

Commercial Real Estate Scoring Tool (CREST) Scorecard

An integrated Commercial Real Estate scoring solution for estimating Probability of Default and Loss Given Default



S&P Global

Market Intelligence

The Case for a Single Solution to Commercial Real Estate (CRE) Credit Risk

Appropriate tools for measuring the credit risk of CRE portfolios are of critical importance to many financial institutions. This includes measuring the stand-alone credit risk assessment of individual loans, as well as understanding the impact of recourse/guarantees or structural protections. Assessing risk in the highly cyclical real estate industry is made more complex by the variety of risks inherent in commercial real estate lending, which comprises both Recourse and Non-Recourse financing structures as well as properties across a variety of development phases including:

- Acquisition, development, and construction financing where the source of repayment of the exposure is either the future sale of the property or future property cash flows, and
- Financing of Income-Producing Real Estate and Transitional phase properties.

The CREST Scorecard synthesizes multiple statistically validated probability of default (PD) and loss-given default (LGD) Scorecard methodologies, quantitative and qualitative property-specific risk factors and market benchmarks into a single, robust internal ratings framework, helping you identify and manage CRE loan credit risk.

The CREST Scorecard provides a powerful capability to organizations to consistently measure credit risks across all the different property development phases and financing types as well as all property types that make up commercial real estate, including:



CREST Scorecard Business Applications

CREST provides a granular, objective, consistent and transparent framework for the measurement and assessment of loan credit risk, helping to meet regulatory needs around internal risk rating systems and model risk management. It facilitates multiple business applications, including loan origination and surveillance, credit pricing and portfolio management.

For institutions that rely on their internal rating systems, the Scorecard outcomes can be used to derive an internal rating by mapping the PD

and LGD outputs to their internal rating scales. Alternatively, they can use CREST to benchmark their internal risk rating system to PD and LGD rates linked to S&P Global Ratings historical data.

Since the Scorecard outputs are forward-looking assessments using measures that are sensitive to changes in the CRE market cycles, they are also appropriate for estimation of expected credit losses over a long-term horizon as key inputs for CECL estimation.¹

¹ In addition to CREST, S&P Global Market Intelligence provides CECL Models for Expected Credit Loss Estimation using Probability of Default and Loss Given Default loan-level estimates, which include forecasts of key macroeconomic factors affecting the CRE market outlook.

