Market Analysis

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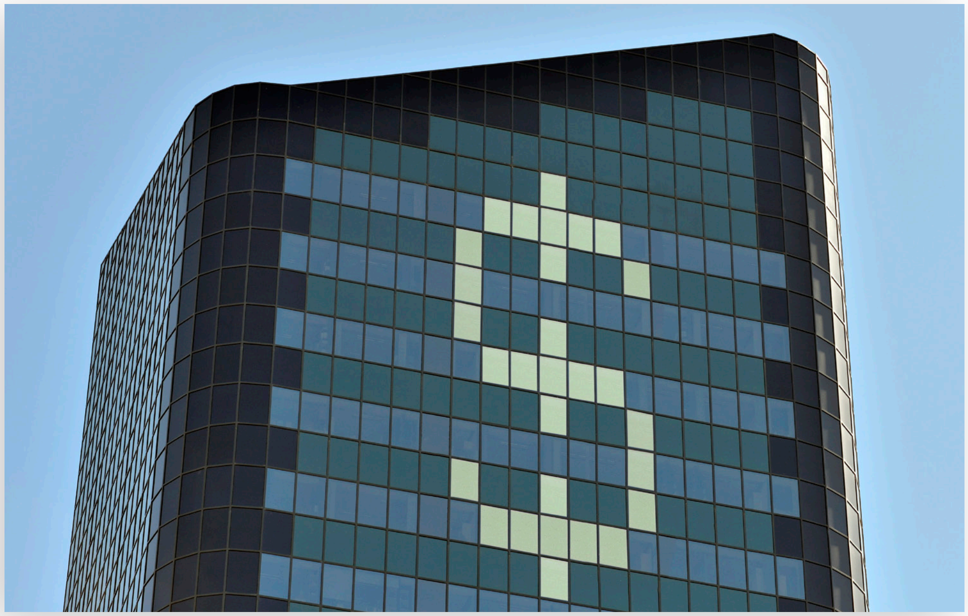

CMBS Scrambles to Comply With New Regulatory Regime

The blizzard of new regulations on commercial mortgage programs took center stage at last week's CRE Finance Council annual conference in New York. Most apparent was the shift in sentiment about which rules have the biggest impact on the sector.

For most of the last six months, the top concern in the CMBS market was the "risk retention" rule mandated by the Dodd-Frank Act that was approved by a host of regulators, including the Federal Reserve and Securities and Exchange Commission. But now some of the concerns about risk retention are taking a back seat to other regulations dealing with trading and the process of building pools, with respect to their impact on pricing and liquidity in the market.

CMBS has struggled so far this year, with issuance down 40% through early June, to $30.6 billion in 2016 from $51.9 billion during the same period a year ago. Although the reasons for reduced volume are varied and not entirely the result of the regulatory hurdles, the uncertainty created by the rush to understand and comply with a host of new rules has many in the industry frustrated.

"Once all of the regulations are in place, a few years down the road, I think we will see that they obstruct the movement of capital, increase volatility, decrease diversification, greatly increase the costs of even plain-vanilla financial services products such as cash management and the like," said Christina Zausner, CREFC's vice president of industry and policy analysis.

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