

Friday, September 3, 2010

Banks squeeze out speculation from construction funding

USAmeriBank and American Momentum Bank are both making loans for commercial construction projects

Tampa Bay Business Journal - by [Margie Manning](#) Senior staff writer

Two Tampa community banks have built a book of business in construction and development lending, despite a national pullback triggered by the real estate meltdown and tight regulatory scrutiny.

USAmeriBank and **American Momentum Bank** are both making loans for commercial construction projects. With less competition than in the past, the banks can pick and choose the best projects, and price them favorably. Additionally, banks that are willing to make loans now have a chance to establish client loyalty that will pay off when the economy turns around.

“We’re loyal to USAmeriBank because they stuck with us,” said Mike Wagner, president of Encore Real Estate in Safety Harbor. Encore received financing from the bank to develop drug stores in Ocala and Cape Coral for **Walgreen Co.** (NYSE: WAG).

The tight field of construction lending, including loans for land acquisition and development, could be opening up slightly. Wagner cited his experience at the International Council of Shopping Centers convention in Orlando in mid-August.

“I noticed more lenders, and they are starting to become more active again,” he said, adding they were primarily large regional banks with few community banks among them.

Debate about demand

Nationally, funding for new commercial construction projects is still difficult to obtain and operating fundamentals do not support many new projects, said Anika Khan, an economist at **Wells Fargo Securities**.

Additionally, there’s not much demand for loans for new construction, said Tramm Hudson, president of **Whitney National Bank** in Manatee and Sarasota counties. There’s still plenty of inventory, both of housing and commercial projects, Hudson said, although the bank is seeing some interest in upgrading Class B or Class C buildings to Class A space.

“We’re seeing good demand, although not every deal is a good one,” said Al Rogers, executive vice president and senior lender at USAmeriBank. The bank looks for strong sponsorship. Borrowers have to put at least 20 percent of their own money into the project as equity and have strong pre-leasing or pre-sale activity.

“We’re trying to squeeze out the speculative nature of any project,” Rogers said.

Expectations modified

Because few banks are making construction and development loans, pricing is tilting in the banks' favor with larger upfront fees and better margins on the loans. Interest rates are relatively low, but banks have put minimum rates, or floors, on the loans, and that's become accepted as part of the norm, Rogers said.

Nationally, construction and development lending dropped 28 percent in the year ended June 30, the biggest decline of any type of lending, according to an Aug. 31 report from the Federal Deposit Insurance Corp.

Construction and development lending landed a lot of banks in hot water after the real estate market collapsed and developers were stuck with properties for which they had no buyers or tenants, and no income stream from which they could repay their loans. Federal banking authorities have cited a concentration in such loans as factors in several bank failures, including the 2009 failures of **First Priority Bank** and Freedom Bank, both in Bradenton.

Rogers said USAmeriBank has not seen a higher default rate on its construction and development loans because values have adjusted and expectations have been modified, "so the requests now are reasonable."

mmmanning@bizjournals.com | 813.342.2473