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Recommendations for Improvements to CMBS Structure, Documentation, and Transparency

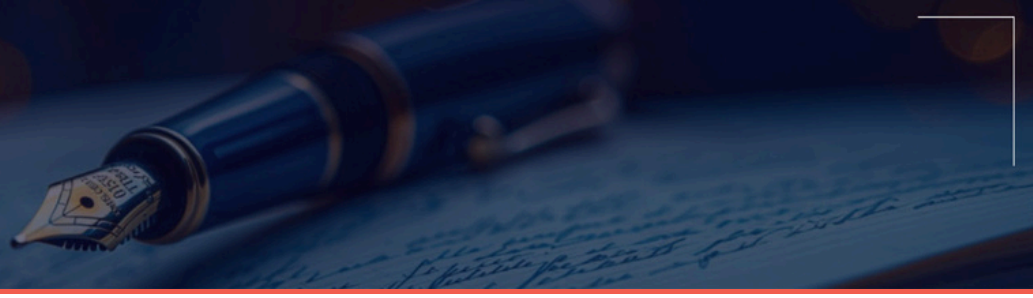
Prepared by: CMBS Investment Grade Bondholder Working Group of the SFA Investor Committee

October 2026

Abstract:

CMBS issuance is at a two-decade high level, with oversubscribed deals and tight spreads. At the same time, rising rates and supply-demand imbalances, especially in office and retail sectors, have driven delinquencies and defaults, providing the first real test of post-2008 governing documents. Recent loan workouts have highlighted various weaknesses of the CMBS structure which are particularly impactful for Investment Grade investors. To retain sponsorship of these investors across the Investment Grade capital stack, the CMBS structure and reporting requirements should be enhanced, and this paper elaborates upon the challenges in the current framework and proposed solutions.

This article was prepared by a working group of CMBS investment-grade (IG) bondholder members on behalf of the SFA Investor Committee and met SFJournal's editorial standards for publication. Its recommendations reflect the working group's perspective and were not developed or adopted through SFA's consensus-driven policy process. Publication does not constitute SFA endorsement or establish an SFA policy position.



Introduction

CMBS issuance is very strong, and the sector is poised for the highest level of issuance in almost two decades. Many deals are oversubscribed and over past few quarters spreads have adhered to a relatively tight range. At the same time, the distress triggered by rising rates, as well as supply and demand imbalance in the office and retail sectors, has led to rising delinquencies and defaults. This distress has been the first meaningful test of CMBS governing documents which were enhanced after the 2007-09 market downturn. Many participants, from various segments of CMBS market, would agree that the COVID-triggered downturn has brought to the surface various weaknesses of the CMBS structure and its governing documents, especially pertaining to transparency related to distressed loans, control rights, overall reporting, and informational asymmetry. The strength of the CMBS new issue market presents an opportunity to address identified structural and transparency challenges to retain and grow the sector's sponsorship by IG investors. If these weaknesses remain unaddressed, over time the sector could face reduced sponsorship by IG investors as they can find and create investment opportunities, which better address their requirements, outside of the public securitized markets.

Many recent CMBS loan workouts have highlighted various weaknesses of the CMBS structure which are particularly impactful for IG investors. These weaknesses include the fact that IG investors have no input into decisions pertaining to loan resolutions, modifications, and extensions. IG investors are not party to the governing documents, nor do they have input into workout decisions. Also, IG investors often get limited and delayed transparency from parties making vital decisions which impact the value of IG bonds. In contrast to the securitized market, if private markets provide far superior transparency and more economically beneficial outcomes in distressed situations, over time, IG investors could favor private sector opportunities over securitized markets for investing in CRE risk. Also, to counterbalance the greater uncertainty around outcomes and volatility in bond prices due to CMBS sector's structural weaknesses IG investors may gravitate towards senior bonds while reducing their support of mezzanine IG bonds. The need for greater and consistent transparency is not limited to distressed deals and loans. For example, transparency for new issue is fairly standardized for Conduit deals, and the sector would benefit greatly from similar standardization for SASB deals.

