S&P Sells, Licenses Charter Research CMBS Analytics Unit

Friday, March 03, 2006

Commercial Real Estate Direct Staff Report

Standard & Poor's has sold the computer code and CMBS database that served as the backbone for Charter Research, a CMBS analytics provider.

The move spells an end to S&P's five-year foray into the CMBS analytics business.

The rating agency has sold Charter's computer and analytics models as well as its entire CMBS database to Backshop Inc., a Sausalito, Calif., company that developed a technology platform for mortgage origination and underwriting. And it has signed a licensing agreement with Bloomberg, giving the information services company the ability to offer clients a proprietary CMBS modeling application.

It's not clear yet in what direction Backshop will take Charter's code and data. The company, formed by Jim Flaherty, has thus far focused on marketing its origination platform to lenders. But it is planning to roll out a retail application of its origination platform and might be able to integrate data from the Charter database into that. Or it could decide to get into the CMBS analytics and modeling business itself. As part of its acquisition, Backshop acquired use of the Web address www.cmbs.com. Flaherty said the firm had not yet decided what road to take with its recent acquisition.

Meanwhile, the Charter license gives Bloomberg the ability to offer its clients a full menu of bond modeling capabilities.

Bloomberg already offers proprietary modeling and analytics tools for just about every fixed-income asset class, save CMBS. So it distributed Trepp LLC's models and database through its widely used platform.

By offering its own CMBS models, it could offer clients a more seamless way of analyzing and structuring various types of bonds. Such a tool would be especially useful for players in the collateralized debt obligation field. Instead of using Bloomberg to analyze asset-backed securities and residential bonds that would be going into a CDO, and Trepp for the issue's CMBS, a user would be able to use Bloomberg's tools to analyze all the assets of a proposed deal.

As part of its licensing agreement with S&P, two senior executives who worked on Charter, Ajay Bhandaram and Steve Baumgartner, have joined Bloomberg. Bhandaram joined S&P in 2001 when it acquired Charter, while Baumgartner joined a couple of years later. Both were instrumental in developing enhancements to the core Charter product, Conquest.

On the face of it, the Bloomberg licensing agreement would be problematic for Trepp, which is perhaps the widely used industry analytics offering. In fact, some argue that its distribution via Bloomberg gave it the dominance it enjoys.

But executives at both Trepp and Bloomberg downplayed the issue. For starters, Trepp is no longer solely reliant on Bloomberg for distribution. It has developed an efficient Internet-based platform and has migrated many of its clients to that. And Bloomberg will continue to distribute Trepp as well.

"We have an excellent relationship with Bloomberg," said Andrew Leibman, senior vice president of Trepp. "We expect to be on their platform for many years to come," said

And a Bloomberg executive said the idea to license Charter was never to replace Trepp. Rather it was an effort to gain flexibility to develop additional tools for clients. What's more, they say that many users of CMBS analytics platforms subscribe to more than one.

The licensing agreement and sale bring to an end S&P's five-year experiment in the CMBS analytics and modeling business. The rating agency had acquired Charter in 2001 from its founder, Michael Ervolini, for what is widely believed to have been $11 million.

But S&P didn't have an easy time with the unit. Even before its purchase, market players say that Charter lost its focus. Instead of concentrating on improving the core analytics product, the company turned its attention to finding a buyer. Charter's competitors, Trepp and Intex, took advantage and won over many of its customers.

S&P then funded a massive overhaul of Charter's core product, Conquest. Some say a total of $10 million was invested in upgrades. But that might have been too late.

Two years ago, S&P sharply cut back funding for the product, moving operations to New York from Boston and letting go most of the executives in charge of the unit.

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