https://www.wsj.com/articles/new-legislation-would-aid-cash-strapped-commercial-property-owners-11596015001

MARKETS

New Legislation Would Aid Cash-Strapped Commercial-Property Owners

Bill would create funding vehicle to help CMBS borrowers make their mortgage payments

The owner of a Fairfield Inn & Suites in Charleston, S.C., says he is two months behind on mortgage payments and has struggled to get debt relief.

PHOTO: RICHARD PIETRAFESA

By Ben Eisen
July 29, 2020 5:30 am ET

Lawmakers are introducing a bill to provide cash to struggling hotels and shopping centers that weren't able to pause mortgage payments after the coronavirus shut down the U.S. economy.

The bill, expected Wednesday, would set up a government-backed funding vehicle businesses could tap to stay current on their mortgages. It is meant in particular to help those who borrowed in the $550 billion market for mortgages that are packaged into bonds and sold to Wall Street.

Many of these business owners struggled to get relief on their mortgages after coronavirus forced them to shut down or cut back, leaving them at greater risk of foreclosure. Some 10% of loans in these commercial mortgage-backed securities were 30 or more days delinquent at the end of June, including nearly a quarter of loans tied to the hard-hit hotel industry, according to Trepp LLC.

"The numbers are getting more dire and the projections are getting more stern," said Rep. Van Taylor (R., Texas), who is sponsoring the bill alongside Rep. Al Lawson (D., Fla.)

The proposal marks the latest effort to help a corner of the financial markets that many business owners and trade groups feel was left behind when the federal government began rolling out measures to allow homeowners and businesses to pause their debt payments.

CMBS borrowers, particularly in the hotel industry, say they have had little luck getting relief on their loans. They typically must work with special servicers, which are hired by bondholders to negotiate on their behalf and abide by rigid loan provisions. They have been slower and less generous than traditional bank lenders, borrowers told The Wall Street Journal.

Representatives for servicers have said the relief process is complex, and that servicers won't foreclose on properties without having a conversation with borrowers first.

Under the proposal, banks would extend money to help these borrowers and the facility would provide a Treasury Department guarantee that banks are repaid. The funding would come from a $454 billion pot set aside for distressed businesses in the earlier stimulus bill.

Richard Pietrafesa owns three hotels on the East Coast that were financed with CMBS loans. They have recently had occupancy of around 50% or less, which doesn't bring in enough revenue to make mortgage payments, he said.

He said he is now two months behind on payments for one of his properties, a Fairfield Inn & Suites in Charleston, S.C. He has money set aside in a separate reserve, he said, but his special servicer hasn't allowed him to access it to make debt payments.

"It's like a debtor's prison," Mr. Pietrafesa said.

Any struggling commercial borrower that was previously in good financial standing would be eligible to apply for funds to cover mortgage payments. However, the facility is designed specifically for CMBS borrowers.

Many of these borrowers have provisions in their initial loan documents that forbid them from taking on more debt without additional approval from their servicers. The proposed facility would instead structure the cash infusions as preferred equity, which isn't subject to the debt restrictions.

The preferred equity would be considered junior to other debt but must be repaid with interest before the property owner can pull money out of the business.

Mr. Taylor led a bipartisan group of more than 100 lawmakers who last month signed a letter asking the Federal Reserve and Treasury to come up with a solution for the CMBS issues. Treasury Secretary Steven Mnuchin and Fed Chairman Jerome Powell have indicated that this may be an issue best addressed by Congress.

Some in the industry have said that efforts to help the CMBS market would disproportionately benefit a handful of large real-estate owners, rather than small-business owners.

Mr. Taylor said the legislation is focused on saving jobs. The hospitality industry, for example, is responsible for a large share of recent job losses.

“This started with employees in my district calling and saying ‘I lost my job,’” Mr. Taylor said.

Write to Ben Eisen at ben.eisen@wsj.com