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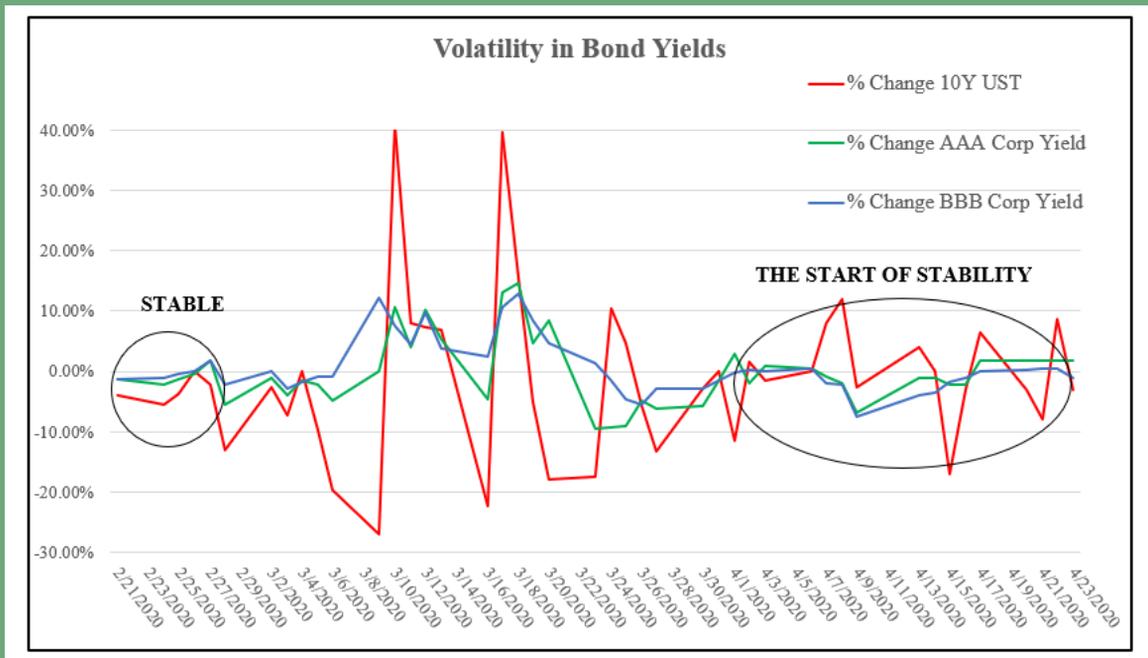
### Commercial Mortgage Market Update

#### From fallout in February to a hard stop in March, where are we now?

#### Stability & Clarity vs Volatility and Uncertainty

Our thoughts on four aspects that affect the commercial mortgage market:

- Volatility:** Life Insurance Companies have alternative investments of corporate bonds so those are good indices to follow. They normally lock rate at application and we all pride ourselves with “certainty of delivery” which becomes trying in volatile times. We believe the signs of stability are coming back as illustrated in the following graph tracking changes in the 10 yr. UST and AAA & BBB Corp Bonds. You will note stability in late February and the start of stability in early April as opposed to March, which HOPEFULLY is a good sign to the market.



- Uncertainty regarding rent collections:** Most real estate owners know what their April collections have been. Once we know May and maybe June we will have a better clarity of how big an effect the COVID 19 Shelter in Place will have on the general real estate markets and specific properties. In general, we are hearing most owners (some exceptions) are doing OK in collections. The SBA Payroll Protection Program is intended to give small business forgivable loans for payroll and rent which should mitigate losses and allow borrowers to catch up on tardy rent.
- Uncertainty on the future regarding loan modifications, work outs and staff:** At this point it is unclear how long this will last and what the short and long term effects will be on the commercial mortgage market. Most lenders have acted swiftly to address modifications with staff and procedures. Staff is moving from new loan originations to modifications. We are hearing that 10%-20% of some lender's portfolio are discussing modifications. Many are agreeing to a few months of IO to see what happens after a full review of the property and borrower request. See Market Fax sent in March for more detail.
- Uncertainty regarding Regulations:** Life Insurance companies are regulated by the states they are domiciled in, the NAIC and rating agencies. The rules that are used to regulate and rate them generally require additional reserves for modified loans. The reserves are determined by a 2 year look back in operating history. On Wednesday 4/22/20 the NAIC issued additional clarifying guidance to the life company risk-based capital treatment of loan modifications during the COVID-19 pandemic. The additional guidance should provide clarity for life companies making prudent loan modifications due to the effects of COVID-19.

Some positive thoughts:

- We have heard that life insurance sales have increased like never before. If the trend continues life insurance companies will have more capital to invest including commercial mortgage loans once we achieve stability and clarity.
- Clarity in pricing will resume as volatility in rates continues to stabilize.
- Clarity in rental markets will depend on May & June collections.
- Lender modifications will follow rent collections.
- Lenders that are in the market are looking only at high quality deals. Others will come back in with stability and clarity.

Time will tell, we all hope and expect it to be short. We stand ready to discuss your long-term fixed rate commercial mortgage needs that you may have in 2020.

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