Sign-On: Bipartisan Letter to Treasury and Fed on Commercial Real Estate Relief

Sending Office: Honorable Van Taylor
Sent By: Laura.Lyon@mail.house.gov

Request for Signature(s)

Please join Rep. Taylor, Rep. Heck, Rep. Barr, and Rep. Lawson in sending a letter to Treasury Secretary Steven Mnuchin and Federal Reserve Chairman Jerome Powell requesting economic support for the commercial real estate (CRE) market, especially for those with commercial mortgage-backed security (CMBS) debt.

As you know, businesses of all types and sizes have experienced revenue declines and cash flow problems, making it difficult to meet monthly debt obligations. Actions by Congress and other federal agencies have provided critical assistance to many businesses suffering due to the pandemic through programs such as the Paycheck Protection Program and Main Street Lending Programs. However, for many borrowers in the commercial real estate market these various response programs do not fit their needs.

Industries (hotel, retail, multi-family housing, office, industrial) with CMBS debt have a particular challenge in that their loan covenants are governed by multiparty state law contracts which typically prohibit additional indebtedness. Further, because bondholders of CMBS trusts expect principal and interest payments to be maintained, the flexibility to modify loans may take longer due to the CMBS servicing process. If this $540 billion market is left without assistance, we may witness a historic wave of foreclosures in the fall, permanently destroying jobs for Americans.

Please join us in advocating for a lending facility to be implemented to help these industries who were in good standing before this unforeseen crisis and through no fault of their own have seen a significant drop in revenue due to the pandemic.

The deadline for signatures is **Wednesday, June 17th at COB**. If you would like to sign-on or have questions, please contact either Laura Lyon (laura.lyon@mail.house.gov) with Rep. Taylor's office, Rina Wulfing (rina.wulfing@mail.house.gov) with Rep. Heck's office, Dan Taylor (dan.taylor1@mail.house.gov) with Rep. Barr's office,or Amber Milenkevich (amber.milenkevich@mail.house.gov) with Rep. Lawson's office.

Sincerely,

Van Taylor	Denny Heck	Andy Barr	Al Lawson
Member of Congress	Member of Congress	Member of Congress	Member of Congress

Dear Secretary Mnuchin and Chairman Powell,

We applaud the ongoing efforts of the Department of Treasury and the Federal Reserve to stand-up lending facilities to stabilize the economy and provide liquidity to businesses severely impacted by this unprecedented pandemic. We write to express our concern about the looming crisis in commercial real estate adversely impacted by the COVID-19 pandemic, including the $540 billion Commercial Mortgage-Backed Security (CMBS) market that, if left unchecked, may lead to a wave of foreclosures, exacerbating the current downturn in the U.S. economy and ultimately result in permanent job loss in multiple industries and communities across the country. We request the Federal Reserve devise a relief plan for these borrowers, who through no fault of their own, have experienced a significant drop in revenue on account of the COVID-19 pandemic and related governmental orders.

As you know, businesses of all types and sizes have experienced revenue declines and cash flow problems, making it difficult to meet monthly debt obligations. For many of these businesses, actions by Congress and other federal agencies have encouraged lenders to continue servicing loans while working with borrowers to provide forbearance plans. Unfortunately, for CMBS borrowers the rigidness of their service agreements constrains them from obtaining relief from their servicer, who is under obligation to maintain principal and interest payments to bondholders. Further, CMBS loan covenants typically prescribe that taking on additional debt triggers recourse, negatively impacting the bond ratings of the CMBS trust. For these distressed borrowers, the various federal response programs, including the Main Street Lending Program, do not fit their needs, and the servicers' limited contractual flexibility to modify loans.

As of May, the overall CMBS delinquency rate hit 7.15%, up from April's 2.29%, according to Trepp. The all-time high for CMBS delinquencies is recorded at 10.34% in July 2012. Due to COVID-19, we are witnessing the CMBS market accelerate towards delinquency at a much quicker rate than the 2008 financial crisis. What took years to progress towards historical delinquency rates, now comes in a couple months, with the possibility of June numbers surpassing the recorded all-time high. Some of the hardest-hit industries, such as lodging and retail, who already have delinquency rates of 19.13% and 10.14% respectively, drive these climbing CMBS delinquency rates.

Without a long-term relief plan in the face of an elongated crisis, CMBS borrowers could face a historic wave of foreclosures starting this fall, impacting local communities and destroying jobs for Americans across the country. Further, surrounding property values and state and local tax revenues will plummet, worsening the recession, and removing critical revenue from local communities.

The challenges facing commercial real estate are not confined to the CMBS market. Many commercial properties with traditional financing continue to struggle due to the economic hardship created by the COVID-19 pandemic, despite the actions to-date by Congress, the Administration, and individual lenders. Additional relief is necessary where actions thus far have failed to address the growing market challenges. We encourage the Federal Reserve and Treasury to evaluate the challenges to the full commercial real estate ecosystem, as additional assistance is structured.

The Federal Reserve has the ability to bridge the gap through various facilities to help many businesses survive this economic disruption. We must focus on maximum continued employment through a facility that enables participation by multiple hard-hit industries. Without an inclusive program, we may see large sectors of certain industries never recover. We believe an opportunity exists for responsible federal government investment in the commercial real estate market to provide a pathway to stabilize affected properties, the local jobs and businesses they enable, and the neighborhoods they serve.

We request that the Department of Treasury and the Federal Reserve urgently consider targeted economic support to bridge the temporary liquidity deficiencies facing commercial real estate borrowers created by this unforeseen crisis.

Respectfully,