

WEBINAR

The State of Commercial Banking

Jan 2021 Market Analysis

Thursday, January 21st at 2 PM ET



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Topics

- Economic Uncertainty
- Credit Risk
- Pricing Trends
- Structure
- Driving Cross-Sell

Methodology

- The data presented in this webinar covers **commercial relationships (loans, deposits and other fee-based business)** for the 2020 calendar year
- Primary data source: **PrecisionLender's proprietary database**, reflecting **actual commercial relationships** from **over 150 banks and credit unions** 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**

Greatest Challenges of 2020

Live Poll

What was the single greatest challenge your bank faced in 2020?

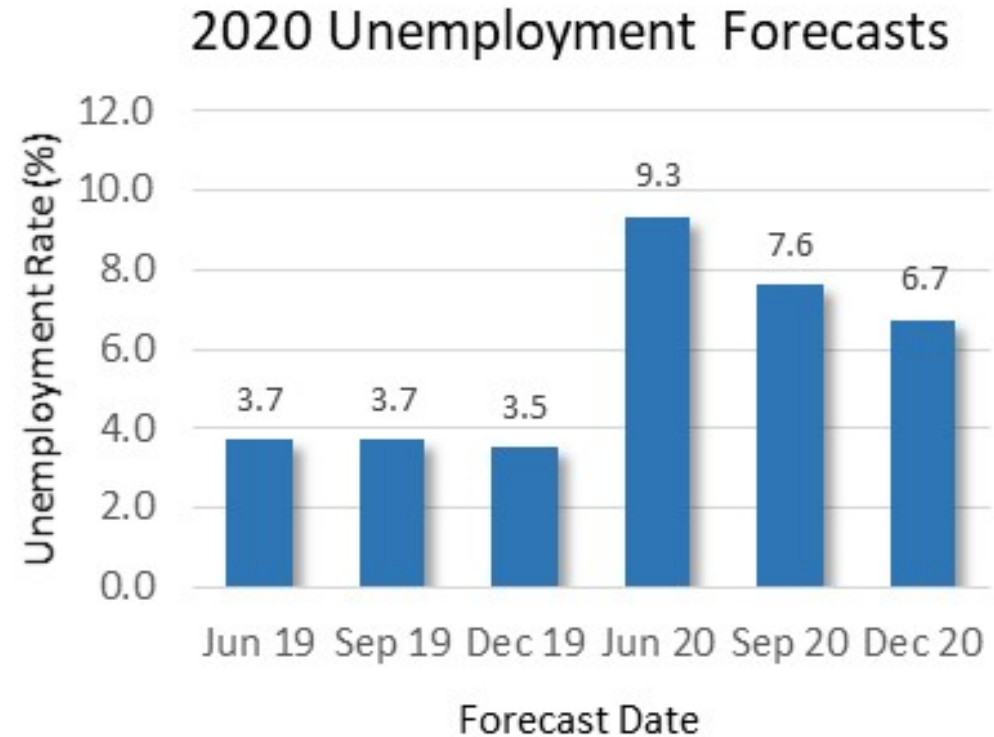
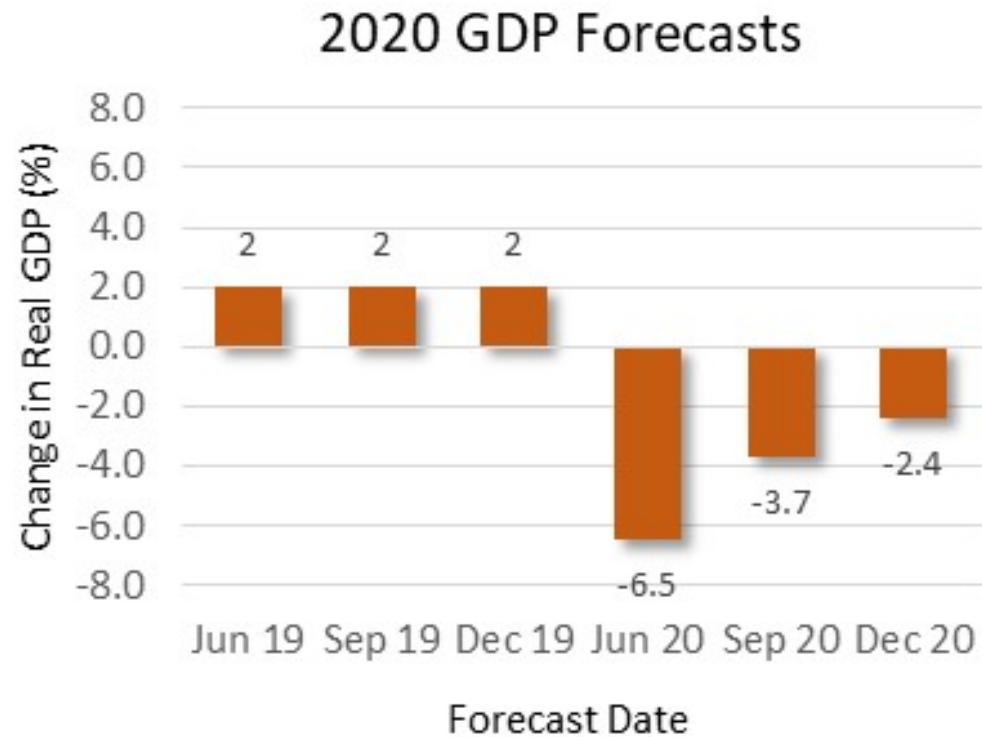
- Uncertainty
- PPP
- Credit Risk
- NIM
- Relationship Profitability

Key Takeaways

- 01 Economic uncertainty defined 2020
- 02 Bank focus shifted from growth to PPP to risk mitigation
- 03 Spreads widened but not enough to halt the NIM freefall
- 04 Cross-sell remains critical; challenges in achieving promised business
- 05 The outlook for 2021 looks bright (or less bleak)

Economic Uncertainty

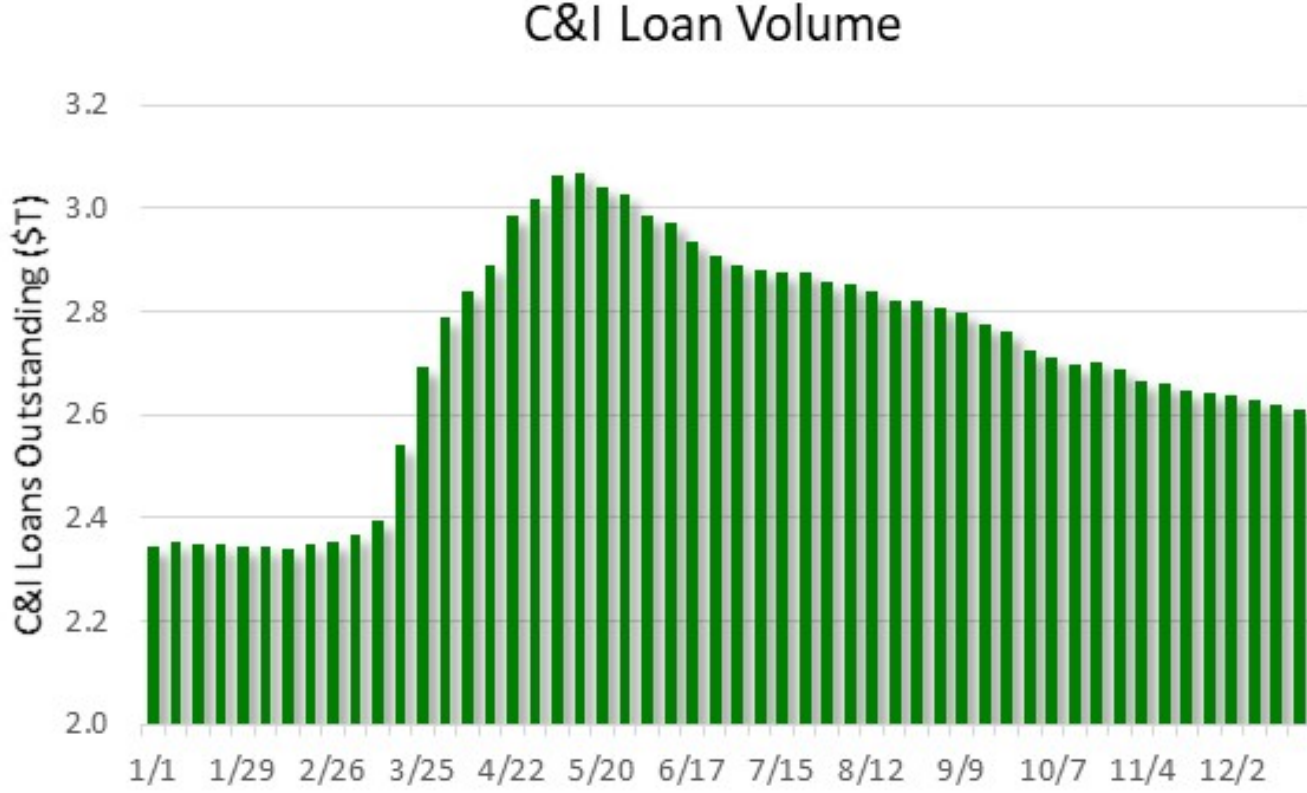
The evolving economic forecasts



*Source: Federal Reserve

2020 Volume: Ups and Downs

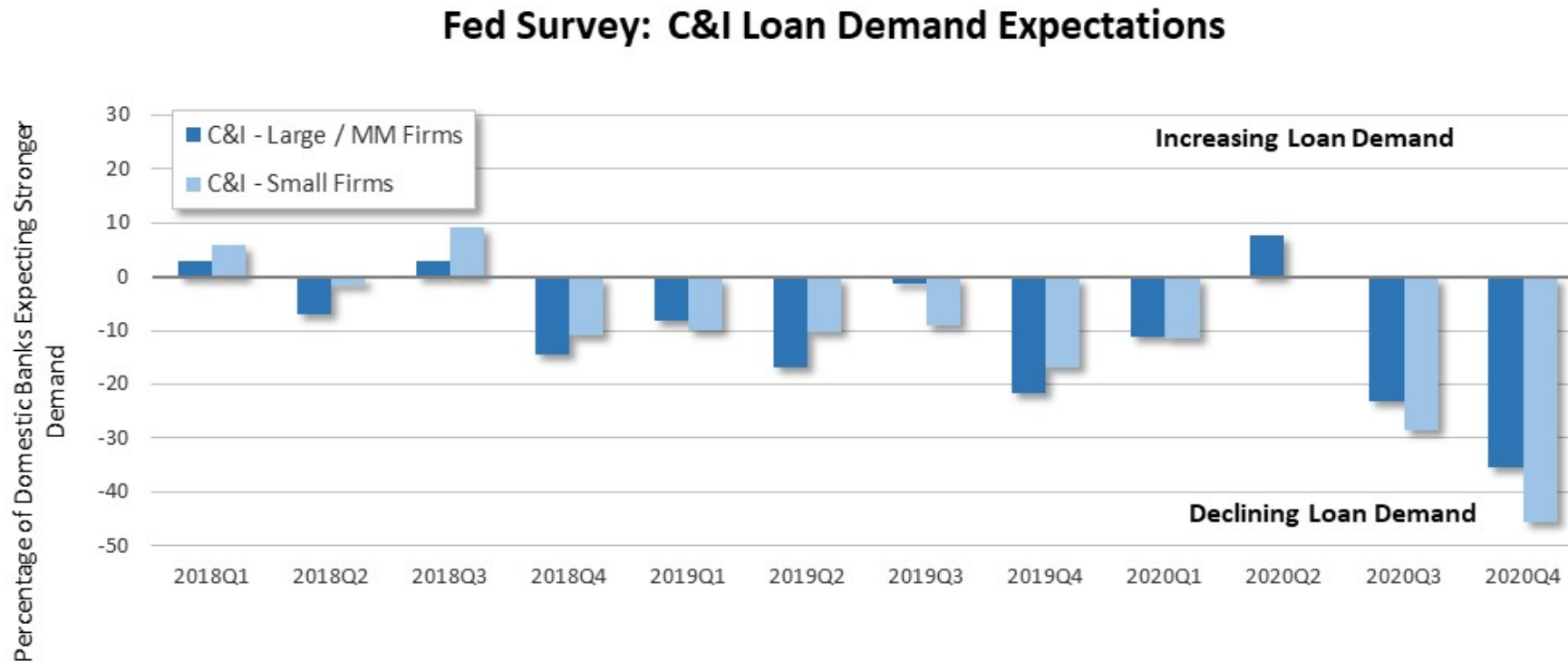
C&I Volume Spikes at Outset of Pandemic, Tapers Off



