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As more banks exceed concentration guidance, regulators issue warning on CRE growth

By Maria Tor and Venkatesh Iyer *December 22, 2015*

The number of banks concentrated in commercial real estate loans rose during the third quarter of 2015, an SNL analysis finds, as banking agencies warn that CRE underwriting standards at banks are easing.

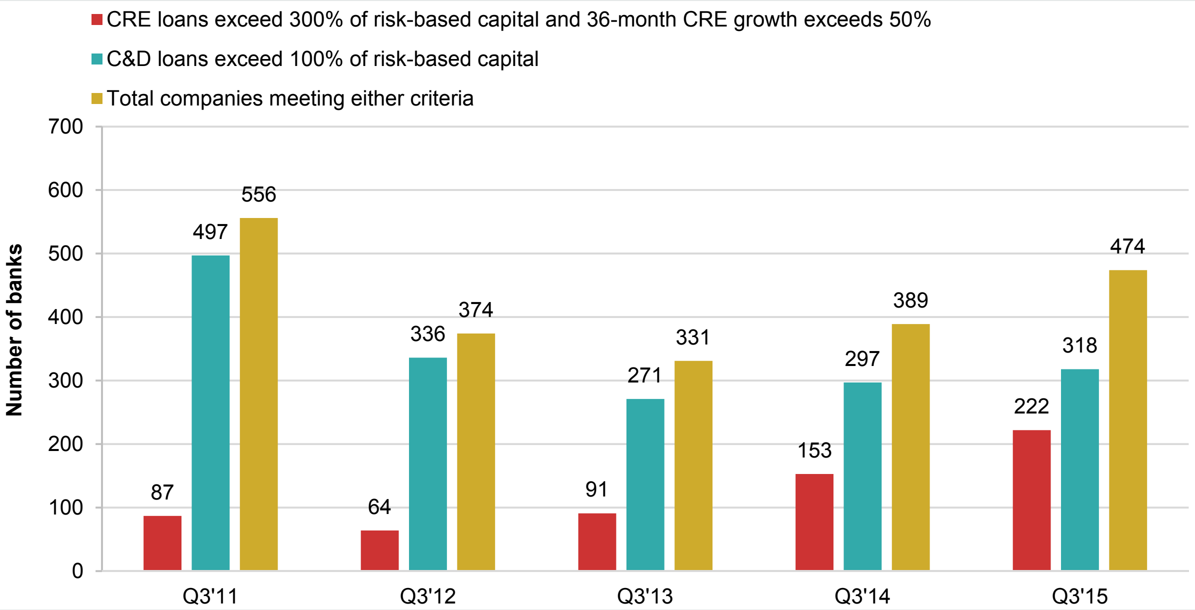
The Fed, the FDIC and the OCC issued a joint statement on Dec. 18 to remind financial institutions of existing regulatory guidance on "prudent risk management practices for commercial real estate ... lending activity through economic cycles."

The statement encouraged banks to review the 2006 interagency guidance on CRE lending, which set thresholds for CRE loans as a percent of risk-based capital. Under the guidance, if banks' CRE loans crossed the thresholds, the banks would be considered concentrated in CRE and could be subject to further supervisory analysis.

The number of banks whose CRE loans were above the recommended thresholds rose to 474 at the end of the third quarter of 2015 from 448 at the end of the second quarter and 389 at the end of the third quarter of 2014, an SNL analysis of regulatory data finds.

Commercial real estate loans, as defined in the guidance, actually comprise four different loan types reported in call reports: 1. Construction, land development, and other land loans; 2. Multifamily residential property loans; 3. Loans

