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Six Questions for Farmers & Merchants Bank CEO

By *Natalie Dolce*


Walker

LONG BEACH, CA-With continued volatility across the capital markets and uncertainty surrounding government legislation, the lending environment remains tight. GlobeSt.com sat down with **Farmers & Merchants Bank** CEO **W. Henry Walker** to discuss the state of real estate lending and what criteria he considers to be most important in today's market. The bank lends to all types of product types and has more than $4 billion in assets. Recently, the bank did a 34-property shopping center portfolio refinance via a $108.6-million loan from **John Hancock Life Insurance Co.** on which GlobeSt.com **previously reported**.

GlobeSt.com: Due to the ongoing financial turmoil, are you reevaluating your lending standards?

Walker: The ongoing uncertainty in the economy has forced everyone to restructure their lending criteria. Despite glimmers of a recovery, it is evident that we are in a long period of slow economic growth. The concern is twofold: Values have reset, and rents have reset. We believe this is not simply a downward fluctuation but a long-term recalibration of the real estate market on a national level.

GlobeSt.com: What characteristics do you look for in a good borrower?

Walker: Even during boom times, Farmers & Merchants Bank has always executed conservative lending standards. As a result, our lending criteria have not changed but have become more highly scrutinized. The borrower must have good cash flow, a sustainable business plan and a solid debt coverage ratio. We also give consideration to our borrowers' investment strategy. Are they investing in their own business or is this a value-add play? We approach each and every one of our potential borrowers as a long-term relationship so this dynamic is extremely important during the evaluation process.

GlobeSt.com: What product types currently pose the greatest investment risk?

Walker: Across the board, high-leverage investments pose the highest risk. From a product perspective, the hotel market and service industry (restaurants, entertainment) remain highly unstable. Conversely, the retail and industrial markets have demonstrated more stability, where buildings are easier to tenant and leverage is lower.

GlobeSt.com: What types of investors/developers are you finding to be most active in the market?

Walker: There is good pricing for every product in the market, particularly for borrowers investing through the purchase of notes and deed of trust. Many of these investors are generating 13% to 14% returns through an active investment strategy.

GlobeSt.com: In which regions are you actively lending? Are there any you are avoiding?

Walker: The majority of our lending is for properties and infill developments in Los Angeles and Orange Counties. These markets demonstrate the highest level of long-term stability and directly align with our lending strategy.

GlobeSt.com: There is a lot of uncertainty surrounding Dodd-Frank. What effect, if any, will it have on real estate lending?

Walker: Dodd-Frank and the recent establishment of the Consumer Financial Protection Bureau create additional legislation in an already tight lending environment. This limits investment and damages confidence. The most important initiative needs to be job creation. Lending will not precede employment and sales growth. You need loans for working capital after you have orders. And if you cannot get the orders, you cannot get the loan.

Categories: West, Capital Markets, Six Questions, Los Angeles