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Congress Eyes New Bill to Aid CRE

By Erika Morphy

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WASHINGTON, DC-A bill in the House of Representatives, soon to be mirrored by one introduced in the Senate, could provide more liquidity to the still-struggling commercial real estate sector.

Set to be introduced by Rep. Walt Minnick (D. - ID) with co-sponsors from both parties, the legislation would allow the Treasury Department to provide between $15 billion to $25 billion in guarantees on new loans to commercial real estate projects. Essentially Treasury would guarantee investment-grade bonds backed by small-balance loans for $10 million or less, **Dow Jones reports [http://online.wsj.com/article/bt-co-20100721-712496.html]**.

It would also collect fees of 2% of the underlying loan. A board in the Treasury Department would set the underwriting criteria and oversee the program. Sens. Charles Schumer (D. - NY), Mike Crapo (R. - ID) and Bob Corker (R. - TN) are expected to introduce the companion measure in the Senate. Getting the bill passed seems to be a long-shot in the current political environment although the House sponsors have told reporters they feel optimistic.

But even if the bill becomes law, at best it would be a limited salve to complicated and multi-layered problems facing the commercial real estate finance space. "The lending restrictions that lenders have in place are so onerous I don't think the bill can make a difference," Peter Framson, head of Green Light Retail Real Estate Services, tells GlobeSt.com. One reason for that, he said, is that many lenders have not entirely cleaned up their books and are unwilling to extend themselves further until they do.

Then there is the fact that demand for new commercial space is nonexistent, Framson, whose specialty is retail, continues. "Financing for rolling over debt, fine. Or acquisition financing, fine. We really need new development, but I don't see that happening, even with all the financing in the world. Tenants just aren't there yet."

What the bill could do is jumpstart small-loan CMBS, Adam Weissburg, partner with Cox Castle & Nicholson, speculated. Another government program, TALF, of course, has been credited with providing the initial push that got the CMBS market moving, even if at a crawl, again.

"By directing at small commercial loans, the legislation is targeting those on 'Main Street' who need the help the most-small property owners," Weissburg says. "By providing this type of bond support, any legislation would be seeking to take a Fannie Mae approach to solve the problem, by providing bond holders the credit enhancement of the full faith and credit of the US."

Weissburg has his doubts it will work. "There are still systemic problems with CMBS loans, most notably how they will be rated and what the required hold of the issuing/originating lender will be." Still, he adds, this approach could significantly and positively address a third issue with conduits, namely whether or not investors believe they will be repaid. "If this has the desired effect, it could go a long way in the effort to re-establish confidence in securitized markets."