

# Bolster Commercial Real Estate Lending

## CONGRESSIONAL ACTION NEEDED

Take action to bolster liquidity in the commercial and multifamily real estate market to avoid stalling our nation's economic recovery.

## CONGRESSIONAL ACTIONS TO DATE

- Representatives Royce (R-CA) and McCarthy (D-NY) introduced H.R. 1418, the “Small Business Lending Enhancement Act of 2011,” to increase the member business lending cap from 12.25% to 27.5% of total assets for well-capitalized credit unions. Additionally, Senators Udall (D-CO) and Snowe (R-ME) introduced S. 2231, an identical Senate companion bill. In 2011, both congressional chambers held a hearing on their respective bill.
- In June 2011, the House Financial Services Committee voted to pass H.R. 940, the “United States Covered Bond Act of 2011,” sponsored by Representatives Garrett (R-NJ) and Maloney (D-NY). This legislation facilitates the creation of a U.S. covered bond market, which would provide an additional source of commercial real estate lending. A Senate companion bill, S. 1835, has been introduced by Senators Hagan (D-NC) and Corker (R-TN).

## WHAT TO TELL YOUR REPRESENTATIVES AND SENATORS

- Pass H.R. 1418 and S. 2231. Credit unions can fill in the commercial real estate lending gap, and help get capital to the struggling small businesses that occupy commercial space.
- Pass H.R. 940 and S. 1835 to create a U.S. covered bond market, which would complement the fragile commercial mortgage-backed securities (CMBS) market by providing an additional new source of capital for the commercial real estate industry.

## ISSUE BACKGROUND

Continued economic weakness and uncertainty are contributing to lackluster demand for commercial space, which has resulted in reduced operating incomes, property values and equity—all of which complicate efforts to refinance maturing loans. Approximately \$1.6 trillion in commercial real estate mortgages will mature between 2012 and 2016. Currently there is insufficient credit capacity for small businesses and other commercial property owners to refinance this wave of loan maturities, which could result in higher loan defaults and delinquencies—further endangering economic recovery.

### Expand Credit Union Small Business Lending

Credit unions are restricted from lending beyond 12.25% of their total assets to member businesses.

### Enact Covered Bonds Legislation

Exacerbating the pullback in bank lending, another key source of commercial real estate credit—the CMBS market—is only beginning to recover from near-zero levels in 2009. As this market struggles to rebound, the creation of a covered bond market in the U.S. will be essential to address ongoing commercial real estate refinance challenges. Already successfully used in Europe and Canada, covered bonds allow banks to raise funds by issuing a pool of high-quality assets (typically real estate loans) to investors, which are backed both by the bank's promise to repay and by the assets pledged as collateral. This dual recourse nature is attractive to investors. Therefore, banks who issue bonds have a stake in assuring the long-term viability of the mortgages underlying the bond.