*Source: Fed H8 Release

Volume Outlook for 2021: Weak

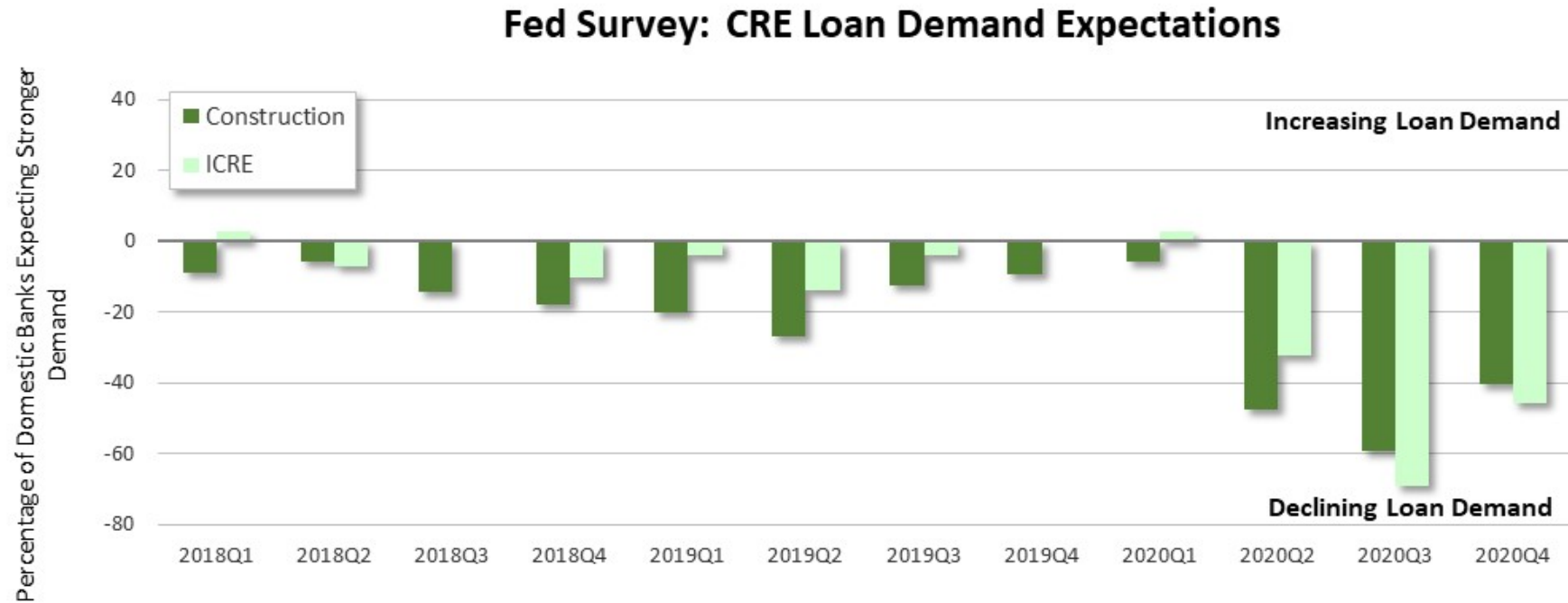
Bankers expect continued weakness across size spectrum



*Source: Federal Reserve Senior Loan Officer Opinion Survey

Volume Outlook for 2021: Weak

Expected CRE declines span Construction and ICRE

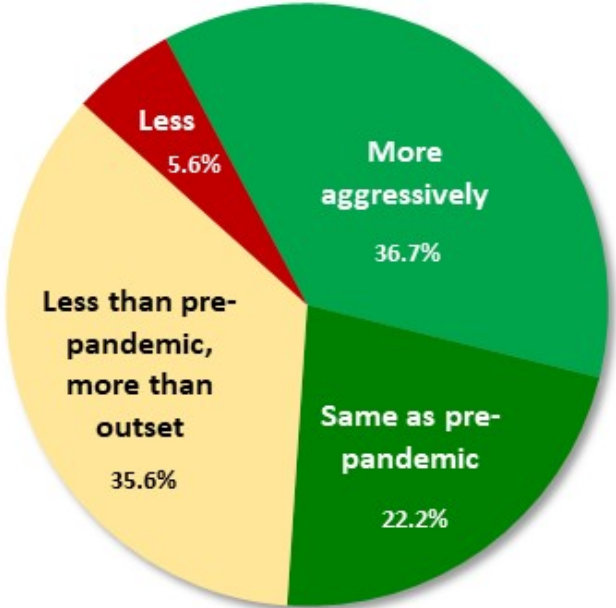


*Source: Federal Reserve Senior Loan Officer Opinion Survey

Poll: Pursuing New Client Relationships

Greater focus on winning new client relationships

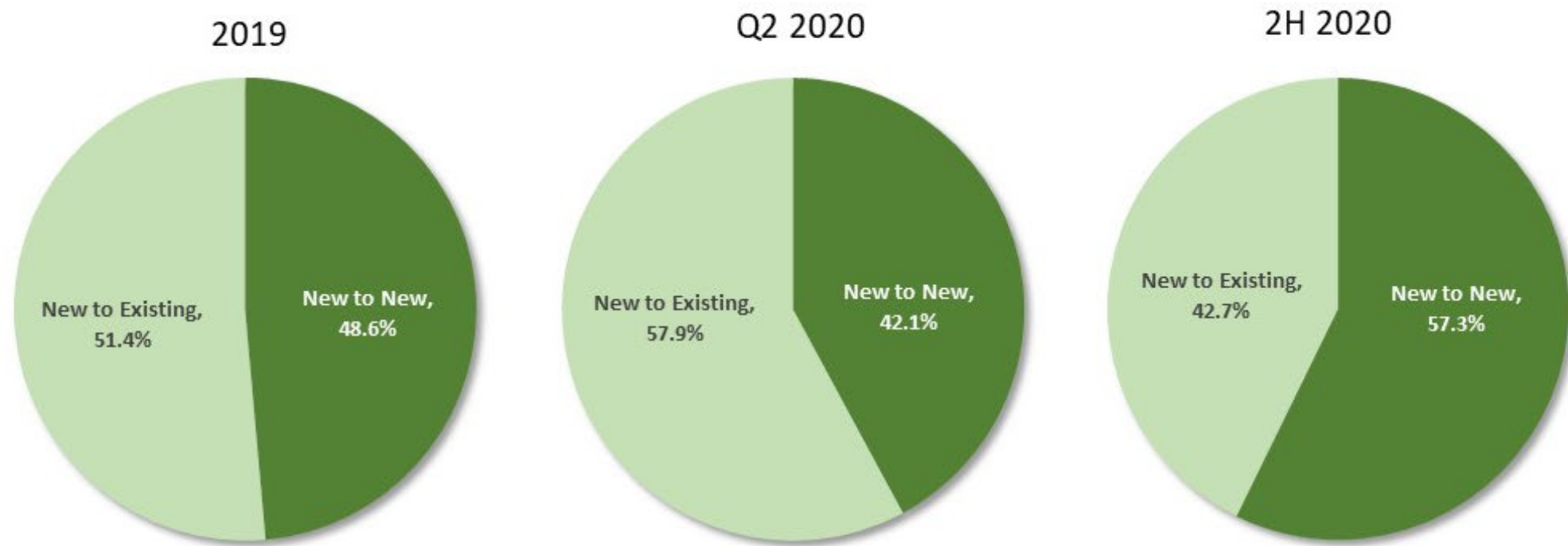
Are you pursuing new customers as aggressively as you did pre-pandemic?



