

**“Ask SCORE” Column  
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**Lenders fail to renew loans by Tina Dettman-Bielefeldt**

“The loan renewal was approved, but with some changes.” That was the opening line of a letter that a local real estate investor received recently. He is part of a land development group — a group that has invested in the future of the community and never missed a loan payment. But now, the loan is up for renewal and the lender doesn't want it.

The letter might sound promising, but the terms are far from it. Despite the fact that the group has met all of its obligations, the lender says that the loan to value ratios are no longer adequate. The changes proposed in the loan renewal ask for additional equity. They want \$110,000 now and an additional \$140,000 in the next year. If the group doesn't have the requested capital, the bank no longer wants their business.

A commercial lender from Appleton who is unrelated to this deal said that he is facing similar issues with business loans. As he awaits a visit from bank examiners in November, he is afraid that he will be forced to turn away good customers.

“The regulators are pushing us into this cycle,” he said. “Why are they making us pull some good performing loans? The government needs to call these dogs off ... as long as customers are paying.”

According to a recent report by the Federal Congressional Oversight Panel, about half of the \$1.4 trillion in U.S. commercial real estate loans coming due between 2010 and 2014 are underwater. That means that the borrower owes more on the property than the property is now worth.

In the residential market, loan terms are typically 20 to 30 years, and regardless of decline in market value, the lender will leave the loan alone unless the customer defaults. In the commercial market, loan terms are usually three to five years. In the past, as long as payments were current, the interest rate was adjusted up or down, a fee was paid, and the loan was renewed. Not any more.

Banks are facing the toughest regulatory environment in more than two decades, as examiners require strict collateral ratios and portfolio adjustments. The government might be telling lenders to do more commercial loans, but regulations make it almost impossible. The new crisis in foreclosures will not be based on payment defaults, but on maturity defaults.

“We've been doing loans with 20 percent down, and have heard that regulators might require 35 percent,” the Appleton lender said. “If you force people to come up with additional collateral and they can't, you're just driving down the value of properties and creating more vacancies. How can that be good for real estate?”

For the land group that's just been asked to come up with a quarter of a million dollars in order to renew a loan, they have learned that their long-term relationship with the lender doesn't count for much. The rules have changed, and the customer is no longer king.

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