Capital and Credit

The U.S. economic expansion is now in its tenth year, the second-longest on record, and unemployment is the lowest it has been in fifty years. The Trump administration hopes the economy will accelerate further, aided by sizable tax cuts and reduced regulation. The administration's economic team continues to pursue an ambitious agenda of measures that will help grow the economy.

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

Reforming the Government Sponsored Enterprises (GSEs)

Over a decade 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, Senate Banking Committee Chair Mike Crapo (R-ID) and House Financial Services Committee Chairwoman Maxine Waters (D-CA).

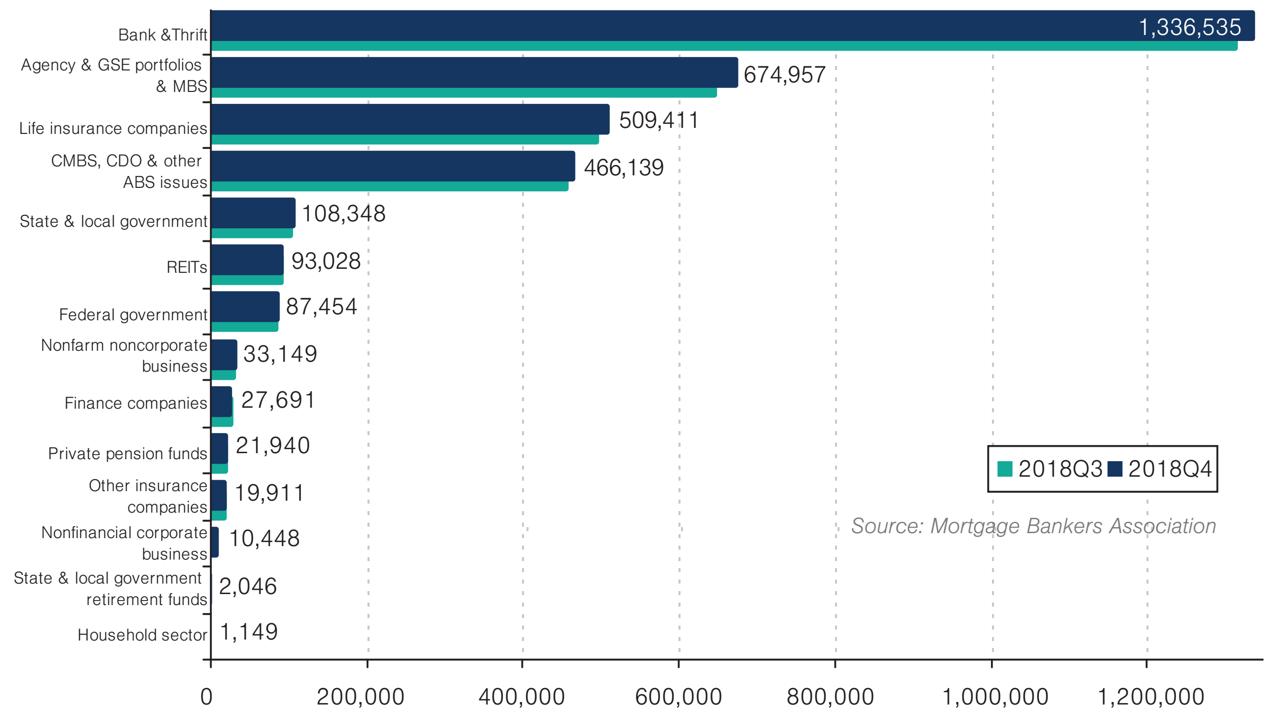
However, policymakers continue to address the challenge of balancing support for affordable and workforce housing while minimizing risk to taxpayers.

Successful reform should meet the housing finance needs of the American economy while protecting the taxpayer. The Roundtable encourages policymakers to build upon successful risk-sharing mechanisms and products by employing the existing multifamily finance structures being used by Fannie Mae and Freddie Mac that have been essential in expanding the supply of rural, senior, workforce, and affordable rental housing.

Developing an Effective, Long-Term Terrorism Risk Insurance Program

Without Congressional action, the *Terrorism Risk Insurance Program Reauthorization Act of 2015 (TRIPRA)* will expire on December 31, 2020. *TRIPRA* is essential for commercial real estate and the broader

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



economy. 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.

The Roundtable is focused on enacting 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.

Helping to Guide the Transition Away from LIBOR

With the London Interbank Offered Rate (LIBOR) index rate set to expire at the end of 2021, regulators are working to develop an alternative benchmark. LIBOR is an important reference rate for commercial real estate and the broader economy, underlying approximately $373 trillion worth of cash and derivative contracts globally.

The Roundtable's 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.

The Working Group is addressing concerns about the potential tax consequences of changing the benchmark in a variety of financial instruments and has submitted a comment letter to the Treasury requesting clarification.

House Financial Services Committee Chairwoman Maxine Waters (D-CA) meets with Roundtable President and CEO Jeffrey D. DeBoer to discuss a long-term approach to Terrorism Risk Insurance (TRIA).

