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THE WEEKLY UPDATE ON REAL ESTATE FINANCE AND SECURITIZATION
ALERT

Ratings Reviewed Under New Criteria

Morningstar has affirmed its ratings on the first of 14 commercial MBS deals that it targeted for review as it began using a new methodology for grading single-borrower transactions.

The agency last week decided against changing its original ratings on all five classes of subordinate bonds in a $290 million retail-loan securitization (DBWF 2015-LCM). The agency assigned grades ranging from "AA+" to "BB-" to those notes when the deal priced three years ago.

When Morningstar released its new methodology on June 1, it designated 45 tranches, totaling $2.9 billion of bonds, from 10 transactions as under review for possible downgrades. Another 14 classes, totaling $945.2 million, from four deals were placed under review for possible upgrades.

The review list surprised some investors because Morningstar had previously indicated that only a "minimal" number of ratings changes were anticipated under its new methodology for single-borrower deals. Senior vice president **David Putro,** who oversees CMBS surveillance, said this week that the number of classes put under review was in line with the agency's expectations — representing about one-tenth of its outstanding ratings on 568 tranches of 109 single-borrower deals as of June 1.

Morningstar previously rated all CMBS under the same criteria. By creating a separate methodology for single-borrower and single-asset offerings, the agency sought to raise its profile in that sector of the market by making it easier for issuers and investors to understand its approach to such deals. The new methodology includes benchmarks for the loan-to-value ratios at each rating level, based on Morningstar's assessment of sustainable cashflows, debt-service coverage ratios and other metrics it uses to determine what collateral properties are worth.

The DBWF transaction is backed by a portion of a $410 million mortgage that **Deutsche Bank** and **Wells Fargo** wrote to **Macerich,** of Santa Monica, Calif., on the 2.1-million-square-foot Lakewood Center Mall in Lakewood, Calif.

In reviewing its ratings on that deal, "we ultimately got comfortable with the tranche LTVs as there's been some increase in cashflow [since issuance] and the loan is amortizing," Putro said. The other deals with ratings under review should be resolved within 180 days of being put in that category, as per company policy, he added. ❖


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THE GRAPEVINE

Managing director **Andy Taylor,** the longtime head of loan trading for **J.P. Morgan's** commercial MBS group, logged his last day at the bank last Friday. Neither his reasons for leaving nor his plans could be learned. Taylor spent the past two decades at the bank in a variety of roles. Executive director **Avinash Sharma,** who has been leading CMBS structuring and distribution, is expected to take on some of Taylor's duties.

Hunt Mortgage continues building its senior-housing and healthcare platform. **Andrew Kitts** joined last month

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CMBS Volume Up 13%, but Worries Persist

U.S. commercial MBS issuance climbed 13% to $40.5 billion in the first half, but some securitization lenders aren't happy.

Volume was bolstered by low-margin single-borrower transactions, which soared by 61%. But the core part of the market — conduit issuance — fell by 8%, putting the squeeze especially on nonbanks that don't have the capacity to handle the giant mortgages that collateralize single-borrower offerings.

In the league-table races, **J.P. Morgan** maintained its lead in the two highest-profile rankings — for U.S. bookrunners and loan contributors to U.S. deals (see article on Page 12 and rankings on Pages 13-25).

Private-sector CMBS volume in the U.S. was bolstered by a surge in June, when $11.5 billion of transactions priced — the highest monthly total so far this year and more than double each of the two previous months. That activity was capped by

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Issuers Pass Risk to Third Parties More Often

Commercial MBS issuers are increasingly selling risk-retention bonds to high-yield investors, rather than retaining the paper themselves.

Issuers passed off the risk-retention requirement for 49.5% of CMBS volume in the first half, up from 38.2% in full-year 2017, according to an analysis by **Commercial Mortgage Alert.** That meant issuers assumed the risk on just 50.5% of issuance, down from 61.8%.

The trend was most prevalent in the conduit sector, where issuers handed off the risk to third-party bond purchasers for 47.9% of issuance in the first half, up from 33.2% last year. There was also an increase in the other major market segment, with dealers transferring the risk on 50.9% of single-borrower volume, up from 45.3%.

Among individual shops, **Rialto Capital** retained more risk to CMBS transactions than any other party in the first half, edging out **Silverpeak Argentic, KKR** and **MassMutual,**

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CMBS Loan 'Triggers' Causing Headaches

Complaints are rising about confusion and red tape surrounding bondholder-protection provisions that authorize commercial MBS servicers to take direct control of rent payments when property performance slips.

Borrower advocates and other industry pros contend that the confusion stems from the wide variety of such "lockbox" provisions and inconsistency about how they are being implemented — problems they say have contributed to driving some property owners away from securitization lenders.

Meanwhile, many servicing pros are also unhappy, arguing that poor implementation procedures and a lack of clarity in loan and securitization documents often complicate their enforcement of the provisions, causing both higher operating costs and more disputes with borrowers. While the complaints aren't new, they've been increasing as deals floated since the market crash age and the provisions are triggered more frequently. The gripes come at a time when the CMBS industry is already trying to address complaints from some borrowers about poor customer service.

The lockbox provisions are aimed at protecting bondholders from potential

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