



The Bank of Italy  
Rome, Italy

23 December 2003

Re: Commercial Mortgage-Backed Securitisations

Dear Ladies and Gentlemen,

The Commercial Mortgage Securities Association (the “CMSA”) is an industry trade group formed in 1994 and dedicated to improving the liquidity of commercial real estate debt securities through access to the capital markets. The CMSA includes as its members the wide spectrum of companies involved in the business of creating, trading, monitoring and investing in commercial mortgage-backed securities (“CMBS”) including Originating Banks and other commercial mortgage loan originators, Investing Banks and other CMBS investors, mortgage servicing companies and securities trustees, rating agencies as well as Bondholders investing in AAA-rated to Non-Rated CMBS classes.

We are writing this letter on behalf of our members to express their concern as to the current inability to securitise commercial mortgage loans in Italy in the same manner as in other European countries and the United States. The impediments to such securitisations in Italy will severely limit the ability of borrowers to obtain financing for such originations through the capital markets, as well as the ability of originators to sell such loans to third parties.

The advent of CMBS in real estate finance has provided lenders with additional sources of capital to invest in real estate lending. This effectively provides commercial real estate borrowers with the ability to tap into the capital markets for their real estate debt requirements, providing them with an alternative to traditional bank lending. This gives corporates, governments and financial institutions that are real estate borrowers access to a wider range of capital sources and, therefore, more alternatives to choose from when obtaining financing secured by commercial real estate. Also, CMBS provides originating banks with an alternative to selling loans off of their balance sheets. Through a securitisation, the investor base in CMBS expands beyond the traditional whole loan investor market.

For these reasons, CMBS has grown significantly since its inception. For 2003, total new issue volume of CMBS in Europe is estimated to be \$8.6 billion backed by European real estate mortgage debt and \$70.3 billion backed by U.S. real estate mortgage debt. In the United States, the commercial mortgaged-back securities market is currently \$550 billion, and the CMBS capital markets are now nearly on par with commercial banks to be the leading source of commercial real estate debt (approximately 15% for each sector). Set out below are tables showing the growth in European and U.S. CMBS issuance.

**European CMBS Issuance Volume and Transaction, 1997 to 2003**

	<b>Issuance (US\$million)</b>	<b>Number of Transactions</b>
<b>1997</b>	8,183	13
<b>1998</b>	718	2
<b>1999</b>	4,124	7
<b>2000</b>	6,103	10
<b>2001</b>	14,494	21
<b>2002</b>	22,047	22
<b>2003</b>	8,558	12
<i>Source: Fitch Ratings (2003 is YTD)</i>		

**US CMBS Issuance Volume and Transaction, 1990 to 2003**

	<b>Issuance (US\$million)</b>	<b>Number of Transactions</b>		<b>Issuance (\$billion)</b>	<b>Number of Transactions</b>
<b>1990</b>	3,297	31	<b>1999</b>	56,803	94
<b>1991</b>	7,633	50	<b>2000</b>	47,218	75
<b>1992</b>	13,997	54	<b>2001</b>	69,341	102
<b>1993</b>	16,519	118	<b>2002</b>	54,278	61
<b>1994</b>	15,364	97	<b>2003</b>	70,354	76
<b>1995</b>	15,837	77			
<b>1996</b>	26,784	96			
<b>1997</b>	37,806	82			
<b>1998</b>	75,005	82			
<i>Source: Fitch Ratings (2003 is projected)</i>					

Any owner of or investor in Italian real estate would clearly benefit from the additional source of capital available for lending on commercial real estate. In particular, during recessive times in an economy, it is typical that there is a significant reduction in available private sources of capital for commercial real estate. Such lack of available capital can make it difficult for owners and investors in real estate to obtain the financing necessary to acquire or renovate their commercial real estate investments and, therefore, could have an adverse effect on the value of commercial property in Italy. CMBS provides an additional means of obtaining capital for the purpose of commercial real estate borrowing. The growth of CMBS in the U.S. in the early 1990s has been significantly attributed to the lack of available lending sources during the recession of that period.

