



30 Broad Street, 28th floor, New York, NY 10004
Tel: 212.509.1844 Fax: 212.509.1895
www.crefc.org

May 3, 2011

The Honorable Scott Garrett
Chairman
Subcommittee on Capital Markets &
Government Sponsored Enterprises
2244 Rayburn House Office Building
Washington, DC 20515

The Honorable Maxine Waters
Ranking Member
Subcommittee on Capital Markets &
Government Sponsored Enterprises
2244 Rayburn House Office Building
Washington, DC 20515

RE: CRE Finance Council Support for H.R. 940

Dear Chairman Garrett and Ranking Member Waters:

The Commercial Real Estate (CRE) Finance Council applauds the bipartisan efforts of Chairman Scott Garrett and Representative Carolyn Maloney to facilitate the creation of a U.S. covered bond market. In this regard, the CRE Finance Council strongly supports H.R. 940, the “*U. S. Covered Bond Act of 2011*,” which includes high quality commercial mortgages and commercial mortgage-backed securities (CMBS) as eligible collateral in a newly created framework for covered bonds. As such, we encourage the Members of the Subcommittee on Capital Markets and Government Sponsored Enterprises to vote to support passage of H.R. 940.

As introduced, H.R. 940 would enable insured depository institutions (IDI) and holding companies to access an additional source of liquidity through a covered bond market. The development of a covered bond market provides an alternative means for IDIs to raise the capital needed 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 was 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 CRE mortgage loans are scheduled to mature 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 slowly showing signs of recovery. Last year, the CMBS market accounted for \$11.6 billion in issuance, and this year we expect \$35 billion in CMBS.

Although the CMBS market is starting to recover, 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 we 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 CRE loans. However, legislation is needed to create a robust covered bond market. In this regard, H.R. 940 assures the markets that in the event of an issuing bank default, the CRE assets securing covered bonds will be allocated to bondholders, as contractually required, rather than to the Federal Deposit Insurance Corporation (FDIC). 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 CRE mortgage loans 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. 940 and other measures that will help revive our economy. 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,



Stephen M. Renna
Chief Executive Officer
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.

CC: The Honorable Spencer Bachus
The Honorable Barney Frank
The Honorable David Schweikert
The Honorable Peter King
The Honorable Edward Royce
The Honorable Frank Lucas
The Honorable Donald Manzullo
The Honorable Judy Biggert
The Honorable Jeb Hensarling
The Honorable Randy Neugebauer
The Honorable John Campbell
The Honorable Thaddeus McCotter
The Honorable Kevin McCarthy
The Honorable Stevan Pearce
The Honorable Bill Posey
The Honorable Michael G. Fitzpatrick
The Honorable Nan A. S. Hayworth
The Honorable Robert Hurt
The Honorable Michael G. Grimm
The Honorable Steve Stivers
The Honorable Gary Ackerman
The Honorable Brad Sherman
The Honorable Rubén Hinojosa
The Honorable Stephen Lynch
The Honorable Brad Miller
The Honorable Carolyn Maloney
The Honorable Gwen Moore
The Honorable Ed Perlmutter
The Honorable Joe Donnelly
The Honorable Andre Carson
The Honorable Jim Himes
The Honorable Gary Peters
The Honorable Al Green
The Honorable Keith Ellison