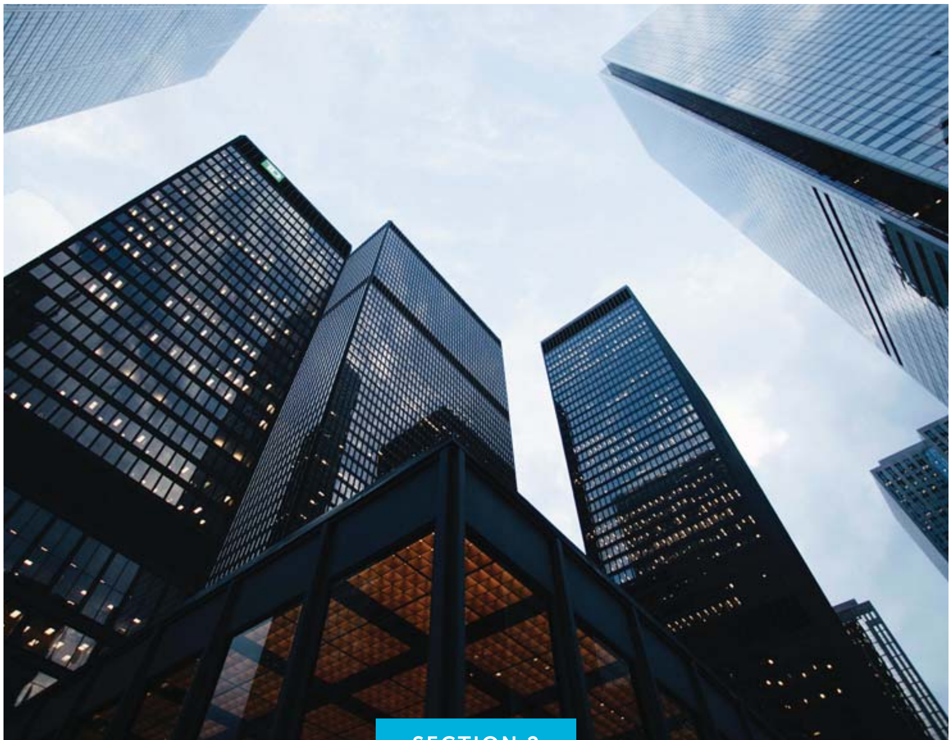


SECTION 2

CREDIT & CAPITAL

Balancing Risk Management and Growth: Responsible Financial Services Reform

Economic growth, job creation, and a sustainable real estate sector all require reliable credit capacity, capital formation, and liquid markets. They are the prerequisites of a healthy economy. Commercial and multifamily real estate make a significant contribution to the nation's GDP – employing millions of people and producing approximately 70% of tax revenue for state and local governments for essential public services. Without adequate credit capacity for this important sector, jobs and tax revenue will be lost.

The Roundtable supports efforts to ensure the safety and soundness of the banking system and promote economically responsible lending that reflects sound underwriting and risk management practices. However, the Roundtable remains concerned about the negative impact that new financial regulations could have on bank lending and overall real estate liquidity.

> **A healthy economy requires reliable credit capacity, capital formation, and liquid markets.**

As such, policymakers should carefully monitor the cumulative impact that post-crisis legislative and regulatory changes have on commercial real estate capital markets and overall credit capacity to ensure that they do not create impediments to economic growth.

As financial institutions absorb a multitude of overlapping laws and regulations enacted in response to the financial crisis, the Roundtable remains focused on enacting responsible, carefully targeted reforms to Dodd-Frank and Basel III that encourage a sensible financial regulatory framework permitting stable capital formation and balanced and disciplined lending.

In particular, policymakers should consider balanced reforms to certain provisions of Basel III and Dodd-Frank – including:

- Dodd-Frank Risk-Retention Rules
- Dodd-Frank Volcker Rule
- Basel III High Volatility Commercial Real Estate (HVCRE)
- Basel III Liquidity Coverage Ratio rule (LCR)
- Basel III Net Stable Funding Ratio (NSFR)

Such reforms will aid job creation, economic growth and investment in the U.S. economy.