Finalizing Modified Capital Rules for High Volatility Commercial Real Estate

The Roundtable supports finalizing a federal proposal that would implement modified capital rules for High Volatility Commercial Real Estate (HVCRE) loan exposures as stipulated in Section 214 of the *Economic Growth, Regulatory Relief, and Consumer Protection Act* (S.2155). In a November comment letter sent to three banking agencies, The Roundtable detailed the importance of enacting this measure which is expected to add up to $120 billion in commercial real estate lending capacity.

The measure will also help clarify and promote sustainable acquisition, development, and construction (ADC) lending by addressing key deficiencies in the agencies' current and proposed regulations governing the criteria for HVCRE or HVADC loans. It more realistically aligns the requirements for HVCRE loans on commercial real estate projects with the actual periods of development or construction risk. It will also aid economic growth and job creation, while maintaining capital levels to manage the risks associated with ADC lending.

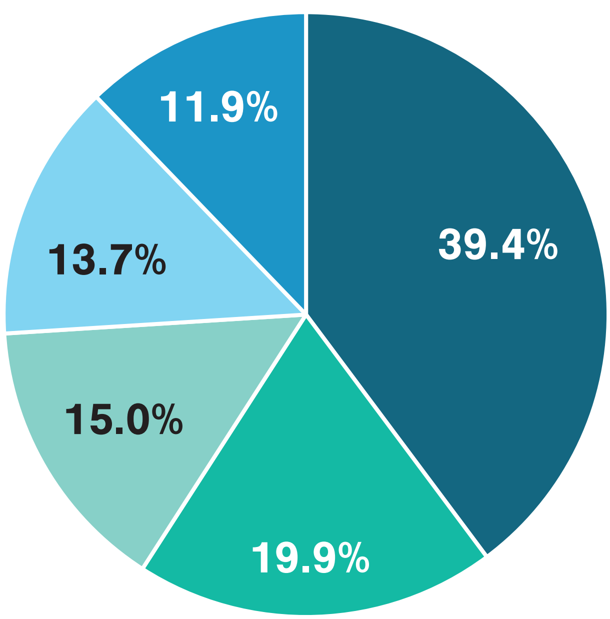
New Current Expected Credit Losses (CECL) Accounting Standard Could Impair Real Estate Credit Capacity

Beginning in 2020, the Financial Accounting Standards Board (FASB) will require banks to estimate and report loan losses upon origination according to the new Current Expected Credit Loss (CECL) standard.

The new CECL standard will change the way banks calculate reserves on assets, requiring certain financial institutions to estimate the expected loss over the life of a loan beginning in January 2020. For real estate, there is concern is that banks may reduce aggregate lending volumes as they build up additional capital reserves to be in compliance with CECL.

The accounting rule change was issued by the FASB in June 2016 as a result of the 2008 financial crisis.

The Roundtable continues to urge the FASB and the Securities and Exchange Commission (SEC) to delay implementation of the CECL standard, until a quantitative impact study can be completed to understand its likely effects on the economy.



US Commercial and Multifamily Real Estate Debt

Q4 2018

- Banks and Thrifts
- Life Insurance Companies
- Agency and GSE Portfolio and MBS
- CMBS, CDO, and Other ABS Issues
- Other

Source: Mortgage Bankers Association

In addition, 14 Senators and 25 members of Congress have asked the regulators to force a delay of the CECL accounting standard until the regulators analyze how the new rules could impact lending.

The Roundtable continues to work constructively with the FASB and the SEC to ensure that credit capacity is not impaired.

Supporting Sensible Cannabis Policy

Currently 47 states and DC legalize marijuana to varying degrees. Yet use, possession, and sale remains illegal under federal law. Real estate owners, lessors, brokers, and financiers need certainty when they transact with legitimate cannabis-related businesses.

The bipartisan *SAFE Banking Act* (H.R. 1595) is a good first step. It passed the House Financial Services Committee on March 28. It would eliminate the need for legal cannabis-related businesses to operate on a cash basis, bring them into the banking system, and allow them to obtain accounts and credit cards. Commercial property owners would get a safe harbor if they lease space to a cannabis-related business, and their mortgages cannot be subject to corrective action by a bank. For fuller real estate business protections, Congress should pass other legislation to clarify that state-compliant marijuana transactions are not illegal federal "trafficking" and do not result in unlawful proceeds under money laundering statutes.

Sen. Mike Crapo (R-ID), who serves as Chairman of the Senate Committee on Banking, Housing and Urban Affairs outlined his efforts to reform the nation's housing finance system, including Government Sponsored Enterprises (GSEs).

Advocating Sustainable Capital

The Roundtable continues to urge policymakers to take action that encourages stable valuations, enhanced transparency and sensible underwriting, and support efforts to establish appropriate systemic safeguards—all key factors for a reliable credit system.

This year the Roundtable commands the most respect among senior Republican policymakers of any real estate association.

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