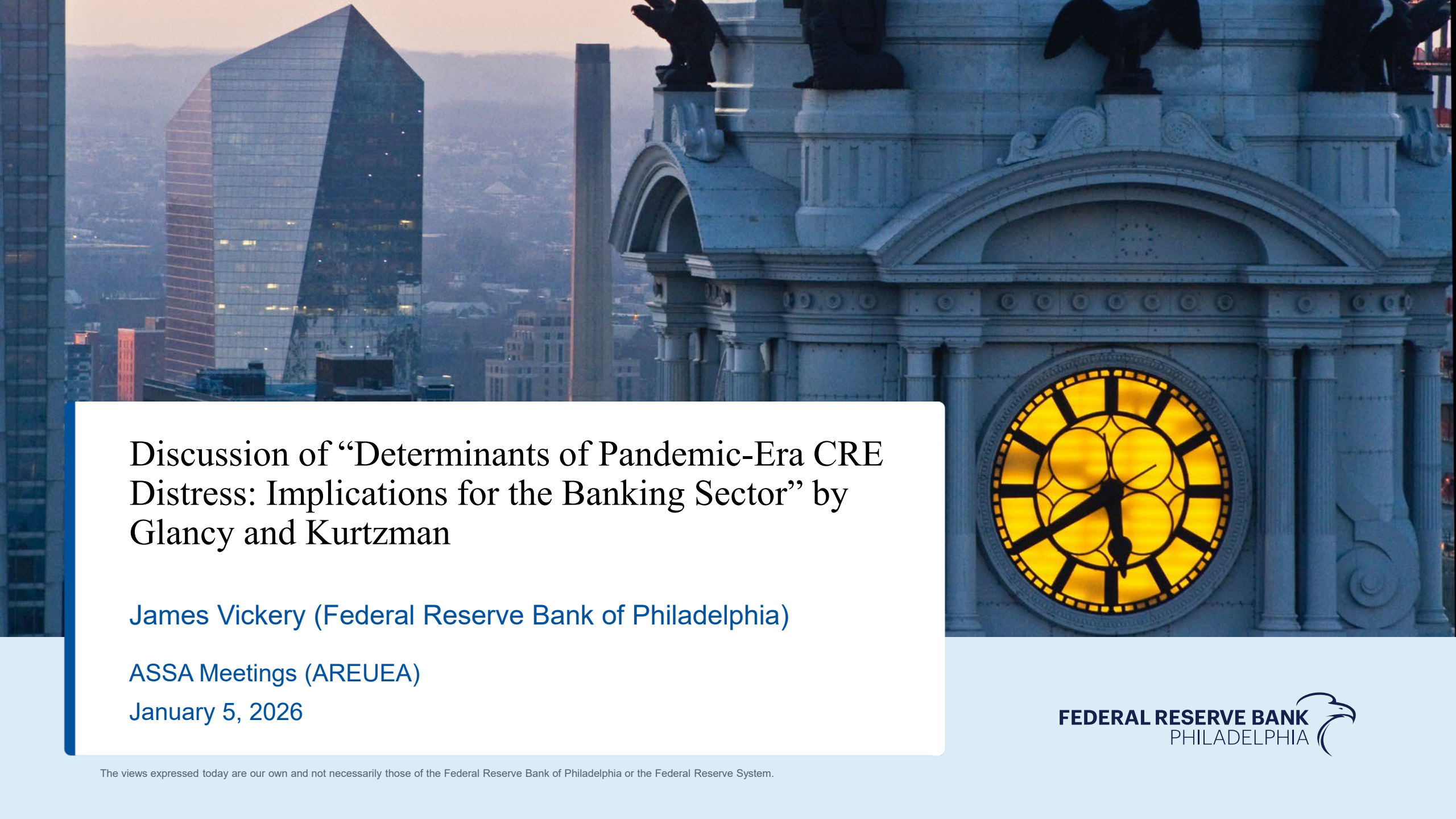




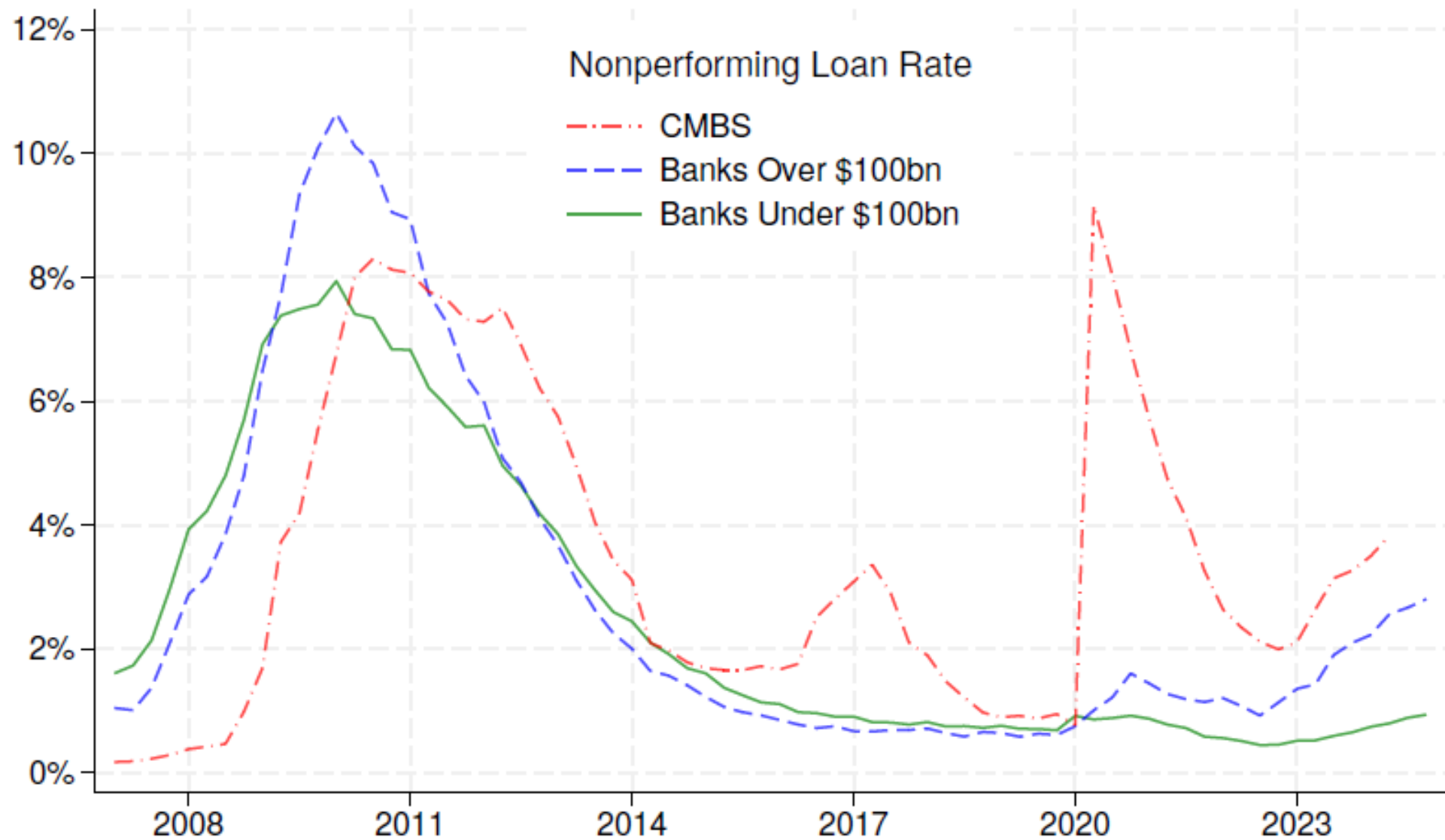
Discussion of “Determinants of Pandemic-Era CRE Distress: Implications for the Banking Sector” by Glancy and Kurtzman

