

# CMBS | Deal Analyst

Reis Product Overview, January 2007

## NEWLY-INTRODUCED ENHANCEMENTS

Analyst commentary for all loans and properties presenting unusual risks, and for general issues relating to the structure of each deal

Market benchmarks, updated quarterly, for all major deal structure and loan-level credit statistics

Tight integration with Reis's industry-standard trend and forecast reports for fundamentals and capital markets

## KEY FEATURES

Reports published within 72 hours of prospectus data availability

Life-of-loan and year-by-year Probability of Default (PD), Loss Given Default (LGD), and Expected Loss (EL) calculations for all loans

Concentration analysis by geographic and sector distributions of collateral and maturity date of loans

Access to Reis's online CMBS | Deal Library of historical analyses and the CMBS Client Desk

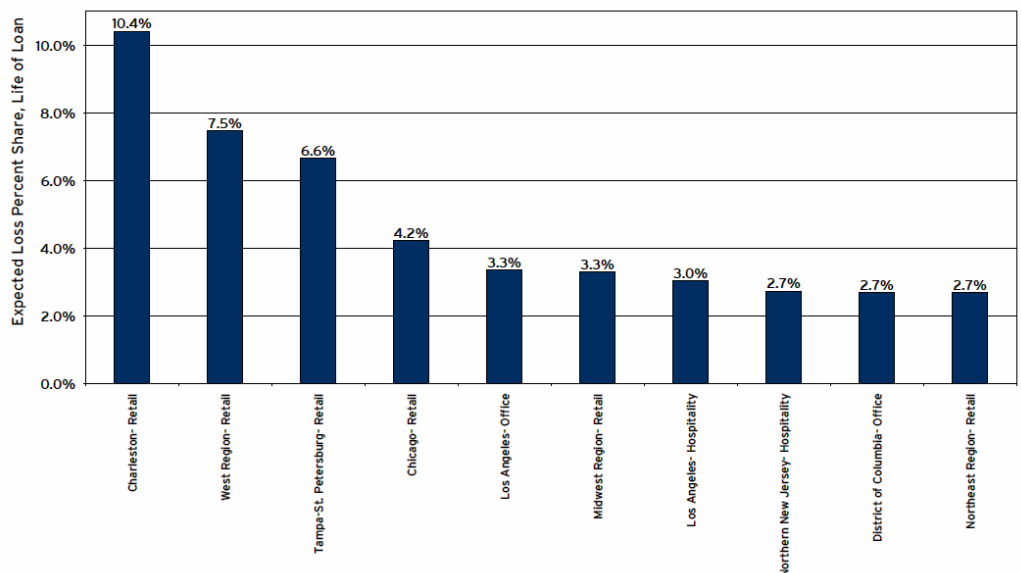
Participation in quarterly market briefing and subscription to Reis's quarterly CMBS | Market Update report

**Manage your risks. Maximize your returns.** For investors in today's markets, the goals are clear. For participants in the expanding CMBS marketplace, these objectives demand immediate insight into the loans that stand behind every new opportunity.

**Introducing the CMBS | Deal Analyst for CMBS market investors, servicers, issuers, conduit lenders, and researchers.** Leveraging Reis's 25 years of property performance measurement and risk analysis, the Deal Analyst provides a comprehensive window onto the risk of issues' underlying loans and collateral.

Supplementing loan-level default and loss statistics, detail on expected losses in each market and sector is one of over a dozen analyses included in the Deal Analyst report:

TOP MARKET/SECTORS BY SHARE OF EXPECTED LOSS



For more information about Reis's CMBS | Deal Analyst and the suite of Portfolio Analytics Services, contact Reis's Sales Desk at 800 366 REIS, extension 333.



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# CMBS | Deal Analyst

## Frequently Asked Questions

### **What is the CMBS | Deal Analyst?**

The CMBS | Deal Analyst is a reporting service that provides a comprehensive, loan-level and property-level analysis for US domestic CMBS issues within 72 hours (3 business days) of prospectus data becoming available to the market.

### **What is included in the Deal Analyst report?**

The Deal Analyst report includes an overview section that provides key summary credit statistics for all loans in the issue, followed by a detailed analysis of each loan in the CMBS offering.

The summary credit statistics section includes loan distribution by collateral type, measures of collateral and loan concentration, a listing of riskiest loans, loan rankings by cumulative expected loss, credit seasoning statistics, year-by-year median probability of default, and a listing of the top markets and sectors by share of expected loss.

The individual loan analyses include key measurements of risk: cumulative and year-by-year values for probability of default, loss given default, and expected loss.

