Bert Erik ten Cate,
Editor

CMBS flaws addressed in a welcome comeback

Who would have thought that CMBS would come back? Even the bankers who relied on securitisation as a means to relieve the balance sheets could not have imagined that CMBS would be back so quickly.

Although a small proportion of property lending, CMBS was seen as one of the main reasons behind ever-rising property prices that ultimately led to the crash in 2007/2008. Banks no longer cared about valuations as the loans would be offloaded to hungry investors anyway. Overworked and incompetent rating agencies rated the several debt tranches of large portfolios.

That was the main problem with CMBS. The underlying assets were so diverse, in terms of regions, sectors and quality, that it was difficult to rate. At the time, rating agencies valued the "granular" quality of the portfolio. It was basically a euphemism for a lot of rubbish thrown together. In the downturn, many large securitisations have been downgraded because of underperformance in a smaller subportfolio.

The beauty of CMBS 2.0

It is good news that a working committee has been formed to create a new, better version of securitisation, dubbed CMBS 2.0. The beauty of CMBS is that it provides more transparency in the market. Thanks to rating updates, it is possible to not only track the performance of the loans, but also see how the underlying assets are doing and the view of the rating agents.

The biggest flaw in the old version was that the issuances existed of large portfolios of assets that had not much in common. For CMBS to become a tried and trusted model, single assets or small portfolios of similar assets would work best. These assets should be of good quality and income-generating so that the bond investors do not rely too much on the asset management qualities of the property investor.