



Tuesday, April 21<sup>st</sup> @ 11:00 AM

# Market Analysis During COVID-19



FEATURING



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# Topics

1

## Loan Demand vs. Supply

- Impact of PPP and Main Street Lending
- Are banks pulling back? If so, where?

2

## Credit Quality and Structure

- Risk migration and grading practices
- Structural trends

3

## Pricing and NIM

- Funding costs and term liquidity premiums
- Margins over index (originations vs. renewals)
- Rate floors on floating and fixed rate deals
- Return targets and hurdles

4

## Commercial Deposits

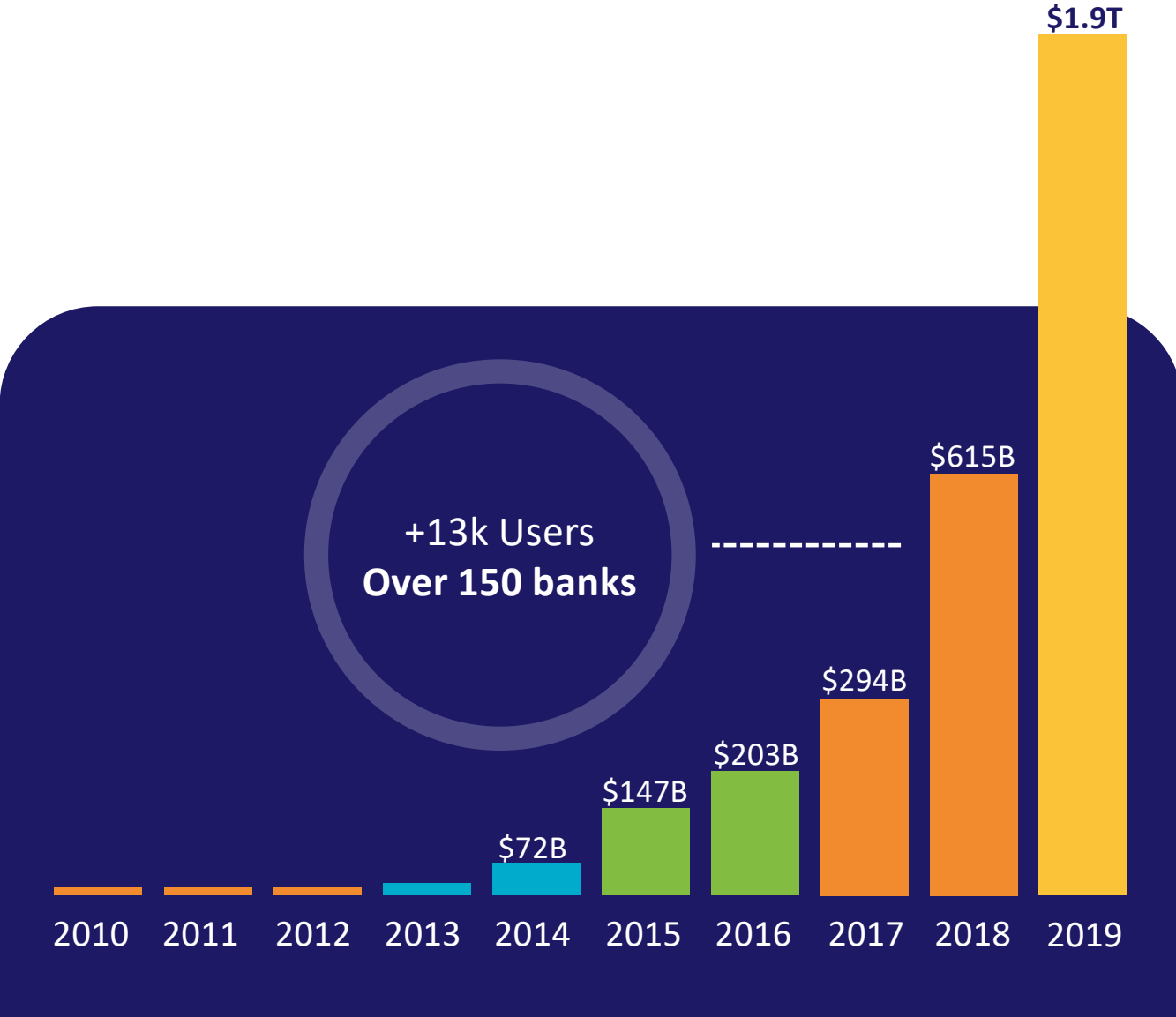
# Methodology

- The data presented in this webinar covers **commercial loans and deposits** priced and/or booked in 2020
- Primary data source: **PrecisionLender's proprietary database**, covering **active opportunities** plus **actual commercial relationships** (loans, deposits and other fee-based business) from **over 150 banks** in the U.S.; supplemented with **public data sources**
- The banks in this data set are **geographically diverse** and range in size from **community banks** to **top 10 U.S. institutions**
- In order to provide an apples-to-apples comparison across banks, PrecisionLender has **aligned the risk rating systems** of all banks to a common scale based on Probability of Default, and has also build concordances **across products**
- All figures (spreads, fees, risk, term, deposit rates, etc.) are **dollar-weighted**

# Methodology – Data Set

## Booked Deals & Pipeline

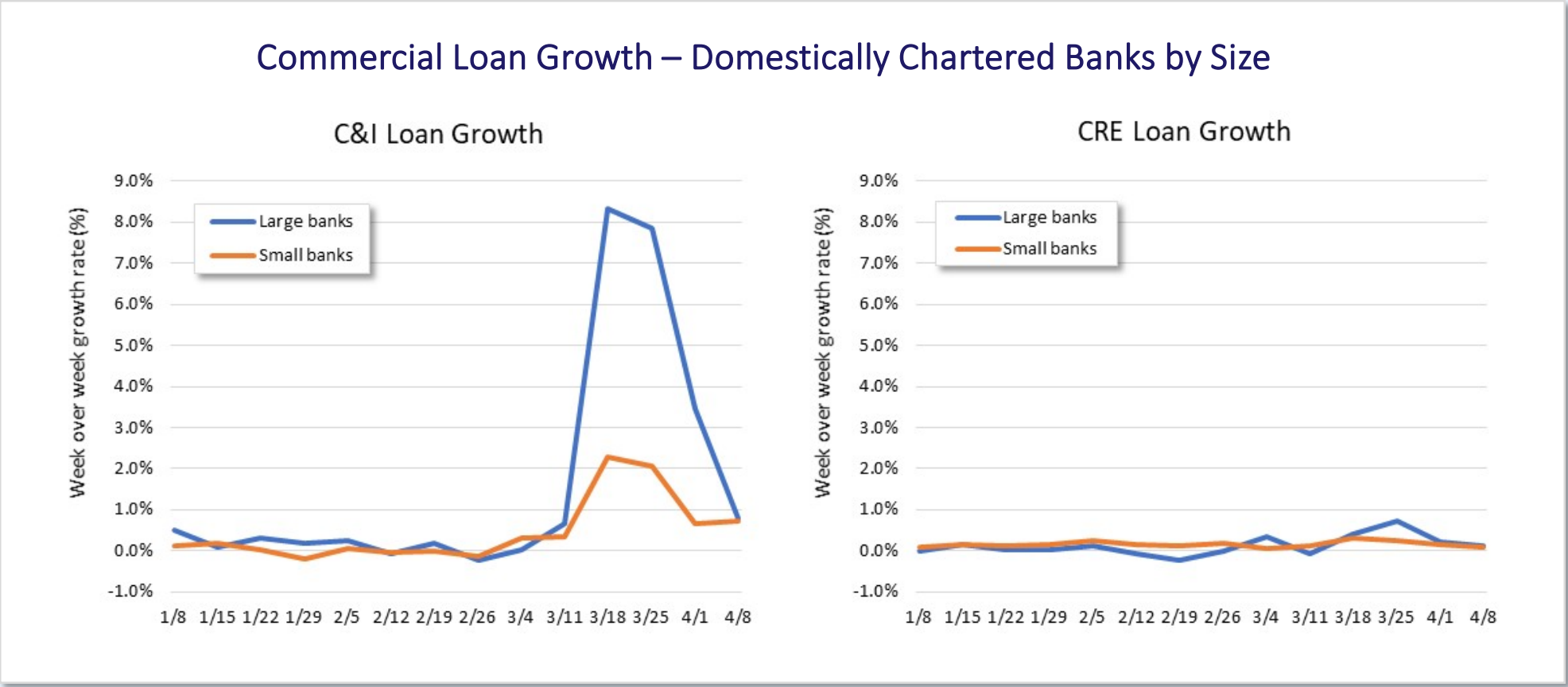
- 10+ years of U.S. data
- 150+ unique banks
- Nearly \$2 trillion priced in 2019
- Over 15% (and growing) of the commercial loan market
- Deals in all 50 states, covering a wide range of industries and borrower sizes



# Loan Demand vs. Supply Trends

- Sharp volume rise immediately following emergency rate cuts
- Some was opportunistic, evidenced in shift toward fixed rate financing
- Much was for working capital / liquidity purposes, given economic uncertainty
- Growth seen in both utilization of existing lines and new originations
- Greater focus on supporting existing customers than winning new client relationships
- Banks beginning to right-size smaller, unused lines
- Volume has tapered off as banks and borrowers digest federal programs

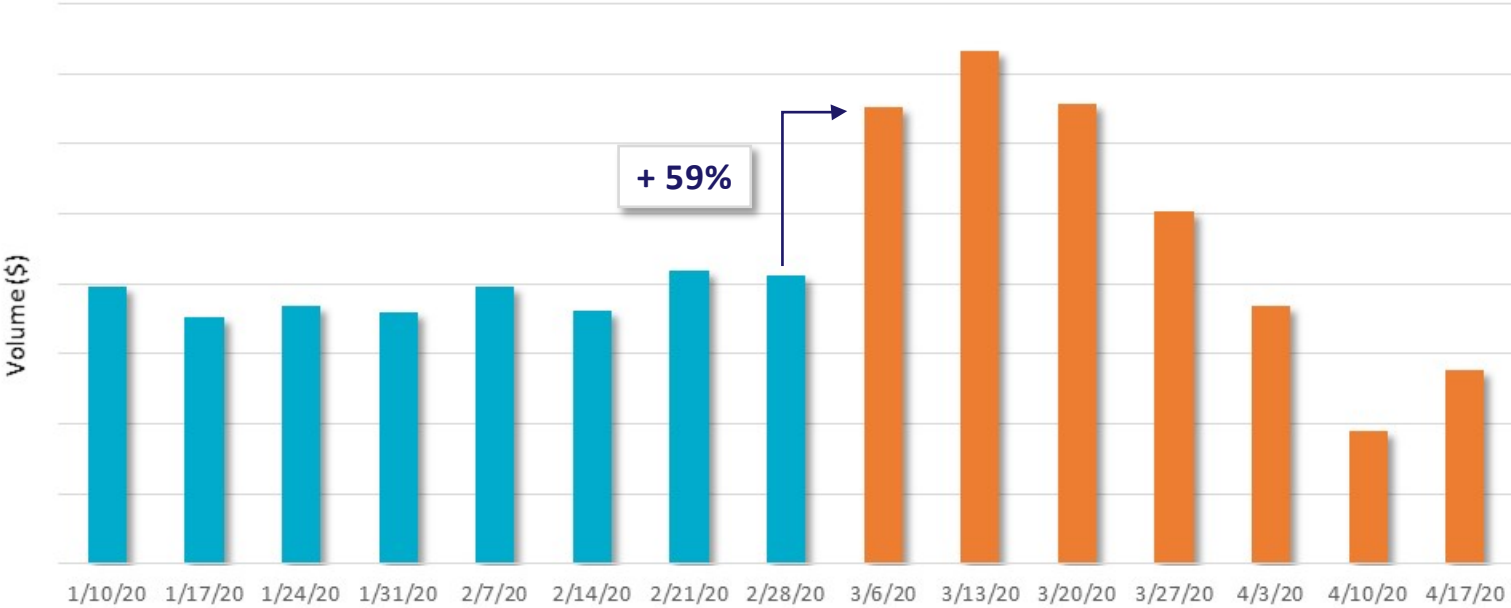
# C&I Loan Growth Surges Then Plummet; CRE Stable



\*Source: Federal Reserve H8 Release. "Large banks" reflect the top 25 domestically chartered commercial banks by asset size. "Small banks" reflect all other domestically chartered commercial banks. Figures are seasonally adjusted.

# Credits priced on PrecisionLender: Leading indicator of market trends

## Actively-Priced Opportunities by Week



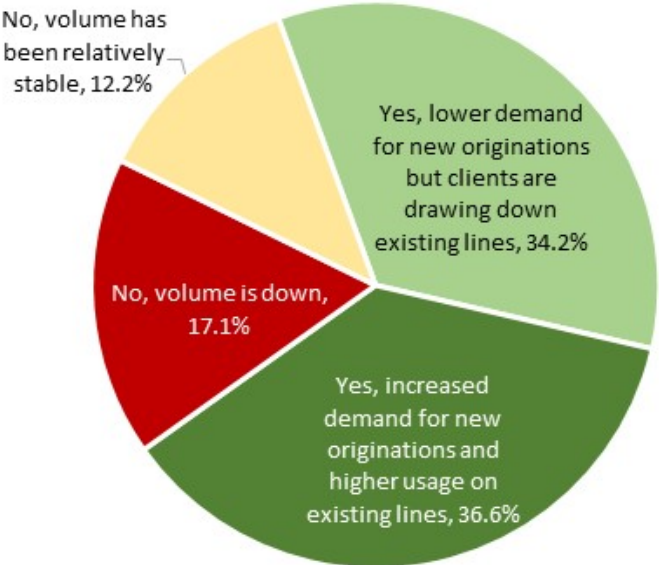
- New Origination Requests – working capital and opportunistic
- Banks re-examining deals in pipeline given shifts in rates and LPs

\*Source: PrecisionLender. Figures represent the volume of deals priced on PrecisionLender in the week ending the indicated date.

