

Small-Balance Commercial Loan Market

Navigating through Troubled Waters

Presentation by
Randy Fuchs
Boxwood Means, Inc.

WesCorp's Credit Union Outlook Conference
September 23, 2008



WESCORP.



Whither Commercial Real Estate?



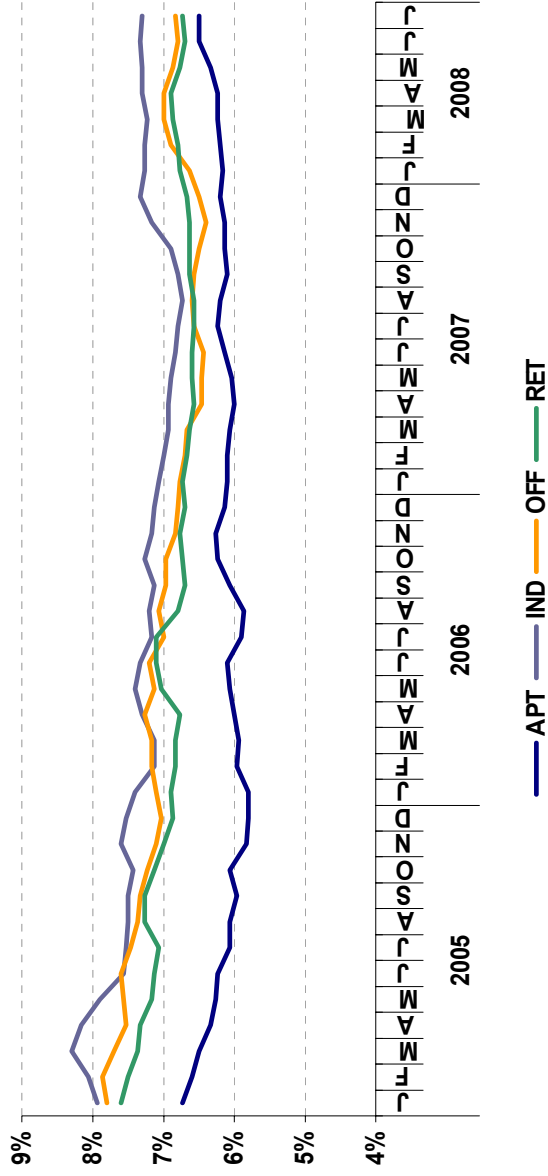
CRE Status Check

- **Capital is scarce**
- **Many lenders are sidelined or history**
- **New underwriting regimens**
- **Correction underway in property sales market**
- **Space market fundamentals at risk as economy slows**
- **Overhang of portfolio CRE debt to be traded**



Commercial Property Values Remain Stable

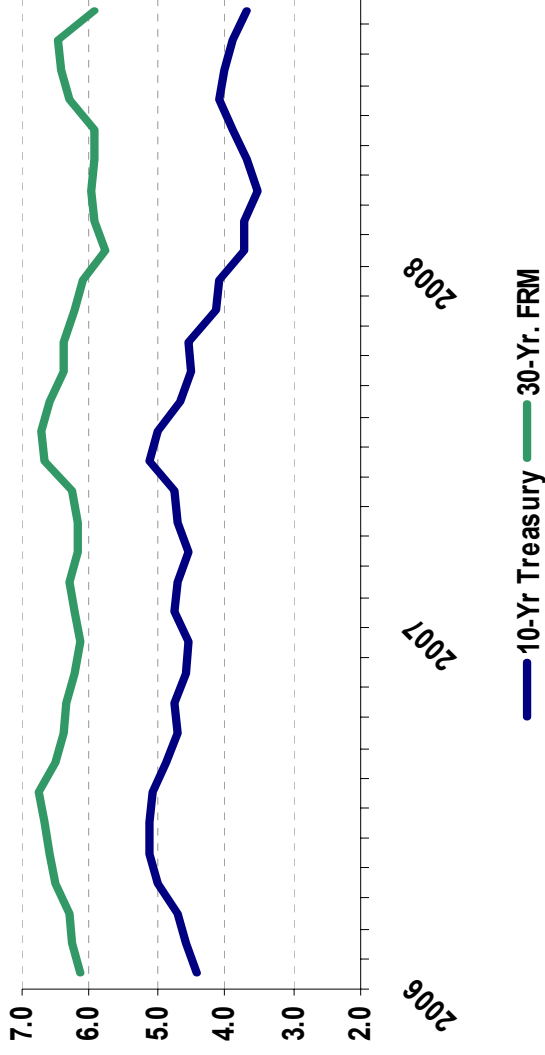
Cap Rate Trends for Large Commercial Property Types (\$5M+)



Source: RCA

Favorable Interest Rates Contain Borrower Costs

.....and support commercial property values.



