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Contacts

**Jeff Adler**

*Vice President & General  
Manager of Yardi Matrix*  
Jeff.Adler@Yardi.com  
(800) 866-1124 x2403

**Jack Kern**

*Director of Research and  
Publications*  
Jack.Kern@Yardi.com  
(800) 866-1124 x2444

**Paul Fiorilla**

*Director of Research*  
Paul.Fiorilla@Yardi.com  
(800) 866-1124 x5764

**Chris Nebenzahl**

*Institutional Research Manager*  
Chris.Nebenzahl@Yardi.com  
(800) 866-1124 x2200

## Regional/Local Banks Eat More of the Commercial Mortgage Pie: When is Enough?

- Commercial banks are lending at a healthy clip. Since 2012, commercial and multifamily mortgage holdings of the nation's 5,300 banks have grown by 37.3% to \$1.8 trillion.
- Growth is a function of banks searching for higher-yielding investments, the stellar performance of the sector, strong borrower demand and weak volume in other lending products.
- Regional and local banks are the fastest-growing segment of the commercial bank sector. In recent years, the largest growth in commercial mortgage portfolios on both an absolute and percentage change basis has come from banks with total assets of less than \$100 billion. The largest banks are also increasing commercial mortgage holdings, but more incrementally.
- While leverage levels remain firm, banks are winning deals through aggressive pricing, and are increasingly being laxer on terms such as recourse and debt-service covenants. Although commercial mortgages are rapidly growing as a share of the economy, lending standards have not deteriorated as much as during the cycle that led to the financial crisis.
- Banks with less than \$100 billion in assets—which encompass more than 97% of the sector—on average devote a much larger percentage of their assets and total loan books to commercial real estate than larger banks.
- Risks include the lack of diversity in mortgage portfolios, rising interest rates, the mismatch in financing long-term assets with short-term funds and a potential downturn in real estate performance. Although regional/local banks don't rise to the level of "systemically important," a downturn could have a broad impact on the market.