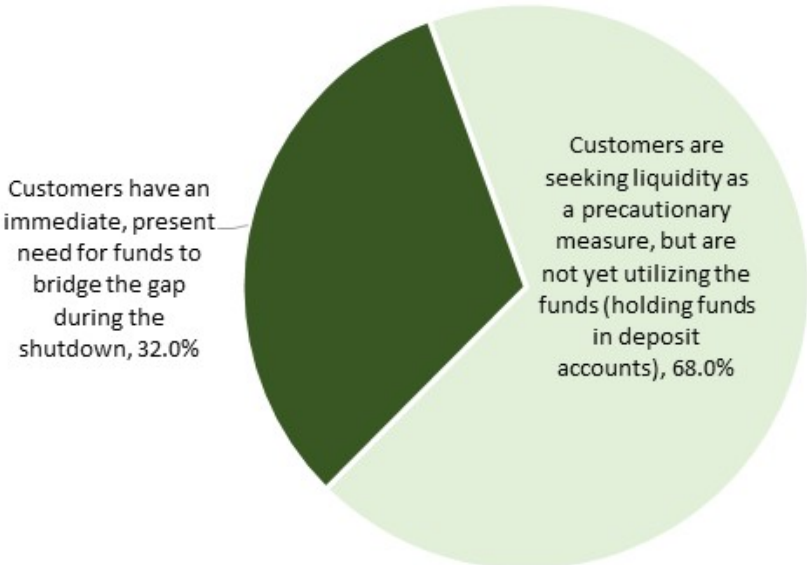
# Loan Demand: PrecisionLender Survey

Drawdowns increase, mostly as a precautionary measure

Has your bank seen significant loan growth since the pandemic hit?



If yes, what do you believe is the primary reason?

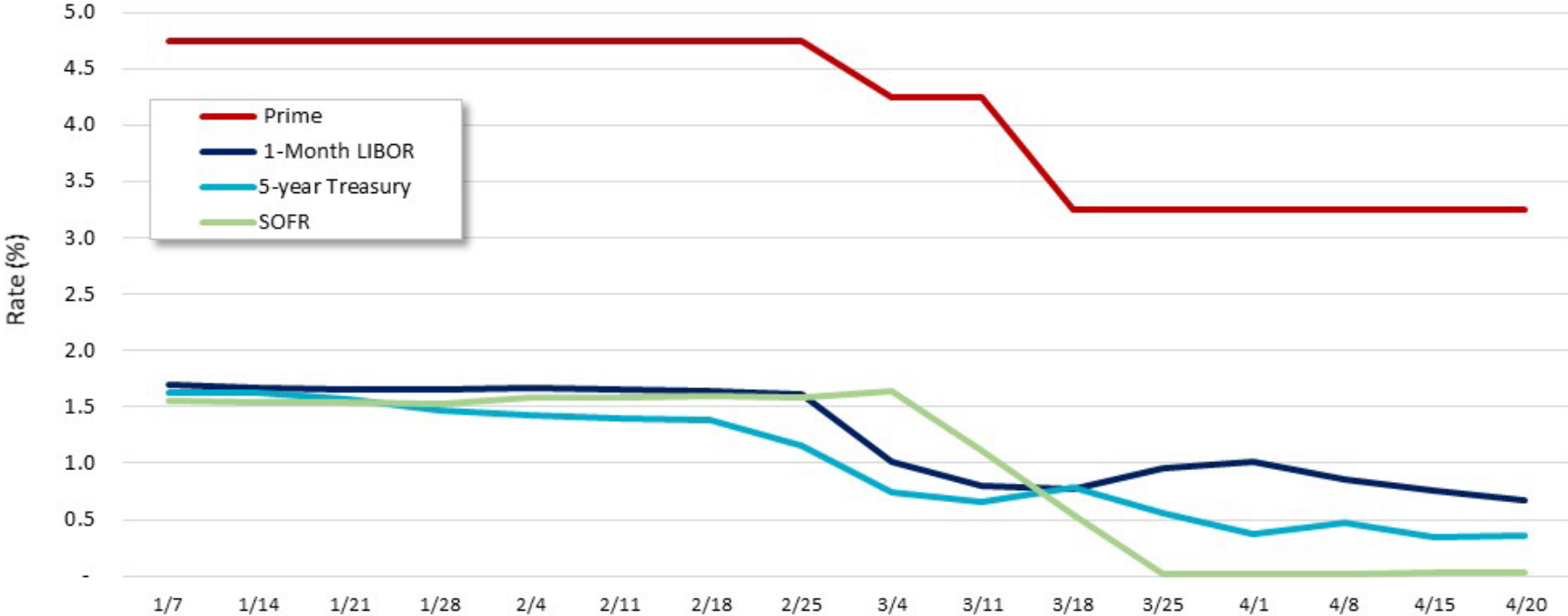




# Spike in volume aligns with rate cuts

Market volume growth coincides with rate reductions, suggesting opportunistic financings

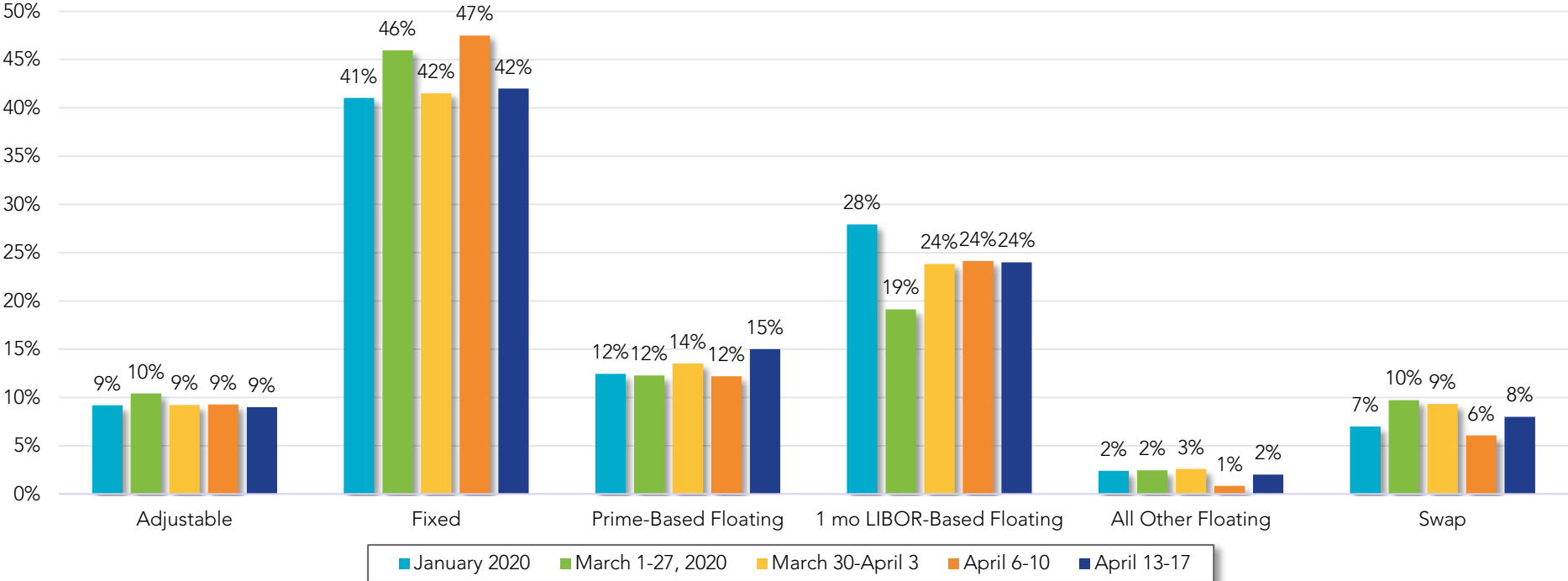
### 2020 Interest Rate Trends – Selected Benchmarks



\*Source: Fed H15 release and St. Louis Federal Reserve.

# Opportunistic financings: Rise in fixed rate volume

Actively-Priced Opportunities by Rate Type

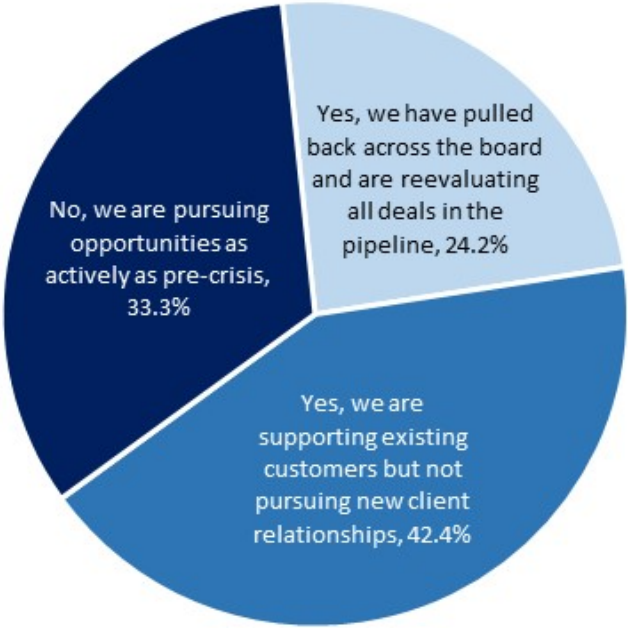


\*Source: PrecisionLender. Figures represent the relative volume of deals priced on PrecisionLender in the indicated period.

# Loan Supply: PrecisionLender Survey

Greater focus on supporting existing customers than building new relationships

Has your bank reduced its loan growth objectives as a result of the crisis?



# Live Poll

**How is your bank handling the Paycheck Protection Program and Main Street Lending Program?**

How are you feeling about the impact these loans will have on your bank's profitability?

- We understand the impact they will have on our profitability
- We are not sure how they will impact our profitability

How are you feeling about your bank's efficiency in processing applications for these programs?

- We are efficiently process applications for these programs
- We are processing them, but it is manual and inefficient

Do you have any credits in your portfolio currently pegged to SOFR?

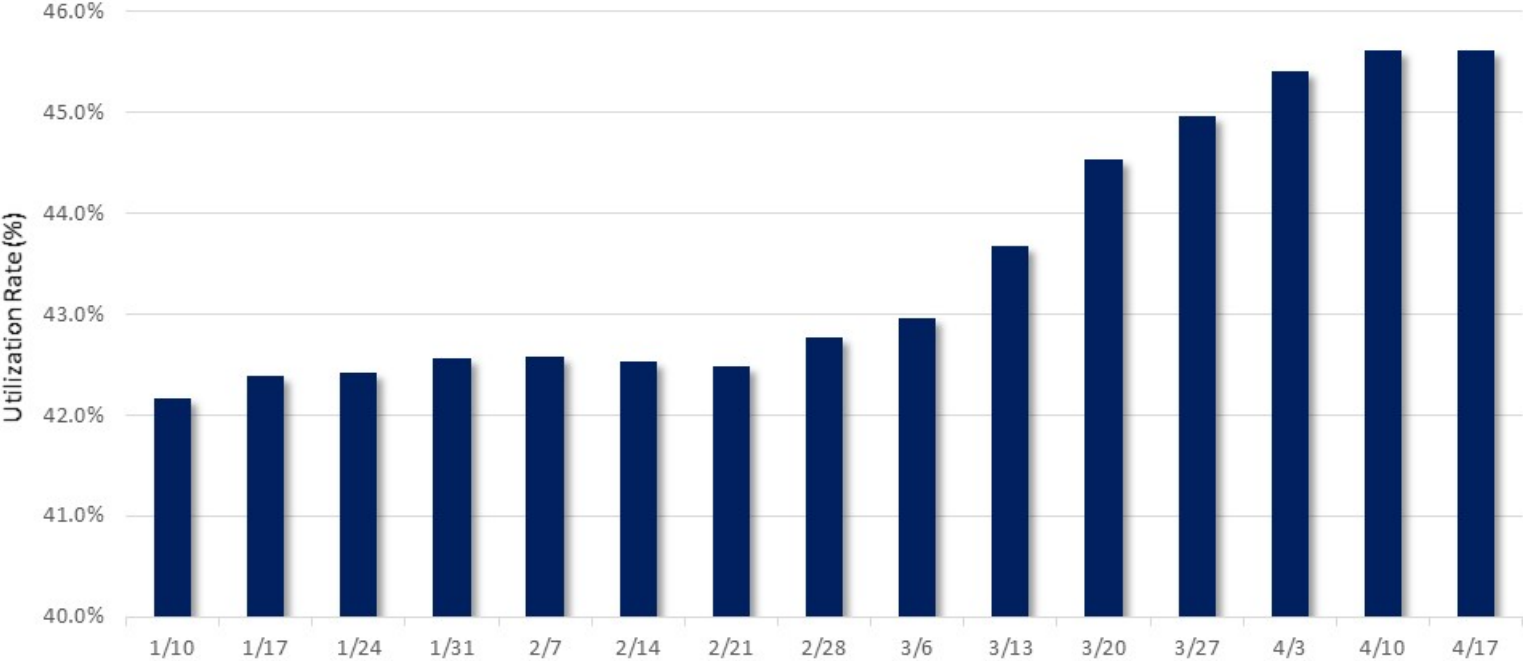
- Yes
- No

# Line Usage and Right-Sizing

- Sharp rise in LOC usage rates since pandemic hit U.S.
- Many credit lines unused as of early March have been drawn; usage above seasonal norms
- Banks right-size credit lines, reducing commitments on smaller deals, raising on larger credits
- Sharp reduction in line sizes on unused credits, less change on credits with usage
- Adjusting for line size changes, usage actually dropped on smaller deals, rose on larger deals
- Smaller customers may be taking a wait-and-see approach regarding federal programs

# Line Usage Spikes in March, Levels Off in April

LOC Utilization by Weekly Snapshot, 2020



Usage has trended higher since the crisis; most pronounced change in second half of March

\*Source: PrecisionLender. Chart shows average usage rates on lines and revolvers in PrecisionLender's data set, for a cohort group of credits which existed throughout the indicated time period.

