The Real Estate Roundtable

ORAL COMMENTS

OF

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ON BEHALF OF

THE REAL ESTATE ROUNDTABLE

UNITED STATES SENATE

COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS

HEARING

ON

THE STATUS OF THE FEDERAL RESERVE EMERGENCY LENDING FACILITIES

VIA WEBEX

ON

WEDNESDAY, SEPTEMBER 9, 2020

AT 10:00 AM

Good morning Chairman Crapo, Senator Brown and members of the Committee.

On behalf of The Real Estate Roundtable and the 19 national real estate trade associations referenced in my written statement I am honored to offer recommendations to improve the Main Street Lending program.

People out of work, and business shuttered and denied income for months, have suffered immensely in this pandemic through no fault or action of their own.

Many of these people and businesses have struggled to pay for food, struggled to pay for their housing, and struggled to pay the rent for their business.

For the owners of apartment, retail facilities, hotels, office buildings, senior housing and other buildings, this situation is:

dramatically affecting their ability to meet their payroll requirements, causing layoffs of building maintenance and security personnel

it is impacting their ability to meet their debt service obligations increasing pressure on financial institutions, pension fund investors and others,

and it is pushing property values down to the detriment of local governments.

It is causing much stress to pools of commercial mortgage backed securities, increasing troubling delinquency rates.

It is threatening to result in countless commercial property foreclosures.

The situation must be addressed.

We thank Congress and the Administration for the quick, deep and bipartisan COVID relief action taken this past spring.

Without the payroll protection program; expanded unemployment benefits; and supplemental income - the situation for the nation's economy would be much worse.

But many of those programs did not reach beyond a relatively narrow definition of small business.

That role was left to the well-intended, FED administered, Main Street Lending Program.

Its goal was to provide capital to mid-sized businesses, with Covid related economic problems, that are unable to obtain capital elsewhere.

Unfortunately however — the Main Street Lending Program is not lending.

The result — countless mid-sized retail businesses, restaurants, hotels, commercial and multifamily building owners — are moving closer to shutting their doors forever.

As these Main Street businesses run out of reserves, they increasingly miss their rent, utility and tax payments.

As their lines of credit run out, they furlough and lay-off employees.

And, as their options for a capital life-line run out - they begin to look to bankruptcy and abandonment as solutions.

The Main Street lending program is simply far to risk averse to respond to the rapidly developing conditions for many Main Street businesses.

The Main Street businesses that need assistance now . . . are themselves risky businesses.

Not that their product is risky . . . or that the business takes too much uncalled for risk . . . or that the business is mismanaged.. .

These are businesses that were profitable and viable pre-COVID.

Yet today they are bearing a huge, somewhat immeasurable, new risk that is based on governmental policy, the ability to keep clients, customers, employees and guests healthy, and in particular, the timing of finding a vaccine.

These are the businesses that Congress wanted the Main Street Lending Program to serve … they can't get capital elsewhere.

They are disproportionately minority-, women- and veteran-owned businesses.

And they are increasingly running out of options.

The Main Street program isn't working for two reasons:

1. There is little incentive for banks to market the program and make the loans.

2. The program's eligibility, affiliation and underwriting rules are not designed to meet the needs of the businesses that increasingly need assistance.

Both sets of problems could be addressed administratively without additional appropriated funds.

To incentivize banks to participate we suggest the FED purchase 100% of a Main Street loan instead of the current 95% limit.

The bank should continue to service the loan to maturity . . . and like a mortgage pool servicer . . . it should be compensated by the bondholders . . . in this case the Treasury Department.

And, perhaps, regulators should be instructed to not criticize banks that make Main Street risky loans.

But incentives for banking lending alone won't solve the problem.

Administrative action is also needed to reform the mixture of :

misapplied SBA lending eligibility rules — that bar assistance to any commercial real estate business;

inappropriate leverage limits that hamper the usefulness to nearly all retail stores and restaurants; and,

underwriting rules that simply do not work for any asset based borrower -- be they manufacturer, restaurant, retail, commercial or multifamily real estate owner.

Providing incentives to encourage banks to lend under this program - and - expanding eligibility to reflect current realities will help the Main Street lending program achieve its mission and would help to stabilize the weakening condition of many businesses, particularly real estate owners whose businesses support millions of jobs nationwide and whose health is directly related to the health of local communities.

But . . . Congress also should take additional action.

We urge that Congress also provide a rental assistance fund for residential and business tenants, promote healthy workspaces thru tax relief, facilitate troubled debt workouts, provide reasonable liability protection from frivolous COVID lawsuits and develop a federal pandemic risk insurance backstop.

These actions are no small task.

But together they will help America’s resilient families and employers – our most valuable resources – emerge from the pandemic stronger than ever.

I am happy to respond to your questions.

Thank you.