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Why Risk Retention Might Not Be So Bad For CMBS, After All

After a year of fretting over the damage that risk retention rules would do to the CMBS market, the first deal that used the structure was a home run for the issuers. Now some in the industry are wondering: Will the regulation ultimately do more good than harm?

The debate surrounding risk retention—a requirement that issuers of CMBS retain 5% of the securities sold—has centered on just how negative the impact would be. The laundry list of concerns focused on whether it would dry up capital to buy the first-loss classes and whether it would make securitization programs less competitive by increasing the cost of lending.

Yet when the first glimpse of risk retention came into view this month, the results were surprisingly positive. Although risk retention is not mandatory until the first quarter of 2017, Wells Fargo, Bank of America and Morgan Stanley teamed up to securitize an $870.6 million pool of loans in which they retained 5% of the bonds.

The Wells Fargo-led transaction, which priced on Aug. 4, was extremely well received by investors. The 9.9-year, triple A-rated class was priced to yield 94 basis points over swap spreads, 15 basis points less than market spreads a week earlier and nine basis points less than a comparable deal that priced the following week, according to "Commercial Mortgage Alert." The risk retention deal's triple-B-minus class was priced to yield 425 basis points over swap spreads, compared to market spreads of 584 basis points a week earlier.