

Modeling Alert No. 1

Initial Sufficiency Filing Procedures for CMBS, Essential Methodology for Issuers and Investors

[Issued by the SSG per Part Seven, Section 5 (b) (ii) (3) of the Purposes and Procedures Manual of the NAIC Investment Analysis Office]

This Modeling Alert discusses how the Structured Securities Group (SSG) applies the documentation, information, data requirements for an Initial Sufficiency Filing (ISF).¹

The purpose of an ISF is to enable the SSG to evaluate whether information, documentation and data about a CMBS transaction is of a quality and integrity to permit a conclusion that financial modeling of the CMBS bonds would yield reliable results and appropriate Price Grids an insurer can use under SSAP 43R to determine an NAIC Designation.² This determination focuses on analysis of the financial components of the CMBS transaction. The SSG does not and cannot audit the CMBS transaction. SSG assumes that the entity filing the ISF has conducted its own due diligence on the CMBS transaction.

The Offering Memorandum/Prospectus for a CMBS transaction generally provides the information, structuring descriptions and summaries of relevant documentation necessary for the SSG to evaluate the CMBS transaction for purposes of the ISF. SSG understands that many documents related to the CMBS transaction may not be available to the filer of the ISF because they are likely held by the issuer and or the trustee. SSG will therefore accept the Offering Memorandum/Prospectus (and the additional documents identified below) in lieu of the detailed documents identified in the P&P Manual. However, reflecting that SSG's primary focus in an ISF is on the financial aspects of individual commercial mortgage loans and the commercial real estate collateral supporting these loans, the Offering Memorandum/Prospectus must include Annex A and the included "data tape." The SSG will communicate that to the filer of the ISF if it concludes that the identified information and data is unavailable, inaccurate, or presents discrepancies or inconsistencies and provide it an opportunity to correct these deficiencies. If the filer of the ISF fails to do this in a reasonable time, the SSG will conclude, and communicate, that the CMBS transaction cannot be financially modelled.

Required Documentation, Information and Data for an ISF of a CMBS Transaction

- A. Summary Term Sheet (if any);
- B. Offering Memorandum and/or Prospectus; to include
- C. Annex A (and Data tape/file): including:
 - I. Details for each commercial mortgage including:**
 - a. Original date;
 - b. Original balance;
 - c. Interest rate (fixed or variable);
 - d. Term;
 - e. Amortization and/or interest only;

¹ Please refer to Part 7, Section 5 (b) (ii) (2) of the P&P Manual.

² Please refer to Part 7, Section 5 (a) of the Purposes and Procedures Manual. " ... Any filing with the SSG is deemed to be incomplete unless the insurer has provided the information, documentation and data in quantity and quality sufficient to permit the SSG to conduct an analysis of the creditworthiness of the issuer and the terms of the security to determine the requested analytical value. It is the obligation of the insurance company to provide the SSG with all necessary information ... "

- f. Prepayment terms;
- g. Current balance;
- h. Subordinate financing (if any);
- i. Inter-creditor agreement(s);
- j. Payment history (late payments, past dues, etc.); and

II. Details for each commercial real estate collateral including:

- a. Property name;
- b. Property type;
- c. Property location;
- d. Property value and appraisal;
- e. Revenues (income), current and past three years;
- f. Expenses, current and past three years;
- g. Net operating income , current and past three years;
- h. Net cash flow, current and past three years;
- i. Occupancy and analysis (“tenant top 10/15”);
- j. Rent roll, including rental rate, area, reimbursements, lease terms, etc.;
- k. Condition report,
- l. Engineering and environmental reports;
- m. Other relevant information

III. Relevant professional “comfort letters” attesting to accuracy and validity of specific data/information.