

March 24, 2020

Via electronic submission – www.regulations.gov

The Honorable Jerome H. Powell
Chairman
Board of Governors of the Federal Reserve
System
20th Street and Constitution Ave NW
Washington, DC 20551

The Honorable Steven T. Mnuchin
Secretary
Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, D.C. 20220

The Honorable John C. Williams
President and Chief Executive Officer
Federal Reserve Bank of New York
33 Liberty Street
New York, NY 10045

The Honorable Mark A. Calabria
Director
Federal Housing Finance Agency
400 7th Street, SW
Washington, DC 20219

RE: Joint Trades Request Immediate Support of Commercial and Multifamily Mortgage Markets

Dear Sirs:

We were very pleased by the Federal Reserve and Treasury’s timely decision to revive the Term Asset Backed Securities Facility (TALF). By reviving this important program, this action sends a clear signal to markets that the Fed and the Treasury understand the gravity of the problem that COVID-19 presents to the American economy.

Notwithstanding these actions, the exclusion of commercial mortgage-backed securities (CMBS) from today’s announcement of the TALF 2.0 program has caused significant harm to that market, and we request it be added as early as possible. The current extreme funding pressures on a wide range of financial institutions and a significant contraction in available liquidity at this time present a systemic risk to the U.S. mortgage markets, the financial system, and the economy as a whole. The CMBS market is a key element of the CRE finance ecosystem and accounts for 28% of all outstanding CRE debt.

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We ask that you act in the immediate term to implement the following measures in order to avoid the negative loop created by a liquidity crisis in the CMBS market. The current liquidity crisis has the real potential of sharply reducing the continued flow of capital to commercial and multifamily real estate.

While the Fed has already announced the formation of TALF 2.0, we suggest additional asset classes be eligible, especially those that were included in TALF during the Global Financial Crisis. Given the rapid pace of turmoil relative to the 2008 crisis, we suggest immediate action to provide liquidity to this integral sector. Our detailed recommendations are outlined below:

1. **Expand the Term Asset-Backed Loan Facility (TALF) to prevent worsening capital-markets conditions.**
 - a. New issue and legacy Agency CMBS to provide liquidity to investors;
 - b. New issue and legacy private-label conduit and single-asset single borrower (SASB) commercial mortgage backed securities (CMBS); and

- c. Specific types of high-grade credit risk, such as the GSE's credit risk transfer securities.

2. Adjust terms of TALF 2.0 to recognize current market dynamics.

- a. We advise a maximum TALF loan maturity of greater than five years CMBS, which have longer durations than the other assets classes currently in TALF 2.0.
- b. TALF 2.0 haircuts should be reduced relative to those that prevailed for TALF 1.0, and should range between 5% and 10%.
- c. In addition, eligibility criteria in TALF 2.0 should extend to super-senior AAA investment-grade rating from one or more of the nationally recognized statistical rating agencies (NRSROs). These senior bonds makes up 70% of CMBS.

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We recommend these steps in light of the accelerated market deterioration occurring at this time. While much of the relief to date has rightly focused on consumer finance, the commercial and multifamily mortgage market has significant connectivity to other markets and institutions. Moreover, the market has many important functions:

- CMBS is the main lending source to secondary and tertiary markets, with average loans sizes of \$20 million in conduit CMBS supporting small and medium-sized businesses, medical, multifamily, hotel and lodging, and other sectors and property types.
- SASB transactions are extremely transparent and have historically also had extremely low loss rates isolated to a small proportion of outstanding transactions.
- Agency multifamily securities have historically low loss rates and often are over-subscribed at issuance.

Investors in Agency and private-label CMBS include public pension funds for many of the occupations on the frontlines of this crisis (hospitals, firefighters, police, and teachers). CMBS is a visible proxy for real estate loans, where banks, life companies, and other lenders have significant exposure. A non-functioning CMBS market will likely impact all commercial real estate loans.

The undersigned organizations ask that the Federal Reserve, Treasury, and Federal Housing Finance Agency continue to take decisive steps to reestablish liquidity in the multifamily and commercial mortgage markets to stabilize asset prices and shore up the balance sheets of market participants. We stand ready to provide additional input and are eager to assist in facilitating a response as you deem necessary.

Sincerely,

American Council of Life Insurers
American Hotel & Lodging Association
American Seniors Housing Association
Asian American Hotel Owners Association
CRE Finance Council
International Council of Shopping Centers
Mortgage Bankers Association

NAIOP, the Commercial Real Estate
Development Association
Nareit
National Multifamily Housing Council
National Apartment Association
The Real Estate Roundtable
Structured Finance Association