Capital & Credit

The Real Estate Roundtable supports efforts to promote economically responsible commercial and multifamily real estate lending and investment that maintain liquidity while reflecting sound underwriting and rational pricing of economic risk. To sustain a robust and liquid real estate market, it is also vital to have effective risk management tools to provide the industry with the coverage it needs to create jobs and support the broader economy.

COVID-19

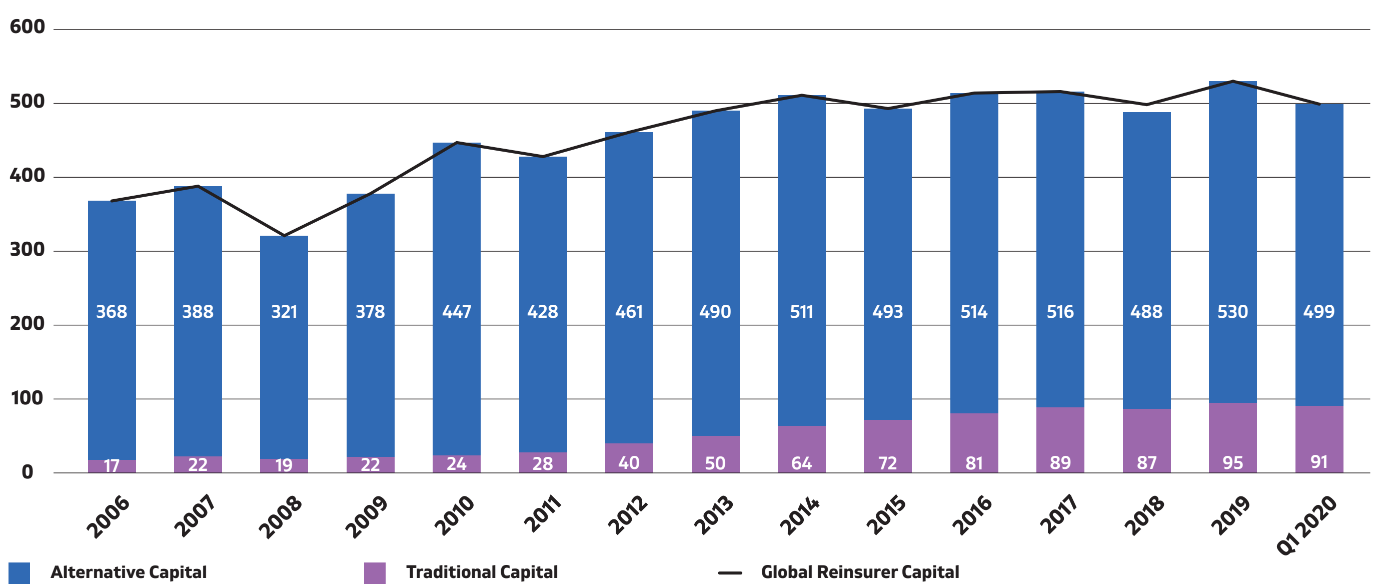
In light of the global pandemic, The Roundtable has worked to develop and enact measures to address the COVID-19 crisis, restore economic growth, job creation, credit capacity, capital market liquidity, and better manage the business continuity risks associated with pandemic. The Roundtable continues to work with policymakers to ensure the maintenance of our nation's reliable credit system.

Federal Pandemic Risk-Business Continuity Program

The COVID-19 crisis has highlighted the lack of insurance availability for business continuity coverage for catastrophic pandemic events. Most business interruption insurance policies do not cover pandemic risk-related claims, raising urgent concerns among policyholders—including owners of real estate, the event industry and professional sporting leagues. There are a number of proposals under consideration—including the *Pandemic Risk Insurance Act of 2020* (PRIA), introduced by Congresswoman Carolyn B. Maloney (D-NY)—that would establish a federal backstop for pandemic risk coverage.

The Roundtable is working with industry partners, stakeholders and policymakers through the newly formed Business Continuity Coalition (BCC) to develop and enact an effective federal pandemic risk/business continuity insurance program that provides the economy with the coverage it needs to provide business continuity coverage in the face of pandemic risk. Looking ahead, a federal business continuity insurance program should be put into place before there is a recurrence of pandemic or government-ordered shutdown in response to other phenomena.

