April 2017

Contacts

Jeff Adler
Vice President & General Manager of Yardi Matrix
Jeff.Adler@Yardi.com
(800) 866-1124 x2403

Jack Kern
Director of Research and Publications
Jack.Kern@Yardi.com
(800) 866-1124 x2444

Paul Fiorilla
Associate Director of Research
Paul.Fiorilla@Yardi.com
(800) 866-1124 x5764

Chris Nebenzahl
Senior Analyst
Chris.Nebenzahl@Yardi.com
(800) 866-1124 x2200

Justin Dean
Real Estate Market Analyst
Justin.Dean@Yardi.com
(800) 866-1124 x2071

Trade Groups in Effort to Fix Bank Lending Rules

To help banks struggling to deal with regulations on commercial mortgage lending that were enacted in 2015, a group of real estate trade organizations are working to introduce legislation that would clarify the rules.

The confusion involves so called high-volatility commercial real estate (HVCRE) loans originated by commercial banks, which encompass loans on acquisition, development and construction loans. The regulations went into effect in January 2015 and are interpreted by examiners at the Office of the Comptroller of the Currency (OCC), Federal Deposit Insurance Corporation (FDIC) and Federal Reserve.

The regulations—part of new rules enacted via Basel III in the wake of the last financial crisis that are intended to de-risk bank balance sheets—require banks to set aside 50 percent more capital on loans deemed to be high-risk.

> "Over the next three years, over $1 trillion—or approximately $1 billion a day—in commercial real estate debt is maturing."
>
> —Chip Rodgers Jr., Real Estate Roundtable

Banks say that the added costs makes them less competitive versus other lenders. Martin Schuh, head of government relations for trade group CRE Finance Council, said the HVCRE regulations add as much as 50 basis points to the cost of a loan. The diminished competitive position of banks has led to the rapid growth of non-regulated lenders such as private equity funds and foreign capital.

"Over the next three years, over $1 trillion—or approximately $1 billion a day—in commercial real estate debt is maturing. So, maintaining adequate credit capacity is vital for commercial real estate," said Chip Rodgers Jr., senior vice president of the Real Estate Roundtable (RER). "The HVCRE Rule is disproportionally affecting bank commercial real estate lending and contracting much needed credit to the sector."

What's more, from the time the rules were enacted, banks have complained that the HVCRE rules as written were unclear and that guidance from the various agencies in charge of compliance was often contradictory. Confusion was evident in early 2015 when banks reclassified loans already on their books to comply with HVCRE. Call reports from 1Q 2015 showed some banks classified as much as 90 percent of

To Subscribe
Hollie Zepke
Audience Development Specialist
Hollie.Zepke@Yardi.com
(800) 866-1124 x5389