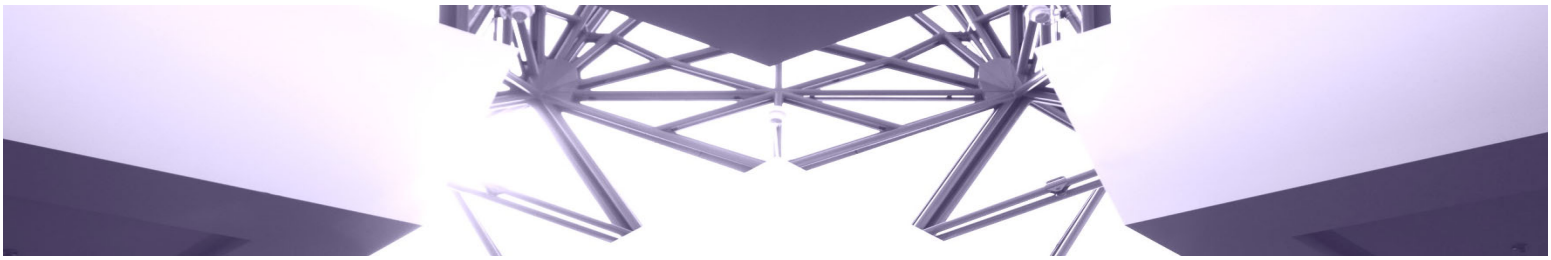
Risk Management Association

Advance Your World.

Spring 2024 Newsletter



PRESIDENT'S MESSAGE



Greetings, it's hard to believe that May is here, and my term as President is almost over. In July, we will welcome Adam Zebrowski of Labella Associates as our new RMA Buffalo Chapter President. I would like to thank the RMA Board for making 2023 such a success!

There are a number of exciting things to look forward to in 2024. Our annual CPA/RMA mixer, RMA Night with the Bisons and a real estate panel that is a joint collaboration with NAIOP.

Some of the meeting topics that we have scheduled address current market trends. These include:

- Senior Credit Officer Panel (covering inflation and lending in the current environment)
- Impact of electric vehicles on the auto industry
- The state of CRE lending in WNY

If you are interested in becoming more involved, please reach out to any board member or myself. We are also actively recruiting non-members to our Chapter. Please contact Charlie Brooks if you know anyone that might be interested.

As you can see from our Board listing, we have a wide variety of professions involved in our chapter - from bankers, to CPA's, attorneys and more. All are welcome!

If you haven't renewed your membership, please do so at your earliest convenience. I thank all of you and your respective institutions for your continued investment in RMA.

Nicholas Alberalla
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RMA BOARD MEMBERS

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Spring 2024

IN THIS ISSUE

President's Message 1
RMA Board Members 1
Article 2
Upcoming Events & Sponsors 2
Commercial Real Estate article ... 3-4
RMA Updates 6
About our Chapter 6

THE ECONOMY – WHAT TO KNOW, AND WHAT TO WATCH

From the April/May 2024 RMA Journal

Moody's economist Mark Zandi is feeling good about the direction of the U.S. economy. In a recent discussion with RMA's Philadelphia chapter, Zandi handicapped the chances of a soft landing in 2024 at 80%, a marked shift from his perspective six months ago, when he described the likely economic road ahead as a "slowcession." What's changed in his analysis? Inflation is moderating, interest rates have likely peaked, and consumers continue to do just enough to propel growth without aggravating inflation, he explains. Plenty of risks remain that could derail his optimistic call, but he sees a more balanced slate of factors in 2024 that could support it.

Below are a few excerpts from Zandi's talk:

- **CRE will be challenging, but not disruptive.** There will be defaults. But it will be manageable and certainly not enough to undermine the banking system, as the big banks have very little exposure to CRE and have stress-tested to assume a 40% peak-to-trough decline in all CRE prices. These kinds of price declines just aren't going to happen. The other thing to consider is that regulators are allowing banks to show forbearance to property owners, so we can avoid a self-reinforcing negative cycle where properties are getting dumped on the market at distressed prices. To be sure, there will be small bank failures—those banks who made the mistake of being overly exposed to commercial real estate—but these institutions will be far from systemically important.