Global Reinsurance Capital By Source



Source: Aon Securities Inc

Rep. Steve Stivers (R-OH), a member of the House Financial Services Committee discusses prospects for developing and enacting a federal pandemic risk-business continuity insurance program.

Main Street Lending Program

The Federal Reserve established the Main Street Lending Program (MSLP) to support lending to small and medium-sized for profit businesses and nonprofit organizations that were in sound financial condition before the onset of the COVID-19 pandemic. The Main Street Lending Program was intended to support businesses too large for the Small Business Administration's Paycheck Protection Program (PPP) and too small for the Federal Reserve's two corporate credit facilities. Thus far, the program has done only minimal lending.

On September 9, 2020 Roundtable President and CEO, Jeff DeBoer testified before the Senate Banking, Housing and Urban Affairs Committee about improvements to the MSLP. DeBoer raised concerns about various aspects of the program, its nominal volume and its reliance on the intermediation of banks, who are not appropriately incentivized to promote the program. The Roundtable recommended administrative changes to the Fed's existing rules and guidance, including:

» A requirement that the Federal Reserve should purchase 100% of MSLP loans

» A move to loosen overly tight "eligibility" and "affiliation" restrictions on borrowers

» A Reform of the MSLP underwriting metrics to better reflect the types of businesses that need Main Street assistance—such as manufacturing, retail stores, restaurants, real estate owners, and other asset-based borrowers

» Extension of maturity and amortization timelines

» Creation of a preferred equity program for CRE borrowers

» Continual support of the Term Asset-Backed Securities Loan Facility (TALF)

The Roundtable believes that if policymakers amend lenders' risk retention requirements, then more CRE business tenants can borrow, more CRE companies will have resources to support their workforce and pay their taxes and mortgages, and avenues of liquidity to the CMBS market can be created.

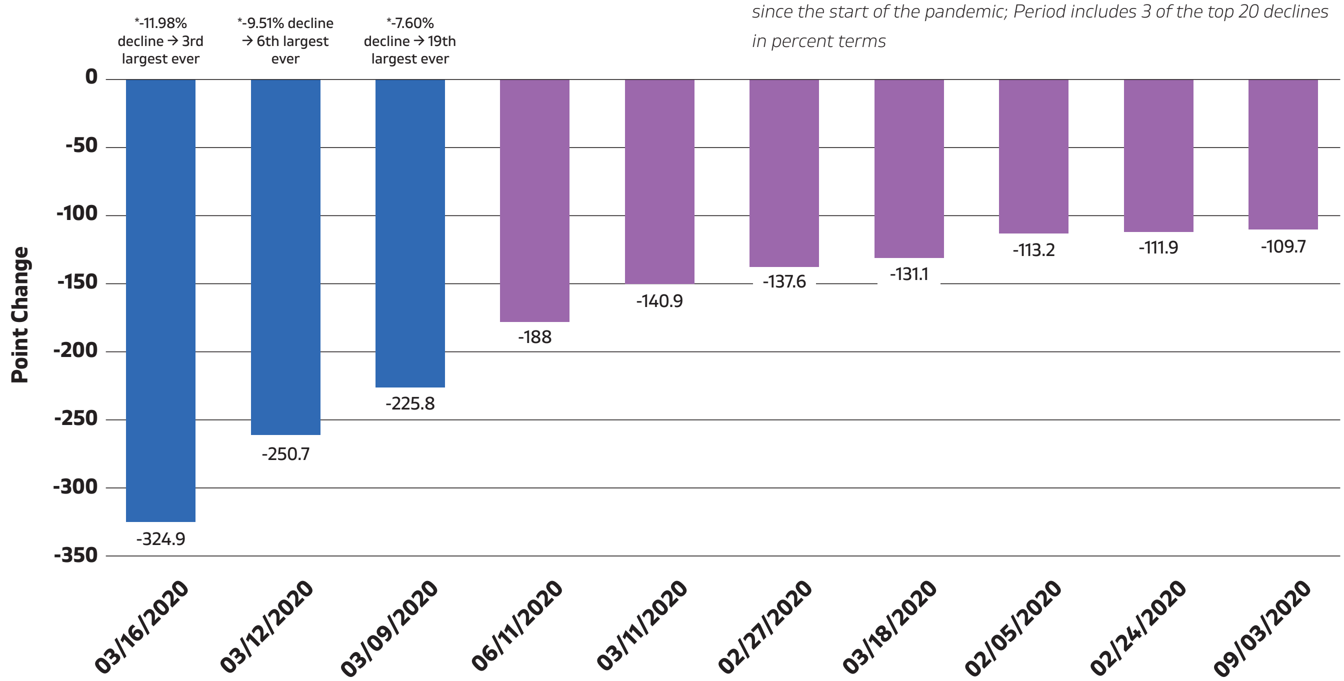
Improving Main Street lending so commercial real estate tenants, builders, and owners can actually use Fed-purchased and Treasury-backed credit is critical to put our nation on a sustained path to recovery, considering the profound impact that the real estate sector has on the U.S. economy. From jobs to housing and infrastructure, from state and local taxes to pension income and retirement savings, commercial real estate is a key driver of America's jobs, opportunities, security, and long-term growth.

