

RANKINGS

KKR, Silverpeak Were Top Buyers of Risk-Retention Bonds in 2018

KKR was the most-active buyer of risk-retention bonds from commercial MBS transactions last year.

The high-yield shop acquired \$768.6 million of bonds, or 14.6% of the \$5.3 billion total, according to data compiled by **Commercial Mortgage Alert** (see tables on Pages 33-35).

KKR also topped the first annual risk-retention ranking, in 2017, when it acquired paper with a face amount of \$948.8 million, equal to 16.2% of the \$5.8 billion total.

Silverpeak Argentic ranked second last year, purchasing \$555.6 million of risk-retention securities, or 10.6% of the total. That followed its third-place tally of \$516 million in 2017.

Rialto Capital, which ranked second in 2017, slipped to third last year with \$494.2 million of purchases, down from \$562.3 million. Next came **MassMutual** (\$350.2 million) and **Starwood Capital/LNR Partners** (\$266.1 million).

All of the bonds taken down by KKR, Silverpeak, Rialto and MassMutual were from conduit deals, putting them at the top of the ranking for that category.

Prima Capital, which ranked seventh overall, took down the most bonds from single-borrower transactions. Some \$220.5 million of its \$242.1 million tally came from that category.

Among banks, those retaining the most bonds were sixth-ranked **Bank of America** (\$259.2 million), ninth-ranking **Goldman Sachs** (\$220.5 million) and 10th-ranked **Morgan Stanley** (\$220.2 million).

The introduction of risk-retention regulations two years ago forced CMBS issuers to start carving out bonds that the ini-

Risk-Retention Structures in 2018

Based on deal size, excluding rake bonds

Conduit	2018			2017			'17-'18 % Chg.
	Amount (\$Mil.)	No. of Deals	% of Total	Amount (\$Mil.)	No. of Deals	% of Total	
Horizontal	\$21,105.8	24	52.6	\$18,399.1	20	38.2	14.7
Vertical	8,768.6	9	21.8	17,242.1	19	35.8	-49.1
L-shape	10,276.7	11	25.6	12,551.4	13	26.0	-18.1
TOTAL	40,151.0	44	100.0	48,192.5	52	100.0	-16.7

Single Borrower	2018			2017			'17-'18 % Chg.
	Amount (\$Mil.)	No. of Deals	% of Total	Amount (\$Mil.)	No. of Deals	% of Total	
Horizontal	\$18,477.7	37	52.8	\$17,750.7	32	48.6	4.1
Vertical	16,525.5	36	47.2	18,748.9	32	51.4	-11.9
TOTAL	35,003.2	73	100.0	36,499.6	64	100.0	-4.1

Other Pooled	2018			2017			'17-'18 % Chg.
	Amount (\$Mil.)	No. of Deals	% of Total	Amount (\$Mil.)	No. of Deals	% of Total	
Horizontal	\$555.0	2	56.6	\$0.0	0	0.0	
Vertical	425.3	2	43.4	921.3	2	100.0	-53.8
TOTAL	980.2	4	100.0	921.3	2	100.0	6.4

tial holders must retain for the long term — effectively for the life of transactions. The regulations are aimed at boosting loan quality by requiring lenders to retain exposure to at least 5% of securitizations. The \$5.3 billion of risk-retention bonds created last year equaled 6.9% of the \$76.1 billion of CMBS issuance, excluding rake bonds.

