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March 27, 2007

Nancy M. Morris
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549-1090

Re: <u>File Number S7-04-07</u>
<u>Oversight of Credit Rating Agencies Registered as Nationally Recognized Statistical Rating Organizations</u>

Dear Ms. Morris:

The Commercial Mortgage Securities Association (CMSA) submits this supplemental letter in response to the Securities and Exchange Commission's request for comment on proposed rules implementing provisions of the Credit Rating Agency Reform Act of 2006. CMSA submitted preliminary comments on March 12, 2007. Because of the complexity of the issues addressed in the proposed rule, however, we have undertaken additional analysis of the potential implications of its implementation and respectfully request consideration of these additional comments.

CMSA is the global trade organization for the commercial real estate capital market finance industry. The organization's primary mission is to promote the ongoing strength, liquidity, and viability of commercial real estate capital market finance worldwide. Based in New York and with a strong presence in Canada, Europe, and Japan, CMSA is the voice for the industry, with a diverse global membership of over 400 member firms represented by more than 5,000 individuals who actively engage in commercial real estate finance activities. These members embody the full spectrum of the industry, including senior executives at the largest banks and investment banks, insurance companies, investors such as money managers and specialty finance companies, services, rating agencies that rate the credit quality of the investments and other service providers to the industry.

CMSA and its members are the leaders in setting standards and maintaining a favorable investing environment for the $770 billion commercial mortgage-backed securities (CMBS) industry and the $86 billion commercial real estate collateralized debt obligations (CRE CDO) industry. Total issuance of CRE CDOs in 2006 reached $37 billion, up just over 100 percent over 2005 volume of $17.3 billion which, in turn, represented an extraordinary

200 percent growth over 2004. The activity in 2006 alone accounted for just under half (47 percent) of the total issuance volume in CRE CDOs in the past seven years, through 2006.

CMBS are investment vehicles that pool commercial mortgages and issue bonds backed by the individual loans. These vehicles increase the amount of capital available for commercial real estate finance and development, and increase the liquidity of commercial mortgages. CMBS market participants have worked to foster remarkable growth in the CMBS industry. In 1990, less than $5 billion in CMBS were issued. Of the $302.4 billion of new CMBS issued in 2006, $207.3 billion were issued in the U.S. As of March 2, $34.9 billion in new CMBS have been issued so far this year globally. Loans that are pooled for CMBS now represent about 40% of the total commercial real estate financed each year.

As we stated in our letter of March 12, CMSA fully supports the Commission's preliminary determination that it is unfair, coercive, or abusive for an NRSRO to threaten or take a negative action with respect to a structured finance product unless a portion of the assets underlying the structured product are also rated by the NRSRO.

We are very concerned, however, about subparagraph 17g-6(a)(4), which provides that an NRSRO may refuse to initiate a rating or withdraw an existing rating if the NRSRO has rated less than 85% of the market value of the assets underlying the structured product. Based on our analysis, the 85% threshold is too high. Imposition of such a high threshold would create an uncompetitive credit ratings marketplace and serve as a barrier to entry for new NRSROs inconsistent with the Act. Decreased competition within the credit ratings markets would negatively affect the CMBS market, which would continue to be forced to rely on a small pool of credit ratings agencies for its structured finance transactions. In addition, it is unclear how unrated CMBS and CRE CDO's whole loans would be measured under this threshold.

Rather than impose an artificially-created threshold that could do damage to the industry and to investors, CMSA suggests that the SEC allow the market to decide what the threshold should be, as it may be different based on the facts and circumstances of the specific transaction and may also change over time. Imposing a threshold without an acceptance among the rating agencies of their ability to choose to either use another NRSRO's ratings or assign their own ratings, could have a chilling effect on market participants, causing the market to work less efficiently than it currently does. Instead of setting the threshold at a particular level, we recommend that the rating threshold should be determined on a case-by-case basis by the NRSRO involved in the transaction, and set forth in the documents of each structured deal. This allows the parties to a transaction to determine their own level of comfort in terms of ratings, and to price their products and services accordingly.

Barring complete elimination of the threshold, CMSA believes a lower threshold percentage for when an NRSRO is permitted to refuse to rate or withdraw a rating is critical. Based on industry data regarding credit rating agency CMBS market share from 2001- 2006, a super-majority threshold (66%) would be acceptable for this marketplace, thus allowing some flexibility for participants and easing market entry for new players. Below we have summarized the CMBS market share data obtained from RBS Greenwich Capital which combines industry data from RBS and Commercial Mortgage Alert. The industry data, in its entirety, is attached to this letter as Attachment A.

