UNDERSTANDING COMMERCIAL REAL ESTATE LOSSES FOR COMPREHENSIVE CAPITAL ANALYSIS REVIEW (CCAR) AND DODD-FRANK ACT STRESS TESTING

Moody’s Analytics Commercial Mortgage Metrics (CMM®) is the premier analytical model for assessing Expected Default Frequency (EDF™) and Loss Given Default (LGD) for Commercial Real Estate (CRE) mortgages. By using CMM analytics, you can perform stress testing and determine loss provisions on commercial mortgage portfolios.

CMM supports regulatory stress testing by enabling the user to calculate expected loss and risk adjusted yield under supervisory and user-defined macroeconomic scenarios. Determine expected loss and risk adjusted yield under various economic (e.g. Moody’s Analytics Alternative Scenarios) and supervisory (e.g. CCAR) scenarios.

Moody’s CMM offers the unique ability to provide a national level macroeconomic forecast and instantly analyze the impact on a Commercial Real Estate portfolio. With CMM analytics you can produce quarterly forecasts for up to 10 years for the following variables:

- Real GDP
- Unemployment
- Fed Funds Rate
- 10 Yr Treasury yield
- Inflation
- Population
- Households
- Retail Sales
- Nonfarm Employment
- Nominal Personal Income
- Home Price
- Corporate Yield

These variables are then interpreted and converted into real-estate forecasts of Rents, Vacancies and Capitalization Rate for all property types at a sub-market level. CMM is able to achieve this by combining historical market data, expertise in modeling methodology and industry leading sub-market-level real estate forecasts provided by CB Richard Ellis Econometric Advisors. The market-level forecast can then be combined with property-level data to forecast Expected Default Frequency (EDF), Loss Given Default (LGD) and Expected Loss (EL) on a quarterly basis.

CMM translates macroeconomic variables pertaining to CCAR scenarios into CRE variables like vacancy rates, capitalization rates and rent forecasts.
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CMM IS THE PREFERRED MODEL FOR:
» Forecasting how an institution will perform under Federal Reserve mandated stress tests
» Performing stress testing to determine loss provisions for commercial mortgage portfolios
» Consistently analyzing how various market factors such as vacancy, rents and capitalization rates will impact individual loans’ performance
» The early detection of credit deterioration
» Efficiently screening CRE loans
» Monitoring CRE loan investments
» Aiding in regulatory compliance

INTEGRATED SOLUTIONS & SERVICES
CMM can be used on a stand-alone basis or integrated with Scenario Analyzer™ for enterprise-wide CCAR stress testing, regulatory reporting as well as to perform consolidated analysis and integrate the CRE with other asset classes under consistent macroeconomic assumptions. Moody’s Analytics offers a comprehensive coverage of the entire stress testing process to help financial institutions improve strategic planning and meet regulatory requirements. We provide our customers a multidisciplinary integrated view of risk management across the value chain and create modules that can be customized to the organizations needs – to enable improved decision making.

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.