Capital & Credit

The Roundtable remains focused on advocating policy measures that maintain reliable credit capacity, capital formation, and effective risk management tools vital to liquidity, while minimizing regulatory overreach.

Working with a Republican-controlled Congress, the Trump Administration enjoys an opportunity to provide the business community with regulatory relief on a number of key areas, including financial services issues. The President's economic team is focused on enacting measures to help grow the economy, including efforts to reduce regulations viewed as burdensome or hindering economic growth.

Focusing on the Cumulative Impact of Regulation

The Roundtable continues to raise concerns with policymakers about the cumulative impact that a number of rules are having on real estate credit capacity, liquidity, and capital formation. The Roundtable's specific concerns center on various Dodd-Frank and Basel rules including the following:

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

The Roundtable encourages policies that provide relief from overly restrictive regulation and support measures that would encourage capital formation, balanced lending and investments in the U.S. economy while fueling job creation and economic growth.

Volcker Rule Reform

On May 30, 2018, the Federal Reserve and other financial regulatory agencies proposed a revision to the 964-page Volcker rule – one of the most controversial rules developed under the Dodd-Frank Act. The nearly 400-page proposal, known as Volcker 2.0, would allow banks to do limited trading for themselves and to hold interests in hedge funds and private equity funds to hedge risk on behalf of non-bank clients. If adopted, this proposed revision is expected to enhance liquidity to commercial mortgage backed securities (CMBS) markets.

In a 2012 comment letter to Federal Reserve and other financial regulatory agencies, the Roundtable raised concerns about the unintended consequences of the Volcker rule that could "negatively impact liquidity and capital formation in commercial real estate".

Supporting the Revision of the Basel III High Volatility Commercial Real Estate Rule

On May 22, 2018, the House passed the bipartisan Economic Growth, Regulatory Relief, and Consumer Protection Act (S. 2155) by a vote of 258 to 159. The President signed the measure into law on May 24, 2018.

This bipartisan legislation is a step towards right-sizing regulations on community and regional banks and will help clarify and promote sustainable acquisition, development and construction and lending.

Sec. 214 includes the *Clarifying Commercial Real Estate Loans* language from the bipartisan, House-passed H.R. 2148 and S. 2405 clarifying the treatment of High Volatility Commercial Real Estate (HVCRE) and High Volatility Acquisition, Development or Construction (HVADC) loans, which is negatively affecting certain commercial real estate loans and impairing economic growth.

Importantly, the measure will restore to borrowers the ability to offer appreciated land value as equity to banks, when validated through appraisal practices established in earlier statutes.

The Roundtable strongly supported this legislation which clarifies that:

- The 15% equity requirement will be revised to expressly include contributed land/property at the appreciated land value as determined by a FIRREA appraisal and bank review (versus the cost basis under the current rule).
- Loans made to acquire existing property with rental income and/or do cosmetic upgrades and other improvements don't trigger the capital penalty.
- A new exemption would be added to the HVCRE rule covering acquisition/refinancing loans for performing income-producing properties.
- Borrowers may use internally generated capital in the project and, once the development/construction risk period has passed, outside the project, rather than forcing them to refinance the loan (possibly away from the original lender).
- All ADC loans made prior to January 2015 would be grandfathered and do not have to satisfy current HVCRE exemption criteria.
- Banks would be able to withdraw HVCRE status prior to the end of an ADC loan's term.

Reforming the Government Sponsored Enterprises (GSEs)

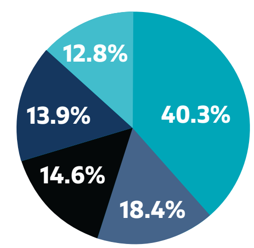
Ten years after the GSEs—Fannie Mae and Freddie Mac—were put into conservatorship, the U.S. housing finance system still has not been reformed. GSE reform remains a top priority for the Trump Administration, House Financial Services Committee Chair Jeb Hensarling (R-TX), Senate Banking Committee Chair Mike Crapo (R-ID), Senator Mark Warner (D-VA) and others.

However, deadlock continues over the somewhat conflicting goals of increasing investment in lower income housing and reducing taxpayer risk.

Successful reform should meet the housing finance needs of the American economy while protecting the taxpayer. The Roundtable encourages lawmakers to build upon successful risk sharing mechanisms and products by employing the existing multifamily finance structures being utilized by Fannie Mae and Freddie Mac.

