

January 13, 2009

The Honorable Christopher Dodd
Chairman
U.S. Senate Committee on Banking, Housing and Urban Affairs
534 Senate Dirksen Building
Washington, D.C. 20515

The Honorable Richard Shelby
Ranking Member
U. S. House Committee on Banking, Housing and Urban Affairs
534 Senate Dirksen Building
Washington, D.C. 20515

Re: Support for Commercial-Focused Lending Facility

Dear Chairman Dodd and Ranking Member Shelby:

We appreciate the continued leadership that you and your colleagues have provided in diligently responding to the nation's economic crisis. As Congress develops priorities for use of Troubled Assets Relief Program (TARP) funds in the coming Administration, we believe it is imperative to address the tremendous challenges facing the frozen \$3.4 trillion commercial mortgage market. Specifically, in the short term, we would encourage policymakers to extend the "Term Asset-Backed Securities Lending Facility (TALF)" to commercial real estate as a vital and proactive measure aimed at providing liquidity and facilitating lending in the private commercial mortgage market. Such a move would ease the lending crisis that has exacerbated the downturn in the U.S economy and is now starting to negatively impact commercial real estate market conditions. By taking this small but important action now, a larger impact on the commercial real estate sector and the national economy can be prevented, forestalling the need for greater government intervention in the future.

Over the past year, the broader credit crisis has permeated through the world's capital markets and has severely curtailed commercial lending activity. This problem has the potential to negatively impact the \$6 trillion commercial real estate market, which is financed in part through more than \$3 trillion of debt. Currently, banks and the commercial mortgage-backed securities (CMBS) market represent 75% of all outstanding commercial real estate loans. However, banks are tightening their credit standards and reducing loan volume in reaction to pressure to increase reserve levels and decrease their commercial real estate exposure. The CMBS market has ceased to function with respect to new issuance, and existing bonds trade at highly excessive spreads, all of which heralds systemic dysfunction. In fact, the CMBS market provided approximately \$240 billion in financing in 2007 (nearly 50% of all commercial lending), and it has provided less than \$13 billion in issuance in 2008, despite enormous demand for capacity from borrowers. In 2009, tens of billions of commercial real estate mortgage loans will come due, but under current conditions, there will be insufficient capacity to refinance the performing commercial real estate loans that are maturing, which could result in loan defaults.

Many steps are needed to address this issue, but the first and most significant action would be for policymakers to request that the Treasury Department provide, at a minimum, \$20 billion in TARP funds to revive the broader private commercial mortgage markets. More specifically, we recommend that the Federal Reserve Bank of New York utilize these TARP funds to create a commercial lending facility that would provide the private market with liquidity and allow for the extension of new credit, as well as assist in refinancing performing loans held by banks or in CMBS pools. It also would facilitate the sale of CMBS

through traditional private sector sources, creating a spur of market activity. We expect this credit facility to generate very meaningful results and to jumpstart the broader private commercial mortgage markets. Most important, this effort could be accomplished with a relatively modest \$20 billion upfront investment, which represents only 2.9 percent of TARP's \$700 billion in funding.

In conclusion, having a sound and well functioning commercial real estate sector is critical to our country's economic growth and development, and to millions of U.S. businesses of all sizes that provide local communities with jobs and services. The creation of a commercial-focused credit facility would be an efficient and effective tool to address these issues in the short term with the least exposure to the taxpayer, and it should be instituted as soon as possible to stem the tide of issues facing the commercial market. A variation of this approach also should be adopted to provide liquidity to unsecured commercial real estate loans through the investment grade, corporate bond market. Finally, we would encourage policymakers to work with the private sector to consider additional long term solutions to ensure the private market is able to meet ongoing commercial borrowing demands.

We thank you for considering our views and would be pleased to meet with you or your staff to discuss this issue in greater detail at your earliest convenience.

Sincerely,

Commercial Mortgage Securities Association
CCIM Institute
Institute of Real Estate Management
International Council of Shopping Centers
Mortgage Bankers Association
NAIOP, the Commercial Real Estate Development Association
National Multi Housing Council
National Apartment Association
National Association of Real Estate Investment Trusts
National Association of Realtors
U.S. Chamber of Commerce

cc: Members of the U.S. Senate Committee on Banking, Housing and Urban Affairs