Upcoming Bank Regulations Could Make CRE Lending Even Tighter

In an already tricky financing environment, the last thing most commercial real estate (CRE) borrowers want to hear is that banks may soon have to tighten their requirements even further.

A new proposal from the Federal Reserve, Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation (FDIC), however, is aimed at getting them to do just that. The three regulatory bodies are currently pushing for adoption of a new set of requirements outlined by the international Basel Committee on Banking Supervision.

These requirements, which were devised in the wake of the Global Financial Crisis in 2007-2008, are aimed at ensuring large banks remain stable by upping the amount of capital they need to keep on hand to manage their lending risk.

Re-Evaluating Risk

In the current US regulatory environment, banks can use their own internal criteria to determine how much capital they need to keep on hand to counterbalance lending activity, like mortgage-lending.

Under the new proposed regulations, however, regulators will impose external standards on how risk is calculated. The move is intended to reduce the risk of banks collapsing as a result of improperly accounting for credit risks.

Quoted in a recent Bisnow article, FDIC Chair, Martin Gruenberg, notes: “The proposed changes would improve the consistency and transparency of capital requirements, and would enhance the ability of supervisors and market participants to make independent assessments of a banking organization’s capital adequacy, individually and relative to its peers.”

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Lending Shift

A potential side effect, if the measures come to pass, is that CRE lending activity may shift towards private equity, and there could be a higher cost of capital for CRE players.

Naturally, that shift isn't sitting well with bankers. As JPMorgan Chase CEO, Jamie Dimon, puts it: "This is great news for hedge funds, private equity, private credit, Apollo, Blackstone. They're dancing in the streets."

Bisnow reports that other banking institutions which have raised the alarm include the American Bankers Association and the Bank Policy Institute.

All Those Opposed

Another group which has been vocally opposed to the proposed changes is the Mortgage Bankers Association (MBA), which released a statement shortly after the measures were announced.

MBA President and CEO, Bob Broeksmit, states: "The large increases in capital standards will likely stunt macroeconomic growth and reduce banks' participation as single-family and commercial/multifamily lenders, servicers, and providers of warehouse lines and mortgage servicing rights financing."

In the statement, the MBA also expressed its intention to make recommendations for mitigating the adverse effects the legislation could have on commercial and multifamily markets if adopted as is, adding: "MBA strongly opposes key aspects of this proposal and will work with our members and other industry stakeholders to formulate our full response."

The expected phase-in of the new regulations is from 2025-2028, and opposed parties have until November 30th this year to lodge any comments on the proposal.