April 3, 2017

The Honorable Robert Pittenger
United States House of Representatives
Washington DC 20515

Re: Proposed HVCRE Legislation

Dear Representative Pittenger:

We are pleased to support legislation that would address concerns regarding the Basel III High Volatility Commercial Real Estate (HVCRE) rules by amending the Federal Deposit Insurance Act to clarify capital requirements for certain acquisition, development, or construction loans (ADC).

The HVCRE rules are disproportionally affecting ADC lending by driving up borrowing costs and reducing credit availability. The rules also appear to be contributing to the slowdown in bank commercial real estate lending.

The rules are overly broad and include many stabilized loans without construction risk in this HVCRE category, unduly burdening stabilized loans with capital charges appropriate to protect banks from heightened construction risks. Many banks, including small community financial institutions, have been deterred from making this type of loan – which can represent up to 50 percent of a small bank loan portfolio.

Since introduction of the HVCRE rules in January 2015, necessary clarification for key elements of the rule have not been provided by regulators despite ongoing requests. Without modifications, the consequences of the HVCRE rule could have an adverse economic impact on commercial real estate lending by U.S. banking organizations. Without a response from the regulatory community, the proposed legislation is intended to address the problem.

Of the $3.8 trillion in commercial real estate debt outstanding, commercial banks constitute our nation's largest source of commercial real estate financing. Yet, approximately $1 billion a day is maturing though 2018 – including $411 billion in bank debt. Without adequate credit capacity, this wall of maturities could create problems in the banking system and the broader economy.

The commercial and multifamily real estate industry makes a significant contribution to the nation's economy – contributing to America's gross domestic product, employing millions of people and producing a significant amount of the taxes raised by local governments for essential public services. Without adequate credit capacity for this important sector, jobs and tax revenue will be lost.

The proposed legislation addresses several specific deficiencies in the agencies' regulations governing what is an HVCRE loan. The legislation does not eliminate the agencies' ability to require banks to hold higher capital for HVCRE loans. Rather, the bill provides the clarity which the regulators have yet to provide, including which types of loans should and should not be classified as HVCRE loans.

The legislation would clarify and modify the HVCRE rules to ensure that they are appropriately calibrated and do not impede credit capacity or economic activity, while still promoting economically responsible commercial real estate lending.

You are to be commended for recognizing the negative economic impact that the HVCRE rules are having on construction lending and for taking steps to introduce legislation intended to correct these problems. We appreciate your efforts and look forward to working with you and other members of the House Financial Services Committee to ensure that the Basel III rules are appropriately calibrated and do not impede credit capacity.

Thank you for the opportunity to comment on this important issue.

Sincerely,

Building Owners and Managers Association International
CCIM Institute
Commercial Real Estate Finance Council
Institute of Real Estate Management
International Council of Shopping Centers
Mortgage Bankers Association
National Apartment Association
National Association of Home Builders
NAIOP Commercial Real Estate Development Association
National Association of Real Estate Investment Trusts
National Association of Realtors®
National Multifamily Housing Council
The Real Estate Roundtable