



July 31, 2008

Via Electronic Mail

Calvin R. Wong, Senior Criteria Officer
Thomas G. Gillis, Chief Quality Officer
Standard & Poor's Rating Services
criteriacomments@standardandpoors.com

Re: Response to Standard & Poor's Request for Comments: "Should An Identifier Be Added To Standard & Poor's Structured Finance Ratings?" & "Should S&P Explicitly Recognize Credit Stability As An Important Rating Factor?"

Dear Messrs. Wong and Gillis:

The Commercial Mortgage Securities Association (CMSA) submits this letter in response to Standard & Poor's requests for comment issued on May 29 and July 16, 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 Standard & Poor's, DBRS, Fitch Ratings, Moody's and Realpoint.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 initial request for comments, S&P proposes adding a subscript to the ratings for all asset-backed securities. The new notation would be added to both new and existing securitization ratings. For the reasons outlined below, CMSA and its members do not support S&P's proposal to make this symbology change to the ratings for asset-backed securities. 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.

At the outset of the initial request for comment, S&P notes that, even with the proposed notational change,

[t]he basic comparability of our ratings symbols across sectors would remain intact. Consistent with our recent reaffirmation of our commitment to maintain a common ratings scale and the goal of comparable ratings across the structured finance, corporate, and government sectors . . . the addition of a subscript doesn't in any way imply that we believe differences exist between the creditworthiness of similarly rated structured finance, corporate, or government debt issues or issuers.

CMSA agrees with the basic concept 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, S&P and the other credit rating agencies have 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. 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.

In the second request for comments, S&P asks whether credit stability should be added as an additional factor in the basic ratings process. Although the precise contours of the credit stability factor are not clear from the request for comments, our understanding is that the new factor would be applied to all asset class ratings for both new and outstanding issuances under the proposal. CMSA believes that the core goal should be effectuating a robust transparency. We are concerned that this would not be accomplished under the proposal as it would simply add another unclear factor to a largely undisclosed ratings underwriting process. CMSA also is concerned because the rating agency models have, to date, reflected current market conditions.

Investors, issuers and other CMBS market participants would, however, welcome the issuance of additional analysis about the potential risk characteristics of rated loan pools – including with respect to credit stability, 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 S&P does provide a wealth of valuable information and our suggestions are intended to build on rather than replace anything that S&P currently is providing.

With that in mind, our specific recommendations are as follows² –

- *Methodology.* CMSA encourages S&P to publish and update on an as needed basis –
 - The S&P Policies and Procedures related to CMBS valuations that are more specific than those 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 S&P 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 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 discussion of the real strengths and real concerns on the deal and at 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

² CMSA has made virtually identical recommendations in response to requests for comments issued by Fitch and Moody's, 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).

- Although we understand your current rating methodology of shadow rated loans, it would be beneficial to include more detail around the S&P underwriting and valuation assumptions (e.g., S&P's cap rate, vacancy, base rent, etc.).
- *Surveillance Press Releases.* CMSA acknowledges that S&P 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 ratings 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 S&P. We appreciate the opportunity to comment on this proposal and look forward to working with S&P and the other credit rating agencies to help accomplish implementation of the expanded transparency recommendations. Please do not hesitate to contact us with questions and comments.

Sincerely,

A handwritten signature in blue ink, appearing to read "Dottie Cunningham", with a stylized flourish at the end.

Dottie Cunningham
Chief Executive Officer
Commercial Mortgage Securities Association