



February 29, 2008

Via Electronic Mail

Andrew Kimball
CCO & Chair Credit Policy
Moody's Investor Services
CPC@moodys.com

Re: Response to Moody's Request for Comment: "Should Moody's Consider Differentiating Structured Finance and Corporate Ratings?"

Dear Mr. Kimball:

The Commercial Mortgage Securities Association (CMSA) submits this letter in response to Moody's request for comment issued earlier this month. Due to the complexity of these proposals, CMSA is continuing to examine the issues raised in your request for comment and may file a supplemental letter that includes more detailed suggestions regarding the desired level of disclosure and transparency, which we believe would be welcomed by the commercial real estate capital markets. We hope, however, that this letter will serve to provide you with initial feedback on your proposal in order to be responsive to your request and deadline.

CMSA is the global trade organization for commercial real estate capital market finance. 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 DBRS, Fitch Ratings, Moody's, and Standard & Poor's. CMSA and its members are the leaders in setting standards and maintaining a favorable investing environment for the more than \$900 Billion in outstanding CMBS issuance in the United States, and we submit these comments in an effort to further advance these dual objectives.

In the request for comments, Moody's outlines five "proposed rating scale options." The first four of the five proposed options contemplate replacing or modifying the existing rating scale for structured securities. The fifth option proposes leaving the existing rating scale in tact, while providing additional information and commentary in conjunction with the ratings. For the reasons outlined below, CMSA does not support any of the four proposals based on the replacement or modification of the existing rating scale options, but our members would 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. Please note that our other rating agency members did not participate in either the review or drafting of this comment letter.

At the outset of the request for comment, the document notes that "Moody's credit ratings are 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." CMSA agrees with that evaluation of the definitional scope of a rating. For many years, Moody's and the other credit rating agencies have maintained that like ratings are comparable across asset classes because, at bottom, the underlying assessment is the same regardless of asset class – the likelihood that the bond obligations will be repaid in accordance with their terms. The introduction of a separate rating structure for CMBS would be inconsistent with this longstanding principle and create significant confusion for the investors in the CMBS market. Likewise, while CMSA members are sympathetic to the assertion that "various classes of structured securities have exhibited collectively stronger performance than similarly rated corporate securities," we are 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 by adding to investor confusion, and such action should be avoided. Moreover, investors would be forced to revise their investment policies to incorporate the new rating structure, and to develop new analytical and monitoring infrastructure to interpret the new ratings, adding cost and potentially further eroding liquidity.

Investors, issuers and other CMBS market participants would, however, welcome the issuance of additional analysis about the potential risk characteristics of rated bond loan pools, as well as additional and targeted transparency related to the underlying rating methodology that is being employed in determining rating assessments. As noted at the outset of this letter, CMSA is continuing to review your proposals as well as the broader issues related to the ideal specific parameters of any such disclosures but our current recommendations are below. As an introductory comment, though, we note that Moody's does provide a wealth of valuable information and our suggestions are intended to build on rather than replace anything that Moody's currently is providing.

With that in mind, our specific recommendations are as follows:

- *Methodology.* CMSA encourages Moody’s to publish and update on an as needed basis¹–
 - The Moody’s Policies and Procedures related to CMBS valuations that are more specific than currently published;
 - A clear guide to your model methodology, including specific guidance regarding the weighting of various inputs;
 - When your model 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 your internal committee processes, including any modifications to your governance procedures that have recently been, or will be, instituted.
- *Pre-Sale Reports.* CMSA urges Moody’s to end any outside 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 your latest methodology that can be found on your website;
 - A discussion of at least the largest 10 loans with an explanation of the underwriting assumptions for those loans and an outline of any assumptions in performance, both positive and negative;
 - A discussion of the real strengths and real concerns on the deal and at the loan level in the Strengths and Concerns section that will point to the heart of an issue. 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?;
 - A conduit analysis that compares the proposed transaction to the average rated deal over a rolling timeframe; and

¹ We note that it appears that all of this information – and more – is required to be disclosed under the regulations issued by the Securities and Exchange Commission in June, 2007. *See* 17 CFR § 240.17g-2(a)(6) (requiring a registered “Nationally Recognized Statistical Rating Organization” to maintain a publicly available “record documenting the established procedures and methodologies used by the nationally recognized statistical rating organization to determine credit ratings.”) *See also* SEC Form NRSRO, Instructions for Exhibit 2 (the requisite “description of the procedures and methodologies used in determining credit ratings” which is required to be “sufficiently detailed” including, among other things, “the quantitative and qualitative models and metrics used to determine credit ratings”).

- Although we understand your current rating methodology of shadow rated loans, it would be beneficial to include more detail around the Moody's underwriting and valuation assumptions (e.g., Moody's' cap rate, vacancy, base rent).
- *Surveillance Press Releases.* CMSA acknowledges that Moody's typically provides a standard press release but CMSA believes that frequent communication is more important now than ever before. We suggest that all rating agencies 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 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 rates fall from investment grade to below investment grade.

Ultimately, CMSA believes that new and targeted disclosure will benefit all of the CMBS market participants, including Moody's. We appreciate the opportunity to comment on this proposal and look forward to working with Moody's and the other credit rating agencies to help accomplish that goal. Please do not hesitate to contact us with questions and comments as we work toward compiling additional information for the supplemental comment letter mentioned above.

Sincerely,



Dottie Cunningham
Chief Executive Officer
Commercial Mortgage Securities Association