AR-2020
Comment Letter No. 15

The Real Estate Roundtable

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April 1, 2020

The Honorable Jay Clayton
Chairman
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Mr. Sagar Teotia
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Gentlemen:

The Real Estate Roundtable[1] (www.rer.org) is pleased to provide the Financial Accounting Standards Board (FASB) and the Securities and Exchange Commission (SEC) with comments regarding the need to suspend the new Current Expected Credit Losses (CECL) accounting standard during the current COVID-19 crisis.

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) allows financial institutions to delay the implementation of the CECL methodology to the earlier of (i) the termination of the COVID-19 national emergency or (ii) December 31, 2020. On March 27, 2020, the federal banking regulators issued an interim final rule allowing lenders required to adopt CECL (effective January 1, 2020) to delay the estimated impact on regulatory capital by up to two years. The bank regulators would provide for a three-year transition period after 2022 to phase out the "capital benefit" provided during the two-year delay in CECL. For banks that have already adopted CECL, they will have the option of choosing a three-year transition period (which was made available under the 2019 rule), or the five-year option, including the two-year delay. This delay should apply to all companies.

[1] The Real Estate Roundtable and its members lead an industry that generates more than 20 percent of America's gross national product, employs more than 9 million people, and produces nearly two-thirds of the taxes raised by local governments for essential public services. Our members are senior real estate industry executives from the U.S.'s leading income-producing real property owners, managers and investors; the elected heads of America's leading real estate trade organizations; as well as the key executives of the major financial services companies involved in financing, securitizing, or investing in income-producing properties.

This optional delay should also be immediately applied to all companies, including non-banking entities. While CECL is expected to have the greatest impact on banks (which typically have extensive financial instrument portfolios), even non-banking entities are very likely to hold financial instruments within the scope of CECL.

U.S. commercial and multifamily real estate encompasses approximately $16 trillion in income-producing assets, supported by over $4 trillion in debt – mostly provided by commercial banks, life companies and commercial mortgage backed securities (CMBS). Commercial banks are the primary source of credit for the commercial and multifamily real estate market. As such, they play a critical role in supporting the important role that real estate plays in contributing to overall economic growth, job creation, and contributing tax revenue to state and local jurisdictions. Yet a number of other non-bank finance companies play a significant role in providing essential liquidity to the $16 trillion commercial real estate industry. A growing number of Americans have a stake in healthy commercial real property markets because of their investments in pension and retirement plans.

The industry now faces its worst liquidity challenge since the Great Financial Crisis. Compounding the problem, commercial real estate is now feeling the impact of the economic downturn and related job losses. Liquidity in these markets has dried up. This will cascade through the industry and exponentially increase the pressure on the financial system.

The new CECL standard changes the way banks calculate reserves on assets, requiring banks and non-banking finance companies to estimate the expected loss over the life of a loan. For real estate, there is concern that this new standard will exacerbate the current liquidity crisis. Based on these concerns, we encourage the Board to suspend application of the new CECL standard for all companies until the COVID-19 crisis is over. It is vital to maintain all necessary liquidity through this current crisis.

We appreciate the opportunity to provide constructive commentary to the Board and the SEC on this important issue. Should you have questions or require additional information, please contact Clifton E. Rodgers, Jr., by telephone at (202) 639- 8400 or by email at crodgers@rer.org.

Sincerely,

Jeffrey D. DeBoer
President and Chief Executive Officer