Supporting Job Creation and Economic Growth through Commercial Real Estate Acquisition, Development, and Construction Lending

Commercial banks represent our nation's largest source of financing for commercial real estate. Current regulation affecting certain acquisition, development or construction loans (ADC) limits the ability of banks to support and fund our country's growing real estate needs. This result has negatively impacted ADC loan decisions for some banks, leaving some borrowers with fewer and potentially more costly sources of ADC loan capital. A slowdown in ADC lending has the potential for broader economic impact.

Bank regulations must be structured to permit appropriate credit capacity for our nation's real estate to grow. But a lack of clarity in financial regulation governing ADC lending has deterred many banks from making commercial real estate ADC loans.

Instead of responding to requests for clarification of the HVCRE rules, the regulators issued a Notice of Proposed Rulemaking (NPR)[1] on October 27, 2017. The NPR would replace the definition of a HVCRE exposure in the standardized approach with a new High Volatility Acquisition, Development, or Construction (HVADC) exposure category.

Without one framework that would apply to both HVCRE and HVADC exposures, banks face the challenge of coordinating the respective risks of HVCRE and HVADC exposures, continuing the disruption between banks and developers over development and/or construction financing and hampering multibank syndication of larger deals.

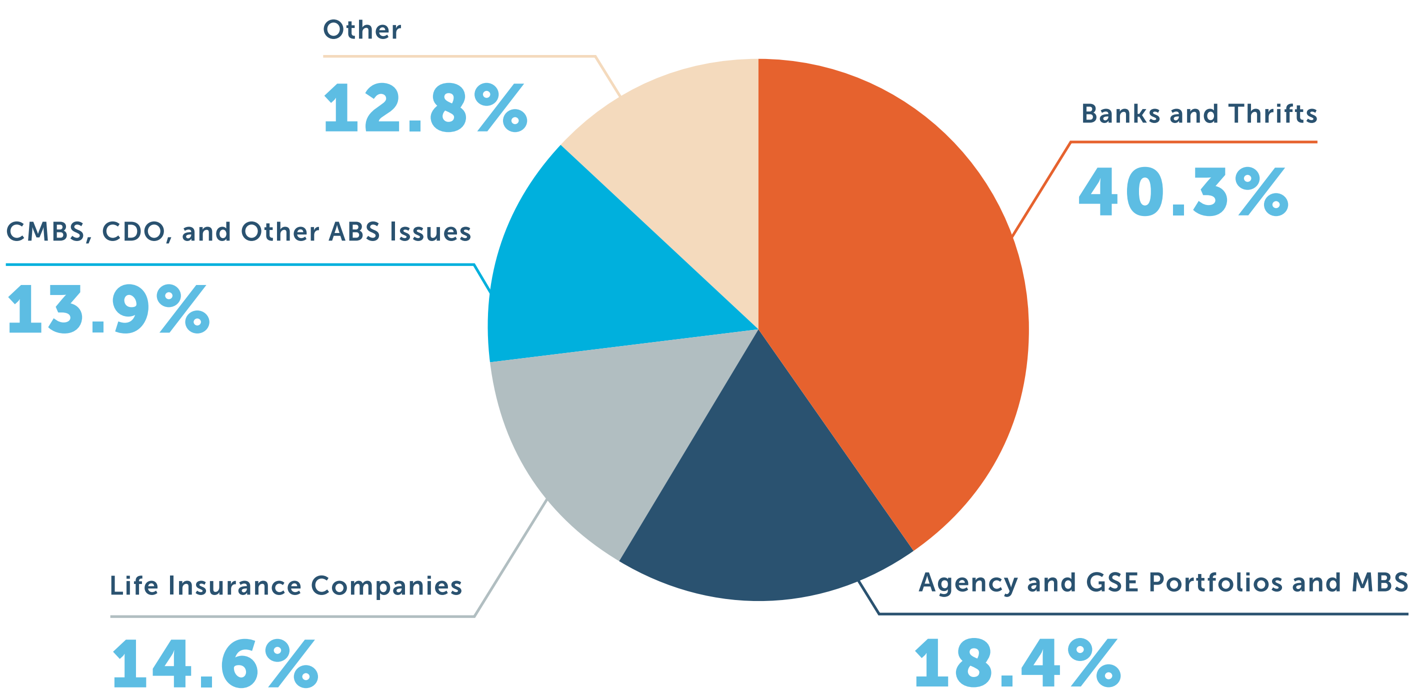
The Roundtable recommends establishing a single, coordinated framework that applies to the risk targeted by HVCRE and HVADC so that one framework applies to both advanced approach and standardized approach banks. Regulators should immediately clarify and amend key aspects of the rules that impact commercial real estate lending in four main areas:

