Too-Many-To-Ignore: Regional Banks and CRE Risks

Franz J. Hinzen **Felipe Severino** **Stijn Van Nieuwerburgh**

Discussion by

Cameron LaPoint

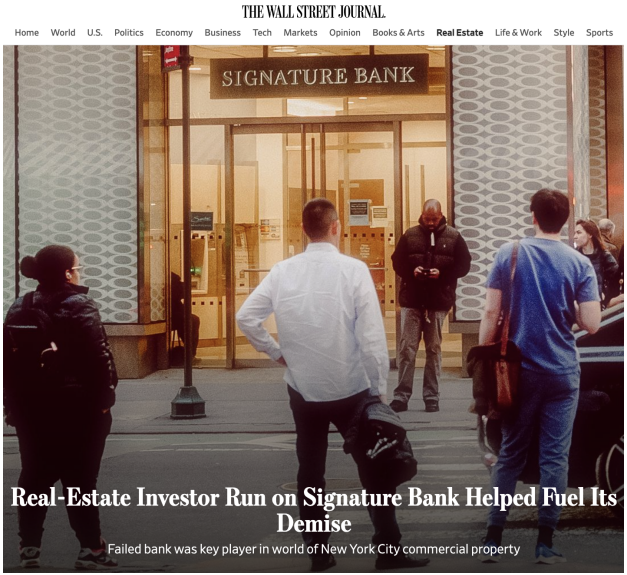
Yale SOM

40th Mitsui Finance Symposium: Private Capital Markets

University of Michigan, Ross School of Business

June 5th, 2026

CRE risk prominent in recent regional banking crisis

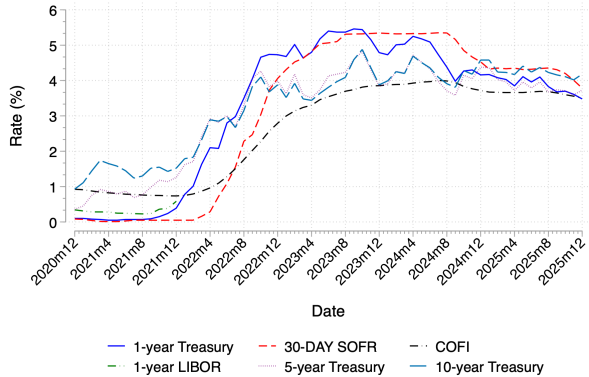


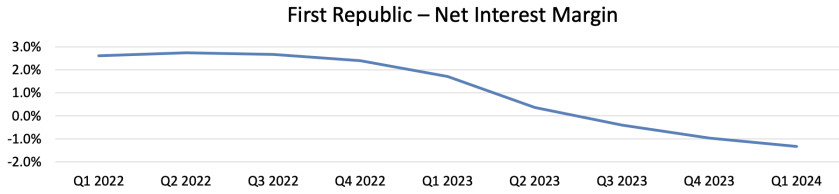
- Interest rates went up very quickly in 2021-22 after COVID-era stimulus
- Most non-CMBS CRE debt is **floating rate**, so debt service $\uparrow\uparrow$
- Plus, $r \uparrow \implies$ cap rates $\uparrow \implies P \downarrow$
- At the same time, smaller regional banks are the most exposed to CRE
- Informed insiders in CRE industry amplified run on deposits (Cookson et al. 2026 *JFE*)

CRE dimension to Spring 2023 regional banking crisis

Top Bank CRE Lenders
As of 4Q 2022

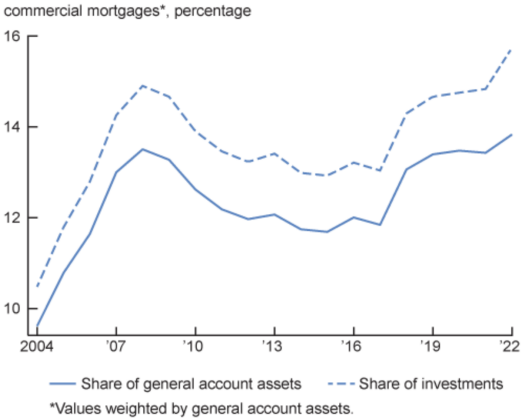
Rank	Name	CRE Loans Outstanding ($ Bn)
1	WELLS FARGO	$140.3
2	JPMORGAN CHASE	$132.1
3	BANK OF AMERICA	$76.8
4	TRUIST FINANCIAL	$53.5
5	U.S. BANCORP	$53.2
6	NEW YORK COMMUNITY BANCORP	$48.8
7	PNC FINANCIAL	$47.0
8	M&T BANK CORP.	$44.3
9	FIRST REPUBLIC BANK	$37.0
10	SIGNATURE BANK	$35.2