Source: Federal Reserve Board

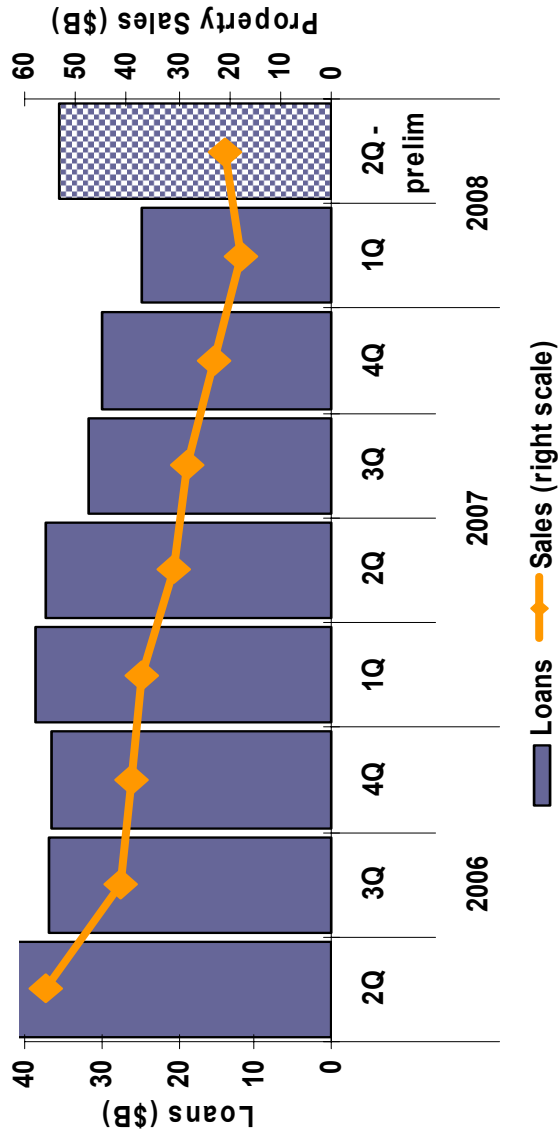
Small-Balance Market Attributes

- **Large Opportunity: \$130 Billion Market**
- **Highly Fragmented**
- **Capital Constrained; Lender Scarcity**
- **Inefficient**
- **Historically Solid Loan Performance**
- **Depressed Small-Cap Property Acquisition Market**
- **Closely Tied to the Residential Housing Market**



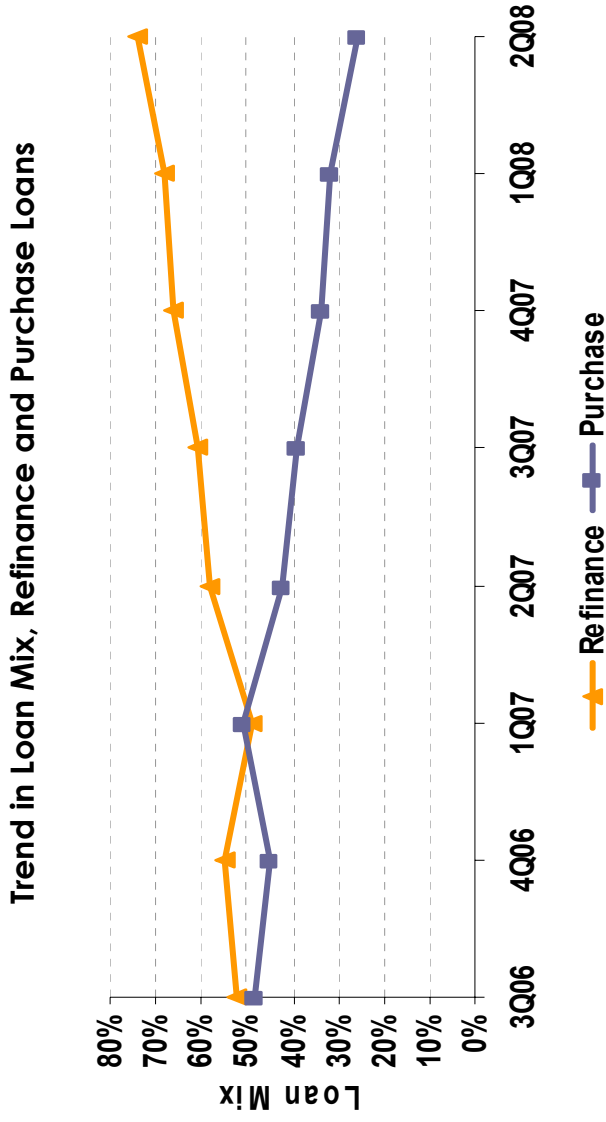
Reversal in Fortune?

