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July 26, 2010

The Honorable Barney Frank
Chairman
Committee on Financial Services
2129 Rayburn House Office Building
Washington, DC 20515

The Honorable Spencer Bachus
Ranking Member
Committee on Financial Services
2128 Rayburn House Office Building
Washington, DC 20515

RE: CRE Finance Council Support for H.R. 5823

Dear Chairman Frank and Ranking Member Bachus:

The Commercial Real Estate (CRE) Finance Council applauds efforts by House Financial Services Capital Markets Subcommittee Ranking Member Scott Garrett (R-NJ), Subcommittee Chairman Paul Kanjorski (D-PA) and Ranking Member Spencer Bachus (R-AL) to facilitate a U.S. covered bond market. In this regard, the Council strongly supports H.R. 5823, the “*U. S. Covered Bond Act of 2010*,” which includes high quality commercial mortgages and commercial mortgage-backed securities (CMBS) as eligible collateral in a newly created framework for covered bonds.

As introduced, H.R. 5823 would enable insured depository institutions (IDI) and holding companies to access an additional source of liquidity through a covered bond market at this critical time. Such an alternative helps IDI’s raise much needed capital to fund commercial real estate loans (CRE loans), and in turn, support a recovery in the CRE market.

Commercial real estate has helped fuel our nation’s economic growth over the past two decades while providing jobs and services to local communities, as well as housing for millions of Americans in multifamily dwellings. However, the CRE market has been greatly impacted by the recent downturn in the economy – including high unemployment, low consumer confidence and falling property values. These challenges are compounded by the fact that more than \$1 trillion in commercial mortgage loan maturities come due in the next several years (most of which face an “equity gap” between property value and loan amount), while at the same time, the CMBS market – which accounted for nearly 50 percent of all CRE lending in 2007 – is still largely dormant.

Although the CMBS market is showing some signs of life, tremendous uncertainty remains in the market, depriving the market of this important source of capital for lending. As such, the CRE Finance Council supports efforts to facilitate a U.S. covered bond market in order to promote CRE lending and investing. At the same time, the Council notes that covered bonds should not and cannot replace CMBS as a capital source for the commercial mortgage market.

As the Council testified before this Committee in December 2009,¹ a covered bond market would provide another source of liquidity for financial institutions to help raise much needed capital to fund commercial real estate loans. However, legislation is needed to create a robust covered bond market. In this regard, H.R. 5823 would offer the degree of assurance the markets need by ensuring that assets securing covered bonds will go to bondholders, as contractually required; rather than to the Federal Deposit Insurance Corporation (FDIC) in the event of an issuing bank default. Facilitating a covered bond market for CRE loans would be an additive and timely tool for the market at this challenging time.

Further, it should be noted that commercial mortgages and CMBS are already permitted in covered bond pools in most European jurisdictions, which offer the appropriate and necessary regulatory treatment (including appropriate capital requirements) to both facilitate the market and better serve consumers and businesses seeking access to credit. In order to be globally competitive, any U.S. covered bond regime should include commercial mortgages and CMBS; thus giving American consumers and businesses access to the same sources of credit available to foreign counterparts.

Although there is no single solution to revive commercial real estate and overall credit markets, it is critical that policymakers consider H.R. 5823 and other measures that will help revive our economy. As such, the CRE Finance Council strongly supports H.R. 5823 to facilitate a U.S. covered bond market. Such a measure would support commercial real estate, a broader U.S. economic recovery, and help to better serve American consumers and businesses seeking access to credit.

We appreciate the Committee's efforts, and stand ready to work with you on these issues.

Sincerely,



Dottie Cunningham
Chief Executive Officer
CRE Finance Council



Brendan Reilly
Senior Vice President,
Government Relations
CRE Finance Council

¹ The CRE Finance Council was formerly known as the Commercial Mortgage Securities Association, and provided its December 2009 testimony under that name.