

Update on Commercial Loans – September 26, 2011

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As we have been active in working with property owners on loans the past several months, the following may be helpful to you on multi-family and commercial loans. The bottom line is that banks are returning back to lending and on larger projects may be willing to work out troubled loans:

New Loans (Purchases & Refinances)

Multi-family Loans. In the arena of multi-family loans, we are seeing a return to "business" as usual. There has been strong competition among multi-family lenders, including Chase, Union Bank, and others to offer the best deal on multi-family refinances and purchases. On timing, some borrowers are reporting delays, but others are proceeding okay. While a large percentage of multi-family loans remain multi-family refinancing, there is a growing percentage of financing for property purchases.

For new (purchase) loans in multi-family, the driving force has been a slow increase in multi-family properties sold involving better properties. (A lot of lower quality "Class C" properties are on the market currently). Better properties are starting to enter the market, with low interest rates on new loans helping to close the buyer-seller price gap. For example, 7-year fixed, 1 point had declined in August to below 4.5% (for no yield maintenance requirement on early payoff) and remain below 5% currently. The securitized, nonrecourse loans, are returning to the market for both multi-family and commercial properties. Loan to value ratios are safely up to 70% but will sometimes be up to 75%. Whether this will continue to grow will depend on whether prices will increase with rents (and lower vacancy rates), encouraging more sellers to place their properties on the market - leading to sales, and of course new financing. Because Section 1031 exchanges are not driving sales, financing is not expected to return to the volume seen from 2005-2007.

General Commercial Real Estate. While the recession has hit bottom, lenders are cautious with respect to loans for new construction on commercial projects. For many the question has been "what new construction?" as both builders and lenders are hesitant to proceed with financing for the construction of spec buildings. Lenders are committing for performing refinance and build-to-suit properties. Loan to value ratios vary. Lenders are comfortable overall with 60% on better properties, but may loan higher to 70% on strong properties. The number of new loans are expected to remain relatively low from historic levels, particularly in the Central Valley area.

Existing Troubled Loans.

For troubled, nonperforming loans, not all is lost. As lenders turn to their troubled commercial properties, there is a bifurcation between larger and smaller commercial properties. On larger properties, with guarantors in poor condition, lenders are willing to negotiate for loan modifications of 1 to 2 years based on

the expectation of an improvement in the commercial market in order to get loans back into performing condition. This may include changes in interest rate and payment, but, obviously, the bank will require loan modification charges and possibly back interest to be added to the principal due. For those seeking modifications, a major key will be modification of standard loan covenants to avoid the loan from returning to nonperforming status immediately at execution. Because major metropolitan areas were less affected, a lot of the loan modifications are occurring in the Central Valley, Inland Empire and certain areas of former growth, such as in Napa County.