

## NAR Issue Summary

# Commercial / Qualified Commercial Real Estate (QCRE) Loan Regulations

### **NAR Committee:**

Commercial Legislation and Regulatory Advisory Board

### **What is the fundamental issue?**

A portion of the Dodd-Frank Act, the "commercial risk retention rule," is scheduled to go into effect on December 24, 2016. The rule is intended to cause institutions that package securities to have 'skin in the game' - it requires a 5% risk retention obligation for a CMBS sponsor. As written, the rule treats certain commercial real estate loans as being particularly risky. The Qualified Commercial Real Estate (QCRE) definition exempts some loans from the risk retention requirement. QCRE loans are provided the exemption from the risk retention requirements based on positive historical performance of the loans. In particular, the language would allow for Single Borrower/Single Credit transactions to be considered QCRE loans. However, as currently written, QCRE only includes 4% of all outstanding commercial loans.

### **I am a real estate professional. What does this mean for my business?**

Should this rule go into effect as written, it will translate into higher borrowing costs in communities across the country. CMBS provides financing to retail, office, apartments, industrial, health care and many other types of commercial real estate. The QCRE exemption would allow more CRE loans to be freed from the heavier cost burdens of the risk retention categories, but as currently written is too narrow to alleviate much of the negative impact of the risk retention rules.

### **NAR Policy:**

NAR supports legislative and regulatory activity that eases and increases lending to commercial real estate. NAR works to oppose policy changes that would restrict lending.

### **Opposition Arguments:**

Commercial real estate lending is a volatile sector of the economy and should be held to closer scrutiny.

### **Legislative/Regulatory Status/Outlook**

NAR supports making modest changes to the QCRE exemption from the commercial risk retention rules, widening it to include certain low-risk CMBS transactions. CMBS are important sources of financing for commercial real estate projects of all kinds, and are especially important in secondary and tertiary markets. Arbitrarily reducing liquidity in the CMBS market will reduce liquidity across the board and raise borrowing costs for commercial real estate loans in all markets.

NAR supports H.R. 4620, the Preserving Access to CRE Capital Act, sponsored by Rep. French Hill (R-AR), which would widen the QCRE exemption to the commercial risk retention rules to include Single Asset/Single Borrower CMBS. In February 2016, NAR sent a letter of support for this bill to the House Financial Services Committee, as well as joined an industry coalition letter. The bill was approved

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by the House Financial Services Committee on February 29, 2016.

### **Current Legislation/Regulation (bill number or regulation)**

[H.R. 4620, the Preserving Access to CRE Capital Act](#)

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