The sponsorship of the CMBS sector is further at risk due to the poor ratings performance of CMBS IG mezzanine bonds relative to that of IG bonds in other securitized sectors and corporates. Since CMBS issuers select the rating agencies for each bond, the credit enhancement and ratings are often based on the opinion of most lenient rating agencies. In addition, the lack of consistency in rating agencies used across the capital structure and weaknesses of the CMBS sector are evident in ratings transition of Conduit and SASB bonds. See Appendix for ratings transition matrices.

Beyond CMBS, the historical ratings performance of highly rated CMBS investment grade bonds compares unfavorably to other asset classes. While the matrices speak to transitions within CMBS, it should be noted that the downgrade rate for highly rated investment grade bonds exceeds all other similarly rated sectors across Investment Grade, and other Structured Products through all environments other than the GFC for residential Non Agency MBS. This paper does not provide specific recommendations to improve the CMBS sector's ratings performance. However, the ratings performance has been cited to share a wholistic picture of the sector's challenges from an IG investor's point of view.



SFA's IG Bondholder Committee has developed a set of recommendations aimed at increasing transparency, addressing reporting challenges, and minimizing informational asymmetry. SFA's IG Bondholder Committee looks forward to engaging with industry participants on the identified challenges and recommendations to minimize these challenges. We view this as the first step in what we hope will be an ongoing dialogue which moves the industry forward and increases sponsorship of the CMBS sector by IG investors.

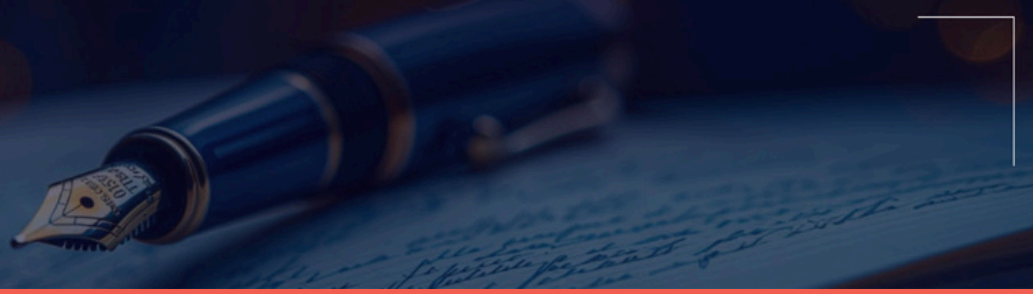
Background

Over the past two years, private label CMBS issuance (including CRE CLO deals) has been robust with 2025 issuance at $157.5B as compared with 2023 issuance of $46.5B. Furthermore, for 2026 CMBS is projected to have the highest issuance in almost two decades. At the same time, the seasoned CMBS market has a large cohort of distressed loans concentrated mainly in the office sector. For May 2026 Trepp reported an overall CMBS delinquency rate of 7.55%, with office delinquency at 11.53%[1]. Also, CMBS special servicing rate reached 11.38%, driven by office loans which have a special servicing rate above 17.5%.[2] Over the past few years loan modifications and maturity extensions have been a key part of the servicer's tool kit, especially for office and retail loans. The primary stated rationale for this strategy is that it was the best pathway to maximizing recovery, for all bondholders, in a volatile market with limited debt and equity capital available for distressed assets, especially office and retail.

CMBS transactions are governed by documents which grant servicers, Controlling Class Holders (CCH) and Directing Class Holders (DCH) broad discretion over how distressed loans are managed and resolved. Additionally, these documents provide for maximum transparency to the CCH/DCH as one of the key parties involved in resolution of distressed loans. However, the documents are not sufficiently prescriptive regarding required transparency to IG bondholders. For example, while appraisals are utilized by the servicer for many decisions which have substantial consequences for value of IG bonds, often CMBS deal documents do not require the servicer to disclose the appraisal reports to IG investors. As another example, while the servicer's decision to designate a loan as Nonrecoverable can have severe negative economic consequences for IG bonds including lower prices and ratings downgrades, the documents mandate minimal disclosure pertaining to these decisions. In other cases, there have been multi-year maturity extensions at substantially low coupons compared to prevailing rates, with limited disclosure regarding rationale for why this was the most appropriate strategy for maximizing recovery for the trust.

