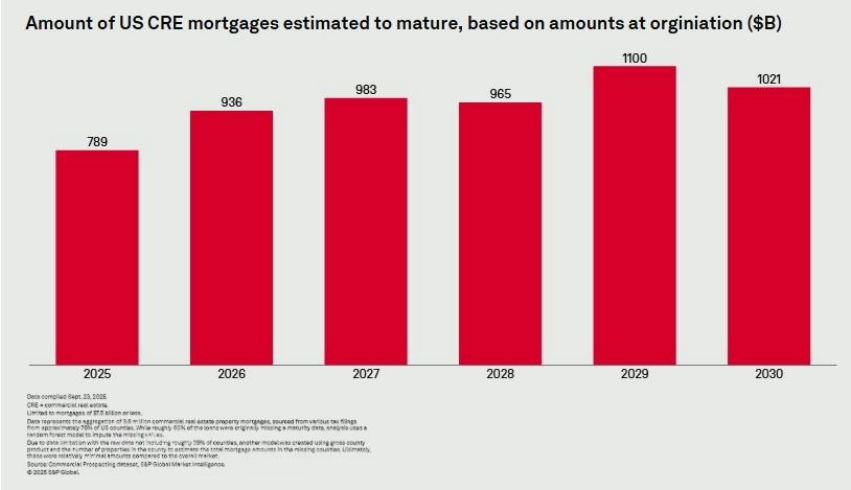
Addressing the Wave of Maturing CRE Debt and Pro-Cyclical Regulatory Policy

Capital and Credit

Summary



Source: S&P Global

Nearly $983 billion of U.S. commercial real estate mortgages are estimated to mature in 2027. To help rebalance the wave of maturing loans, it is important to advance measures that will encourage additional capital formation and loan restructuring.

As urged by RER, a policy statement—*Policy Statement on Prudent Commercial Real Estate Loan Accommodations and Workouts*—issued by regulatory agencies encouraging financial institutions to work constructively with creditworthy borrowers on CRE loan workouts is helping to see loans through the current environment. Many of these loans require additional equity, and borrowers still need time to restructure this debt. Capital formation is vital to help restructure maturing debt and fill the equity gap. It is also important to avoid pro-cyclical regulatory actions.

Key Takeaways

- Providing banks with the flexibility to work constructively with their borrowers during times of economic stress has led to **billions of dollars of loan restructurings and reduced undue stress in bank loan portfolios**.
- The largest U.S. banks' capital and liquidity levels have grown dramatically since the original *Basel III* standards were implemented in 2013 in response to the 2008 Global Financial Crisis. **Since 2009, Tier 1 capital has increased by 56 percent and Common Equity Tier 1 capital has tripled**. Today, as the Federal Reserve recently observed, the U.S. "banking system is sound and resilient, with strong capital and liquidity."[1]

Background

Basel III Endgame

- The original *Basel III Endgame* proposal would have increased capital requirements for the largest banks by as much as 20 percent—carrying significant economic cost without clear benefits to the economy.
- On March 19, 2026, the Federal Reserve, FDIC, and OCC jointly introduced three new proposals to modernize bank capital rules. While the 2023 version proposed a 16-19 percent increase in capital, the

[1] https://www.federalreserve.gov/publications/files/svb-review-20230428.pdf

2026 re-proposal is estimated to actually reduce overall system-wide capital requirements by approximately $87.7 billion:

- GSIBs (Category I & II): Estimated ~4.8 percent reduction in Common Equity Tier 1 (CET1) requirements.
- Large Regional Banks (Category III & IV): Estimated ~5.2 percent reduction.
- Small Banks: Estimated ~7.8 percent reduction

Recommendations

Take a Balanced Approach to Setting Capital Requirements: The re-proposal is viewed by many industry participants as a "pivotal step" toward a more balanced approach for both residential and commercial sectors.

- The Real Estate Roundtable (RER) submitted a coalition letter on June 18 acknowledging that the revised package is an improvement over the punitive 2023 iteration. The letter urges federal regulators to preserve risk-sensitivity improvements in the revised Basel III Endgame proposal while modifying provisions that constrain commercial real estate (CRE) lending.
- Recommendations included more risk-sensitive treatment of CRE and multifamily loans, mortgage servicing, and securitizations, along with changes to prevent disproportionate capital charges on common financing arrangements such as mezzanine loans and preferred equity.
- RER warns that any net increase in capital rules still carries a pro-cyclical impact, potentially constraining credit capacity, liquidity, and financing costs for commercial and multifamily real estate.
- RER continues to push back against legacy provisions in the framework that penalize non-recourse commercial real estate lending—such as rules that reclassify entire borrower exposures or assign harsh 150 percent risk weights to restructured or defaulted loans—stressing that prudent loan workouts benefit both lenders and the broader economy.
- The updated interagency framework lowered overall capital requirements for the largest U.S. banks by a net 2.4 percent (factoring in a 1.4 percent increase offset by a 3.8 percent reduction in the G-SIB surcharge).
- A final rule is anticipated later this year and phased implementation is expected to begin in 2027.

Support Robust Capital Formation: Additional capital is called for to help restructure and transition the ownership and refinancing of commercial real estate from a period of low rates to a time of higher rates. Enacting policies that will encourage robust capital formation is imperative.