

What: Could \$3 trillion in CRE exposure at commercial banks lead to disorderly management of bank CRE holdings adding further stress to the CRE industry?

Our View:

We believe regulators are focused on the risks in bank CRE holdings and are positioning banks to manage CRE positions in an orderly manner.

The July 2023 Joint Regulators [Policy Statement](#) permits banks flexibility to work with stressed CRE borrowers while reducing the risk, or criticism, of ‘adverse classification’ for those banks that implement prudent accommodations to these borrowers.

- We expect to see widespread extensions to manage the wall of maturities as a result of this policy, which we believe will minimize CRE loan defaults at banks (we expect the motivations and processes of CMBS special servicers to drive similar extended workouts).
- In the event of any bank failures, we believe regulators are unlikely to liquidate failed bank CRE assets at low prices or in a disorderly manner. We note the Dec 2023 FDIC sale of Signature Bank CRE assets where the FDIC retained an 80% interest in the portfolios and provided financing.

How LibreMax is Positioning:

Given the current level of bank CRE exposure, and risks associated with these holdings, we expect a continued reduction in banks’ new CRE lending. We expect this will provide an opportunity for non-bank lenders and could result in maturity extensions on many existing loans. Accordingly, we have been seeking to actively deploy capital in selected funds where we see opportunities around this thesis.

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