

## RANKINGS

### KKR Took Down Most Risk-Retention Bonds in First Year

During the first year of risk-retention regulations, **KKR** retained more risk to commercial MBS transactions than any other party, according to an analysis by **Commercial Mortgage Alert**.

KKR took down \$948.8 million of risk-retention bonds, or 16.2% of the \$5.9 billion total (see rankings on Pages 31-32). **Rialto Capital** was second, with \$562.3 million of retained paper, followed by **Silverpeak Argentic** (\$516 million).

The risk-retention regulations are aimed at boosting loan quality by requiring lenders to keep “skin in the game” by retaining long-term exposure to 5% of securitizations. CMBS issuers can comply by using any of three deal-structuring options: retaining a vertical strip of bonds (5% of each class), a horizontal strip (the bottom 5% of the deal structure) or an L-shape strip (a combination of the two other options, such as a 2% vertical strip and a 3% horizontal strip).

An issuer can also pass off all or part of the retention requirement to an unaffiliated B-piece investor, which can take down a horizontal strip or the horizontal portion of an L-shape strip. Last year, issuers retained the risk themselves on 62% of issuance and passed off that responsibility to B-piece buyers on the remaining 38%. That’s a higher rate of issuer retention than many observers expected before the rules took effect.

The analysis found that among the 52 conduit transactions last year, issuers used all three structuring options actively: 20 horizontal-strip deals accounted for 38.2% of the \$48.2 billion total; 19 vertical-strip deals supplied 35.8% of the volume; and 13 offerings used the L-shape strip (26.1%). But there was a noticeable shift toward the horizontal-strip option and away from the

#### Risk-Retention Structures

Based on full deal size

	2017 Amount (\$Mil.)	No. of Deals	% of Total
<b>Conduit</b>			
Horizontal	\$18,399.1	20	38.2
Vertical	17,242.1	19	35.8
L-shape	12,577.8	13	26.1
<b>TOTAL</b>	<b>48,218.9</b>	<b>52</b>	<b>100.0</b>

	2017 Amount (\$Mil.)	No. of Deals	% of Total
<b>Single Borrower</b>			
Vertical	\$18,748.9	32	51.4
Horizontal	17,750.7	32	48.6
<b>TOTAL</b>	<b>36,499.6</b>	<b>64</b>	<b>100.0</b>

	2017 Amount (\$Mil.)	No. of Deals	% of Total
<b>Pooled Floating</b>			
Vertical	\$921.3	2	74.6
Horizontal	314.4	1	25.4
<b>TOTAL</b>	<b>1,235.7</b>	<b>3</b>	<b>100.0</b>

L-strip choice as the year went on. In the fourth quarter, 49% of issuance used the horizontal strip, versus only 14% for the L-shape strip.

Among the 64 single-borrower transactions last year, the structures were split almost evenly between two of the options: the vertical strip (51.4%) and the horizontal strip (48.6%).

All told, 119 conduit, single-borrower and pooled floating-rate transactions totaling \$86 billion were subject to the risk-retention rules last year. The issuers themselves assumed the risk on \$53.1 billion, or 61.8%, of the total (including a proportional amount of the deals in which issuers retained vertical components of L-shape strips). Third parties assumed the risk-retention responsibility on the remaining \$32.9 billion, or 38.2%.

All told, 32 firms served as risk-retention parties on the 119 securitizations (some deals had multiple risk-retention parties). Those firms

retained bonds with an aggregate face amount of \$5.9 billion, equal to 6.8% of the \$86 billion of total issuance.

In the ranking of risk-retention parties, KKR, Rialto and Silverpeak were followed by **Wells Fargo** (\$331.1 million), **Deutsche Bank** (\$324.9 million) and **Morgan Stanley** (\$292.6 million). The figures represent the principal balance of retained bonds, not the purchase price.

All of the bonds taken down by KKR, Rialto and Silverpeak were from conduit deals, making them the most-active players in that sector.

**Oxford Properties** took down the most retention bonds from single-borrower deals (\$209 million), followed by **Deutsche** (\$201.5 million) and **Blackstone** (\$181.5 million). ❖