Read the entire article in the April/May 2024 edition of the RMA Journal.
https://www.rmahq.org/journal-articles/2024/april-may-2024/the-economy-what-to-know-and-what-to-watch/

UPCOMING EVENTS

Status of Real Estate, Construction and Lending Panel
May 15, 2024
11:30am – 1pm
Aloft Hotel – Buffalo

This is a joint event with NAIOP Upstate NY!

Adam Zebrowski from LaBella Associates will Moderate the following expert panel:

William Paladino – Ellicott Development
Kevin Celniker – Evans Bank
Mark Molnar – Wendel
Richard (Ryall) Ledyard – Pyramid Brokerage Comapany

Join us! By registering here - https://naiopupstateny.com/meetinginfo.php?id=118&ts=1712669572

Look out for information on our upcoming events including an Economic Update, Electric Vehicle Panel, Member Appreciation Event at a Bisons Game and a joint golf outing with the WNY Society of CPA's!

THANK YOU TO OUR SPONSORS!

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https://pursuitlending.com/

LaBella Powered by partnership.
https://www.labellapc.com/

Community Bank
https://cbna.com/

Adapting to Economic Shifts: Strategies for Commercial Real Estate Owners and Borrowers

The economic environment has shifted drastically since the COVID-19 pandemic. Government provided economic stimulus and supply-chain issues fueled historic inflation. However, spending and consumption continued which caused the Federal Reserve to increase rates at a dramatic pace leading to interest rates not seen since the Great Recession. “Work norms” have significantly changed whereby employees are no longer in the office all week. Major cities have significantly transformed due not only to these factors but geo-political factors whereby properties previously hotels are now shelters and major retailers are exiting these localities. Although these issues are not completely the same for smaller cities and towns, there are still challenges on the commercial real estate front and for those financial institutions that lend to them. We’ve created this white paper with two of our industry experts in order to discuss and share perspectives from both sides in an attempt to educate the others on what we’re seeing.

During the COVID-19 pandemic, there were concessions available to borrowers that were not previously acceptable in nature or widely used. Those accommodations coupled with the stimulus that borrowers received helped to ensure through the pandemic that essentially no losses were recognized by financial institutions as it relates to loans in general. As noted above however, there has been a significant shift in the economic environment that that has been significantly impactful to Commercial Real Estate (CRE) borrowers and the risk profile associated with these borrowers. This is something that the borrowers and the lender will need to navigate together to ensure the best outcome for both.

The rise in rates over the past few years has significantly changed the borrower’s ability to repay. All indications are that beginning in 2024, the rates will begin to drop. However, it is not anticipated to be in large increments or at a rapid pace. Therefore, for any commercial real estate borrower that has a borrowing that is either set to renew, expire, or reset the consequences are major as it relates to new terms – your payment WILL significantly increase.

Commercial real estate values have taken a hit due to economic downturns, changes in consumer behavior, and the ongoing impact of global events, as discussed above. Developers who invested in properties with the expectation of steady appreciation now find themselves dealing with declining values, making it challenging to refinance existing loans.

According to the U.S. Real Estate Market Outlook 2024, published by CBRE, real estate values for most property types are unlikely to fully stabilize until mid-2024. Office cap rates rose by at least 200 basis points between early 2022 and late 2023 (depending on market), which implies 20% declines in values. The decline in property values and challenges in refinancing have heightened the risk of foreclosure for some commercial real estate developers. This adds pressure to quickly find viable solutions to maintain ownership and control of their properties.

Adapting to Economic Shifts: Strategies for Commercial Real Estate Owners and Borrowers (Continued)

Other strategies are being employed by property owners as well, such as repurposing space and seeking non-bank financing. Building owners are exploring creative ways to repurpose commercial space to meet evolving market demands. This may involve converting office space into mixed-use developments, incorporating residential components, or transforming retail space to accommodate e-commerce fulfillment centers. Adaptive reuse can breathe new life into struggling properties.