TRIA

Originally enacted in 2002, the *Terrorism Risk Insurance Act* (TRIA) is a vital public-private risk-sharing mechanism and is essential for commercial real estate liquidity and expanding the broader economy. It allows the economy to grow even in the face of terror threats. At virtually no cost to the taxpayer, it has been essential in stabilizing the

Top 10 Largest Daily Point Drops in S&P 500 History*

**9 of the 10 largest point declines ever on the S&P 500 have occured since the start of the pandemic; Period includes 3 of the top 20 declines in percent terms*



Source: Aon Securities Inc

market after the events of 9/11, in response to the inability of insurance markets to predict, price and offer terrorism risk coverage to commercial policyholders. In December 2019, a seven-year reauthorization of TRIA was enacted through 2027. The establishment of the federal terrorism backstop—and its multiple reauthorizations over the years—has been a top policy priority for The Roundtable since the 9/11 attacks.

LIBOR Reform

In October 2019, as a response to The Roundtable's request for guidance, the Treasury Department released proposed regulations to clarify the tax consequences of replacing The London Interbank Offer Rate (LIBOR) in existing financial contracts, including real estate loans. The proposed rules include a reasonable safeguard to prevent potential abuse—they require that the fair market value of the modified financial instrument be "substantially equivalent" to its value before modification. Currently, the LIBOR reference rate is set to expire at the end of 2021. LIBOR is used as a reference rate in an estimated $350 trillion of financial contracts, including some $1.3 trillion of commercial real estate loans. The Federal Reserve Bank of New York's Alternative Reference Rates Committee (ARRC) is working to transition to use of the Secured Overnight Financing Rate (SOFR). SOFR is seen as more reliable, as it is based on interest rates in the U.S. market for repurchase agreements. The Roundtable's RECPAC LIBOR Working Group continues to work towards the development and implementation of an effective, new replacement benchmark that does not impair liquidity, needlessly increase borrowing costs or cause market disruptions.

GSE Reform

The Government Sponsored Enterprises Fannie Mae and Freddie Mac were put into conservatorship in September 2008, but the framework of the U.S. housing finance system has not yet been reformed. In September 2019, The Roundtable wrote to the Senate Committee on Banking, Housing and Urban Affairs praising the Treasury Department's constructive proposal for both legislative and administrative reforms to Fannie Mae and Freddie Mac. The Roundtable encouraged the Treasury and the Federal Housing Finance Agency to work with Congress to end conservatorship through comprehensive, bipartisan, legislative reforms. Since then there has been minimal movement towards reform.

In February 2020, Senate Banking Committee Chairman Mike Crapo (R-ID) released an outline for housing finance reform legislation. The outline incorporates elements of many plans and principles for housing finance reform legislation that have been discussed by legislators, analysts, stakeholders and thought leaders. However, no legislation has been introduced in the 116th Congress. In March 2020, the administration put forward an outline to reform the GSEs, and the White House recently directed the Treasury Secretary and other relevant agencies to develop a "Treasury Housing Reform Plan" to determine what reforms can be made administratively without Congressional action.

