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Finance: Continued Stability and Interest Rate Limbo

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Virtually every segment of the commercial finance market saw an upturn in its 2014 volume and a downturn in defaults. Commercial mortgage debt reached the highest level since the previous peak in 2007 at $2.64 trillion erasing the decline during the recession. The fourth quarter was the highest volume quarter since 2007. Overall origination volume was up 4.7 % over 2013 an increase of $119.5 billion.

Commercial banks increased their overall market share to $967 billion. They were followed by the securitized CMBS, CDO and ABS lenders at $533 billion. The agencies, MBS and GSE's ranked third with total outstanding commercial and multi-family debt at $412 billion and the life insurance industry ranked fourth with $359 billion in portfolio.

Delinquency continued to improve across all sectors. Commercial banks and thrifts saw the 30-90 day delinquency rate fall to 1.14 % from 1.75 %; down significantly from the high of 4.21 % in 2010. CMBS delinquency of 30 days or more and REO made the most improvement declining from 6.97 % to 5.11 %. Delinquencies of 60 days or more in the Life Industry, Fannie Mae and Freddie Mac all hit cyclical lows of .08 %, .05 % and .04 % respectively.

The prospect for 2015 looks similar with all sectors looking for increased volume. Both fiscal and monetary policy have added clarity from 2012 with Congress actually passing a budget for further debate and vowing to extend the debt ceiling that was breached on March 16. Janet Yellen recently cited Japan's experience as a reason for caution in raising rates. When Japan implemented a small increase in 2001, it extinguished a nascent recovery forcing the central bank to retrace. At this point the data used by the Fed is mixed with employment much stronger but drops in oil prices, retail sales and industrial production argue for staying on the current course.

Interest rates remain at 60 year lows with the ten-year treasury and ten-year swap hovering around 1.8 % and 2.8 % respectively. There is one issue of concern and that is maturing CMBS volume in the hundreds of billions of dollars in 2016 and 2017 however, if rates remain low, there may be enough mezzanine, bridge and preferred equity to prevent a debacle.