IFR INTERNATIONAL FINANCING REVIEW

Sabal Targeting Small Balance Loans for CMBS

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NEW YORK June 6 (IFR) - Sabal Financial is making a big push into small balance commercial real estate lending, turf traditionally dominated by community and regional banks.

The California-based distressed debt firm and loan originator plans to lend US$500m this year in US$1m to US$10m parcels, said Pat Jackson, Sabal's chief executive officer.

While it's a balance sheet product for now, he said securitization is possible in the future.

"We will keep an eye on best execution options as the market evolves," Jackson said.

To boost its loan volume, Sabal will rely on regional brokers and an electronic lending platform to help close loans faster - roughly 35 days versus the typical 65-day horizon for community and regional banks, according to Jackson's estimates.

No single firm has in the past dominated small balance lending, which totaled US$175bn last year, according to Randy Fuchs, principal at Boxwood Means, which tracks small balance commercial loan data.

The top 15 lenders accounted for only 23% of total originations last year, which has left other lenders in the crowded first mortgage space looking for opportunities - including new entrants like Sabal.

"Fragmentation at the national level has been an invitation of sorts, recently and also in the mid-2000s, for new market entrants to try and stake a claim to a piece of this very large market," Fuchs said.

LEVERAGE CAP

Before the crash, Bayview Financial, the firm behind a recently pulled securitization of reperforming residential loans, was one of the most active small balance CMBS issuers.

Lehman Brothers and Bear Sterns, to a lesser extent, also issued bonds of this type.

Performance on these has been mixed. "Some loans and bonds may see a 100% loss, though not an entire deal," said Grant Bailey, managing director at Fitch Ratings. "Projected deal losses will range from 7% to 46% of the original mortgage pool balance."

For its part, Sabal plans to limit leverage in the 70%-75% loan-to-value rate. Rates and terms will also be comparable to small banks in the 4%-5% range on loans of three-, five-, seven- or 10-years.

Many community and regional banks are still grappling with soured loans on their books and face uncertainty due to an onslaught of regulation.

Sabal, a non-bank, doesn't have a legacy book of business to oversee, nor is it faced with the same type of new regulatory scrutiny.

Even so, it's important for national lenders to understand and choose their markets wisely, Fuchs said.

"As the saying goes: better to know the devil you know than the devil you don't."

(Reporting by Joy Wiltermuth; Editing by Natalie Harrison)