

## CRE Finance Council Europe turns spotlight on guidelines for new CMBS issuance

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***CRE Finance Council's European Board of Governors has established a newly formed European CMBS 2.0 Committee and a working group on Class X Principles. As a member led industry association, the CRE Finance Council has appointed Nassar Hussain (pictured) of real estate investment banking firm Brookland Partners LLP as Chair.***

The European CMBS 2.0 Committee seeks to promote a new operating framework for CMBS (Commercial Mortgage Backed Securities) transactions. Comprising a number of senior representatives from firms that participate in the real estate capital markets and who are member firms of the CRE Finance Council - the Committee will examine industry guidelines for the new issuance of European CMBS transactions.

Following an extended period of limited new issuance, the appetite for CMBS deals in Europe appears to be returning and the successful re-opening of the capital markets for real estate financing will be a way to ease the problem of the widening funding gap and the approaching refinancing wall.

The Committee's role will be to examine a number of key areas including the role of third parties (including servicers and trustees), the structural features of CMBS deals (including Class X notes and intercreditor arrangements), disclosure requirements and loan representations and warranties. Any guidelines will be considered in conjunction with investor demand and regulatory requirements.

Working closely with other Lender, Investor and Servicer Committees within the CRE Finance Council, the European CMBS 2.0 Committee will draw together representatives from across the spectrum of the market.

As Nassar explains: "The move by the CREFC to launch the CMBS 2.0 Committee is a positive step in ensuring that well-thought through industry-level recommendations are in place to guide new issuers and investors in relation new CMBS transactions. This will facilitate the re-launch of this market, which will ensure that a key piece of the funding jigsaw is in place to manage the rising funding gap."

The Class X Principles Working Group has been established to focus on best practices in relation to existing Class X Notes and other similar excess spread instruments. The Class X Principles Working Group is open to investors, issuers and advisory firms to discuss the best parameters for dealing with such instruments in the negotiation of loan and transaction restructurings and also in relation to their position in underperforming CMBS transactions.

Class X notes represent the profit that banks and originators derive from CMBS transactions once

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their loans are sold to CMBS vehicles. Since origination some of these X Notes have been sold to third parties, however, the majority of Class X notes have been retained by the original banks. With an increasing number of loans now in default or being restructured, the result has been a detrimental shortfall of payments to noteholders, while the originating bank continues to receive substantial income.

Nassar adds: "The Class X working group will provide much needed clarity to the industry on how best to approach the restructuring and negotiation of transactions which contain excess spread instruments. The presence of these instruments makes certain restructuring terms unviable and industry level guidelines on the best practices in relation to these instruments will be welcomed by servicers and investors."

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