Trends in Small-Balance Originations and Small-Cap Property Sales



Source: Boxwood Means, Inc.

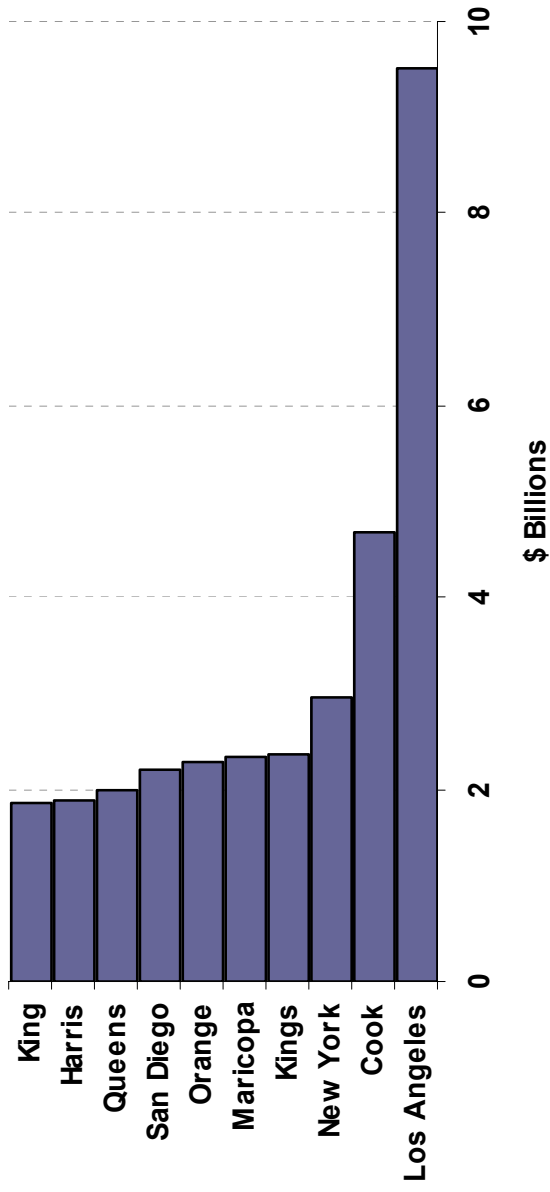
Loan Refinancings Dominate



Source: Boxwood Means, Inc.

