



CDS on CMBS and Hybrids

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Structured Credit

Introduction

- Why CDS on CMBS?
- Current State of the Market
- How it Works
- Hybrid CDOs: Typical Structure and Selected Examples

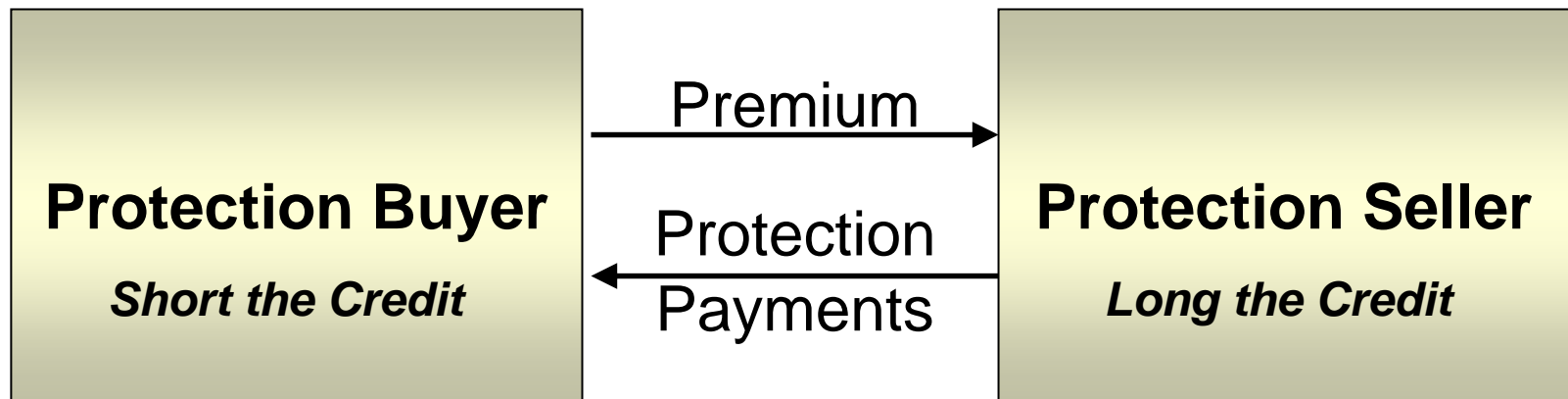
Why CDS on CMBS?

- Provides exposure unachievable in cash market
 - Long and short CMBS credit risk
 - Obtain difficult to source collateral
- Creates new opportunities
 - Basis trades (i.e. CDS vs. Cash Bonds)
 - Capital structure trades (i.e. long BBs vs. short BBBs)
 - Risk management and hedging

