



WEBINARS

Tuesday, January 21st @1PM EST

THE STATE OF COMMERCIAL BANKING:

2020 Market Analysis

FEATURING



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Senior Solutions Strategist
PrecisionLender, a Q2 Company



Topics

- **Commercial Loan Volume**
- **Credit Quality**
- **Pricing and Fees**
- **Structure**
- **Commercial Deposits**

Methodology

- The data presented in this webinar covers **commercial loans and deposits** for the 2019 calendar year
- Primary data source: **PrecisionLender's proprietary database**, reflecting **actual commercial relationships** (loans, deposits and other fee-based business) from **over 200 banks** in the U.S.; supplemented with **public data sources** (FDIC, Federal Reserve, etc.)
- 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**

Commercial Loan Demand

Live Poll

How optimistic are you that your bank will achieve its loan volume goals this year?

- Highly Optimistic
- Somewhat Optimistic
- Somewhat Pessimistic
- Highly Pessimistic

Credit Conservatism

Live Poll

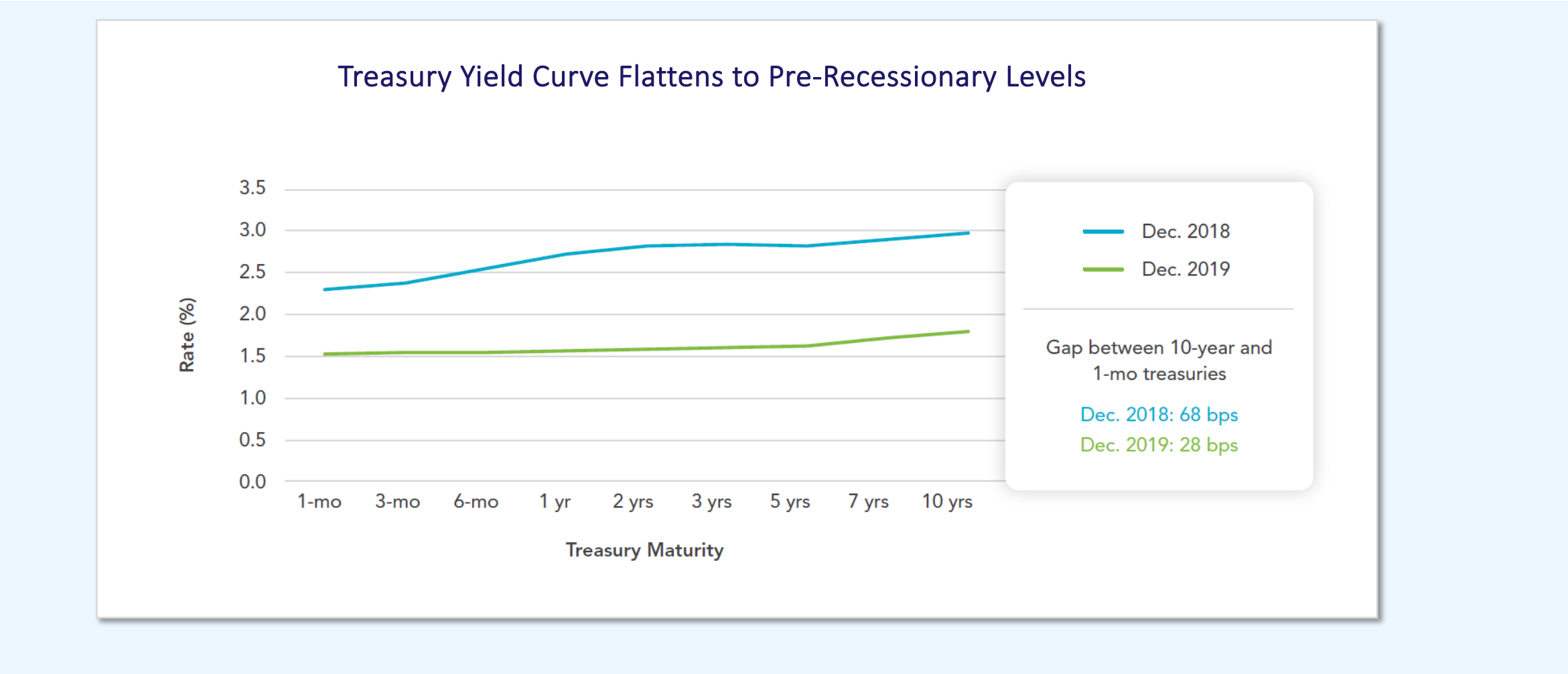
Do you anticipate that your bank will be more or less conservative in 2020 compared with 2019?

- More Conservative
- Less Conservative
- No Change
- It Depends on the Customer

Key Takeaways

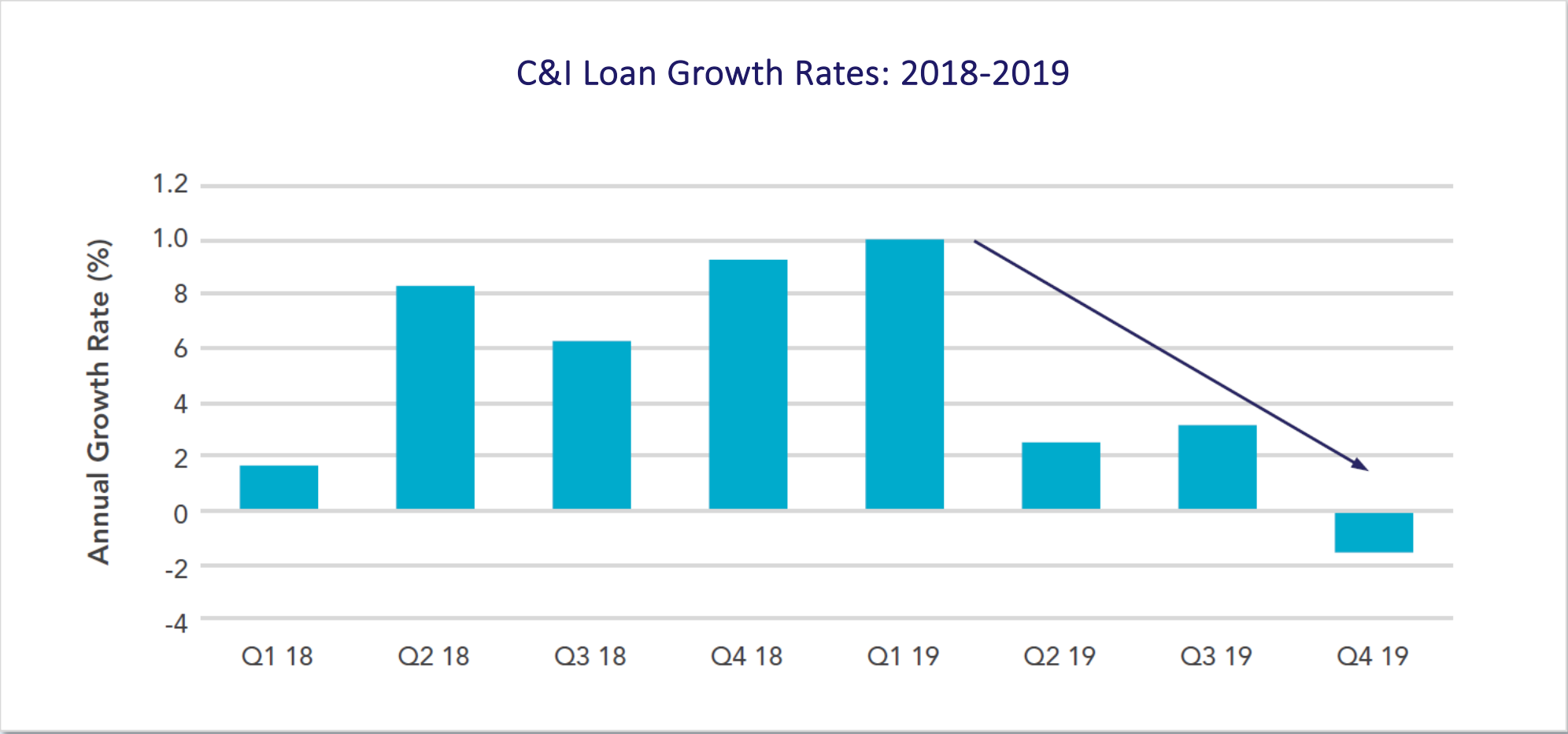
- 1 Weak Outlook for Loan Demand**
- 2 Flight to Quality / Market Bifurcation**
- 3 Quality of Borrowers and Structures Is Under Pressure**
- 4 Risk/Return Is Steepening**
- 5 Deposit Gathering Is Key**