Where The Loans Are

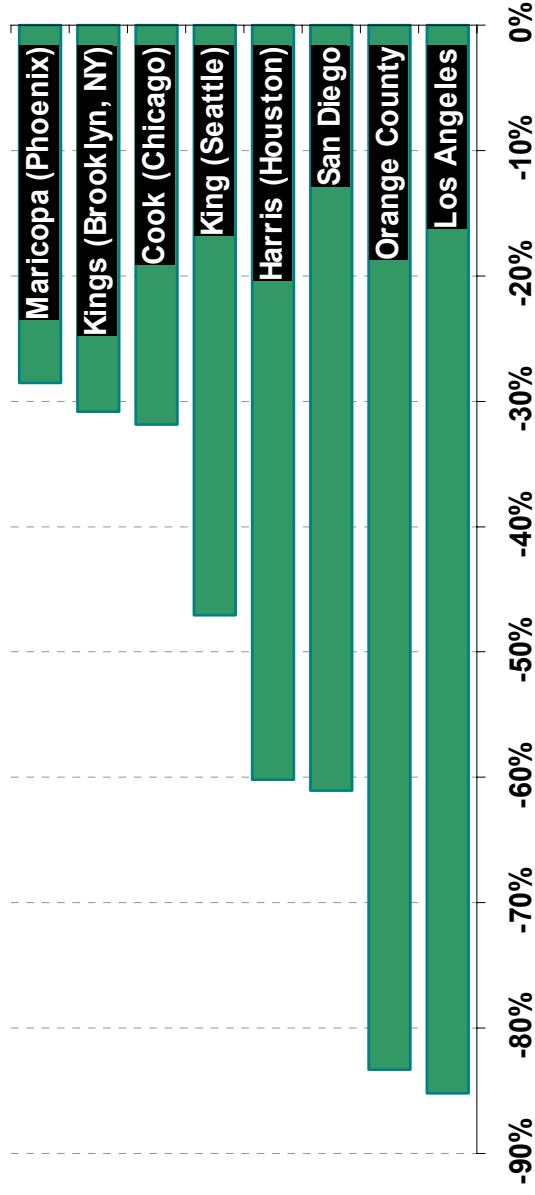
Year-over-Year Originations Volume for Top Counties, 1Q08



Source: Boxwood Means, Inc.

Falling Tide Lowers All Boats

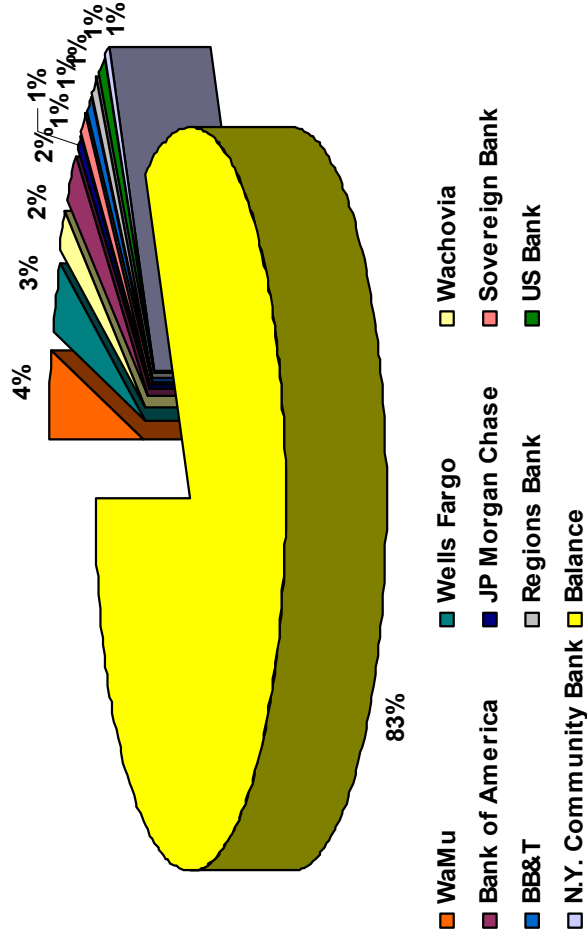
Year-over-Year Originations Growth for Top Counties, 1Q08



Source: Boxwood Means, Inc.

A Fragmented Market Grows More So

The top 10 lenders account for only 17% of the market.