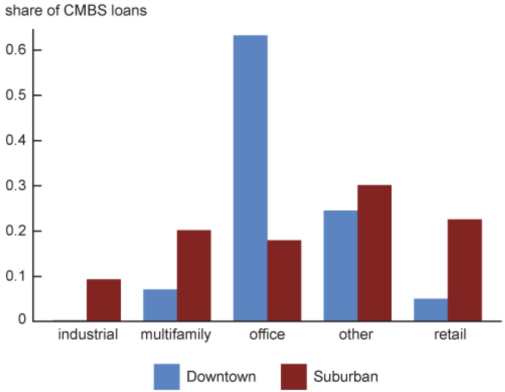




Not just banks! Life insurers also exposed to CRE loans

Large Life Insurers' Exposure to Commercial Real Estate Debt





Source: Chicago Fed *Economic Perspectives*, No. 5, August 2024: "Life Insurers' Exposure to Commercial Real Estate"

NYCB is largest lender to rent-stabilized apartments

Tougher Rent Laws Are Behind Trouble at NYCB

Values drop at rent-stabilized apartment buildings, squeezing lender

By Will Parker Follow

Feb. 13, 2024 5:30 am ET

Resize | 157 | Gift unlocked article | Listen (6 min)

New York Community Bancorp is New York City's biggest lender on rent-stabilized apartments.
PHOTO: JACKIE MOLLOY FOR THE WALL STREET JOURNAL

- Rent-stable units are $18 billion in loans and 20% of NYCB's (Flagstar's) total loan book
- 2019 NYC law capping rental price increases led to divergent fates for buildings
- **Building prices ↓ at the same time that loans need to be refinanced**
- Comes at a time when NYC and other cities are considering new rent protections
- Other concentrated risks: DOGE contract cuts (Choi & LaPoint 2025)

This paper: Are we out of the woods yet?

- **Answer: not necessarily!**
  - Regional banks (RBs) are not currently showing the same CRE deterioration as large banks
    - ⋆ Largely due to RBs tilting towards better-performing assets (e.g., industrial, suburban)
  - **Bad news:** reported performance measures are giving a falsely reassuring picture
  - Unresolved risk: RBs may be relying on loan rollovers rather than loss recognition
- **Stress test:** consider 30% haircut in *projected* CRE collateral values
  - 26 regional banks plus 1 large bank (Flagstar/NYCB) breach under-capitalization thresholds
- Roadmap for my discussion:
  1. Refining measures of bank/loan distress
  2. Designing more realistic stress tests
  3. What does the regional bank's objective function look like?

Comment #1: how do we interpret distress here?

- **Delinquency rate definition in this paper is very broad** (basically, 30+ days)
  - Break down results by 30/60/90+ day delinquencies (or ever-delinquent flag), loan modifications, special servicing rate, watchlist, DSCR covenant violations, etc.
- Distress defined as "close to underwater" (LTV $> 95\%$)
  - Assumes all loans are interest-only (IO) $\longrightarrow$ easy to forecast loan balance
  - But $\approx$ 20-30% of non-CMBS CRE loans are IO (Glancy et al. 2025) $\longrightarrow$ overestimate LTV
- **Other issue:** LTV based on book-to-market correction using MSA $\times$ property subtype ("market") MSCI price index
  - Advantage: based on aggregation of arms-length transactions, so not subject to banks' reporting incentives
  - Disadvantage: not marked-to-market to the extent private value assets highly idiosyncratic
  - **Suggestion:** apply ML/LGBM hedonic technique used in Koijen, Shah, Van Nieuwerburgh (2025) and inflate up via fitted values, subtract out depreciation