Some IG investors have also expressed concerns that while CMBS documents do not fully require transparency necessary to appropriately value IG bonds, the current framework provides extensive transparency to CCH/DCH thus creating substantial information asymmetry. IG bondholders are often advised that providing key information, such as appraisal reports, on a timely basis puts servicers at a disadvantage in negotiations with the borrower even though lack of disclosure has a significant impact on valuation of IG bonds. However, strong sponsorship of IG bonds is contingent upon robust and increased transparency as the CMBS industry matures with each cycle, and not being rooted in a level of transparency designed several decades ago.

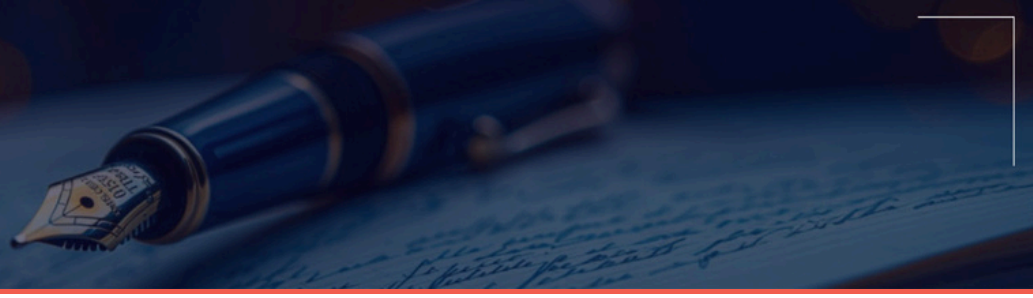
[1]https://www.trepp.com/trepptalk/cmbs-delinquency-rate-increased-one-basis-point-in-may-2026
[2]https://www.trepp.com/trepptalk/cmbs-special-servicing-rate-rises-in-april-mainly-driven-by-office



CMBS' structural weaknesses brought to surface in this cycle are not limited to issues pertaining to transparency. IG bondholders have also been negatively impacted by timing of appraisal reports and ensuing appraisal reductions. When documents do not have a mechanism to mandate an appraisal reduction within a certain period of time, delaying timing of the appraisal report can have the effect of allowing "out-of-the-money" classes to continue to receive or accrue interest which enhances value of subordinate bonds at expense of IG bonds.

As illustrated above, the recent stress cycle has brought to the surface various weaknesses of the documents which many industry participants would agree are not producing the intended outcomes. The nature of these concerns is generally not that market participants are acting outside of the scope of their authority, but rather that existing governing frameworks are too broad and need to be more prescriptive to better address various challenges faced by IG investors. One such solution could be to broaden and strengthen the responsibilities of the Operating Advisor (OA). For example, the OA could assist in providing transparency on a timely basis and have input into workout decisions to ensure that IG investors' considerations are also a key component when evaluating workout strategies.

IG bondholders may look favorably upon the investment opportunities afforded by the robust new issue volume. However, they are also assessing CMBS investments based on resolution of distressed loans in their existing holdings. And to retain stable and strong sponsorship by IG investors the lessons learnt from these ongoing resolutions should be utilized to improve the CMBS structure.



Summary of Recommendations for Improvements to CMBS Structure

Please note that the recommendations reference various terms typically defined in CMBS documents and this paper is not designed to provide these detailed definitions.

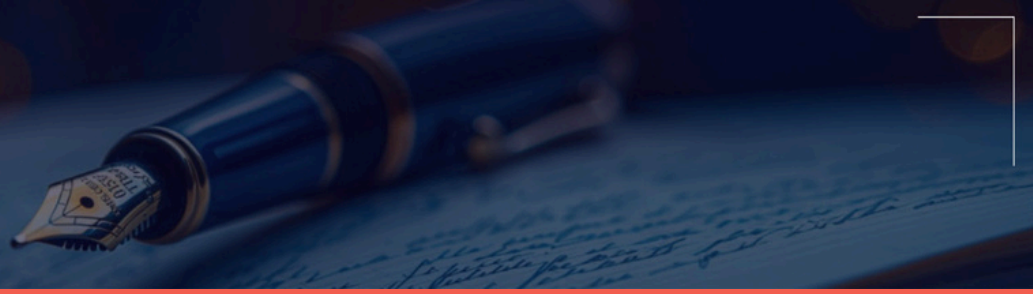
1. Transparency on distressed loans, workout strategies and analysis, and control shift