# Loan Supply: Credit Sizes Reduced on Smaller Deals

## Lines and Revolvers: Size Changes

March to April 2020



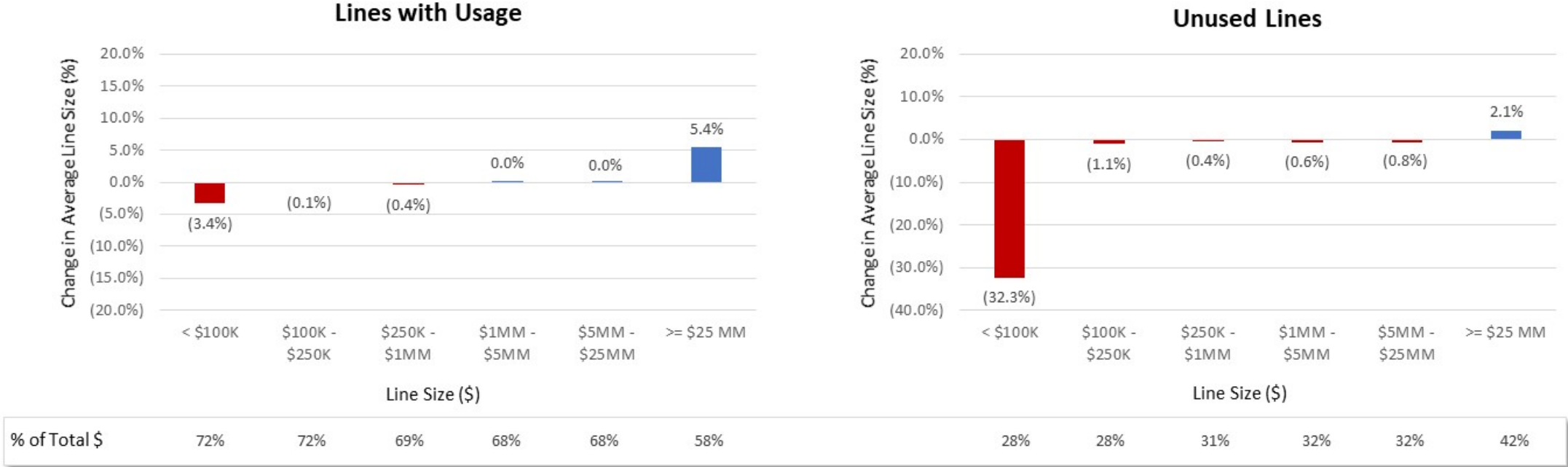
Includes uncommitted lines

\*Source: PrecisionLender. Chart shows change in average line size between 3/3/2020 and 4/6/2020 on all lines and revolvers in PrecisionLender’s data set, irrespective of the contractual renewal date. Sample includes both committed and uncommitted lines.

# Loan Supply: Credit Size Changes More Severe on Unused Lines

## Size Changes on Used vs. Unused Lines

March to April 2020

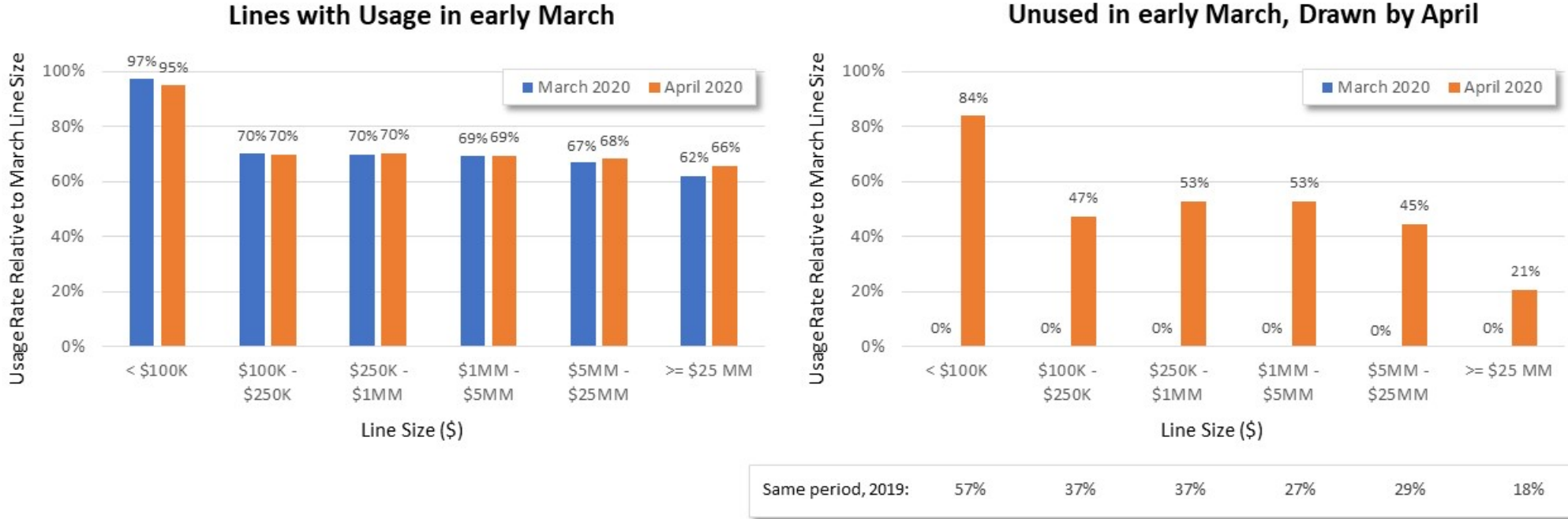


\*Source: PrecisionLender. Chart shows change in average line size between 3/3/2020 and 4/6/2020 on all lines and revolvers in PrecisionLender’s data set, irrespective of the contractual renewal date. Sample includes both committed and uncommitted lines. “Unused Lines” reflect credits which were unused as of 3/3/2020. “Lines with Usage” reflect credits which had some level of outstanding balance as of 3/3/2020.



# Utilization Rates: Credits Previously Used vs. Unused

## Usage Changes Relative to March Line Sizes

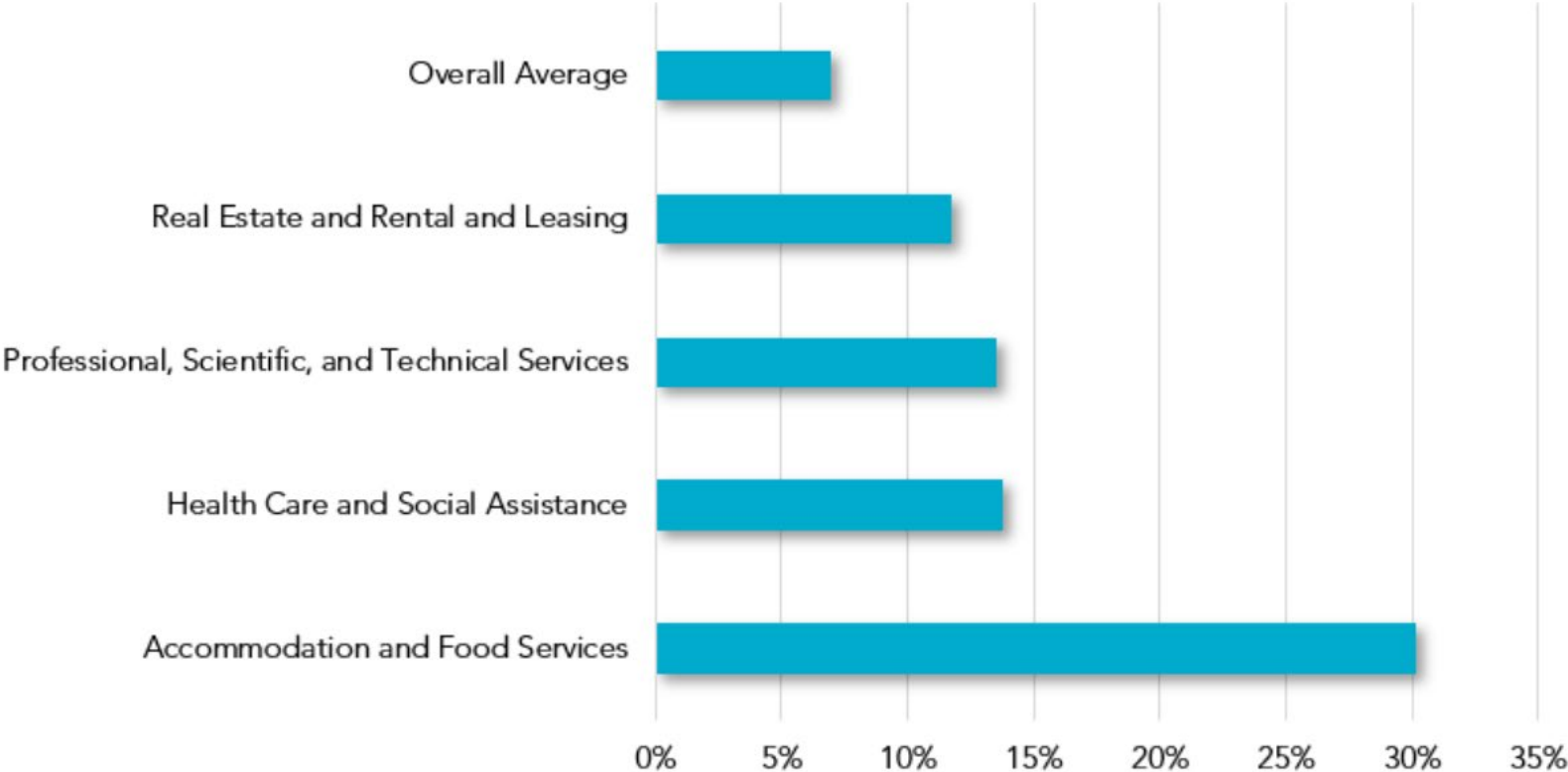


About 6% of credits previously unused now have outstandings – levels above seasonal norms

\*Source: PrecisionLender. Chart shows change in usage rates between 3/3/2020 and 4/6/2020 on all lines and revolvers in PrecisionLender’s data set, relative to the line size as of 3/3/2020. Sample includes both committed and uncommitted lines. “Lines with Usage in early March” reflect credits which had some level of outstanding balance as of 3/3/2020. “Unused in early March, Drawn by April” reflects credits which were unused as of 3/3/2020 and had some level of outstanding balance as of 4/6/2020. “Same period, 2019” reflects usage rates on credits which changed from unused to used between March and April 2019.

# Hardest Hit Industries Show Sharp Increase in Usage

Utilization Growth in Selected Industries, YTD 2020



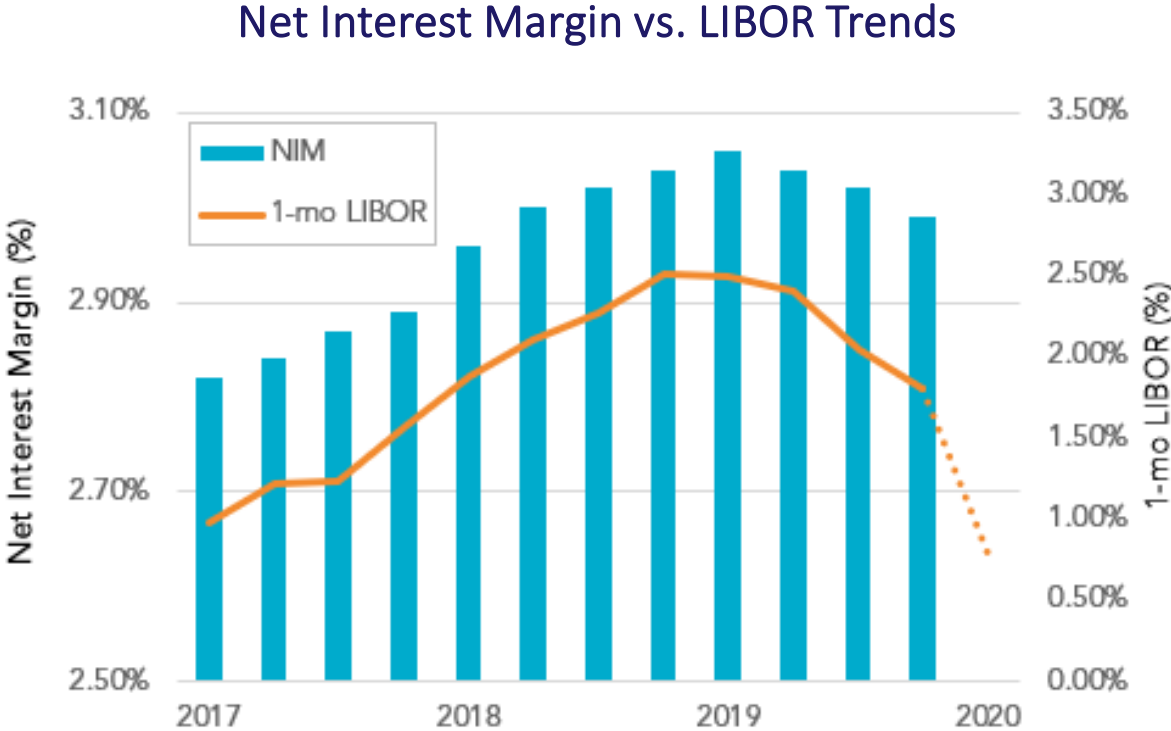
\*Source: PrecisionLender. Chart shows change in aggregate usage on lines and revolvers in PrecisionLender’s data set to borrowers in the indicated industry from the beginning of the year through early April 2020.

