

April 30, 2020

Via electronic submission – www.regulations.gov

The Honorable Jerome H. Powell
Chairman
Board of Governors of the Federal Reserve
System
20th Street and Constitution Ave NW
Washington, DC 20551

The Honorable Steven T. Mnuchin
Secretary
Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, D.C. 20220

The Honorable John C. Williams
President and Chief Executive Officer
Federal Reserve Bank of New York
33 Liberty Street
New York, NY 10045

The Honorable Mark A. Calabria
Director
Federal Housing Finance Agency
400 7th Street, SW
Washington, DC 20219

RE: Request for Support of CRE CLOs in TALF

Dear Sirs:

We appreciate that the Federal Reserve System and U.S. Department of the Treasury took immediate and extreme steps to shore up confidence in, and the stability of, the financial system and commercial and multifamily real estate markets when events related to COVID-19 began to severely impact financial markets and the economy. On behalf of the commercial and multifamily real estate finance industry, we are grateful for the announcement on April 9, 2020, to include outstanding private-label commercial mortgage-backed securities (CMBS) in the Term Asset-Backed Securities Loan Facility (TALF).

The commercial and multifamily property markets represent an important and significant component of the U.S. economy, contributing \$1.14 trillion to U.S. GDP in 2019, which translates into 18.1% of total U.S. GDP.¹ Given the size and breadth of this market in terms of job creation and economic growth generation, the importance of the commercial and multifamily lending community and its role in providing the lifeblood – liquidity – to commercial and multifamily property owners suggests that further steps should be taken.

We ask that AAA legacy and new-issue CRE CLOs be included as eligible collateral in TALF. The CRE CLO market is an important term-funding mechanism for non-bank lenders without direct access to the Federal Reserve System who provide an integral source of commercial and multifamily mortgage financing for properties in transition.

¹ Source: NAIOP, "Economic Impacts of Commercial Real Estate, 2020 U.S. Edition." Assumes a multiplier effect or the total value of goods and services generated directly and indirectly as a result of construction and related expenditures within the U.S.

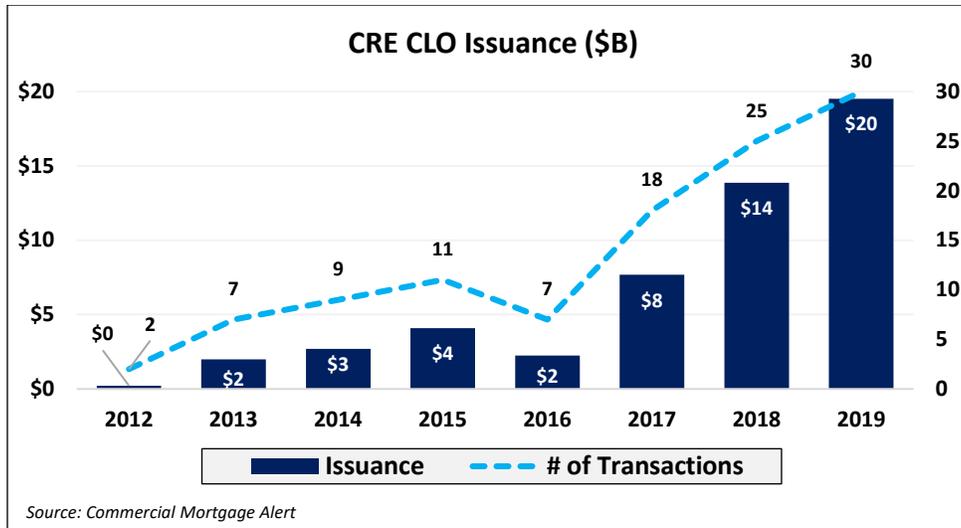
CRE CLOs

CRE CLOs are secured by first mortgages secured by multifamily and commercial properties in transition to create improved places for Americans to live and work. Most CRE CLO lenders are publicly traded commercial mortgage REITs, private mortgage REITs, or private debt funds. For the publicly traded commercial and multifamily mortgage REITs, data show that retail investors comprise the largest percentage of investors, many of whom stand to be negatively impacted by today's crisis if commercial mortgage REITs suffer significant stresses or losses.

Transitional properties are generally existing properties that are in the process of reaching stabilization, undergoing renovation, or undergoing strategic repositioning. They include rehabilitation of an existing structure, rather than new construction. Properties can become "transitional" as tenant rollover causes income to decline or as properties age and become outdated and unable to achieve market rents. Such properties usually require injections of capital expenditures (often with proceeds from a transitional loan) that are needed to fund a new business plan that may span two to three years. Owners of transitional properties will look to these types of lenders to provide the funding needed to re-stabilize these properties once the COVID-19 crisis eases. Transitional properties in CRE CLOs, once stabilized, may be refinanced by CMBS loans through the agency and private-label CMBS markets as part of one contiguous ecosystem.

It is important to note that nationwide concerns over affordable housing will be exacerbated if non-bank lenders cannot rely on a functioning CRE CLO market. Of the approximately \$34.3 billion of CRE CLO securities currently outstanding, over 40% are supported by multifamily properties, many of which are older, naturally occurring affordable housing (NOAH) that accommodate lower-income tenants. Many transitional loans are obtained by property owners to renovate workforce housing, for which access to mortgage capital is limited. Non-bank transitional lenders are often the providers of such financing, with the GSEs stepping in to provide longer-term financing once the properties have stabilized. Without the CRE CLO liquidity that brings lower cost and dependable funding, it will be difficult for property owners to renew older properties to maintain the current supply of affordable rental housing.

CRE CLO issuance has increased steadily over the last several years as the structure has become more standardized, and investors and issuers have gained familiarity with the market. Issuance rose from <\$1 billion in 2012 to \$20 billion in 2019 via 30 CRE CLO transactions. The sector accounted for 17% of all private-label CRE securitizations last year and, as of 1Q20, the market stood at \$34.3 billion outstanding in CRE CLOs. In addition, performance has been strong with no rating agency downgrades, and numerous upgrades. Furthermore, the delinquency rate has been quite low as the managers of the vehicles typically have the right to buy out troubled assets, and, pre-COVID19, have demonstrated a willingness and ability to do so.



The importance of the CRE CLO market as a provider of liquidity to transitional commercial and multifamily real estate assets cannot be overemphasized. This will be especially true as we emerge from the COVID-19 pandemic during a time when owners will need financing to get their assets back up and running.

We respectfully request that the Board of Governors of the Federal Reserve, the Federal Reserve Bank of New York, the Department of the Treasury, and the Federal Housing Finance Agency act quickly and decisively to restore liquidity in multifamily and commercial mortgage markets by including new-issue CMBS as well as legacy and new-issue AAA-rated CRE CLOs in TALF. Thank you for considering this urgent request.

Sincerely,

- American Hotel & Lodging Association
- American Seniors Housing Association
- Asian American Hotel Owners Association
- Building Owners and Managers Association (BOMA) International
- The CCIM Institute
- CRE Finance Council
- The Institute of Real Estate Management
- International Franchise Association
- Mortgage Bankers Association
- NAIOP, the Commercial Real Estate Development Association
- National Apartment Association
- National Association of Convenience Stores
- National Association of Home Builders
- National Association of REALTORS®
- National Multifamily Housing Council
- National Retail Federation
- Retail Industry Leaders Association
- The Society of Industrial and Office REALTORS®