



August 5, 2008

Via Electronic Mail

Stuart Jennings
Ian Linnell
Glenn Costello
Ben McCarthy
FitchRatings
sffeedback@fitchratings.com

Re: Response to FitchRatings Requests for Comments on “Fitch Proposals For Complementary Ratings and Indicators to Structured Finance Ratings” And on “Exposure Draft: Retaining Equity Piece Risk – Enhancing Transparency.”

Dear Messrs. Jennings, Linnell, Costello and McCarthy:

The Commercial Mortgage Securities Association (CMSA) submits this letter in response to FitchRating’s request for comment issued on July 1, 2008. CMSA is the global trade organization for commercial real estate capital market finance. In the United States alone, this is approximately a \$1 trillion market. Non-U.S. issuance is approximately US\$315 billion, which includes markets within Canada, Japan, pan-European and United Kingdom. The organization’s primary mission is to promote the ongoing strength, liquidity and viability of commercial real estate capital market finance worldwide. Based in New York, with a government relations office in Washington DC as well as a strong presence in Canada, Europe and Japan, CMSA is the voice for the industry, with a diverse global membership of over 400 member firms represented by more than 5,000 individuals who actively engage in commercial real estate capital market finance activities. These members embody the full spectrum of the commercial mortgage-backed securities (CMBS) market, including senior executives at the largest banks and investment banks, insurance companies, investors such as money managers and specialty finance companies, servicers, other service providers to the industry, and the rating agencies, including Fitch Ratings, DBRS, Moody’s, Realpoint and Standard & Poor’s.¹ CMSA and its members are the leaders in setting standards and maintaining a favorable investing environment, and we submit these comments in an effort to further advance these dual objectives.

¹ This letter does not necessarily reflect the views of CMSA’s credit rating agency members.

In the July 1 request for comments, Fitch requests comments regarding whether the employment of complementary ratings scales, the addition of indicators to existing rating scales or the introduction of a separate rating scale for structured finance products would be welcome. Fitch also proposes the use of three specific complementary ratings and seeks comments regarding the potential utility of each. For the reasons outlined below, CMSA and its members do not support any symbology change to the rating scales for structured finance products. CMSA's investor members do not believe that the proposed complementary ratings will add any value for them but we have no objection to the introduction of such complementary ratings provided that they are used for all asset classes. Our members would, however, welcome the issuance of additional information and commentary relating to the employed rating methodology and the details of each rated issuance as outlined below in our specific recommendations.

CMSA and its members – including its credit rating agency members – consistently have maintained that credit ratings should be forward-looking opinions that address just one characteristic of fixed income obligations – an assessment of the likelihood that such obligations will be repaid in accordance with their terms. For many years, Fitch and the other credit rating agencies have maintained that like ratings are comparable across all asset classes (including municipal and corporate bonds) because, at bottom, the underlying assessment is the same regardless of asset class – the likelihood that the obligations will be repaid in accordance with their terms. The introduction of a separate rating structure for CMBS and other structured finance products would be inconsistent with this longstanding principle and create significant confusion for the investors in all of the capital markets.

Moreover, CMSA is extremely concerned about the impact that certain changes to the ratings classifications could have at this time. Accordingly, CMSA strongly believes that replacing or modifying the existing ratings scale could make the structured products market even more volatile and less liquid. The addition of a subscript would likely add to investor confusion as to the meaning of a rating assigned to CMBS relative to a similar rating assigned to a corporate bond. Investors would be forced to revise their investment policies to incorporate the new rating structure, to develop new analytical and monitoring infrastructure to interpret the new ratings, and to determine whether they need to have a specific investment allocation for each asset class, adding cost and potentially further eroding liquidity. CMSA also believes that these factors would make investments in CMBS less appealing to investors than investments in similarly rated corporate bonds.

CMSA and particularly its investor members do not believe that any of the three proposed complementary ratings – Loss Given Default/Loss Severity, Collateral Quality Assessment, and Rating Transition Probability and Volatility – would necessarily add significant value for them. We also, however, do not believe that the introduction of any of the three would be problematic provided that any complementary rating scale that is introduced is applied across all asset classes (e.g. corporate, municipal and Structured Finance) and we believe that the Rating Transition Probability and Volatility scale has the most potential to add at least some level of value.

