

# Special Study of Small Balance Commercial Lending among Community Banks | September 2013

## Recent mortgage research by Boxwood Means, Inc. has indicated that U.S. small balance commercial (SBC) loan originations declined substantially in the second quarter of 2013 from a year earlier.

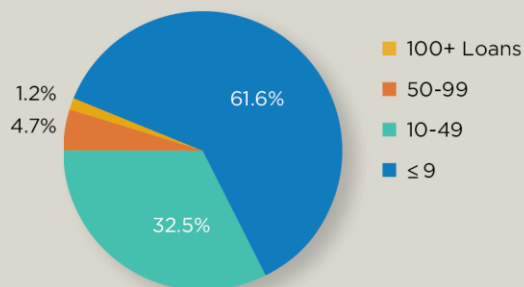
This decline included a 300-basis point loss in national market share for the top 15 lenders. This elite lender group is dominated by large regional and national commercial banks.

In light of the decline in market share by large banks, we conducted a brief study of SBC originations by community banks to establish some benchmark estimates for their activity in the space and also determine whether this group of small, independent and geographically-focused institutions fared better or worse in terms of SBC loan production when interest rates began to rise in late spring.

We culled two random samples from our national database of CRE properties and commercial mortgages. Our first sample included commercial and multifamily loans originated with principal amounts under \$5 million for 406 geographically-dispersed community banks in the 12 months ending second quarter, 2013. We screened out any banks with assets greater than \$1 Billion. The second sample involved a subset of this group, or roughly 200 banks, for which we could track recurring originations activity during the corresponding second quarters of 2012 and 2013.

### SMALL-BALANCE LOAN ORIGINATIONS BY COMMUNITY BANKS

12 Months Ending 2Q-2013



Source: Boxwood Means, Inc.

Highlights of our research results include the following items:

- Community bank origination volume declined year over year, but the rate of deceleration was slower than the SBC market as a whole. Dollar origination volume for community banks declined 16.6% during second quarter 2013 compared with a year ago. By contrast, overall SBC originations dropped by 27.0% during the same period. This variance indicates that community bank market share *increased* relative to all other SBC lenders over the 12-month period.
- Most community banks appear to originate a modest number of SBC loans each year. Over 60% originated nine or fewer loans in the twelve months ending with second quarter 2013. The median was six loans per year with a median size of \$475,000. The mean number and loan size were considerably larger, at 14 and \$681,000, respectively. Except for the last quarter (2Q 2013), the study period was characterized by robust loan market growth.
- Extrapolating from the sample results to the general population of 7,000 community banks, we estimate that this banking sector potentially originated \$66 billion of SBC loans in the 12 months ending in June. This sum represents approximately 50-60% of total SBC market originations based on aggregate loan volume over the last couple of years.

This sizable share of the SBC market captured by community bank lenders is not surprising given the sheer number of banks as well as their traditional predilection for small balance commercial real estate mortgages. It is conceivable that the strength and durability of community bank relationships with local clients – traits that by all accounts differentiate them from many larger banks – allowed these smaller banks to close relatively more SBC loans as the market softened and interest rate conditions turned somewhat volatile late in the second quarter.

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