Credit Rating Agency Market Share for CMBS
By Number of Deals Rated

Year	S&P	Moodys	Fitch	Dominion
2006	72%	67%	56%	1%
2005	76	67	52	5
2004	80	69	52	7
2003	74	72	50	2
2002	88	78	45	0
2001	73	72	55	0

As we mentioned in our letter of March 12, we are very concerned about the potential for differing interpretations of the proposed rule among participants in the marketplace. The proposed rule is not clear with respect to the role of a credit rating agency in analyzing an asset-backed security where the credit rating agency rated less than 85% of the underlying assets. It is unclear whether an agency is required to use another agency's rating, whether notching is still allowed, and/or whether credit estimates can be used (with or without additional fees charged). It is our opinion that an NRSRO should be able to accept another NRSRO's ratings if their methodology is similar to their own methodology. It is also our opinion that an NRSRO, only under certain conditions, should be required to accept the ratings of another credit rating agency. We recommend that the Commission clarify this language in the final rule to ensure that industry participants and investors fully understand the value of such a credit agency's analysis.

Finally, we would like to reiterate our suggestion that the proposed rule be revised to refer to "par" value rather than "market" value. "Market" value in the context of bonds is the current quoted price at a given time. We believe "par" value is more appropriate because it is the initial value when the security is issued and rated.

We appreciate the opportunity to file these supplemental comments on this important issue. Thank you for your consideration of the views of CMSA.

Sincerely,

Dottie Cunningham
Chief Executive Officer

US Fixed- & Floating-Rate CMBS Rankings 1995-2006		Rating Agency		
2006	Issuance ($MM)	# Deals	Market Share (%)	Deal Share
S&P	173,914.5	74	83.9%	72%
Moody's	159,144.7	69	76.8%	67%
Fitch	125,860.5	58	60.7%	56%
DBRS	2,141.8	1	1.0%	1%
Total	207,328.3	103	100.0%	100%
2005	Issuance ($MM)	# Deals	Market Share (%)	Deal Share
S&P	146,472.8	75	86.6%	76%
Moody's	134,487.5	66	79.5%	67%
Fitch	99,523.4	51	58.8%	52%
DBRS	11,682.1	5	6.9%	5%
Total	169,169.5	99	100.0%	100%
2004	Issuance ($MM)	# Deals	Market Share (%)	Deal Share
S&P	79,596.0	68	85.5%	80%
Moody's	73,650.4	59	79.1%	69%
Fitch	47,834.2	44	51.4%	52%
Dominion	8,165.2	6	8.8%	7%
Total	93,114.4	85	100.0%	100%
2003	Issuance ($MM)	# Deals	Market Share (%)	Deal Share
S&P	67,534.7	73	86.8%	74%
Moody's	55,356.7	71	71.1%	72%
Fitch	40,053.2	49	51.5%	50%
Dominion	280.1	2	0.4%	2%
Total	77,848.1	98	100.0%	100%
2002	Issuance ($MM)	# Deals	Market Share (%)	Deal Share
S&P	45,983.9	64	88.5%	88%
Moody's	42,209.8	57	81.2%	78%
Fitch	27,163.4	33	52.3%	45%
Total	51,984.6	73	100.0%	100%
2001	Issuance ($MM)	# Deals	Market Share (%)	Deal Share
S&P	50,635.7	72	75.4%	73%
Moody's	49,078.2	71	73.1%	72%
Fitch	42,087.0	54	62.7%	55%
Total	67,149.9	99	100.0%	100%
2000	Issuance ($MM)	# Deals	Market Share (%)	
S&P	30,158.6		64.3%	
Moody's	34,058.4		72.6%	
Fitch	31,624.2		67.4%	
Duff	2,307.4		4.9%	
Total	46,894.4		100.0%	
1999	Issuance ($MM)	# Deals	Market Share (%)	
S&P	33,443.8		58.2%	
Moody's	42,828.1		74.6%	
Fitch	31,033.6		54.0%	
Duff	15,371.3		26.8%	
Total	57,448.5		100.0%	
1998	Issuance ($MM)	# Deals	Market Share (%)	
S&P	45,182.4		60.8%	
Moody's	55,769.6		75.0%	
Fitch	39,923.5		53.7%	
Duff	18,670.1		25.1%	
Total	74,331.7		100.0%	
1997	Issuance ($MM)	# Deals	Market Share (%)	
S&P	23,514.0		63.4%	
Moody's	28,075.5		75.7%	

Fitch	24,165.3		65.1%
Duff	12,003.1		32.4%
Total	37,097.7		100.0%
1996	Issuance ($MM)	# Deals	Market Share (%)
S&P	16,262.1		61.7%
Moody's	8,275.1		31.4%
Fitch	16,786.4		63.7%
Duff	10,838.3		41.2%
Total	26,338.1		100.0%
1995	Issuance ($MM)	# Deals	Market Share (%)
S&P	9,517.9		60.4%
Moody's	3,538.0		22.5%
Fitch	9,052.4		57.5%
Duff	6,682.4		42.4%
Total	15,749.7		100.0%

Source: *Commercial Mortgage Alert and* RBS Greenwich Capital