APPROPRIATIONS FULL COMMITTEE HEARING ON FY2011 BUDGET & ECONOMIC OUTLOOK WITH PETER ORSZAG, TIM GEITHNER, AND CHRISTINA ROMER

10:00AM–MARCH 16, 2010, 2325 RHOB

HEARING TRANSCRIPT FROM REP. KEN CALVERT EXCHANGE WITH TREASURY SECRETARY TIM GEITHNER ON COMMERCIAL REAL ESTATE MARKETS

Chairman OBEY. Mr. Calvert.

Mr. CALVERT. Thank you, Mr. Chairman. I apologize, I was away for a while. I was on the floor. And this may have been brought up, which is the problem with the commercial real estate sector at the present time.

As you know, commercial real estate values throughout the United States are literally collapsing, going down as much as 40 percent, 50 percent in some areas. And most experts assume that this continuing collapse in commercial real estate values will continue through 2011, 2012.

Deutsche Bank just did, in a recent study, of about $1.4 trillion in outstanding. commercial paper, a significant part of that will come due by 2013. Almost half of it is underwater.

As you know, a lot of these small and midsized banks are primarily exposed to these commercial loans. And the regulators in day-to-day activities aren't helping much, especially on the performing assets. We have performing assets where people are making their payments, making their tax payments, making their insurance payments, are current, and yet the bank is bringing them in because of appraised values and telling them to come in with a significant capital call, which they can't do in this credit market.

And what the banks are doing is taking back the property, having to put it in the loan loss side of their ledger, which is taking credit away from these banks, because they don't have the money.

So what can we do—this wouldn't, from my perspective, cost the government anything. If banks have discretion on performing assets, why aren't the banks given discretion to footnote that these assets—and they are assets—are current and can be treated as an asset rather than a liability on the balance sheet?

Secretary GEITHNER. You are right about the problem, and you are right that we have a ways to go to get through the broader adjustment in commercial real estate that is still ahead of us. And we discussed it a little bit when you were away, but I think, again, the two most important things we can do in this area is to make sure that small community banks, which have a lot of commercial real estate exposure, have the ability to come take capital from the government to help make sure they don't have to cut lending further to their business clients.

But, also, we can—and we have been continuing to work with the bank supervisors, so they are providing guidance to their examiners and that message gets out across the country that they don't, frankly, overreact, overreact to decline in the value of collateral and they look at the broader cash flows, earnings potential of the company as a whole, as they are looking at loan classification decisions.

Mr. CALVERT. I have a limited time. If the gentleman would let me reclaim my time.

I will tell you, in the real world right now, I know of people who have shopping centers, 100 percent full shopping centers, paying their bills, and yet they are still getting capital calls on those loans, which makes zero sense.

Secretary GEITHNER. No, I think you are right. I hear these stories across the country. I think you are right to emphasize them. And I just need to underscore that the bank supervisors, which are independent of the Treasury—I don't have the capacity to direct what they do, in this case—are working to provide a little bit more balanced guidance to lean against just the practices you are shining a light on. And I think they can probably do a better job of getting the message out to——

Mr. CALVERT. But this also goes back to the mark-to-market provisions. And I understand that there may be, from my perspective, a step back in this economy where you have an overcorrection in value, where we ought to take a look at relaxing those mark-to-market provisions on performing assets. Because, under the accounting rules, they are going to continue to deflate—this is going to continue to deflate these values. And that is not going to be helpful in trying to get this economy moving again.

I am fearful—I don't know if you are—that this commercial real estate problem is so huge that it could put us back into a double-dip recession.

Secretary GEITHNER. I do not believe it poses that risk at the moment. I think, again, it is going to be a challenge——

Mr. CALVERT. We thought the same thing about the housing market.

Secretary GEITHNER. We did. But I think this is different, and our financial system is in a much stronger place today to weather those remaining challenges.