There are multiple benefits to the investor in the CMBS transaction. The most significant benefits are: (a) the diversification of the pool of loans (if multiple loans); (b) the tranching of the CMBS securities into various rating levels (typically “AAA” to “BB”); and (c) ability to invest in commercial real estate debt in relatively low investment amounts, as compared to the principal balances of the related mortgage loans. Investors in CMBS understand that they are assuming the same risks as an investor in whole mortgage loans, such as balloon payment risks at maturity. However, these risks are considered by the investors in the pricing of their investment in the CMBS.

The inherent risks of investing in loans secured by commercial real estate are also assessed by the rating agencies in their determination of the expected credit risk of a portfolio of mortgage loans backing a CMBS security. The rating agencies intensely review the underlying loans and properties and employ resources, both internal and external, to dissect the structure of the specific CMBS. This due diligence by the ratings agencies represents a significant departure from their review process of other asset backed securities and involves a much more thorough review of the underlying assets of such securitisations.

The rating assigned to a security conveys the rating agency’s opinion of expected losses (and/or default probability) on the security. Ratings are intended to be comparable across asset types. For instance, in an expected loss framework, a CMBS security rated “BBB” has a similar loss expectation as a corporate security rated “BBB”. The tables below highlight the percentage of bonds that default over twelve months for each rating category. For the purposes of this study, it is assumed that a rating of “Caa” or less is synonymous with default. As demonstrated below, CMBS performance has exceeded the performance of other sectors across virtually all rating categories. To illustrate, the first table below shows only 0.43 % of the group of CMBS rated “Ba” at any time tend to default over a period of twelve months. The comparable figure is almost five times higher for corporates (2.04 %) and much higher for ABS and CDOs (in excess of 11 %).

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**CMBS Bond Defaults Are Substantially More Modest Than Other Sectors**

Initial Rating	Rating of Caa or below after 1 year					
	ABS	CDO	CMBS	RMBS	Others	Corporates
Aaa	0.07%	0.00%	0.00%	0.00%	0.00%	0.00%
Aa	0.22%	0.11%	0.08%	0.00%	0.00%	0.03%
A	0.09%	0.90%	0.00%	0.20%	0.25%	0.04%
Baa	0.68%	3.18%	0.20%	0.86%	2.14%	0.39%
Ba	11.10%	11.04%	0.43%	2.39%	2.38%	2.04%
B	21.71%	29.91%	2.36%	6.41%	2.33%	10.70%

*Source: Moody’s Investors Service*

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**Standard & Poor’s One-Year Bond Default Rates by Asset Type**

Rating at Beginning of Year	ABS	CDO	CMBS	RMBS	Corporates
AAA	0.00%	0.00%	0.00%	0.00%	0.00%
AA	0.00%	0.00%	0.00%	0.00%	0.01%
A	0.32%	0.00%	0.00%	0.00%	0.05%
BBB	0.37%	1.80%	0.00%	0.10%	0.39%

BB	1.63%	3.40%	0.87%	1.00%	1.50%
B	10.71%	6.30%	1.52%	2.00%	6.88%

Source: Standard & Poor's Ratings

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We would like to assist the Bank of Italy in its evaluation of CMBS as a source for lending capital and as an investment in order that they may properly assess the current restrictions on the issuance of CMBS secured by Italian assets. As an industry, we are highly supportive of the establishment of laws and regulation that are instrumental to the issuance of commercial mortgage-backed securities. Therefore, we would like to work with the Bank of Italy in providing information that might be helpful in the establishment of a regulatory framework for the issuance of CMBS in Italy.

We appreciate your consideration of the views of CMSA. Members of the CMSA would like to meet with the Bank of Italy sometime in the coming weeks to further discuss how we might be able to assist with providing further information on CMBS. If you have any further questions or comments on this matter, please do not hesitate to contact Alberto Del Din at 06 845 511 or by email at [alberto.deldin@beplex.com](mailto:alberto.deldin@beplex.com), or Charles Roberts at 44 20 7170 8727 or by email at [charles.roberts@cwt-uk.com](mailto:charles.roberts@cwt-uk.com).