

Capital & Credit

The US economic expansion is now in its ninth year, the second-longest on record, and unemployment is the lowest it has been since 1969. The Trump administration hopes the economy will accelerate further, aided by sizable tax cuts and increased government spending. The administration's economic team continues to pursue an ambitious agenda of legislative and final regulatory measures that will help grow the economy.

Continued 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 nearly 10 million people and producing approximately 70% of tax revenue for state and local governments for essential public services. Without adequate credit capacity for this key sector, jobs and tax revenue will be lost.

The Roundtable remains committed to supporting pro-growth measures to encourage stable credit capacity, liquidity, and capital formation, and to minimizing regulatory overreach.

Reforming the HVCRE Rule

President Trump signed the bipartisan Economic Growth, Regulatory Relief, and Consumer Protection Act (S.2155) into law on May 24, 2018. This measure will help "right-size" regulations on regional banks and relax restrictions on parts of the banking industry, representing the most significant changes to Dodd-Frank since its enactment in 2010.

Sec. 214 of the law includes the Clarifying Commercial Real Estate Loans language from the 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.

Following the enactment of the law in May of last year, federal regulatory agencies were tasked with developing a rule to clarify the treatment of High Volatility Commercial Real Estate acquisition, development, or construction (HVCRE ADC) loans in accordance with the new statute. The proposal by the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, and the Federal Deposit Insurance Corporation also asks for comment on certain terms contained in the revised definition of high-volatility commercial real estate.

The Roundtable's HVCRE Working Group and industry coalition partners have played a key role in advancing these reforms to the HVCRE Rule, and submitted a comment letter in November to the three agencies detailing its support for the current proposal. The measure is expected to provide as much as \$120 billion in additional lending capacity.

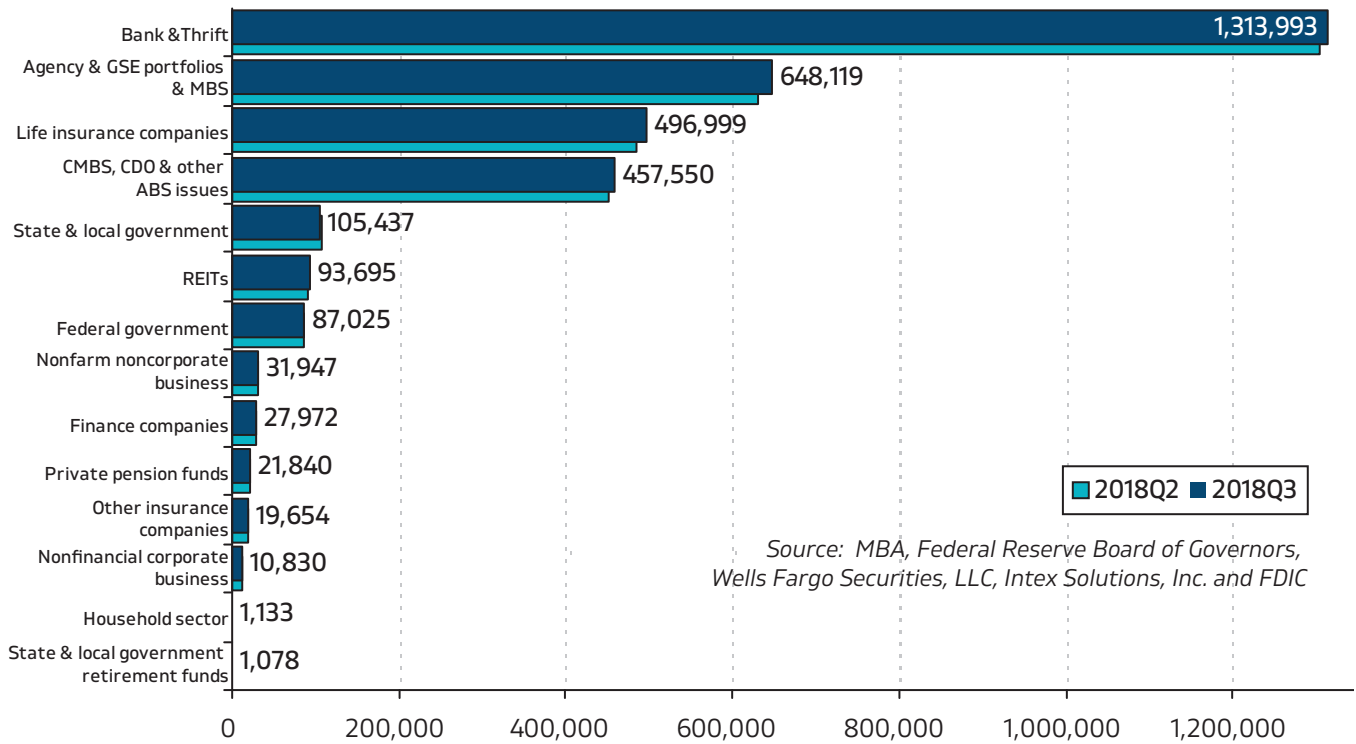
Reforming the Government-Sponsored Enterprises (GSEs)

The housing market remains vital to the American economy. It requires a sound and reliable finance system to provide Americans with the credit they need, while protecting taxpayers. However, ten years after Fannie Mae and Freddie Mac were put into conservatorship, the US housing finance system has still not been reformed.