CMBS issuers can comply with the risk rules by using one of three deal-structuring options: retaining a vertical strip of bonds (5% of each class), a horizontal strip (the bottom 5% of the deal structure) or an L-shape strip (a combination of the two other options, such as a 2% vertical strip and a 3% horizontal strip). An issuer can also pass off all or part of the retention

See RISK on Page 33

Retained vs. Transferred Risk

Based on deal size, excluding rake bonds

	Conduit		Single Borrower		Other Pooled		2018 Total	
	Amount (\$Mil.)	% of Total	Amount (\$Mil.)	% of Total	Amount (\$Mil.)	% of Total	Amount (\$Mil.)	% of Total
Issuer/seller retained	\$21,974.6	54.7	\$17,785.5	50.8	\$590.2	60.2	\$40,350.3	53.0
Third-party purchaser	18,176.4	45.3	17,217.7	49.2	390.0	39.8	35,784.1	47.0
TOTAL	40,151.0	100.0	35,003.2	100.0	980.2	100.0	76,134.5	100.0

RANKINGS

Parties Retaining Risk to CMBS Deals in 2018

Based on face amount of retained bonds. Some deals have multiple risk-retention parties.

	Conduit/Pooled		Single Borrower		2018 Total			2017 Total			'17-'18 % Chg.
	Amount (\$Mil.)	No. of Deals	Amount (\$Mil.)	No. of Deals	Amount (\$Mil.)	No. of Deals	% of Total	Amount (\$Mil.)	No. of Deals	% of Total	
1 KKR	\$768.6	10	\$0.0	0	\$768.6	10	14.6	\$948.8	12	16.2	-19.0
2 Silverpeak Argentica	555.6	8	0.0	0	555.6	8	10.6	516.0	5	8.8	7.7
3 Rialto Capital/Rialto Mortgage	494.2	9	0.0	0	494.2	9	9.4	562.3	10	9.6	-12.1
4 MassMutual	350.2	3	0.0	0	350.2	3	6.6	188.8	2	3.2	85.5
5 Starwood/LNR	147.9	7	118.2	4	266.1	11	5.1	134.1	3	2.3	98.5
6 Bank of America	104.7	7	154.5	7	259.2	14	4.9	240.4	15	4.1	7.8
7 Prima Capital	21.6	1	220.5	7	242.1	8	4.6	155.7	7	2.7	55.5
8 Prime Group	230.6	3	0.0	0	230.6	3	4.4	169.9	2	2.9	35.7
9 Goldman Sachs	74.7	3	145.8	9	220.5	12	4.2	187.7	9	3.2	17.5
10 Morgan Stanley	131.1	8	89.1	6	220.2	14	4.2	292.6	19	5.0	-24.7
11 Blackstone	0.0	0	172.5	3	172.5	3	3.3	181.5	3	3.1	-5.0
12 Citigroup	40.8	3	109.5	5	150.3	8	2.9	221.2	16	3.8	-32.1
13 Wells Fargo	122.6	7	25.3	2	147.9	9	2.8	331.1	18	5.7	-55.3
14 Deutsche Bank	83.9	4	45.6	3	129.5	7	2.5	324.9	18	5.6	-60.1
15 Natixis	14.6	1	91.4	9	106.0	10	2.0	125.6	6	2.1	-15.6
16 KSL Capital	0.0	0	103.4	5	103.4	5	2.0	119.1	4	2.0	-13.2
17 Barclays	6.2	1	93.8	6	100.0	7	1.9	92.2	7	1.6	8.5
18 Eightfold Real Estate	98.4	2	0.0	0	98.4	2	1.9	59.9	2	1.0	64.2
19 LoanCore Capital	97.3	1	0.0	0	97.3	1	1.8	96.2	1	1.6	1.1
20 Shelter Growth Capital	0.0	0	91.3	2	91.3	2	1.7	0.0	0	0.0	
21 J.P. Morgan	21.6	2	66.9	3	88.6	5	1.7	198.9	12	3.4	-55.5
22 Waterfall Asset/Ready Capital	14.4	1	65.7	3	80.1	4	1.5	0.0	0	0.0	
23 Oaktree Capital	0.0	0	70.2	6	70.2	6	1.3	96.2	5	1.6	-27.0
24 Western Asset Mortgage	0.0	0	67.8	1	67.8	1	1.3	0.0	0	0.0	
25 Brookfield Asset Management	0.0	0	47.2	2	47.2	2	0.9	0.0	0	0.0	
26 Canada Pension Plan	0.0	0	42.7	1	42.7	1	0.8	0.0	0	0.0	
27 Oxford Properties	0.0	0	19.1	1	19.1	1	0.4	210.4	5	3.6	-90.9
28 BlackRock	0.0	0	18.1	1	18.1	1	0.3	39.3	1	0.7	-53.9
29 KeyBank	14.9	2	0.0	0	14.9	2	0.3	18.1	2	0.3	-17.9
30 DoubleLine Capital	0.0	0	9.1	1	9.1	1	0.2	21.4	1	0.4	-57.5
31 Societe Generale	0.0	0	4.3	1	4.3	1	0.1	0.0	0	0.0	
OTHERS	0.0	0	0.0	0	0.0	0	0.0	311.4	10	5.3	-100.0
TOTAL	3,393.9	48	1,872.0	73	5,265.9	121	100.0	5,843.9	118	100.0	-9.9

