Small Balance Loan Research

Another Take on Market Fragmentation

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Boxwood Means, Inc

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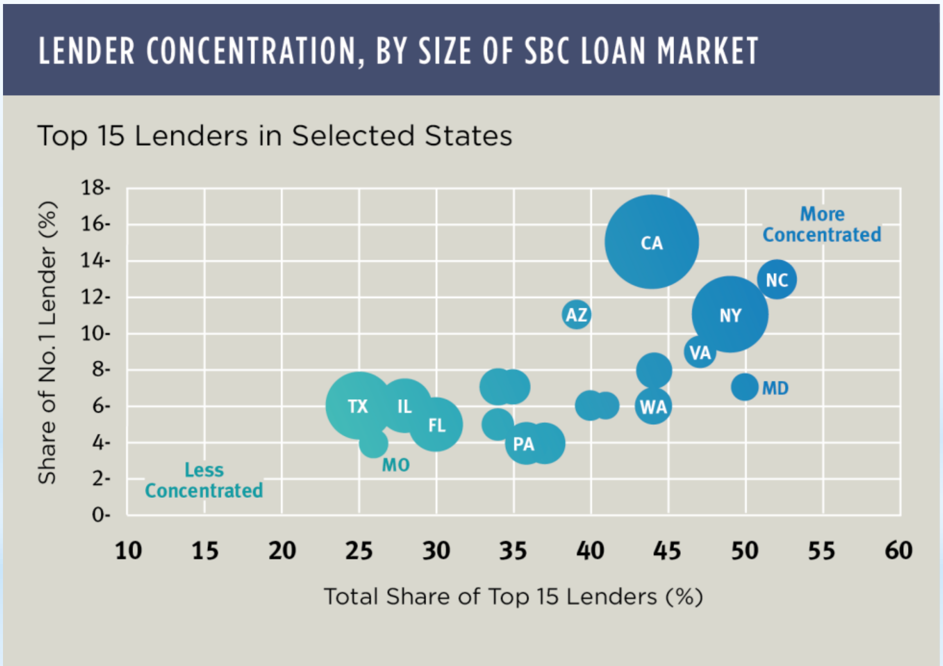
Another Take on Market Fragmentation

- Small balance commercial (SBC) loan originations under $5 million in value topped $175 billion in 2013, the highest level since Boxwood began tracking originations activity in 2006.
- Conventional wisdom determines that the SBC is very fragmented with no dominant national lenders commanding large loan market shares. In fact, the top 15 lenders command only 23% of last year's total production, and it's varied by only a couple of percentage points over the years.
- That said, it's not exactly a level-playing field when we take the analysis down to the state level. Fragmentation varies and lender concentrations can be pretty high. See the graph below.



- The horizontal axis shows the increasing percentage of market share for the top 15 SBC lenders in the states shown. The left axis shows the increasing percentage of share for the No.1 lender in these states. The bigger the size of the circles, the bigger the size of the state's loan market. So the states towards the upper right are more concentrated, the ones towards the lower left are less concentrated.
- So, e.g., the top 15 lenders in CA have 44% of total market share and the No.1 lender has nearly 15% of what amounts to a very large, $30 B market. By contrast, TX, FL and IL are sizable markets still, but have lower lender dominance.
- Bottom line: to maximize success, regional and national SBC lenders need to know their competition, and the different opportunities and risks presented by different markets.

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