

Risk Perception and Loan Underwriting in Securitized Commercial Mortgages

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Securitized CRE Loan LTV Ratios

Morningstar CMBS

- 111,465 loans in dataset

- **48,468 loans** in sample

- fixed rate

- non-agency

- non-pari passu

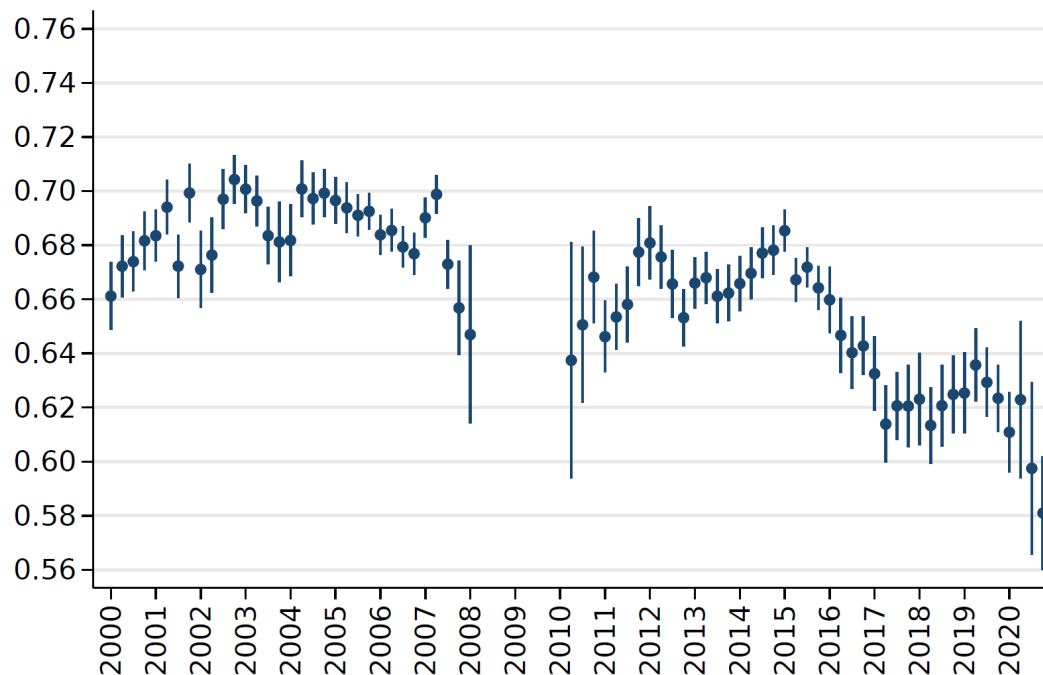
- single-property

- debt yield > 0.07

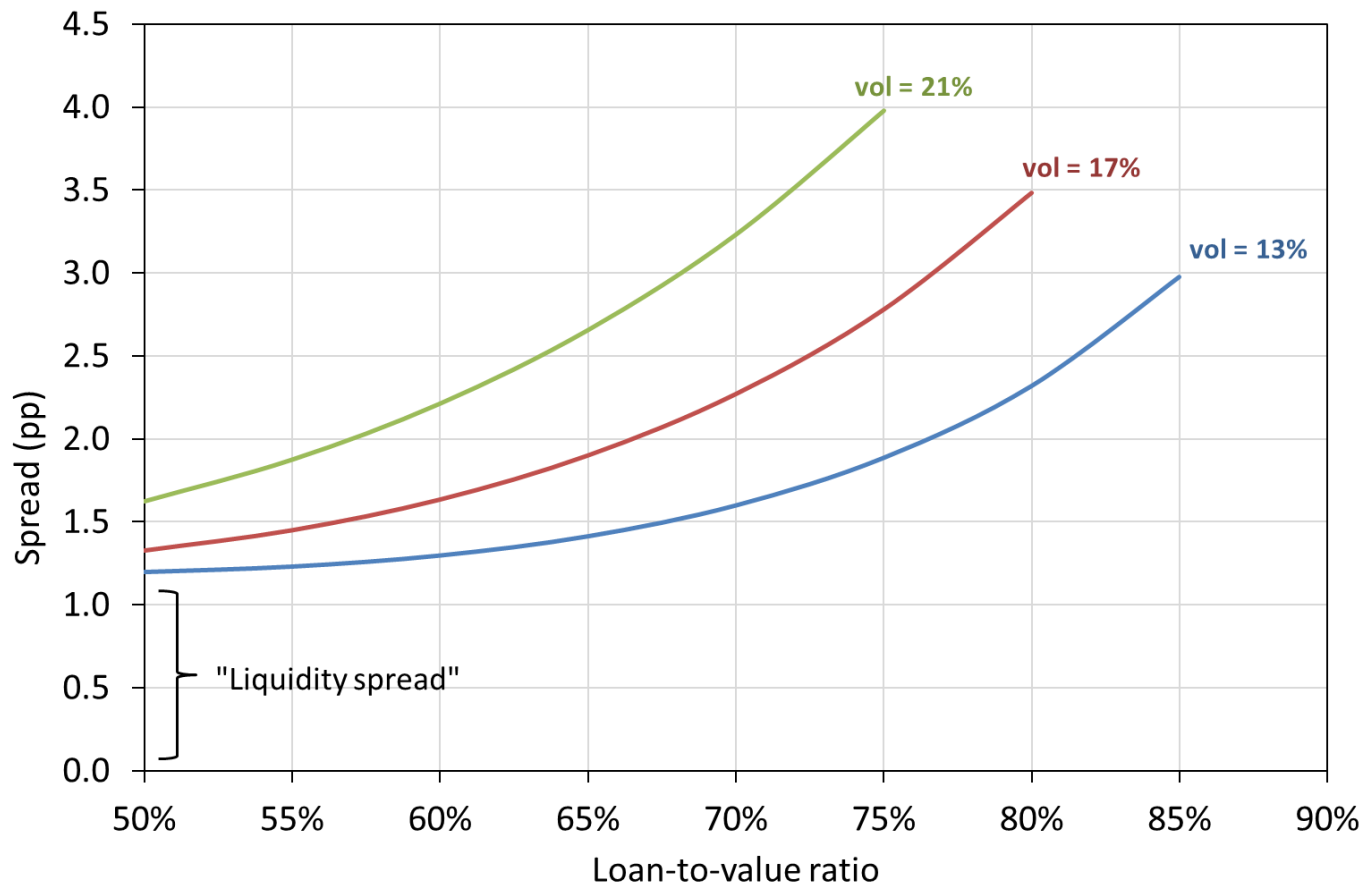
- DSCR > 1.25

- “The CRE bubble [...] resulted in [...] CRE loans based on dramatically weakened underwriting standards.” (2010)