2019: From Optimism to Concern



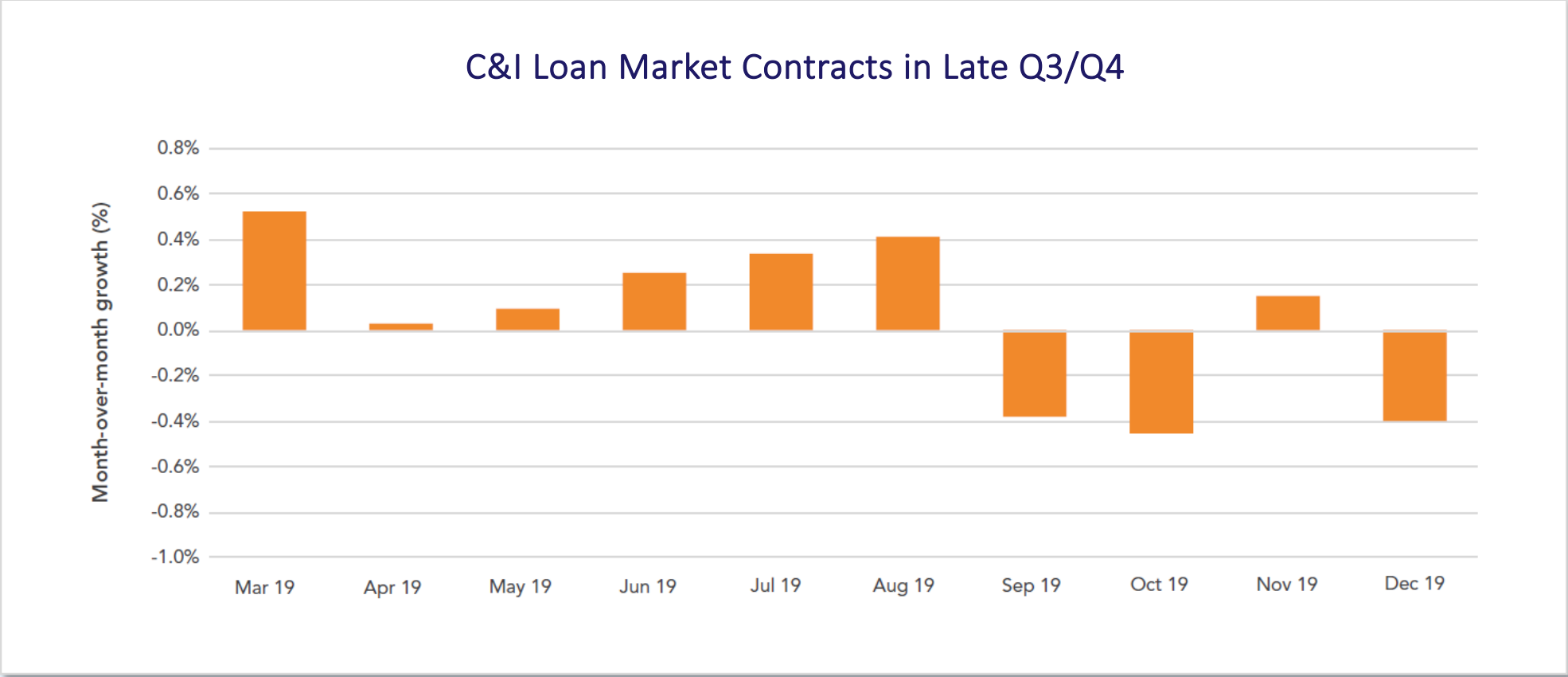
*Source: Federal Reserve H15 Release

C&I Loan Growth Plummetts



*Source: Federal Reserve H8 Release

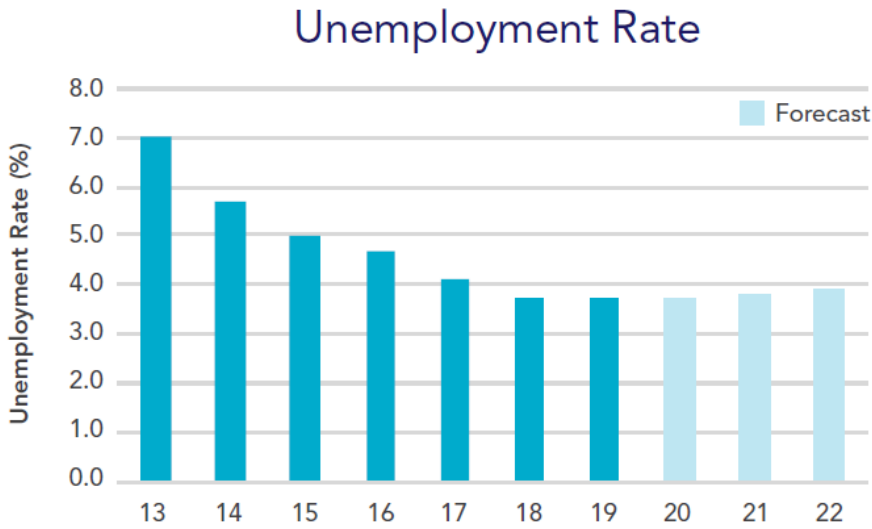
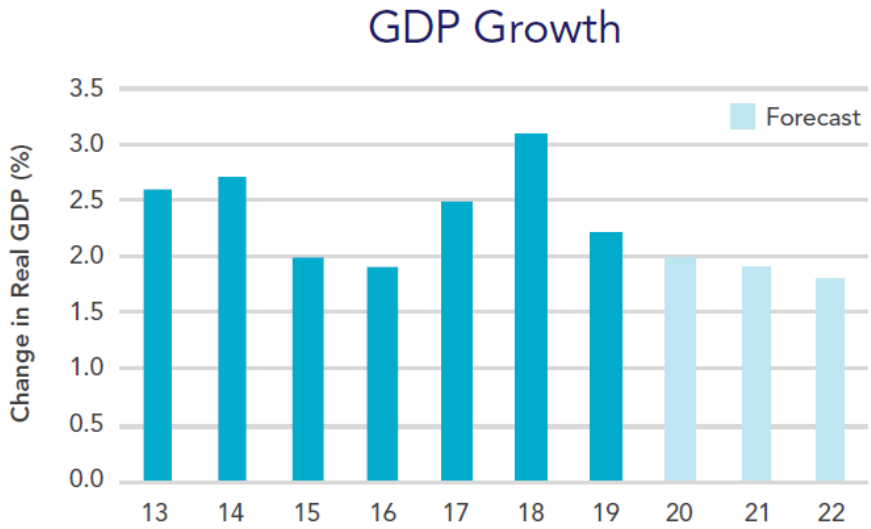
C&I Loan Growth Plummetts



*Source: Federal Reserve H8 Release

Low Expectations for 2020 Commercial Loan Demand

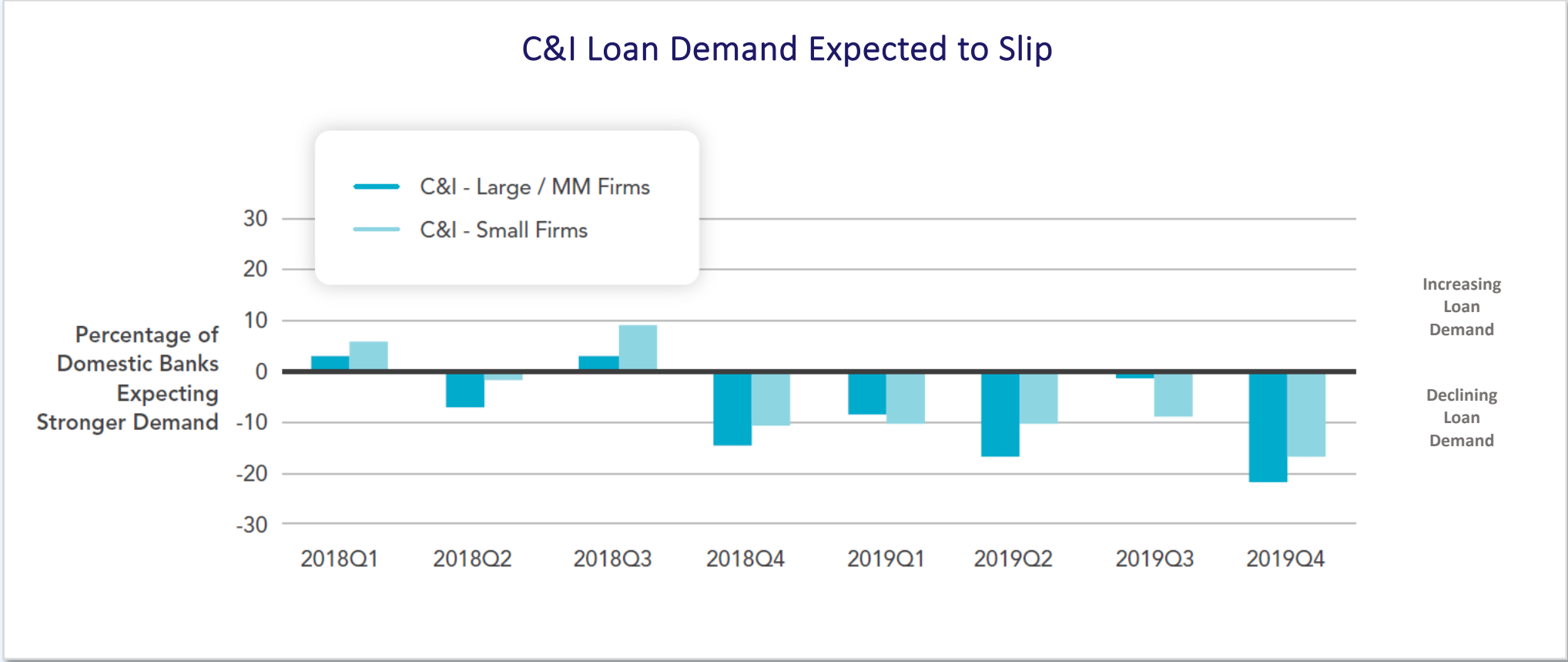
Key Economic Indicators Associated With Loan Demand



*Source: Federal Reserve FOMC (Federal Open Market Committee) Projections

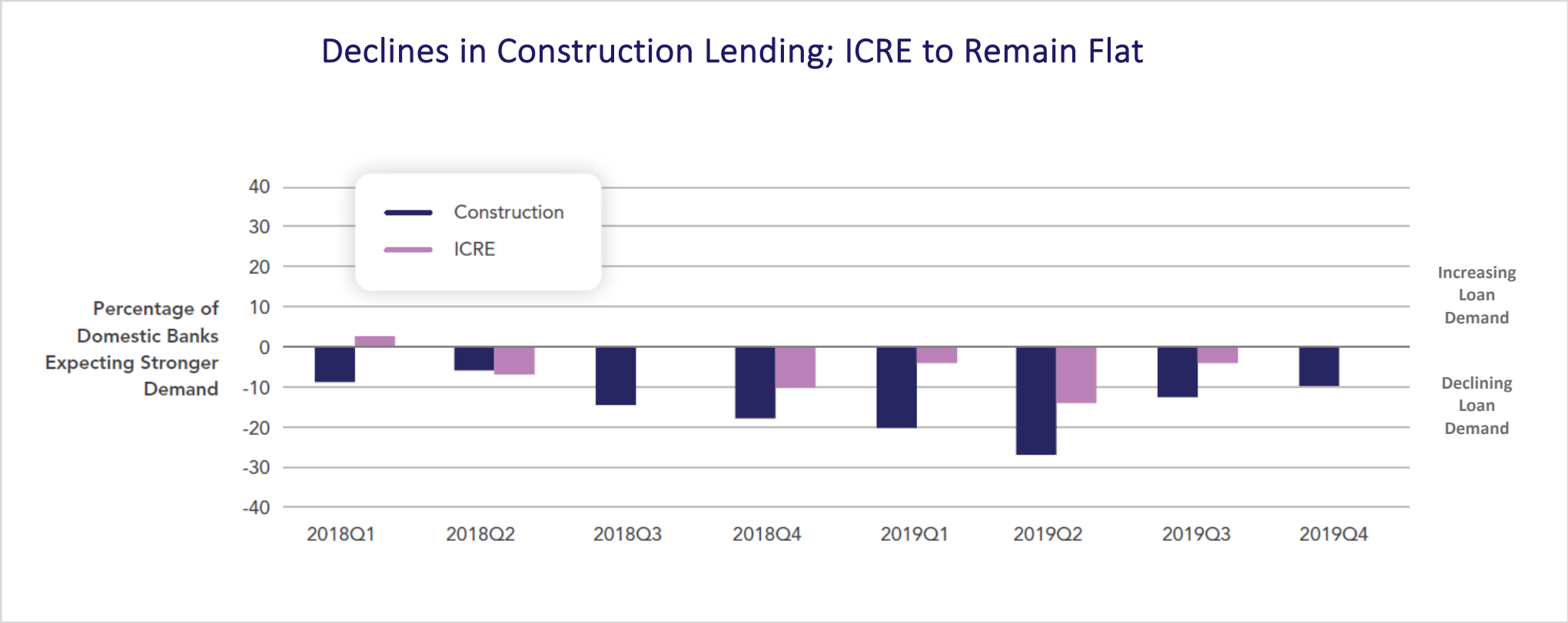
Low Expectations for 2020 Commercial Loan Demand

C&I Loan Demand Expected to Slip



*Source: Federal Reserve Senior Loan Officer Opinion Survey on Bank Lending Practices.

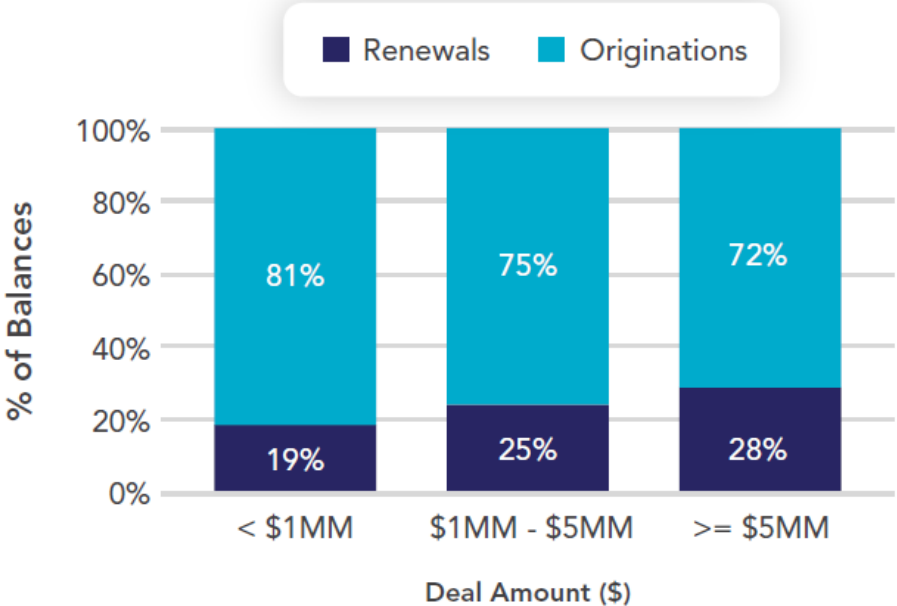
Low Expectations for 2020 Commercial Loan Demand



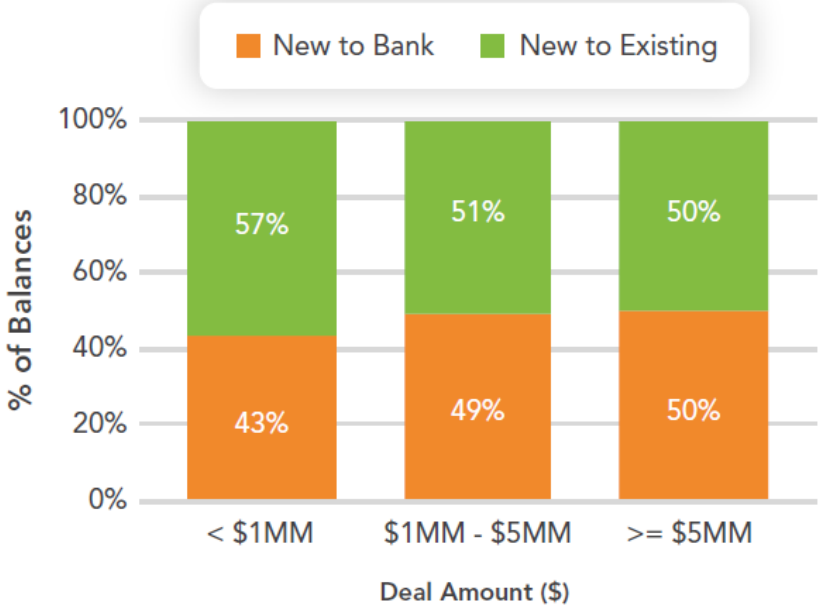
*Source: Federal Reserve Senior Loan Officer Opinion Survey on Bank Lending Practices.

Where is the Volume Coming From?