*Source: PrecisionLender

Lending Focus Shifts from Clients to Prospects

Stepped up focus on winning new client relationships

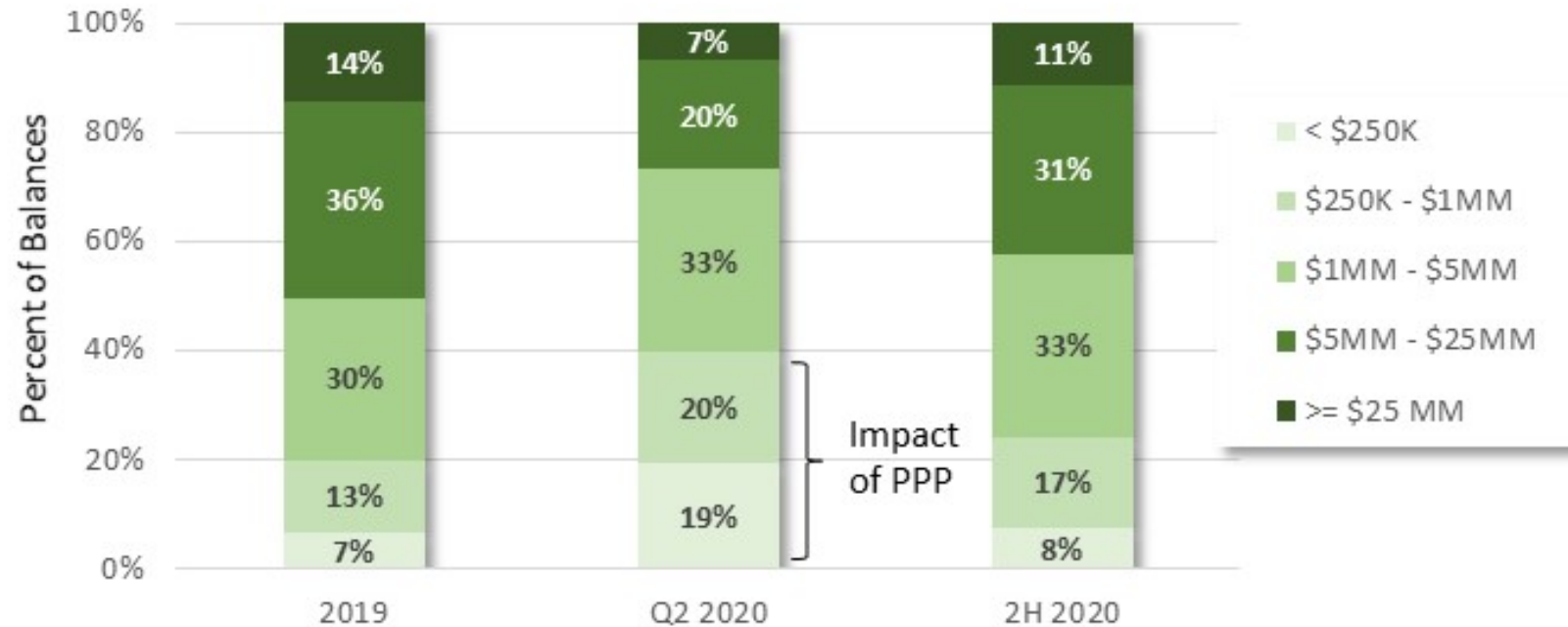


*Source: PrecisionLender

Lending Focus Shifts from Clients to Prospects

Post-PPP focus returns to historical levels

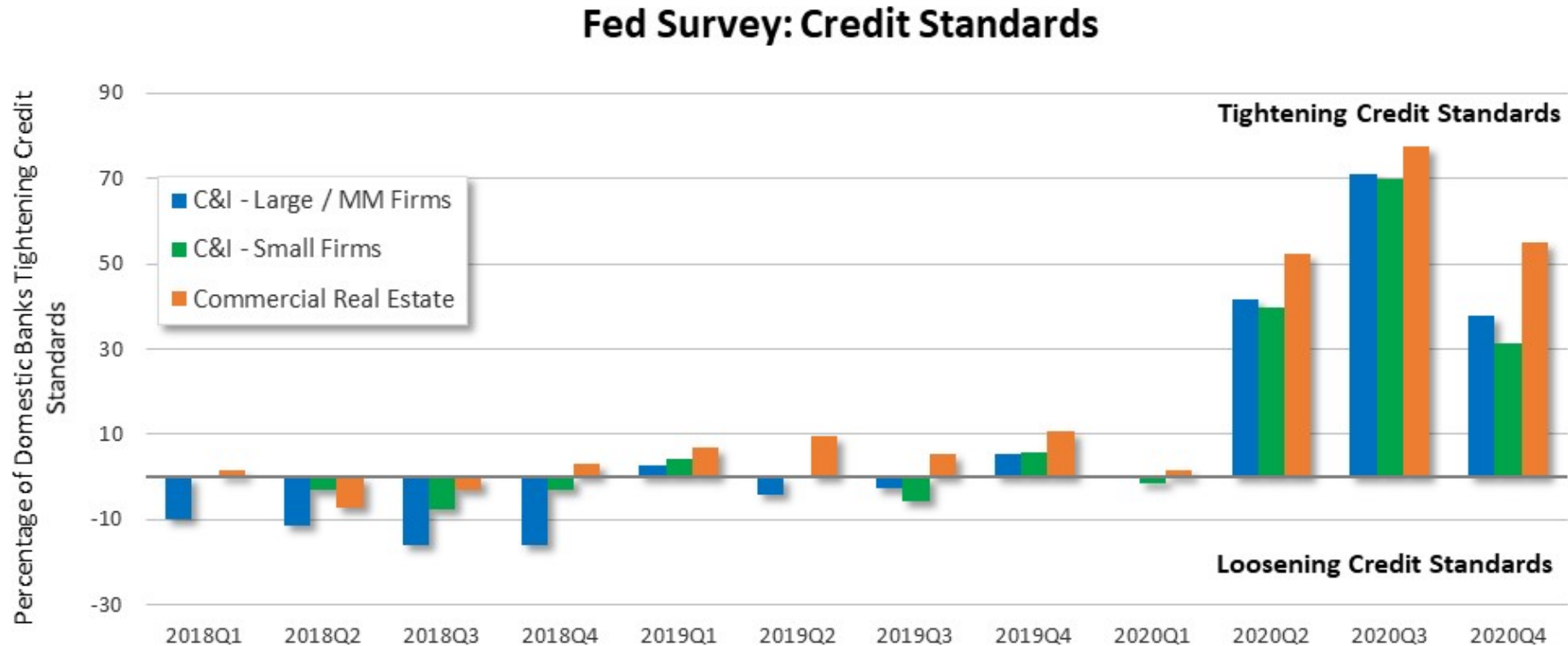
New-to-New Volume by Deal Size



*Source: PrecisionLender

Views on Tightening Begin to Moderate

Banks still tightening, but less than in prior two quarters

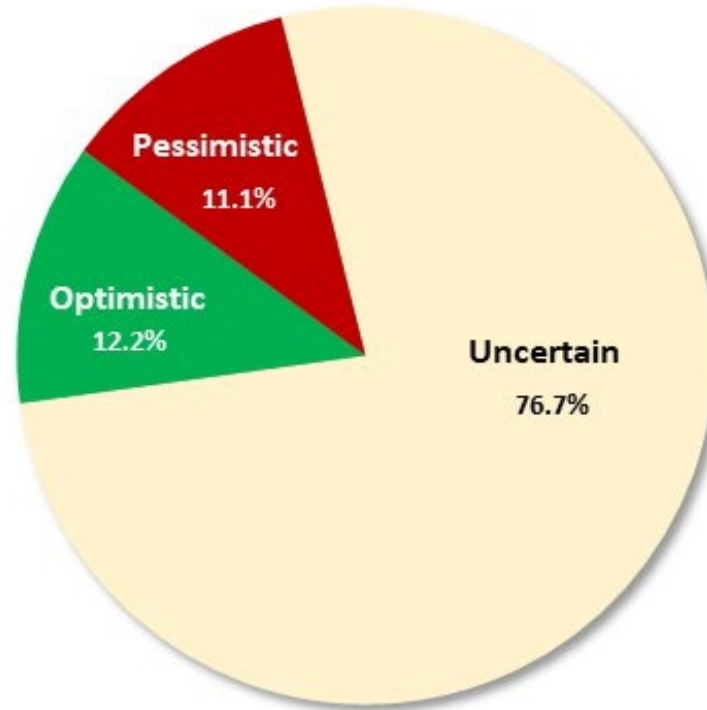


*Source: Federal Reserve Senior Loan Officer Opinion Survey

Poll: Views on the Commercial Real Estate Market

Outlook for CRE Market

What are your views on the CRE Market?

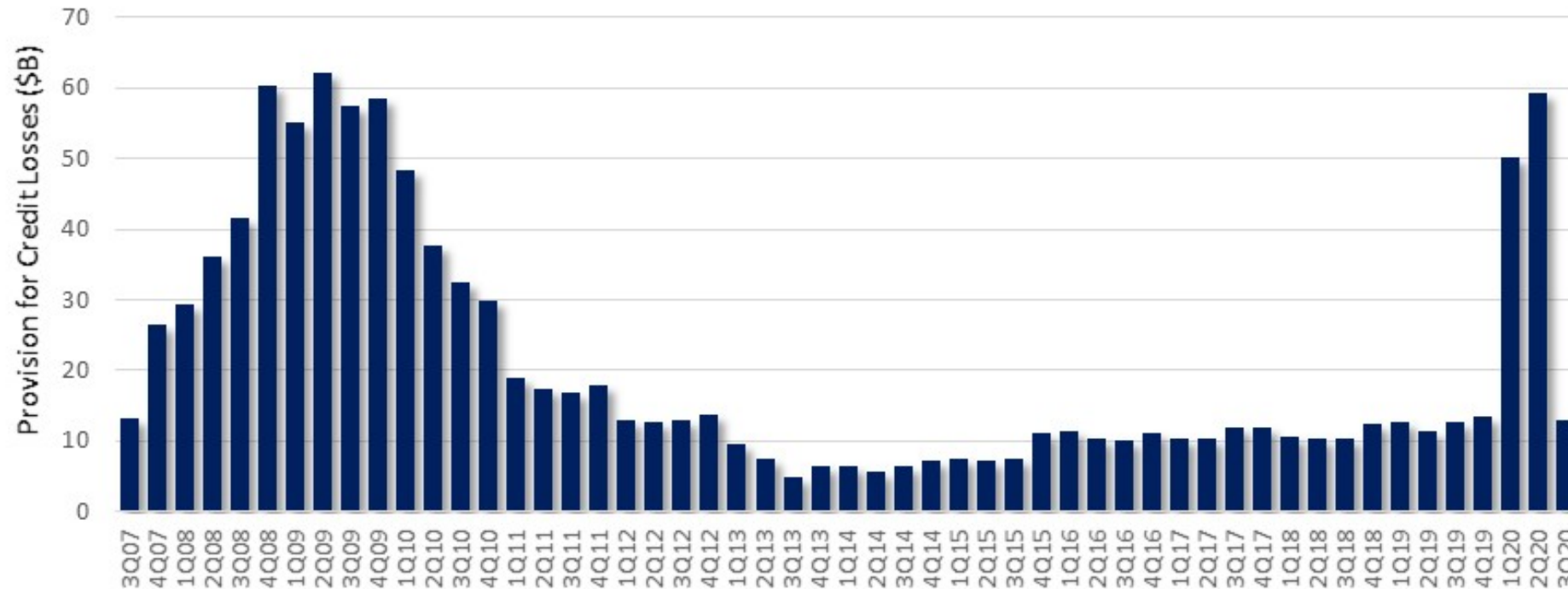


*Source: PrecisionLender

Credit Risk Remains Top-of-Mind

Loan loss provisions spike post-pandemic

Provision for Credit Losses



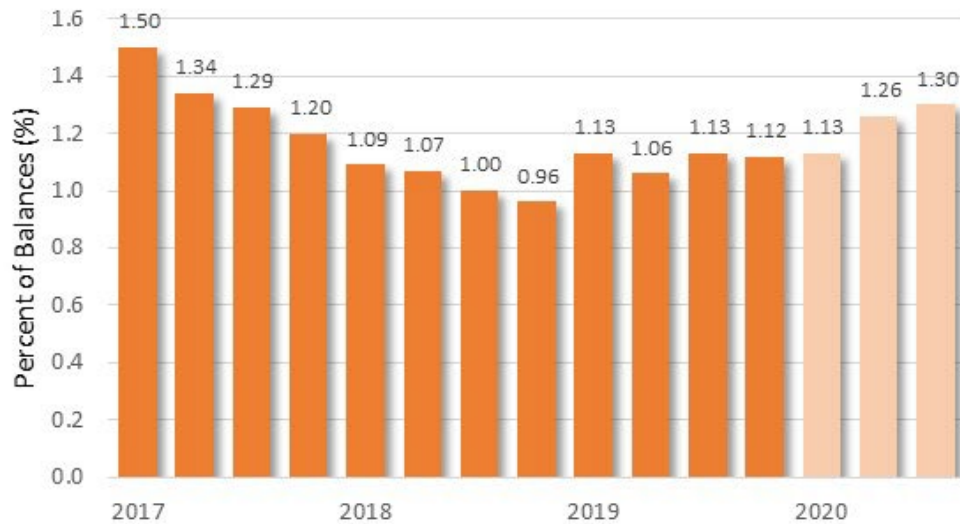
*Source: FDIC

C&I Delinquencies and Charge-offs Trend Higher ...

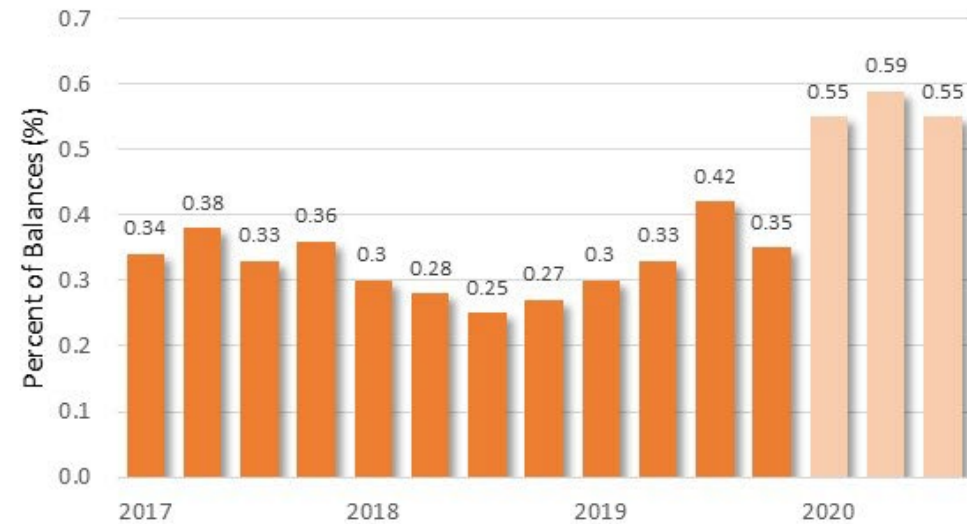
As expected, credit metrics weakened in 2020

