TALF CMBS Loans May Take Edge Off Commercial Downturn

The commercial mortgage concerns that threaten to overshadow the few rays of light that have been breaking through the clouds in the residential market are slightly brightened by TALF's CMBS expansion.

The Federal Reserve's plan to make loans with five-year maturities available for June funding through the Term Asset-Backed Securities Loan Facility is helpful to the AAA commercial mortgage-backed securities market, said Ron D'Vari, chief executive officer of NewOak Capital, New York. "But is it the whole answer? No."

STREET SMARTS

By Bonnie Sinnock

The move coincides with a rising tide of high CMBS delinquencies that is said to be unprecedented in a troubled securitized market that is younger and has been through fewer market cycles than its residential counterpart.

The percentage of CMBS loans delinquent by 30 or more days in April skyrocketed to roughly five times its level a year ago, according to Trepp LLC, New York. Thirty-plus-day CMBS delinquencies have not ever seen a year-to-year spike like this in the history of the CMBS market, according to Trepp senior managing director Manus Clancy.

He added that CMBS delinquencies have been accelerating month-by-month since January.

CMBS delinquencies during the past two months have been at highs not seen since February 2004 and April's month-to-month jump in delinquencies was the largest seen since November 2001.

When asked whether CMBS delinquencies will continue to ramp up, Mr. Clancy said he could not provide a forecast. However, he noted, "It's a bad sign, the fact that they're accelerating. In other parts of the economy people are looking for floors, but this seems to be accelerating this space."

Despite the high delinquency rates, spreads on AAA CMBS eligible for the government's TALF program had tightened in response to to the program's expansion, Mr. Clancy said.

TALF, which has just gotten started with efforts aimed at improving markets for securities with non-mortgage collateral through loans with three-year maturities, is still a program the market "has to become used to," Mr. D'Vari said.

It had not yet at press time last Thursday rolled out plans for private-label residential MBS but it is anticipated this will follow in time and is among the reasons the residential mortgage market is watching TALF's CMBS rollout carefully.

If commercial mortgage concerns are, as recent indicators suggest, heating up at a time when residential ones may be waning, then it is possible to some degree that the latter business may look relatively attractive in comparison, said Alan Rosenbaum, president of Guardhill Financial, New York.

But with employment — the latest indication of which was due out last Friday — being the "biggest fear" for residential players, the degree to which any problems in that area play into or affect the health of the commercial mortgage market or the economy as a whole could challenge residential as well, he said.

Interestingly, given this situation, Mr. Rosenbaum sees some promise in certain high-end jumbo markets, an area his company is active in and that is said to see somewhat of a revival in certain quarters of late.

Jumbo like just about any mortgage sector these days naturally still faces a range of challenges. Like commercial, it has received some government aid but that aid has rollout hurdles to surmount. An operational delay preventing borrowers from tapping a new loan limit increase recently during a period when rates were rising is one example.

On the plus side, borrowers who can get jumbos in a tight market where a certain level of assets may be required to qualify may be somewhat insulated from employment concerns. They also may have more equity in the home, even when there is depreciation. This can be more of an incentive for borrowers to stay in their homes and possibly — if they qualify for second lien or reverse mortgage loans in today's tough market — an additional financial resource they can tap.