A Considerable Portion of Loan Activity Stems from Renewals

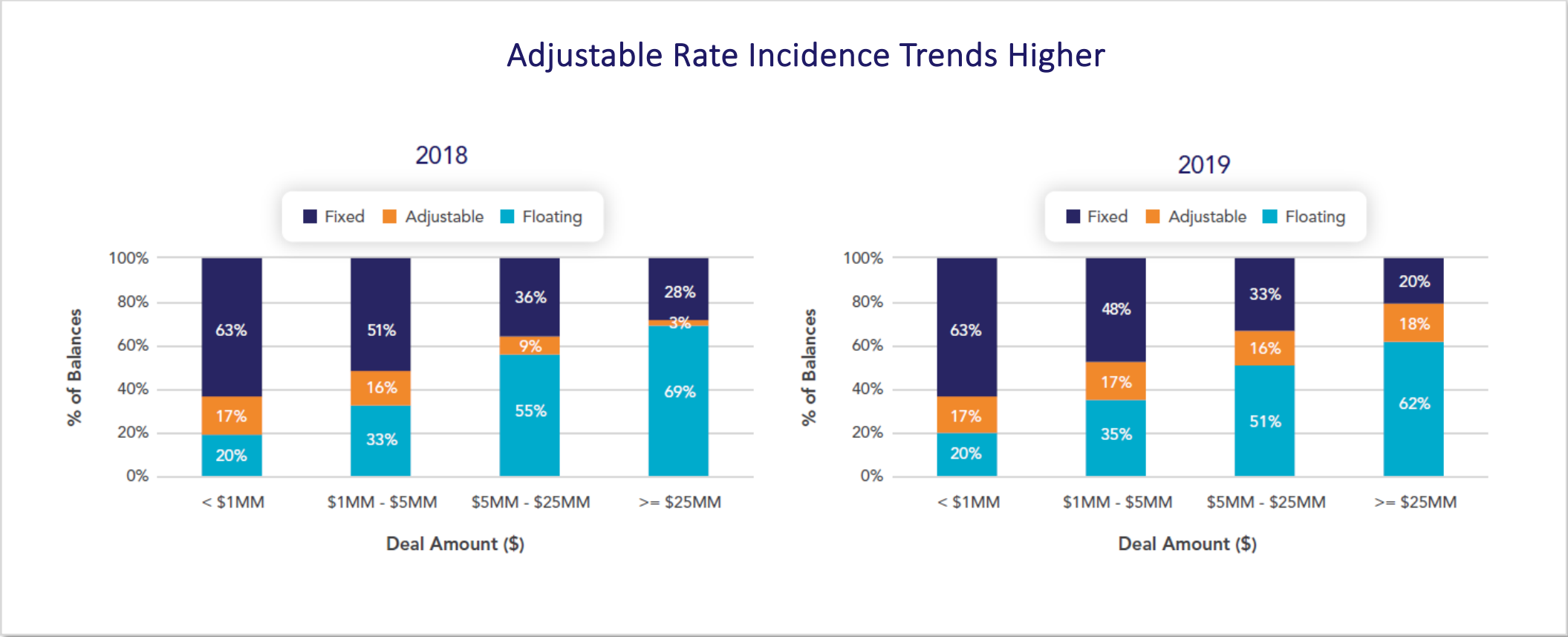


Greater Loyalty to Incumbent Bank on Smaller Accounts



*Source: PrecisionLender.

Increased Emphasis on Adjustable Rate Pricing

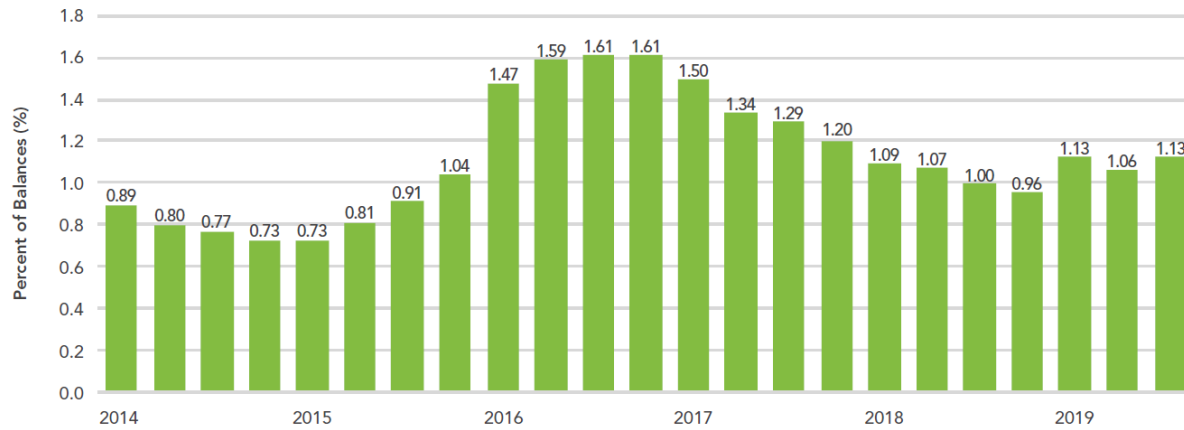


*Source: PrecisionLender.

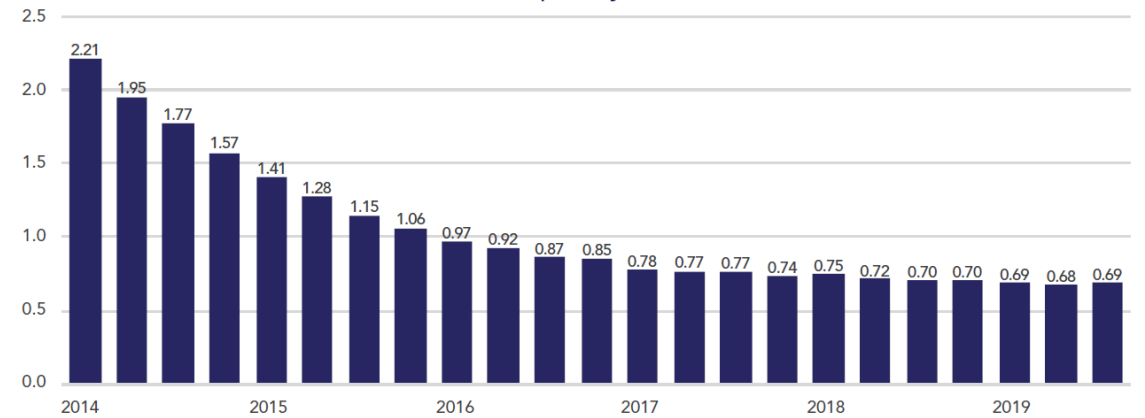
Signs of Credit Stress?

C&I Delinquencies Tick Higher but Continue to Drop for CRE

C&I Delinquency Rates

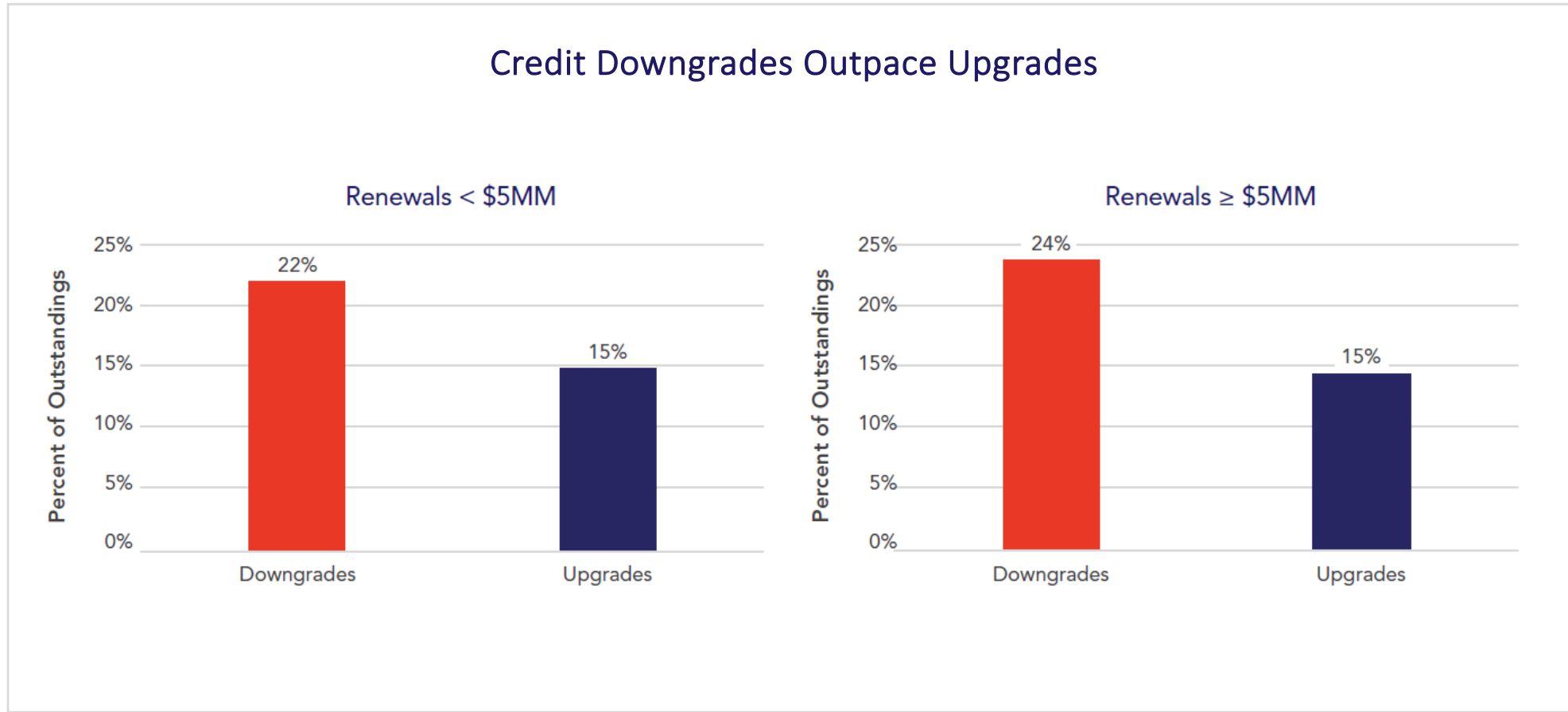


CRE Delinquency Rates



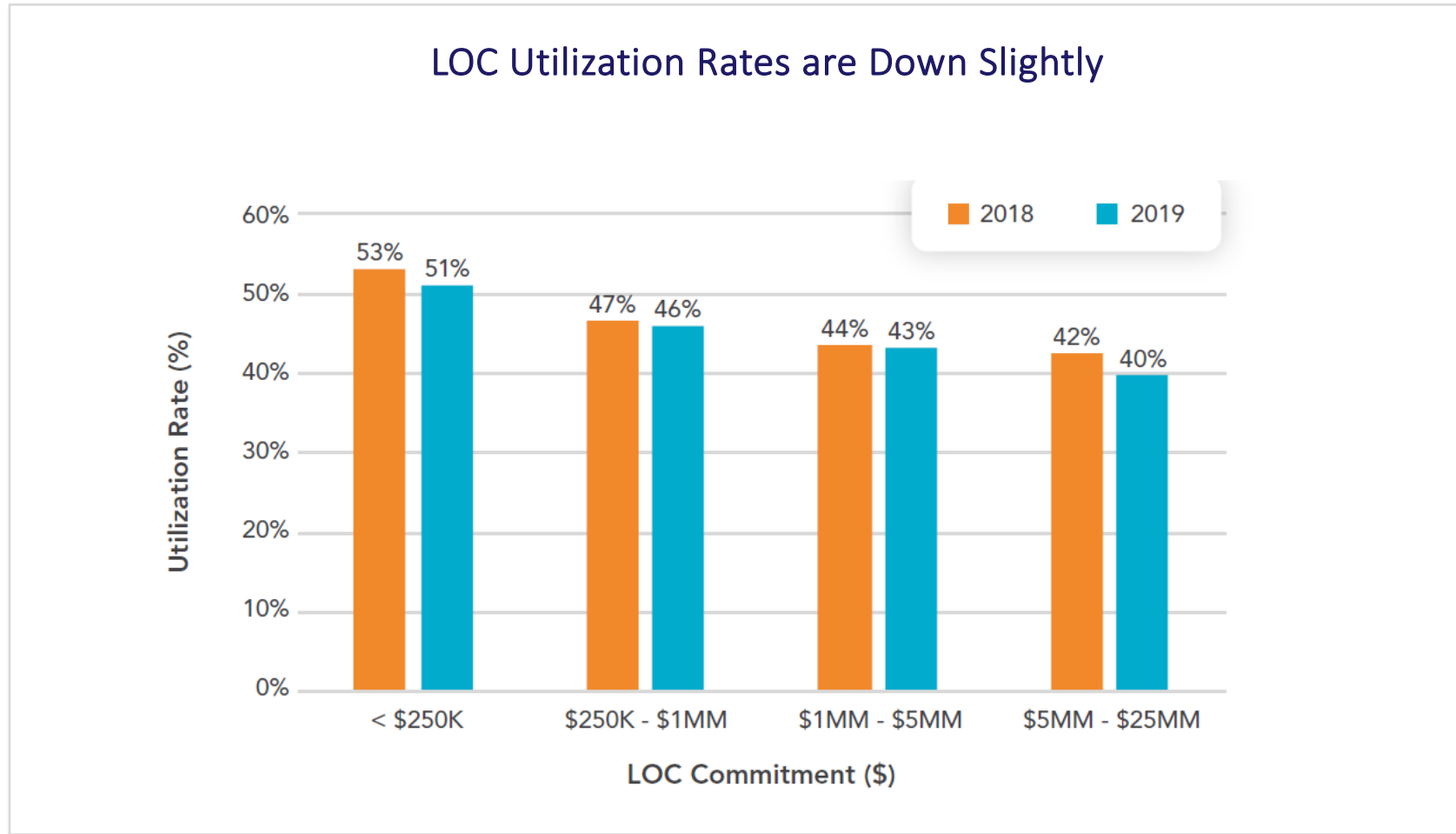
*Source: Federal Reserve

Signs of Credit Stress?



