

CMBS Contractors Make a Comeback

Business is booming for contractors that help commercial MBS lenders underwrite loans.

The back-office sector, which depends on a steady pipeline of CMBS offerings, had all but evaporated during the downturn. That forced firms like **Situs** and **Zenta** to focus on other business lines. But now, with the new-issue market back in business, so are the contractors.

Houston-based **Situs**, which rivals acknowledge has the largest market share in the sector, has seen its underwriting-services business rebound to about 70% of the level before the market crash, said chief operating officer **Steve Powel**. That includes services for potential loans, closed new loans and seasoned loans that are being re-evaluated.

New York-based **Zenta** has also seen "exponential growth" in underwriting-support work over the past several months, said **Gabe Stuart**, vice president of capital markets and due diligence, who leads the commercial underwriting group.

Some players have entered the sector since the crash, such as **Park Bridge Financial** and **Townhouse Partners**, expanding the relatively small field of providers. "We definitely view this as a market with a lot of growth potential," said **Craig Lombard**, vice president of New York-based **Townhouse**.

A host of duties can fall under the underwriting-services umbrella, including due diligence, site inspections, risk assessment, the sizing of loans, cashflow underwriting, the verification of third-party reports and the valuation of collateral.

The use of contractors can keep employee headcounts down at CMBS programs, especially while the new-issue market is still finding its legs. But even when CMBS issuance was booming, some issuers had dedicated teams at third-party servicers that worked exclusively for them.

The contractors view themselves as supporting an underwriting process that remains the responsibility of the CMBS shop. "The lenders are underwriting the credit," said Powel. "You could call what we are doing, 'confirmatory due diligence,'



in many cases. We are really confirming a lot of the initial work that the lender has already done."

"Good underwriting identifies the elements of risk associated with a loan, but it also tries to measure those risks," said **David Rodgers**, principal of New York-based **Park Bridge**. "The more detailed the underwriting, the more precisely a lender can use risk-mitigation techniques like reserves, increased amortization or partial recourse." ❖