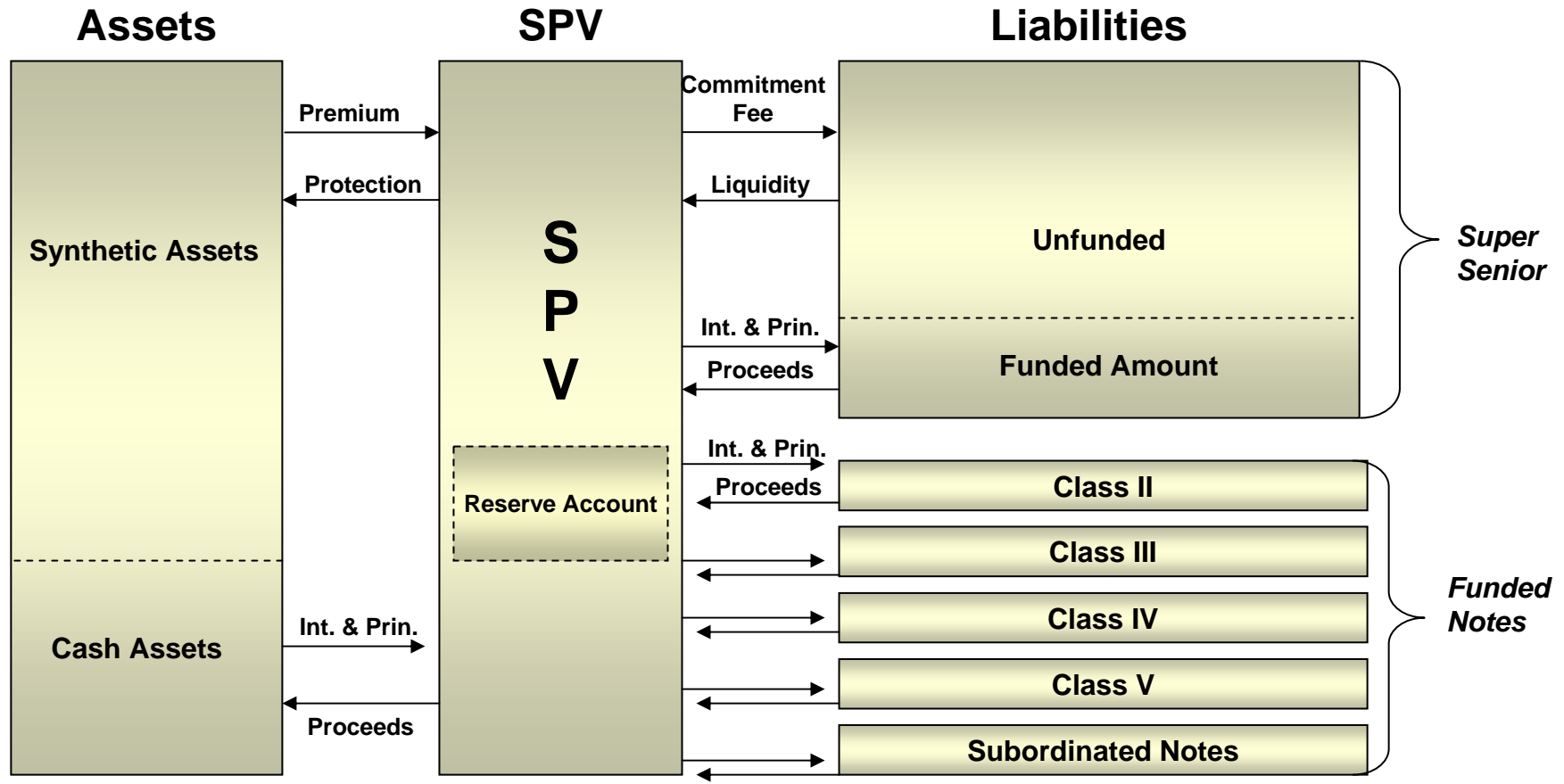
Current State of the Market

- Growth slower than anticipated and less robust than for CDS on RMBS
 - Plenty of protection sellers with few protection buyers
 - RMBS cash market is larger and more commoditized
- Growth should pick up
 - Increase in spreads
 - Protection buyer interest for mezzanine classes
 - Familiarity with ISDA documentation