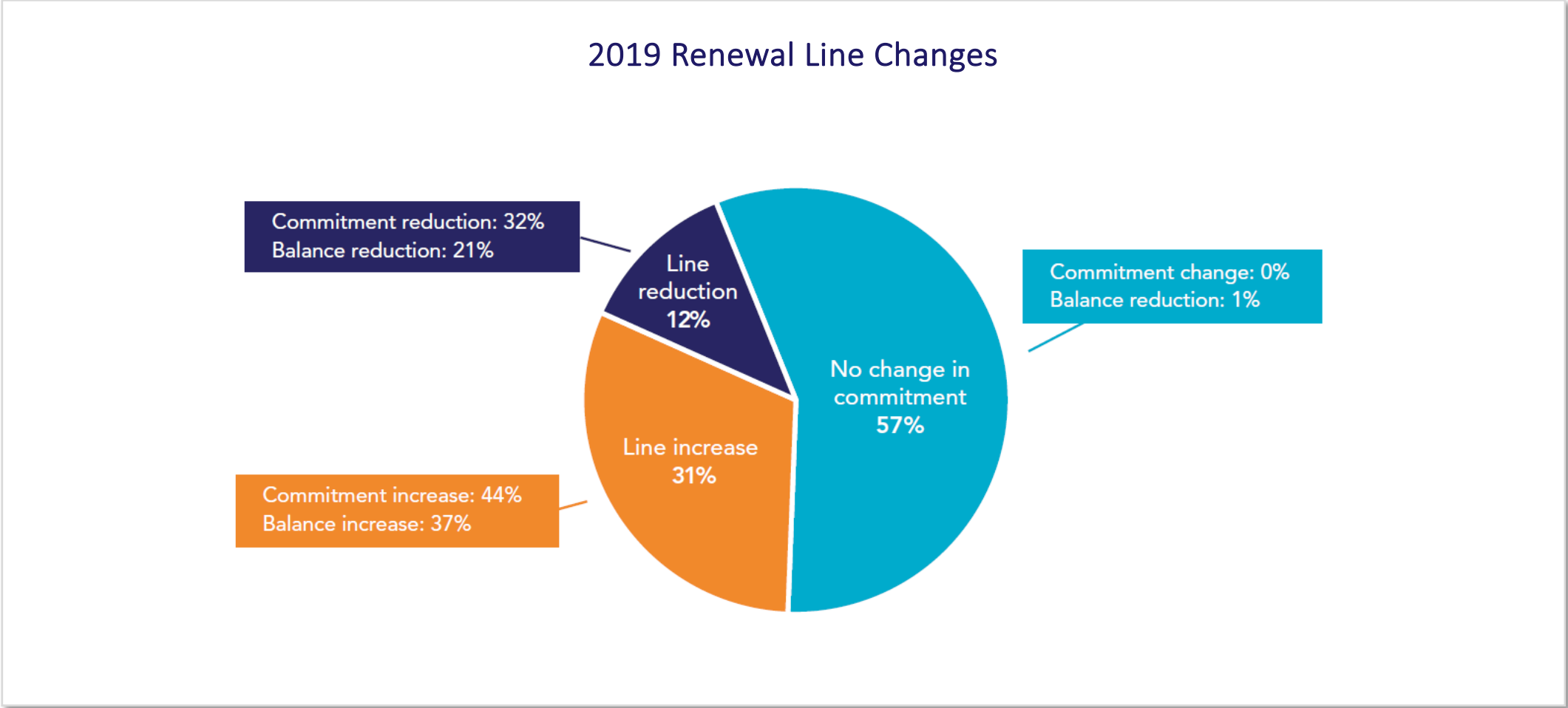
*Source: PrecisionLender.

Signs of Credit Stress?



*Source: PrecisionLender.

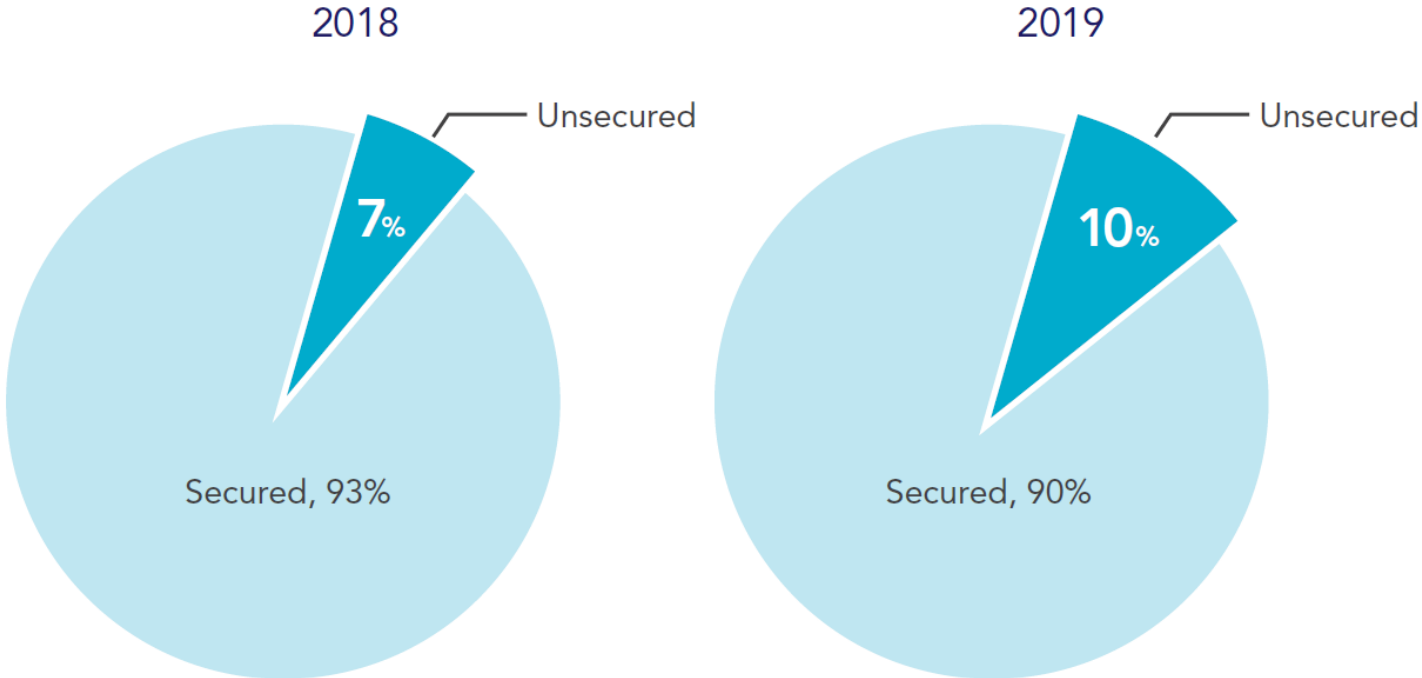
Structural Trends: Increasing LOC Commitment Limits



*Source: PrecisionLender.

Structural Trends: Collateral is Still Key

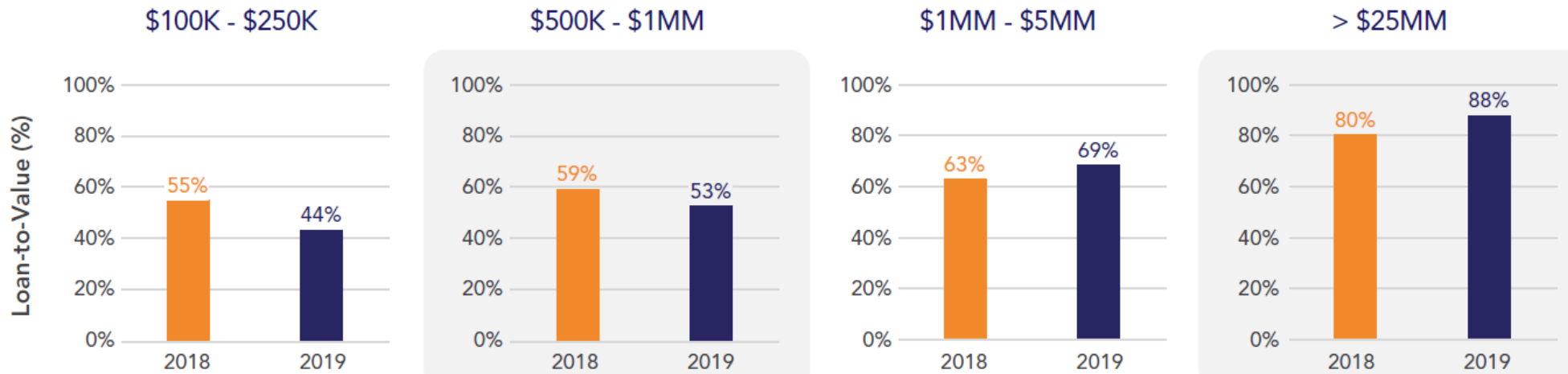
Unsecured Incidence Edges Higher, But Collateral Remains Largely Non-Negotiable



*Source: PrecisionLender.

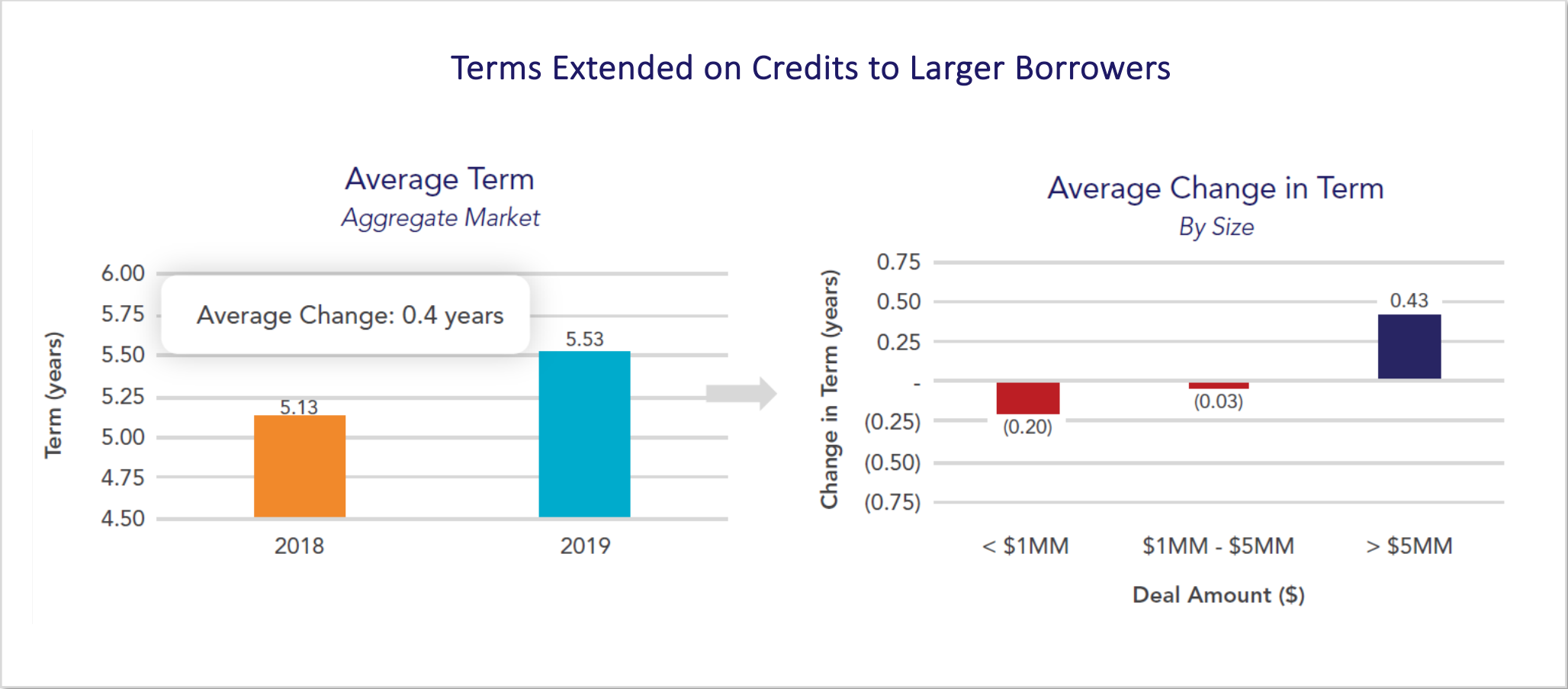
Structural Trends: Concessions for Larger Customers

