Central PA Chapter Newsletter

Fall 2016

From Your Chapter President

Welcome to our fall newsletter. As we begin a new fiscal year for our Chapter, I would like to thank everyone who made our 2015-2016 year a success. Having hosted seven General Membership events; four Open Enrollment Classes; a Women in Business Affinity event; a Credit Analyst Roundtable and achieving net positive membership, our Chapter earned Platinum Status for RMA (see below)! With the help of my board and the enthusiasm of our membership, the year flew by.

Looking to our new year, I urge each of you to take time to read this newsletter and give us your comments. We welcome your suggestions for future topics for events and hope you will also encourage non-members to join our Chapter.

President- Denise Quinn

Board Member, Marisa Flynn, attended the Annual Risk Management Conference in November and accepted the Platinum in the Chapter Planning Award on behalf of the Chapter. From left to right: Helga Houston, Chair of RMA, Marisa Flynn, Bill Githens, CEO of RMA.

2016-2017 Chapter Officers

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2016- 2017 Committees

Audit Committee
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Vice Chair: Denise Quinn

Membership Committee
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Education Committee
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Recognition Committee
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Vice Chair: Elizabeth Kelly

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Additional Members:
Paul Cooney & Seth Smith

Women in Banking/Finance Committee
Chair: Lisa Rimmey

2016-2017 Calendar of Events

October 26: Appraiser Panel
Location: Centre Hills Country Club
Moderator: Marisa Flynn

December 7: TRID As It Applies to Commercial RE Loans
Speaker: Betsy Dupuis
Location: Ramada Conference Center, State College @ 7:30 AM

General Membership Meetings:
Spring 2017:
CEO Panel & Enterprise Risk Management Event
Location: TBD

Open Enrollment Classes:
October 17-18 Loan Documentation
Location: State College

November 7: Analyzing Personal Financial Statements and Tax Returns
Location: State College

April 21, 2017: Analyzing Business Tax Returns
Location: State College

May 4, 2017: Relationship Management: Using Credit as a Sales Tool
Location: State College

Women in Financing Events:

The RMA Women in Finance Group enjoyed a fun evening at Medlar Field on August 11th for "Ladies Night at the Spikes". Thank you to BB&T Bank for sponsoring this event!

Events in the Spring TBD. Stay tuned!

Our chapter presents opportunities for individuals to get involved. Chapters rely on the talents of volunteers to stage many of their programs, conduct membership development efforts, and promote the ideals of the Association. To find out more about how you can get involved in our chapter, call Elizabeth Kelly at 1-800-572-6972 Ext: 18220 or Ekelly@nwbcorp.com.

Multi-Family Lending Bubble Yet to Burst

Since 2014, the headlines have told us a multi-family bubble is building. There is certainly no lack of data to support the assertion that multifamily construction has been growing in most urban centers. Whether or not the increase in construction has fueled a bubble that is about to burst depends on who you ask. Leasing agents will cite the fact that, to date, vacancy rates are steady to decreasing in most urban markets and rents have continued to climb. However, if you focus on the pipeline for delivery of new buildings in 2016 and 2017, it appears that the test of the sustainability of low vacancy levels and growing rents has only just begun. One source which examines the dynamics of the multi-family markets in 62 MSAs puts 34 of them late in the expansion phase, signaling that increasing vacancy rates and stagnant or decreasing effective rents are on the horizon. Yet, not all multi-family properties are equal. The bulk of new construction consists of luxury urban buildings with high cost to build requiring ever high rents to support the debt. In the meantime, existing multi-family projects in urban neighborhoods and suburbs are becoming more attractive given the lower rents and larger space.

The picture becomes even more confused when you examine the drivers behind increased multi-family absorption nationwide. Most sources cite millennials' desire for urban living with short commutes and lack of the responsibilities of home ownership as a primary force. But the ability of millennials to pay an ever larger portion of their salary in rent is questionable. Employment statistics tell a story of growth on the surface, but reports of decreases in labor participation rates and under-employment belie the statistics.

Without employment growth, the sustainability of multi-family absorption rates is suspect, as is the ability to maintain current rent levels. Finally, there is no consensus on when the pendulum will begin to swing from rent to buy. As renters with strong incomes are able to save for a down payment and mortgage rates remain low—with the threat of increases around the corner—will the pool of renters begin to flock to home ownership just as the bulge in the new multi-family construction pipeline hits the market?

One thing that is clear about the multi-family market is the need for lenders (and developers and investors) to be disciplined and maintain sound underwriting standards. Understanding the underlying economic and demographic drivers in the MSA and the submarket where a property is located and the pipeline of new projects, both rental and for-sale, is even more critical in this stage of the cycle. Lenders must be cautious not to over-leverage projects by underwriting to trended rents and abnormally low vacancies. Underwriting must focus on sustainable NOI and amortizing debt service coverage rather than a low loan to value that can be attributed to a low cap rate. Loan structures need to include leasing and debt service covenants that track to a normalized absorption projection, supported by interest and operating reserves that are in sync with those assumptions.

Multi-family bubble? Yes, some sectors of the market are a cause for concern. Continue to make new multi-family loans? Yes and no; some sectors of the market display strong demand dynamics at a relative value that support multi-family investment, but it is challenging to make new construction work in many markets.

From the Credit Risk Council 2016 Industry Insights

Credit Risk Certification (CRC)

Why CRC?
In today's rapidly changing financial services industry, you need practical, day-to-day knowledge that will help you excel in your profession. You need the latest skills—skills that are current and complete. And you need the demonstrated ability to serve a diverse base of clients. Plus, you need all of your knowledge, skills, and abilities to be validated by a respected organization like RMA.

For more information, visit http://www.rmahq.org/crc.

RMA Annual Risk Management Conference

Don't forget to register for this year's Annual Risk Management Conference on November 13-16, 2016 in Dallas, TX. For more information and to register, please visit our website at http://landing.rmahq.org/rmaconf2016.

Credit Risk Management Audio Conference Series

October 11, 2016: Concentration Risk Management

November 8, 2016: Small Business Lending Challenges

Time: All audio conferences will be held at 1:00 p.m. Eastern Time (10:00 a.m. Pacific Time).
Fees*
RMA Associate members: $120 for each audio conference (per phone line).
RMA Professional members: $130 for each audio conference (per phone line).
Nonmembers at RMA member institutions: $130 for each audio conference (per phone line).
Nonmembers: $180 for each audio conference (per phone line).
*Additional listeners cost $0.

Visit www.rmahq.org for the complete list of upcoming Credit Risk Management, Enterprise Risk Management (ERM), Operational Risk, and Regulatory Audio Conferences.