

Stress Testing for the Commercial Real Estate Portfolio

Federal Reserve Symposium
September 13 and 14, 2012



Main Messages

Two main messages

- › Your own data is best – supplementing with external data only as necessary
- › Build for post CCAR life - must become integrated into everyday decisions

Model Architecture

Two basic approaches

- › Bottom-up or
- › Top-down

Both have strengths and weaknesses and require assumptions

Resist thinking of either one as better - depends on the ultimate purpose of the model

The Great Constraint

DATA

CMBS and CRE portfolios share similar characteristics

- › Property type
- › Sensitive to same drivers

Using CMBS data is extremely attractive, but key differences must be recognized

Key Similarities

- › Real Estate Assets
- › Extremely dependent on local market conditions
- › Bank lending connected to CMBS lending

Key Differences

- › Definition of Default
- › Property Differences
- › Resolution Strategy
- › Impact of Credit Culture
- › Different Loan Classes

Unique Issues

- › Balloon loans:
 - › Take-out agreements
 - › Lack of CMBS market
 - › Individual bank's underwriting appetite

- › Guarantees
 - › Capacity and willingness
 - › Impact PD or LGD

- › Changes in Problem Asset Management strategy

Concluding Remarks

- › Leverage your internal data
- › Integrate loss forecasting to all activities
 - › Servicing, Risk rating, Allowance setting, strategic planning, etc.
- › Share to Improve

**“IN THE LONG RUN, NOTHING IS MORE DESTRUCTIVE
TO VALUE THAN A STUPID COMPETITOR”**



REGIONS