Banks Offer Generous LTVs on Larger Credits, Pull Back on Smaller Deals



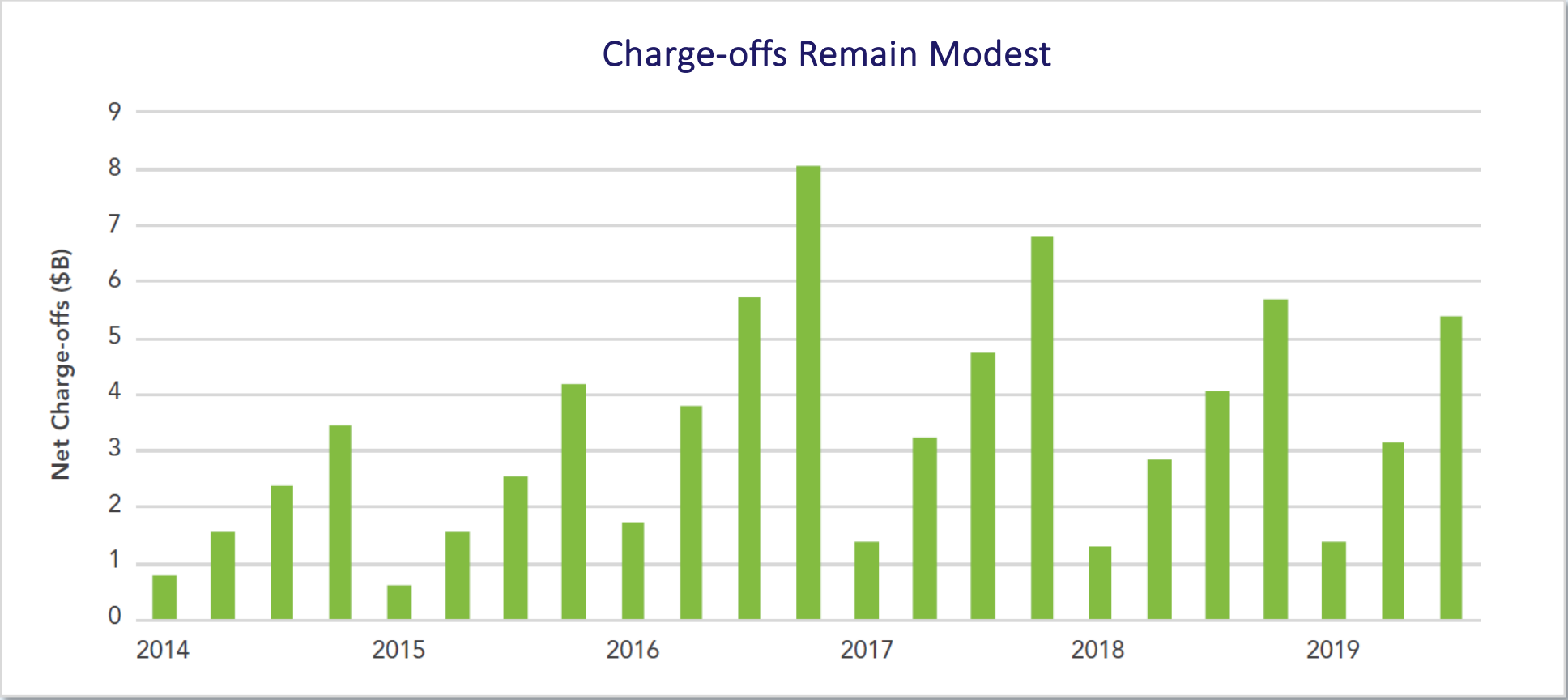
*Source: PrecisionLender.

Structural Trends: Concessions for Larger Customers



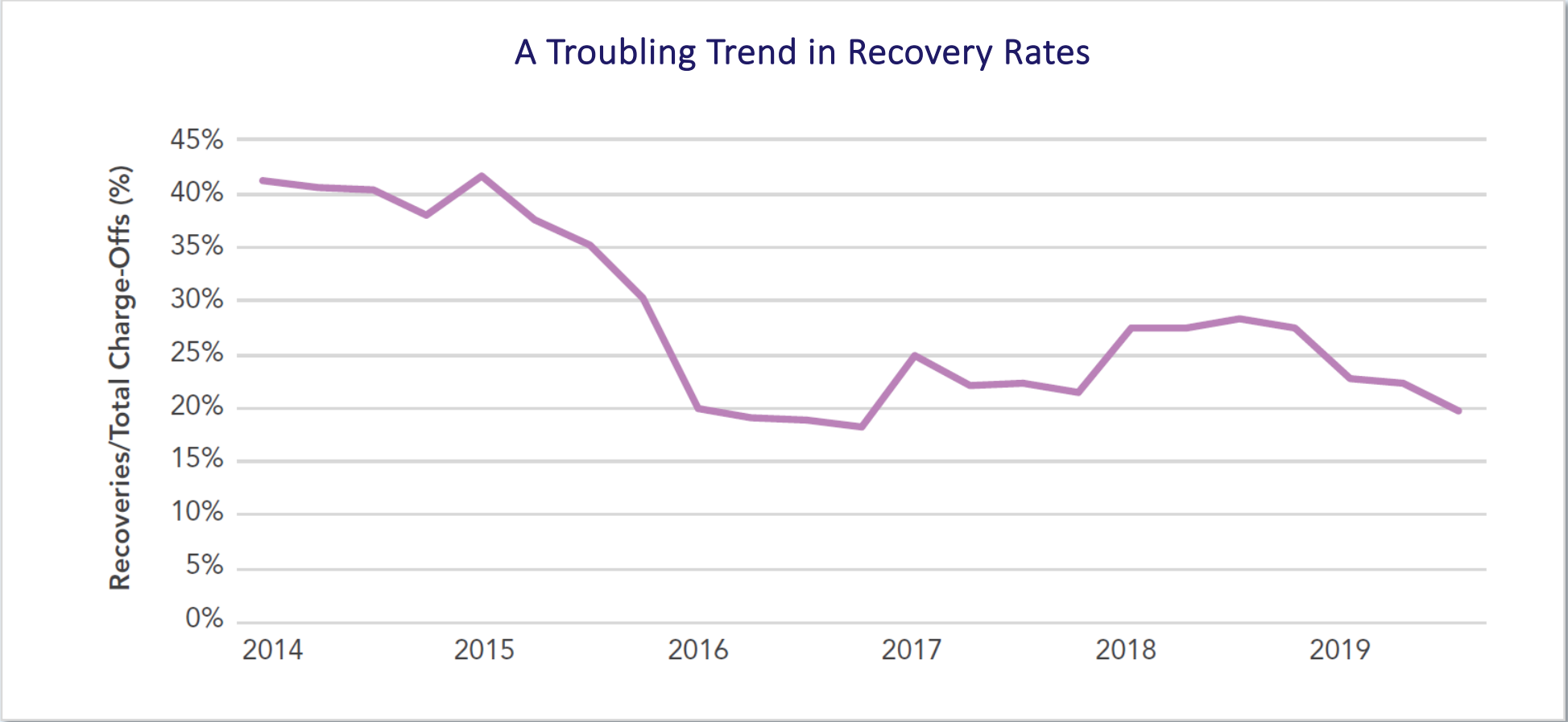
*Source: PrecisionLender.

Charge-Offs Are Low, But Recovery Rates Have Dropped



*Source: FDIC. Data reflects all U.S. commercial banks. Figures aggregated based on call report filings.

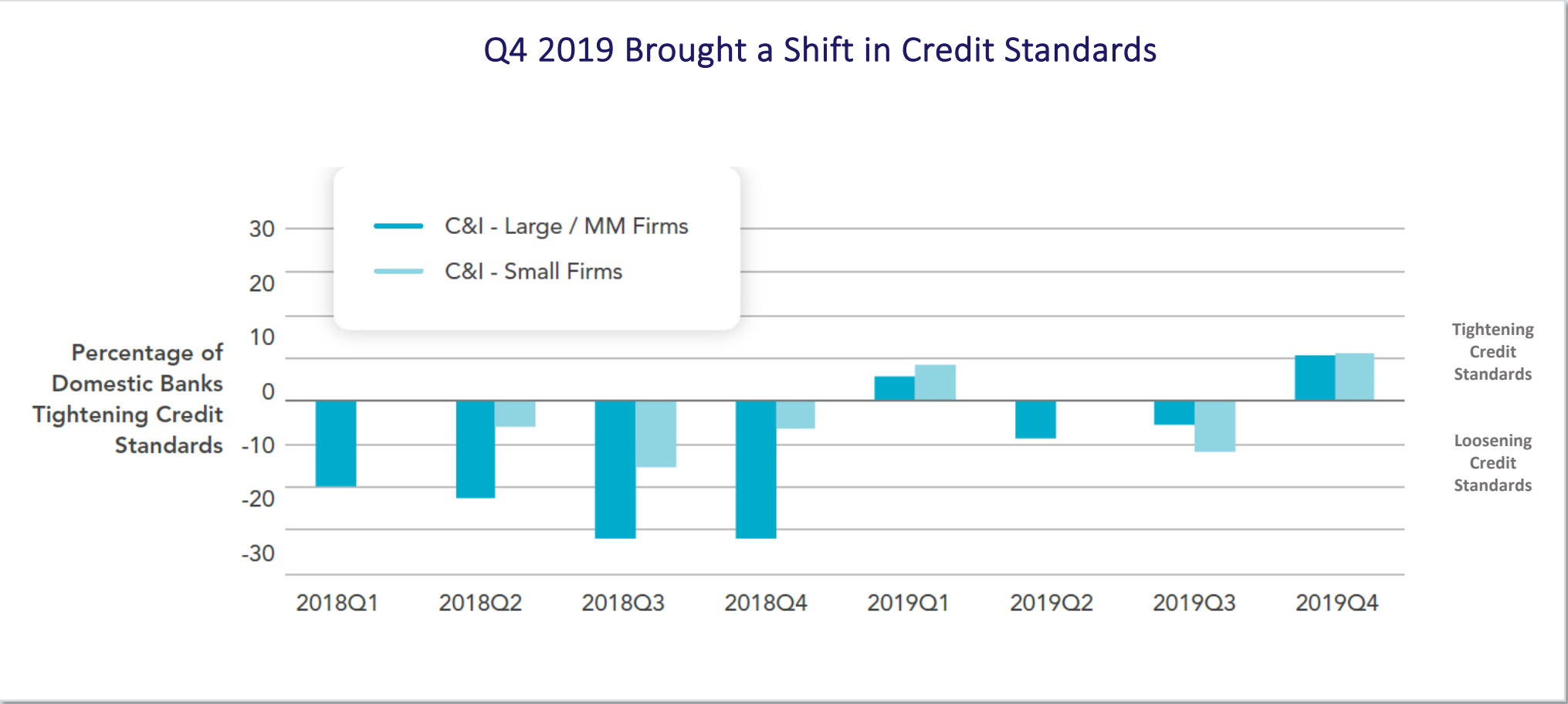
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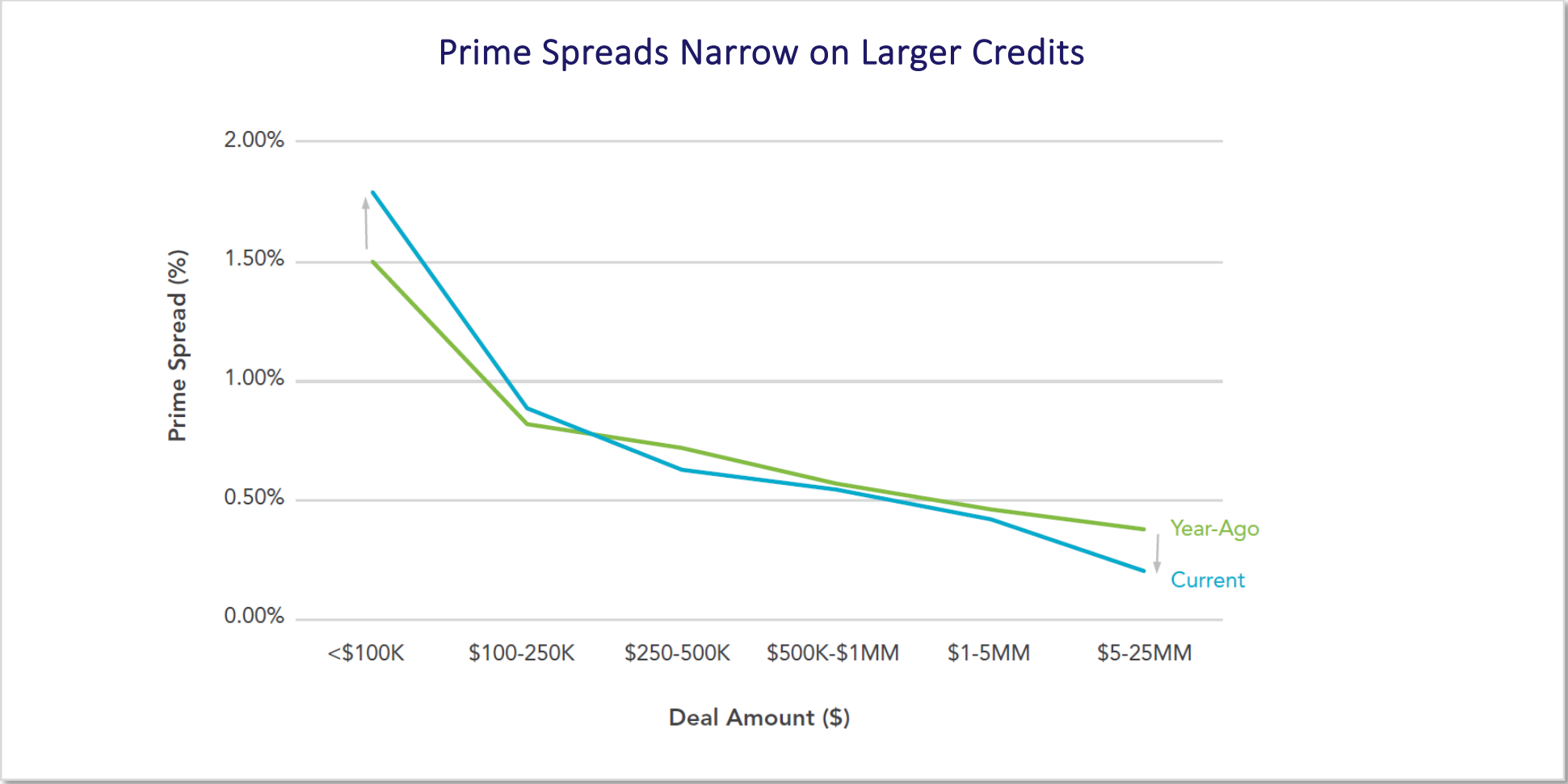
Credit Execs Expect Tighter Standards