# Pricing Trends

- Net Interest Margin (NIM) negatively impacted by (1) drop in lending rates relative to deposit rates and (2) higher liquidity premiums
- To maintain yields (absent risk migration) banks need to implement floors and/or strengthen spreads over index
- Banks in a position of strength, balancing yield objectives with goals of supporting customers through this challenging period
- Limited efforts to raise risk-adjusted profitability targets or hurdles, in sharp contrast to '08
- Early indications are that both floor penetration and margins are rising, albeit less than during Great Recession

# NIM closely aligned with loan benchmark rates

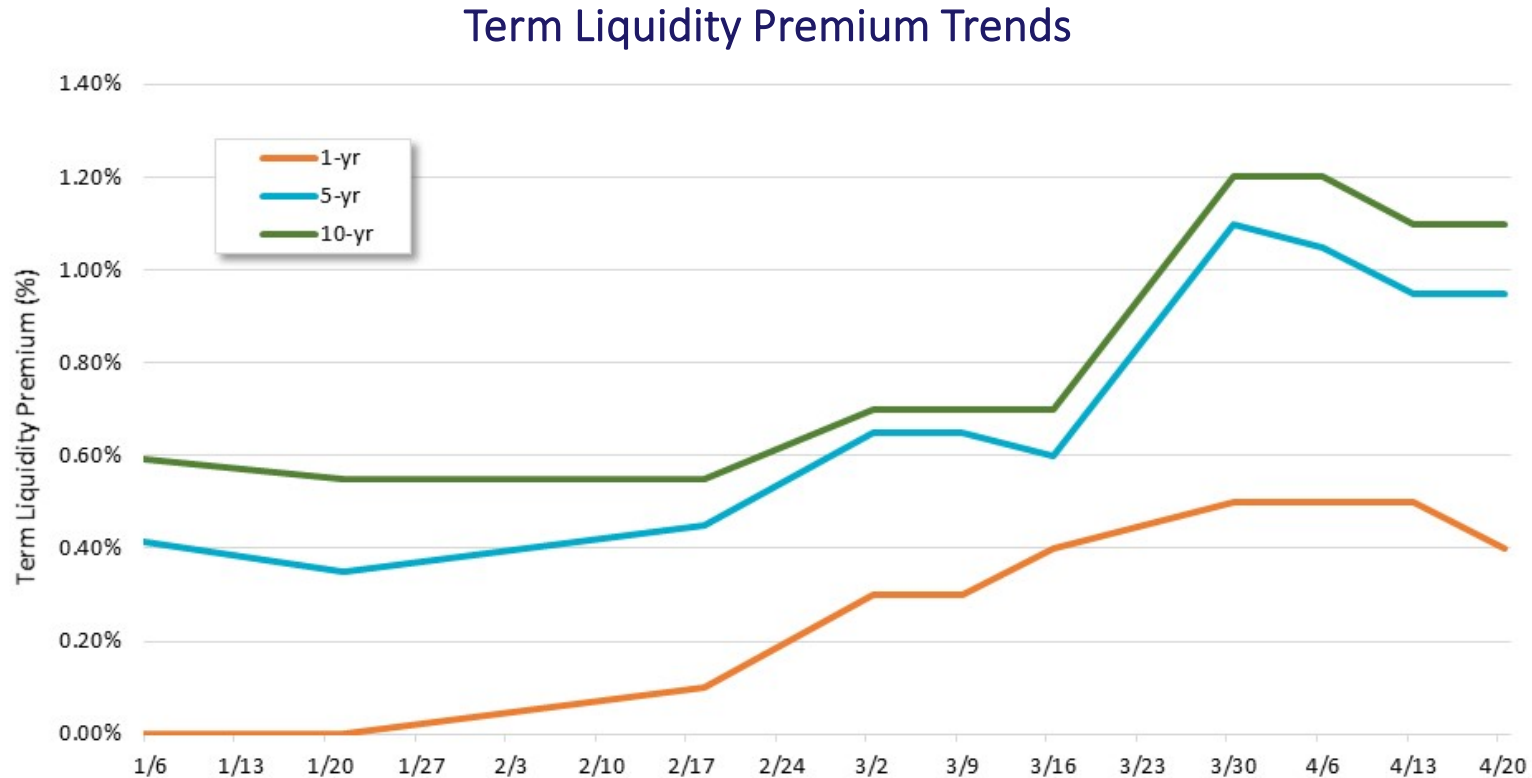
As benchmark rates fall and gap between lending rates and deposit rates narrows, NIM erodes



\*Source: FDIC and St. Louis Federal Reserve. NIM reflects all domestically-chartered commercial banks as of quarter-end.

# Sharp rise in term liquidity premiums

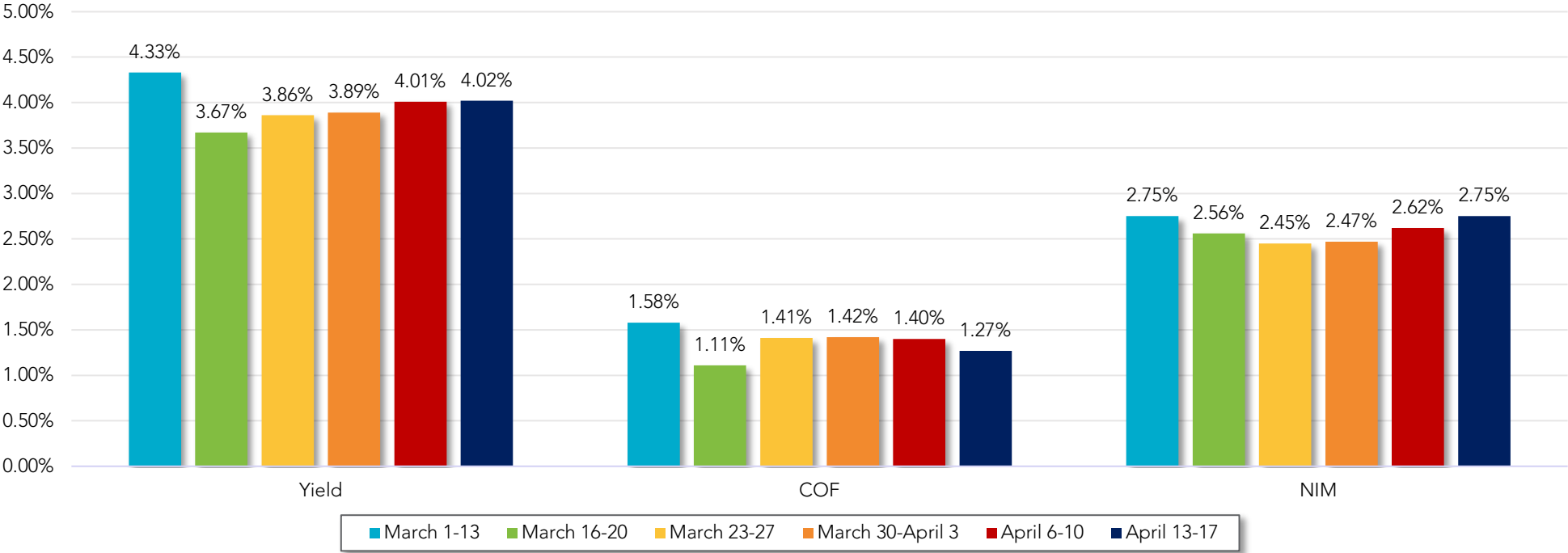
Surge in LPs place even more pressure on NIM



\*Source: PrecisionLender. Estimated liquidity premiums reflect average brokered CD rates of different maturities minus the “risk free rate”, which is derived from the Libor/Swap curve.

# NIM erodes throughout March, begins to recover

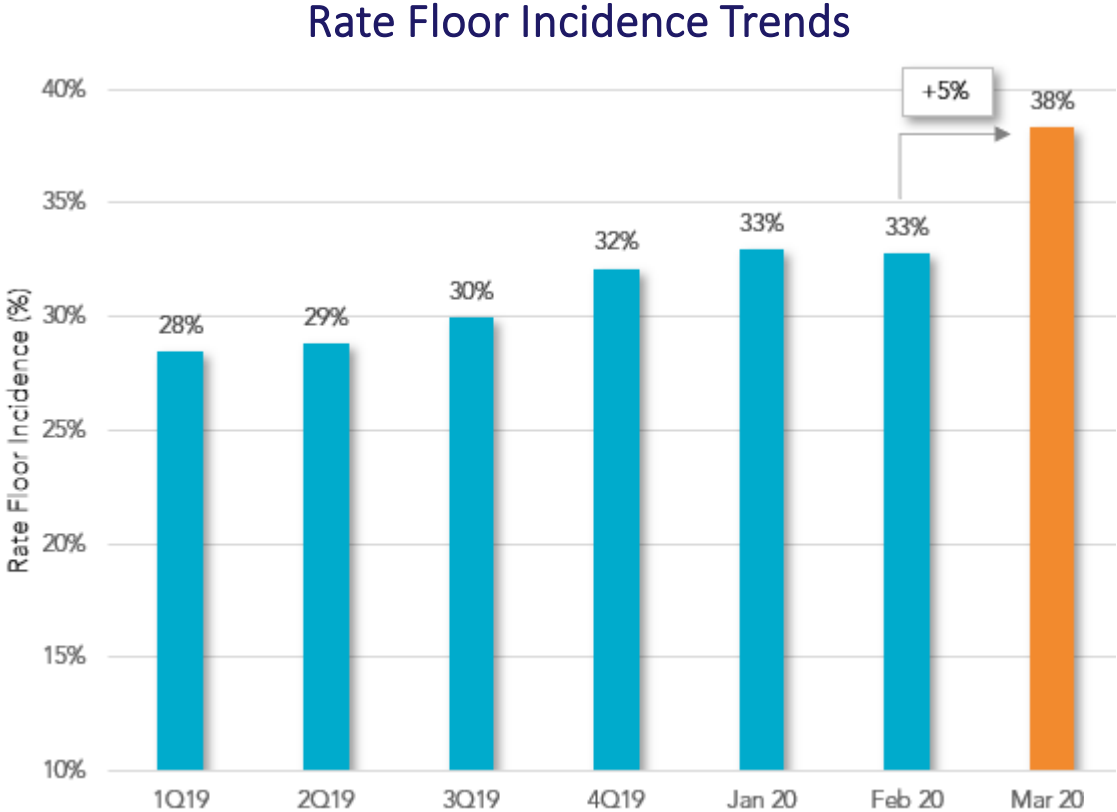
COF has stabilized over past few weeks; Slight yield pickup in April bolsters NIM



\*Source: PrecisionLender. Analysis reflects floating rate credits priced on the PrecisionLender platform during the indicated period. COF includes raw interest expense + liquidity premium + unfunded liquidity if applicable.

# Renewed focus on rate floors to stem NIM compression

More banks exploring rate floors than in recent history

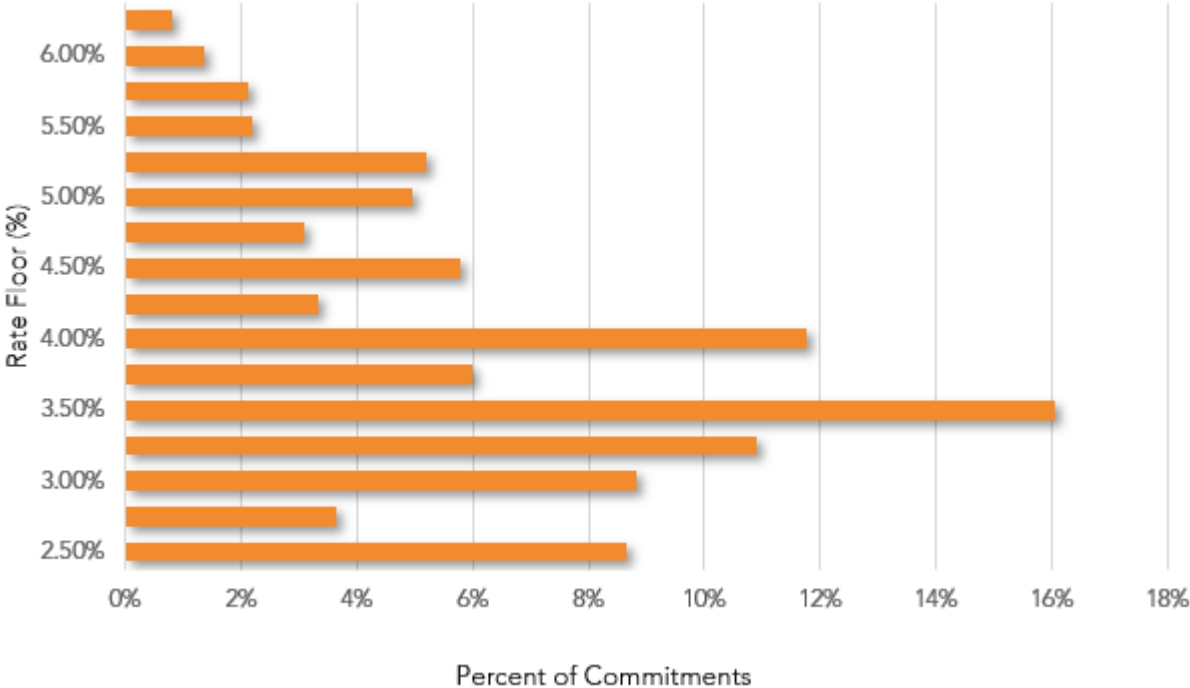


\*Source: PrecisionLender. Figures represent the percent of opportunities priced on the PrecisionLender platform in the indicated period with a rate floor.

# Floors clustered from 3.5% to 4.5%

Structure varies between index floors and all-in rate floors; Market mode at 3.5% all-in

### All-In Rate Floors on Floating Rate Loans



\*Source: PrecisionLender. Figures represent the percent of commitments priced on the PrecisionLender platform with an effective all-in rate floor at the indicated level.