C&I

Delinquency Rates



Charge-Offs

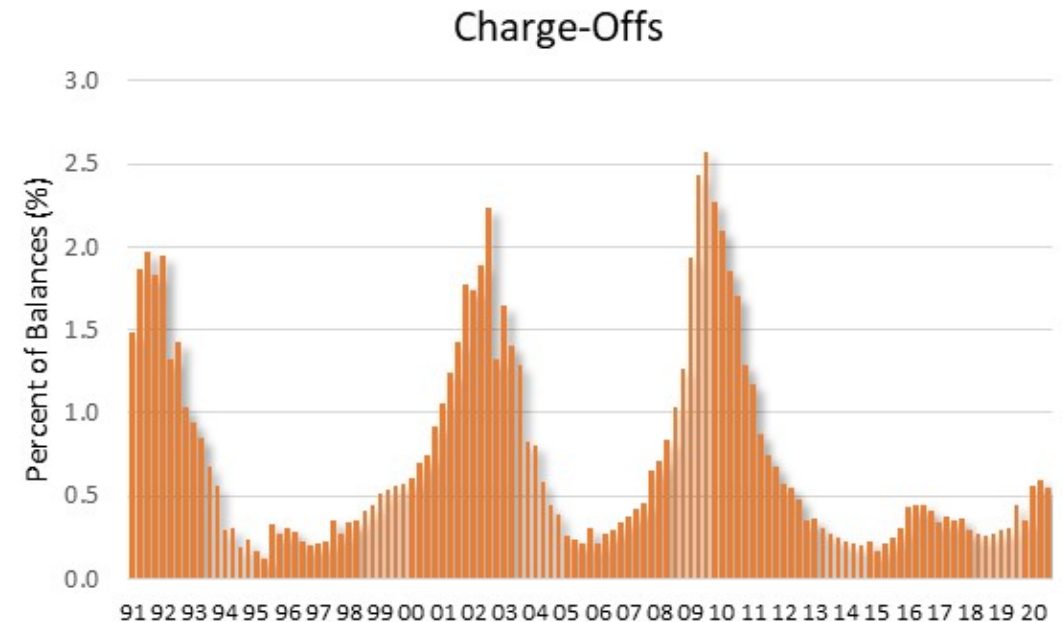
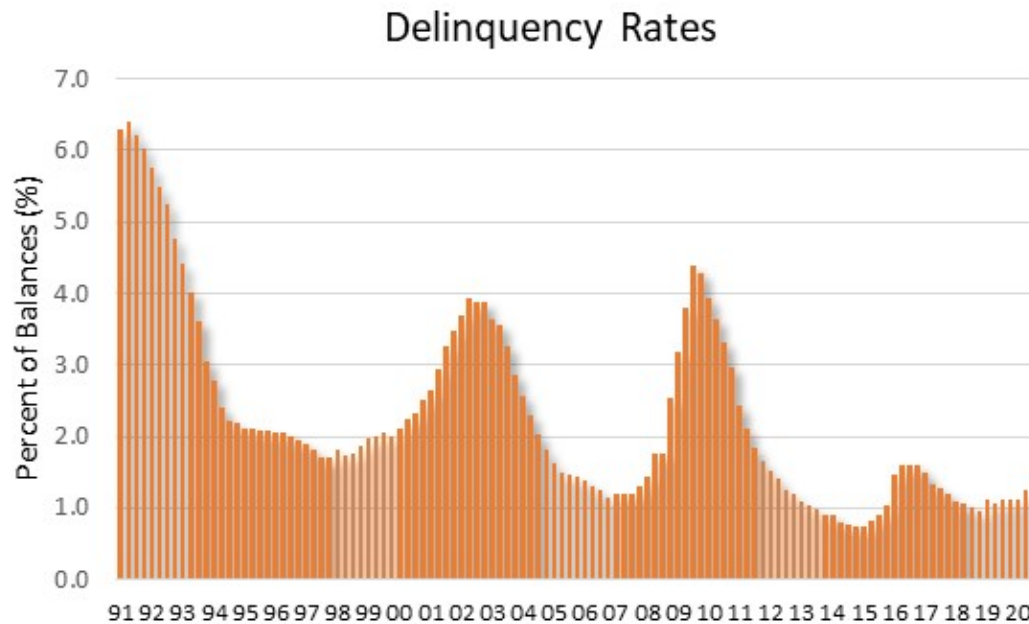


*Source: Federal Reserve

... but Remain Below Typical Recessionary Levels

Deterioration mitigated by federal stimulus and forbearance

C&I Delinquencies and Charge-Offs for past several economic cycles

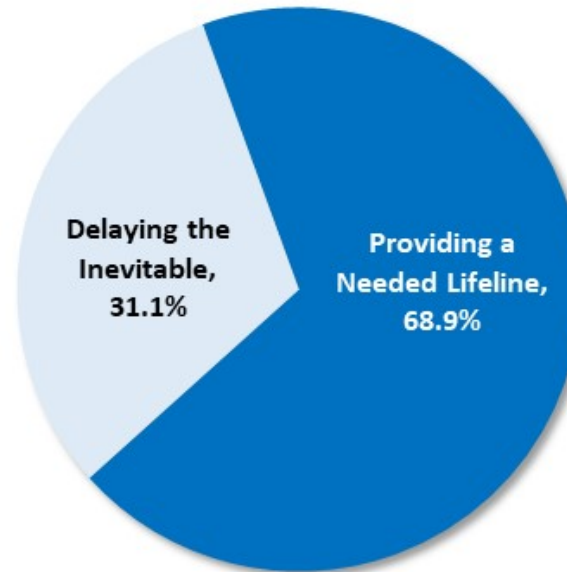


*Source: Federal Reserve

Poll: Impact of Federal Stimulus and Forbearance on Customer Health

Favorable views on impact of stimulus and forbearance

How do you think federal stimulus and forbearance will impact borrower health?

