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Banks Returning to CRE Lending via Multifamily, Owner-Occupied Properties

Health Care, Energy Industries Helping Spur New Loan Demand

It's not a big hook to hang a hat on, but the small increase in some commercial real estate loan balances on bank books at the end of the year serves as yet another indication of thawing lending markets for property investors.

Overall loan balances on bank books posted their largest real growth in four years, according to year-end numbers released this past week by the Federal Deposit Insurance Corp. (FDIC).

As far as CRE lending goes, it was a 50/50 split between good and bad news. Total loans outstanding for owner-occupied CRE and multifamily properties saw a modest increase year over year -- from $452.6 billion to $457.2 billion for owner-occupied and from $212.7 billion to $218.5 billion for multifamily.

However, those small increases were offset by a minor dip in multi-tenant CRE property loan balances from $550 billion to $543.8 billion, and another huge drop-off in construction and development lending -- from $321.5 billion to $240.2 billion.

Take out the 25% year-over-year decrease in construction and development loan balances and CRE loan balances increased $4.2 billion. This isn't much but it was the first such increase since 2009.

Total assets of insured institutions increased by $76.1 billion (0.6%) at year-end 2011, as loan balances rose by $130.1 billion (1.8%). This was the third consecutive quarter in which total loan balances increased.

Residential mortgage loans also increased by $26 billion (1.4%), following a $23.6 billion increase in the third quarter.

Investment securities portfolios increased by $61.6 billion (2.2%), with mortgage-backed securities rising by $45 billion (2.8%).

One other bright side to the loan numbers for the CRE industry was that overall loan growth was led by commercial & industrial (C&I) business loans, which rose by $62.8 billion (4.9%), accounting for almost half of the total increase in loans and leases during the quarter. C&I loans have increased in each of the last six quarters.

C&I loans to small businesses (C&I loans in original amounts of $1 million or less) increased by $2.8 billion (1%). This is the first time in the seven quarters for which data on quarterly changes in these loans are available that small C&I loan balances have increased.

The latest Federal Reserve survey of senior bank loan officers, known as the Beige Book, sheds a little more color on the sentiment and markets behind the CRE and business loan increases.

Lending Conditions Still Weak in the Southeast
Reports on banking conditions were generally positive across the Federal Reserve's 12 banking districts. Lending increased to varying degree in the New York, Philadelphia, Richmond, Chicago, Dallas, and San Francisco districts. Lending was little changed in St. Louis and Kansas City; while loan demand was

described as weak in Richmond and soft at regional banks in Atlanta.

Demand for business credit was flat to slightly higher in Cleveland and increased slightly in Richmond, San Francisco, and at some large banks in Atlanta. Dallas reported strength in middle-market and large corporate lending, and Chicago noted that business loan growth continued at a moderate pace.

Demand for residential mortgage loans increased in New York, Richmond, and Kansas City; mortgage demand was flat to moderately stronger in St. Louis and softened in Kansas City. Cleveland noted increases in requests for commercial real estate lending, while contacts in Chicago and San Francisco noted improvement in the availability of credit for this sector. Meanwhile Philadelphia and Kansas City reported flat or steady commercial real estate lending.

Demand for commercial real estate loans was flat to moderately stronger in St. Louis.

Overall lending standards remained restrictive in San Francisco and Richmond and were largely unchanged in St. Louis and Kansas City. Lending standards tightened further for commercial borrowers in New York. Credit conditions in Chicago improved slightly, while quality improved in Philadelphia and Kansas City. Delinquencies were steady or declined in Cleveland. Mortgage delinquencies were steady in the New York District but delinquencies decreased in other loan categories.

Health Care, Energy, Multifamily Spurring Demand

In the Cleveland district, demand for business credit was described as either stable or slightly higher. Requests were being driven by commercial real estate, including spec building, and health care. Any drop-off was attributed to seasonal factors.

In the Richmond district, while most construction loans other than for multifamily buildings remained limited, several bankers reported an increase in loans for owner-occupied facilities and their furnishings (mostly to medical professionals). Credit standards remained tight, but most bankers reported that their lending targets were increasing this year, even though competition for quality loans was intense.

In the Atlanta district, several large banks noted some growth in outstanding C&I loans; in part, a result of loan acquisitions from other institutions and continued growth in areas such as energy and health care.

In the Chicago district, improvements in the availability of credit were noted for commercial real estate, particularly for large apartment buildings. Banking contacts indicated that loan growth continued at a moderate pace with demand from larger businesses being stronger than that from small to mid-sized companies. Even though contacts thought the economic outlook was more positive, they indicated that borrowers and investors remain cautious, citing uncertainty about future tax code changes and risks abroad, in particular those emanating from Europe.

In the Kansas City district, the majority of bankers reported improved loan quality compared with a year ago, and many bankers expected loan quality to improve further during the next six months.

In Dallas, financial firms reported a modest uptick in loan demand. National banks reported strength in middle-market and large corporate lending activity, and several regional banks noted energy-related activity was robust. Loan pricing remained moderately aggressive, loan quality continued to improve and problem loans were declining. Respondents noted they were willing to make loans, and borrowers' financial positions were reportedly better than last year.

Reports from the San Francisco district suggested that businesses generally remained very cautious in regard to capital spending decisions, but many continued to invest in information technology equipment aimed at enhancing productivity. Moreover, many businesses expect to modestly increase their capital spending in the first half of the year compared with the second half of last year, suggesting that growth in business loan demand may continue. The reports also noted continued stiff competition among lenders to extend credit to well-qualified small and medium-sized businesses, placing further downward pressure on loan rates and fees. Strong recent financial performance by technology companies backed by venture capital reportedly has spurred further investments of late.

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