



## International Council of Shopping Centers

ISSUE PAPER

### Credit Crisis

- More than \$300 billion in commercial real estate loans will mature in 2009, from a variety of sources.
- In 2008, CMBS originations were \$12 billion, compared to \$230 billion in 2007.
- Approximately 85% of domestic banks and 65% of foreign banks reported that they have tightened their lending standards on commercial real estate loans.

**Position:** ICSC believes that the government should utilize a variety of financial and tax oriented tools to repair the credit markets, reduce impediments to debt restructuring, encourage banks to extend performing loans and allow for more flexibility in the Fair Value Accounting rules.

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**Background:** Many member companies of ICSC are experiencing an unprecedented lack of credit capacity from any source while simultaneously grappling with the aftermath of the worst holiday shopping season in 40 years.

Retail real estate entered the economic downturn in relative balance, with vacancy rates far below those of the last severe commercial real estate downturn in the early 1990s. Despite this moderate strength, the commercial real estate industry is in jeopardy.

Banks are not extending performing loans and the \$900 billion Commercial Mortgage Backed Securities (CMBS) market has come to a standstill, despite low delinquency rates.

**Current Activity:** ICSC has a four-point plan to help mitigate the impact of the nation's credit crisis:

1. **Repair the Credit Markets:** ICSC calls for immediate expansion of the Term Asset-Backed Securities Loan Facility (TALF) to include AAA rated CMBS. This facility would allow for the extension of new credit as well as assist in refinancing existing loans held by banks or in CMBS.
2. **Reduce Potential Impediments for Loan Modifications:** ICSC requests increased flexibility in the real estate mortgage investment conduit (REMIC) rules in order to facilitate reasonable loan modifications and debt restructuring. Similar to efforts to help residential loan modifications, Congress and the Treasury Department should lessen the tax consequences and liability associated with making loan modifications.
3. **Verify that Banks Extend Performing Loans:** ICSC calls on Congress to end the mixed messages that banks receive from their regulators regarding extending credit to performing commercial borrowers by requiring banks to report on the number of performing loans they extend.
4. **Update the Fair Value Accounting Rules:** ICSC remains concerned regarding the unintended consequences of mark-to-market accounting. Real economic losses should be recognized, but the recognition of losses that do not have a basis in economic reality is unsustainable. Appropriate changes in mark-to-market accounting should happen immediately to stop the spiral of accounting driven financial losses.

**Summary:** With no liquidity, commercial borrowers face a growing challenge of refinancing maturing debt and the resulting threat of rising foreclosures and delinquencies. Over the next few years commercial real estate loan maturities will increase and a wave of defaults will further exacerbate the current credit crisis, causing another potential collapse of our nation's financial services industry.