CAMBRIDGE
Realty Capital Companies

125 SOUTH WACKER DRIVE | SUITE 1800 | CHICAGO, IL 60606 | M 312-357-1601 | F 312-357-1611
WWW.CAMBRIDGECAP.COM

PRESS RELEASE

5/22/14

TO AVOID FUTURE WOES WHEN MAKING CRE LOANS SMALLER COMMUNITY BANKS ARE SUBMITTING THEMSELVES TO 'STRESS TESTS'

Sometimes government regulations don't seem so bad.

A PulsePoints blog posted on the Cambridge Realty Capital Companies website, www.cambridgecap.com, reports that many smaller community banks that aren't required by law to do so are submitting themselves to "stress tests" similar to the tests Dodd-Frank and the Federal Reserve require larger banks to comply with.

"By all accounts, commercial real estate (CRE) lending is on the upswing this year, particularly lending by community banks. Apparently, smaller banks are stress testing themselves to ensure they will be able to withstand another economic downturn or whatever unexpected market fluctuations take place once the Federal Reserve begins raising interest rates," said Cambridge Chairman Jeffrey A. Davis.

"Apparently, these smaller banks have embraced the tests and view them as a tool that will help them avoid unpleasant surprises in the future," he said.

Davis says the lending environment is different today than it was before the recession. Many analysts believe that because of changes in lending practices by banks and other institutions, the industry has the potential to be just as dynamic as it was before the recession.

Before the recession, many community banks focused on CRE lending because of the significant revenues it was generating at the time. However, high concentrations of these loans in their portfolios left many banks susceptible to economic shocks.

Without a diversified portfolio to withstand the economic downturn, many of these banks ended up being shuttered during the recession.

Davis says studies that have looked at lending practices during that period found policies at many institutions were extremely lax. For example, it wasn't uncommon for a potential borrower to obtain a loan even if they had little or no verifiable cash flow and insufficient collateral.

"Banks were giving borrowers a loan because they either knew the borrower personally or had a gut feeling that the loan would be profitable in the end. Or perhaps they were simply trying to grow their portfolio as quickly as possible.

"The end result of these practices turned out to be bankruptcy and litigation, as various state and government agencies filed professional liability lawsuits against these banks," Davis said.

He points out that the banks that survived the recession - and new lenders that have come on stream since then - have no desire to repeat the mistakes of the past. Community banks are starting to make commercial real estate loans again, but they have changed lending practices to reduce their exposure in the event of another economic downturn.

Banks today are lending on reduced loan-to-value ratios and are focused more on owner-occupied commercial real estate, which is viewed more favorably by regulators. They are being more selective and have strengthened their risk management procedures. And they have surprised many in the industry by stress-testing themselves, he added.

Privately owned since its founding in 1983 as a real estate investment banker specializing in commercial real estate properties, Cambridge today has three distinctive business units: FHA-insured HUD loans, conventional financing, and investments and acquisitions. The company is one of the nation's leading nursing home, assisted living and healthcare debt and equity capital providers, with more than 400 closed transactions totaling more than $4.5 billion since the early 1990's, when the firm began its specialization in providing senior housing capital.

Cambridge has consistently ranked among the country's top five FHA-insured HUD lenders (now HUD LEAN) over the last 15 years and offers an array of conventional lending options, including permanent construction and interim loans on either a floating or variable rate basis. The company's principal investment strategy includes direct property acquisitions and joint ventures, sale/leasebacks, conventional and mezzanine debt financing, and the acquisition of distressed debt.

Cambridge is the creator of *The Signature Experience(TM)*, a four-step process designed to transform the traditional lender/borrower relationship and identify "ideal" capital solutions for worthy projects. The company has a national origination office in Los Angeles, and numerous correspondent and brokerage relationships nationwide.

Cambridge publishes the bi-monthly e-PULSE!(R) electronic newsletter, which delivers company news and feature stories via e-mail to corporate friends and clients, as well as monthly updates of other relevant news and breaking trends. Additional information is available on the Cambridge website, www.cambridgecap.com, and Cambridge can be reached at (312) 357-1601 or via e-mail to *info@cambridgecap.com*.

The firm also has embraced social media and networking via Twitter at http://twitter.com/cambridgecap , via Facebook athttp://www.facebook.com/cambridgecap, via blog at www.cambridgecap.com/blog, via YouTube at http://www.youtube.com/user/ePulseLive, and via LinkedIn at http://www.linkedin.com/companies/454232, where information on the firm and its employees can be found.

# # #

Contact:
Evan Washington
Phone: (312) 521-7610
Fax: (312) 357-1611
E-Mail: ew@cambridgecap.com