Discussion of “Structural Modeling of Loan Pool Choice in the CMBS Market,” by Sean Chu

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Background

Empirical Fact

- Commercial Real Estate (CRE) loans in securitizations underwritten by the loan originator perform better, ceterus paribus, than loans sold and then securitized by a third party.

Question

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cfpb Consumer Financial Protection Bureau

Approach

Estimation

- Estimate hazard function for default of each loan assuming unobserved quality
- Use time to default for each loan to model returns for each deal (collection of loans) as function of unobserved quality
- Structural model: Identify parameters of interest by assuming that adding or subtracting a deal is profit reducing. Do this under two information sets, one with no private information, the other where originator's valuation and buyer's diverge.

Results

- Ex-post value to loans originated by the securitizing firm.
- However, it appears that the ex-ante quality of these loans is weaker

  Hold them for diversification reasons

  Couldn't sell em'

CMBS market and the crisis

Bubble and Collapse

Discussion

Model