

Reprinted from

**S&P Global**

Market Intelligence

# Regulators aim to make commercial real estate lending easier

By Zach Fox

March 21, 2017

Regulatory relief for community banks appears to be on the way, and the changes will likely make commercial real estate lending easier.

Banking regulators on March 21 issued a joint report to Congress on their efforts to reduce regulatory burden. Most notably, the report stated that regulators were considering changes to the capital treatment of risky commercial real estate, mortgage servicing assets and certain deferred tax assets.

Separately, regulators are also developing a proposal to increase the threshold for commercial real estate appraisals to properties worth \$400,000, meaning commercial real estate below that amount would not require an appraisal.

The sprawling 430-page report was issued jointly by the main banking regulators: the Federal Reserve, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corp. and the National Credit Union Administration. The report was completed under the Economic Growth and Regulatory Paperwork Reduction Act, a 1996 law that requires regulators review potentially burdensome regulation every 10 years.

On capital treatment, the report noted that agencies are considering amendments for community banks that would replace the existing framework's treatment of high-volatility commercial real estate, a classification that requires a capital weighting of 150%. Regulators indicated the replace-

ment would be "a more straightforward treatment" focused on acquisition, development or construction loans.

Regulators are also developing proposals to simplify the regulatory capital treatment of mortgage servicing assets, timing difference deferred tax assets and "regulatory capital instruments issued by financial institutions."

On appraisals, regulators said they are working on a proposal to increase the threshold for commercial real estate loans to \$400,000 from \$250,000. That proposal will include an information-gathering directive on potentially raising the \$1 million threshold for real estate-secured business loans.

And regulators want to make appraisals easier for rural properties. A regulatory committee is allowed to issue temporary waivers for appraisal requirements in rural areas under certain conditions, and regulators pledged to work with the committee to streamline the waiver process.

All of the proposals still need to be issued by regulatory agencies and then will be subject to the regular notice-and-comment periods.

Also, regulators noted that the agencies are planning to issue "a proposal for comment" to consider raising the thresholds under the Depository Institution Management Interlocks Act, which prohibits management officials of depositories with at least \$2.5 billion in total assets from serving as a management official of any depository with at least \$1.5 billion in assets.