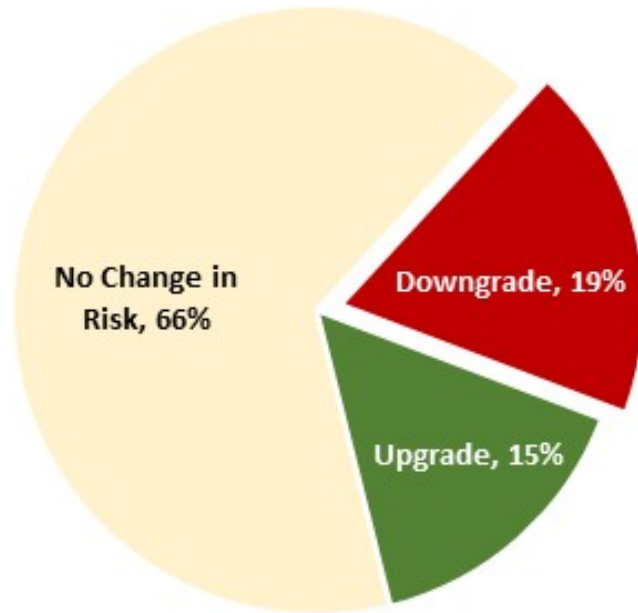


*Source: PrecisionLender

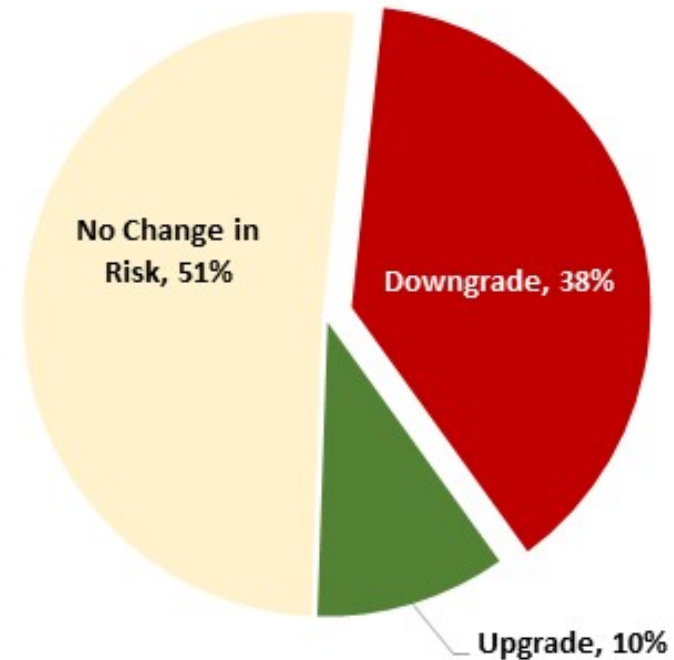
Credit Risk Migration Trends

Nearly half of renewal volume regraded since April 2020

April to December 2019



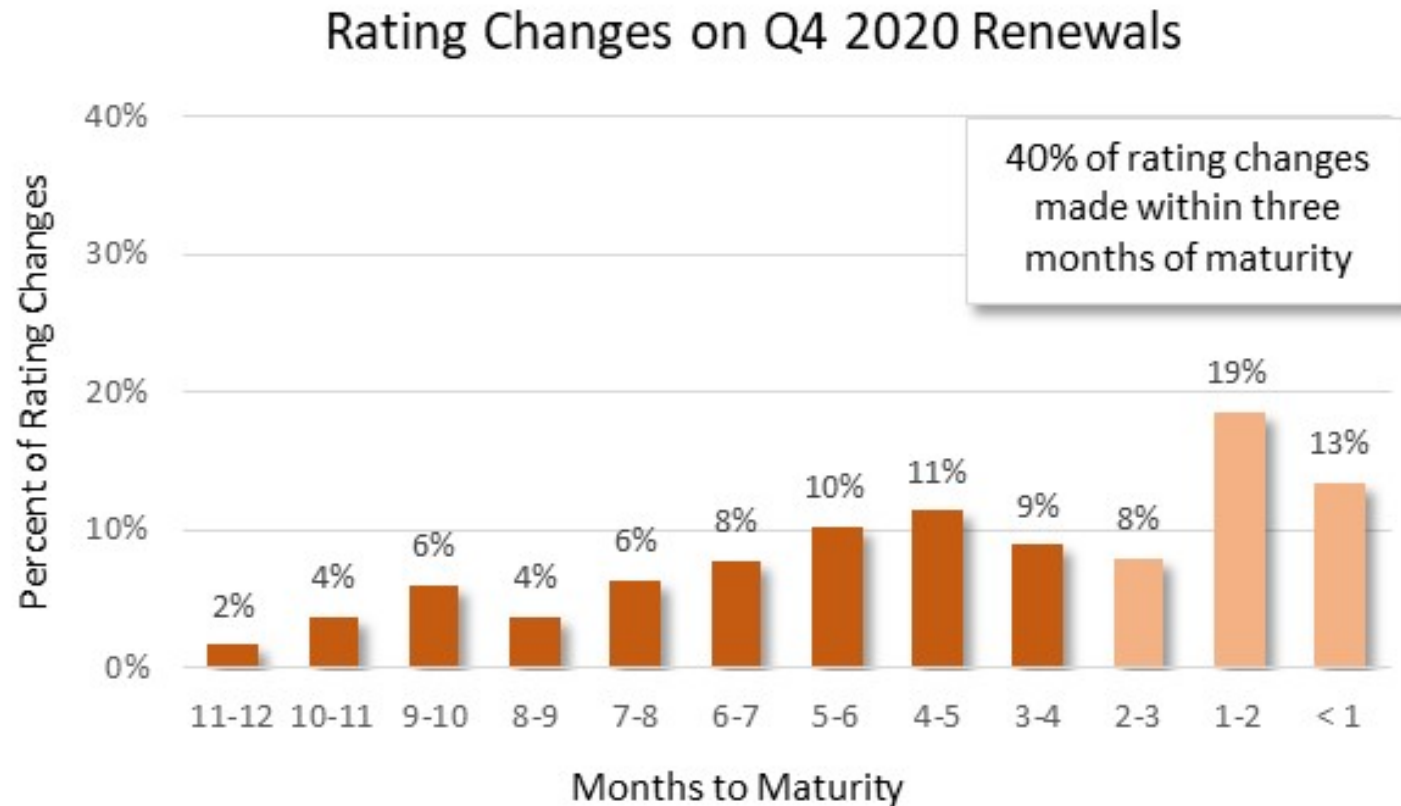
April to December 2020



*Source: PrecisionLender

Many Banks Still Waiting Until Maturity to Review Credit Risk

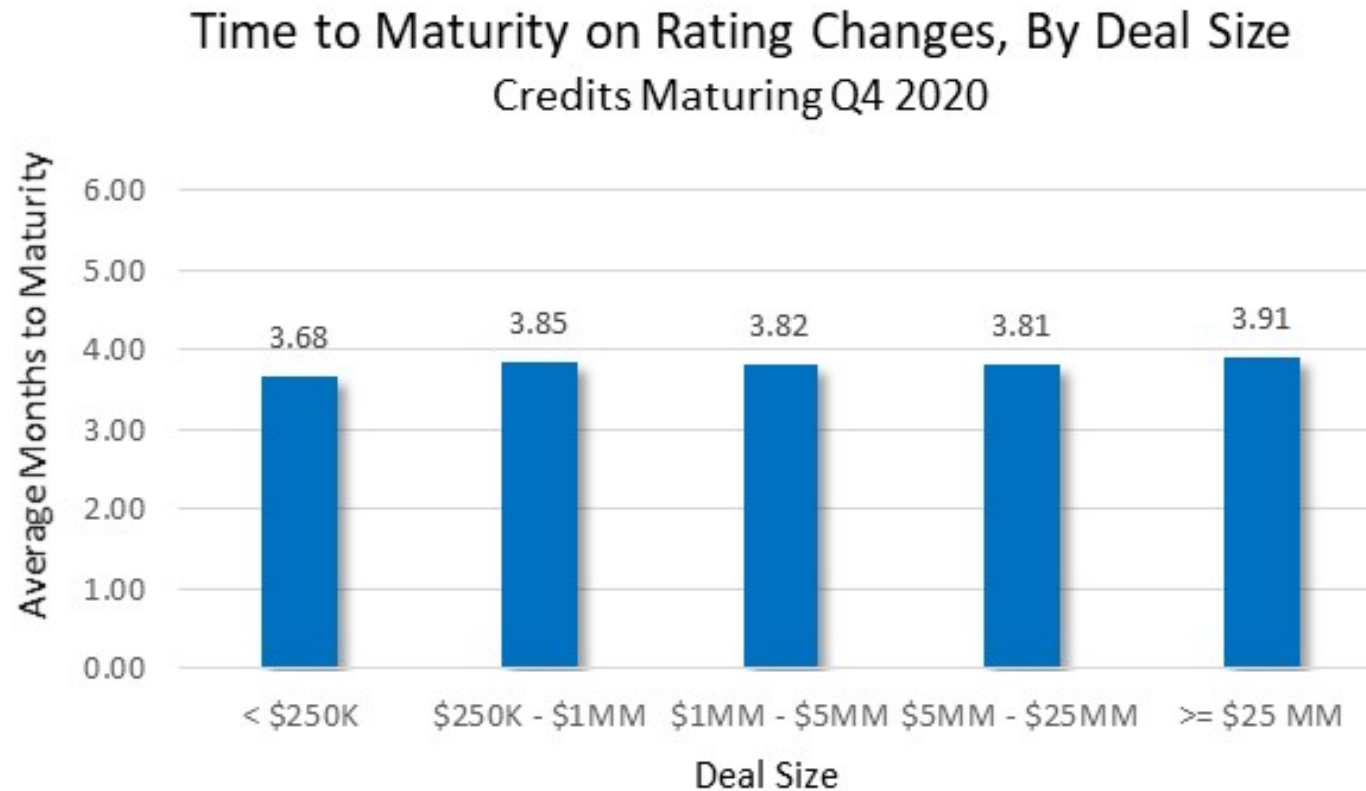
Industry-wide challenges in changing the timing of credit reviews



*Source: PrecisionLender

Lead Times Uniform Across Size Spectrum

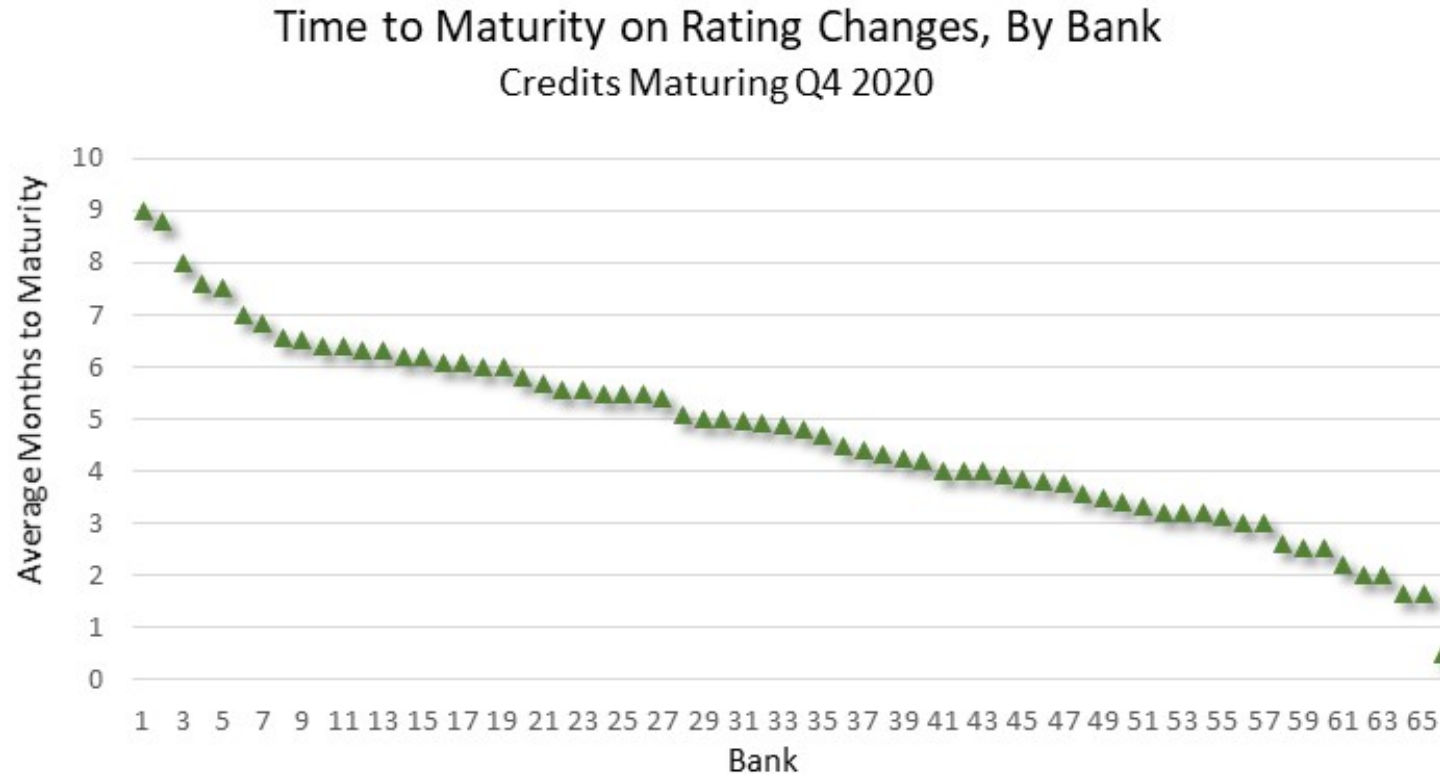
Slightly longer lead times on largest credits; tight band across most of market



*Source: PrecisionLender

Proactive Approaches are Possible

Early credit review varies widely across banks

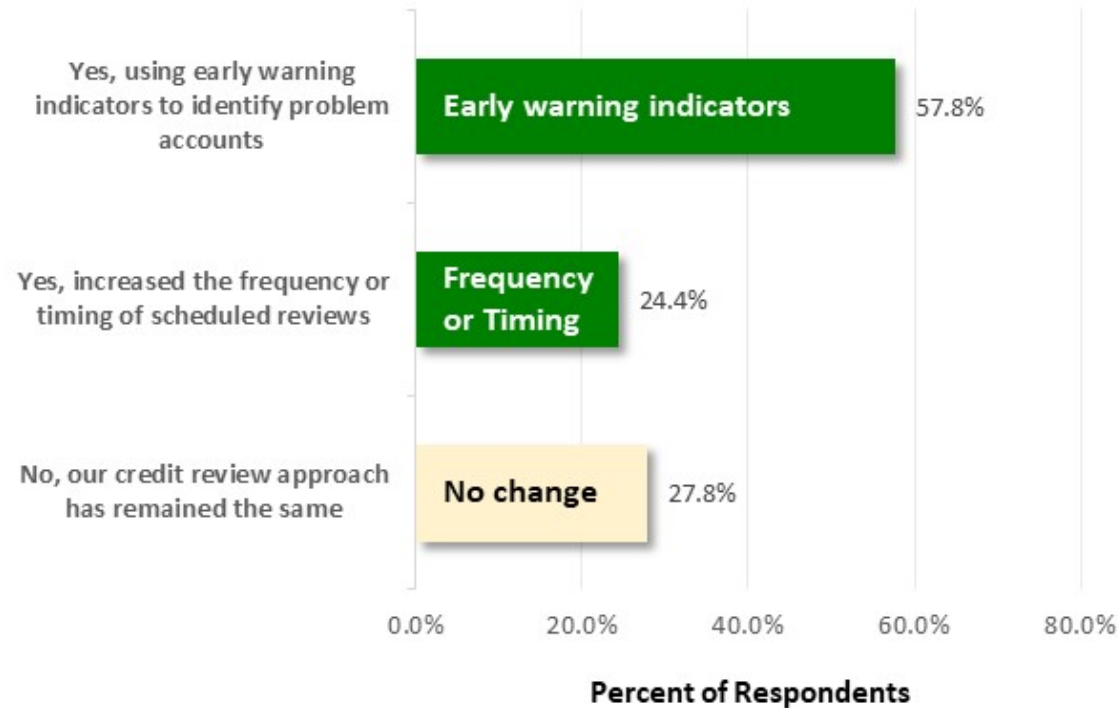


*Source: PrecisionLender

Poll: Changes to Credit Review Process

Limited adjustments to timing but far greater use of early warning indicators

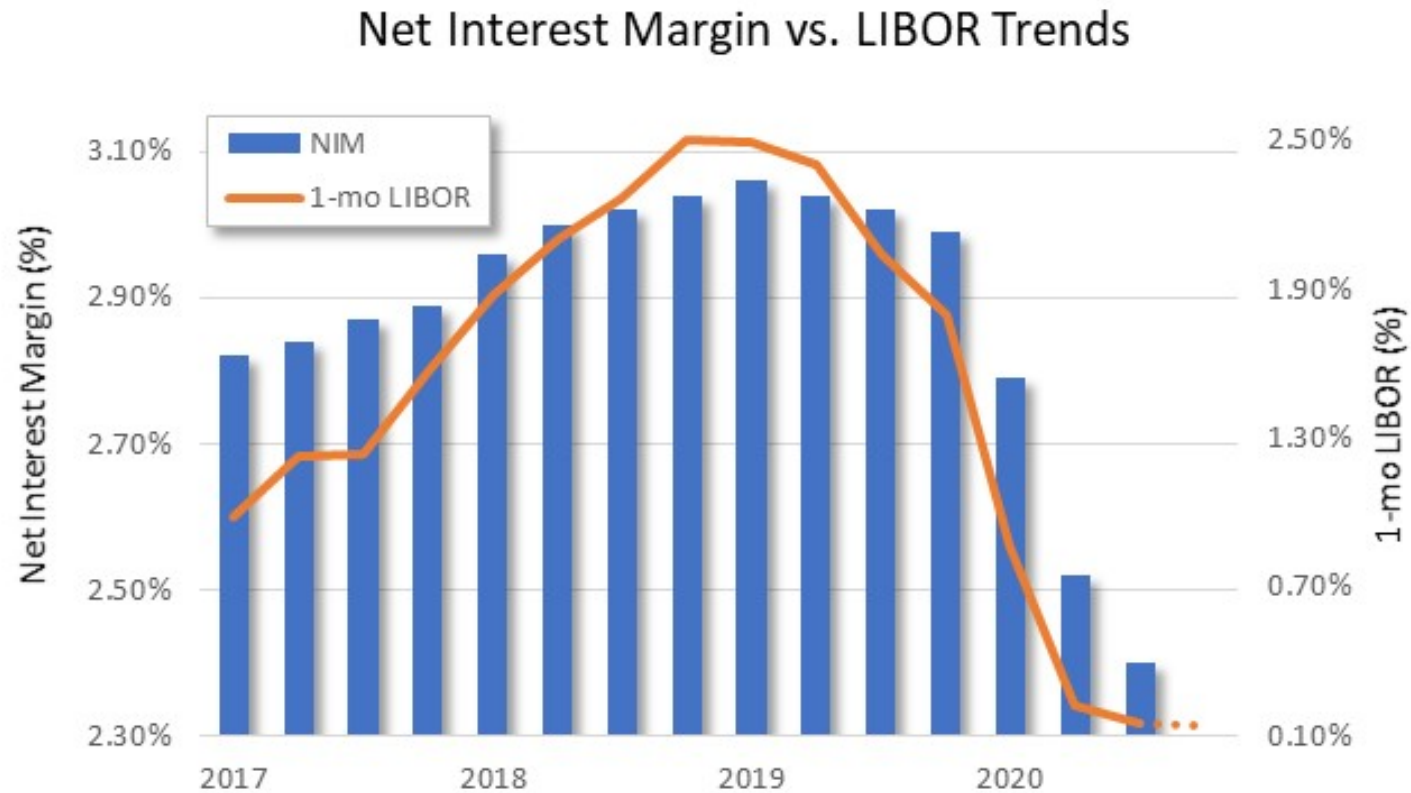
Have you changed your approach to credit reviews?



