ABOUT

Real Estate Research provided analysis of topical research and current issues in the fields of housing and real estate economics. Authors for the blog included the Atlanta Fed's Jessica Dill, Kristopher Gerardi, Carl Hudson, and analysts, as well as the Boston Fed's Christopher Foote and Paul Willen.

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June 9, 2016

Construction Lending Update: Have the Banks Finally Opened the Spigots?

When we last blogged about at bank call report data, in June 2014, we found that "aggregate lending remained well below its 2008 peak," but "more than half of banks with a construction lending business line were expanding" their lending. Fast forwarding two years, where does construction lending stand now? We pulled bank call report data through the first quarter of 2016 and found that construction lending has continued to grow, albeit at a measured pace (see table 1).

	All construction loans			Residential 1-4 family construction loans			Other construction, all land development and other land		
March 31 as of	Percent of banks reporting YoY growth	Median growth rate	Total outstanding ($ billions)	Percent of banks reporting YoY growth	Median growth rate	Total outstanding ($ billions)	Percent of banks reporting YoY growth	Median growth rate	Total outstanding ($ billions)
2005	70.6%	28.6%	358.2						
2006	73.8%	32.6%	485.3						
2007	67.4%	19.8%	581.0						
2008	61.9%	11.8%	631.0						
2009	44.5%	-4.4%	566.1						
2010	30.5%	-17.1%	417.5			87.8			329.7
2011	30.5%	-16.4%	293.9	34%	-21%	55.5	32%	-14%	238.4
2012	35.6%	-12.0%	228.2	43%	-9%	43.5	33%	-12%	184.7
2013	45.4%	-3.2%	201.5	53%	4%	40.7	40%	-7%	160.8
2014	53.8%	4.1%	214.8	60%	18%	45.7	47%	-2%	169.0
2015	60.1%	9.4%	246.0	61%	15%	53.6	55%	5%	192.4
2016	62.2%	11.9%	284.2	62%	17%	63.2	56%	7%	221.1

Source: Bank Call Reports

Of the insured banks with a construction lending business line, 62.2 percent have stepped up their lending relative to the year-earlier level. Not only are there more banks actively lending, but half of these banks increased their lending by at least 11.9 percent.

Despite this seemingly good news, it appears that most banks remain selective about the loans they make, and a few large banks are largely responsible for the increase in aggregate lending. In the first quarter of 2016, the top 20 construction lenders accounted for more than one-third of all construction lending (that is, 0.4 percent of active construction lenders are responsible for 37 percent of all construction lending). To provide some perspective, the top 20 banks accounted for 32 percent of all construction lending in 2005 and 42 percent in 2010. Slicing the data this way suggests that it is not particularly unusual for the top 20 to play such a large role in construction lending and that smaller lenders have made some progress toward recouping the market share of the top 20, though they aren't as active as they were in 2005.

Shifting attention now to the second and third set of columns in table 1, we'd like to point out that call report data in 2010 started breaking down total construction lending data into "Residential 1–4 family construction loans" and "Other loans, all land development and other land" categories. Note that this "Other" category includes construction loans for nonresidential and multifamily properties. While lending in both categories has increased over the past two years, growth has been much stronger for "Residential 1–4 family construction" relative to "Other construction, all land development and other land." Our interpretation of this divergence remains quite similar to our assessment two years earlier: the slower growth in "Other" is likely the outcome of fairly strong growth in multifamily construction lending weighed down by banks' continued reluctance to lend on land and lot development.

While the data seem to indicate that the construction lending spigots have opened up a little over the past two years, it is less clear who is able to access this credit. Bank call report data is aggregated in a way that prevents us from knowing anything about the borrowers. Anecdotally, using our monthly poll of

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Southeast homebuilders, we have not picked up much in the way of improved access to construction credit (see table 2). The majority of builders in our monthly poll continued to report that the amount of available credit for construction and development falls short of demand.

How available do you perceive construction and development credit to be in your market?

	Small Builders			All Builders		
	Credit< Demand	Credit= Demand	Credit> Demand	Credit< Demand	Credit= Demand	Credit> Demand
May-15	85.7%	14.3%	0.0%	72.7%	13.6%	13.6%
Jun-15	85.7%	14.3%	0.0%	73.7%	21.1%	5.3%
Jul-15	71.4%	0.0%	28.6%	68.4%	21.1%	10.5%
Aug-15	71.4%	28.6%	0.0%	61.9%	38.1%	0.0%
Sep-15	80.0%	20.0%	0.0%	66.7%	25.0%	8.3%
Oct-15	88.9%	11.1%	0.0%	63.6%	31.8%	4.6%
Nov-15	85.7%	14.3%	0.0%	65.4%	34.6%	0.0%
Dec-15	87.5%	12.5%	0.0%	59.1%	36.4%	4.6%
Jan-16	70.0%	30.0%	0.0%	68.4%	26.3%	5.3%
Feb-16	70.0%	20.0%	10.0%	66.7%	29.2%	4.2%
Mar-16	77.8%	22.2%	0.0%	60.0%	35.0%	5.0%
Apr-16	76.9%	23.1%	0.0%	65.4%	34.6%	0.0%

Source: Atlanta Fed's business contact survey

About a year ago, we asked our builder respondents to self-identify as small, medium, or large. By tagging respondents with a size, we've been able to break out the results to see how small-builder responses compared to all responses. Not surprisingly, small builders find credit to be less available than the group as a whole. Moreover, there has only been a slight change in the responses over the past year (three out of four small builders still find credit to be insufficient compared to four out of five one year ago). While a few smaller builders may have had better luck in securing construction and development lending over the past year, we haven't been able to detect much in the way of broad improvement in access to credit for construction and development.

We also looked to the April 2016 Senior Loan Officer Opinion Survey (SLOOS), published by the Federal Reserve Board, for insights into construction lending. The results seem to paint a construction lending picture that is similar to but not completely aligned with the one we outlined above. In short, the SLOOS reports that a "significant net fraction of banks reported tightening standards for construction and land development loans" while a "moderate net fraction of banks reported stronger demand for construction and land development loans." It is not clear that the call report data and the SLOOS are telling the same story on construction lending behavior, but perhaps this difference is simply an early signal of what we can expect from the second quarter call report.

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