Chapter 1: An Overview of CMBS
What are commercial mortgaged- backed securities?

Commercial mortgaged-backed securities (CMBS) are bonds whose payments derive from a loan or a pool of loans on commercial real estate. "Commercial real estate" includes both business properties and multi-family real estate such as apartment buildings.

The effect of the Great Recession upon mortgage-backed securities in general, the nuances revealed in commercial mortgage-backed securities in particular, and the new terms and deal parties that emerged in CMBS as a result of the Great Recession, distinguish this 2015 E-Primer Update from the 2013 Update.

Chapter 2: CMBS History and Evolution
The CMBS industry as we know it today has its roots in the commercial real estate loan market. To appreciate CMBS now, it is helpful to note how that loan market evolved over the past 30-plus years, particularly after the Savings & Loan Crisis of the late 1980s and early 1990s.

Chapter 3: Originating and Underwriting Commercial Mortgages for CMBS
Understanding how commercial lenders originate mortgages is the first step for understanding the entire CMBS process.

Originating mortgage lenders source commercial mortgage loans by soliciting lending opportunities either directly from potential borrowers, or indirectly through mortgage intermediaries such as mortgage brokers.

In order to compete for commercial mortgage borrowers, lenders tout their relative strengths: ease of execution, reasonableness of pricing, maximization of proceeds, convenience of servicing, and flexibility of closing.

Chapter 4: Structuring
Preparing an issuance of CMBS involves (i) structuring both the loans to be used as collateral, and (ii) structuring the securitization itself for issuance.

The idiosyncrasies of individual commercial mortgage loans can have a dramatic impact on creating, issuing, and valuing CMBS. Thus, the loan structuring process has adapted over time to standardize, during loan origination, by portfolio and conduit lenders, aspects of the loan that will be valuable in a securitization. The goal of these standardization efforts has been to make a pool of commercial mortgage loans contain more common terms, and appear relatively homogeneous, even though the underlying properties are dissimilar. Some of these adaptations have included standardizing payment due dates, issuing balloon loans (loans with a large final payment) with the same timeframe, standardizing prepayment priorities, and the use of defeasance.

Chapter 5.1: AAA Rated CMBS Securities
AAA CMBS are the bonds that form the last-loss top tranches in a CMBS structure, have the highest credit enhancement in the structure and have historically been presumed the safest of CMBS investments--a presumption that was tested during the financial crisis. AAA CMBS receive payments of interest and

principal before any other inherently lower class of bonds in a standard senior-sequential CMBS structure. AAA CMBS may be further broken down into sub-levels: Super Senior, Mezzanine Senior (AM's) and Junior Senior (AJ's).

However, that high payment priority also means that AAA CMBS receive recoveries from defaulted loans, and hence must be wary of early prepayments. Thus, although AAA CMBS enjoy protection from principal shortfalls, investors in these bonds still need to be mindful of the bonds' sensitivity to default, prepayment, and extension risks.

Careful investors in these bonds consider the amount of spread needed to offset the potential effects of the projected defaults, prepayments, and extensions on the underlying collateral, given the bond's price, structure and the yield curve.

Chapter 5.2: Mezzanine CMBS
Mezzanine (as known as "Mezz") CMBS are the middle tranches of a typical CMBS structure. Ranging from AA+ through BBB-, the Mezz bonds represent all of the investment-grade tranches between AAAs and non- investment-grade tranches. While cashflows from mezzanine tranches are not sensitive to early prepayments like AAA CMBS, or defaults that result in losses to the below-investment-grade securities, these bonds still pose risk to investors. Given this risk and the popularity of the Mezz classes, strong real estate analysis, particularly in assessing the potential performance of the underlying collateral, is critical to finding and evaluating the value of this bond class.

Chapter 5.3: Interest-Only CMBS (IO)
An IO CMBS is the bond that receives the excess interest in a conduit transaction. IO CMBS are created by stripping coupons from either the entire underlying collateral pool or from individual CMBS classes. The determination of the cashflow attributed to the IO is a function of the IO's coupon and the IO "notional balance," the sum of the outstanding principal balances of the stripped principal- pay classes. IO CMBS are often misunderstood, and their pricing does not always reflect their real value. Due to call protection, the focus in evaluating IOs has less to do with prepayments, and instead has more to do with the credit performance of the underlying mortgage collateral.

Chapter 5.4: B-Piece CMBS
B-piece CMBS, also known as "high yield," refer to CMBS bonds rated BB+ and lower. These bonds are at the greatest risk of significant loss of principal and nonpayment of interest, since they are last in the waterfall, and in the first loss position. As the investor most at risk, careful B-piece investors heavily assess the real estate underlying the commercial mortgages.

Accordingly, the B-piece investor is typically the "controlling class" under the terms of the agreements underpinning CMBS transactions, and have greater control over troubled assets, and access to more information, than holders of other bond classes.

The conflicting objectives of the AAA investors, and the B-piece investors, who may be affiliated with the special servicer, have proved to be one of the most difficult issues exposed in CMBS since 2007.

Chapter 6: Closing CMBS Transactions, Parties, Key Documents and Servicing
Once the CMBS issuer has issued the CMBS and the CMBS transaction has been "closed," it must be

managed throughout its term. Third-party service providers are appointed for this purpose. Prior to 2009 (sometimes referred to CMBS 1.0) these service providers typically included a Trustee, a Master Servicer and a Special Servicer, each of which, along with the Depositor, is a party to the pooling and servicing agreement (PSA) which governs each transaction. From 2009 on, an Operating Advisor role was also created with a goal of managing potential conflicts.

Chapter 7: An Overview of the Taxation of REMICs

The major development that has enabled the growth of the mortgage securitization market over the last 20 years has been the real estate mortgage investment conduit (REMIC) provisions in the Internal Revenue Code. Today, over 90% of CMBS transactions elect to be treated as a REMIC.

A REMIC is a trust that holds a pool of mortgages, issues a series of tranched bonds, and complies with the various REMIC provisions that affect the structure, operation and income tax treatment of the trust. This chapter will describe the REMIC provision that restricts the management and operation of REMICs. It also explains the multiple reasons for the popularity of the REMIC structure: it is not subject to tax, can be highly leveraged to minimize the tax impact on its equity investors, and can issue multiple securities structured to be attractive to issuers and investors.

Chapter 8: CMBS Subordinate Debt

The "how" and "why" to split a mortgage is elaborated in Chapter Eight, CMBS Subordinate Debt, which also illustrates how the senior/junior structure effectively allocates the loan to the investors who value the components most. Investors may see more A/B note structures and the increasing use of mezzanine debt in the coming years as issuers take advantage of the greater credit enhancement that can be achieved by bifurcating the loans, and also take advantage of a commercial real estate market that supports such secondary leverage.