Congressional Oversight Panel Analyzes Commercial Real Estate Losses and the Risk to Financial Stability

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For Immediate Release

Wave of Refinancing Could Overwhelm an Already Weakened Financial System Community Banks at Greatest Risk

WASHINGTON, D.C. - The Congressional Oversight Panel today released its February oversight report, "Commercial Real Estate Losses and the Risk to Financial Stability." The Panel is deeply concerned that a wave of commercial real estate loan losses over the next four years could jeopardize the stability of many banks, particularly community banks, and prolong an already painful recession.

Commercial real estate (CRE) loans made over the last decade - including retail properties, office space, industrial facilities, hotels and apartments - totaling $1.4 trillion will require refinancing in 2011 through 2014. Nearly half are at present "underwater," meaning the borrower owes more on the loan than the underlying property is worth. While these problems have no single cause, the loans most likely to fail are those made at the height of the real estate bubble. The Panel notes, however, "Even borrowers who own profitable properties may be unable to refinance their loans as they face tightened underwriting standards, increased demands for additional investment by borrowers, and restricted credit."

Community banks, unlike the largest Wall Street banks, face the greatest risk of insolvency due to mounting commercial real estate loan losses. According to federal guidelines, 2,988 banks nationwide are classified as having a "CRE Concentration." None of these banks are among the 19 largest bank holding companies. Forecasts project that banks will suffer their worst losses well after the timeframe examined by the stress tests - an exercise conducted only on the nation's 19 largest bank holding companies - and well after Treasury's authority expires under the Troubled Asset Relief Program (TARP).

The Panel found that "a significant wave of commercial mortgage defaults would trigger economic damage that could touch the lives of nearly every American." When commercial properties fail, it creates a downward spiral of economic contraction: job losses; deteriorating store fronts, office buildings and apartments; and the failure of the banks serving those communities. Because community banks play a critical role in financing the small businesses that could help the American economy create new jobs, their widespread failure could disrupt local communities, undermine the economic recovery and extend an already painful recession.

The full report is available at cop.senate.gov.

The Congressional Oversight Panel was created to oversee the expenditure of the Troubled Asset Relief Program (TARP) funds authorized by Congress in the Emergency Economic Stabilization Act of 2008 (EESA) and to provide recommendations on *regulatory reform. The Panel members are: former Securities and Exchange Commissioner Paul S. Atkins; J. Mark McWatters; Richard H. Neiman, Superintendent of Banks for the State of New York; Damon Silvers, Policy Director and Special Counsel for the AFL-CIO; and Elizabeth Warren, Leo Gottlieb Professor of Law at Harvard Law School.*