Current Framework and Challenges

- Investors need visibility and transparency into deal performance, workout status, and decision rationale on a timely basis. For this visibility, investors must post inquiries through trustee portals. However, responses to these inquiries can be delayed or left unanswered.
- Appraisal reports can be delayed, which in turn delays switch of control and thus retains economics in out-of-money classes
- There can be limited visibility into the following:
  - Final appraisal report (made available to all investors at sole discretion of servicer)
  - Workout strategies being pursued (example: loan sale, foreclosure)
  - Status and details on execution of workout strategies, such as how assets are being marketed and how many prospective investors executed a Non-Disclosure Agreement (NDA)
  - Analysis, calculations and documentation for decisions involving Net Present Value (NPV), Non-Recoverable Advance (NRA), Appraisal Reduction Amount (ARA), and Appraisal Subordinate Entitlement Reductions (ASERs)
  - Material loan modifications, especially when instituted without updated appraisals
  - Process and analysis pertaining to shift in control from one class of bondholders to another class

Proposed Solutions

- Require servicer to make available (via the trustee portal) a standard “workout supplement” which provides standardized disclosure on the aforementioned data and information such as, but not limited to:
  - appraisal must be completed within 90 days of transfer to special servicing
  - appraisal report made available to all bondholders
  - key inputs, assumptions, and calculation decisions involving loan modification terms, NPV, NRA, ARA, and ASERs
  - if an appraisal is rejected by the controlling class, provide date of rejected appraisal and due date for revised appraisal
- Maintain appraisal as sole basis for valuation-driven decisions, including but not limited to ARA, ASER, NPV, NRA analysis, and control determinations



- Establish a standard response timeline for investor inquiries submitted through trustee portal (for example, 10 business days)
- Establish an enforcement mechanism for failure of servicer to provide information in a timely fashion, this could be accomplished by broadening the role of the OA.

2. Control shift, leakage and economics of out-of-the-money classes

Current Framework and Challenges

- Certain deal structures have a structural deficiency which enables cash flow leakage to out-of-the-money classes. This leakage occurs via accrual of interest shortfalls and related advances on out-of-the-money classes, and these accruals take priority over principal payments to senior classes
- Servicers may have fee-sharing agreements with CCH/DCH and these agreements may impact ultimate loan resolution economics for all bondholders

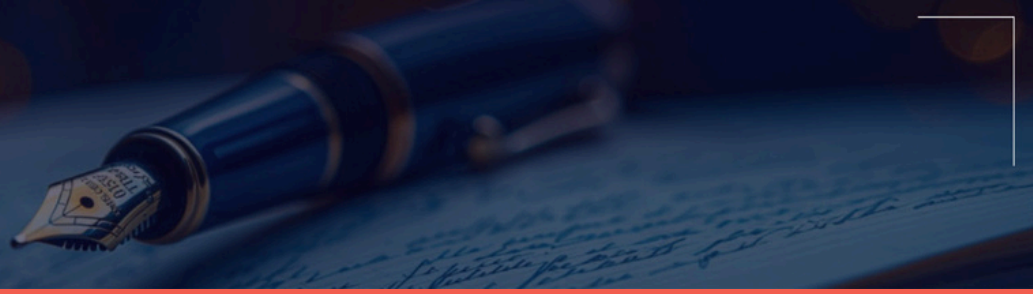
Proposed Solutions

- Update and standardize waterfall to remedy above deficiency
- If appraisal is not completed within 90 days of loan being in special servicing, or delinquency or forbearance, the documents could mandate an automatic appraisal reduction by a certain percentage
- Any fee-sharing agreements between the servicer and other parties such as the CCH/DCH should be disclosed to all bondholders

