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Banks, Non-Banks, and the Incorporation of Local Information in CMBS Loan Pricing

Swiss Finance Institute Research Paper No. 19-58

58 Pages
Posted: 7 Nov 2019
Last revised: 25 Apr 2023

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Date Written: October 1, 2020

Abstract

Comparing banks to non-bank lenders, we investigate whether the geographical distance between lenders, borrowers, and their properties is reflected in the pricing of US mortgages that were included in US commercial mortgage-backed security (CMBS) pools during the 2000 to 2017 period. The difference in loan spreads when the bank-borrower distance increases from zero to the median of about 700 miles is 10 basis points, and this effect is more pronounced if the loan is collateralized by a riskier property. On the contrary, geographical distance does not seem to have any effect on the loan spread of mortgages granted by non-bank lenders. The difference in loan pricing across originator types (even after controlling for key mortgage and property characteristics) suggests that banks and non-bank lenders have different incentives, lending technologies, and/or different types of borrowers. Our results contribute to the emerging literature on non-bank lender behavior.

Keywords: CMBS, non-bank lending, geographical distance, asymmetric information, loan spread

JEL Classification: G21, G32

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