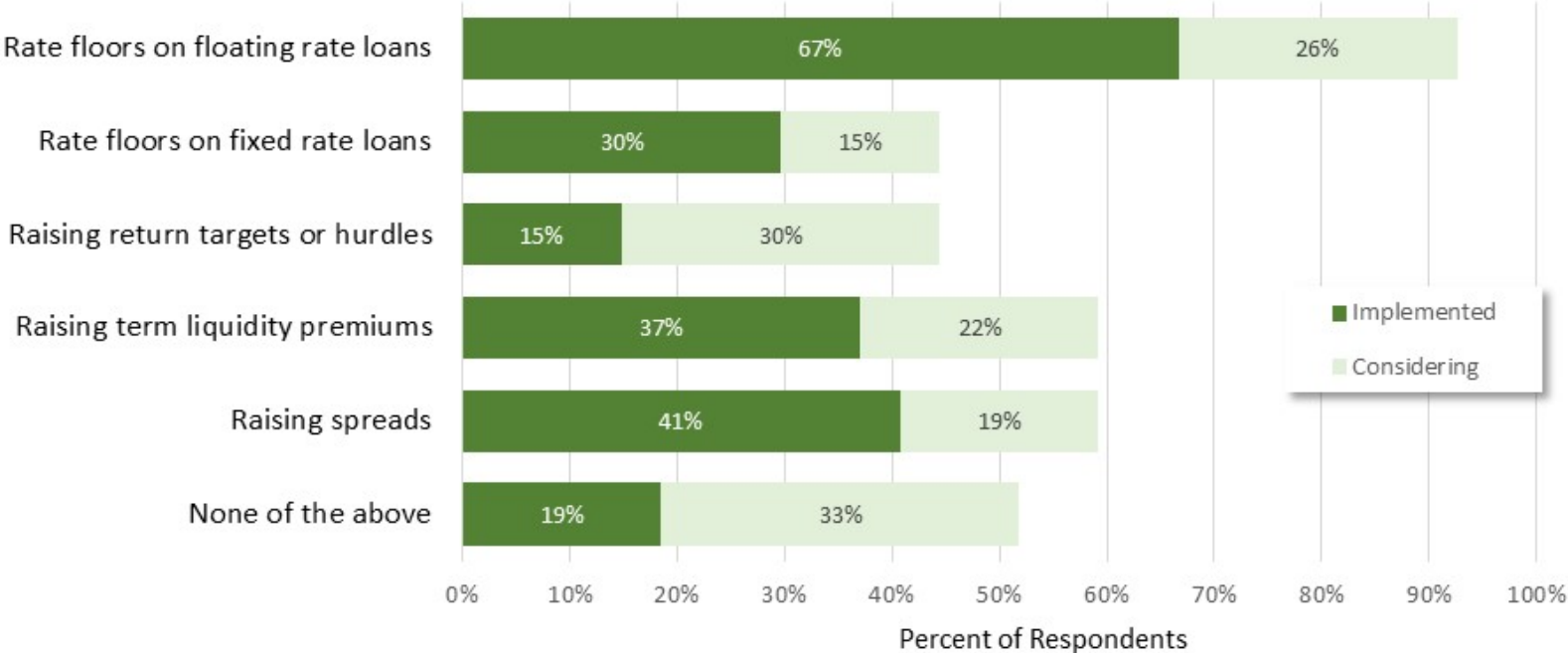
# Best Practices in Implementing Rate Floors

1. Make sure rate floors are implemented as **bank policy** and clearly **communicated**
2. Work with Legal to get **standard language** incorporated into loan documents
3. Establish a process for **managing exceptions**
4. If implementing all-in rate floors, consider **tiers by risk** and/or size to avoid adverse selection
5. If utilizing **index floors** (e.g. LIBOR floors), work with **Loan Ops** to ensure the relevant base rates have been added into the loan system
6. Arm bankers with the right **negotiating tactics**, including
  - **Be transparent** without excessive discussion
  - Share the **rationale** if needed: narrowing gap between cost of funds and lending rates
  - Explain that, in order for the bank to be a **strong financial partner** who can continue to **fund the customer's business**, it is important that it earns a fair margin over its funding costs
  - Put the floor in context – **still inexpensive financing** compared with month-ago levels

# Recent Initiatives: PrecisionLender Survey

Most banks are at least considering one or more initiatives as a result of the crisis

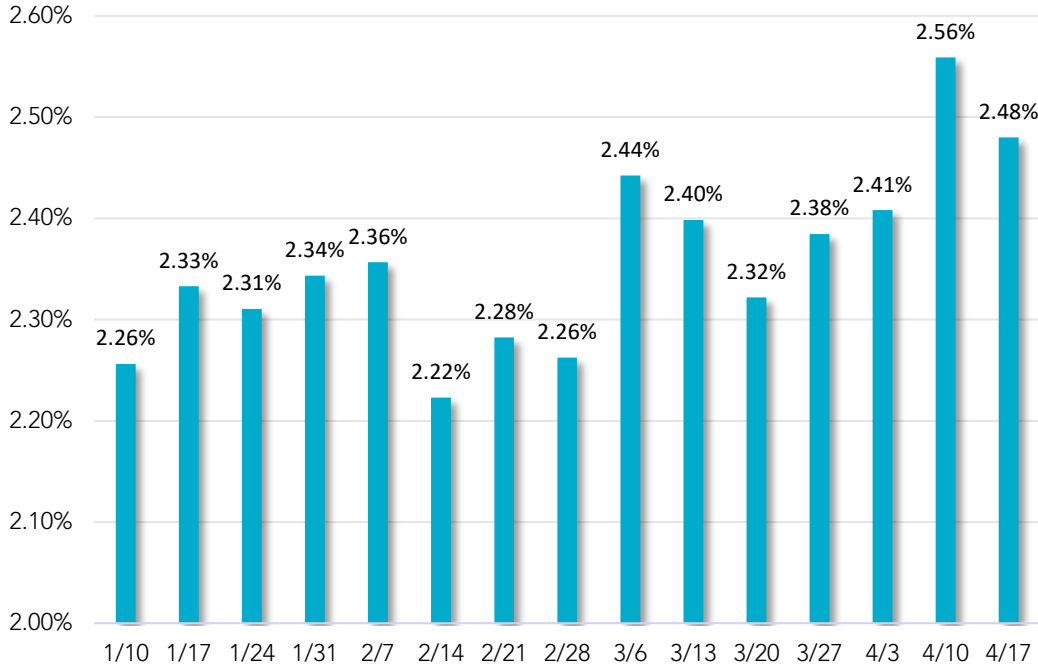
Which of the following actions has your bank implemented or is considering as a result of the pandemic?



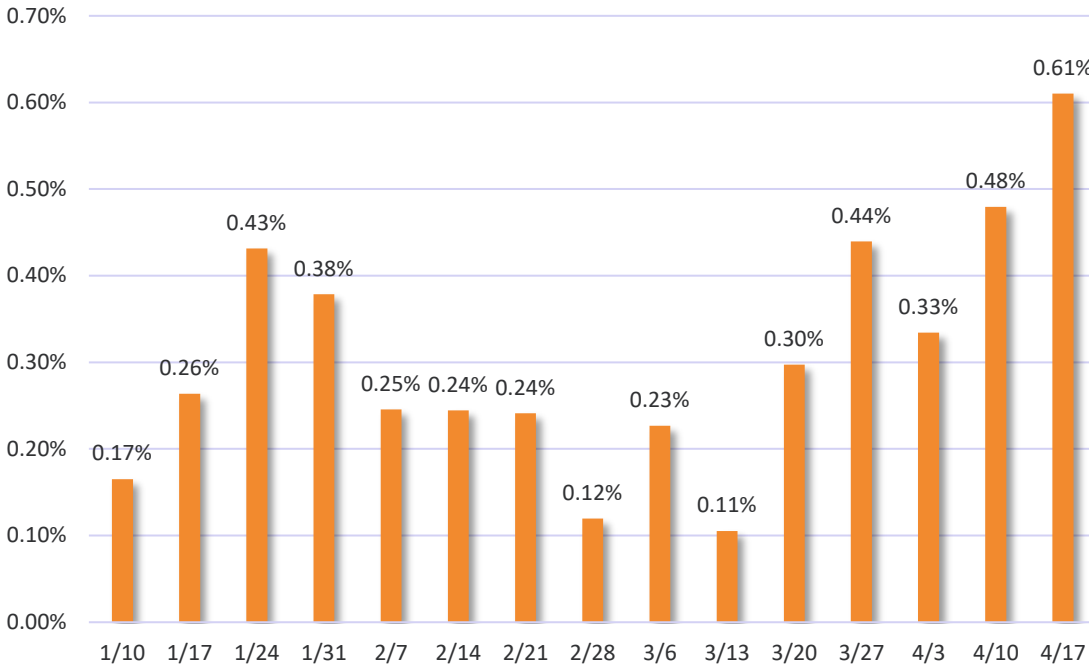
# Margins Trend Higher

Prime spreads reach highest level since start of year; LIBOR spreads pull back from prior week but remain elevated

### Spread over LIBOR



### Spread over Prime

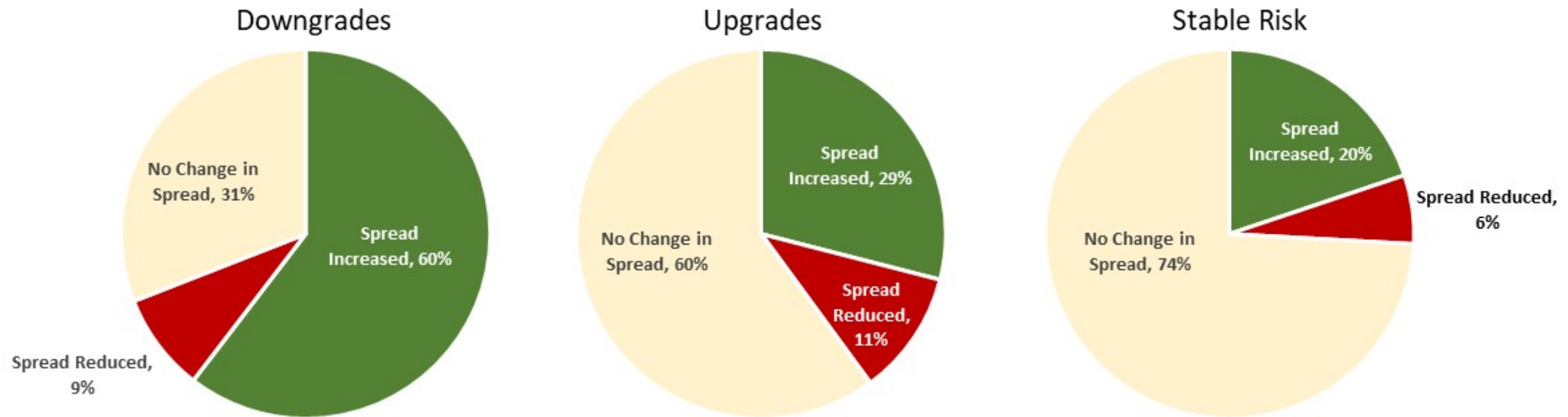


\*Source: PrecisionLender. Analysis reflects credits priced on the PrecisionLender platform during the indicated week. Spreads reflect the margin over the indicated index.

# Proactive repricing far above year-ago levels

Some deals repriced upward even where quality stable or improving; majority of downgrades repriced higher

Renewals: 3/3/2020 to 4/6/2020

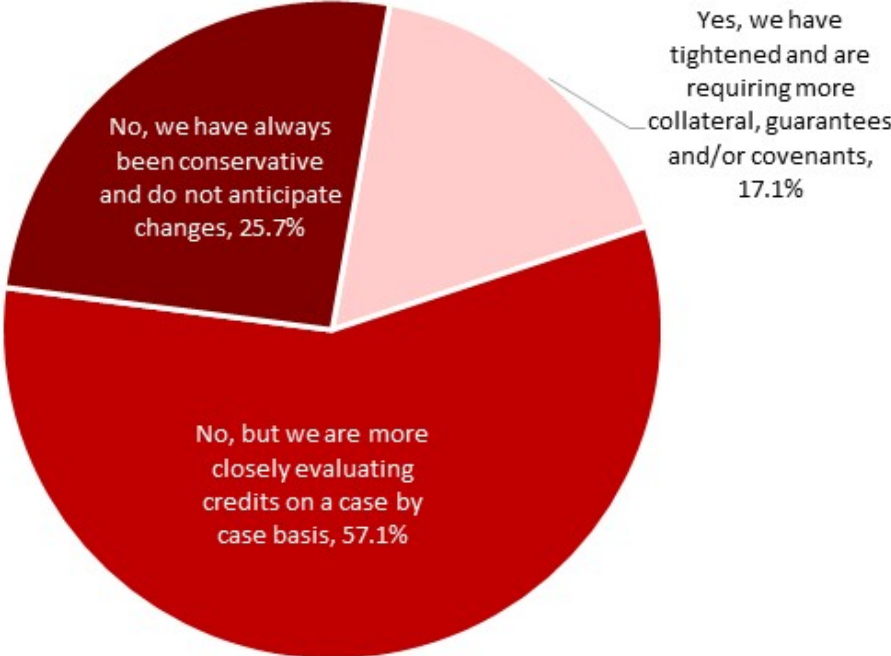


\*Source: PrecisionLender. Analysis reflects floating rate credits which renewed between 3/3/2020 and 4/6/2020. Risk changes are based on each bank's individual rating scale. Spread increases may include cases where a revenue-generating rate floor was triggered.

