

# ENVOYNN

## Construction Lending Today

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REIA Capital Markets Panel

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# ***Construction Loan Activity 2015***

- ▶ Total Bank Construction Loans: **\$274.9B**
- ▶ Number of Commercial Banks: **3,046**
- ▶ Lenders with \$100M loan book: **52**
- ▶ Top 30 Construction Lenders: **\$ 93.2B**
- ▶ ***1% of all banks made 1/3<sup>rd</sup> of all construction loans.***

The background features abstract, overlapping geometric shapes in various shades of blue, ranging from light sky blue to deep navy blue, creating a modern, professional look.

# **What is HVCRE Lending and Why Does it Matter?**

# *High Volatility Commercial R.E. ("HVCRE")*

- ▶ Applies to all CRE credit facilities (Acq., Dev. or Const.) unless:
  - ▶ 1. The LTV ratio is less than regulator's max capital (Typically less than 80% LTV)
  - ▶ 2. Borrower contributes 15% or more of the "As Completed Value" in cash
- ▶ HVCRE Loans require 150% more bank capital than regular CRE loans.

# ***Stranger than Fiction***

The required set-aside capital for a HVCRE loan and a 90 day delinquent loan are the same.

***In the eyes of the regulators, your HVCRE loan has already defaulted the day the loan is funded.***

# HVCRE Lending Activity

## Lenders with High HVCRE Loan Ratios in 2015

RANK	BANK	CONSTRUCTION	HVCRE	HVCRE/CONST LOANS
1	Wells Fargo	\$19.6B	\$19.4B	99%
4	PNC	\$7.7	\$7.8	101%
5	JP Morgan	\$5.7	\$4.0	71%
10	Regions	\$2.6	\$3.4	130%

**TOTAL: \$35.6B      \$34.6B**

**The least painful way to  
increase a bank's capital  
base for stress tests is to  
reduce HVCRE Lending**

# How HVCRE Regs Affect Developers

## Developers Need More “Cash Equity”

### ▶ 15% Minimum Cash Investment of “As Completed Value”

- i. Land can only be contributed at cash cost
- ii. Mezzanine Debt, Grants, TIFs proceeds, Condo Deposits, other RE collateral doesn't count.



## ***When to Consider a Private Construction Lender***

- ▶ Your clients need more leverage
- ▶ When your client's doesn't have cash equity
- ▶ The land has appreciated significantly since it was purchased
- ▶ The Bank has “Footprint” issues
- ▶ ***When too much value is created?***

# *Stranger than Fiction*

**The higher the  
“*As Complete*” value is,  
the more cash that your  
borrower needs to put into  
the project.**

For more information on Envoy's  
lending programs

*Go to [www.envoynnn.com](http://www.envoynnn.com)*

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