CREST Scorecard Analytical Framework

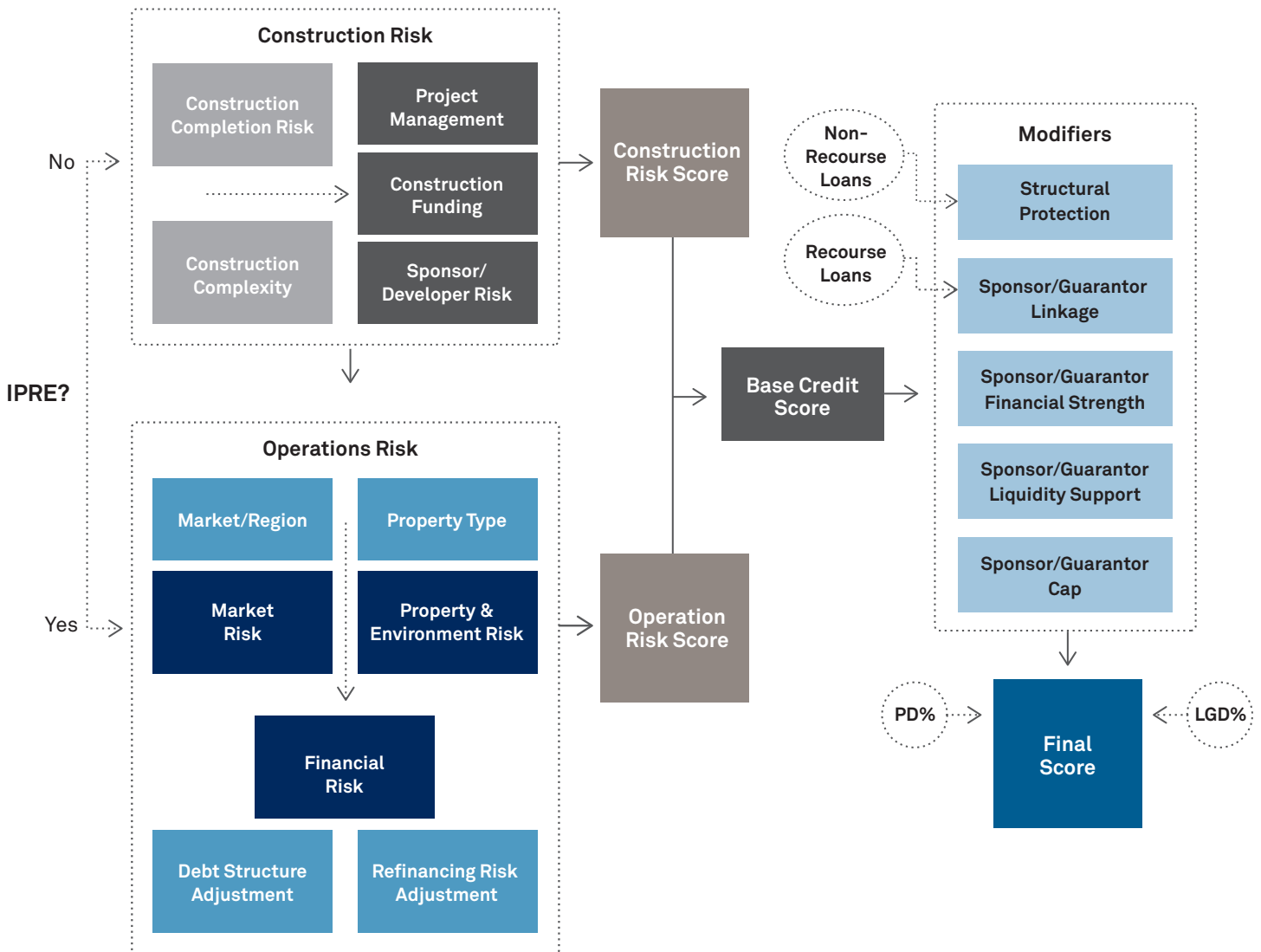
The CREST Scorecard leverages the analytical process of S&P Global Ratings commercial real estate property evaluation to determine an overall CRE risk score, which is ultimately mapped to historical default and recovery data dating back to 1981.

The CREST Scorecard framework is established upon the broad factors that can affect the likelihood of default and recovery of a CRE loan, including the following:

- Construction Risk
- Market Risk
- Property Valuation & Environment Risk
- Financial Risk
- Sponsor/Guarantor Support and/or Structural Protection

The LGD is estimated within the same framework, relying upon the property and market characteristics and Loan-to-Value (LTV), among other factors.

CREST Scorecard Methodology Framework



CREST Scorecard, S&P Global Market Intelligence, 2020, for illustrative purposes only. Omits risk weights and some credit factors necessary to derive the PD and LGD Scores.

CREST Scorecard Product Features and Benefits Summary

Features	Benefits
Consolidates PD and LGD scoring for multiple property types.	Single-source solution for Commercial Real Estate loan credit risk needs.
Includes coverage of acquisition, development and construction financing, transitional and income-producing real estate across property types, financing structures and geographies.	Comprehensive coverage of commercial real estate lending.
Scorecard links empirical default and recovery rates to key explanatory variables at both the property/loan level and market level.	Outputs (credit scores) are mapped to S&P Global Market Intelligence PD and LGD rates and statistically aligned with credit ratings issued by S&P Global Ratings.
Analytical transparency of the methodology is supported by granular scoring criteria and extensive user and technical documentation.	CREST enhances consistency, transparency and objectivity of internal rating systems and facilitates validation of Scorecard use.
CREST outcomes are used for estimation of expected credit losses within loan origination and surveillance, credit pricing and portfolio management, or as key inputs for CECL estimation.	Facilitates multiple business applications and helps meet regulatory needs around internal risk rating systems and model risk management.

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