*Source: PrecisionLender

NIM Under Pressure

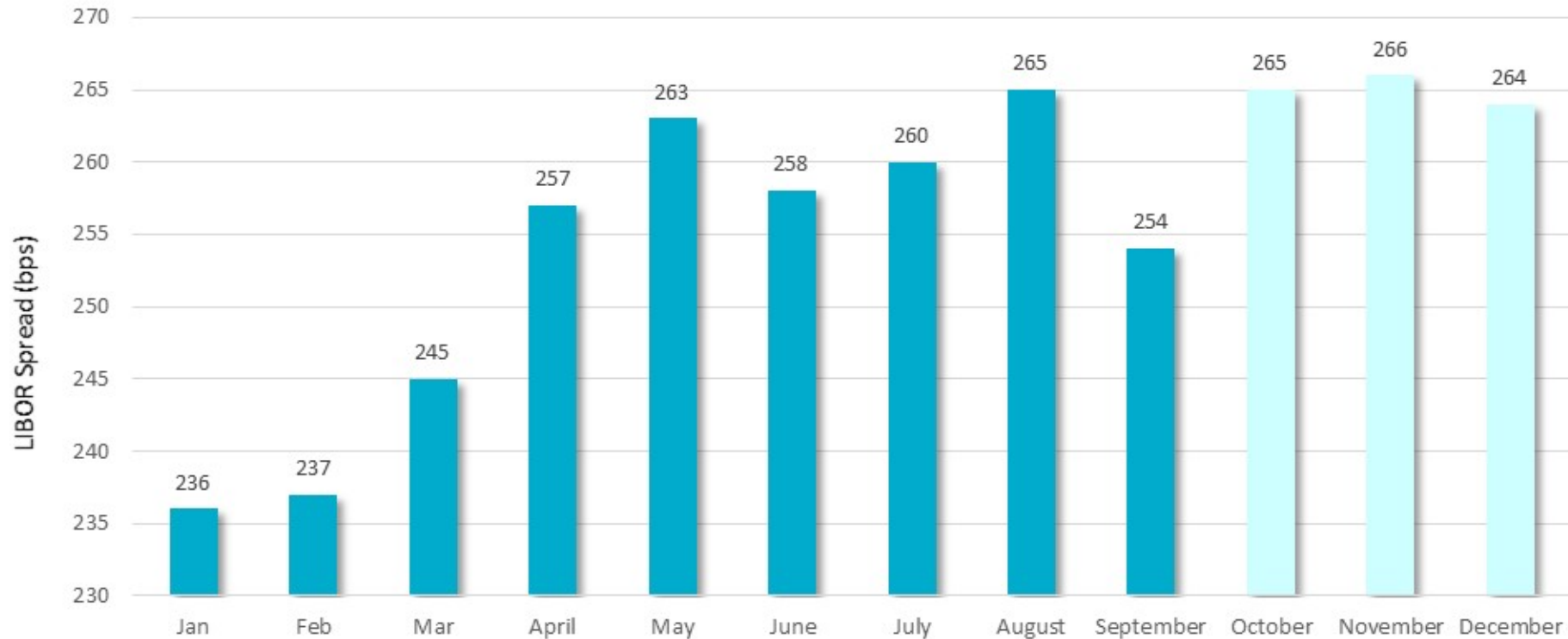
Challenges in preserving margins



*Source: FDIC

LIBOR Spreads Trend Higher in 2020

Margins widen post-pandemic but remain below the 300 bp threshold

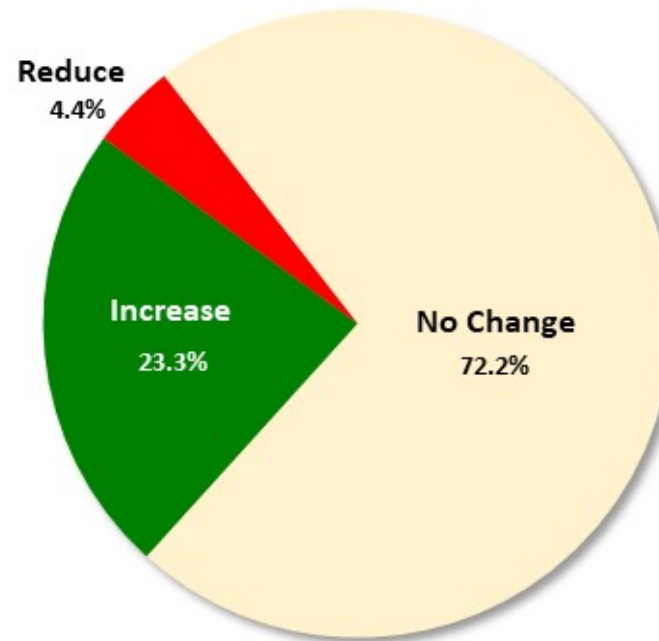


*Source: PrecisionLender

Poll: Anticipated Pricing Trends

Bankers expect status quo on pricing

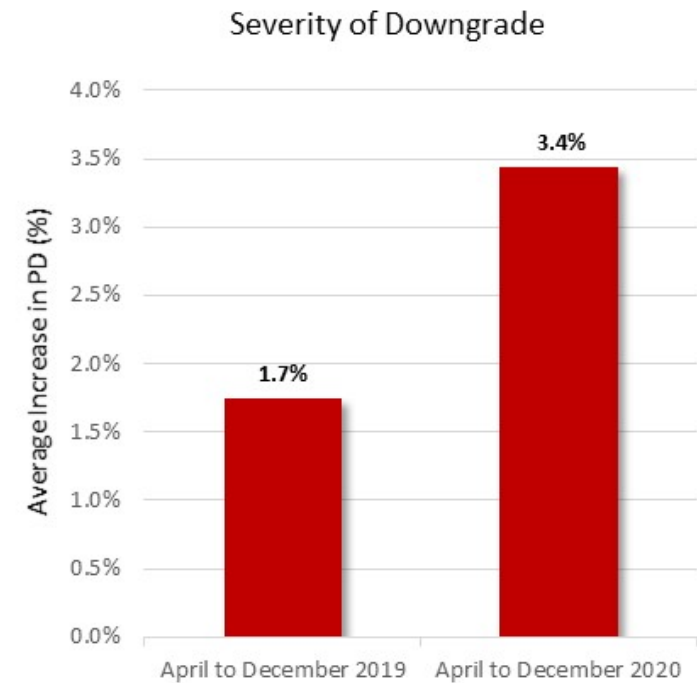
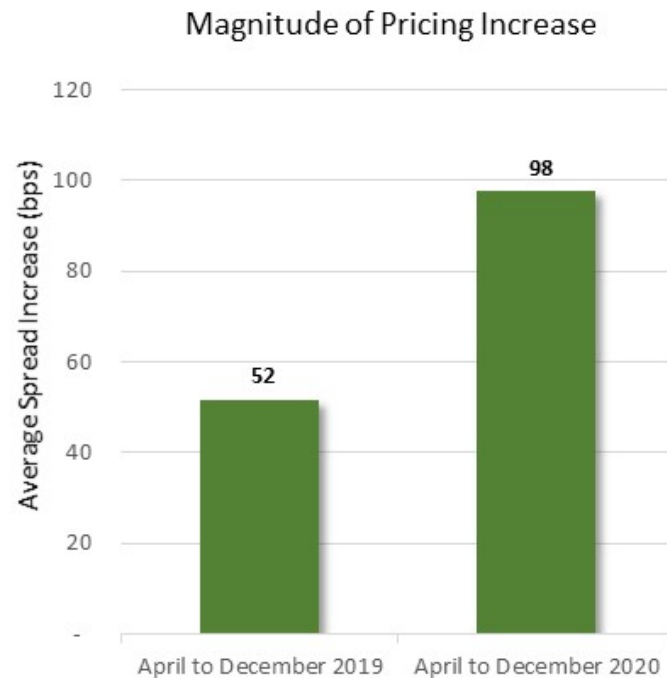
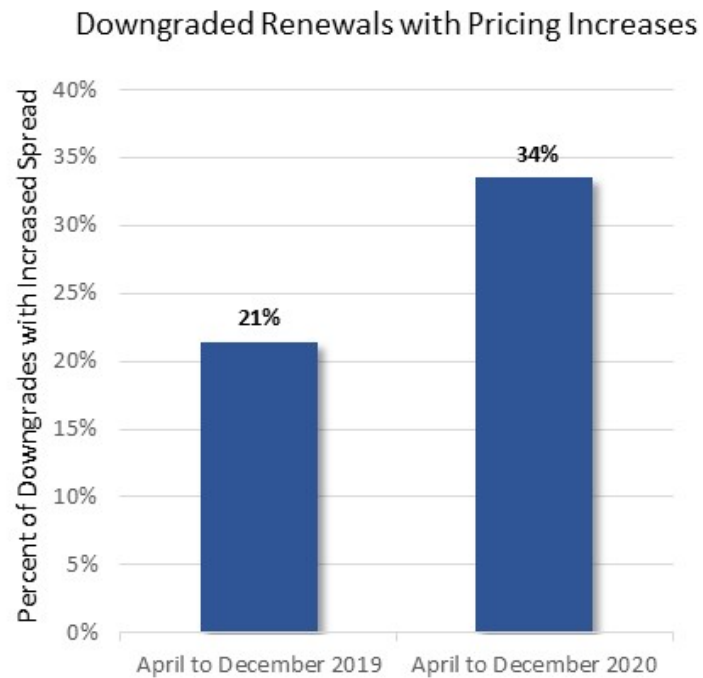
With a vaccine rollout now in sight, how will you approach credit pricing?



*Source: PrecisionLender

Downgraded Renewals See Sharply Higher Spreads

More downgrades repriced upward; Larger pricing increases and more severe rating action



*Source: PrecisionLender

No Evidence (Yet) of a Flight to Quality

LIBOR spreads trend higher across market

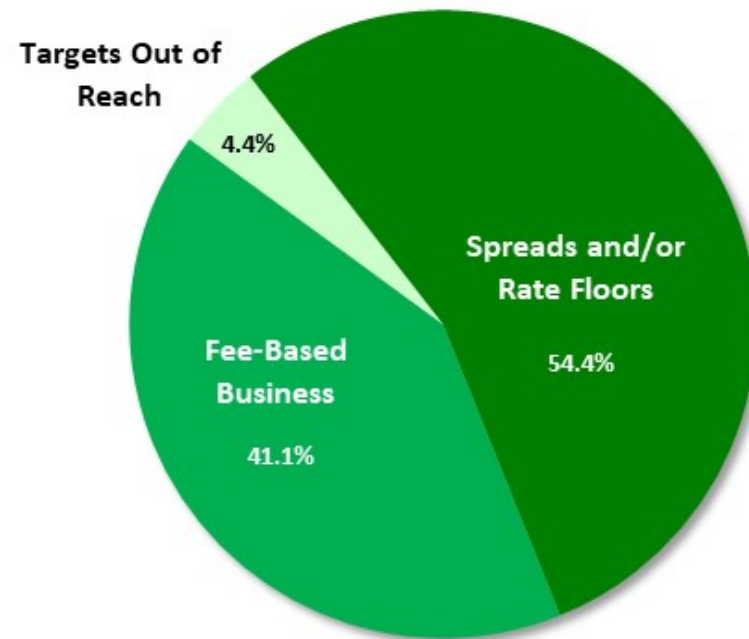


*Source: PrecisionLender

Poll: Mitigating NIM Erosion

Margins and ancillary business cited as keys to relationship profitability

Given how low rates are, and how much liquidity banks have on hand, how are you trying to achieve relationship profitability targets?