Risk ... From Page 32

requirement to an unaffiliated B-piece investor, which can take down a horizontal strip or the horizontal portion of an L-shape strip.

Last year, issuers increasingly chose to hand off the risk. Third-party purchasers took down the retention bonds for 47% of issuance, up from 38.2% a year earlier, according to calculations by **Commercial Mortgage Alert**. The proportion purchased by third parties was higher for single-borrower transactions (49.2% of issuance) than for conduit deals (45.3%).

The trend stems in part from the fact that investor demand

for horizontal strips — the primary structure used to pass off risk — has been strong enough to make that option economical for issuers. What's more, conduit programs are finding it harder to amass collateral pools because of depressed refinancing activity and other factors. As a result, some of the big shops arranging deals have become more reliant on small chunks of collateral from other operators. But they are reluctant to assume the risk for those loans themselves, motivating them to sell the retention bonds to third parties.

The increased willingness of issuers to pass off risk is reflected by the rising use of the horizontal-strip option. Among conduit

See RISK on Page 35

RANKINGS

Parties Retaining Risk by Risk-Retention Structure

Conduit	Vertical		Horizontal		L-Shape		2018 Total		
	Amount (\$Mil.)	No. of Deals	Amount (\$Mil.)	No. of Deals	Amount (\$Mil.)	No. of Deals	Amount (\$Mil.)	No. of Deals	% of Total
1 KKR	\$0.0	0	\$595.0	7	\$173.6	3	\$768.6	10	23.0
2 Silverpeak Argentic	0.0	0	480.4	6	75.2	2	555.6	8	16.7
3 Rialto Capital/Rialto Mortgage	71.1	2	311.5	4	111.7	3	494.2	9	14.8
4 MassMutual	0.0	0	350.2	3	0.0	0	350.2	3	10.5
5 Prime Group	0.0	0	230.6	3	0.0	0	230.6	3	6.9
6 Starwood/LNR	11.6	1	0.0	0	136.3	6	147.9	7	4.4
7 Morgan Stanley	123.4	7	0.0	0	7.7	1	131.1	8	3.9
8 Wells Fargo	111.8	6	0.0	0	10.8	1	122.6	7	3.7
9 Bank of America	104.7	7	0.0	0	0.0	0	104.7	7	3.1
10 Eightfold Real Estate	0.0	0	0.0	0	98.4	2	98.4	2	2.9
11 LoanCore Capital	0.0	0	97.3	1	0.0	0	97.3	1	2.9
12 Deutsche Bank	0.0	0	0.0	0	83.9	4	83.9	4	2.5
13 Goldman Sachs	0.0	0	0.0	0	74.7	3	74.7	3	2.2
14 Citigroup	15.9	1	0.0	0	24.9	2	40.8	3	1.2
15 J.P. Morgan	0.0	0	0.0	0	21.6	2	21.6	2	0.6
16 KeyBank	0.0	0	0.0	0	8.3	1	8.3	1	0.2
17 Barclays	0.0	0	0.0	0	6.2	1	6.2	1	0.2
TOTAL	438.4	9	2,065.0	24	833.3	11	3,336.7	44	100.0

