

March 2018

**Morningstar Credit Ratings, LLC Contacts**

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**Deadline**

Morningstar will accept comments on this Request for Comment until 5 p.m. Eastern Time April 20, 2018.

**How to submit your comments**

Comments should be submitted by the deadline date and time via email to [NRSROconsultations@morningstar.com](mailto:NRSROconsultations@morningstar.com). Comments should contain your name, your title (if writing on behalf of an organization), your organization (if applicable), address, phone number and email address.

Once Morningstar Credit Ratings takes action with respect to the proposed methodology or methodology change, it will publish a summary report on the request for comment, which will also disclose the comments it received during the comment period (subject to certain conditions). Therefore, commenters should also include with any response to this Request for Comment any request to keep their identity and/or the content of their comments confidential in their response to this Request for Comment. However, commenters should understand that confidential responses may still be circulated internally at Morningstar Credit Ratings, or its affiliates, to individuals who have a need to know and may be turned over to regulatory authorities in response to any inquiry, investigation, examination or subpoena, or may be discoverable and produced as part of a legal or administrative proceeding without further notice to the commentator.

**Scope of Proposal**

Morningstar is proposing a U.S. CMBS Single-Asset/Single-Borrower ratings methodology for the purpose of rating SASB deals, rake certificates, and large-loan securitizations at issuance and during surveillance. With respect to SASBs, rakes and large-loan transactions, this proposed methodology will replace the “U.S. CMBS Subordination Model,” which we will continue to use in rating all other CMBS transactions.

**Summary of Proposal**

The methodology provides an overview of key qualitative and quantitative factors that Morningstar considers for rating U.S. CMBS backed by a single mortgage or by a pool of cross-collateralized/cross-defaulted mortgage obligations to a single borrower or related borrowers. This methodology may also apply to other forms of commercial mortgage-backed securities, including large-loan securitizations and rake certificates.

The five key components that drive Morningstar's proposed credit rating methodology for SASBs are as follows:

- i) Morningstar's underwritten sustainable net cash flow and sustainable value of the underlying commercial real estate;
- ii) Leverage of the mortgage borrower and certain related borrowers as indicated by the LTV and debt service coverage ratio based on Morningstar's underwritten sustainable value and NCF;
- iii) Qualitative and quantitative factors, including, but not limited to, property type, amortization, portfolio diversity (if applicable), property quality/stability (or volatility), property location and market fundamentals, and the sponsor;
- iv) Transaction structure of the CMBS trust issuing the certificates, including the priority of payments, the LTV and/or credit enhancement at each tranche, and liquidity in the form of servicer advances; and,
- v) Legal review of the key documents at both the CMBS transaction level and at the borrower/property level.

To view the full proposed Morningstar U.S. CMBS Single-Asset/Single-Borrower Ratings Methodology document, please click [here](#).

### **Impact on Outstanding Ratings**

Based on Morningstar's analysis of recent vintage (2014 to 2017) certificates for which we maintain ratings, we anticipate minimal significant impact (that is, an upgrade or downgrade of three or more notches) to Morningstar's existing ratings as a result of this proposed methodology. It is important to note that for older vintages (deals securitized before 2014), changes to Morningstar's existing ratings will largely depend upon the performance of underlying properties within a transaction.

### **Related Methodology and Research**

#### *Related Methodology*

- Morningstar Credit Ratings Definitions and Other Related Opinions and Identifiers (February 2017)
- U.S. CMBS General Ratings Methodology (December 2017)

#### *Methodology that will be partially superseded*

- U.S. CMBS Subordination Model (December 2017)

#### *Related Research*

- Property Cash Flow Underwriting and Valuation Guidelines (January 2018)