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CMBS Suffered 3.29 Percent Losses from 1995 to 2015; RMBS, 11.23 Percent

CMBS transactions have suffered a total of \$43.8 billion of losses during the 20 years between 1995 and 2015.

While that might appear to be a hefty number, it amounts to only 3.29 percent of the \$1.3 trillion of deals that were issued during that time, according to Trepp LLC.

That compares with the non-agency residential MBS market, which saw a total of \$4.9 trillion of issuance during that period. Those deals suffered a total of \$552.9 billion of losses, or 11.23 percent of their original balances, according to Morningstar Credit Ratings. But those data are skewed by the horrid performance of RMBS deals backed by subprime loans - that is, loans to borrowers who otherwise couldn't qualify for a traditional loan often because of their low credit scores. Those deals have suffered losses of 13.5 percent of their original balances.

The performance of prime RMBS tracked CMBS more closely, suffering losses totaling 4.7 percent of their original \$1.3 trillion balance, Morningstar's data show.

The data show that RMBS issued in 2006 and 2007 suffered the biggest losses. Collectively, the 2006 vintages suffered losses of 26.5 percent of original balance. The 2007 deals suffered losses of 22.4 percent. That stands to reason as that market was then at its frothiest, and when loans went bad, they hit their deals quickly. And because home loans don't rely on lengthy leases for their cash flow, they tend to sour quickly.

CMBS, meanwhile, reached peak losses with its 2008 vintage, which so far has suffered losses totaling 10.9 percent. But because it often takes years for problems in CMBS deals to materialize, the 5.89 percent and 5.81 percent loss figures for 2006 and 2007, respectively, are sure to climb over time. For 2006, Trepp tracks a total of \$191.6 billion of CMBS. Of that total, \$130.3 billion has been disposed of. And those loans have suffered a total of \$11.3 billion of losses, which amounts to 8.7 percent of the volume that was disposed of, but 5.89 percent of the amount issued.

Loans from that era could muddle along, barely paying their way until they near their maturity. If their collateral isn't performing as projected, things then would sour. Indeed, recent delinquency data show maturity defaults climbing.

The heavy losses suffered by the RMBS sector were the drivers of the development of the risk-retention rules that go into effect this month. The thinking behind the rules was that if issuers were forced to keep a piece of every deal they issued, lenders would become more disciplined in underwriting the collateral loans. The interests of borrowers and lenders would be better aligned if the latter were forced to keep a piece of what they wrote.

	RMBS			CMBS		
	Orig Amt \$mln	Loss Amt \$mln	Cuml Loss %	Orig Amt \$mln	Loss Amt \$mln	Loss %
2015	6,749.26	0.00	0.00	94,430.30	0.00	0.00
2014	11,507.18	0.01	0.00	87,952.94	0.00	0.00
2013	13,109.45	0.31	0.00	79,115.46	0.06	0.00
2012	7,833.35	1.47	0.02	42,992.22	0.12	0.00
2011	2,674.55	5.61	0.21	29,876.05	7.55	0.03
2010	1,220.00	40.51	3.32	12,238.29	0.00	0.00
2009	2,306.87	199.81	8.66	1,360.00	0.00	0.00
2008	6,446.13	510.3	7.92	10,707.47	1,166.13	10.89
2007	370,339.86	83,008.70	22.41	225,362.24	13,090.64	5.81
2006	965,280.08	256,019.39	26.52	191,639.37	11,288.98	5.89
2005	1,904,647.77	153,497.56	14.02	154,759.04	6,510.97	4.21
2004	808,926.11	34,498.80	4.26	80,404.63	2,297.96	2.86
2003	544,395.47	9,324.49	1.71	55,237.94	1,410.57	2.55
2002	343,331.81	4,641.83	1.35	37,854.88	1,474.82	3.90
2001	231,567.83	3,382.69	1.46	49,038.42	1,752.94	3.57
2000	109,128.49	2,820.27	2.58	49,540.26	1,362.09	4.61
1999	126,144.32	2,402.94	1.90	37,391.36	1,238.23	3.31
1998	155,283.54	1,580.00	1.02	49,037.67	1,359.64	2.77
1997	67,318.90	634.31	0.94	23,301.99	582.04	2.50
1996	33,015.66	224.44	0.68	10,158.16	200.10	1.97
1995	24,146.95	128.89	0.53	1,738.18	30.16	1.74
Total	4,925,627.66	552,922.33	11.23	1,330,371.30	43,773.01	3.29

Sources: Morningstar Credit Ratings, Trepp LLC

Rules makers decided that all structured-finance offerings would have to play by the risk-retention rules. In CMBS, issuers can keep a 5 percent vertical strip, by par value, of every deal they issued, or a 5 percent horizontal strip, by market value that they could sell to a qualified B-piece buyer that then would have to keep it for at least five years and not place financing against it. Issuers could also retain an L-shaped piece of their deals, combining both strategies.

The irony, however, is that the bulk of the RMBS deals that are being issued today would be exempt from the pending rules. That's because most RMBS are issued by Fannie Mae and Freddie Mac, which are exempt from the rules.