Single Borrower	Vertical		Horizontal		2018 Total		
	Amount (\$Mil.)	No. of Deals	Amount (\$Mil.)	No. of Deals	Amount (\$Mil.)	No. of Deals	% of Total
1 Prima Capital	\$0.0	0	\$220.5	7	\$220.5	7	11.8
2 Blackstone	0.0	0	172.5	3	172.5	3	9.2
3 Bank of America	154.5	7	0.0	0	154.5	7	8.3
4 Goldman Sachs	145.8	9	0.0	0	145.8	9	7.8
5 Starwood/LNR	0.0	0	118.2	4	118.2	4	6.3
6 Citigroup	109.5	5	0.0	0	109.5	5	5.8
7 KSL Capital	0.0	0	103.4	5	103.4	5	5.5
8 Barclays	93.8	6	0.0	0	93.8	6	5.0
9 Natixis	91.4	9	0.0	0	91.4	9	4.9
10 Shelter Growth Capital	0.0	0	91.3	2	91.3	2	4.9
11 Morgan Stanley	89.1	6	0.0	0	89.1	6	4.8
12 Oaktree Capital	0.0	0	70.2	6	70.2	6	3.8
13 Western Asset Mortgage	0.0	0	67.8	1	67.8	1	3.6
14 J.P. Morgan	66.9	3	0.0	0	66.9	3	3.6
15 Waterfall Asset/Ready Capital	0.0	0	65.7	3	65.7	3	3.5
16 Brookfield Asset Management	0.0	0	47.2	2	47.2	2	2.5
17 Deutsche Bank	45.6	3	0.0	0	45.6	3	2.4
18 Canada Pension Plan	0.0	0	42.7	1	42.7	1	2.3
19 Wells Fargo	25.3	2	0.0	0	25.3	2	1.3
20 Oxford Properties	0.0	0	19.1	1	19.1	1	1.0
21 BlackRock	0.0	0	18.1	1	18.1	1	1.0
22 DoubleLine Capital	0.0	0	9.1	1	9.1	1	0.5
23 Societe Generale	4.3	1	0.0	0	4.3	1	0.2
TOTAL	826.3	36	1,045.7	37	1,872.0	73	100.0

Continued on Page 35

RANKINGS

Parties Retaining Risk by Risk-Retention Structure ... From Page 34

Other Pooled	<u>Vertical</u>		<u>Horizontal</u>		Amount (\$Mil.)	No. of Deals	% of Total
	Amount (\$Mil.)	No. of Deals	Amount (\$Mil.)	No. of Deals			
1 Prima Capital	\$0.0	0	\$21.6	1	\$21.6	1	37.7
2 Natixis	14.6	1	0.0	0	14.6	1	25.6
3 Waterfall Asset/Ready Capital	0.0	0	14.4	1	14.4	1	25.2
4 KeyBank	6.6	1	0.0	0	6.6	1	11.6
TOTAL	21.3	2	36.0	2	57.3	4	100.0

Risk ... From Page 33

deals, for example, that structure was employed on 52.6% of issuance last year, up from 38.2% in 2017. Usage of the L-shape option was relatively flat, at 25.6%. But the vertical-strip option plummeted to a 21.8% share from 35.8%.

Horizontal strips – which are B-Pieces- aren't always used to pass off risk to third parties. Sometimes the teams issuing conduit deals include lenders with affiliates that invest in B-pieces. Examples include Silverpeak and Starwood. Such lenders can be willing to assume the risk-retention responsibility for the entire issuing group in the form of a horizontal strip. On single-borrower transactions last year, the structuring options were divided roughly equally between vertical and horizontal strips, with no deal using the L-shape option.