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The next crisis: Commercial real estate

By Jennifer Liberto, senior writer February 11, 2010 3:50 AM ET

WASHINGTON (CNNMoney.com) -- A congressional watchdog panel warned on Thursday that mounting commercial real estate losses could endanger the banking system and thwart economic recovery.

A total of \$1.4 trillion in commercial real estate loans will require refinancing in the next four years, the Congressional Oversight Panel said in a report. More than half of those loans are underwater, written for properties whose value has dropped like a rock.

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The expected losses when loans go bad could hit between \$200 billion to \$300 billion and threaten 3,000 small and mid-size banks with a disproportionate share of commercial real estate assets on their books, according to the panel.

The report is intended to "wave a red flag" to the White House and Congress that the commercial real estate loan market is going to get a lot worse before it gets better.

"We're at a point where even as TARP is ramping down another major challenge in our economy is ramping up," said Elizabeth Warren,

the oversight panel's chairwoman. "We need to start now, before the system is on the brink of collapse to figure out a plan," she added.

The panel's research found that 2,988 banks are heavily invested -- with more than three times their assets tied up -- in commercial real estate loans. Of that number, 2,500 banks each have less than \$1 billion in assets.

Indeed, many such smaller banks have already failed. Small bank failures will intensify sharply over the next few years," Warren said.

"When commercial properties fail, the result is a downward spiral of economic contraction, as these are the same small banks that create jobs and boost economic activity," she said.

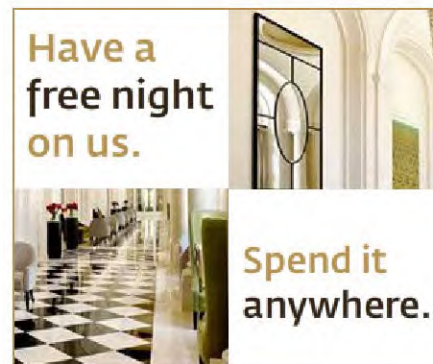
Solutions: The panel offers a number of possible solutions for policymakers to head off a commercial real estate crisis. For example, it says the Treasury Department should "stress test" banks that are concentrated in commercial real estate loans.

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Treasury Secretary Tim Geithner said at a congressional hearing last fall that "it is not realistic or feasible" to review such a large number of banks in a detailed level.

The oversight panel also suggested that the federal government should consider other remedies, including injecting capital into these small banks, buying their toxic assets or guaranteeing loans.

Bank regulators could also simply allow banks to extend underwater loans rather than requiring them to recognize losses, but the panel worries that such a move could delay a rebound in bank lending. But the panel also worries that massive writedowns throughout the banking system could stymie lending and create a "negative bubble."

"There's a need for a nuanced response," Warren said. She said that banks should recognize some commercial real estate losses, but that regulators should monitor them closely to ensure that losses don't spiral downward and drag down the larger economy. ■

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10-year Bond	97 14/32	Yield: 3.68%
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February 10, 2010 12:00 AM ET

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Ah, but "CHANGE" is coming, really. The Obama administration is between a rock and a hard place, and it seems they're at a loss as to the solutions. With so many economic problems facing Washington, and little progress taking place, it's just a matter of time before the bottom falls out from under us. We can only hide the seriousness of our economic collapse so long before it becomes obvious that the hole is just too damn deep to climb out of.

Bank failures, foreclosures, bankruptcies, debt, unemployment, lost tax revenue, two wars, and business failures, are just too much at one time for Washington to adequately deal with.



Ara Francisk 3:03 am

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