Q4 2019 Brought a Shift in Credit Standards



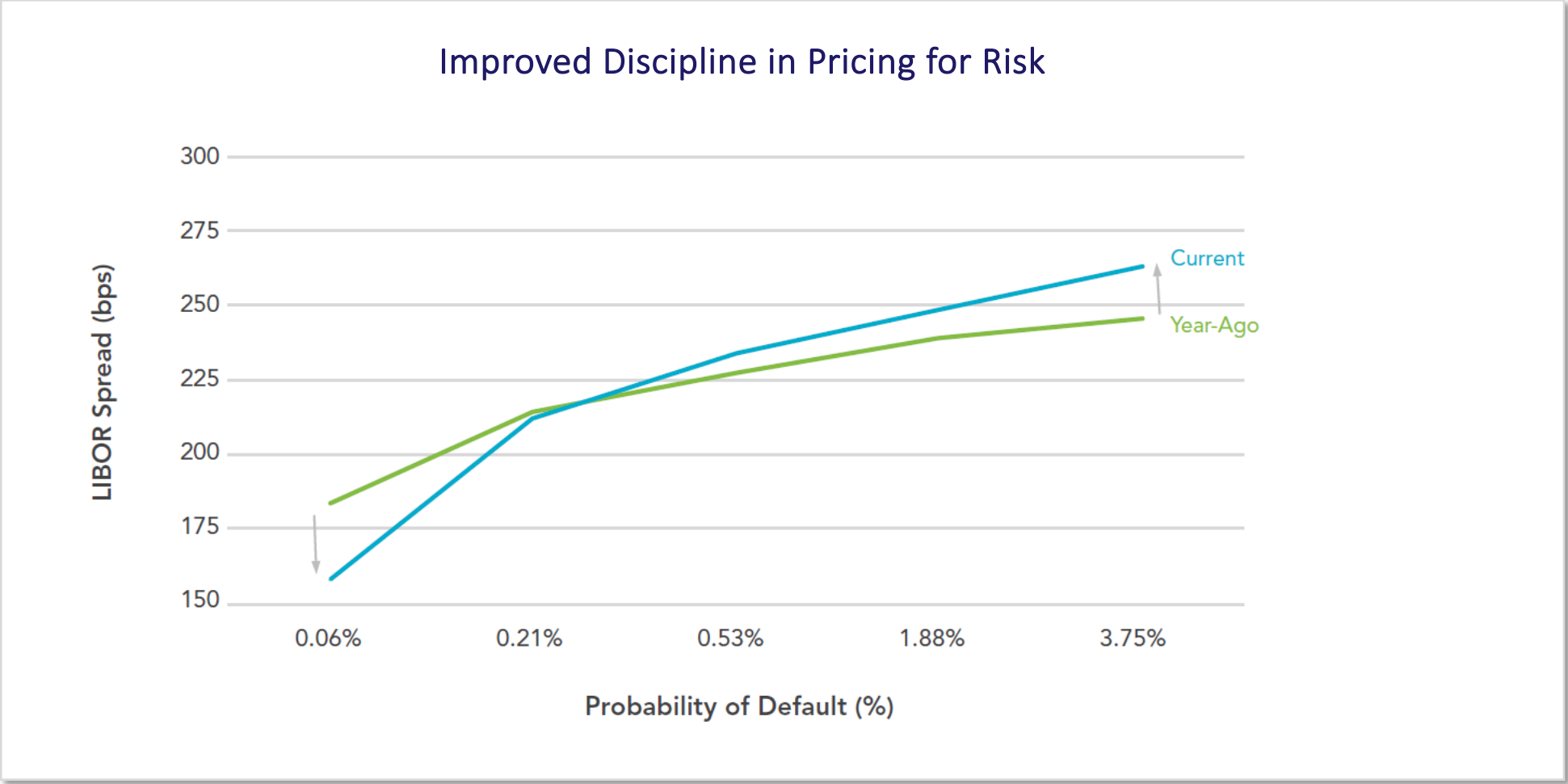
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Market Bifurcation Evident in Pricing Trends