Top Credit Union Players

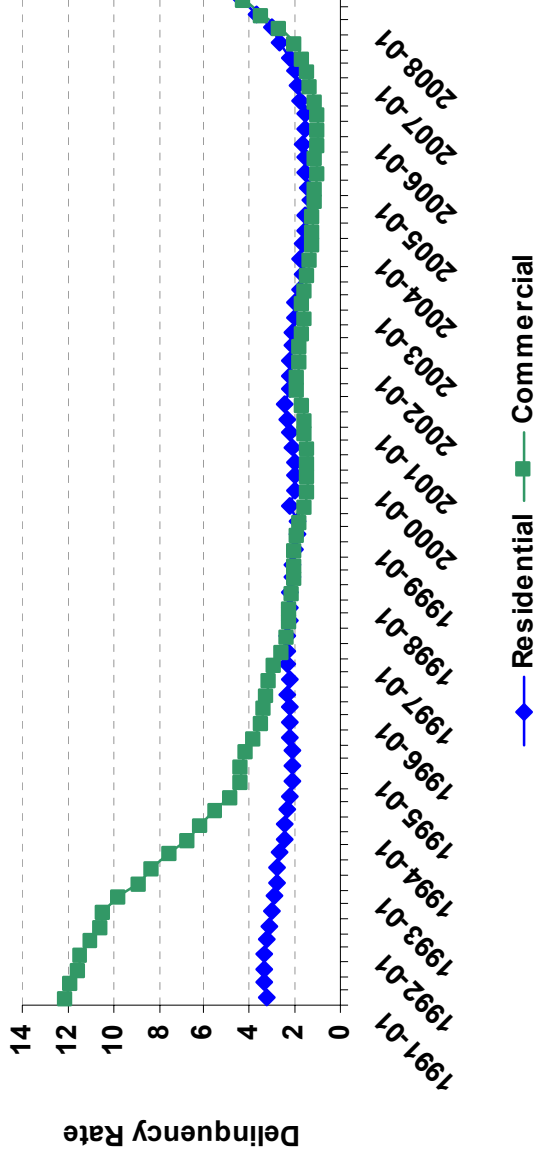
Credit unions accounted for \$5.1 billion of SBC loans over 12 months, roughly 2% of the total market.

Top Credit Unions by SBC Market Share 12 Mos. Ending 1Q08		
Rank	Lender Name	Share (%)
1	California CU	6.6
2	Evangelical Christian CU	5.5
3	Telesis Community CU	4.8
4	San Diego County CU	4.4
5	Mountain America CU	3.9
6	Provident CU	2.7
7	Citizens Equity First CU	2.4
8	America First CU	2.3
9	North Island Financial CU	2.2
10	Eastern Financial Florida CU	2.0

Source: Boxwood Means, Inc.

Commercial Bank Loan Delinquencies

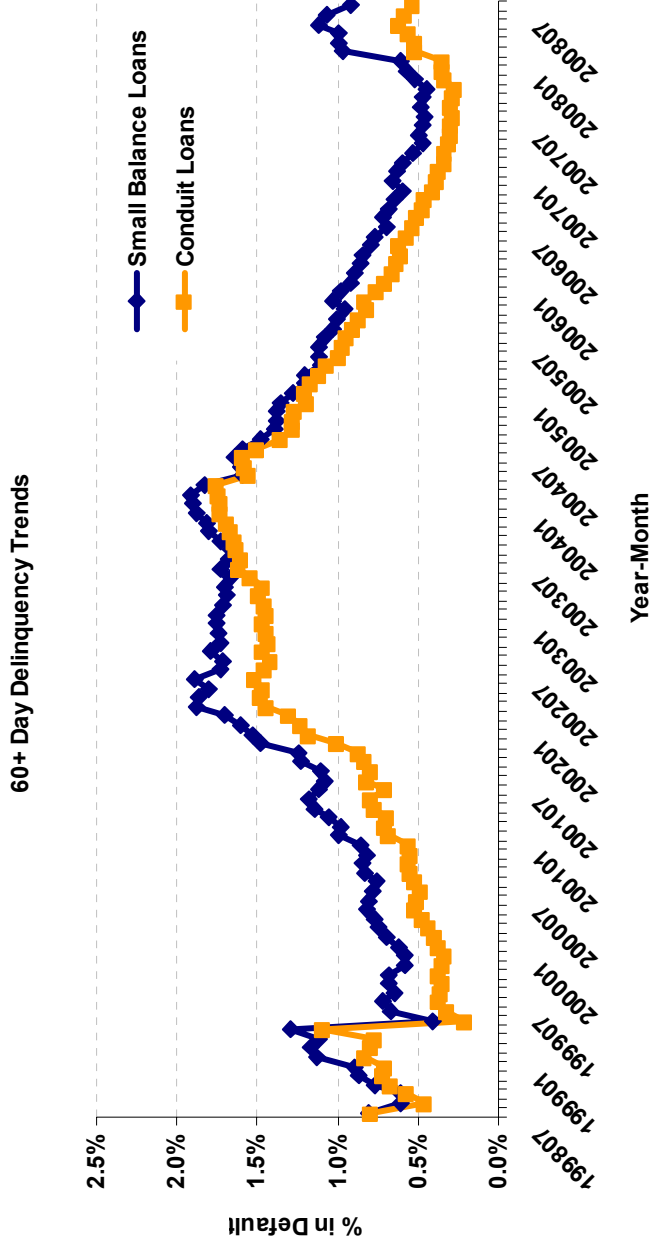
30+ Day Delinquencies for Commercial and Residential Mortgages



Source: Federal Reserve Board

Delinquencies Nose Upward

Historically, performance of small-balance loans has closely tracked all conduit loans.