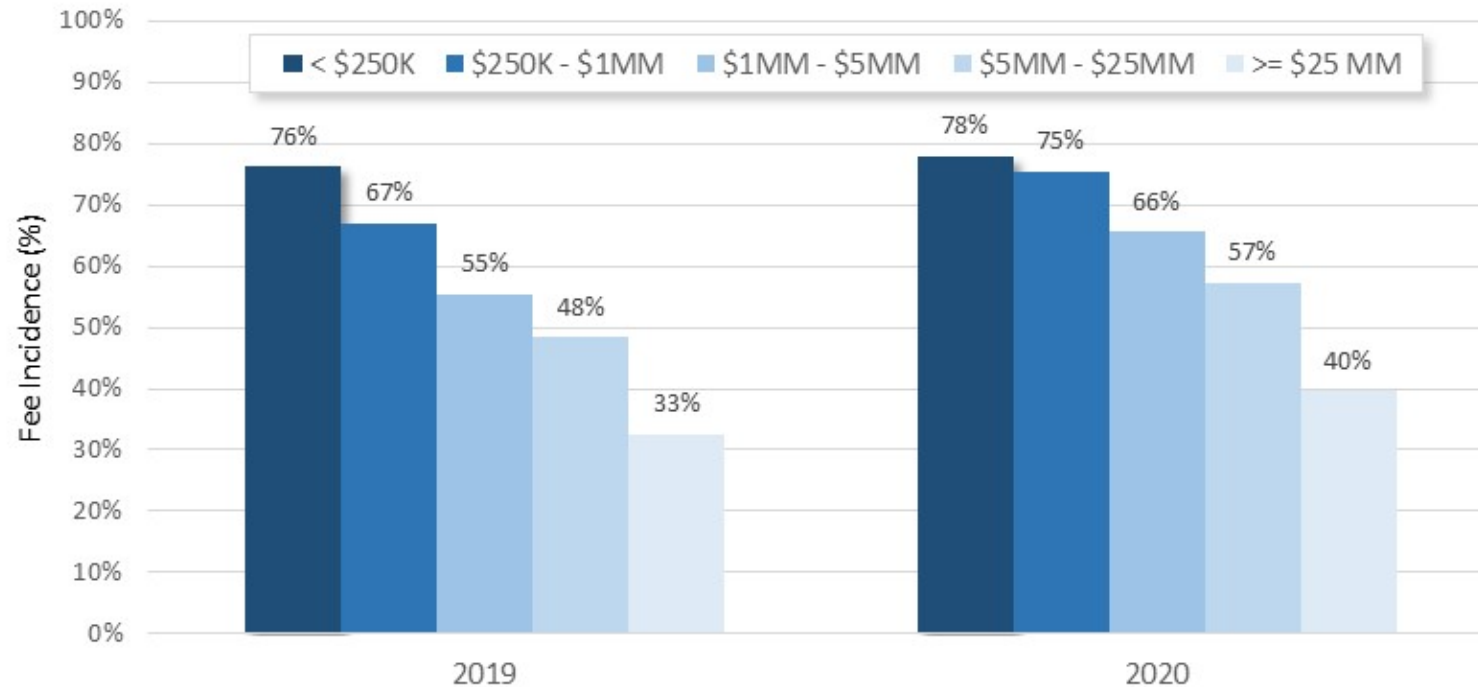


*Source: PrecisionLender

Offsetting Margin Compression via Other Revenue

Fee incidence edges higher

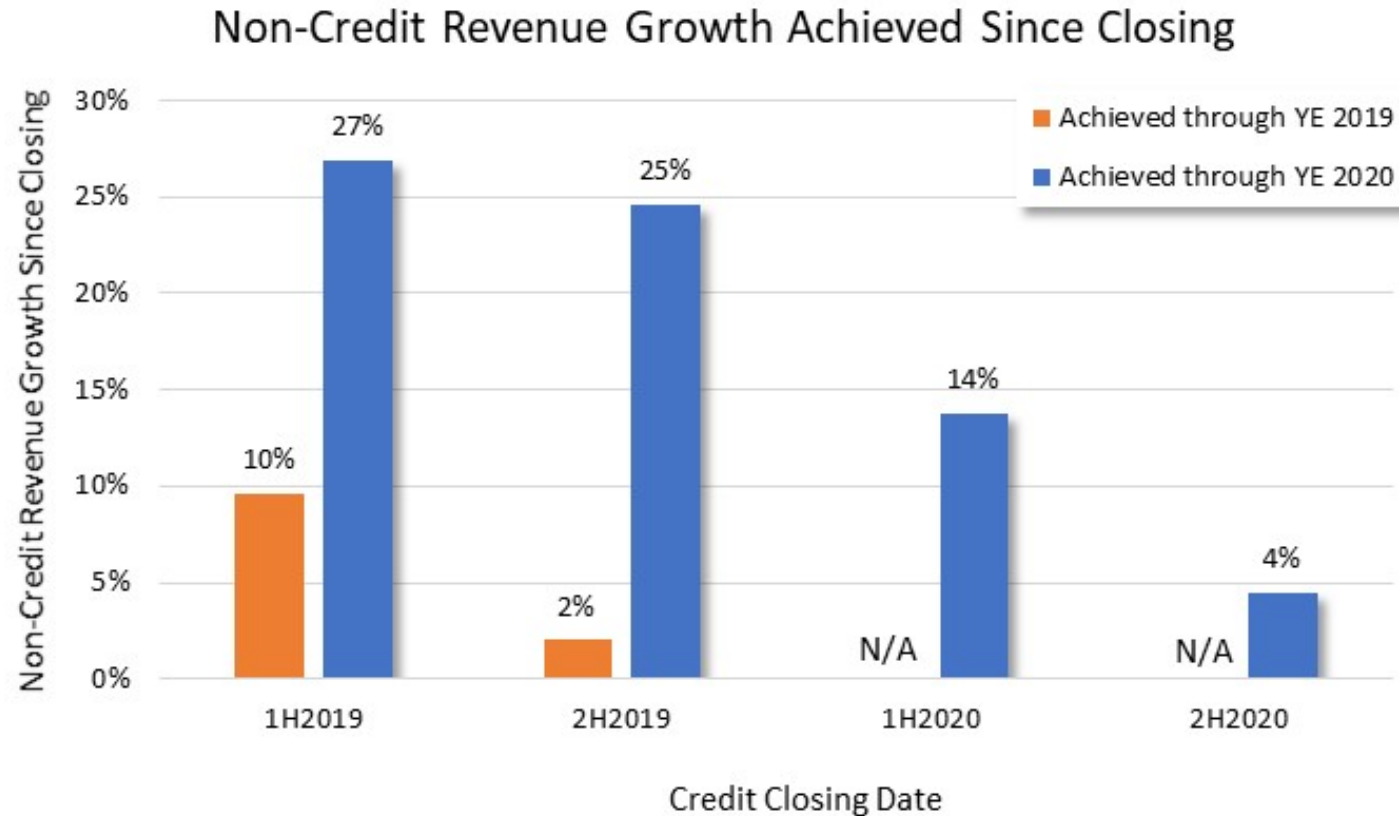
Origination Fee Incidence Trends by Deal Size



*Source: PrecisionLender

Cross-Sell Becomes Even More Critical

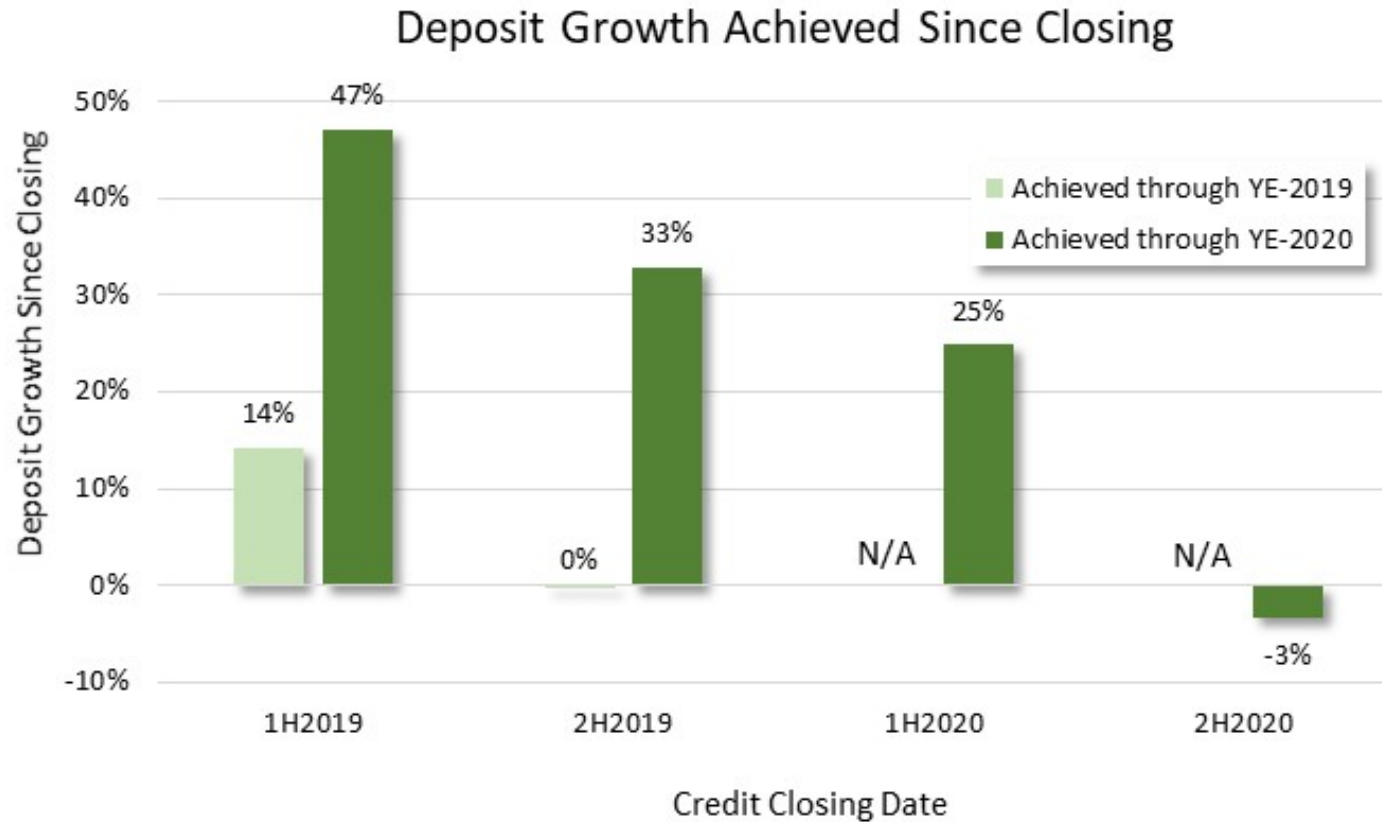
Considerable lag from credit closing to cross-sell realization