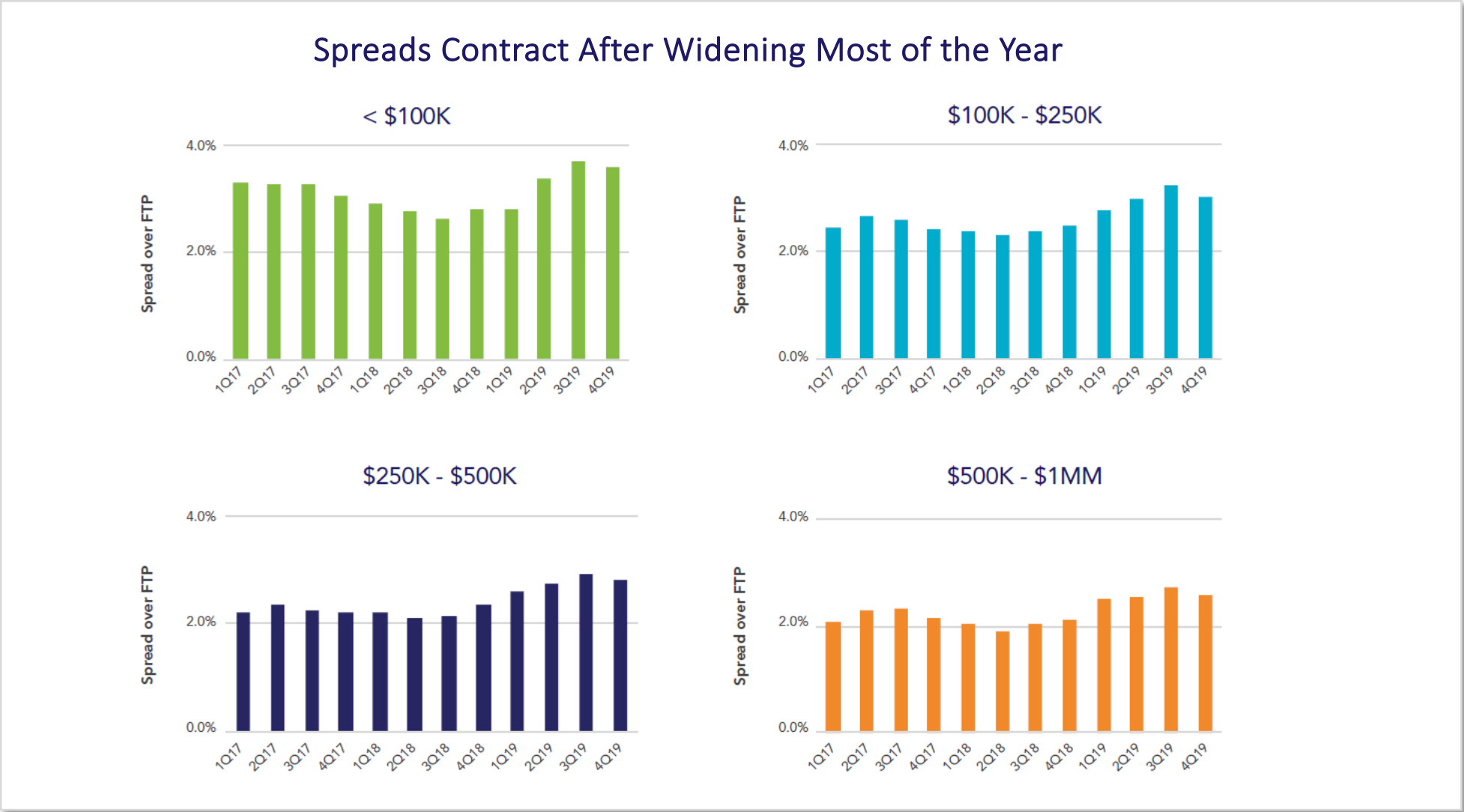
*Source: PrecisionLender

Market Bifurcation Evident in Pricing Trends



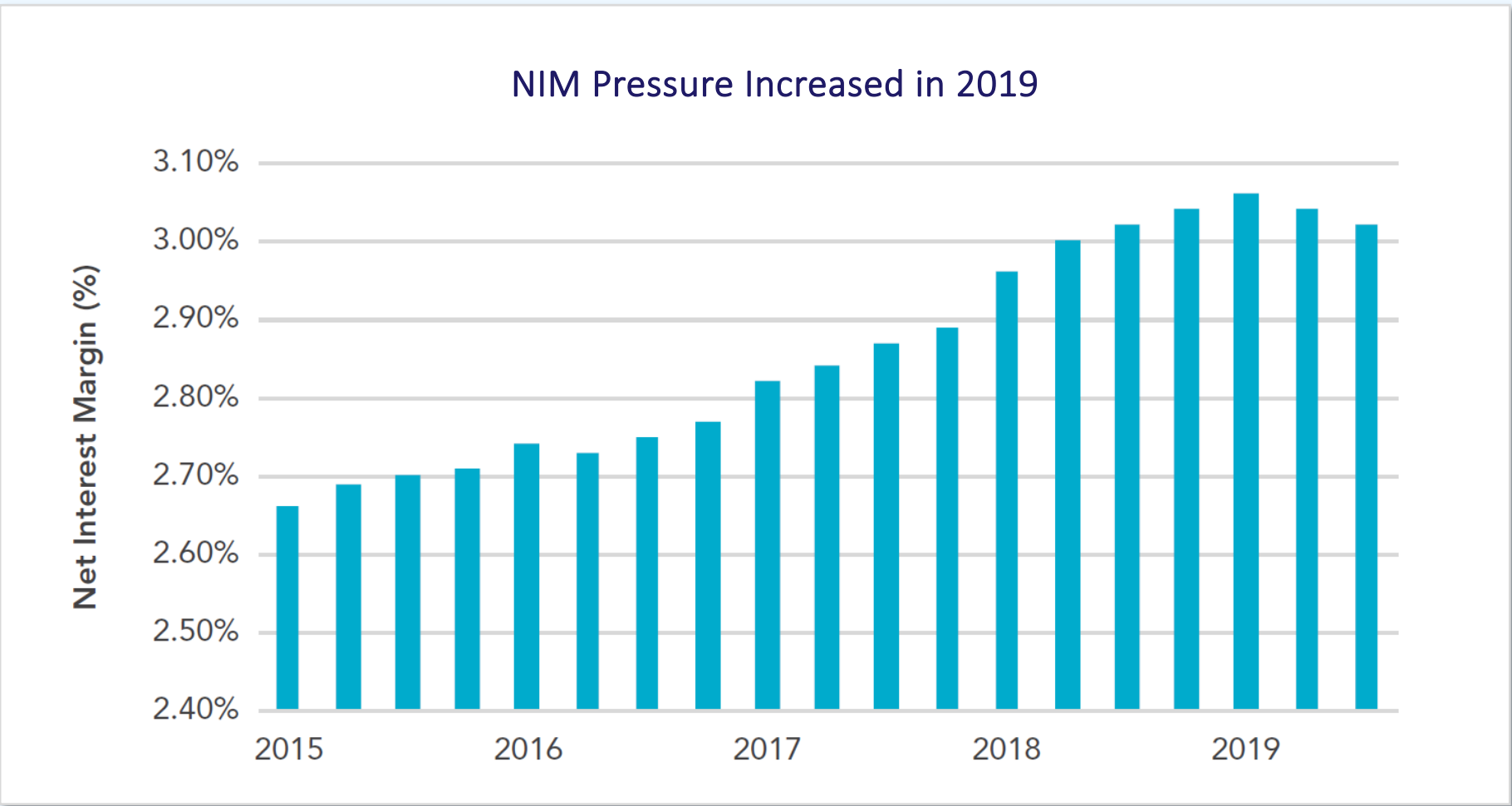
*Source: PrecisionLender

Fixed Rates Fell, But FTP Fell More



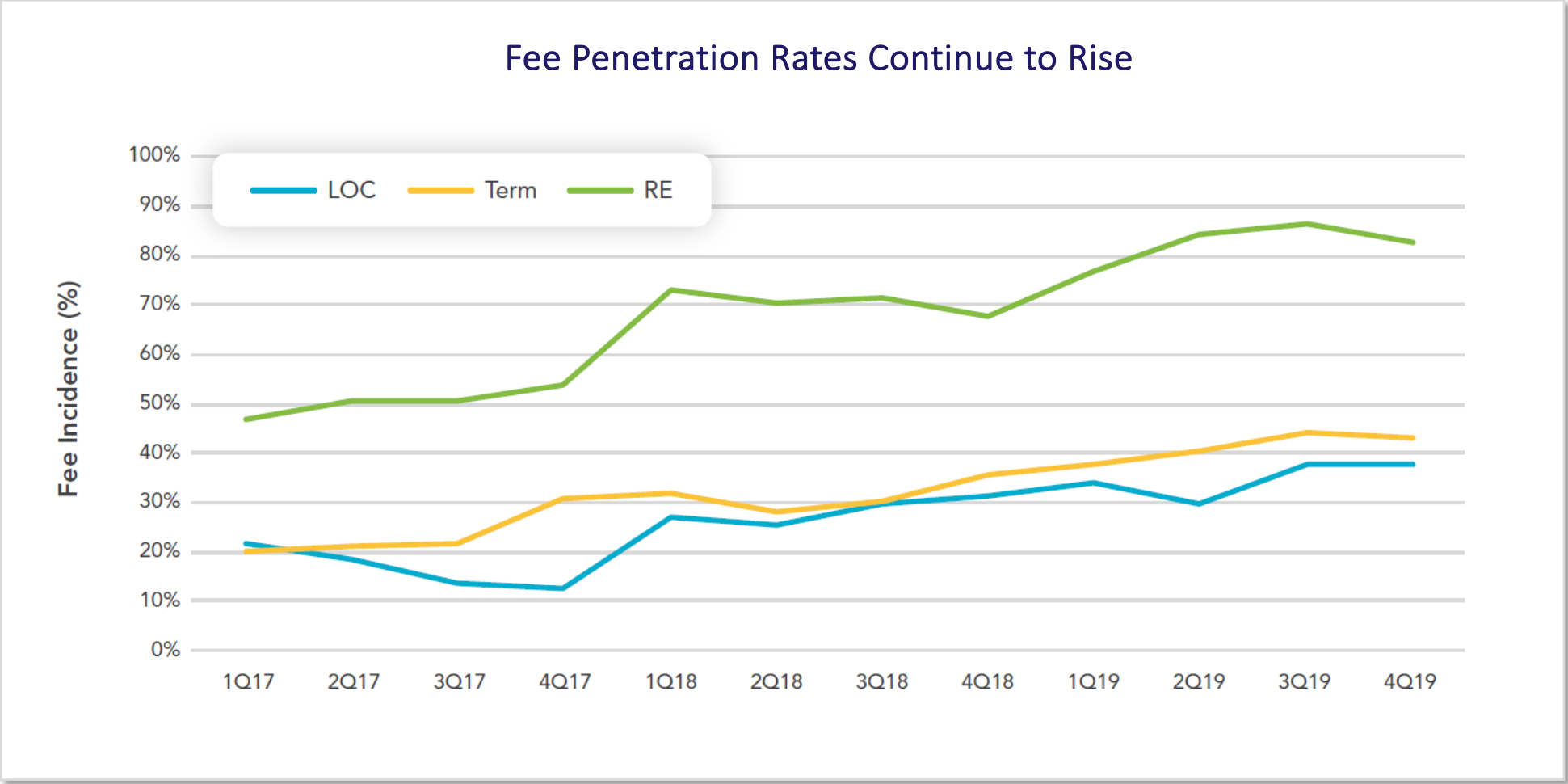
*Source: PrecisionLender

Despite Pockets of Improvement, NIM Still Trending Lower



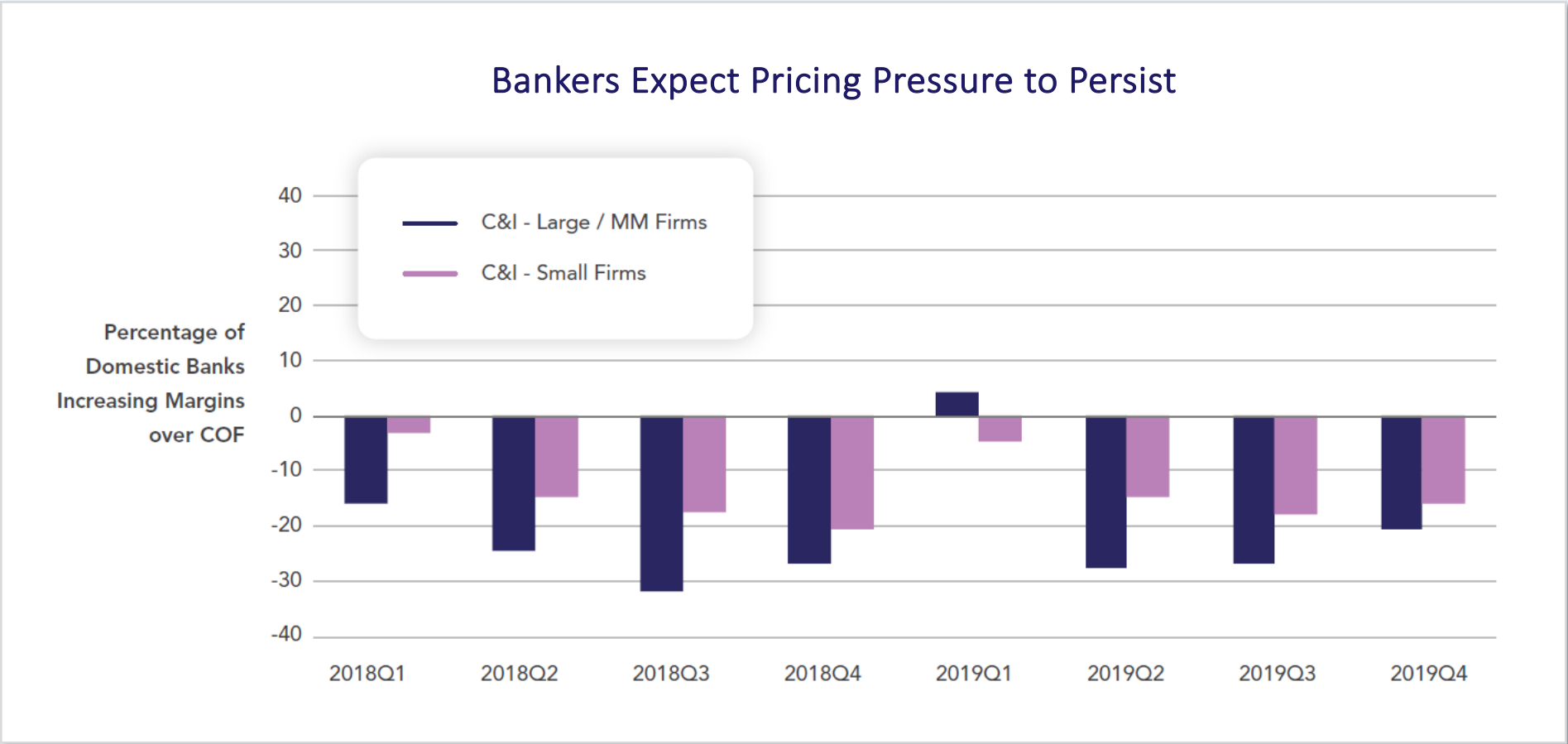
*Source: FDIC. Data reflects all U.S. commercial banks. Figures aggregated based on call report filings.

Good News on the Fee Front



*Source: PrecisionLender

A Pessimistic Pricing Outlook



*Source: Federal Reserve Senior Loan Officer Opinion Survey on Bank Lending Practices.

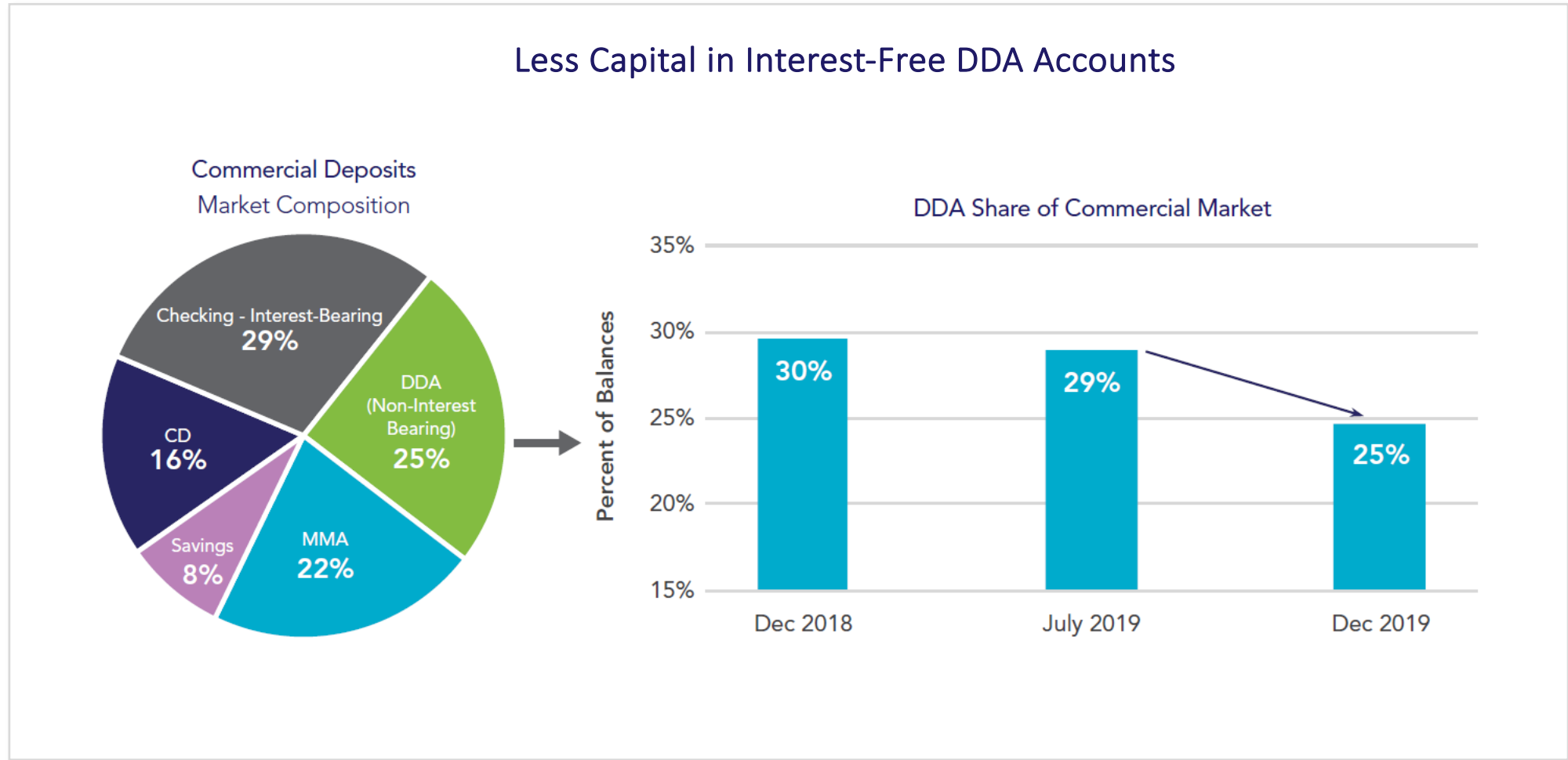
Commercial Deposits and Ancillary Business

Live Poll

In 2020, do you expect your bank to step-up its focus on winning commercial deposits and/or other cross-sell?