Continued post-pandemic challenges: CMBS delinquency

TABLE 1: DELINQUENCY STATUS

DELINQUENCY STATUS	PERCENTAGE %
Current	90.84
30 Days Delinquent	0.25
60 Days Delinquent	0.09
90 Days Delinquent	0.56
Performing Matured Balloon	1.62
Non-Performing Matured Balloon	2.29
Foreclosure	3.06
REO	1.30

Source: Trepp

TABLE 2: DELINQUENCY RATE BY PROPERTY TYPE (% 30 DAYS +)

PROP TYPE	MAY-26	APR-26	MAR-26	3 MO.	6 MO.	12 MO.
Overall	**7.55**	**7.54**	**7.55**	**7.14**	**7.26**	**7.08**
Industrial	1.31	0.96	0.65	0.67	0.67	0.48
Lodging	6.01	6.52	7.31	5.94	6.17	6.39
Multifamily	6.95	7.71	7.15	6.85	6.98	6.11
Office	11.53	11.69	11.71	11.20	11.68	10.59
Retail	6.61	6.31	6.62	6.30	6.74	6.99

Source: Trepp May 2026 CMBS Delinquency Report

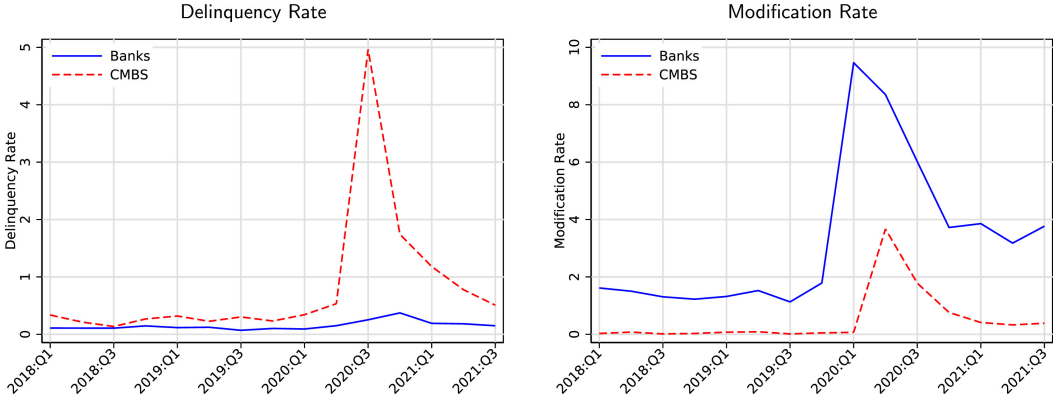
Discrepancies between delinquency rate series

- Authors find much lower *reported* delinquency rates ($\approx$ 2-3%) than other sources
- CMBS loans (what other papers use) nearly always fixed rate contracts, generally perceived as safer or else deal would not be underwritten
  - Securitized loans performed better in aftermath of GFC (Black et al. 2020)
  - Government-leased office properties with long lease terms + easily projected cash flows are 50% more likely to be securitized (Choi & LaPoint 2025)
- My prior based on this evidence would be that delinquency rates for balance sheet loans should be *greater* than what S&P and Trepp report

Question: is there under-reporting?

Should we interpret the authors' time series as evidence of systematic under-reporting by both types of banks?

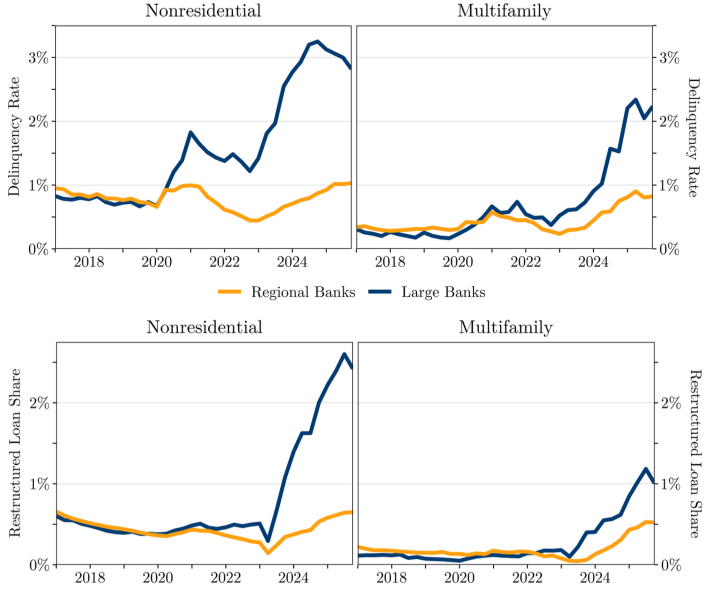
Unless this is all driven by banks giving loan mods...