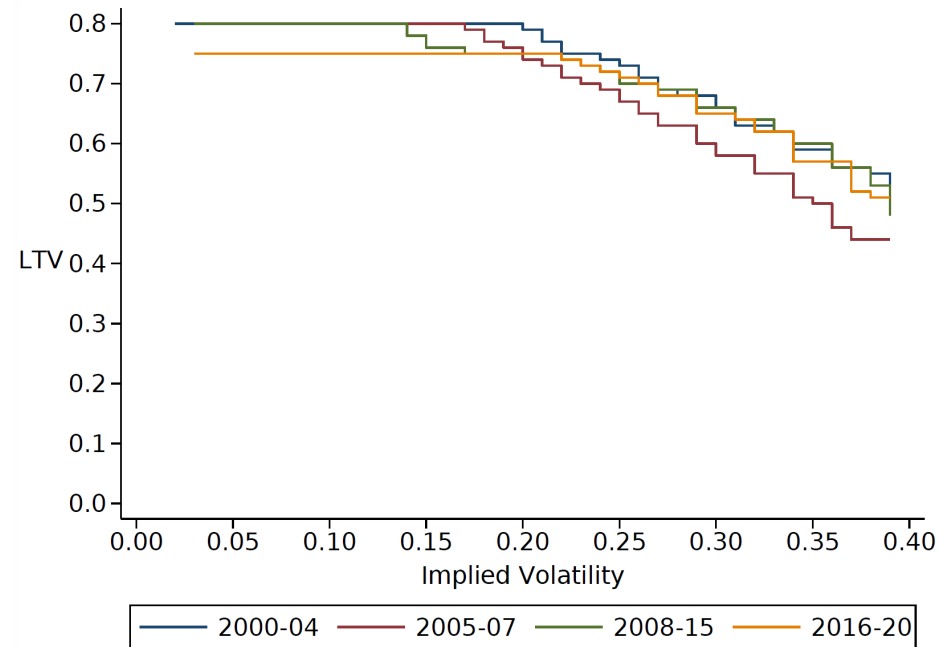
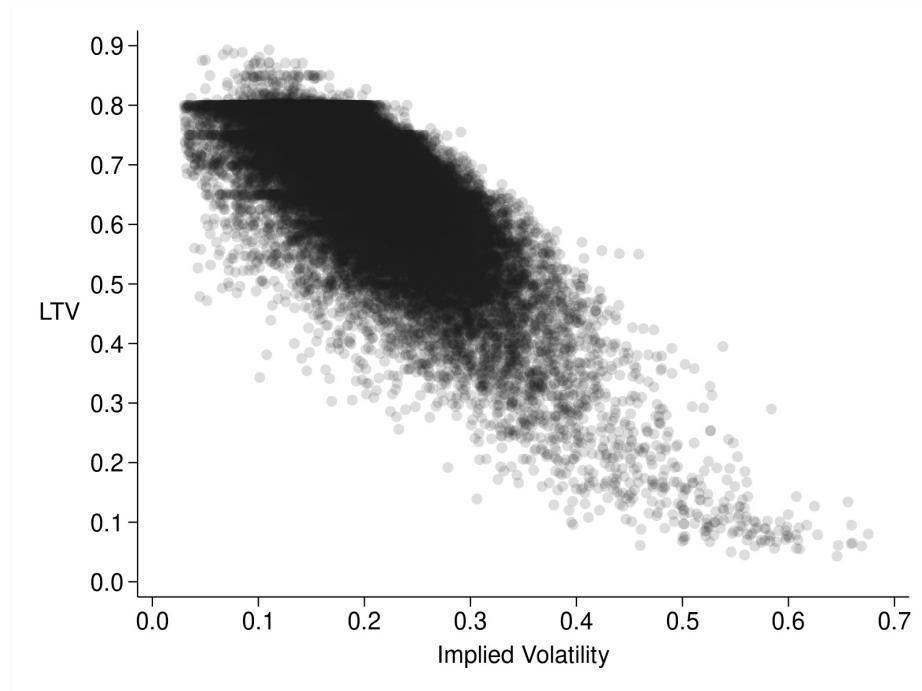
Quarterly LTV Means with 99% CIs