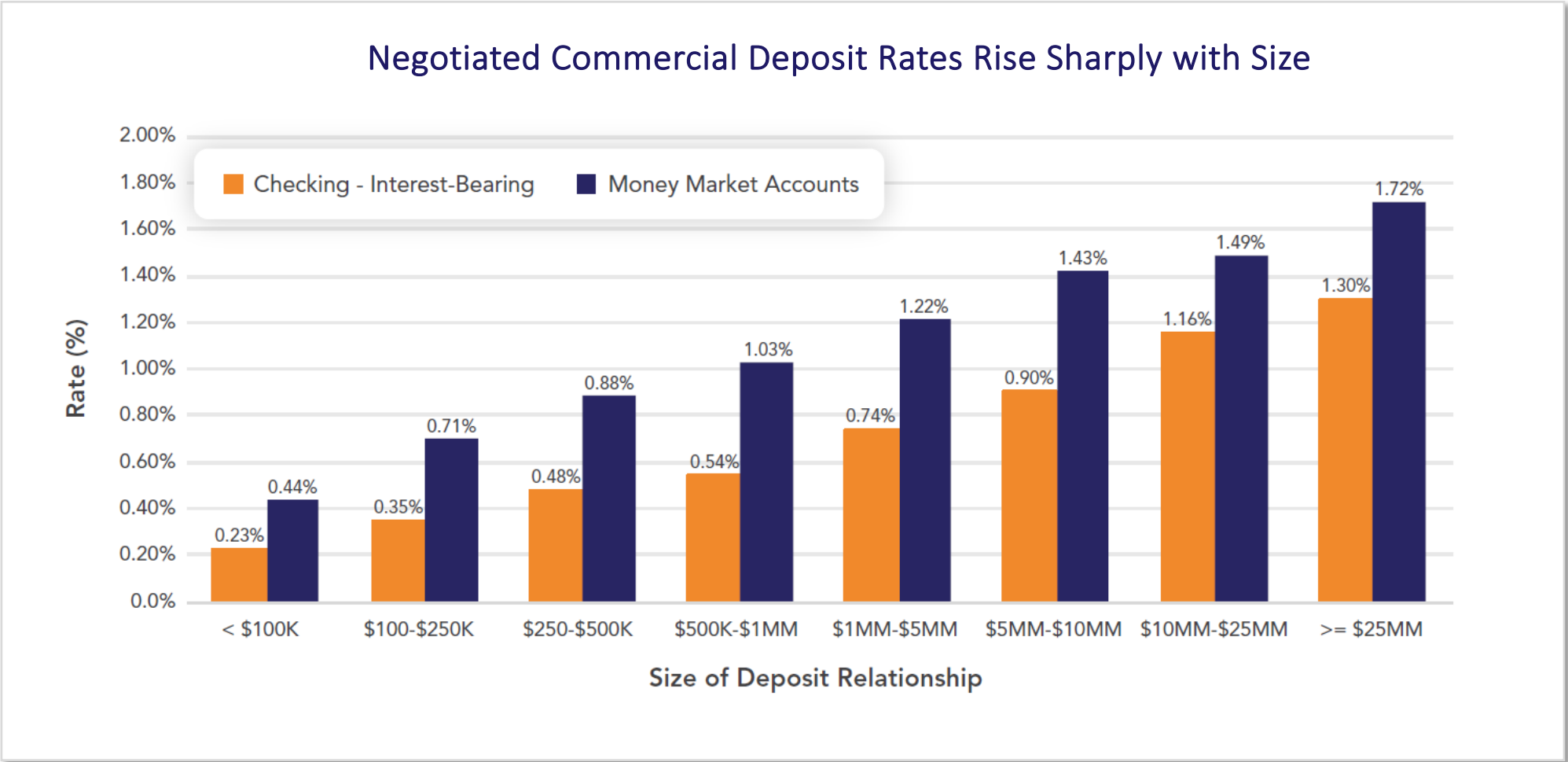
- Increase Focus on Winning Commercial Deposits
- Increase Focus on Cross-Sell / Ancillary Fee-Based Business
- Increase Focus on Both Deposits and Cross-Sell
- No Change

A Shift Away from Interest-Free DDAs



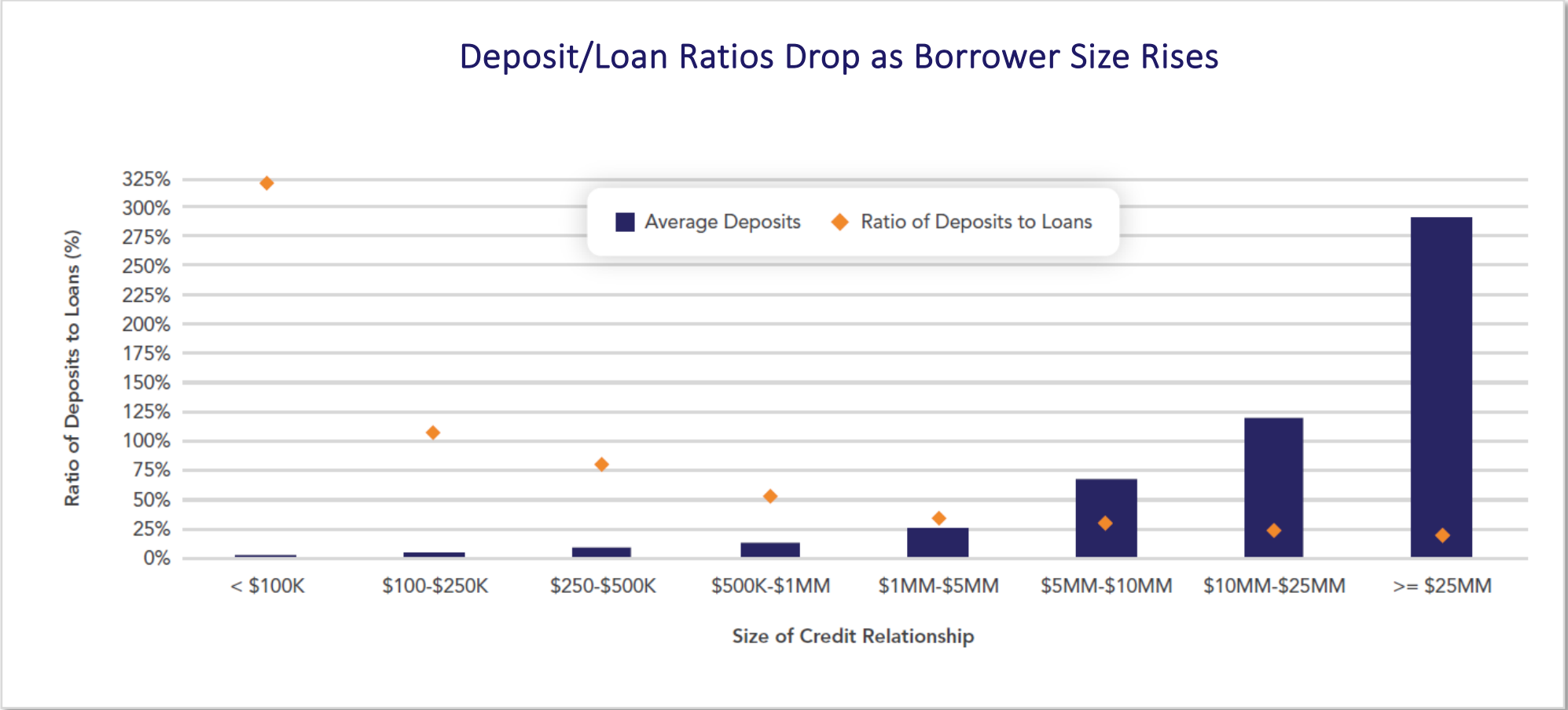
*Source: PrecisionLender

Competitive Rates Offered to Attract Deposits



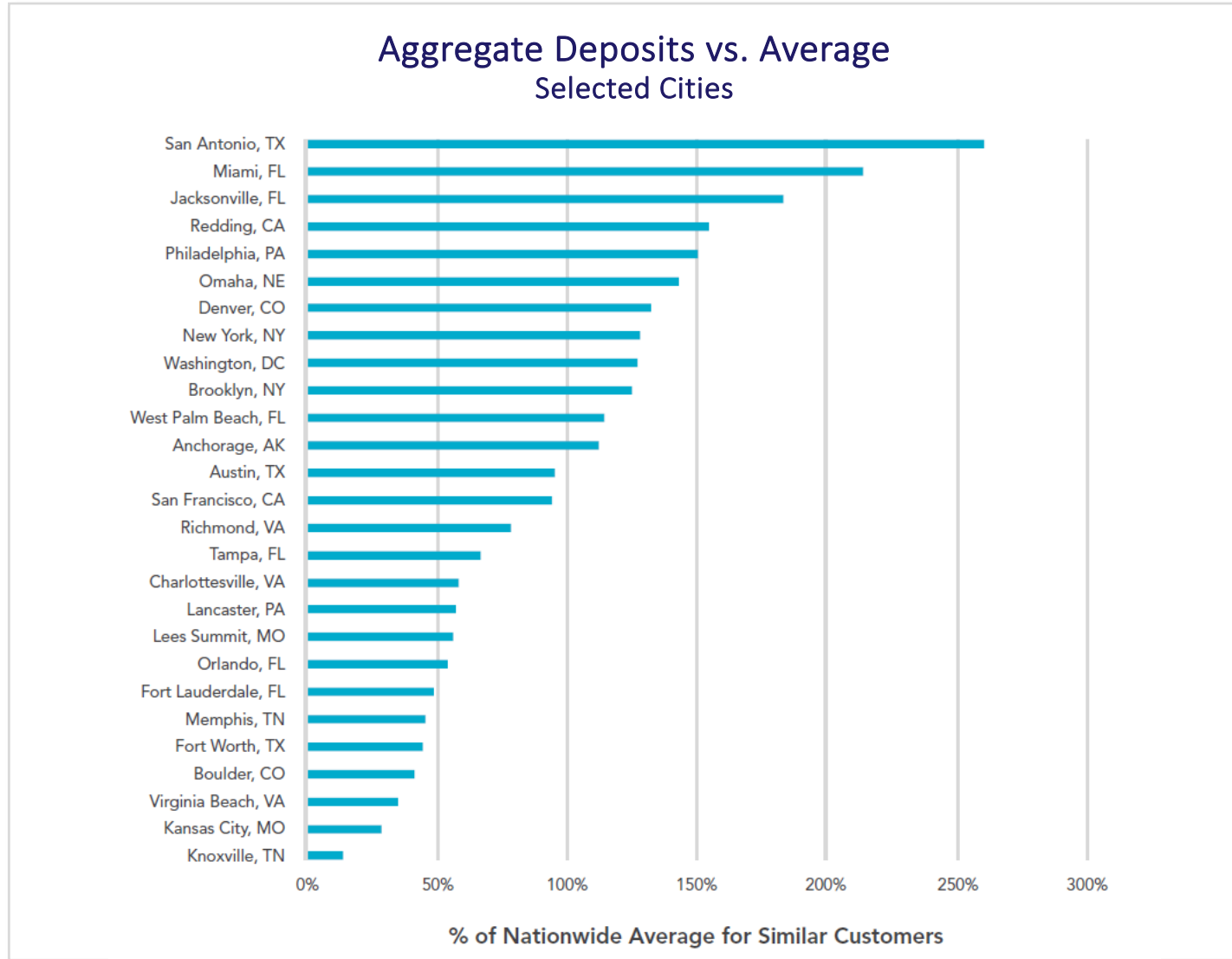
*Source: PrecisionLender

Self-Funding: Merits and Challenges



*Source: PrecisionLender

Similar “Markets” Not Necessarily in Close Proximity



*Source: PrecisionLender

Concluding Thoughts

- Commercial banking market starting to prepare for the next downturn, albeit slowly
- Credit execs believe it's time to tighten the reins on credit
- Sales execs are struggling to achieve growth goals and maintain NIM given (1) weak loan demand; (2) intense non-bank competition; (3) declining rates; and (4) narrowing margins
- Bankers are pulling out all the stops to win business, but are being selective – giving up price and structure for the right customer – resulting in a bifurcation of the market
- Across the portfolio, bankers are pursuing deposit opportunities to lower funding costs and increase NIM, while concurrently stepping up efforts to win lucrative cross-sell to strengthen relationship profitability



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Pricing Competitively With Market Insights

FEATURING



Tim Shanahan

VP, Head of Client Strategy
PrecisionLender, a Q2 Company



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