



CRE Finance Council Miami 2024

Key Takeaways:

“Is It Something I Said? Managing Securitization Workouts Within the Ecosystem of the Trust”

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The final panel of CREFC Miami, which included partner Lisa Pauquette, brought together the themes that had been running through the conference: a modest uptick in maturity defaults presaging a larger wave, the challenges facing non-Class A office space, and the difficulties for borrowers of finding replacement financing for loans originated in a very different interest rate environment.

- In engaging with borrowers in maturity default, panelists stressed a desire to keep high-quality sponsors in place where possible. However, borrowers requesting an extension should be prepared to work with the servicer in good faith and to receive requests from the servicer for a partial paydown of the loan, cash management and additional reserves. The appropriate duration for extension was also a topic for discussion: for an office building with a weak tenant base, 18 to 24 months may be a more realistic timeframe for a lease-up plan than six months to a year.
- While an increase in borrower defaults is expected, COVID modification requests gave master servicers and special servicers recent experience managing a high volume of borrower contacts in a short timeframe.
- In CMBS 2.0 transactions, the appraised values of collateral properties are used to notionally reduce the certificate balances after certain trigger events for the purpose of determining the controlling class, and a low appraisal can result in a shift of control to a more senior class. This places additional importance on a potentially unreliable data point: in an environment where few comparable sales are occurring, obtaining an accurate valuation is challenging. Additionally, there is a tension between the desire of the controlling class and the borrower to take enough time to obtain an accurate, reasoned appraisal on the one hand, and the concern of rating agencies and senior investors that a special servicer might be slow-walking an appraisal that could result in a change in control on the other hand.

Panelists also highlighted other unique elements of the CMBS control structure that may impact workout strategy. Some CMBS loans allow an appraised-out B note or controlling class to retain control by posting cash or similar instruments as additional collateral for the trust. While conduits typically feature multiple control-eligible classes, some SASB transactions may have a single class, and once that class is appraised out, certificate holder consent rights are extinguished.