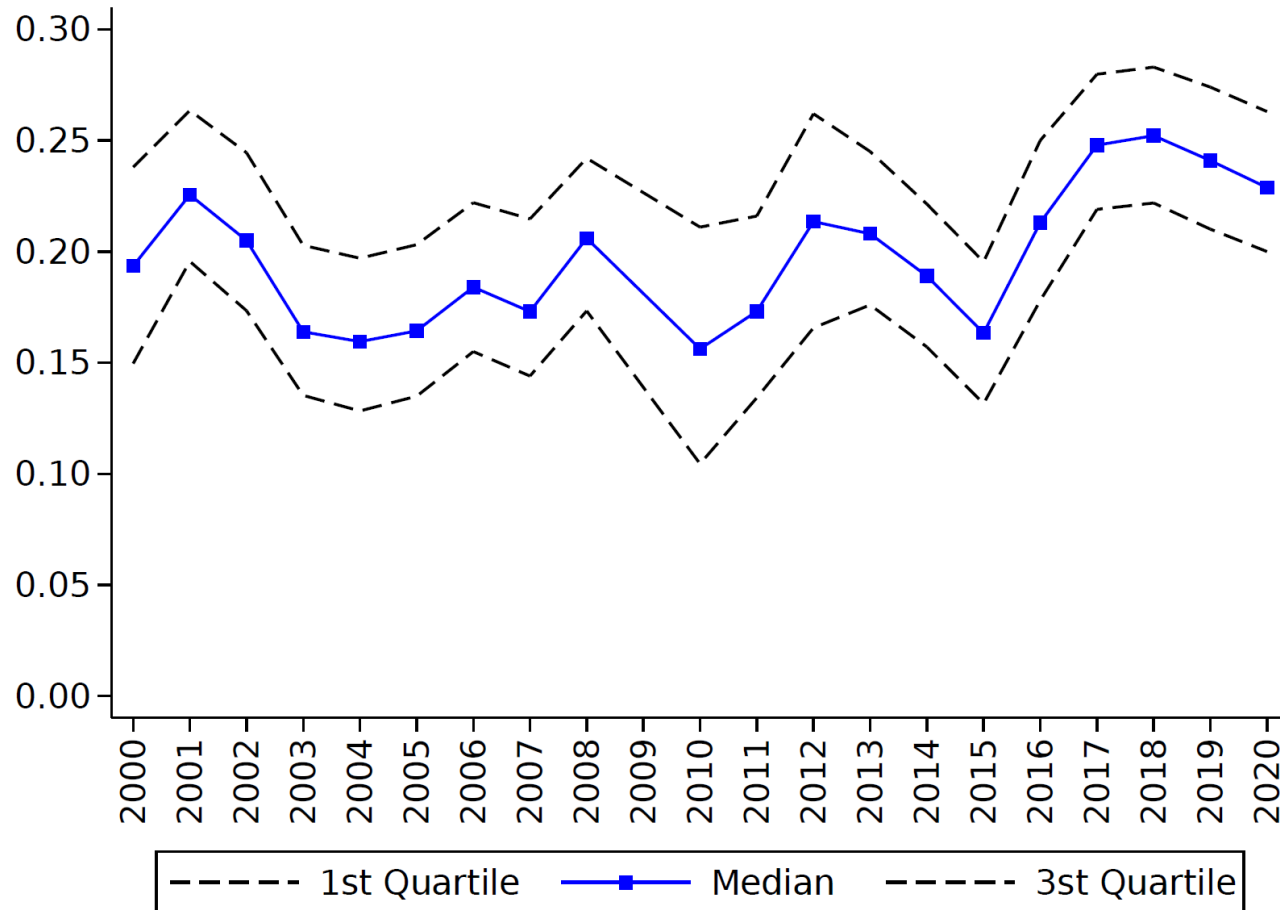
Stylized CRE Loan Offer Curve



Empirical Credit Rationing Frontier

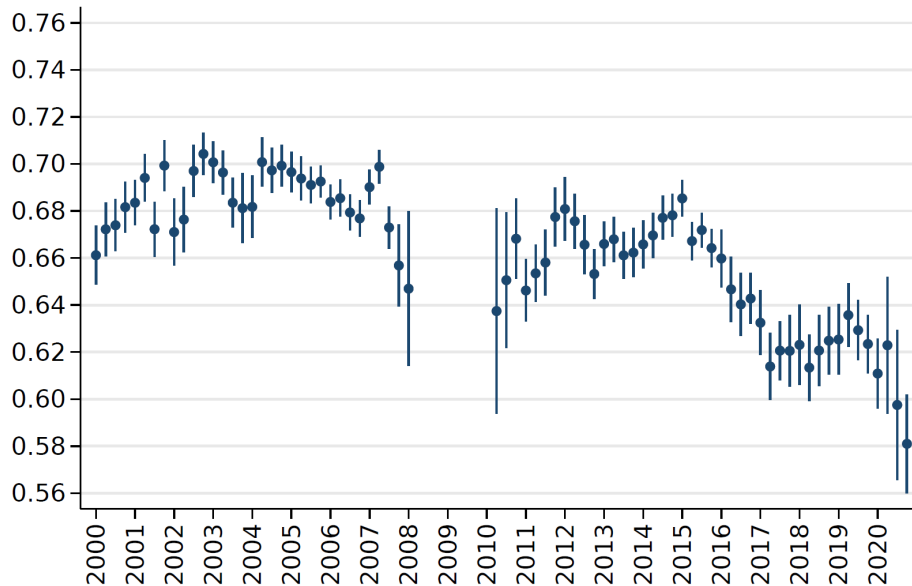


CRE Loan Implied Volatilities

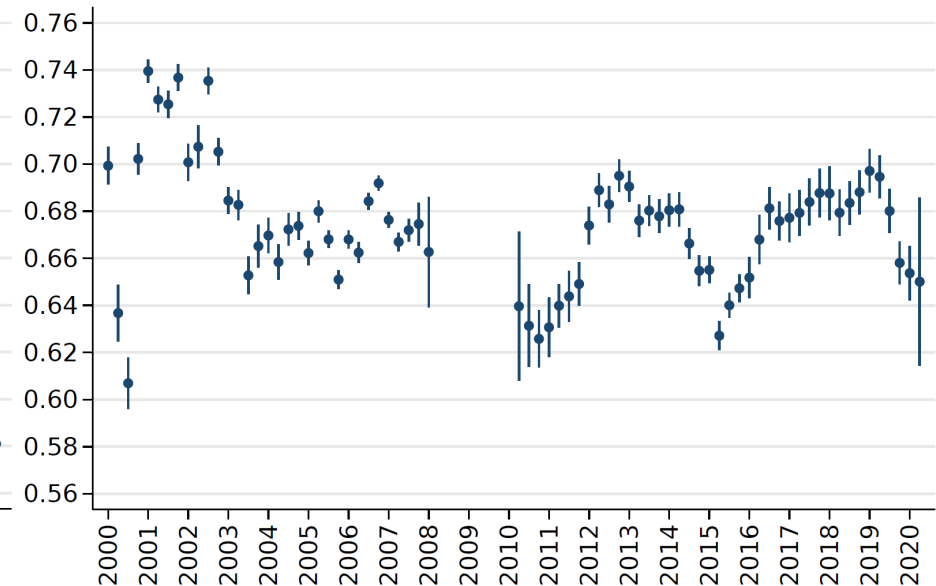


Controlling for Perceived Risk

Quarterly LTV Means with 99% CIs
(Unconditional)



Quarterly LTV Means with 99% CIs
(Implied Volatility = 20%)

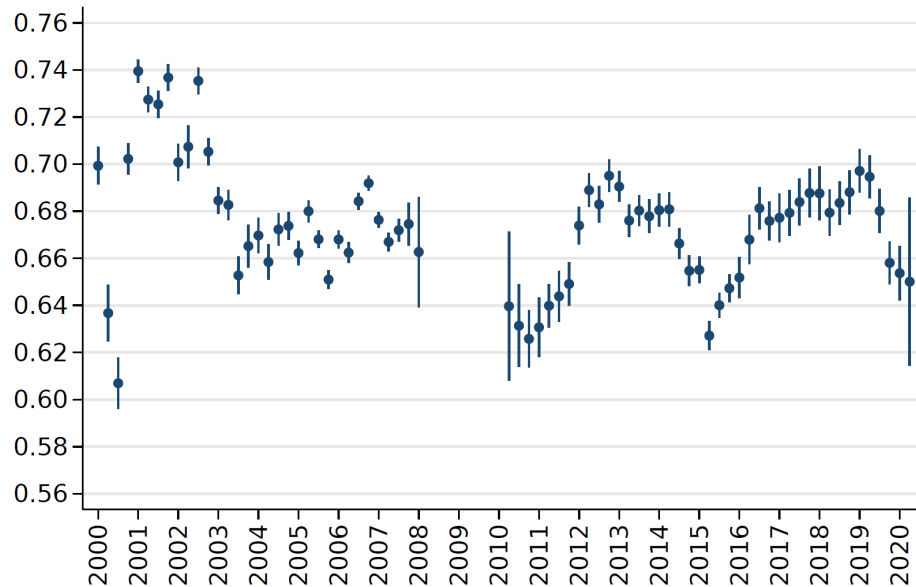


Conclusion

- For both lenders and borrowers, theory suggests that one of the key factors in secured lending is the risk of the underlying asset.
- We empirically confirm that **perceived property risk is the single most important fundamental determinant of LTV variation.**
- We find that the **LTVs of securitized CRE loans have been stable** in the past decades, once changing risk perceptions are controlled for.
- We find that **credit rationing frontier shifts explain little of observed LTV variation and are not consistent with common GFC narratives.**
- Our results motivate the augmentation of LTV information with market-specific risk perceptions by both investors and policy makers.

Controlling for More Fundamentals

Quarterly LTV Means with 99% CIs
(Implied Volatility = 20%)



Quarterly LTV Means with 99% CIs
(IV = 20%, CRS = 3.7%, UST10 = 3.2%, and Static Frontier)