James Vickery (Federal Reserve Bank of Philadelphia)

ASSA Meetings (AREUEA)

January 5, 2026





Overview

- Are bank CRE loans – esp. small bank loans – really safer? If so, why?
 - *Alternative story*: modifications / evergreening / extend and pretend.
- This paper – “yes” – differences in performance are driven by fundamentals

CMBS vs large banks?	Bank loans are: (i) smaller, (ii) more likely to have recourse, and (iii) have lower LTV
Large banks vs small banks?	Small banks have less exposure to large office loans in high-remote-work markets

- Data: Morningstar (CMBS); Y-14 (large bank loans); RCA / CoreLogic (all loans, based on public records data)

Overall reactions

- Well-executed, innovative paper on an important topic.
 - Clever two-step strategy:
 - (i) Build default model for Y-14 loans based *only* on public records fields;
 - (ii) Apply to unpack risk in loan portfolios for small banks
 - Part of an exciting new literature using public records data to shed light on bank CRE portfolios (also Hinzen et al. 2025; Anenberg et al. 2025)
- Broadly: I believe the story in the paper ...
 - ... but still have some unresolved concerns about “masked” distress due to renegotiations – have some suggestions for more the paper can do
- Also some other comments about modelling strategy / details.

Comment #1: Are large bank loans really safer than CMBS?

- I'm convinced that large bank loans are safer on observables (e.g., recourse, LTV). But still worried that they may be riskier on *unobservables* (e.g., weaker underwriting, shocks etc...)
 - If bank DQ is understated due to modifications, CMBS dummy will be too high. How large is bias??

Striking: for 2023 maturing loan cohort:

- Bank delinquency 4-5pp worse *and*
- 56% (!!) received extension (vs only 9% for CMBS)

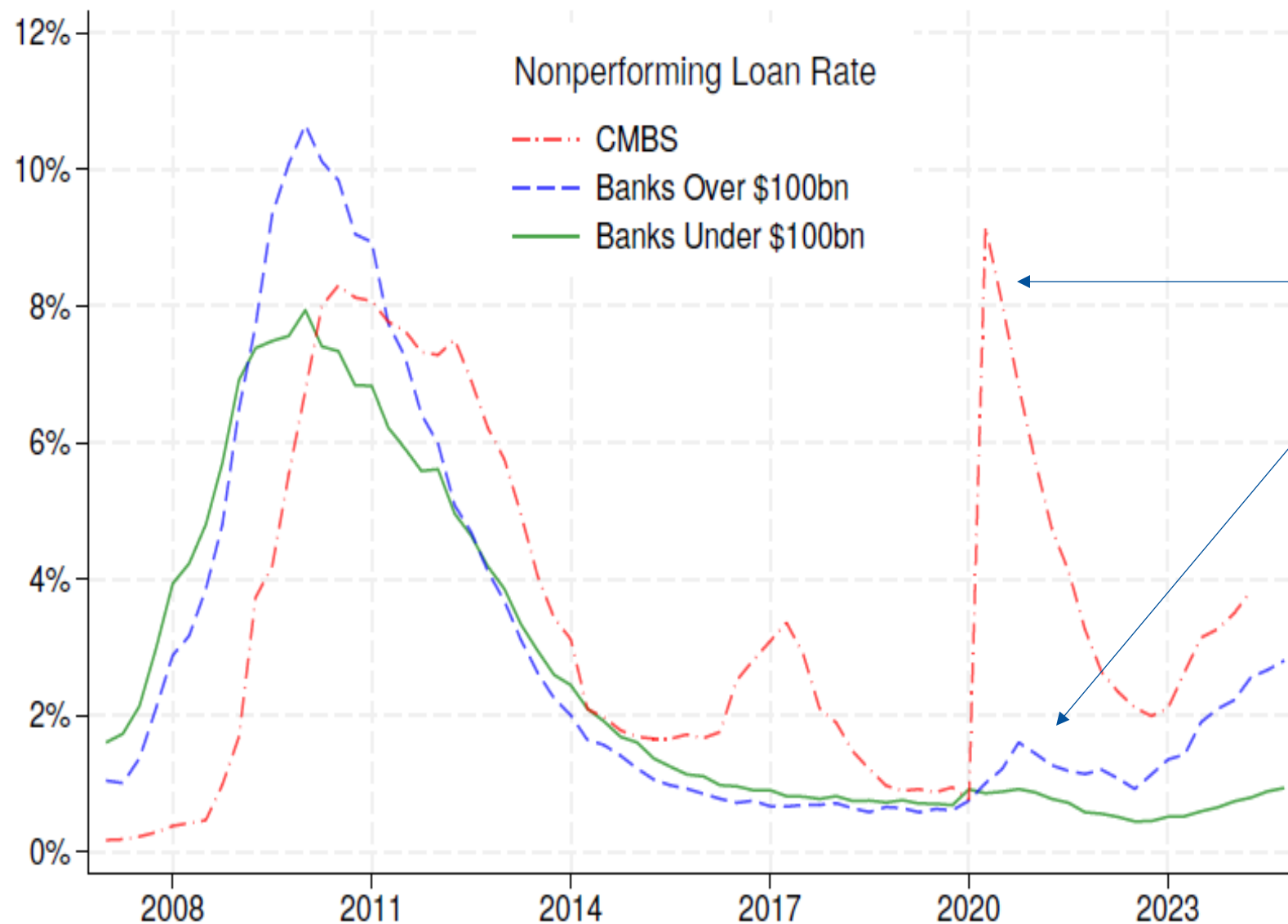
Paper argues mods driven by “less-stressed” loans; but interaction terms [green] *much* smaller than main effect