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

Commercial and Multifamily Mortgage Debt Outstanding

Total Commercial and Multifamily Mortgage Debt Outstanding, by Sector (\$ millions)



Source: MBA, Federal Reserve Board of Governors, Wells Fargo Securities, LLC, Intex Solutions, Inc. and FDIC

employing the existing multifamily finance structures that Fannie Mae and Freddie Mac use.

Improving and Reauthorizing the National Flood Insurance Program (NFIP) For The Long-Term

Floods are the most common and most destructive natural disasters in the US, and there is limited private market capacity to manage their risk. The Roundtable and its partner associations support a long-term reauthorization of, and improvements to, NFIP that would expand private markets.

The NFIP has been given a number of temporary extensions. The House passed a reform bill in 2017, but the Senate has yet to act on a reauthorization bill.

Reauthorization of the NFIP is important for residential

markets, overall natural catastrophe insurance market capacity, and the broader economy. However, under the NFIP, commercial property flood insurance limits are low--\$500,000 per building and \$500,000 for its contents.

Lenders typically require this base NFIP coverage, and commercial owners must purchase Supplemental Excess Flood Insurance for coverage above the NFIP limits. The NFIP's low commercial limits make it problematic for most commercial owners. The Roundtable has been seeking a voluntary exemption from mandatory NFIP coverage if property owners have flood coverage from commercial insurers.

The Roundtable supports a long-term reauthorization of and improvements to the NFIP that would expand private markets, and the exemption of large commercial loans from mandatory NFIP purchase requirements.



(L-R) Rep. Gregory Meeks (D-NY), Rep. John Larson (D-CT), and Roundtable President and CEO Jeffrey DeBoer discuss the importance for a long-term approach for a federal terrorism risk insurance program.

Developing a Long-Term Approach to Terrorism Risk Insurance

Terrorism continues to pose a clear and present danger to our nation and to the American economy. Originally enacted in 2002 in response to the failure of insurance markets to offer terrorism risk coverage to commercial policyholders, the Terrorism Risk Insurance Act (TRIA) was extended in 2005, 2007, and again in 2015.

TRIA is essential for commercial real estate as lenders require “all risk” insurance coverage—including terrorism coverage—to cover the risk of loss to the collateral. At virtually no cost to the taxpayer, TRIA has allowed our economy to move forward even in the face of terrorist threats.

Working with the Treasury’s Federal Insurance Office (FIO), the TRIA Advisory Committee on Risk-Sharing Mechanisms (ACRSM), the insurance industry, and Congressional policymakers, 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.

Supporting and Shaping LIBOR Reform

The Roundtable is actively involved in supporting and shaping reform of the London Inter-Bank Offered Rate (LIBOR), which is set to expire at the end of 2021.

LIBOR is a key reference rate for commercial real estate and the broader economy, underlying approximately \$373 trillion worth of cash and derivative contracts globally. Its credibility was undermined a decade ago by a rate-manipulation scandal which damaged the public’s trust in LIBOR, financial markets, and institutions.

The Federal Reserve Bank of New York last April began publishing an alternative U.S. benchmark to work alongside LIBOR: The Secured Overnight Financing Rate (SOFR). SOFR is seen as more reliable than LIBOR, since it is based on interest rates in the U.S. market for repurchase agreements instead of LIBOR’s estimated quotes by bankers in the relatively thin interbank loan market.

The Roundtable’s Real Estate Capital Policy Advisory Committee (RECPAC) has formed a LIBOR working group to work toward the development and implementation of an effective, new replacement benchmark that does not impair liquidity, needlessly increase borrowing costs, or cause market disruptions. We are also working to minimize the need to make modifications to existing loan documents.

Guiding CFIUS Reform

President Trump signed the Foreign Investment Risk Review Modernization Act (FIRRMA) into law on August 13th. FIRRMA reforms and modernizes the Committee on Foreign Investment in the United States (CFIUS) review process, and represents the first update to the CFIUS statute in more than a decade. CFIUS is a US interagency committee that conducts national security reviews of foreign investment.

FIRMA expands the review authority of CFIUS to review national security implications of transactions that could result in control of a US business by a foreign person and to block transactions or impose measures to mitigate any threats to US security.

The Roundtable, working with other industry groups, worked to ensure that the legislation included language exempting real estate located in an “urbanized area” from the criteria of a covered transaction.

New Beneficial Ownership Rule Affects Real Estate Transactions

A new rule from the Financial Crimes Enforcement Network (FinCEN)—“Customer Due Diligence Requirements for Financial Institutions” (the CDD Rule)—was enacted in May. The rule amends Bank Secrecy Act regulations to improve financial transparency and prevent criminals and terrorists from misusing companies to disguise their illicit activities and launder their ill-gotten gains. The rule’s intent is to assist authorities in counteracting money laundering, tax evasion, and other financial crimes.

Reforming the EB- 5 Foreign Investment Program

Partnering with the U.S. Chamber of Commerce, the EB-5 Investment Coalition, and other groups, The Roundtable continues to urge responsible reforms to the EB-5

program to attract direct foreign investment into the United States. Consistent with our goals of promoting economic growth and capital formation, we support EB-5 reforms that deter investor fraud, safeguard national security, and promote both urban and rural development. Congress should extend EB-5 for at least five years, to maximize the program’s job-creation potential and end the current cycle of short-term “patches” that create uncertainty for businesses and investors. EB-5 reform should also be a vehicle to promote important policies that encourage greater investments in Opportunity Zones; leverage successful federal infrastructure finance programs; and support apprenticeship programs to train a competitive, modern American workforce.



Sen. Mike Crapo (R-ID) serves as Chairman of the Senate Committee on Banking, Housing, and Urban Affairs.