### **Does the Deal Analyst replace my existing bond evaluation processes?**

No. The Deal Analyst does not include a rating of the bonds in the issue. Rather, the loan-level credit analysis included in the Deal Analyst complements an institution's existing processes by providing a rigorous, quantitative analysis of forecast property cash flows and debt servicing capacity.

### **How is the Deal Analyst distributed?**

New reports are posted to Reis's web site within 72 hours of prospectus data becoming available. Subscribers are then notified of new postings through an email alert.

### **What is the format of the Deal Analyst?**

All reports are posted as presentation-quality PDF documents which include the full set of loan statistics and summary credit statistics. A listing of the individual loans, life-of-loan credit statistics, and year-by-year credit statistics is also provided in Excel format.

### **Does Reis analyze older issues as part of the Deal Analyst service?**

Yes. To facilitate surveillance of outstanding issues, analyses are updated on a quarterly basis. Updated reports are posted to the Deal Library; subscribers are notified of updates through the email alert system.

### **What if I have a question about an analysis or the credit rating assigned to a specific loan?**

Reis's CMBS Client Services Desk is available to answer loan rating questions from 9:00 AM to 5:30 PM Eastern Time, Monday through Friday. When required, the Client Desk will refer questions to Reis's team of economists.

### **How can I get more information about the Deal Analyst service?**

For more information about the Deal Analyst service or to receive a copy of the Deal Analyst for a current or recent issue, Reis SE subscribers should call their sales representative. If you are not already a subscriber to Reis SE, please call Reis's Sales Desk at 800 366 REIS, extension 333.

# CMBS | Deal Analyst

## Reis's Credit Risk Model

### **What measures of risk are calculated by the Reis credit risk model?**

The Reis credit risk model calculates probability of default, loss given default, and expected loss for loans collateralized by commercial and multi-family income-producing real estate. Probability of default is calculated in each period during the term of the loan, during which principal and interest payments must be made. This is known as term risk. Probability of default is also calculated for the maturity year, i.e. the year in which the loan comes to term and must be repaid. This is known as balloon risk.

### **What is the relationship between year-by-year measures of risk and the cumulative, or life-of-loan, statistics?**

Individual risk statistics are calculated for each year of the term of the loan, from origination through maturity, in a survival model. In a survival model, the probability of default in each successive year is conditional on the loan surviving to that year. For example, the probability of default calculation for the second year of a loan's term assumes that the loan did not default in the first year. Once each year's credit statistics are calculated, the conditional default and loss statistics are aggregated to arrive at the cumulative (life of loan) statistics.

### **In general, how does Reis's risk model work?**

Reis's credit risk model evaluates the creditworthiness of loans collateralized by income-producing commercial real estate as a function of properties' capacity to meet principal and interest payment obligations with net operating income. In the most general case, the model asks if the income (revenues less expenses) generated by the property is sufficient to make the period's loan payment.

### **What variables are considered when determining default probability?**

A number of factors are considered when determining the credit performance of a loan. In addition to debt service coverage (DSC), leverage, measured as the loan-to-value ratio (LTV), is a determinant of default probability, as are macroeconomic and real estate fundamentals and capital markets conditions. Other variables that are determinative of default probability and loss severity include loan structure, loan size, loan seasoning, current and forecast submarket or market rent and vacancy, current and forecast market cap rates, national and local economic growth forecasts, and forecasts of inflation and interest rates.

### **Why are loan size and seasoning included as measures determinative of default probability?**

Empirical analysis shows that larger loans default at a lower rate than smaller loans; the finding is statistically significant. Controlling for all other factors, seasoned loans default at lower rates than newer loans. This finding is also significant and therefore is incorporated into the risk model.

### **How is loss severity calculated?**

The principal determinants of loss severity are the sector and the loss probability itself, i.e. properties with higher default probabilities tend to experience greater losses. This relationship exists because equity plays a positive role in mitigating delinquency and default behavior.

### **How is Reis's property performance data employed in the valuation and risk models that drive the Deal Analyst?**

Reis's forecasts of submarket and market fundamentals are the basis for estimating income growth. Reis's capital markets forecasts of cap rates and discount rates are combined with income forecasts to estimate property value in each year of loan exposure. Credit results are then determined as a function of each period's loan to value ratio, debt service cover ratio, local real estate market conditions, and macroeconomic conditions such as interest rates.

### **What is Reis's source for the CMBS loan data that feeds the empirical analysis and Deal Analyst service?**

Reis obtains its CMBS data through its relationship with Bloomberg.