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February 24, 2016

The Honorable Scott Garrett
Chairman
House Subcommittee on Capital Markets
and Government-Sponsored Enterprises
2232 Rayburn House office Building
Washington, DC 20515

The Honorable Carolyn B. Maloney
Ranking Member
House Subcommittee on Capital Markets
and Government-Sponsored Enterprises
2308 Rayburn House office Building
Washington, DC 20515

Dear Chairman Garrett and Ranking Member Maloney:

On behalf of the more than one-million members of the National Association of REALTORS® (NAR) and its commercial affiliates, the CCIM Institute, the Institute of Real Estate Management (IREM), the Society of Industrial and Office REALTORS® (SIOR), and the REALTORS® Land Institute (RLI), thank for you holding today's hearing on "The Impact of the Dodd-Frank Act and Basel III on the Fixed Income Market and Securitizations." NAR's membership includes nearly 80,000 Commercial REALTORS® and twenty-nine commercial overlay boards throughout the country, and these members are very concerned about the impact increased regulation is having on commercial credit availability.

The Basel III capital standards rules, adopted in 2015, require banks to hold more capital, and also implemented a "High Volatility Commercial Real Estate Exposures" (HVCRE) risk-based category, increasing the complexity of commercial acquisition, development and construction (ADC) loans. On top of that, in December of this year, new credit risk-retention rules for commercial real estate are slated to go into effect; these new rules will raise commercial borrowing costs. Unfortunately, the "Qualified Commercial Real Estate" (QCRE) exemption to these rules does not include Commercial Mortgage Backed Securities (CMBS), despite the fact that the loans that are included in a CMBS are low-risk. CMBSs are a vital source of financing to commercial real estate in all its forms, and unless they are exempted, these rules will have the effect of yet again raising borrowing costs and reducing liquidity for commercial real estate across the country.

Despite the statement by regulators in December 2015 that banks have eased commercial real estate underwriting standards[1], NAR's Commercial REALTORS® report that securing financing remains difficult and that increased regulations and compliance costs for lenders are often the culprit. The majority of NAR's commercial members work in secondary and tertiary markets, with a median deal of $2.9 million[2]. Our members' top sources of financing are local or community banks (32%) and regional banks (26%)[3], which are hit hardest by the burden of increased regulations and the compliance costs that come with them.

NAR urges you to consider the full picture of the lending landscape at today's hearing and the unintended detrimental effects that further, overly-broad regulations will have in the future. As new rules governing lending policies go into effect this year, we ask that you continue to hold hearings to explore their impact on credit availability for commercial real estate.

Sincerely,

Tom Salomone
2016 President, National Association of REALTORS®

cc: House Subcommittee on Capital Markets and Government-Sponsored Enterprises

1."Interagency Statement on Prudent Risk Management for Commercial Real Estate Lending." The Federal Reserve. http://www.federalreserve.gov/bankinforeg/srletters/sr1517.pdf (December 18, 2015)
2."National Association of REALTORS® Commercial Member Profile 2015." The National Association of REALTORS®. https://www.scribd.com/doc/268728286/The-2015-NATIONAL-ASSOCIATION-OF-REALTORS-Commercial-Member-Profile (June 15, 2015)
3."National Association of REALTORS® Commercial Lending Trends 2015." The National Association of REALTORS®. https://www.scribd.com/doc/264653208/Commercial-Lending-Trends-Survey-2015-05-08 (May 8, 2015)