Number of banks exceeding regulators' 2006 guidance on CRE concentrations



Data compiled Dec.16, 2015.
Based on regulatory filings.
Data represents currently operating and historical commercial banks, savings banks and savings and loan associations that had CRE loans greater than or equal to 300% of risk-based capital and growth in CRE loans greater than 50% over the last 36 months, or C&D loans greater than or equal to 100% of risk-based capital, at the end of each period shown.
Companies that met both criteria are included in both totals, causing overlap between the totals.
Companies that filed thrift financial reports are not included.
CRE loans = construction and land development loans + multifamily loans + nonowner-occupied property loans + commercial real estate loans secured by collateral than other real estate.
Interagency guidance issued in December 2006 outlines the following criteria for identifying institutions that may have CRE concentration risk: An institution's total CRE loans (including C&D loans), as defined in the guidance, represent 300% or more of its total risk-based capital, and its CRE loans have increased by 50% or more during the previous 36 months; OR an institution's C&D loan concentration levels represent 100% or more of its total risk-based capital.
Source: SNL Financial

Banks and thrifts exceeding both thresholds under regulators' 2006 guidance on CRE concentrations

Limited to institutions over $500 million in total assets that met both CRE guidance criteria as of September 30, 2015.

			Commercial real estate guidance			
			Criteria 1		Criteria 2	
			CRE/total risk-based capital (%)	Growth in CRE last 36 months (%)	C&D/total risk-based capital (%)	
Company (top-level ticker)	City, state	Total CRE loans ($M)	Exceeds 300%	Exceeds 50%	Exceeds 100%	Total risk-based capital ratio (%)
Affiliated Bank (BAFI)	Arlington, TX	246.3	415.78	146.26	293.45	12.52
Amboy Bank	Old Bridge, NJ	1,048.8	321.55	59.51	137.55	13.49
American Bank of Texas	Sherman, TX	1,026.9	325.94	79.87	133.09	17.36
Avidbank (AVBH)	Palo Alto, CA	234.1	394.23	74.77	170.16	10.60
Bank of New England	Salem, NH	497.3	528.79	63.38	164.07	14.00
Bank of Princeton	Princeton, NJ	416.3	427.54	67.07	127.90	11.46
Bank of the Ozarks (OZRK)	Little Rock, AR	5,256.6	408.02	238.88	193.72	11.97
Benchmark Bank	Plano, TX	168.1	356.68	176.15	237.13	10.12
Bridgewater Bank	Bloomington, MN	443.9	525.14	144.22	132.92	12.27
Capital Bank NA	Rockville, MD	245.0	346.53	120.09	166.66	12.47
Cardinal Bank (CFNL)	McLean, VA	1,631.6	394.97	79.74	109.72	11.30
Centennial Bank (HOMB)	Conway, AR	2,660.2	344.74	121.34	105.34	11.14
EagleBank (EGBN)	Bethesda, MD	2,877.0	445.21	112.62	134.15	11.23
Enterprise Bank and Trust Co. (EBTC)	Lowell, MA	616.7	302.76	67.14	100.57	10.69
First Capital Bank (FCVA)	Glen Allen, VA	250.2	371.40	60.41	165.43	12.82
First Choice Bank (FCBK)	Cerritos, CA	358.8	362.01	206.69	113.22	14.76
First Commerce Bank	Lakewood, NJ	209.4	353.73	174.67	187.18	10.33
Franklin Synergy Bank (FSB)	Franklin, TN	569.5	323.82	290.74	193.79	12.00
Icon Bank of Texas NA	Houston, TX	249.9	363.00	176.67	177.44	10.88
Independent Bank (IBTX)	McKinney, TX	1,535.6	351.11	270.77	106.13	11.73
Integrity Bank SSB	Houston, TX	211.7	306.22	75.30	119.73	13.57
Inwood National Bank	Dallas, TX	698.2	333.70	146.76	127.52	13.12
John Marshall Bank (JMSB)	Reston, VA	467.3	409.34	80.76	148.55	13.53
Monument Bank	Rockville, MD	246.2	512.83	67.67	132.26	11.33
MVB Bank Inc. (MVBF)	Fairmont, WV	482.6	371.22	144.24	150.69	12.60
Post Oak Bank NA	Houston, TX	311.2	303.66	92.76	121.49	13.03
Southwest Bank	Fort Worth, TX	659.9	342.33	92.66	118.24	12.60
Triumph Bank	Memphis, TN	165.8	309.65	54.23	105.15	11.95
Two Rivers Bank & Trust (TRVR)	Burlington, IA	219.4	313.33	68.80	119.81	11.95
United Bank (UBSI)	Vienna, VA	2,636.1	371.70	123.83	110.80	12.30
WashingtonFirst Bank (WFBI)	Reston, VA	641.8	417.61	179.11	143.71	11.34
Industry median*		**198.4**	**172.46**	**32.58**	**33.40**	**14.26**