U.S. COMMERCIAL & MULTIFAMILY REAL ESTATE DEBT

Source: Mortgage Bankers Association



- **40.3% ›** Banks and Thrifts
- **18.4% ›** Agency and GSE Portfolio and MBS
- **14.6% ›** Life Insurance Companies
- **13.9% ›** CMBS, CDO, and Other ABS Issues
- **12.8% ›** Other

Terrorism Risk Insurance Program

The Terrorism Risk Insurance Program Reauthorization Act of 2015 (TRIPRA) will expire on December 31, 2020 without Congressional action. TRIPRA is essential for commercial real estate. In order to finance a commercial property, lenders require "all risk" insurance coverage—including terrorism coverage—to cover the risk of loss of the collateral. Commercial real estate liquidity depends on adequate terrorism insurance capacity. Terrorism continues to pose a clear and present danger to our nation and to the American economy.

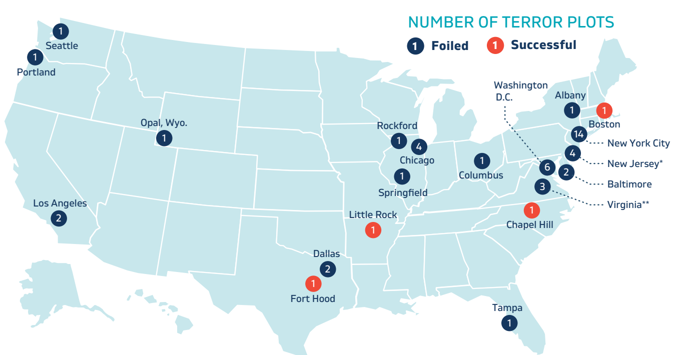
The Roundtable is focused on developing an effective, long-term approach for a federal terrorism risk insurance program. Such a long-term program should enable policyholders to secure the terrorism risk coverage they need without facing periodic renewals by the federal government.

Advocating for Reform and Extension of the EB-5 Program

Partnering with the U.S. Chamber of Commerce, the EB-5 Investment Coalition, and other groups, The Roundtable continued to urge responsible reforms to the EB-5 program to attract foreign investment capital for U.S. economic development projects. Our efforts resulted in another program extension, through September 30, 2018—the thirteenth extension authorized by Congress since the fall of 2015. We will continue to advocate for responsible and long overdue EB-5 reforms for a multi-year authorization—including significant "integrity measures" to safeguard national security and deter fraud, and provisions that strike the proper balance to drive foreign capital to urban and rural projects alike.

TERRORISTS HAVE TARGETED LOCATIONS ACROSS THE U.S.

This map locates 49 specific sites targeted for terror attacks since September 11, 2001. More than 10 additional plots with no clear target were also foiled.



* Newark, Perth Amboy, and Trenton

** The Pentagon (2) and Quantico Marine Corps Base

Source: Heritage Foundation research based on media reports and court documents.

Energy and Infrastructure

The Roundtable continues to drive federal policies that support the business case for energy efficiency in U.S. buildings.

Since the passage of tax reform, the Trump Administration has outlined priorities for infrastructure that will create jobs and further stimulate the American economy generally and the real estate sector specifically. The Roundtable actively participates in discussions with Congress and the Administration to emphasize that thriving real estate markets are essential to help finance the roads, bridges, transit, telecommunications, power delivery, and other systems that make our communities function. Indeed, an infrastructure package is commonly touted as a possible area for bipartisan action after the 2018 midterm elections. Focusing on energy and infrastructure goals supports economic development and job growth while improving the resiliency of commercial real estate (C.R.E.).

"People at RER are experts on energy. They're really good at what they do."

— Senior Federal Policymaker (D) (*National Journal* study on the most effective advocates in Washington)

ACCOMPLISHMENTS IN 2018

Preserving Funding for the ENERGY STAR Program

This year, The Roundtable continued its strong support for ENERGY STAR, the voluntary market-driven program run by the U.S. Environmental Protection Agency (EPA) that imposes no federal regulations on the real estate industry. Established in the 1990s, it is a proven platform for building owners and managers to label their assets as top energy efficiency performers as a signal to investors and tenants in the C.R.E. marketplace. The EPA estimates that 44 billion square feet of commercial floor space—about half of U.S. C.R.E.—use "Portfolio Manager," ENERGY STAR's free online tool, to measure and manage energy, water, and waste consumption.

The Roundtable has rallied real estate organizations to support continued federal appropriations for ENERGY STAR, making a strong business case that the program creates jobs, enhances competitiveness,

In 2018, senior policymakers rated RER the most influential real estate association in Washington.

***National Journal*'s Ballast Research surveys more than 2000 senior policymakers every year to identify the most effective associations in Washington.**