Real Estate Roundtable Calls for a CRE Troubled Debt Restructuring Program

The association says a TDR is needed to help CRE borrowers and lenders.

By Erik Sherman

The Real Estate Roundtable called on regulators to reinstitute a "troubled debt restructuring (TDR) program for commercial real estate that would give financial institutions increased flexibility to refinance loans with borrowers and lenders."

Worry about liquidity in the industry is understandable. As GlobeSt.com has frequently reported, many projects are caught. Initial financing several years ago came under historically low rates and favorable terms. As the need to refinance comes up, many investors find themselves pressed by higher rates and lower loan-to-value ratios, which can make deals unviable.

"The approximately $20 trillion commercial and multifamily commercial real estate market is financed with $5.5 trillion of debt, 50.3% of which is provided by commercial banks (in general, conservative leverage when originated). Of that outstanding debt, approximately $936 billion of CRE and MF debt is maturing in 2023 and 2024," the Roundtable said in a letter to federal banking regulators. The concern is that with rising rates, CRE borrowers may not have many options and might have to add considerable equity that could "be expected to result in significant job losses, small business closures, greatly reduced municipal revenue, countless bankruptcies and foreclosures."

"At this critical time, it is important that the Agencies do not engage in pro-cyclical policies such as requiring financial institutions to increase capital and liquidity levels to reflect current mark to market models," the group continued. "These policies would have the unintended consequence of further diminishing liquidity and creating additional downward pressure on asset values. A deflationary spiral must be avoided at all costs. As recent events are only amplifying the contraction of credit, it is important for the Agencies to take measures to maintain sufficient liquidity levels and support positive economic activity."

The paragraph underscores a troubling dichotomy facing the Federal Reserve, in particular. Silicon Valley Bank and Signature Bank were both closed by regulations after bank runs that left them unable to give depositors their money, and so insolvent. The increase in interest rates have undercut the value of long-term bonds that many banks hold, meaning they have lower assets than they had.

A new study suggests that this bond devaluation coupled with high amounts of uninsured deposits that fueled the Silicon Valley bank run exists in 186 other banks, any of which could find itself unable to survive an unusual high level of withdrawals because of two factors. And yet, the Fed is also rightly concerned that lowering interest rates or otherwise adding liquidity to the economy could spark more inflation, causing a different problem.