

Commercial Mortgage Backed Securities Basics

CMBS Basics

- Capital Evolution
 - Institutional Demand for AAA Bonds
- Real Estate Needs to Follow the Money
- CMBS Loan Pools
 - Typically \$500MM+
- How Do You Sell?

Profit from the Packaging (Using a \$500MM Pool)

Figure 13.1 The Calculation

Sold For	\$518 million
Loans Made	(\$500 million)
Costs	(\$8 million)
Net Profit	<hr/> \$10 million

It's About Specialization

- Servicer
- Special Servicer

Creating Tranches

(With a \$500MM Pool and an Initial 7% Interest Rate)

CMBS Tranching				
Rating	% of Total Pool	Value	IRR	
AAA	60%	\$300 MM	5.8%	
AA	10%	\$50 MM	6.2%	
A	10%	\$50 MM	6.4%	
BBB	10%	\$50 MM	6.8%	
BB	6%	\$30 MM	7.0%	
UR	4%	\$20 MM	9.0%	
Total/Average	100%	\$500 MM	6.2%	