

Small-Balance Lending Plunges

Small-balance commercial mortgage originations took a nosedive in the first quarter, reflecting the overall market decline in lending.

Volume fell by 17%, to \$24.8 billion, from the fourth quarter and by an even steeper 28% from the first quarter of last year, when originations totaled \$34.3 billion, according to **Boxwood Means**, an analytics firm that follows the small-balance market.

"These numbers aren't pretty," said **Randy Fuchs**, a Boxwood principal, who noted that the quarterly volume was the lowest since his firm started tracking the small-balance market in 2006. Much of the decline was attributed to continued worries about the weakening real estate market and the loss of lending sources.

Until last year, mortgages with balances of up to \$5 million were seen as the next frontier for commercial MBS. But since the subprime debacle pulled down the whole fixed-income sector, many small-balance lenders have either cut back severely on their originations or gone out of business. The most recent casualty, **Lehman Brothers Small Business Finance**, stopped making loans about two weeks ago.

Lenders that still originate small-balance mortgages — notably **First National Bank of Alaska**, **Imperial Capital**, **KeyBank**, **Principal Real Estate Investors** and **Royal Bank of Canada** — are selling their multi-family loans to **Fannie Mae** and **Freddie Mac**. Given the agencies' mission, only apartment and manufactured-housing loans are eligible for purchase.

While acquisition loans have dwindled, the volume of loans for refinancing has held up better: \$17 billion in the first quarter, down 10% from a year earlier. Loans for refinancing accounted for 68% of first-quarter volume, up 13 percentage



points from the same period last year.

Fuchs saw little cause to expect an origination rebound later in the year, given the continued softness of the economy and the bad news from the finance sector. ❖