RULE CHANGES FOR REAL ESTATE LENDING:

1. Prohibition of withdrawal of internally generated capital;
2. Bank confusion on interpretation of the rules;
3. Use of "as completed" appraisal values for initial equity determination; and,
4. Recognition of appreciated land value.

U.S. COMMERCIAL & MULTIFAMILY REAL ESTATE DEBT

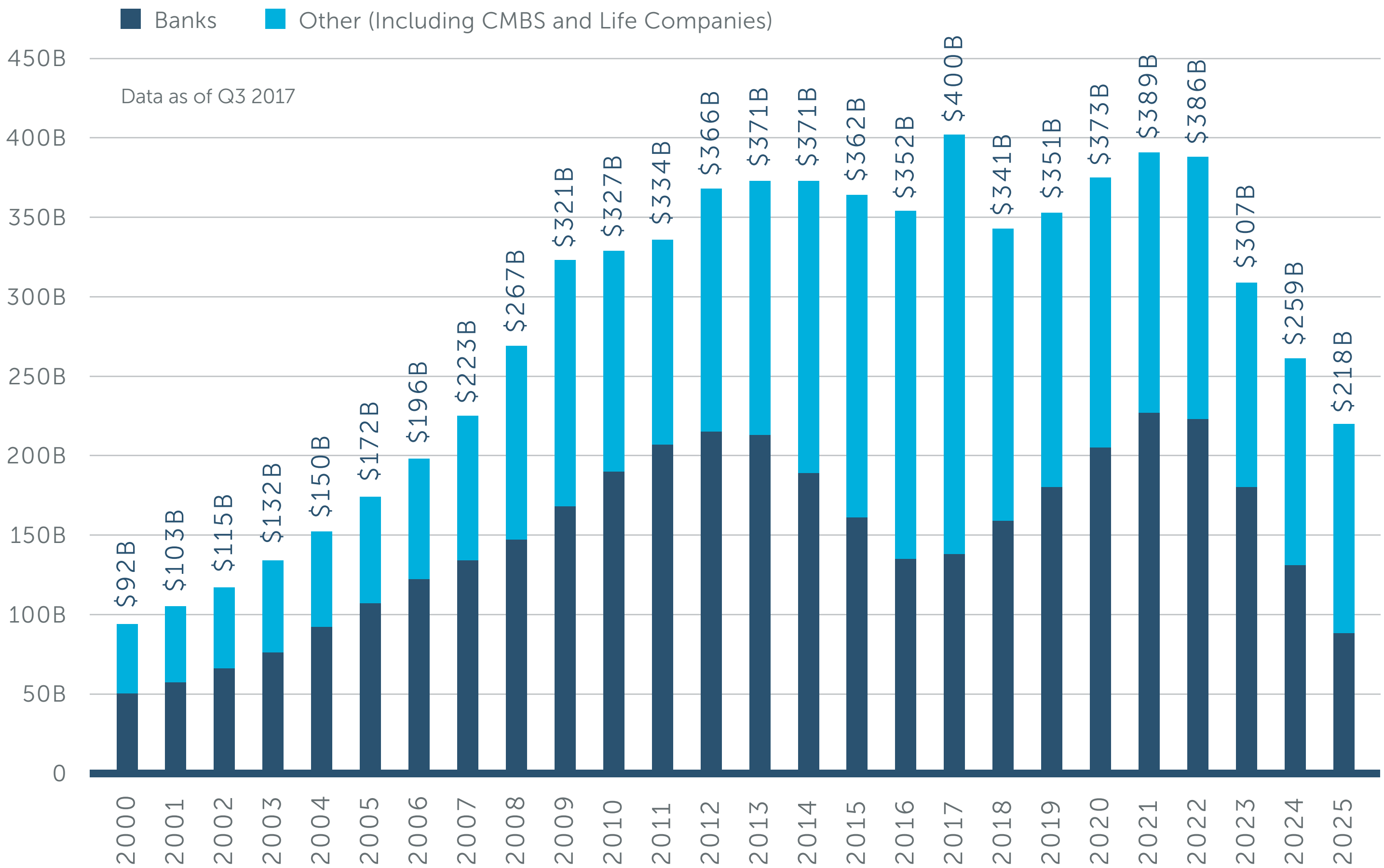
Source: MBA



[1] "Simplifications of and Revisions to the Capital Rule related to High Volatility Acquisition Development or Construction (HVADC) Exposures"

$1 BILLION MATURING DAILY IN 2016-2018

Source: Trepp



The Roundtable also supports a bipartisan measure that passed the U.S. House of Representatives – Clarifying High Volatility Commercial Real Estate Loans (H.R. 2148) – that would address this regulatory problem. This important legislation does not eliminate the Agencies' ability to require banks to hold higher capital for HVCRE loans. Rather, the bill provides the clarity which the Agencies have yet to provide, including which types of loans should and should not be classified as HVCRE loans.

U.S. regulatory agencies should take appropriate steps to clarify certain regulation related to High Volatility Commercial Real Estate bank lending to ensure that the rules do not impede credit capacity or economic activity. We encourage the Agencies to review the language in H.R. 2148 and utilize such an approach to clarify the current HVCRE rules and build on this construct in a new consolidated HVCRE/HVADC rule.

Reforming the Government Sponsored Enterprises (GSEs)