As you know, the FTC and the FASB are looking at a whole range of broad reforms to accounting practices in the United States. And I think they would be happy to talk to you, to respond to any questions you have about how to think about the role fair value accounting can play in mitigating these kinds of pressures in the future.

Mr. CALVERT. Thank you, Mr. Chairman.

——

[From the Press-Enterprise PE.com, Mar. 18, 2010]

PREVENT A DOUBLE-DIP RECESSION

(By Ken Calvert)

A recent P-E article cited local economic forecasts that suggested the Inland Empire will continue to lose jobs well into 2010 (''Small businesses still pessimistic,'' March 12). As residents know all too well, the drastic downturn in residential construction and international trade has significantly impacted our region's economy.

Businesses hire when they see an economic opportunity to increase the sale of the goods or services, not when the government provides a one-time tax credit to hire. When businesses are ready to grow, they often need financing in order to make big purchases. However, small businesses around the country are struggling to get the credit necessary to grow as banks tighten lending standards in the aftermath of the financial crisis on Wall Street.

Businesses may find it even harder to obtain credit as they begin confronting liquidity challenges in the commercial real estate market. Recent analysis conducted by Deutsche Bank analysts indicates that of the almost $1.4 trillion in commercial real estate mortgages due by 2013, as many as 65 percent may struggle with refinancing, even if they are performing loans that are completely current.

If the conditions in the commercial real estate market deteriorate further, the negative effects will be significant and widespread. If community banks are forced to close or further tighten lending standards, small businesses will find it even harder to obtain financing sources and our economy will lose its tenuous grasp on a recovery and dip back further into recession.

Due to this growing economic threat, I spearheaded a bipartisan effort to raise these concerns to Treasury Secretary Timothy Geithner and Federal Reserve Chairman Ben Bernanke. In a letter to the regulators, 78 of my colleagues and I proposed that a clear method for measuring the effectiveness of recently announced commercial real estate loan modification guidance should be established. Also, the letter called on the officials to institute metrics that will allow banks to more clearly differentiate performing versus nonperforming loans in order to treat them appropriately.

The regulators also should give banks the flexibility to account for performing loans as an asset, not a liability, something that could be achieved with a simple change in accounting practices. This would actually increase transparency as well as free up capital that could be loaned out into the market. Most important, the fix would not cost a dime to American taxpayers or require any form of a bailout.

Our current economic situation could aptly be called the speculators' recession and, if the administration does not take action, this second dip would be known as the regulators' recession.

No legislation is needed for the fix. The administration can address the liquidity issues facing small businesses and the commercial real estate market by providing correct guidance to the bank regulators. A proactive and engaged response can prevent a doubledip recession and ensure small businesses can grow and start hiring again.

The SPEAKER pro tempore. Under a previous order of the House, the gentleman from Oregon (Mr. DEFAZIO) is recognized for 5 minutes.

(Mr. DEFAZIO addressed the House. His remarks will appear hereafter in the Extensions of Remarks.)

The SPEAKER pro tempore. Under a previous order of the House, the gentleman from Texas (Mr. PAUL) is recognized for 5 minutes.

(Mr. PAUL addressed the House. His remarks will appear hereafter in the Extensions of Remarks.)

## RETIRE SHUTTLE TO HOUSTON

The SPEAKER pro tempore. Under a previous order of the House, the gentleman from Texas (Mr. OLSON) is recognized for 5 minutes.

Mr. OLSON. Mr. Speaker, I rise today to express my support for housing one of the remaining space shuttle orbiters in Houston upon the end of the space shuttle program. The shuttle program can be counted among our Nation's greatest achievements. Scientists and engineers envisioned and created reusable vehicles to ferry astronauts, experiments, and supplies back and forth from space to Earth. They have done so now over 100 times, with three more flights to go.

The flights and missions of Columbia, Challenger, Atlantis, Discovery, and Endeavour are some of our Nation's proudest achievements, and much like the programs before it, this program has captured our Nation's imagination and taught us more about our universe and ourselves than we ever thought