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Regulators' focus on CRE offers some pricing relief

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A number of banks have left their respective commercial real estate markets due to regulatory pressures and some bankers say the exits are beginning to lead to better pricing on credits.

Bankers said during third-quarter earnings season that they have seen a number of competitors slow CRE lending, often at the behest of regulators. The retreats have come after regulators reminded banks late last year that additional scrutiny would be applied to companies with elevated CRE concentrations.

Those thresholds were first laid out in guidance issued in 2006. But bankers say the regulatory focus carries far more weight today and has prompted some institutions with elevated CRE exposures to raise capital, slow growth or back away from their market. Those actions began in force in the late spring and after several months, have caused pricing pressure on CRE credits to subside.

"As a number of banks are starting to bump up or get concerned about the OCC guidance on real estate concentrations, competition is starting to lessen a little bit. Pricing continues to firm," Scott Hickey, chief credit officer of Green Bay, Wis.-based Associated Banc-Corp, said on his company's third-quarter earnings call.

Robert Sarver, chairman and CEO of Phoenix-based Western Alliance Bancorp., said pricing pressure on CRE loans has "modestly abated" as competitors bumped up against the concentration limits outlined in regulatory guidance.

John Kanas, chairman, president and CEO of BankUnited Inc., said he feels like the company is getting slightly better pricing on CRE loans in both its New York and Florida markets because some banks have exited the business. BankUnited said CRE loans originated in New York in the past quarter carried yields in the low 3s.

Kanas added that every bank is approaching CRE lending with greater caution, allowing for greater pricing leverage with customers. But he emphasized that such caution is warranted.

"Only fools would disregard what the regulators are pounding the table about right now," Kanas said on his company's third-quarter call.

Firmer pricing would be good news for banks, which have seen yields across various lending categories come under considerable pressure in recent years due to competition and persistently low interest rates. Yields on CRE loans have fallen as well but showed signs of stabilizing through the first six months of 2016, according to S&P Global Market Intelligence data. The median CRE yields reported by all banking subsidiaries, excluding non-traditional entities such as industrial banks, nondepository trusts and cooperative banks, declined to 4.96% at the end of the second quarter from 4.97% in the prior quarter, 5.06% a year ago, and 5.21% in the full year of 2014.

There is some hope that pricing could move higher. John Gavigan, CFO of Cincinnati-based First Financial Bancorp., noted on his company's third-quarter call that the regulatory focus on CRE has stabilized pricing and could lead to higher yields in the future.

Some banks are already reacting to the improved pricing and have looked to grow their CRE portfolios.

Executives at Memphis, Tenn.-based First Horizon National Corp. said they may be stepping up commercial real estate lending as they see more attractive opportunities. Wintrust Financial Corp. executives told a similar story but said they have become more selective when pursuing credits.

"But we also see it as an opportunity to take on selective transactions that are very profitable to us to maintain, and we are getting increased pricing on those, relatively speaking," David Stoehr, CFO of the Rosemont, Ill.-based company, said on a third-quarter call.

Scott Page, the CEO of CoBiz Financial Inc.'s banking unit, said his company has re-energized its CRE group after being out of the business for some time. He sees considerable opportunity to increase CRE lending in Phoenix after competitors have left the market due to the regulatory guidelines.

Western Alliance's Sarver said his company is using increased pricing conditions to be more selective and improve the quality of his company's loan portfolio. He said Western Alliance was more aggressive five or six years ago but now that markets have recovered and real estate prices have become frothy, the company's underwriting criteria has become more cautious than competitors.

"So, where we may have done an 80% loan to cost, today it may be 55% or 60%," Sarver said on his company's earnings call. "You can see by listening to some of these earning calls around the country, there's little land mines out there and potholes that people are stepping into and I think that will bode well for opportunities."