# Loan Structure and Credit Standards: PrecisionLender Survey

No sweeping changes in credit standards, but closer evaluation

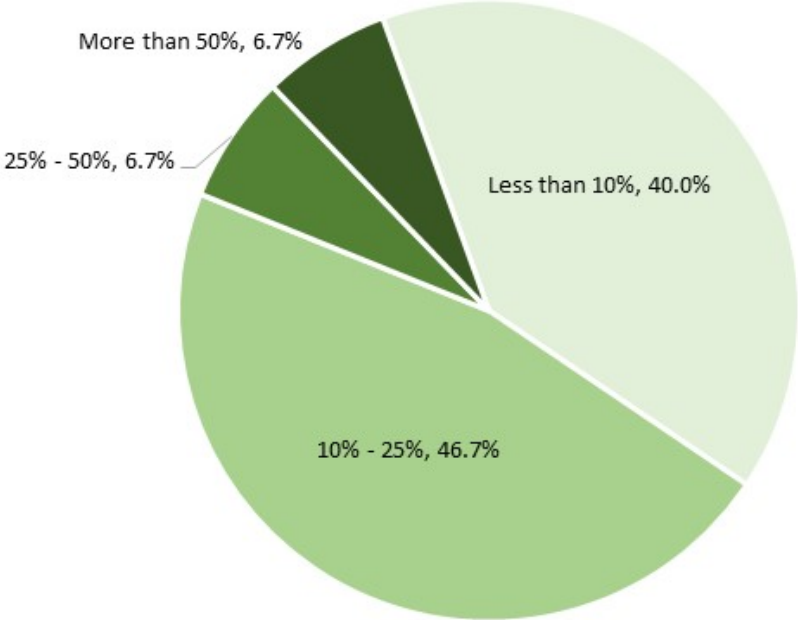
Has your bank adjusted its credit standards as a result of the crisis?



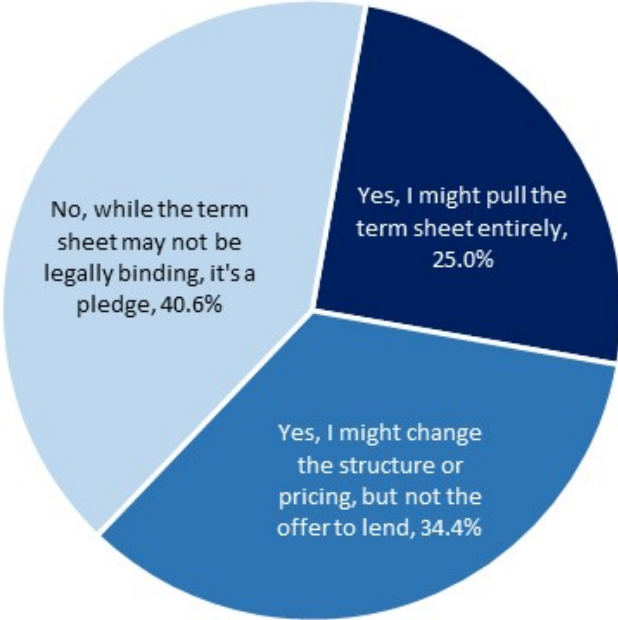
# Rating Downgrades: PrecisionLender Survey

Some risk deterioration anticipated, but bankers will largely honor existing term sheets

What percentage of the portfolio do you anticipate downgrading over the next year?

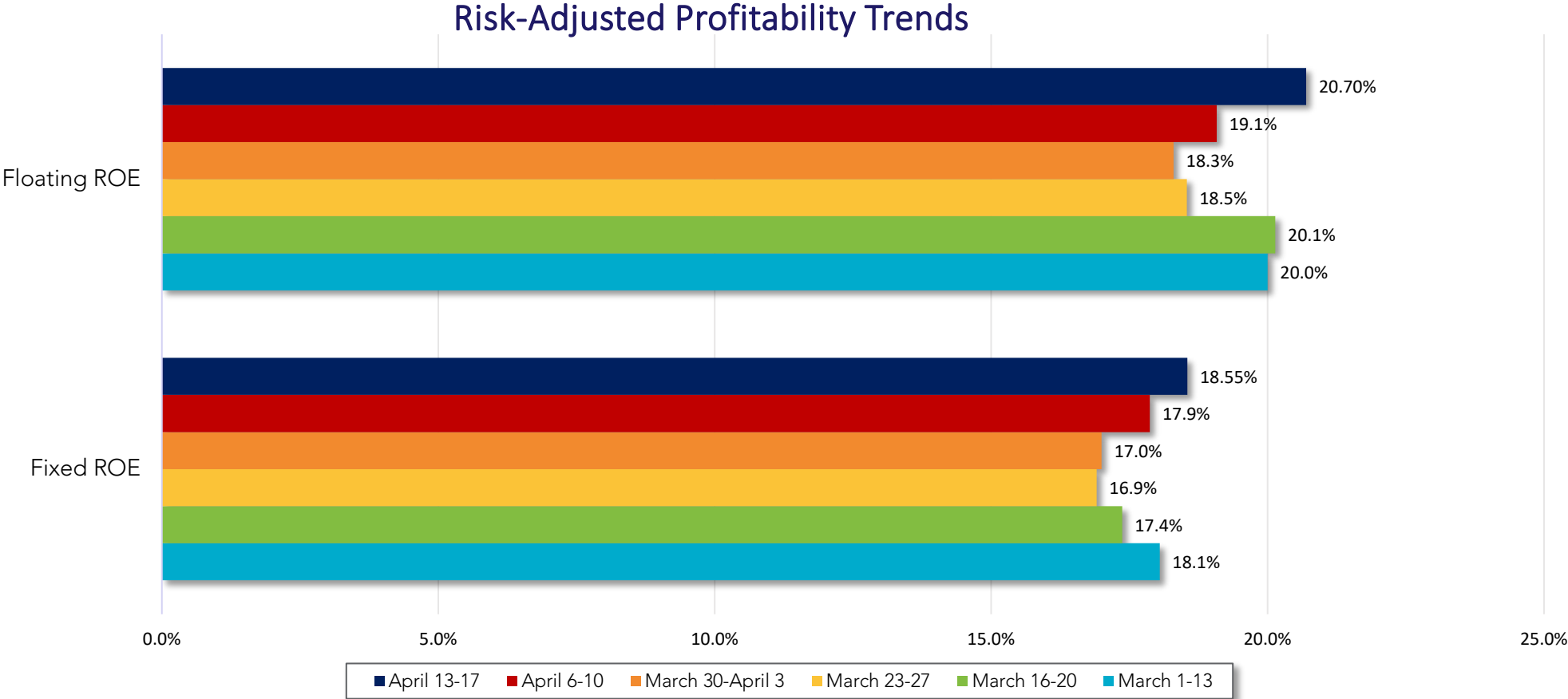


Given the potential changes in credit-worthiness, would you ever back out on an existing term sheet?



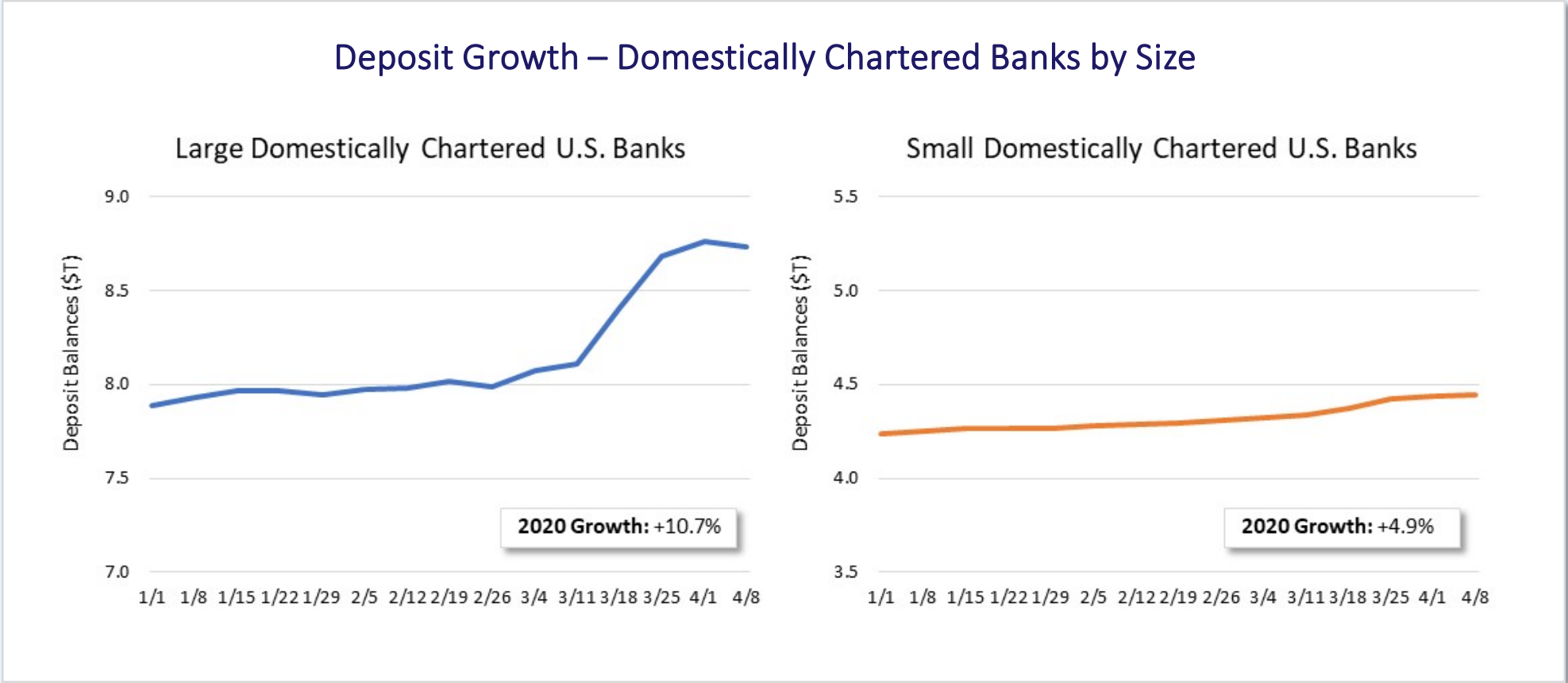
# ROE rebounds after several weeks of declines

While targets hold fairly steady, actual ROE's improve



\*Source: PrecisionLender. Analysis reflects credits priced on the PrecisionLender platform during the indicated period. ROE figures based on bank-specific cost and capital assumptions.

# Deposit Trends: Large Corporates Draw Down then Deposit Funds

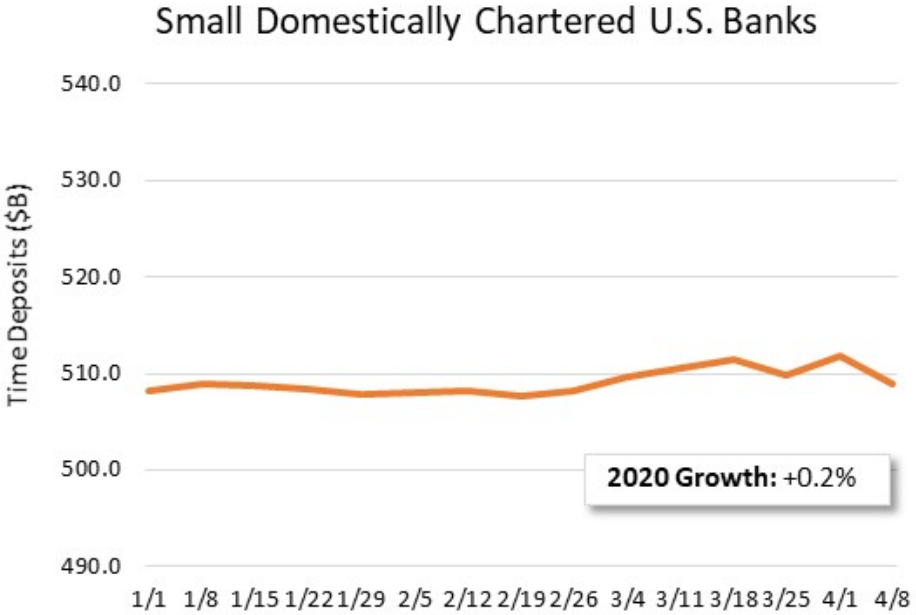
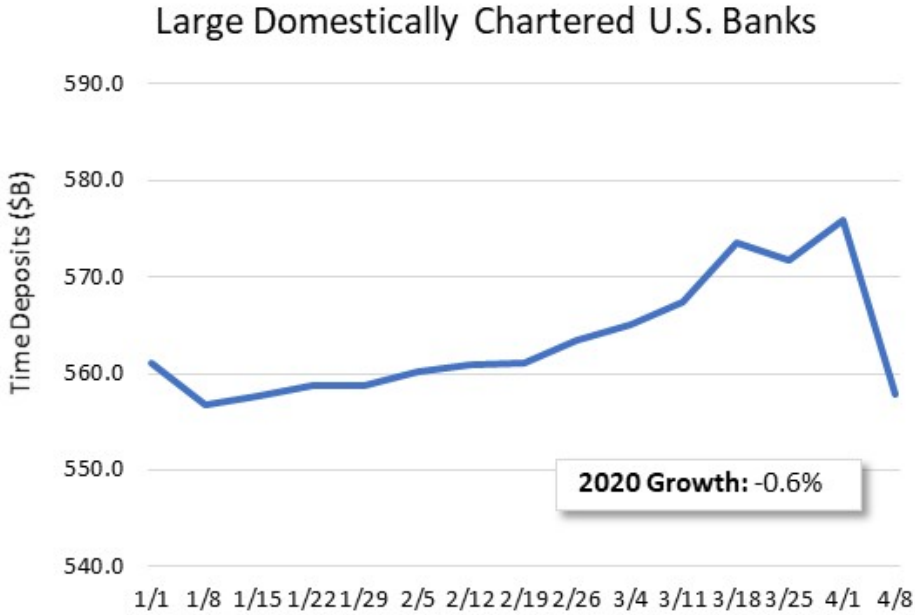


\*Source: Federal Reserve H8 Release. "Large banks" reflect the top 25 domestically chartered commercial banks by asset size. "Small banks" reflect all other domestically chartered commercial banks. Figures are seasonally adjusted.