Source: Glancy, Kurtzman, Loewenstein (2025): "The Value of Renegotiation Frictions: Evidence from Commercial Real Estate," *JFI*

- Caveat: Glancy et al. (2025) use Y-14 data $\longrightarrow$ coverage is for large banks

But this is not what the authors find

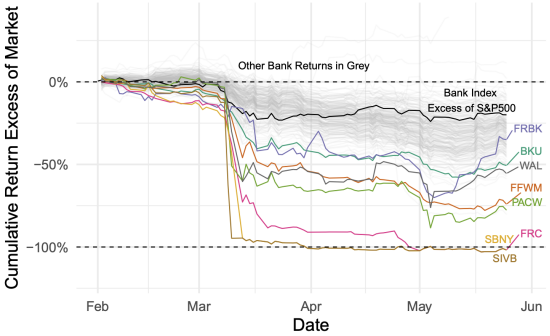


Comment #2: is this the right counterfactual for assessing risks to the banking sector?

- Authors consider the following (tail-risk) stress test:
  - Stressed value$_{p(m)}$ = MSCI index projected value$_{p(m)}$ $\times(1-\xi), \forall p, \forall m$
  - Scenario Loss$_l = \max\left\{\text{Loan Amount}_l - (1-\phi) \times \text{Stressed Value}_{p(l)},\ 0\right\}$
- $\xi = 30\% - 40\% \implies$ shock of similar magnitude to the WFH apocalypse for superstar city offices (Gupta et al. 2026 *AER*), but retail/MFH bigger problem for RBs
- **Suggestion #1:** feed in actual forecasts based on submarket projections (e.g., CoStar)
  - Presumably, RBs have access to these resources as well
  - FR Y-14A offers surveys of bank forecasts on local economic outcomes (Ma et al. 2022)
  - Deviations from these expectations would captured unhedged losses $\longrightarrow \xi_m$
- **Suggestion #2:** calibrate ϕ_m to account for recourse lending
  - 3/4 of bank CRE loans have full or partial recourse (Glancy et al. 2023 *REE*)

Are depositors/investors aware of risks to RBs?

- Choi et al. (2024) show that SVB triggered steep drop in "RB" cumulative returns and (uninsured) deposits
  - Flight to safety to larger comm. banks
- If CoStar releases a new revision/forecast or if a major loan ends up on the watchlist, what happens?
- If similar dynamics $\implies$ market is disciplining RBs (maybe just post-SVB)

