Abstract
This chapter analyzes the evolution of the commercial mortgage backed securities market and the ongoing need to provide a secondary market to maintain liquidity in the commercial mortgage market. The continuation of the CMBS trend offers opportunities for traditional lenders to maximize liquidity and shift the risk of loss from holding whole commercial loans to holding investment grade securities. The existence of a viable secondary market provides market efficiency and expanded opportunities for borrowers to access capital through direct and indirect securitization. Even for borrowers obtaining traditional loans, many lenders are changing their lending programs, documents, and criteria to preserve their ability to securitize these loans and subsequently sell them in the secondary market to maintain an exit strategy. Rating agency criteria for maximizing ratings on retail properties also are discussed.

Introduction: The Evolution of the CMBS Market
The Resolution Trust Corporation (RTC) through its bailout of the savings and loan industry greatly facilitated the creation and expansion of a viable commercial mortgage backed securities (CMBS) market. The RTC set the precedent for future transactions by coordinating with the rating agencies to establish standard procedures and ratings criteria necessary to liquidate the mostly nonperforming commercial loans held by failed...
institutions. Investment bankers worked with the rating agencies to develop underwriting standards, valuation techniques, and deal structures during this period. Since then, a number of creative and entrepreneurial players (including investment bankers and the emerging conduits) have significantly expanded the universe of deals to include non-RTC transactions and have developed a structure to enable new performing loans to be securitized and sold in the secondary market on an ongoing basis.

Historically, the CMBS market was slow to evolve due to four main factors:

- The lack of sponsorship of a secondary securities market by the federal government,
- The abundance of alternative sources of capital,
- The perceived uniqueness of commercial loans and loan documents, and
- The higher risk of default due to poor historical performance of underlying commercial mortgages.

As a result of the creation of a rating mechanism by the RTC and the recent regulatory restraints on traditional lenders (banks, thrifts, and insurance companies), the conditions now exist to overcome these factors and create a viable secondary market for CMBS for the following reasons:

- As to the lack of sponsorship of a secondary securities market by the federal government, the market has devised many alternatives for credit enhancement including the senior and subdebt structure, absorption of first loss positions by the issuer, letters of credit, and establishment of reserve accounts.
- Although institutional lenders have reentered the market for commercial and retail loans, there is still regulatory pressure on banks and life insurance companies in making and holding commercial loans.
- The perceived uniqueness of loan documents and financing terms can and should be standardized for commercial loans.
- The risk of default and performance of commercial mortgages is a function of timing, underwriting, and geographic conditions. Pooling of loans and standardization of underwriting parameters decrease the risk of loss as to any single loan.

The Future of Securitization

Securitization of commercial loans developed as a result of the capital crunch of the late 1980s and 1990s and the need of the RTC to dispose of massive quantities of commercial loans. The current debate is focused on