COMMERCIAL MORTGAGE BACKED SECURITIES (CMBS)

NMHC/NAA Viewpoint

Although the role of the CMBS industry as a capital provider to the multifamily industry has decreased significantly, it still provides a key financing option for apartment owners. New regulations influencing the CMBS market must balance prudent risk management oversight and protocols with rational market practices. We monitor regulations and work to insure that this balance is maintained.

The Commercial Mortgage Backed Securities (CMBS) industry has annually accounted for approximately 10 percent of the mortgage debt outstanding to the multifamily industry since its inception in 1995. This peaked in 2007 at nearly 17 percent of the total debt market, but has now fallen to less than 7 percent. That's because CMBS has faced strong headwinds due to the departure of many market participants and from the volume of regulatory red tape placed on the industry. The CMBS industry faces further impacts from new regulations as more of these rules are approaching their effective implementation date.

NMHC/NAA have tracked, analysed and commented on a variety of proposed regulations that have a direct or indirect impact on CMBS lending – from the Dodd-Frank risk-retention rules to Basel III capital standards. We have also carefully followed actions by the Securities and Exchange Commission and other federal agencies to ensure a balanced approach is taken to regulating the capital markets.

Rulemakings that impact this capital source for multifamily include:

- A new risk-based approach to financial services regulation that impact
  - Risk based capital
  - Liquidity
  - Capital adequacy
- Limits on bank investments and related activities
  - Volcker Rule
  - Fundamental review of the trading book
- Changes to the securitization market
  - Risk retention
  - Underwriting guidance
  - High Volatility Commercial Real Estate Loans

The majority of existing multifamily CMBS loans will mature between 2016 and 2018. A sound CMBS market should compete to provide financing for multifamily borrowers.

NMHC/NAA continuously track previously passed rules, which are subject to review and revision, along with any new rule or proposal to modify a regulation for CMBS. Our goal is to ensure a balanced approach to strong oversight and risk management protocols so that the multifamily industry retains a diverse group of capital sources serving all markets.

NMHC/NAA Joint Legislative Program
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