How it Works



Hybrid CDO – Typical Structure

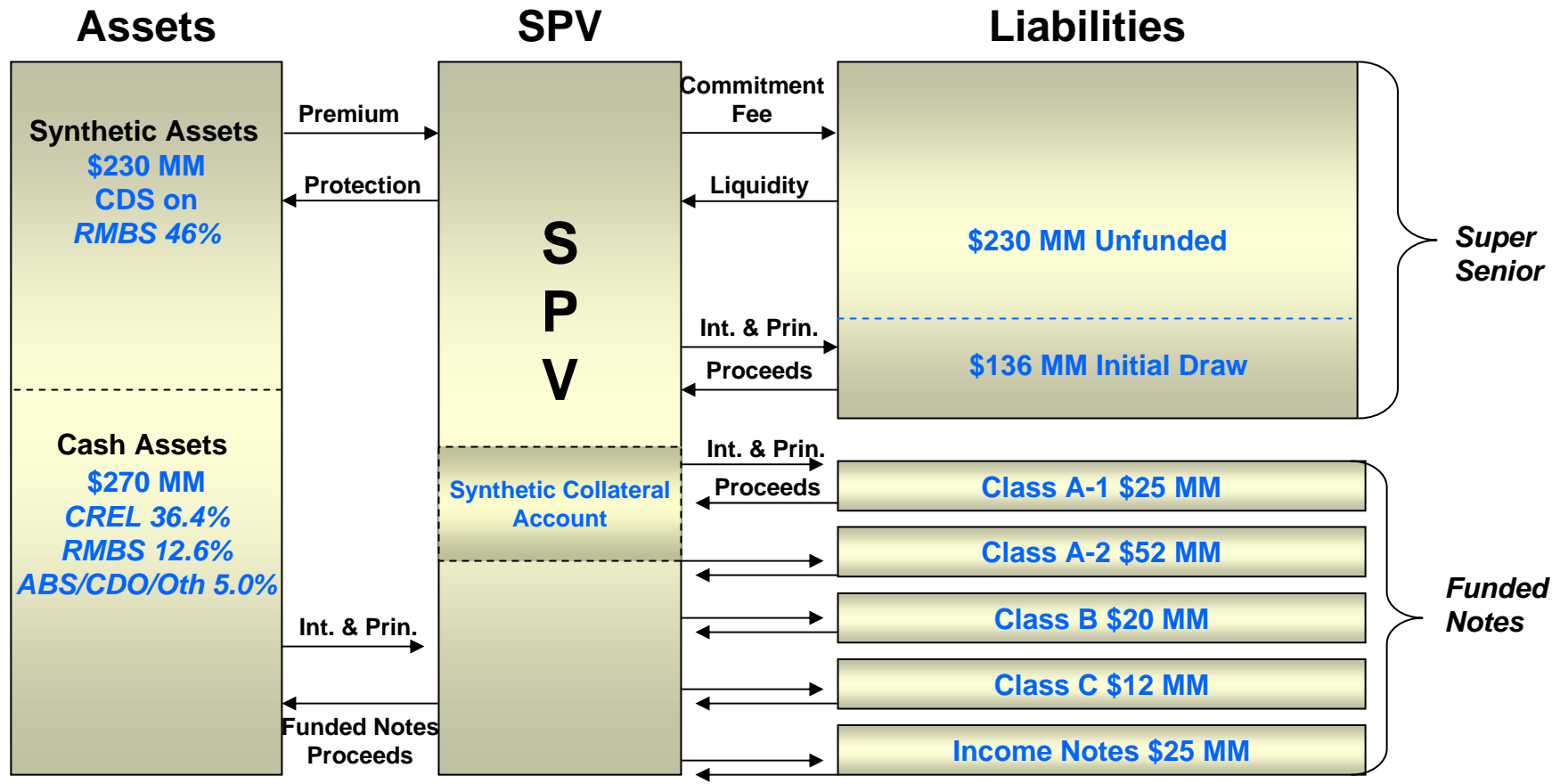


Cash Assets - CMBS or unrated CREL

Synthetic Assets – CDS on CMBS or TRS securities

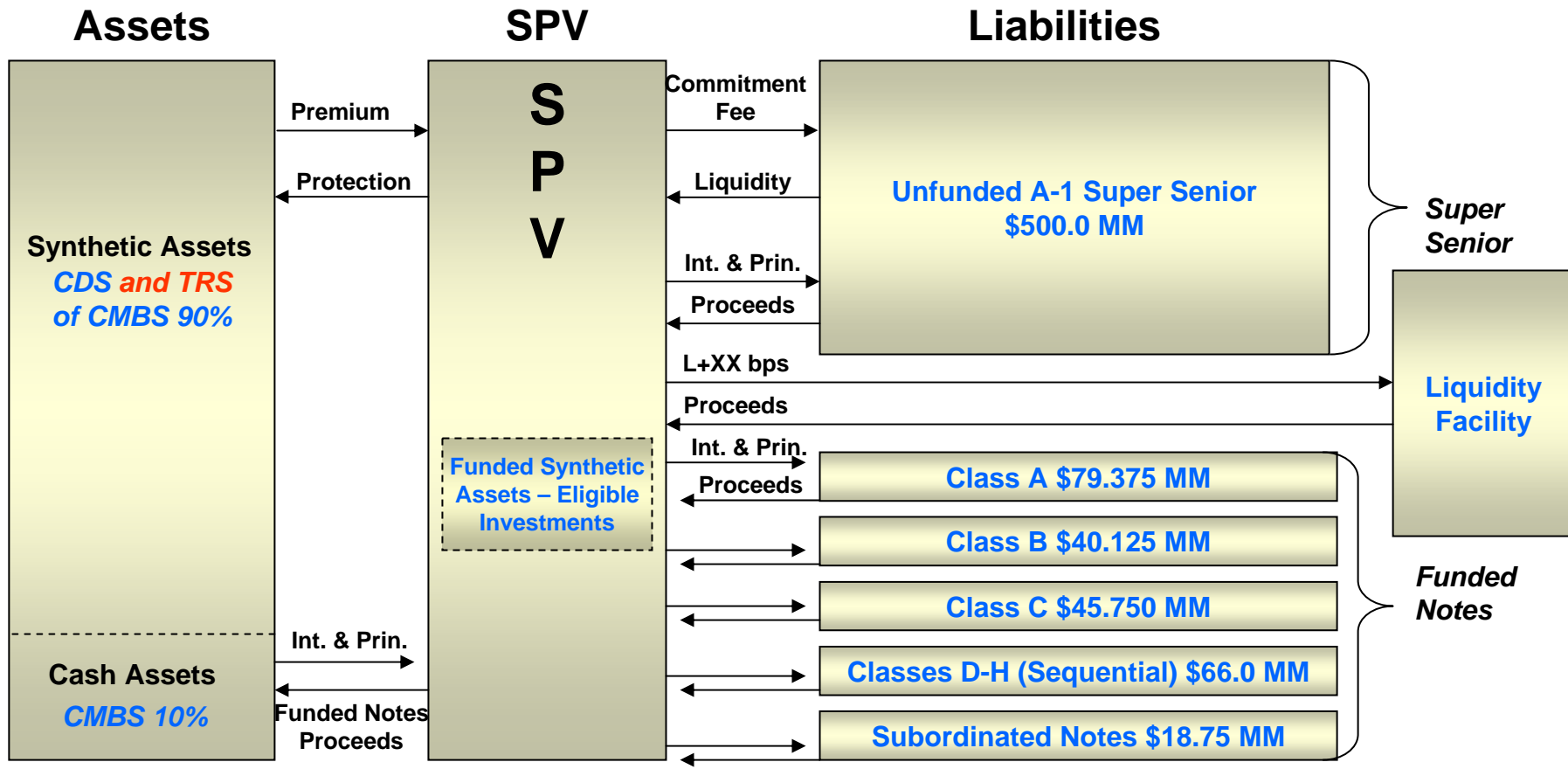
**Reserve Account either consists of an initial deposit to draw on credit events, or is filled during the transaction to collateralize the revolver*

Hybrid CDO – Capmark VI Structure



Cash Assets - CMBS or unrated CREL
Synthetic Assets – CDS on CMBS

Hybrid CDO – Kimberlite Structure



Cash Assets - CMBS or unrated CREL
Synthetic Assets – CDS on CMBS or TRS securities



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