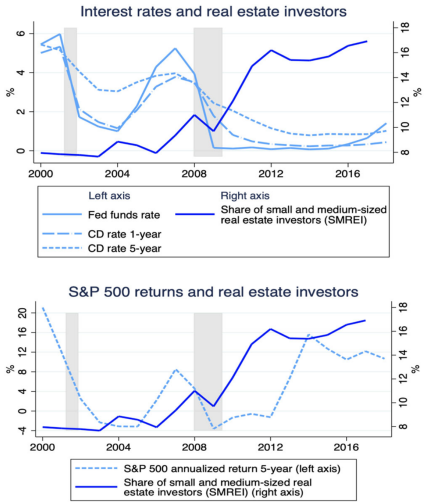


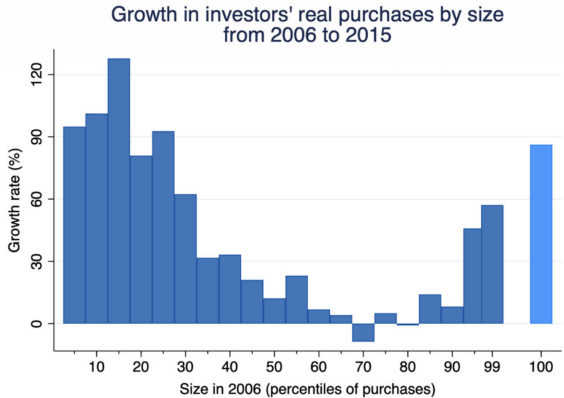
Source: Choi, Goldsmith-Pinkham, Yorulmazer (2024): "Contagion Effects of the Silicon Valley Bank Run"

Comment #3: what is the RB's optimization problem?

- Paper mainly focuses on equilibrium outcomes and is largely agnostic about why RBs aggressively expanded into CRE
- Several possible stories that would rationalize observed facts
  1. Declining deposit franchise + **search for yield** $\longrightarrow$ CRE inv. expansion
  2. Evergreening/extend-and-pretend behavior $\longrightarrow$ low reported delinquency rate
  3. Local *ex ante* market power + screening advantages $\longrightarrow$ target properties w/strong $\mathbb{E}[\Delta P]$
- **Suggestion #1:** compute/impute IRRs or banks' yield on their loans
  - How do CRE loan yields differ for large banks vs. regional banks?
  - Do excess yields positively correlate with banks' geographic/subtype HHI?
- **Suggestion #2:** assume banks use a market forecast for property values that is *ex post* correct (again, CoStar/Moody's produces these)
  - Does willingness to refinance w/o equity injection correlate with these expected returns?

Where have we seen search for yield before? Part I





Source: Garriga, Gete, Tsouderou (2023): "The Economic Effects of Real Estate Investors," *Real Estate Economics*

- Large REITs and mom-and-pop investors expanded their residential footprint via the post-GFC foreclosure crisis

Where have we seen this before? Part Deux (from 2013)

Private equity funds fail to make the grade for Yale endowment

A number of US university endowments are questioning the Yale model

Yale's endowment invested heavily in hedge funds and private equities © Alamy

The consensus among the tea-leaf readers is that Mr Swensen wants to wipe a bit of illiquidity risk off the counter at a time when returns on stocks are outpacing those provided by a number of private equity funds.

Put simply, Mr Swensen, who still devotes more of Yale's money to private equity investments than to any other asset class, is not reaping enough of a profit to justify the risk Yale takes when it is locked into private equity funds for a period of years.

Miscellaneous suggestions/minor quibbles

1. Definition of regional banks is purely based on balance sheet size (assets $>$ CRA threshold but $<$ \$100 B $\longrightarrow$ very heterogeneous!)
   - Classify according to regional HHI?
   - Current definition: Signature and First Republic are not RBs on eve of their collapse
2. Vary the LTV cutoff around 95% used to define $Distress$ given measurement issues from imputation of market value + amortization
3. Is the sample only loans backed by a single asset? Otherwise, how do you perform book-to-market correction?
4. What are the high/low splits for capital ratios, market shares defined? $\longrightarrow$ check monotonicity by decile?
5. **Comparison to other bank stress tests in the literature**
   - 10% to 20% default rate stress test based on CMBS loans (Jiang et al. *2025 JPE: Macro*)
   - Highlight differences in collapse prob. for loan-level vs. bank-level data

Should we be concerned about another S&L crisis?

- Unclear without knowing more about what RBs are doing to mitigate risk
  - Are the RBs going to become zombie banks? Evergreening vs. *ex post* "correct" recovery support to stressed but fundamentally sound borrowers
  - Does relationship lending + local market power allow regional banks to better screen?
  - Or was this just search-for-yield behavior that is now proving difficult to unwind?
- Can push further by decomposing equilibrium outcomes using the authors' amazing **loan-level data** $\longrightarrow$ tell us more about the contracts, properties, geography
- **Knock-on effects:** Are investors/depositors aware of the risks? Spillovers to other bank product line segments?
- Timely topic, and highly recommend the paper to anyone trying to learn more about the post-COVID CRE debt market!

CHEERS!