CRE Lending Competition Heats Up

lending business customers competition

Summary: CRE lending competition is heating up, mainly due to nonbank lenders. We give you an update.

About 80% of people say they will seek personal engagement when trying to figure out things like loan options, according to Celent research. That is good news for community banks that are all about strong relationships.

Given recently wild shifts up and down in market rates, that could mean some commercial real estate (CRE) customers may soon be contacting your team to talk about such things. When they do, know that competition has heated up and many competitors are likely easing underwriting standards and lowering loan prices to capture business.

However, looser standards on CRE loans could lead to credit quality deterioration down the road, of course, along with higher charge-offs and loan loss provisions.

Currently, nonbank lenders just don't face the same regulatory scrutiny in regards to loan terms and prices as banks so they can oftentimes compete at lower prices that strain banks.

While many banks are holding steady amongst the competition, "double-digit percentages" of institutions eased terms over the past year, according to the Fed's latest Senior Loan Officer Opinion Survey.

Broken down by CRE loan category, a moderate percentage of banks narrowed the spreads of loan rates over their cost of funds for construction and land development loans, while a significant percentage narrowed the spreads for nonfarm nonresidential loans and for multifamily residential property loans.

For most CRE loan categories, a moderate amount of banks increased the maximum size of loans, and a modest amount increased the length of the interest-only payment period.

Looking back to the 2018 Fed survey, senior loan officers at that time also said their banks eased specific lending policies, but the loosening was a little less this year for nonfarm nonresidential loans. Meanwhile, it was a little more for multifamily residential property loans and construction and land development loans.

Increased competition from nonbanks wasn't the only reason that banks eased credit policies though. Senior loan officers also said they loosened standards due to a better outlook for vacancy rates, property prices and other fundamentals on CRE properties.

For those banks that tightened their CRE credit policies over the past year, loan officers said their management and boards reduced risk tolerance to their local CRE outlook.

Across the industry, credit quality is holding steady as total CRE loan volume in the first quarter rose 4% to $1.5T, from a year earlier, according to the FDIC. For all loan types, noncurrent loan balances in Q1 rose just 0.5% from the prior quarter.

There is competition all around these days, but even so, community banks should continue to carefully assess how to best compete as you balance risk. We know it isn't easy, but keep fighting!

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