# Deposit Trends: Little or No Growth in Illiquid Accounts

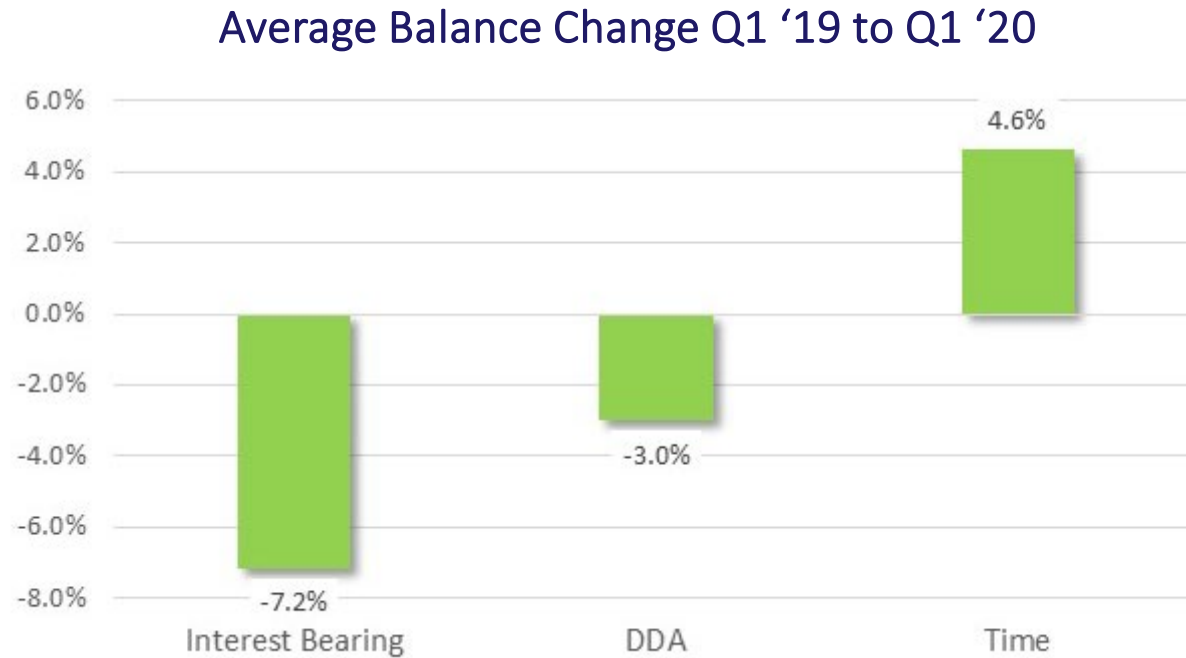
Large Time Deposits (> \$100K) – Domestically Chartered Banks by Size



\*Source: Federal Reserve H8 Release. "Large banks" reflect the top 25 domestically chartered commercial banks by asset size. "Small banks" reflect all other domestically chartered commercial banks. Figures are seasonally adjusted and only include time deposits over \$100K.

# Commercial Deposit Trends: Small Business & Middle Market

Less cash on hand for small and mid-sized businesses; high standard deviation across banks

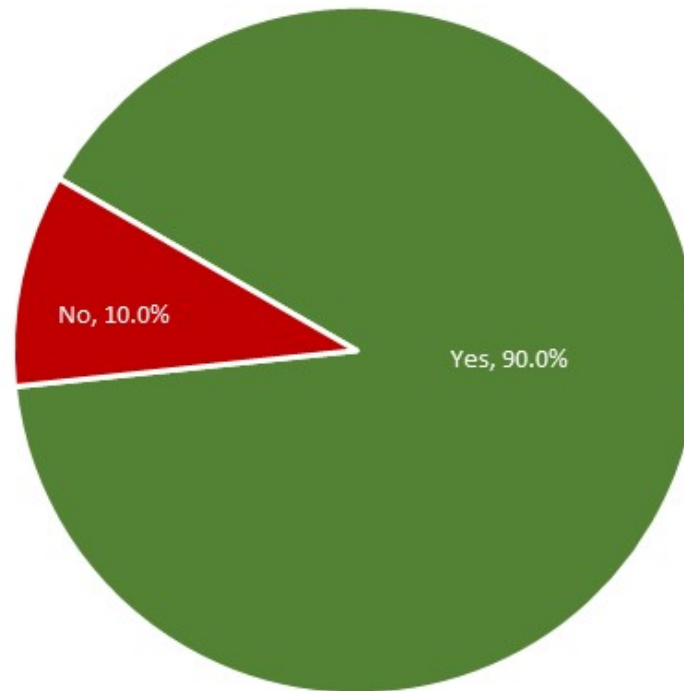


\*Source: PrecisionLender. Analysis reflects commercial deposits and is filtered to reflect only Small Business and Middle Market Accounts.

# Commercial Deposits: PrecisionLender Survey

Notwithstanding the recent declines, bankers expect deposits to be a must-have in extending credit

Are you considering requiring deposits or other core financial services when extending credit?



# The New Norm

# > Modus Operandi

# > FinTech



Volatile & unpredictable economy




Unclear regulatory requirements




Customer expectations of perfection



Constant Learning



Real-time adaption



**PrecisionLender  
Micro Products**

- Data driven and intelligent
- Rapid, light lift deployment
- No code change management
- Integrate with anything

# Market Analysis: A Professional Services Offering

## Three Tiers of Service, Depending on Bank's Needs:

*Market-Only*

### Market Trend Analysis

- Customized market analysis on critical, time-sensitive issues
- Access intel from three proprietary PrecisionLender data sets:  
(1) actual booked loans and deposits; (2) deals in the pipeline; and (3) strategic bank practices



*Bank vs. Market*

### Performance Analysis

- Bank vs. market competitive analysis
- Actionable intel, uncovers opportunities and vulnerabilities



*Bank vs. Market +  
Ongoing Coaching*

### Coaching

- Proactively manage the opportunities using Andi, PrecisionLender's digital enterprise coach
- Get the right information to the right individuals at the right time

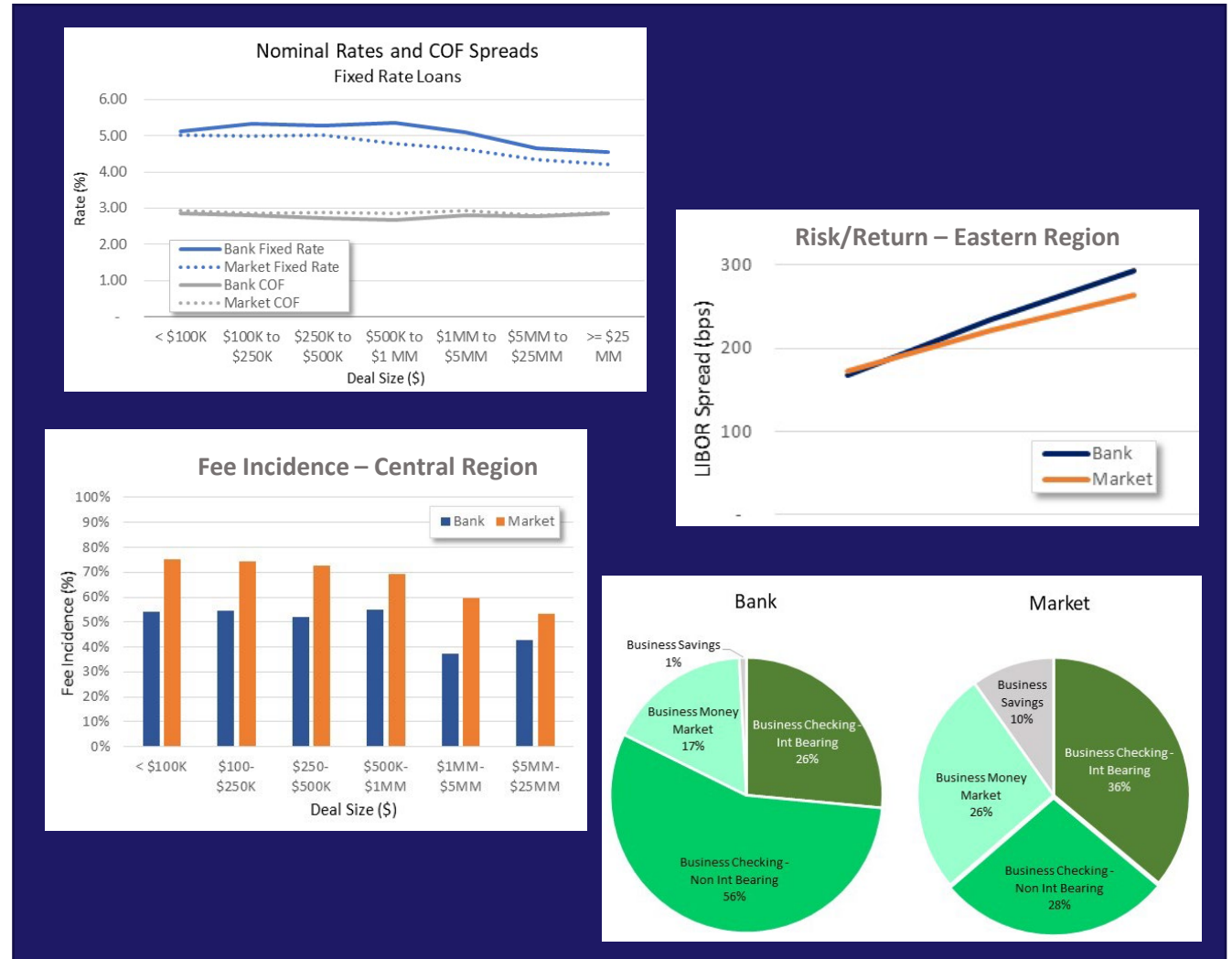
# Market Analysis: Current Intel on Trends in U.S. Banking

- Are banks moving to implement rate floors, and if so, what are the current levels?
- Where are deals being priced today?
- Have banks adjusted their internal hurdles and/or cost assumptions which drive profitability?
- How are borrower preferences shifting between fixed and variable rate loans?
- Where are usage rates trending?
- Are added drawdowns being utilized or held in deposit accounts?
- Where do rates stand on negotiated commercial deposits?
- To what degree are balances moving back to liquid DDA accounts?



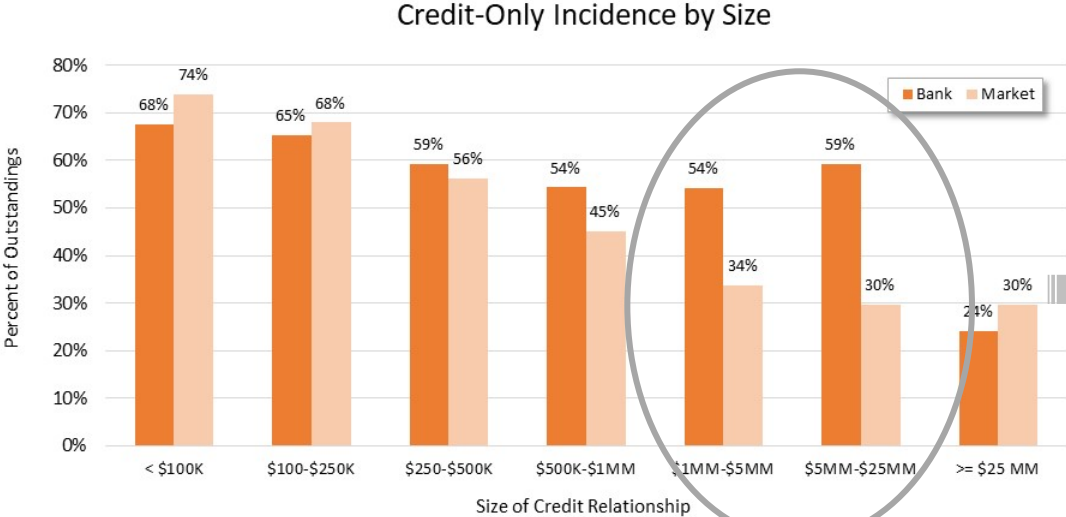
# Market Analysis: Bank vs. Peers Performance Analysis

- How does the bank's risk/return compare to market?
- Is the bank fully capitalizing on market spreads?
- How strong is the bank's fee discipline? Are there specific types of fees which the bank is assessing less often than its peers?
- What are the bank's practices in managing its renewal book? Is it proactively repricing its downgrades? Is renewal pricing adjusted to reflect the current market?
- How much of the bank's portfolio is credit-only, and where are those deals concentrated?
- Are there trade-offs in the portfolio between spreads and fees or between credit and non-credit revenue?
- How do the bank's mix of deposit products compare to market? Is the bank over-paying for deposits?
- Is there variance in performance across RMs?



# Market Analysis: Bank vs. Peers with Coaching

How often are we booking credit-only accounts and how can we improve results?



