nerej
CELEBRATING 55 YEARS

Tim O'Donnell - Fantini & Gorga second quarter 2011 lender survey

May 12, 2011 - Financial Digest

Fantini & Gorga has just released its Spring 2011 Lender Survey, covering fixed-rate loans on cash-flowing real estate, at www.fantinigorga.com/publications/lendersurvey.pdf

The main news this quarter: spreads have tightened, and most conduits have dropped loan minimums to $5 million or less, so they now compete in the broad middle market.

* Conduit spreads, pricing off LIBOR swaps, have come in about 30 bps since last quarter. Rate floors have virtually disappeared.

* Most conduits now quote loans down to $5 million, sometimes less. They are staffed up to be back in the middle market lending business.

* The conduit loan structures are unchanged: 5-year and 10-year terms only, 30-year amortization except for hotels (25 years or less).

*Conduit underwriting is unchanged: 75% LTV on all asset classes (65% or less on hotels). Compared to insurance companies, conduits accept somewhat more lease roll (and escrow for it), consider more secondary markets, and underwrite lower-quality assets.

* Insurance companies remain dominant in providing fixed rates for more than 10 years, even to 25-30 years. They also win business by aggressive pricing on conservatively leveraged, high-quality assets.

* Insurance company spreads, typically quoted over like-term Treasuries, have come in about 20 bps since last quarter. Like the conduits, they have virtually abolished rate floors.

* Insurance company loan structures and underwriting are unchanged: 25-year amortization (30 years on apartments), and most loan amounts max out in the 65%-70% LTV range. Some lenders offer "75% LTV" but use conservative cap rates or debt yield that push actual loans under 70% LTV based on market appraisals.

* Banks generally are quoting the same spreads as last quarter, but will reduce spreads for transactions they really want to win, especially apartments. Community and regional banks typically price over the Federal Home Loan Bank (FHLB) advance rate. Most of the larger banks quote over LIBOR swaps.

* Almost all bank loans have personal recourse, at least on the amount of the loan that is above 50% LTV, sometimes to 60% LTV+ on apartments.

* Bank loan structures and underwriting show no changes since last quarter: most banks fix rates for 3-7 years; only a few go to 10 years. They do LTVs to 75% on most property types - but up to 80% for apartments, with a slice of recourse at the top.

Note that 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.

Stay tuned for changes when the next survey comes out in the third quarter of 2011!

Tim O'Donnell is principal at Fantini & Gorga, Boston.