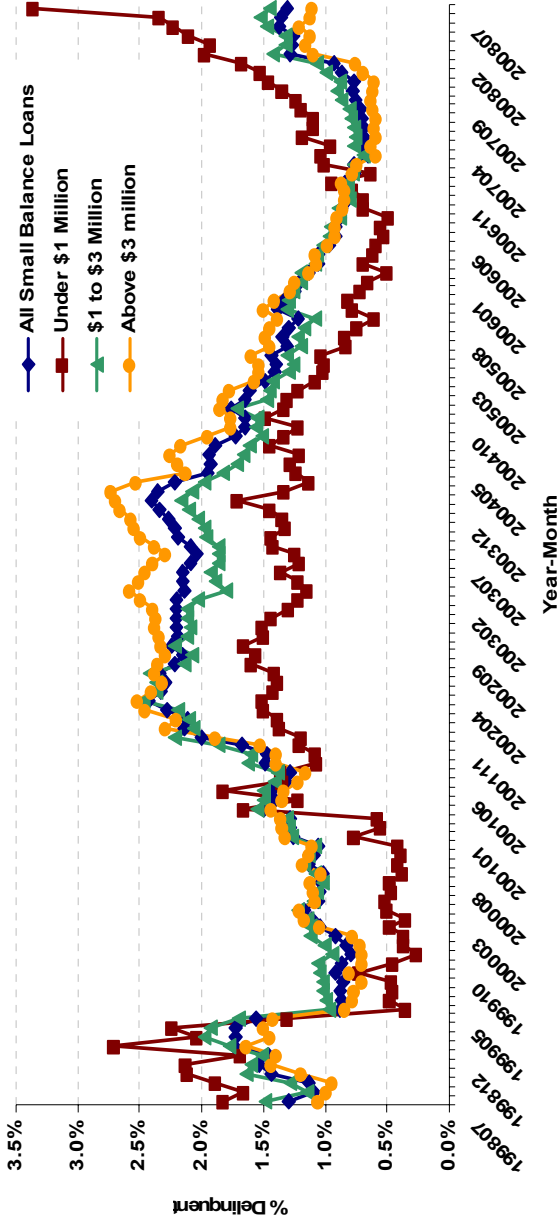


Source: Trepp

Risk of Smaller Loans Increases

The smallest loan cohort has 2.5x the delinquency rate of all others.

Comparison of Delinquencies by Size Cohort



Source: Trepp

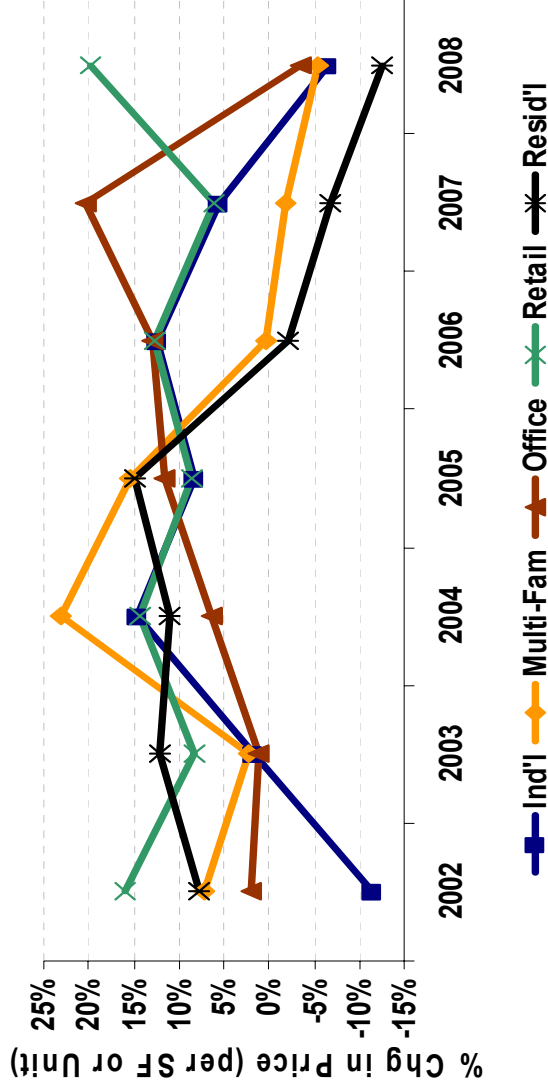
Small-Cap and Large Cap R.E. Markets -- Different Breeds

