

inside small-balance

By **Randy Fuchs**, principal and co-founder, Boxwood Means Inc.

Was Greenspan right all along?

IN CONGRESSIONAL TESTIMONY THIS PAST October, former Federal Reserve Board Chairman Alan Greenspan admitted to having put too much faith in the self-correcting power of free markets. Now, we risk making the opposite mistake by placing too little trust in markets. In fact, according to some research, self-correcting market mechanisms are indeed working.

A recent Boxwood Means study indicates that smaller banking institutions are picking up some of the slack for a number of bigger banks that remain sidelined — the same larger lending institutions that created increased competition via mega-bank mergers and acquisitions.

In a comparison of loan volume among the top 1,000 lenders in the second quarter of 2008 versus the same period in '07, the results demonstrate a clear shift in originations for loans of \$5 million or less. The top 10 lenders — traditionally, larger, national banks — saw their collective market share dip from 19.31 percent to 18.12 percent. Likewise, there were market-share losses for lenders ranked Nos. 11 to 25, down 62 basis points, and firms in the next tier, from Nos. 26 to 100, which were down 96 basis points. While these market-share declines may seem negligible, even minor percentage-point changes can translate into sizable loan production for lenders in today's origination environment.

The share of refinance originations also fell among the same top 100 lenders, which yielded 311 basis points.



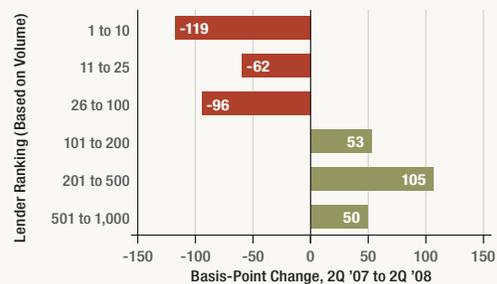
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The top 10 lenders lost 159 basis points of their market share here, down to 18.75 percent. The next 75 top lenders suffered less market-share compression.

Meanwhile, smaller local and regional banks picked up the pace. Lenders ranked between 101 and 1,000 in overall loan volume added 208 basis points in total origination market share, as well as 230 basis points in refinance volume. Look for share shifts from larger to smaller lending institutions to further increase this year.

Realistically, these smaller lenders' contribution to local businesses' and investors' financing needs lacks sufficient scale to solve the nation's aggregate credit problems on its own. But the federal government's promotion of a level playing field in the credit markets could best serve the interests of small lenders and their borrowers in the long run.

Market-Share Shift, Small-Balance Lenders



Source: Boxwood Means Inc.