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Largest U.S. Banks Shrinking CRE Loan Balances

Liquidity Still Strong as Smaller Banks, CMBS Lenders More Than Pick Up the Slack

The nation's 25 largest banks, which collectively control more than $11 trillion in assets, reduced their exposure to commercial real estate loans across the board last month, reflecting an ongoing change in the CRE finance markets and a softening in loan demand.

The amount on the largest banks' books for construction and development, multifamily and nonresidential loans were all down at the end of January compared to year end, according to weekly Federal Reserve Bank data. This was the first time all three have dropped in the same month since the Federal Reserve started tracking the individual categories in January 2015.

Leading the decline was a $2.7 billion drop in nonfarm, nonresidential loans - an annualized decline of more than 7.5%. This is fifth consecutive month the category has shrunk and the seventh time in the last eight months. It was the largest month-to-month decline. Over the last eight months, the amount of nonresidential commercial loans has dropped by $7.6 billion.

In their fourth quarter earnings conference calls over the last few weeks, several of the nation's largest banks reported that some CRE deal activity was being pushed further into 2018, a resurgent CMBS market and competition from smaller banks and even life insurers were also taking away business.

Some of the decline can be attributed to pipelines being a little softer going into the year following year-end deal activity, said John Turner, president and head of Regions Financial Corp. (NYSE:RF) Corporate Banking Group. But he added, that Regions has also intentionally been shrinking and de-risking its investor real estate book.

Clarke Starnes, chief risk officer at BB&T Corp. (NYSE:BBT) told analysts they were bullish on very high quality office and industrial opportunities right now.

"It's still a very aggressive marketplace," Starnes said. "We're doing larger more institutional lease supported projects, pretty low risk. So we think that as an opportunity that we're probably underpenetrated in and we can grow safely within our risk appetite."

Weekly Federal Reserve numbers also show construction and development loans dropped -- by $700 million in January from year-end- also an annualized decline of more than 7.5%.

CRE loan growth continues to be challenged in this area, bankers said. The surge of construction projects started two and three years ago are now starting to be paid off with the proceeds from long-term, fixed rate permanent financing. And demand for new construction and development loan financing has been tapering off for the last five quarters, according to Federal Reserve information.

Also declining was the amount of multifamily loans on the books of the 25 largest banks. The amount decline by just $100 million - an annualized percentage of less than 1%. However, it was the fourth time in the last six months, large banks reported fewer multifamily loans.

The top 25 banks also told analysts in the past few weeks they were hopeful that increased multifamily would come back because of the favorable CRE components with the tax bill.

While the largest 25 banks are seeing shrinking CRE loan assets all of the other U.S. banks continue to grow their holdings in all three categories. Construction and development loans were up in January from year-end by an annualized 11.9%; multifamily was up an annualized 6% and nonfarm, nonresidential was up an annualized 4.7%.

Thomas Cangemi, chief financial officer of New York Community Bancorp (NYSE:NYCB) reported a 40% slowdown in transaction activity. But he and other bankers said they were banking on renewed activity this year due to fact that the commercial real estate investor was a substantial winner of the tax cut package passed in December.

"We believe - we're hoping that that this will now see some life towards the real estate end market because it's a very attractive tax advantage business to be in, given the most recent changes in the tax code," Cangemi said. "We don't drive that. We just lend to it. And we're seeing some very positive signals that people are looking at opportunities in that environment. So, we think property transactions will start to pick up if you compare 2018 versus 2017."