



June 16, 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

Dear Chairman Frank and Ranking Member Bachus:

The Commercial Real Estate Finance Council welcomes efforts by Rep. Walt Minnick's (D-ID) to address commercial real estate by offering an amendment to H.R. 5297, the "Small Business Lending Fund Act of 2010," that would include small commercial mortgages in the underlying legislation.

As introduced, H.R. 5297 would create a \$30 Billion program intended to support community banks and to incentivize small business lending. The Minnick amendment is a direct and straightforward approach that would extend the program to commercial real estate loans at a time of significant strain in this sector for small businesses and community banks. If passed and structured appropriately, it could support the private market for small commercial mortgages at this challenging time.

Over the last two decades, commercial real estate has helped fuel our nation's economic growth, while providing jobs and services to local communities, as well as housing for millions of Americans in multi-family dwellings. Today, commercial real estate has been greatly impacted by the 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, while stress is more acutely experienced by smaller financial institutions and businesses.

At the same time, financing for commercial real estate (particularly the smaller loan market that serves small businesses) has been limited with the commercial mortgage-backed securities (CMBS) market – which accounted for nearly 50 percent of all CRE lending in 2007 – still largely dormant. Traditionally, the average loan size in CMBS is approximately \$8 million, and today there are more than 40,000 CMBS loans with less than \$10 million that have a combined outstanding balance of \$158 Billion. With limited lending by the CMBS participants, a key outlet for "takeout" finance (e.g. construction loans after projects are completed) has been significantly reduced, if not completely eliminated, for small institutions, further restricting credit availability.

Although the CMBS market is showing some signs of life, there remains tremendous uncertainty in the market, as the small loan market continues to deteriorate and place additional pressure on small and regional banks. In fact, today more than 1,500 additional U.S. banks (mostly smaller community banks) have commercial real estate exposure greater than 300% of tier 1 capital, meaning they are at risk according to the FDIC. This debt (mostly construction, land loans, etc) is not securitized and represents the most distressed loans in commercial real estate, and it is held mostly by smaller financial institutions.

Without a vibrant CMBS market, smaller banks will continue to suffer and the smaller loan market (important to more local and regional communities) will remain strained, creating a troubling effect on local communities and the overall economy. As such, policymakers have correctly recognized that no recovery will be successful unless it restarts the secondary market for commercial mortgages.

In the meantime, the Council supports Congressman Minnick’s efforts to clarify the definition of “small business lending” to incorporate commercial real estate loans in the program and to provide an additive tool for recovery. Such an amendment could support efforts to facilitate credit availability in the commercial mortgage market for small businesses, as the market begins to stabilize in local communities. The Council also notes that, if passed, the measure must be structured carefully to promote private lending by all small business lenders, including both community banks and other financial institutions, and to maintain a level playing field among other lenders who are also active in this market, such as small and medium-sized life insurance companies, among others. We support the good intentions of the amendment and would encourage policymakers to consider how these goals could be best accomplished to support small businesses.

While there is no “silver bullet” that will help support a commercial real estate recovery or a revival of the CMBS market, it is important to consider measures similar to the Minnick amendment intended to:

- Create a new source of capital for CRE at a time of significant stress for community banks;
- Recapitalize small banks in order to promote increased CRE lending to small businesses;
- Refuel the flow of credit in local communities that is critical to supporting job growth;
- Reduce additional losses to FDIC’s Deposit Insurance Fund (DIF); and
- Clear the path for a successful commercial real estate recovery.

Accordingly, the CRE Finance Council supports Rep. Minnick’s efforts to promote a commercial real estate market recovery while supporting small businesses and community banks. We appreciate your efforts, and stand ready to work with you on these issues.

Sincerely,



Dottie Cunningham
Chief Executive Officer



Brendan Reilly
Senior Vice President,
Government Relations