Data compiled Dec. 15, 2015.
Based on regulatory filings for the quarter ended Sept. 30, 2015.
* Currently operating and historical commercial banks, savings banks and savings associations with total assets greater than $500 million as of Sept. 30, 2015.
CRE loans = construction and land development loans, plus multifamily loans, plus nonowner-occupied nonresidential property loans, plus commercial real estate loans secured by collateral other than real estate.
Interagency guidance issued in December 2006 outlines the following criteria for identifying institutions that may have CRE concentration risk: an institution's total CRE loans (including C&D loans), as defined in the guidance, represent 300% or more of its total risk-based capital, and its CRE loans have increased by 50% or more during the previous 36 months; or an institution's C&D loan concentration represents 100% or more of its total risk-based capital. This analysis includes companies that met or exceeded both criteria, although the interagency guidance does not necessarily suggest using both.
Source: SNL Financial

secured by non-owner-occupied nonfarm nonresidential properties; and 4. Loans not secured by real estate that are used to finance commercial real estate or construction and land development activities.

In other words, the types of loans worrying regulators are those where the use of funds is to acquire, develop, construct, improve, or refinance real property and where the primary source of repayment is the sale of the real property or the revenues from third-party rent or lease payments. For instance, nonresidential real estate where the borrower occupies the property are not included in the CRE guidance, since they are deemed to be less risky than non-owner-occupied nonresidential real estate loans.

Regulators warned in the Dec. 18 statement that their examiners have found looser standards of CRE lending among banks. As said in the statement: "Examination and industry outreach activities have revealed an easing of CRE underwriting standards, including less-restrictive loan covenants, extended maturities, longer interest-only payment periods, and limited guarantor requirements. The agencies also have observed certain risk management practices at some institutions that cause concern, including a greater number of underwriting policy exceptions and insufficient monitoring of market conditions to assess the risks associated with these concentrations."

Growth in CRE loans has been a large driver of banks' overall loan growth in recent years, as most types of consumer loan growth has stagnated since the financial crisis.

The Dec. 18 statement specifically mentioned the large growth seen in multifamily loans, which has also been reported by SNL, though SNL analysis finds the banks concentrated in CRE have also seen considerable growth in construction loans and nonresidential real estate loans.

The two thresholds as set forth in the 2006 CRE guidance are: 1. Total CRE loans are at least 300% of risk-based capital and total CRE loans have grown by more than 50% over the last three years; 2. Total C&D loans are at least 100% of risk-based capital.

If banks meet either of the two criteria, they are considered concentrated in CRE loans and are subject to possible increased regulatory oversight.

Looking at the 474 banks that met one of the two criteria as of Sept. 30, much of their CRE loan growth was driven by construction and land development loans and non-owner-occupied nonresidential real estate loans. Loans in the former category grew by a median of 21.82% compared to a year ago, while loans in the latter category grew by a median of 13.38%. Multifamily loans grew by a median of 8.32%, and loans for commercial properties not secured by real estate had zero percent median growth among the 474 concentrated in CRE.

Thirty-one banks above $500 million in assets met both CRE concentration criteria at the end of the third quarter.

Old Bridge, N.J.-based Amboy Bank joined the list of companies that met both criteria at the end of the third quarter, despite having been issued a written agreement in 2009 to address its CRE concentration levels. At the end of the second quarter, it had only exceeded the C&D criteria, but in the third quarter, its total CRE loans moved up to exceed 300% of risk-based capital and its three-year CRE growth hit 59.5%. The growth was driven by multifamily, which has jumped by 86.10% since the third quarter of 2014. The bank is operating under a written agreement with the Fed, issued in 2009, which, among other things, requires the bank to identify, limit, and manage concentrations of credit "that are consistent with" the 2006 CRE guidance.