In Fitch's July 21 release summarizing its equity piece risk transparency proposal, Fitch asks whether investors would want and other market participants would provide information related to which entities are retaining the first loss piece of a transaction if any of those entities are "key transaction parties." The preliminary suggestion seems to relate most directly to issues that may arise when issuers retain the first loss piece in a deal. These issues are not present with CMBS in the United States as B-piece investors are only on rare occasion the issuers, but the B-piece buyers appear to nevertheless be encompassed by the proposal. We do not believe that such information will provide any significant benefit to investors, but the potential costs and potential liabilities it may

impose on the B-piece buyers could be significant and it does not address the heart of investors' transparency concerns.

Investors, issuers and other CMBS market participants would, however, welcome the issuance of additional analysis about the potential risk characteristics of rated loan pools, as well as additional and targeted transparency related to the underlying rating methodology that is being employed in determining rating assessments. As an introductory comment, though, we note that Fitch does provide a wealth of valuable information and our suggestions are intended to build on rather than replace anything that Fitch currently is providing.

With that in mind, CMSA believes that the following recommendations would most benefit the investors the ratings are intended to serve² –

- *Methodology.* Publish and update on an as-needed basis –
 - The Fitch Policies and Procedures related to CMBS valuations that are more specific than those currently published;
 - A clear guide to Fitch's model methodology, including specific guidance regarding the weighting of various inputs;
 - When Fitch's model CMBS methodology is modified or updated, an explanation of the impact of that modification or update on existing deal ratings, if any; and
 - An explanation of Fitch's internal committee processes, including any modifications to your governance procedures that have recently been, or will be, instituted.
- *Pre-Sale Reports.* End any editorial comments and adopt a standard pre-sale report template. This template could change over time but should include items such as –
 - Reference to published documents with Fitch's latest methodology which should be accessible on Fitch's website;
 - A discussion of at least the ten largest loans that are greater than 20% of the transaction principal balance with an explanation of the underwriting assumptions for those loans and an outline of any assumptions in performance, both positive and negative;
 - A more specific and extended discussion of the strengths and concerns relating to the issuance and any specific loan in the pool in the Strengths and Concerns section of the Pre-Sale Report (for example, is it a strength if 1% of a deal is shadow rated or is it a concern if 22% of the pool is office properties?);

² CMSA has made virtually identical recommendations in response to requests for comments issued by Moody's and S&P, and also has suggested that these transparency recommendations be made into disclosure requirements for Nationally Recognized Statistical Ratings Organizations in response to the Securities & Exchange Commission's request for comments on its proposed structured finance differentiation and reporting rules. *See* 73 Fed. Reg. 36212-36252 (June 25, 2008) (the SEC's proposed rule).

- A conduit analysis that compares the proposed transaction to the average rated deal over a rolling timeframe; and
- A detailed discussion of Fitch’s underwriting and valuation assumptions (e.g., cap rate, vacancy, base rent).
- *Surveillance Press Releases.* CMSA acknowledges that Fitch typically provides a standard press release but CMSA believes that frequent communication is more important now than ever before. We suggest that Fitch (as well as the other credit agencies serving the CMBS markets) adopt a standard surveillance press release that would include, among other items, a discussion of why a deal was upgraded or downgraded; the current percentage of loans (by balance) that have defeased; any loss estimates; any weakness in the largest 10 loans; information on the “shadow rated” loans included in the deal, including the current rating for each in order to compare ratings with those in the pre-sale report; and an explanation of the impact, if any, of changes in the “shadow rated” loans ratings on the deal ratings, particularly when the shadow rated loan ratings fall from investment grade to below investment grade.

Ultimately, CMSA believes that new and targeted disclosure will most benefit all of the CMBS market participants, including Fitch. We appreciate the opportunity to comment on this proposal and look forward to working with Fitch and the other credit rating agencies to help accomplish that goal. Please do not hesitate to contact us with questions and comments.

Sincerely,



Dottie Cunningham
Chief Executive Officer
Commercial Mortgage Securities Association