The housing market is vital to the American economy, and requires a sound and reliable finance system to provide Americans with the credit they need, while protecting taxpayers. Some ten years after the federal takeover of Fannie Mae and Freddie Mac, there is broad consensus on the need to restructure the nation's housing finance system but no agreement on how to move forward. As policymakers turn to addressing this problem, the Roundtable will continue to work to find an economically viable approach to restructuring the GSEs and reforming the housing finance system.

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Regulators have failed to clarify existing HVCRE rules despite a multiplicity of comments requesting such action.

Funding U.S. Infrastructure Needs: Reforming the EB-5 Visa Program

Consistent with our goals of promoting economic growth and capital formation, the Roundtable supports reforms to the EB-5 investment program that deter investor fraud, safeguard national security, and promote both urban and rural development. The EB-5 investor visa program facilitates much needed financing and economic growth by attracting foreign investment. The EB-5 extension should be long-term (at least five years) to maximize the program's job-creation potential, include fair and balanced targeted employment area reforms, and support infrastructure projects. The current cycle of short-term "patches" lasting only several months must end, as it creates uncertainty for businesses and investors.

THE IMPORTANCE OF NATIONAL FLOOD INSURANCE

Floods are the most common and most destructive natural disaster in the U.S., and there is limited private market capacity to manage their risk. Since 1968, the National Flood Insurance Program (NFIP) has offered protective coverage for homeowners, renters and small businesses. The Roundtable supports long-term reauthorization and reform of the NFIP as well as efforts to expand private market protections.

2017 Roundtable Meeting