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A Non Zero Game – How Increased Interest Rates Are Impacting Capital Markets and Investment Banking

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CENTER FOR BANKING
AND FINANCE

Commercial Real Estate



State of Commercial Real Estate

Commercial Real Estate Maturities

- Mortgage Bankers Association estimates over \$930B in upcoming maturities
- Default is most likely at refinancing – High interest rate and loan-to-value challenges

Mitigants

- Contractual extensions
- Modifications – Extend-and-Pretend
- Lenders will work with Borrowers – as happened in Financial Crises and COVID
- Borrowers will add equity to value properties
- Conservative originations compared to Financial Crises
- Shorter term fixed loans – avoid long rate lock
- More floaters – allow prepayment to refinance
- Some asset classes are doing well – e.g. data centers v. office

A World Turned Upside Down – Twice



Introduction

The Effect on Banks

Historical Record

Events of March 2023

Lessons Learned

Commercial Real Estate



Exposure to Maturing Loans

Asset Types

- Multifamily
- Retail
- Office
- Hotel
- Industrial
- Other

Who holds the \$930B in maturing loans?

- Depositories/Banks – \$440B
- CMBS – \$230B
- Finance Companies – \$170B
- Life Insurance – \$60B
- Agency CMBS (Multifamily) – \$30B

The Future



Individual Bank Stresses

Regional Challenges and Opportunities

Community Banks

Capital and Risk Management Activities

Economic Growth and Regulatory Paperwork Reduction Act

Q&A Session