A striking proportion of this bank's larger credit relationships have no associated deposits

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Delete Archive Move Reply Reply All Forward Done

Weekly Andi Insights

**AR** Andi Reports  
To: Robert Banker

Dear Robert,

Here are your top relationships which remain credit-only, excluding new-to-bank relationships closed in the past 6 months:

Client Name	Origination Date	Credit Exposure	PD Grade	LGD	Relationship ROE
Atlantic Trading	3/15/2019	\$12,800,000	10	D	10.20%
Best Wholesale	11/20/2018	\$7,650,000	8	G	9.60%
Delta Warehouse	6/1/2019	\$5,300,000	9	D	14.32%
French Bistro	7/22/2019	\$3,525,000	11	H	4.29%
GMT Services	2/20/2019	\$10,575,000	7	B	21.53%
Harold West Inc	3/10/2015	\$25,420,000	12	G	-2.46%

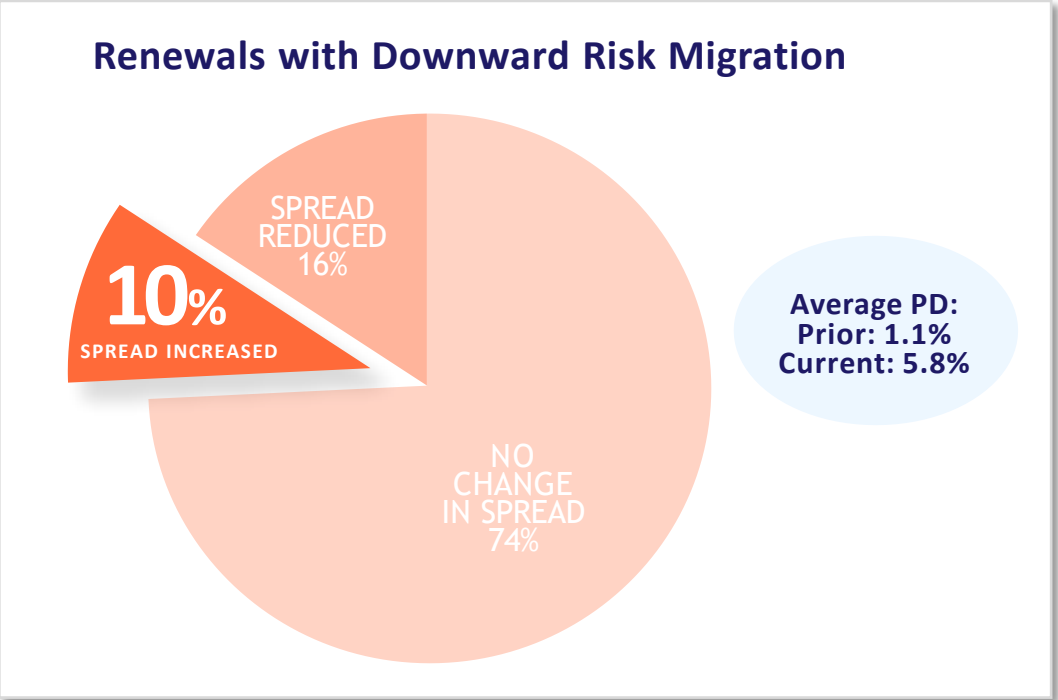
Cheers,

*Andi*



# Market Analysis: Bank vs. Peers with Coaching

Are we proactively managing our renewal portfolio?



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**Weekly Andi Insights**

**AR** Andi Reports  
To: Robert Banker

Dear Robert,  
Here are your upcoming renewals with recent credit downgrades:

Client Name	Maturity	Renewal Amount	Prior PD	Current PD	Current ROE
JTM Company	5/31/2020	\$5,250,000	8	10	4.30%
Loft Enterprises	7/15/2020	\$1,675,000	8	12	-1.58%
Magna Inc	8/1/2020	\$2,200,000	4	5	24.25%
New Retailers	10/10/2020	\$3,250,000	11	12	5.36%
Preston Corp	9/15/2020	\$1,320,000	7	9	11.26%
Restaurant Group	6/20/2020	\$9,500,000	6	10	-4.68%

Cheers,  
*Andi*

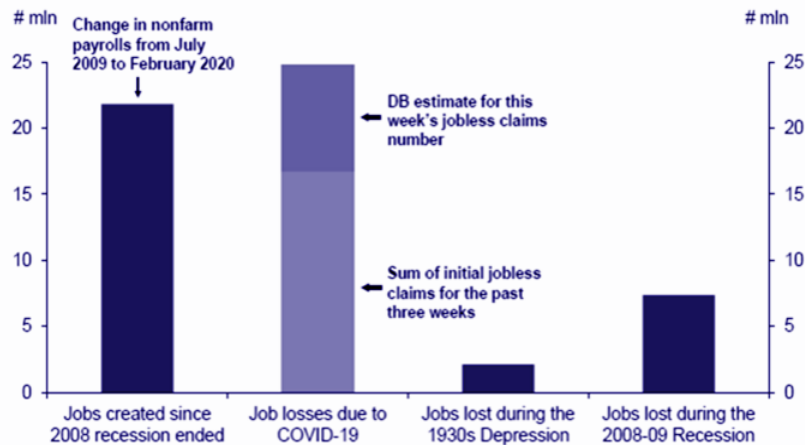
[Click here for negotiation tips on repricing renewals](#)

# Unique Challenges of COVID-19 Pandemic

1

## Rising Unemployment & Economic Stress

More jobs lost over the past four weeks than were created since the 2008-2009 financial crisis



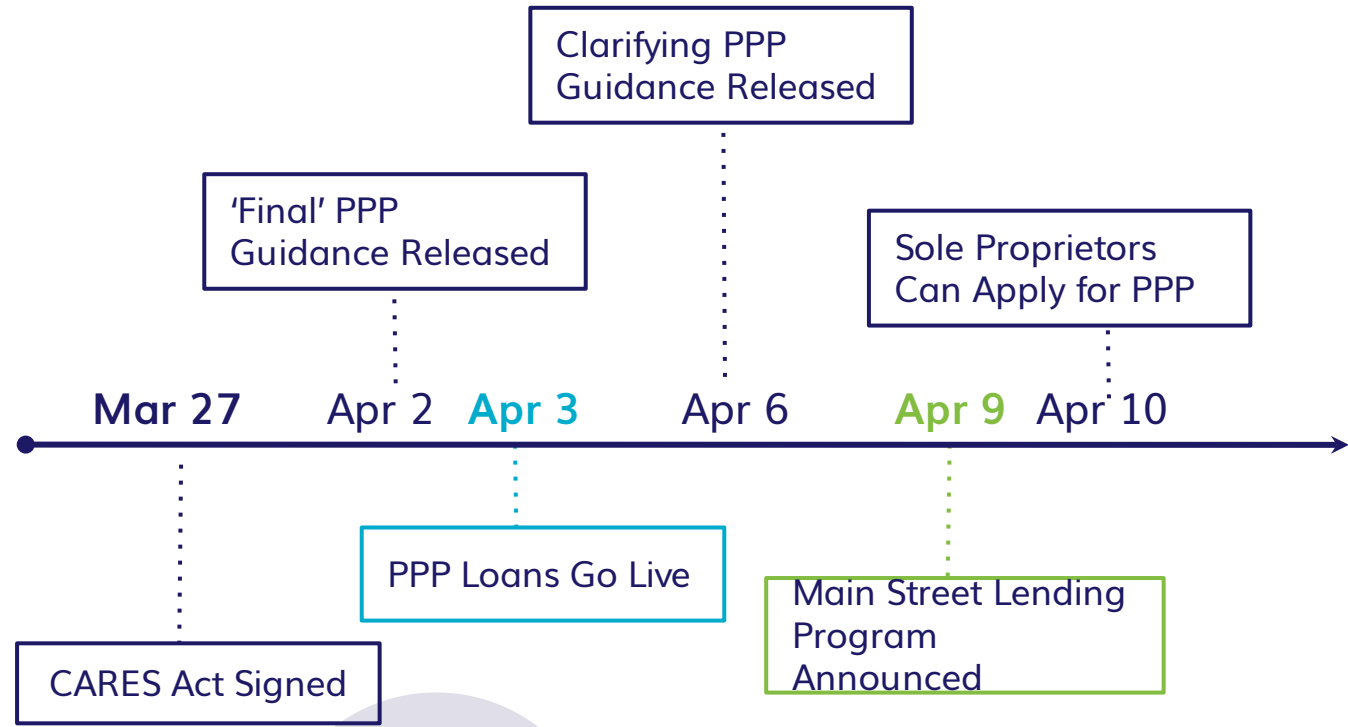
Source: BLS, Dept. of Labor, CRS, Haver Analytics, DB Global Research

Deutsche Bank Research

Torsten Ditt, torsten.ditt@db.com +1 212 250-2155

April 2020

118



2

## Constantly Evolving Relief Programs

# Unique Challenges of COVID-19 Pandemic

3

## Adapting to a New Work (From Home) Environment

*Over the last month, as much of the finance industry adjusted to working from home, decisions took longer. And that, in turn, added a layer of unexpected friction to already volatile markets.*

- New York Times

4

## High Volume of Customers Seeking Information

How Americans research credit relief options in coronavirus era

April 3-5, 2020

Called the bank/lender

40%

General internet search (Google, etc.)

36%

Visited the bank/lender's website

29%

Saw/read an article on the topic (i.e. news article, blog, etc.)

27%

Government sites

23%

Contacted a financial professional

10%

I plan to do research, but have not started yet

14%

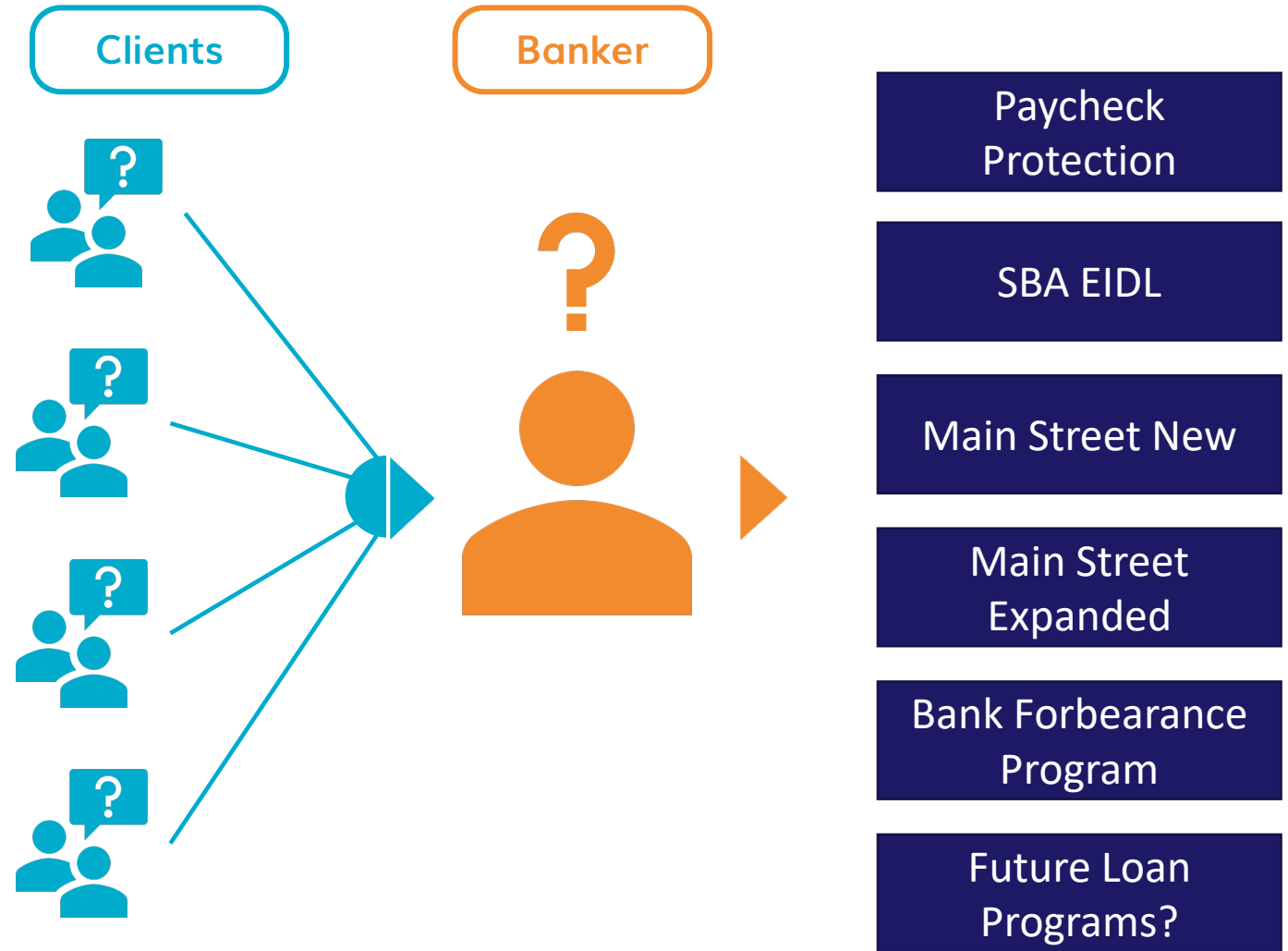
None of the above

7%

SOURCE: J.D. Power COVID-19 Survey © April 2020 The Financial Brand

*"The pure volume of applications that are being submitted to lenders is incredible."*  
- Don Stevens, CohnReznick

*"Based on demand, it is clear that Congress will need to appropriate additional money."*  
- Marco Rubio, US Senate




# Meet Andi, PrecisionLender's Digital Coach

Clients



Banker







**Andi** 8:15 AM  
Good morning! I'm Andi - your virtual deal coach. Ask me a question to get started.

**B** Banker 8:15 AM  
Are this loan and borrower eligible for any of the CARES Act Programs?

**Andi** 8:15 AM  
I'd like to ask a few questions to determine what programs this borrower is eligible for. Once we've determined which product best fits their needs, I can start guiding you through appropriate loan structures!

To start off, is this borrower a Small Business, Non-Profit, Tribal Business, or Veteran's Organization?

**i** Yes  
**i** No





Paycheck Protection

SBA EIDL

Main Street New

Main Street Expanded

Bank Forbearance Program

Future Loan Programs?

# Live Poll

**I'm interested in learning more about the following products:**

- Market Analysis
- PrecisionLender CARES Edition

precision**lender**.  
a **Q2** company