- What share of this 56% would be DQ if not for mod? (Must be >> 0)

Table 3: Loan Modifications, by Lender Type

	100 × Delinquent _{i,23}		100 × Extension _{i,23}		
	(1)	(2)	(3)	(4)	(5)
CMBS	-4.07*	-5.71*	-46.45**	-43.15**	-45.33**
	(1.85)	(2.29)	(2.90)	(3.66)	(3.97)
...×Office					3.87
					(3.76)
...×Debt Yield<.08					5.90 ⁺
					(3.41)
Debt Yield<.08		8.32**		7.10**	4.90 ⁺
		(1.81)		(2.10)	(2.82)
Occupancy		-22.26**		11.91*	11.69*
		(5.00)		(5.47)	(5.48)
Constant	16.56**	-0.92	55.64**	-136.88**	-132.84**
	(1.42)	(11.95)	(2.62)	(13.89)	(13.94)

Do banks mainly/only renegotiate CRE loans near maturity?



Stark differences suggest banks modified CRE loans in 2020-21 that *weren't* maturing, to head off cash-flow defaults

Correct interpretation?
How significant today?

Measuring loan performance

Suggestion: Consider measures of loan quality / risk that aren't distorted by loan mod decisions

Three ideas:

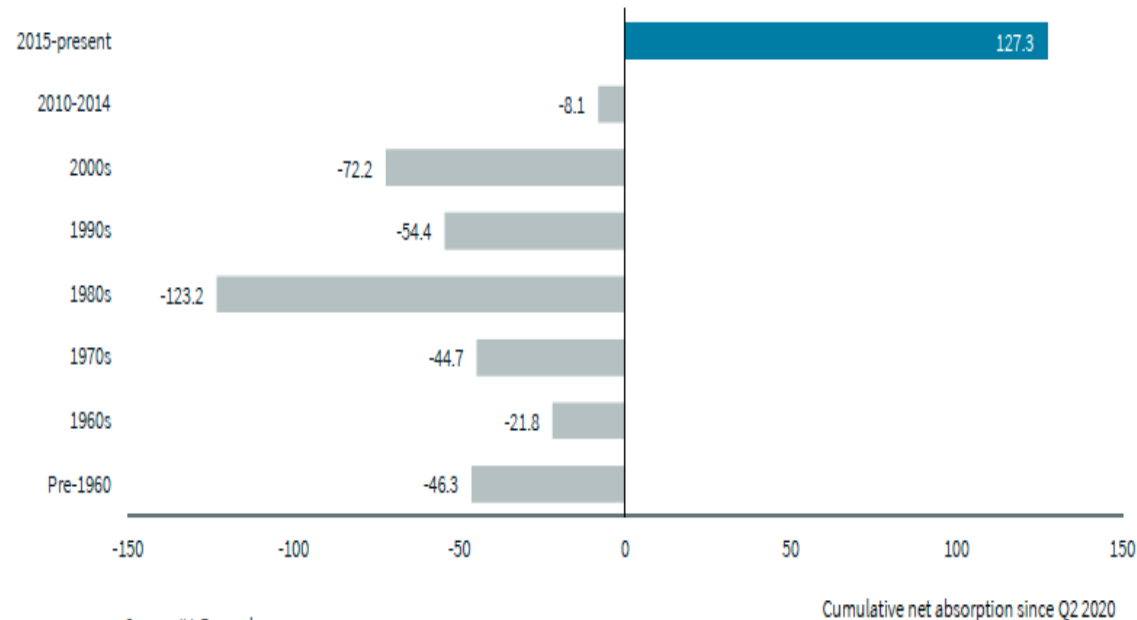
1. As bounding exercise, use a broad definition of delinquency that includes modifications:
 - E.g. delinquency as “*past due, performing beyond its maturity date, liquidated or modified*”
 - Or to refine, can you use troubled debt restructuring field in the Y-14Q to identify “risky” mods?
2. Define a *latent* measure of loan distress based on “mark to market” updated LTV > 95% (as in Hinzen et al. 2025)
3. Examine trends in updated DSCR (debt service coverage) – can compute using updated NOI field in Y-14Q, if this field is well-populated (?)

Comment #2: Are small bank office portfolios really so safe?

- Is it possible that default model calibrated on large bank portfolios will be misspecified for analyzing smaller banks?

Net absorption by building vintage (million s.f.)

Year built



Source: JLL Research

- E.g., one factor: significant “flight-to-quality” in office market – Class A has done much better than Class B/C (left)
- Are small bank portfolios overweight these older, less appealing properties?