3. Financial Reporting by Borrower and Servicer, Cash Trap Mechanisms

Current Framework and Challenges

- For malls and other retail centers, loan documents often do not require ongoing borrower disclosure of key property performance metrics such as tenant sales and occupancy costs
- For portfolio loans, loan documents may not require the borrower to provide property level financial and other reporting. Additionally, property-level financial reporting lacks standardization and can be inconsistent, incomplete, missing, or dated
- For borrowers not complying with reporting requirements loan documents often do not contain provisions to enforce a penalty
- Departure of a large tenant and resulting decline in occupancy is a major driver of delinquencies and defaults. Typically cash-trap mechanisms aren't triggered until after the tenant provides formal lease termination notice, which reduces the amount of cash the trust can capture
- Servicers and borrowers often report financials using differing conventions such as Trailing Twelve Months (TTM), Year To Date (YTD) annualized, and YTD normalized



Proposed Solutions

- Modify loan documentation as follows:
  - Add requirement for ongoing reporting of key performance metrics such as tenant sales and occupancy cost
  - Add requirement to provide property-level financial and performance metrics
  - Add enforcement mechanism whereby failure to provide required reporting data triggers consequences, example transfer of loan to special servicing
  - Enhance requirements for cash trap triggers, example trigger cash trap based on tenant concentration and lease rollover thresholds with provisions for releasing funds if tenant provides renewal notice
- Per the securitization documents financial information reporting by servicers should be required to:
  - Be in a standardized format; i.e. TTM, YTD annualized, and YTD
  - Provide both raw and normalized data

4. Role of Operating Advisor (OA)

Current Framework and Challenges

- The OA does not act as an independent overseer of the servicer or the CCH/DCH's actions.

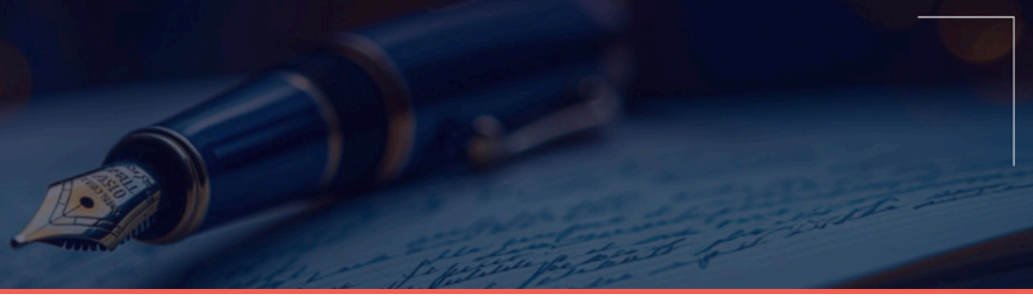
Proposed Solutions

- Some challenges around decision making and transparency by the servicer can be reduced by strengthening the OA's role to include the following:
  - Ability to substantively challenge the servicer's decisions real time
  - Hold servicer accountable to the deal's transparency requirements
  - Give OA more responsibility for reporting to investors
  - Mandate OA to provide more public review of findings
  - Validate that requirements are met by servicers and have ability to exercise penalty/remedies

5. Transparency and dissemination of information in new issue

Current Framework and Challenges

- For SASB and CRE CLO deals, investors are provided deal materials via data rooms which do not have a consistent set of materials. Investors often have to request permission for each piece of information which creates uneven access to underwriting materials and potentially information asymmetry across investors.
- Major portion of the SASB new issuance is driven by refinancing of existing CMBS deals. Most market participants would benefit from enhancing information dissemination by providing a blacklined document against the existing CMBS deal.



