



30 Broad Street, 28th Fl
New York, NY 10004-2304
Tel 212 509 1844
Fax 212 509 1895
www.cmbs.org

June 5, 2009

Via Electronic Mail

James M. Manzi, Primary Credit Analyst
Harris A. Trifon, Secondary Credit Analyst
Eric Thompson, Analytical Manager, U.S. CMBS Surveillance
Barbara Duka, Analytical Manager, U.S. CMBS New Issuance
James Palmisano, Global Criteria Officer - CMBS
Thomas G. Gillis, Chief Credit Officer- Structured Finance Ratings
Standard & Poor's Rating Services
criteriacomments@standardandpoors.com

Re: Response to Standard & Poor's Request for Comment: U.S. CMBS
Rating Methodology And Assumptions for Conduit/Fusion Pools

Ladies and Gentlemen:

The Commercial Mortgage Securities Association (CMSA) submits this letter in response to Standard & Poor's request for comment issued on May 26, 2009. CMSA is the global trade organization for commercial real estate capital market finance. In the United States alone, this market is approximately a \$1 trillion market while 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 of the entire 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, as well as the rating agencies, including Standard & Poor's, DBRS, Fitch Ratings, Moody's and Realpoint.¹ CMSA and its members

¹ This letter does not reflect the views of CMSA's credit rating agency 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.

In the request for comment, S&P proposes substantial changes to its ratings methodology and assumptions for conduit/fusion pools backing CMBS. CMSA appreciates S&P's constructive effort to refine its assumptions and methodology at this critical time for our industry, and we believe any changes must be made carefully and with an open dialogue to ensure greater understanding among all parties. As noted in CMSA's July 31, 2008 response to an earlier request for comment by S&P, CMSA maintains that the core goal for such an effort should be transparency in the CMBS ratings analysis. However, our members have serious questions and concerns about whether this goal would be accomplished under the proposal as set forth in the request for comment. To be clear, CMSA does not necessarily object to the proposed assumptions and methodology, but rather our members feel unable to express a definitive view because the underlying support necessary to understand the assumptions and the methodology was not provided. As we set forth in this letter, we believe that it is critical to obtain further information and to allow time for dialogue in order to achieve a better understanding of your proposal and enable more constructive comments.

For example, to answer S&P's question regarding its "AAA" credit enhancement level proposal, in order to comment, our members need to know and understand S&P's basis for selecting 20% as the level to which to anchor its prototypical conduit fusion pool. We would also suggest that the prototypical pool used for illustration is not in fact typical and that an ability to review rating levels across a sample of different pools (including more information regarding the distribution of underlying characteristics such as the percentage of loans having DSCR's and LTV's at various break points) would be helpful. Similarly, to consider the appropriateness of the proposed floor concept, we believe that is necessary to have a discussion of any empirical support for S&P's choice of 10% floor and for its focus on the two largest loans in defining an alternate potential floor.

It is also important to understanding the proposal to review and understand other specific inputs and analysis, including details such as the empirical support S&P relied upon for its loss assumptions, what factors S&P applied for diversity, how S&P's LTV relates to default risk, and how the new model accounts for different stages in the market cycle. We note that certain assumptions that were stated, such as the assumption of the hard default in the scenario where cash flows are below 1.0x and LTV is above 100%, appear to conflict with empirical data on borrower behavior. Our members believe having and understanding such information is critical in order for us to give the proposal the thorough consideration it deserves and to provide S&P with meaningful feedback.

Additionally, the dramatic impact on the ratings for the most senior tranches from 2005, 2006 and 2007 vintages indicated in the request for comment highlights other concerns that CMSA's members believe warrant further detail and explanation. The loss of approximately \$80 billion in the market value of outstanding CMBS since S&P published the proposal underscores the significance of the proposed changes. Beyond consideration of such immediate effects, however, we believe it is important to examine whether the proposed changes enhance or undermine the ability to compare an S&P credit rating for CMBS to an S&P rating for other asset-backed or corporate credits. We note in particular that the current

proposal results in requiring credit support for CMBS that is inconsistent with other asset classes that typically require less credit support but historically experience higher delinquencies. As we stated in our July 31, 2008 letter, S&P and the other credit rating agencies have consistently maintained that like ratings are comparable across all asset classes 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. Our members and the overall market will benefit from further discussion of both S&P’s reasoning and methods in applying its proposed new criteria to past CMBS issuances, as well as S&P’s analysis as to how its proposed new assumptions and methodology would better achieve comparable ratings across asset classes and better avoid ratings volatility.² In this regard, a comparison to the historical performance of “AAA” rated corporate credits would be particularly instructive.

As you know, this is a pivotal time for the CMBS markets and securitization generally, particularly in light of the recent extension of the Federal Reserve’s Term Asset-Backed Securities Loan Facility (TALF) to CMBS, including both new issue and legacy CMBS. As our industry embarks on what we hope will be a new beginning, the value of transparency in ratings methodology is clear. The proposed changes will have significant consequences for the ratings of past issuances and will form part of the foundation considerations for future issuances, which merits serious and thoughtful consideration. While we appreciate that S&P extended its initial one-week comment deadline by another week, CMSA and its member companies respectfully request additional time and information to consider the proposed changes given the enormous implications for our market and the U.S. economy.

Accordingly, CMSA requests that S&P clarify that the proposal is a “work in progress” and does not constitute its view on ratings criteria, and that S&P extend the comment period for the proposal. We also request that early in the extended comment period, S&P provide an opportunity for questions and further discussion through a meeting with industry representatives, with a view toward issuing an expanded request for comment that includes the supplemental data and other information requested by such representatives. We believe that such a meeting is critical to understand the analytical framework and appropriateness of the assumptions utilized in the S&P model. CMSA would not presume to say whether S&P would decide to make any changes to its proposed methodology as a result of these further exchanges, but we hope that S&P would acknowledge regardless the value of the increased transparency and understanding of its methodology that would result.

² The concerns related to ratings volatility are heightened based on the April 6 S&P report which stated, “In our baseline (expected) case, the majority of the 20% credit-enhanced ‘AAA’ classes (AM classes) are likely not at risk for downgrade. However, some of these classes within what we believe will be the worst performing 2007 vintage deals appear to be potentially vulnerable over their 10-year lives.”

Ultimately, the significance of these changes cannot be overstated since S&P rated more than 85% of the conduit/fusion issuance over the last five years, and the changes require a clear explanation and understanding of the policy rationale in order to promote transparency that will best serve our market. CMSA appreciates the opportunity to comment on this proposal and looks forward to an additional and thorough dialogue with S&P before it takes any final action concerning the proposed new assumptions and methodology.

Please do not hesitate to contact us with questions and comments.

Sincerely,

A handwritten signature in blue ink, appearing to read "Dottie Cunningham". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Dottie Cunningham
Chief Executive Officer