*Our latest research suggests the two sectors behave differently,
with ramifications for collateral and market risk assessment.*



Large Cap Prices – Down Modestly

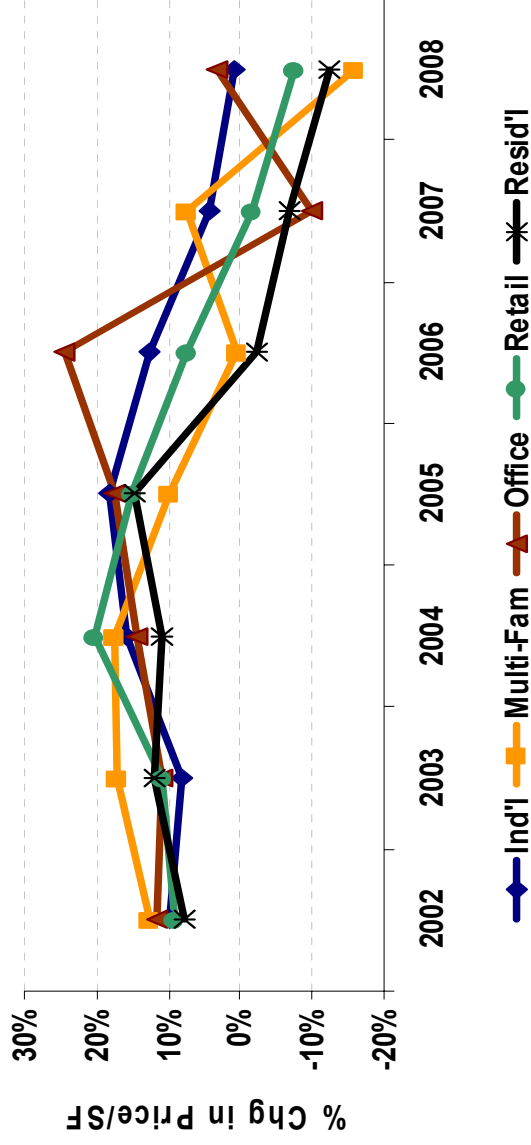
Pricing Trends for Properties over \$5 Million



Source: RCA

Small Cap Prices – Under More Pressure

Pricing Trends for Properties under \$5 Million



Source: Boxwood Means, Inc.

Cozy Relationships

Small-cap properties are highly correlated with residential.

Property Type	Correlation with Residential Price Changes			
	Pearson Statistic		Spearman Statistic	
	Small Cap	Large Cap	Small Cap	Large Cap
Industrial	0.30	0.20	0.36	0.11
Multi-Family	0.42	0.45	0.50	0.49
Office	0.25	0.24	0.39	0.26
Retail	0.39	-0.07	0.37	-0.02

Source: Boxwood Means, Inc.

Cozy Relationships – Cont'd

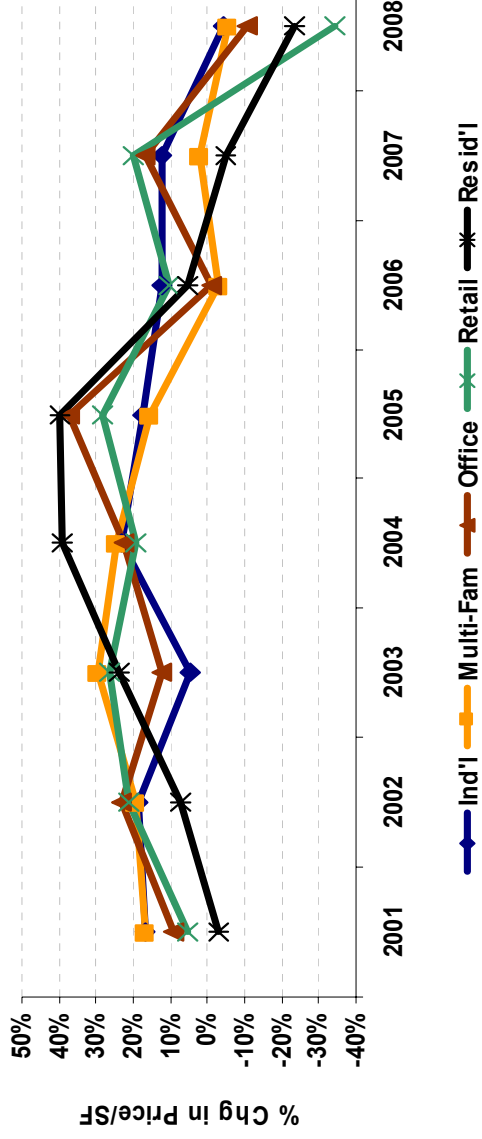
Large-cap properties are less correlated with small caps.

