March 1, 2016

The Honorable Jeb Hensarling
Chairman
Committee on Financial Services
U.S. House of Representatives
Washington, DC 20515

The Honorable Maxine Waters
Ranking Member
Committee on Financial Services
U.S. House of Representatives
Washington, DC 20515

Re: H.R. 4620 to Amend the Securities Exchange Act of 1934 to Modify Requirements for Qualified Commercial Real Estate

Dear Chairman Hensarling and Ranking Member Waters:

The undersigned organizations express strong support of H.R 4620, the "Preserving Access to CRE Capital Act," a bill that makes minor, but important, modifications to credit risk retention rules for commercial real estate loans. The credit risk retention rules are a product of six federal agencies and cover all securitized assets and were intended to incentivize better underwriting. Despite best efforts by the regulators to write one set of rules encompassing all differing securitized asset types, the rule in its current form, will not achieve the objective, especially when operationalized at the same time as so many other new requirements that are also targeting securitizations. H.R. 4620 makes minor modifications to the rule, while maintaining the core components of the risk retention, to ensure continued liquidity and affordable financing options for commercial real estate borrowers in every Congressional district.

Specifically, the Preserving Access to CRE Capital Act would allow very prudently underwritten, low-risk commercial real estate mortgages to meet the criteria for qualified commercial real estate ("QCRE") loans under the risk retention rules. The revisions, in fact, were based on actual performance data and correlate to those loan characteristics that performed the best from 1997-2013. As "qualified" loans, they would not be subject to risk retention and the associated punitive costs associated with it. The bill also provides relief for prudently underwritten, single asset-single borrower loans. Barring some form of relief, borrowers many smaller commercial markets across the country may not be able to finance projects that could spur development and create jobs in the areas that need it most.

Under the final rule, only about 4% of all outstanding commercial loans meet the definition for "qualified", or QCRE treatment, which is too small a target to influence underwriting trends. As one of the largest sources of credit for commercial and multifamily real estate in the United States, the commercial mortgage backed securities (CMBS) market is an important element of the over $3.5 trillion commercial real estate debt market, currently comprising roughly 26 percent of the overall market. In secondary and tertiary markets, the percentage of liquidity is even greater. Chances are, you know a borrower by name and an address by heart in your district that utilizes this type of capital.

CMBS provides financing to retail, office, apartments, industrial, health care and many other types of commercial real estate. If the rule is not modified before going into effect at year-end, a large percentage of borrowers across the country will not be able to refinance their loans without additional capital and higher monthly costs. Following the stress this will cause elsewhere in the system, valuations will be hurt and savers' investments will suffer as a result of the reduced liquidity in the system.

This bill remedies an oversight by regulators that would impair, for no discernable safety and soundness reason, the availability of capital to commercial real estate borrowers and therefore increase borrowing costs. Recently, CMBS has led the market by providing roughly 45% of lending for America's tertiary markets and nearly 30% for secondary markets.

We strongly urge committee passage on HR 4620.

Sincerely,

Commercial Real Estate Finance Council
The Real Estate Roundtable
National Multifamily Housing Council
Mortgage Bankers Association
National Association of Home Builders
National Association of Realtors
American Land Title Association
National Association of Real Estate Investment Trusts
NAIOP, the Commercial Real Estate Development Association
Building Owners and Managers Association
International Council of Shopping Centers
U.S. Chamber of Commerce
The Appraisal Institute

cc: Members of the Committee