Many commercial real estate owners are actively seeking partnerships and alternative capital sources to inject liquidity into their projects. Joint ventures, partnerships with institutional investors, or seeking private equity can provide the necessary funds to address maturing loans and implement value-enhancing strategies. Developers are also taking advantage of various tax credits and incentives when structuring deals and attracting new investors, such as historic tax credits, cost segregation studies and energy-efficient credits and deductions (such as 179D).

In the summer of 2023, the agencies (FDIC, OCC, Board, NCUA) issued a statement that replaced guidance that was issued in 2009 on Prudent Commercial Real Estate Loan Workouts. Stressed within the guidance is the importance of financial institutions constructively working with borrowers experiencing financial difficulties. This guidance provides financial institutions with sound principles and expectations of regulators with respect to their handling of loan accommodations and workouts including (1) risk management, (2) classification of loans, (3) regulatory reporting, and (4) accounting considerations. Regulators recognize that providing borrowers with accommodations and workouts are ultimately in the best interest of the borrower as well as the institution and therefore as long as they are conducted in a prudent manner the institutions will not be subject to criticism for engaging in these efforts nor will the modified loans be subject to adverse classification solely because the value of the underlying collateral has declined to amount that is less than the outstanding loan balance for borrowers that have the ability to repay. This guidance also explicitly addressed short-term loan accommodations (which became increasingly used during the COVID-era).

Since the March 2023 “Banking Crisis”, financial institutions have been required to be more cognizant of capital and liquidity levels which in turn has led to “turning off lending” in some instances. Credit and underwriting standards have definitely become more stringent since this crisis occurred.

What do we recommend? Reach out early. Be communicative and honest regarding your financial position. The ultimate goal should be to find something that works for you both the borrower and the lender.

Written by:
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RMA UPDATES

Join RMA for the RMA's Governance, Compliance, and Operational Resiliency (GCOR) XVIII Virtual Conference virtually on June 18-21, 2024

In today's rapidly changing world, managing operational risk is a necessity not an option. As your professional association, RMA takes great pride in developing practical, thoughtful, and timely programs designed to enhance your skills and increase your value to your institution. GCOR is the only governance, compliance, and operational resiliency conference developed by the industry, for the industry.

More information and Registration can be found here:
https://www.rmahq.org/event/696645660?gmssopc=1

RMA Training

The financial services industry is constantly growing and changing, and so are the risks it faces. Based on deep industry knowledge from the banking experts who make up RMA's membership, RMA's courses give you the expertise you need to stay ahead. Register on the new training portal, RMA Ignite, to get started!

https://www.rmahq.org/rma-ignite

ABOUT OUR CHAPTER

We are over 800 members strong in representing banks, financial institutions and professional organizations dedicated to risk management in Upstate New York. As one of over 120 active RMA Chapters, the Buffalo RMA Chapter plays an active role in fulfilling the mission. Through our area general meetings and educational events we enrich financial services professionals and our region's banking community. It's an important undertaking that is led and implemented by loyal volunteers from area institutions -- bringing RMA to you in your local market area.

SPONSORSHIP OPPORTUNITIES

RMA sponsorship and involvement in our local Buffalo Chapter will be of great benefit to your organization. In a time when many are very focused internally, RMA provides a "window to the world" keeping you on the leading edge with timely knowledge and access to contacts in the financial industry. Sponsorship offers you the opportunity of introducing your colleagues to Western New York commercial lenders and other credit professionals in a favorable setting for a fraction of the cost. Sponsorship offers an unparalleled opportunity to meet lenders and credit professionals who are in a position to recommend your firm's services either to their own institution or to their customers.

General meetings and events center on luncheon programs with featured speakers, panels, educational forums and social events.

Sponsorship is the perfect solution for firms looking to target market lending professionals who are not only a source of business themselves but may also provide secondary referrals to their customers.

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KEEP IN TOUCH

https://www.linkedin.com/company/rma-the-risk-management-association-buffalo-chapter/

https://community.rmahq.org/buffalo/home?ssopc=1