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US regulators think the commercial real estate crisis will force out some lenders

Article

The news: US Treasury Secretary **Janet Yellen** anticipates increased stress and financial losses in the commercial real estate market, but **she doesn't believe these issues will pose a**

systemic risk to the banking system.

Yellen's biggest concerns: While her testimony coincided with heightened anxiety regarding **New York Community Bancorp's** financial health, Yellen redirected the conversation to larger implications for the market.

- She predicted closures in the nonbank mortgage market, because these lenders lack capital requirements and can't fall back on deposits.
- Yellen also worries about the impact of the decreasing affordability of various types of insurances that protect building owners from the effects of climate change.

That means FIs with exposure to loans for properties that face uninsured losses may see defaults rise, potentially leading to financial instability for both borrowers and lenders.

What this means for banks: Yellen emphasized the overall strength and health of the US financial market and said she doesn't believe this crisis will cause long-term issues for big banks. But when it comes to smaller ones, she's less confident.

- Federal Reserve Chair Jerome Powell agrees that the commercial loan problem won't turn into a second global financial crisis, but says banks with higher concentrations of investments in this industry will have to overcome some hard blows.
- This cohort includes regional and local banks stressed by high vacancy rates, high interest rates, and falling valuations.

Both Yellen and Powell believe smaller lenders will respond to these conditions with some closures and mergers.

Commercial real estate is in distress Internationally: The problem isn't limited to US lenders.

- Chinese investors and creditors are selling global real estate holdings to raise cash amid the country's deepening property crisis. That could fuel even more market distress.
- **Man Group** fund manager Jonathan Golan warns of potential bank defaults spreading to Europe due to high commercial real estate exposure in Germany and Scandinavia.
- German banks **Deutsche Pfandbriefbank** and **Deutsche Bank** both have significant stakes in the US commercial real estate market, but are reassuring investors about their financial security.

Analysts expect commercial real estate to rebound later this year, following highly anticipated interest rate cuts in both the US and Europe.

Marketing takeaways: Although the next global financial crisis may not be upon us, consumers around the world could still be spooked by publicity around industry concerns or closures.

- Banks need to be prepared for potential shifts in consumer behavior and confidence, as these market dynamics could influence borrowing and financial decisions.
- If we've learned anything from NYCB, it's that transparently addressing customer concerns can go a long way in building consumer confidence—and failing to do so can result in serious backlash.

***Don't forget** about social media's influence during crises like this, which we dig into further here.*