2/1/10: Kanjorski and Calvert Lead Congressional Effort Urging Federal Regulators to Address Growing Commercial Real Estate Market Concerns

WASHINGTON - Today, Congressman Paul E. Kanjorski (D-PA), Chairman of the House Financial Services Subcommittee on Capital Markets, Insurance, and Government Sponsored Enterprises, and Congressman Ken Calvert (R-CA), along with 77 of their House colleagues, sent a bipartisan letter to Treasury Secretary Timothy Geithner and Federal Reserve Chairman Ben Bernanke about the growing concerns that deteriorating conditions in the commercial real estate (CRE) market may threaten an economic recovery.

"The growing bubble in the commercial real estate industry has the potential to infect our economy and slow a recovery," said Chairman Kanjorski. "In order to safeguard the businesses operating on Main Street and protect the millions of jobs depending on commercial real estate, the Treasury and the Federal Reserve now must take needed and urgent action to stave off a potentially devastating wave of commercial real estate foreclosures and bank losses."

"I am deeply concerned about the health of our commercial real estate market and the stability of thousands of small businesses across the country," said Congressman Calvert. "We must take the appropriate steps to ensure that our commercial real estate market does not experience a liquidity crisis that would further exacerbate our struggling economic situation."

"A liquidity crisis in the commercial real estate market is hurting small business owners across the entire nation," said National Association of REALTORS President Vicki Cox Golder, owner of the commercial real estate company Cox & Associates in Tucson, Arizona. "I join with all commercial property owners who applaud the efforts of Reps. Calvert and Kanjorski to resolve this problem and put small business owners back in business."

Specifically, the letter asks regulators to take the following steps:

- Establish a clear method for measuring and evaluating the effectiveness of recent CRE loan modification guidance issued by the regulators.

- Institute metrics to more clearly differentiate performing versus non-performing loans as well as any other steps that provide lending institutions with more confidence in assessing CRE loans.

- Make clear public statements encouraging lenders to continue to make credit available for performing assets as a means of restoring confidence and long-term value in the CRE market.

The $6.7 trillion CRE sector supports 9 million American jobs. If the conditions in the CRE market deteriorate further the negative effects will be significant and widespread, rippling not only through the CRE sector but also the broader economy. More than $1.4 trillion in commercial mortgages will come due by 2013, and as much as 65% of those deals will have trouble getting refinanced according to recent analysis conducted by Deutsche Bank. While the Federal Reserve and Treasury Department have acknowledged the ongoing CRE challenges, their actions have so far failed to ease growing concerns among economists and market participants.

The text of Congressmen Kanjorski and Calvert's letter which is signed by an additional 77 Members of Congress to Secretary Geithner and Chairman Bernanke from February 1 follows:

Dear Secretary Geithner and Chairman Bernanke:

As you know, the financial crisis continues to have a dampening effect throughout the credit markets. The commercial real estate (CRE) market, in particular, continues to experience difficult credit accessibility conditions. Moreover, the scarcity of credit in the $6.7 trillion CRE sector poses a dangerous threat to our financial system just as our economy has begun to show signs of recovery.

Earlier this month real estate data provider Trepp announced that the delinquency rate for loans underlying commercial mortgage-backed securities (CMBS) ballooned 500 percent in 2009, surpassing 6 percent in December for the first time. Additionally, the CMBS market has all but shut down over the past year making it more difficult for CRE owners to sell or refinance.

We appreciate the acknowledgement by federal regulators of this situation in October, when the Board of Governors of the Federal Reserve System, along with the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, the National Credit Union Administration, and the Office of Thrift Supervision, issued a policy statement advising financial institutions to extend and/or restructure loans backed by income-producing and/or development properties whenever possible in order to minimize losses as well as to stabilize overall asset values in the communities they serve.

While the regulatory guidance is a relatively recent occurrence, we remain concerned by early indications that it may not yet be having the desired impact in stabilizing the CRE market. While some properties are in desperate need of modification due to the economic downturn, we are not convinced these loans are being serviced properly or in an efficient manner. Of even more concern, anecdotal evidence suggests that regulators continue to encourage lenders to write down the value of performing loans, whose payments may well be current and, in some instance, even call the loan. This further exacerbates the crisis by creating defaults in properties that were able to meet their debt servicing.

To ensure the recent CRE loan modification guidance will have a positive and stabilizing effect, and to protect the broader economy from further disruptions, we urge you to establish a clear method for measuring and evaluating its effectiveness. Furthermore, we encourage you to institute metrics to more clearly differentiate performing versus non-performing loans as well as any other steps that provide lending institutions with more confidence in assessing CRE loans. We also call upon you to make clear public statements encouraging lenders to continue to make credit available for performing assets as a means of restoring confidence and long-term value in the CRE market.

In sum, we strongly believe that regulators must take continued steps to mitigate ongoing turmoil in the CRE sector before it becomes a full-fledged crisis, forestalls our economic recovery, and possibly requires additional taxpayer-funded capital injections. Consistent with all applicable law and regulation, thank you for the consideration of our views and your attention to these matters.

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