Testimony of Todd Lindsey
July 29, 2010

Thank you for the opportunity to testify today.

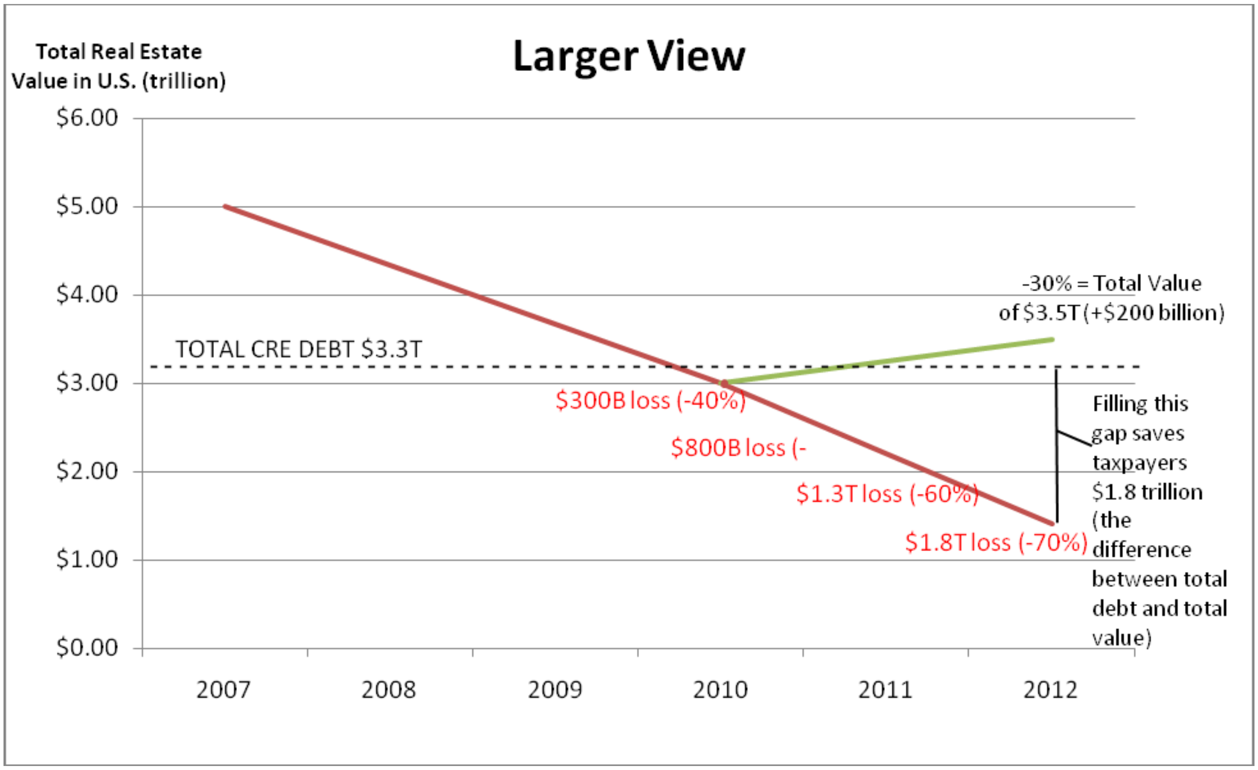
Over the last 15 years, our credit markets have become increasingly reliant on, and structured around securitization. Leading industry experts and government officials, including Secretary Geithner and Chairman Bernanke, have stated that a functioning securitization market is a vital part of our credit market and the economic recovery.

Over the last 24 months, much has been done by the government and private industry to stabilize the credit markets, including a portion of the securitization market. Much has been accomplished and we have, thus far, avoided a complete collapse of the financial system.

The residential real estate, consumer credit, and corporate credit markets have stabilized, in large part, because of successful government programs targeted at those particular markets. The commercial real estate credit market has been largely left behind, and now poses significant risk to the fragile credit system and economic recovery.

In 2007, the value of all US commercial real estate was approximately 5.5 trillion dollars. According to the February 2010 congressional oversight panel report on commercial real estate, values have declined by 40 percent. This decline in value has destroyed over 2 trillion dollars of equity in the last 24 months. Further declines will create greater losses, a majority of which will be absorbed by the banking system and ultimately the taxpayer.

The simplified graph shown below, outlines the significant risks to the economy created by continued deterioration of the commercial real estate market.



It is important to understand that the banking system is capitalized with 1.2 to 1.4 trillion dollars. Real Estate losses of the magnitude demonstrated in this graph would have catastrophic consequences to the US banking system.

It should be pointed out, many commercial real estate transactions today are reflecting reductions of value of 70 percent or greater. The lack of a functioning commercial credit market has been and will continue to be, a major cause of these declines.

In 2007, the commercial real estate securitization market provided 240 billion dollars of funding to the commercial real estate sector. Since that time, the commercial securitization markets have been shut down.

With economic, regulatory, and accounting risks clouding the market, the future of securitization is unclear.

In short, without some sort of government assistance the securitization markets are unlikely to provide any significant credit to the commercial real estate market. Because commercial real estate loans generally do not fully amortize over the loan term, the nation's stock of commercial loans is refinanced on a regular basis. It is estimated that 1.3 trillion dollars of loans will reach maturity in the next 36 months.

A majority of smaller balance commercial real estate loans are on the balance sheets of the nation's community banks, but because of both capital and regulatory constraints, many banks are not in a position to make new loans, or refinancing their existing loans.

The bill we are discussing today is designed to jump-start the private Commercial Mortgage Backed Securities ("CMBS") market. The CMBS market is well known by market participants, and has demonstrated the ability to facilitate the funding of large numbers of loans. Currently, the credit system has neither the functional or capital capacity to fund projected loan volumes.

This bill directs the Treasury to guarantee bonds backed by newly originated commercial real estate loans. The taxpayer will be protected in the following ways:

1. A large guarantee fee will be paid to the Treasury. This fee will be structured to offset the costs and losses of the program and hopefully generate substantial profit to taxpayers.
2. Only new loans underwritten in accordance to guidelines, developed by industry experts, will be included in the program.

3. All properties will be re-appraised at today's market valuations. Making loans at a low point in the real estate cycle has historically been very safe.

This program is not a "silver bullet". It is also not a bailout for financial institutions. It does not artificially increase value of commercial real estate. It is intended to simply support the extension of reasonable credit to the commercial real estate sector.

I look forward to any questions you may have on the market or this program in general. Thank you for your time and attention to this important issue.