- If so, small office loans owned by small banks may be riskier than model says they are
- Hard to test, but to get at this – can use public records to identify building age?

Minor/other comments (for authors)

- How much predictive content for default is lost when you restrict only to fields in public records data? Suggestion – trace out Receiver Operating Characteristic (ROC) curves for large banks based on different models (esp. Y-14 information set vs public record information set)
- You focus a lot on snapshot as of 2023:Q4. Would be nice to look at dynamics over full COVID period.
- Would be good for default models to account for real estate price growth since origination (for location x property sector), as Hinzen et al. do
- Can table 1 report the overall fraction of loans that have been modified, at least in the Y-14 data?
- No big deal but I would've found it helpful if table 2 started with “raw” differences without any covariates
- Loan characteristics are likely to have multiplicative effects on default, not additive – consider running logits instead of linear probability models in table 2 etc.
- Why don't you account for updated DSCR in the default regressions? Is the NOI data not good / available or something?
- Why is debt yield defined as a 0,1 dummy rather than a continuous variable?
- Cohort effects are likely important – ideally compare loans in same market originated in the same year, but at least would be good to include cohort FEs...

Summing up

- Very nice paper using rich data to address an important research question
 - *Big picture*: problems in real estate lending are a key driver of bank failures and financial crises (e.g., Reinhart and Rogoff 2009; Correia-Luck-Verner 2025)
 - CRE exposure particularly important for many small banks
- Paper shows that bank portfolios are less risky on several key observable dimensions – enough to explain lower default rates, esp. for small banks
- Look forward to seeing future versions of the paper!