Proposed Solutions

- For SASB and CRE CLO deals require standardized access to data room materials, with a list of key documents available to all investors, such as but not limited to:
  - Property-level and portfolio level (if applicable) (a) appraisals (b) Environmental Site Assessment (ESA), (c) Property Condition Report (PCR) (d) Seismic Risk (SRA) report, (e) Document outlining remediation cost estimates tied to ESA/PCR/SR findings (6) insurance risk analysis reports including disclosure on blanket policies
  - Allow access to data rooms for life of transactions, this practice is followed in other sectors
- Data room should have a blacklined comparison against the existing SASB deal or the issuer's most recent CRE CLO deal, as applicable

Appendix A

Conduit Bonds Paid Off - Lifetime Rating Transition Matrix

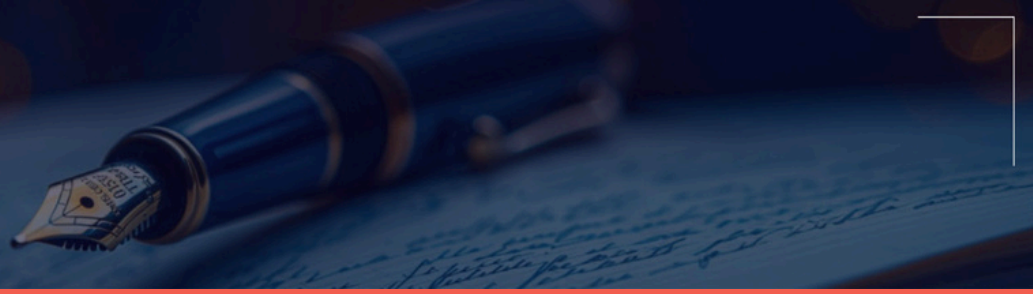
		Final Ratings									
		AAA	AA	A	BBB	BB	B	CCC & below	NR	Total	Total, $bn
Originally Rated	***AAA***	**98%**	**0%**	**1%**	**0%**	**0%**	**0%**	**0%**	**0%**	**100%**	**191**
	AA	8%	74%	7%	6%	1%	2%	1%	1%	100%	12
	A	5%	8%	58%	16%	6%	4%	4%	0%	100%	5
	BBB	3%	4%	5%	49%	20%	7%	12%	0%	100%	3
	BB	0%	2%	2%	2%	56%	19%	18%	2%	100%	1
	B	0%	0%	0%	2%	0%	47%	47%	3%	100%	1
	CCC	0%	0%	0%	0%	0%	0%	100%	0%	100%	0.0
	NR	0%	0%	0%	0%	0%	0%	0%	100%	100%	0.2
	Total	89%	5%	3%	2%	1%	1%	1%	0%	100%	213

Note: Only P&I bonds are included. Rating categories are derived based on worst ratings of Moody's, Fitch, S&P, KBRA and DBRS. Bonds with <1% realized loss. CMBS 2.0 (2010 vintage and later issued non-agency CMBS).
Source: Deutsche Bank, Intex, Bloomberg Finance LP.
Excerpted from Deutsche Bank's "CMBS Ratings Transition, Record Delinquencies and ARD Performance," December 8, 2025.

SASB Bonds Paid Off – Lifetime Rating Transition Matrix

		Final Ratings									
		AAA	AA	A	BBB	BB	B	CCC & below	NR	Total	Total, $bn
Originally Rated	***AAA***	93%	6%	0%	0%	0%	0%	0%	0%	100%	109
	AA	5%	92%	2%	1%	0%	0%	0%	0%	100%	24
	A	3%	13%	81%	3%	0%	0%	0%	0%	100%	21
	BBB	3%	3%	8%	81%	4%	0%	0%	0%	100%	28
	BB	2%	1%	2%	5%	81%	8%	1%	0%	100%	24
	B	0%	1%	0%	0%	6%	85%	7%	0%	100%	15
	CCC	0%	0%	0%	0%	0%	45%	55%	0%	100%	0
	NR	0%	0%	0%	0%	0%	0%	0%	100%	100%	21
	Total	43%	14%	8%	10%	9%	6%	1%	9%	100%	243

Note: Only P&I bonds are included. Rating categories are derived based on worst ratings of Moody's, Fitch, S&P, KBRA and DBRS. Bonds with <1% realized loss. CMBS 2.0 (2010 vintage and later issued non-agency CMBS).
Source: Deutsche Bank, Intex, Bloomberg Finance LP.
Excerpted from Deutsche Bank's "CMBS Ratings Transition, Record Delinquencies and ARD Performance," December 8, 2025.



About this Publication

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