*Source: PrecisionLender

Cross-Sell Becomes Even More Critical

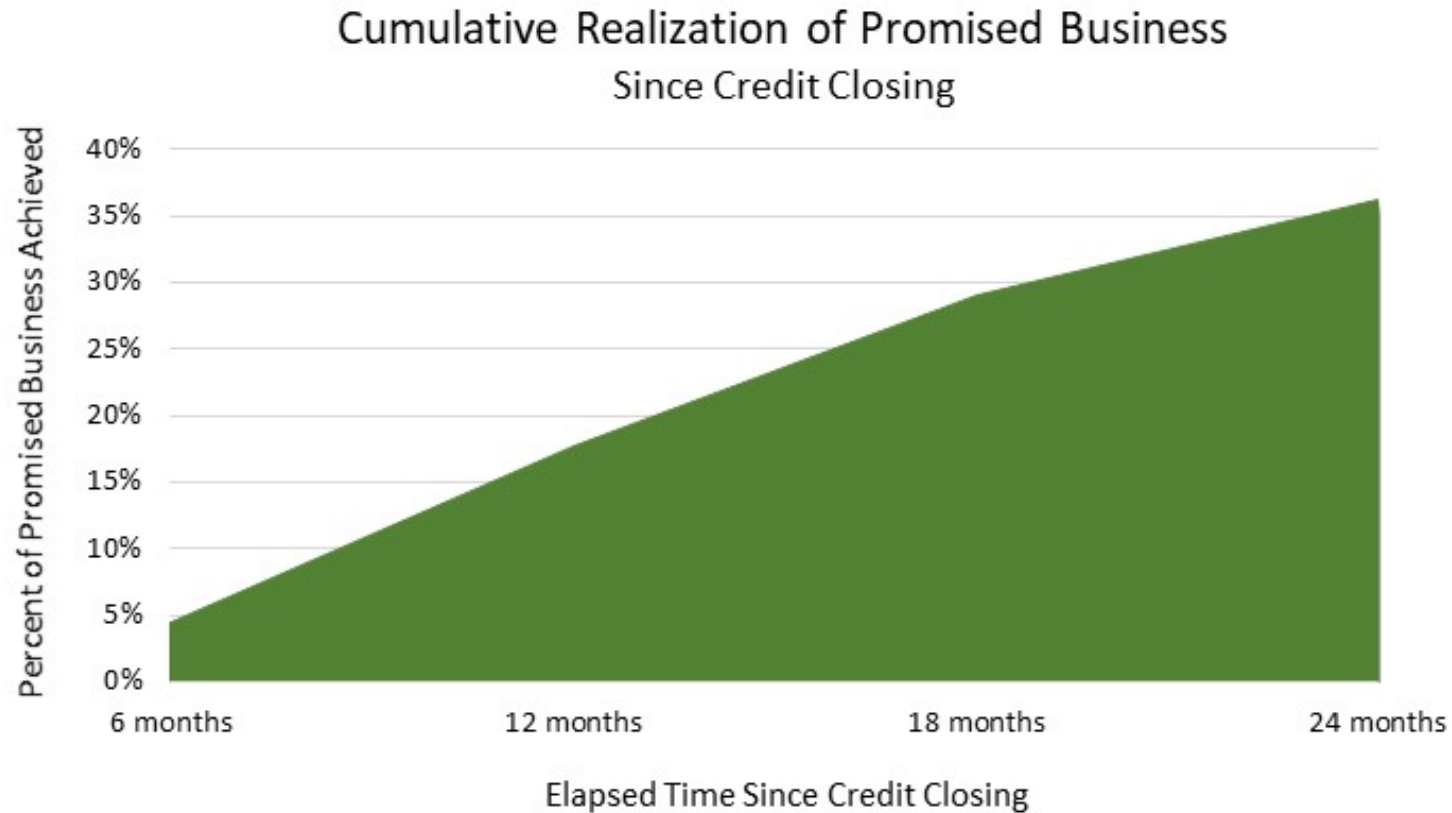
Deposit growth shows similar dynamics



*Source: PrecisionLender

Are Cross-Sell Promises Coming to Fruition?

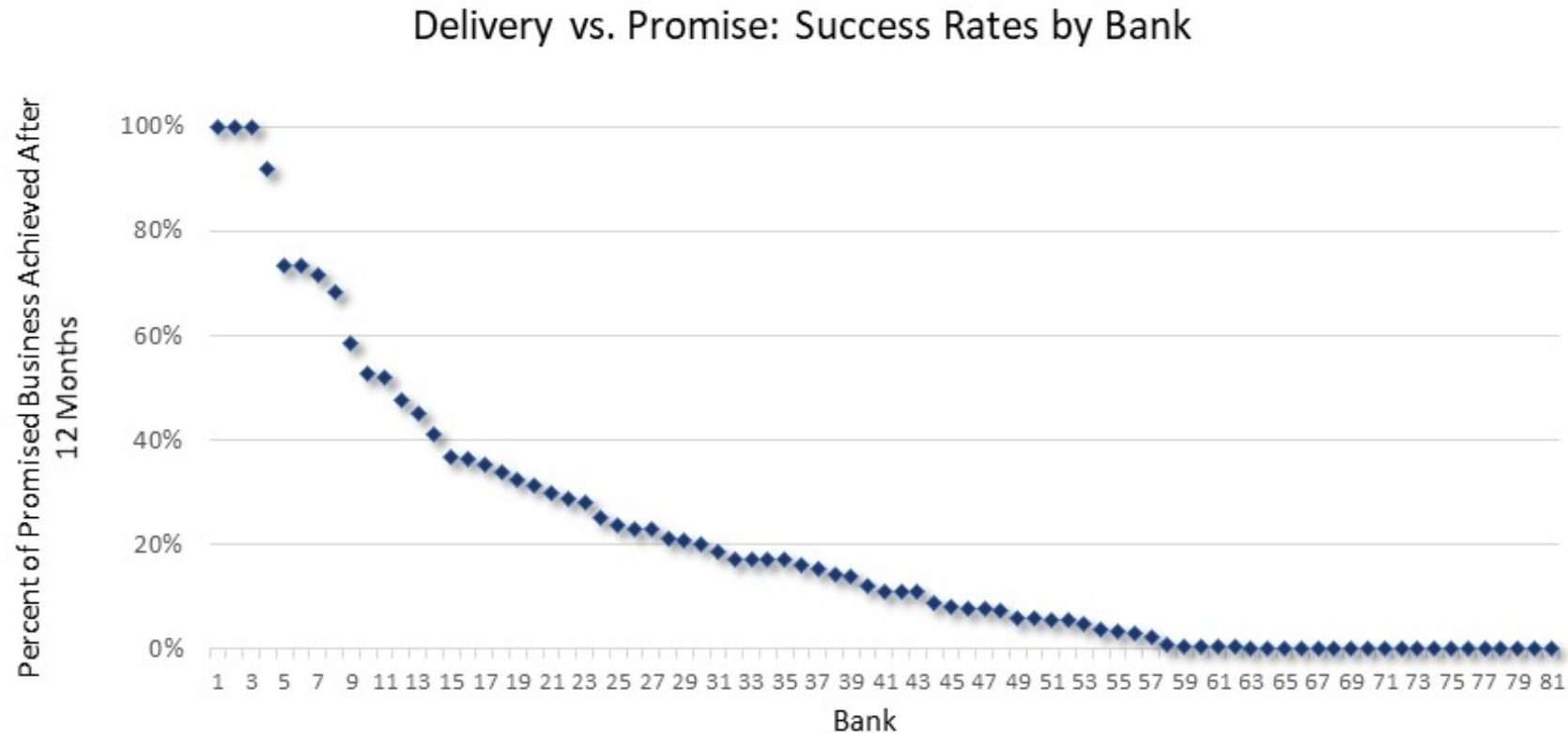
About 36% of promised business achieved after two years



*Source: PrecisionLender

Are Cross-Sell Promises Coming to Fruition?

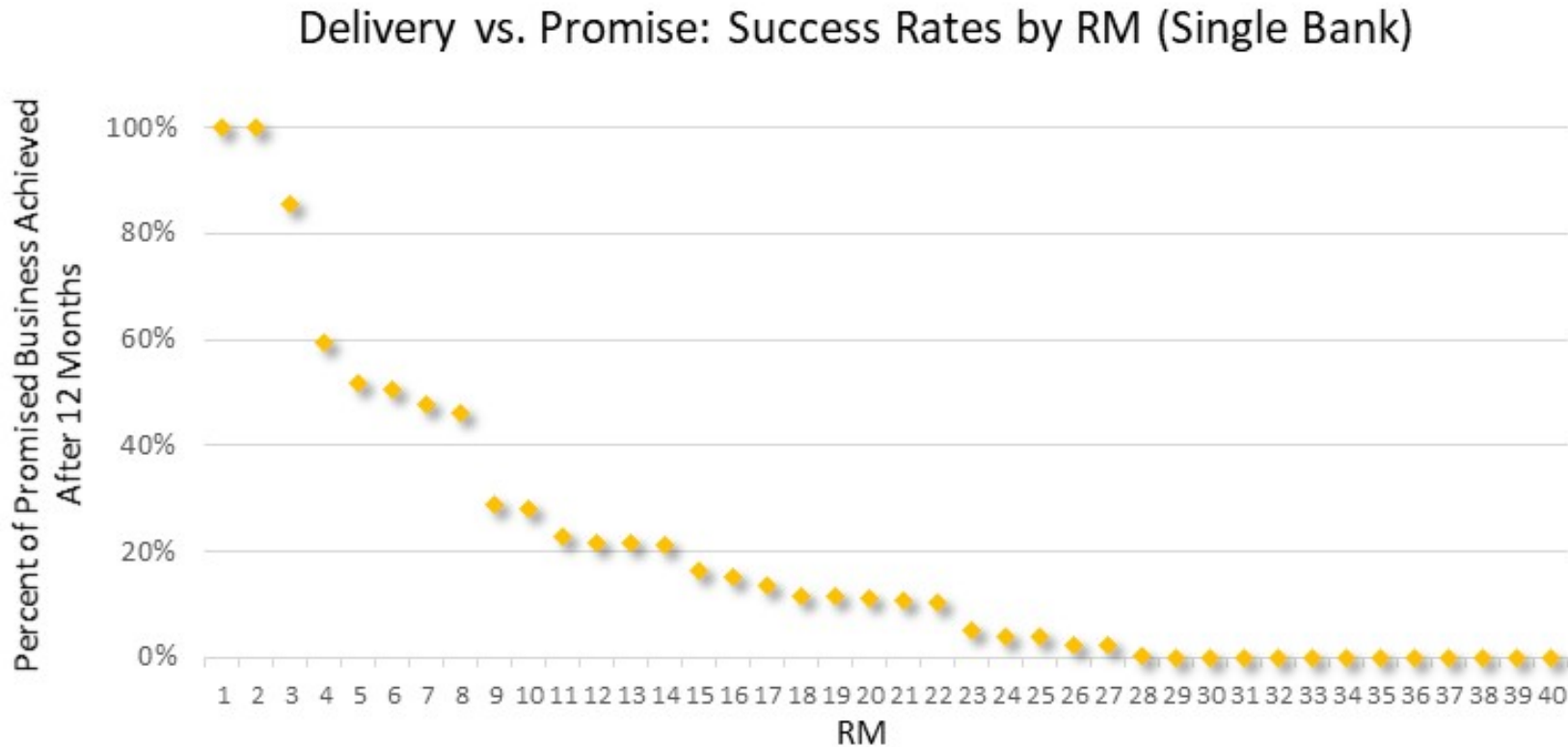
Some banks are winning the cross-sell game



*Source: PrecisionLender

Are Cross-Sell Promises Coming to Fruition?

Wide range of performance across RMs at any given bank



*Source: PrecisionLender

Poll: Accountability in Achieving Promised Business

Less than one-quarter of bankers report active monitoring of cross-sell commitments

How does your bank hold bankers accountable for cross-sell commitments made?



*Source: PrecisionLender

Winning Tactics for Achieving Cross Sell

Bank Level

- **Utilizing Local Leadership:** Informal process preceding annual review
- **Leveraging the CRM:** Tracking all open opportunities, including promised cross-sell
- **RM Incentives:** Compensating bankers for non-credit revenue growth
- **Tapping into Internal Data:** Using ACH data and other sources to identify opportunities
- **Mining Market Data:** Identifying industry- and geography-specific cross-sell levels
- **Implementing Rules-Based Coaching:** Nudging bankers to explore specific solutions
- **Proactive Alerts:** Notifying management of large, unrealized opportunities

RM Level

- **Customer-Centric Approach:** Understanding business challenges and finding solutions
- **Removing Obstacles:** Simplifying the process of transferring business
- **Tenacious follow-up:** Both internally and externally

What lies ahead in 2021?

Live Poll

What will be your bank's top area of focus in 2021?

- Credit risk mitigation
- Cross-sell realization
- Margin improvement
- Fee generation
- Loan / deposit growth

What lies ahead in 2021?

- Credit risk will remain an area of focus: Customer-specific and Industry
- Greater emphasis on risk mitigation, including early warning indicators
- Efforts to offset margin compression (selectively) with rate floors and fees
- Stepped up focus on cross-sell, including incentives and accountability
- Less uncertainty, more familiar challenges

WEBINAR

Thursday, February 18 at 2:00 PM ET

Leveraging Data with PrecisionLender's Insights Suite

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