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Fantini & Gorga lender survey: Competition heats up

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We have just completed our first quarter survey of the most broadly active fixed-rate lenders - banks, insurance companies, and conduits What's the news?

* Conduits have returned to the market, providing significant new competition, but mostly for loan amounts of $10 million plus.
* Loan rates have risen with the indexes (Treasuries, LIBOR swaps, FHLB advance rates), while spreads over the indexes have remained fairly steady.
* Each of the main debt providers - insurance companies, conduits, and banks - has carved out particular areas to be dominant in.

Key trends
(from www.fantinigorga.com)

The primary news from the real estate capital markets is the steady advance of securitized lenders (conduits) as a force in lending on cashflowing real estate. We list them with the "other" lenders, but in future surveys expect to put them in their own matrix again, as we did until 2008.

The number reporting to us doubled this quarter. There are at least 20 credible originators of mortgage loans for the secondary market.

This survey covers loans on cash flowing real estate. For construction loans, agency lenders, equity, and other transaction types or capital sources see the Fantini & Gorga Master Money Matrix series at www.fantinigorga.com/publications.

Conduits have done enough securitizations since mid-2010 to have a good handle on pricing.

* Most conduits are pricing off LIBOR swaps, with spreads in the 215-230 bps range, and no floors. This provides 10 year terms in the "mid to high 5's." The 5-year loans are particularly popular, with rates that are often under 5%.
* The conduits' main limitation is that most are doing loans only in the $10 million plus range. Thus, they are not offering serious competition to banks and insurance companies in the "middle market" space of $2-$10 million loans - at least not yet.
* Conduits typically offer 5-year and 10-year terms only. They cannot compete with insurance companies for the wide variety of terms (3-30 years).
* Conduits continue to have broader underwriting criteria than insurance companies. The conduits will accept somewhat more lease roll (and escrow for it), consider secondary markets, and underwrite lower-quality assets.

Insurance companies are increasing their funding targets, and have capacity to write any loans that meet their criteria. Several experienced lenders have returned to the market after standing on the sidelines for as much us two years. Here are today's parameters:

* Insurance companies remain dominant in providing fixed rates for more than 10 years, even to

25-30 years. They also offer aggressively priced 3-5 year terms.

* Rates are now commonly quoted over like-term treasuries, or in some cases over swaps. Fewer lenders quote minimum coupons. This is partly because treasury rates have risen, putting the quoted spreads in a rate range that the lenders find attractive. Most rates are now "in the 5's," dropping "into the 4's" for shorter terms and rising "into the 6's" for 15 years and more.

* Insurance companies continue to beat banks on price in a 3-10 year fixed rate market.

* Insurance companies have a selective appetite for hotel loans - top flags, modest leverage, full service.

Regional and community banks are offering attractive terms for most cash-flowing assets in their footprints, making loan dollars fairly plentiful up to about $20 million. The big banks have opened their doors selectively for new business. Here are today's parameters:

* Rates have risen with the underlying indexes, while spreads have remained fairly constant. Community and regional banks typically price over the Federal Home Loan Bank (FHLB) advance rate see www.fantinigorga.com/links.html, with most spreads in the 200 bps - 250 bps range. Some of the larger banks quote over LIBOR swaps.

* Most bank fix rates for five years. An increasing number offer fixed rates for 7-10 years, but this results in rates "in the 6's" that are not attracting many takers.

* Banks, in a highly competitive market, are underwriting a bit less conservatively than last quarter, doing LTVS to 75% on most property types - up to 80% for apartments.

* Almost all loans have personal recourse, except for a few with high-quality real estate - and especially for apartments, where the banks compete against Fannie, Freddie, and HUD. Many banks will do non-recourse for LTVs under 50%.

Stay tuned

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