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## Sabal Financial Looks to Fill Home Builder Lending Void

By Victoria Finkle

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A California firm that specializes in buying banks' problem assets has established a side business lending to home builders.

With many banks still skittish about lending to builders following the devastating real estate bust, Sabal Financial in Newport Beach quietly launched its new lending arm earlier this summer in hopes of filling what it sees as a void in the marketplace.

"While the healthy banks do want to get back into lending ... in some areas they are being careful or don't want to do it at all. One is builder lending," says Pat Jackson, Sabal's chief executive. "It makes sense to start offering this product to meet the market demand that we see."

Sabal, which also offers credit advisory services to banks, says that its experience in the industry has helped prepare it for this kind of lending even amidst lingering questions about the strength of the housing market.

The company also faces fewer regulatory constraints that may be keeping banks from lending more to certain home builders or out of the market altogether.

"Working with the banks [on credit advisory services], we do have a good understanding of what regulators are looking at and where they don't want banks getting back into marketplace," he adds. "The space we're going after is middle market. We feel like that's a great space for us, because banks have not gotten back into that."

Sabal is focusing on construction loans of roughly \$3 million to \$35 million, largely in select metropolitan areas in California, Oregon and Washington state. Its new lending arm is headed by former Bank of America (BAC) executive Tom Farrell.

"Our deepest relationships are West Coast-based," Jackson says.

The company said Monday that it's completed its first loan, a \$4 million construction loan for 12 detached single-family residences in Torrance, Calif.

Sabal now has "a robust pipeline" of additional deals, says Jackson, adding that the company is "pleased with the progress made" since launch of the unit in June. He declined to elaborate on the number or size of those potential deals.

The move into the home builder lending business still comes at a time of flux, and industry data paint a mixed picture of recovery at best.

"I think we're kind of in the early stages of a possible rebound in housing, but I would caution anybody in getting out ahead of that in thinking that it's going to be parabolic from here," says Jason Ware, an analyst with Salt Lake City-based Albion Financial Group.

There was a 4.9 month supply of new homes in June, the U.S. Census Bureau and the U.S. Department of Housing and Urban Development reported last month. That was down from a 6.6 month supply a year earlier, but up from a 4.5 month supply in May.

And residential construction permits, a leading indicator for the housing market, rose 6.8% in July from a month earlier, up to a seasonally adjusted annual rate of 812,000 — the highest rate since August 2008, the agencies reported last week. But at the same time, new housing starts fell 1.1% in July from a month earlier, to an annual rate of 746,000.

Sabal's decision to get into the market also comes as several banks are taking a second look at the sector as well, albeit with a cautious eye.

Umpqua Holdings (UMPQ) in Portland, Ore., announced last December that it was ramping up construction lending to fill what it saw was a financing void in that market. A spokeswoman for the bank didn't respond immediately to a request for comment on this story.

And Wells Fargo (WFC) announced just last week that it's launching a team of 14 bankers to focus on home builder lending along the East Coast, along with in Texas and the Midwest.

Bird Anderson, an executive vice president who will manage the new group at Wells, says the company decided to target home builders because "housing fundamentals" seem to be improving.

"The legacy portfolio of home builders that survived through the great recession in housing--their credit fundamentals were beginning to firm up," he says.

While relevant economic indicators "weren't all skyrocketing ... they were all generally improving. That ranged from price stability to permit and start increases to new home sales increases to absolute levels of new home inventory being smaller," he says, adding that the "shadow inventory of resale housing and foreclosures or short sales was beginning to be less daunting."

While some banks are moving back into the home builder lending market, Sabal's Jackson says his firm is offering something most banks can't: nonrecourse loans.

Sabal's cost of funds are higher than a bank's, but Jackson says that the company's quick turnaround and ability to offer such loans may be enticing to some home builders.

"Recourse does have teeth," he says of terms typically offered by banks that would allow a bank to go after a home builder's assets in the case of default.

"We are...perfectly happy to take real estate back because we're real estate guys. ...Ultimately are banks looking to get paid back," he adds. "So, as guys start putting their toes in the water, a nonrecourse product is very attractive to them, in managing their risk."

Looking forward, Jackson says the company does plan to expand nationally, particularly as some of its nonperforming real estate portfolio shrinks in coming years. He declined to elaborate on how large the company plans to grow its home builder lending portfolio.

"This is a natural evolution for us as a company, as distressed [real estate] becomes less of a robust business plan. When things do start to recover in a meaningful way, we can use our lending background and platform to expand [home builder lending] and make it a bigger part of our overall business plan," says Jackson.

"We do have a view about other markets," he adds, including Florida, where the company already has a sizeable portfolio of assets.

"As we look to expand, there are obvious markets where we have a lot of expertise," he adds.

"We have made some big investments so far as the company goes to have the systems and capabilities in place as we grow. We're fully implemented to launch multiple lending platforms to support this business."