Due to the negative economic effects of COVID-19, GSE reforms may not occur in the foreseeable future until after the pandemic is under control. 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.

CECL

The Financial Accounting Standards Board's (FASB) new current expected credit losses (CECL) standard for estimating allowances for credit losses became effective for most SEC filers in fiscal years and interim periods beginning after December 15, 2019, and for all others it takes effect in fiscal years beginning after December 15, 2022. The new CECL standard changes the way banks calculate reserves on assets, requiring banks and nonbanking finance companies to estimate the expected loss over the life of a loan. For real estate, there is concern that this new standard will exacerbate the current economic crisis.

On March 27, 2020, the federal banking regulators issued an interim final rule allowing lenders required to adopt CECL (effective January 1, 2020) to delay the estimated impact on regulatory capital by up to two years. The bank regulators would provide for a three-year transition period after 2022 to phase out the "capital benefit" provided during the two-year delay in CECL. For banks that have already adopted CECL, they will have the option of choosing a three-year transition period (which was made available under the 2019 rule), or the five-year option, including the two-year delay.

In April 2020, The Roundtable submitted comments to the FASB and the SEC regarding the need to suspend the new CECL accounting standard during the current COVID-19 crisis for all companies including non-banking entities. *The Coronavirus Aid, Relief, and Economic Security Act* (CARES Act) permits an insured depository institution, bank holding company or any affiliate thereof to temporarily delay measuring credit losses on financial instruments using the new Current Expected Credit Losses accounting standard until Dec. 31, 2020 or the date on which the coronavirus-related national emergency declaration terminates.

National Flood Insurance Program (NFIP)

Floods are the most common and most destructive natural disaster in the U.S. The National Flood Insurance Program (NFIP) aims to reduce the impact of disasters by promoting the purchase and retention of general risk insurance, but also of flood insurance, specifically. The Roundtable supports a long-term reauthorization and reform of the NFIP in order to help property owners and renters prepare for and recover from future flood losses. A long term reauthorization of the NFIP is important for residential markets, overall natural catastrophe insurance market capacity and the broader economy. The NFIP has low commercial limits which make it problematic for commercial owners. Given the low coverage amounts provided to commercial properties, it is important to permit larger commercial loans to be exempted from the mandatory NFIP purchase requirements. The Roundtable has been seeking a voluntary exemption for mandatory NFIP coverage if property owners have flood coverage from commercial insurers.

Committee on Foreign Investment in U.S. (CIFIUS) Reform

The Committee on Foreign Investment in the United States (CFIUS) is a U.S. interagency committee that conducts national security reviews of foreign investment. In 2018, President Trump made into law the *Foreign Investment Risk Review Modernization Act* (FIRRMA Act). FIRRMA reforms and modernizes the CFIUS review process and represents the first update to the CFIUS statute in more than a decade. It also established CFIUS' jurisdiction over certain real estate transactions.

On February 13, 2020, two sets of enhanced regulations governing CFIUS became effective, implementing the *Foreign Investment Risk Review Modernization Act* (FIRRMA)—one covering certain real estate transactions and one covering other investments involving U.S. businesses. The real estate regulation permits CFIUS to review certain purchases, leases and concessions of real estate by foreign persons—including REITs—irrespective of whether such transactions involve a U.S. business. Their authority to review real estate transactions is limited to those transactions involving property near sensitive U.S. locations, such as airports, maritime ports, and military installations, and that afford the foreign investor with certain rights related to the property. The new regulations include a "real estate provision" that includes carve-outs for "single housing unit" and properties that are in an "urbanized area" based on the Census definition. In 2019, The Roundtable wrote to the Treasury regarding the proposed CFIUS rules and requested clarifications about how investments in commercial real estate would be affected. The Roundtable's Real Estate Capital Policy Advisory Committee (RECPAC) and Homeland Security Task Force (HSTF) continue to assess how the new rules will impact commercial real estate investment.

Chairman of the Banking, Housing, and Urban Affairs Committee Sen. Sherrod Brown (D-OH) discussed the committee's agenda for the 117th Congress, including the urgent need for more affordable and workforce housing throughout the nation.