Large Cap Correlation with Small Cap	
Retail	-0.244
Industrial	0.067
Office	0.137
Multi-family	0.166

Source: Boxwood Means, Inc.

Sample Market #1: Los Angeles

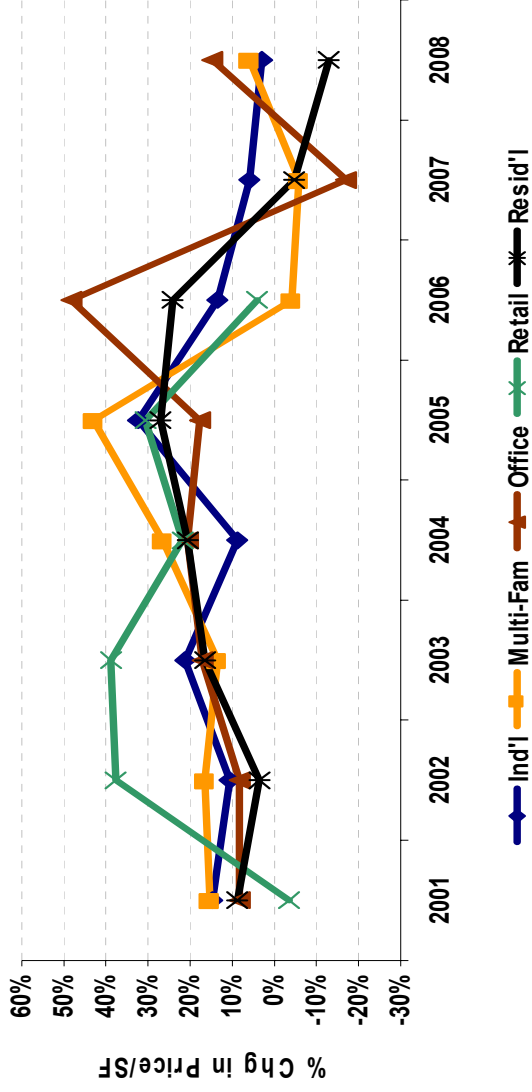
Pricing Trends for Small-Cap Properties & Residential Housing



Source: Boxwood Means, Inc.

Sample Market #2: Miami

Pricing Trends for Small-Cap Properties & Residential Housing



Source: Boxwood Means, Inc.

Residential & SBC – Implications

- **Some metro markets are particularly risky for lending.**
- **Some SBC markets won't rebound until the housing market does.**
- **Some small-cap property types are more vulnerable than others. Cap rate premiums should prevail.**
- **Recognize 'distressed' housing markets and increase SBC underwriting due diligence.**
- **Reliable property valuations and conservative LTVs are key.**
- **Monitor the portfolio's geographic concentration of loans in weaker markets.**



Closing Thoughts

- **2008 Originations Volume Will Drop to Roughly \$100B**
- **Refinance Market – Steady; Be Vigilant about Borrowers**
- **Portfolio Trades on the Rise; Many Banks Will Be Net Sellers**
- **Better Risk-Adjusted Pricing**
- **The New Normal: Solid Underwriting of Borrower & Collateral**
- **Keep a Watchful Eye on Delinquencies, especially Small Ticket Loans.**



Thank You!

**Randy Fuchs
Boxwood Means, Inc.**

Small-Balance Research Experts

randy.fuchs@boxwoodmeans.com