

Blog Post

## The Line Reports from the CMSA: Part I - "Foam on the Runway" and the Reform of Capitalism

Posted on **January 20, 2010** by Peter K. McKee, Jr.

In a blunt and candid assessment of financial regulatory reform, Senator Bob Corker (R- Tennessee), ranking Republican on the Senate Finance Committee, addressed the Commercial Mortgage Securities Association's Annual Investors' Conference in Washington, DC yesterday on a range of issues affecting commercial real estate. Sen. Corker has become the lead negotiator for the Republicans on financial regulatory reform, and described a bipartisan group of four Democrats and four Republicans trying to forge a policy consensus on systemic risk and resolution authority (the "too big to fail" issue).

While he was quick to point out that the results of the Brown-Coakley special election in Massachusetts could "change everything" (and—as we go to press— indeed it has, by depriving Democrats of a filibuster-proof Senate), Sen. Corker said that the Senate wanted to erase "too big to fail" from the government's vocabulary, and remove the government from future financial bailouts. While elements of the Administration concur (including, notably, the FDIC), he described the Treasury Department as a holdout. Treasury officials want the latitude to use government money as "foam on the runway" in the event of another financial crisis. Efforts to tighten down language in proposed legislation to define those limits have not yet succeeded. This is a matter of significant importance to Sen. Corker's cohort, because they see the recurrence of "moral hazard"-type risks if a government bailout of distressed large financial institutions appears possible again.

"We should define capitalism so that failure happens, but, in the case of large institutions, it has to be orderly." Sen. Corker added that they were considering special bankruptcy tribunals as one approach, or other resolutions that would leave the failed institution out of business. "It's a receivership, not a conservatorship."

The audience was told not to expect any government program directed to benefit commercial real estate. "I'm not sure what the purpose of that would be, or why we'd want to do that," he said, pointing to his informal polls of CRE participants that reflected divergent viewpoints depending on their particular economic positions. Rather than having the government pick winners and losers, Sen. Corker instead advocated for reducing the uncertainty that government action can create. He is concerned about federal intervention in the markets, and said the public is suspicious of government's being so involved.

*The Line's* take? Sen. Corker's remarks opened a fascinating window into the interplay between the legislative and administrative aspects of policy. It is striking how critical the government's role has become to commercial real estate finance in such a short time—whether through financial regulatory reform, say-on-pay proposals, financial responsibility taxes on the largest banks, or the dominance of GSEs in providing multifamily finance. There is a shared sense that private capital has to return for markets to be healthy, but that the transition to that goal will be neither simple nor quickly attained. Underscoring the monumental nature of the task, Sen. Corker pointed out that the United States is the first country to attempt financial reform after the global recession, and the world will be watching our efforts.

Tomorrow's post will include re-caps of the remarks of Eric Cantor (R-Virginia), Republican Whip in the U.S. House of Representatives, and Sheila Bair, head of the FDIC, to the CMSA Conference.