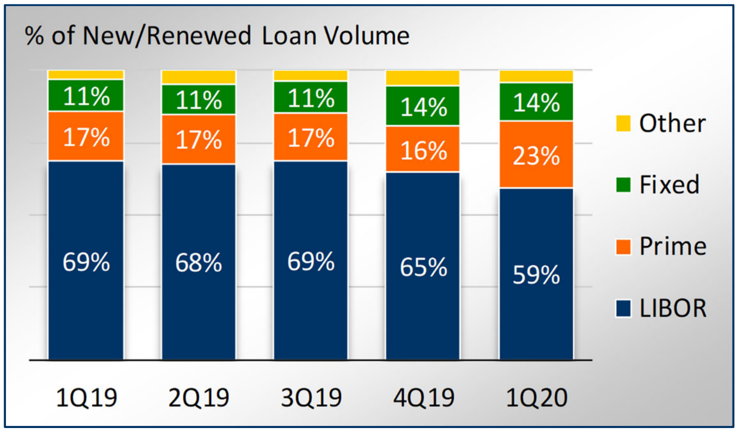
afs Market Insights
Business Intelligence

How Have Borrower Index Preferences Changed Over the Last Year?

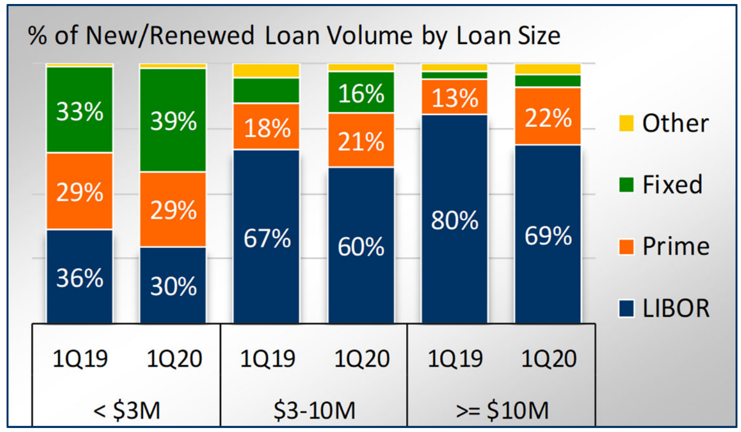
With the Fed moving aggressively to counteract threats to the economy, interest rates have moved down sharply over the last several weeks. AFS Business Intelligence regularly monitors trends in commercial loan pricing, and bank data shows a clear shift in commercial borrower index preferences, a phenomenon that is likely to continue with interest rates at the zero lower bound as well as the eventual phasing out of LIBOR.

Commercial Loan Index Composition



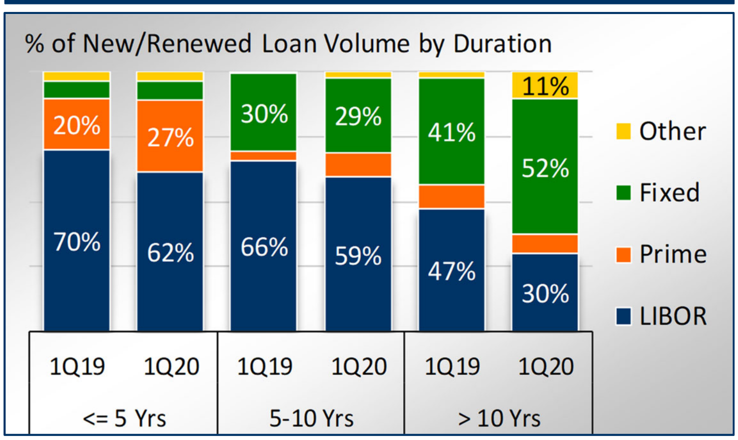
The volume of commercial loans tied to LIBOR was down 10 percentage points year-over-year, with most of the change occurring in 1Q20. The Fed has cut short-term rates 225 bps since July 2019 and 150 bps in March alone.

By Loan Size



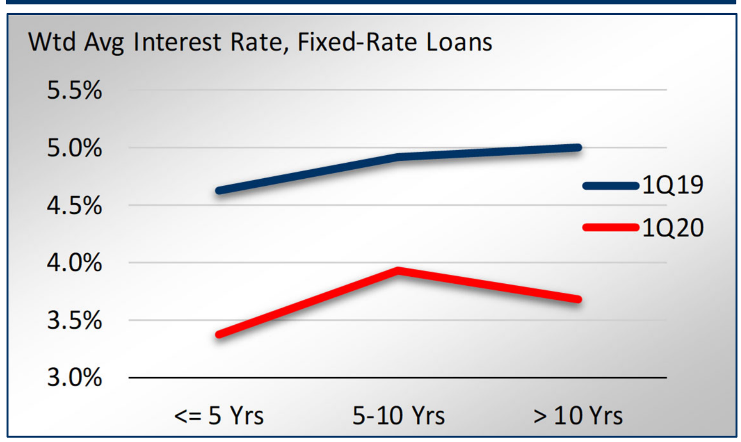
LIBOR-rate commercial loan volume declined year-over-year across every loan size range. The Prime rate has increased in popularity as a pricing benchmark for larger-end commercial loans (i.e., >=$10M).

By Term Length



The Federal Funds Rate is now at the zero lower bound and poised to remain there for the immediate future. In the first quarter of 2020 more than half of the deal volume with a duration of >10 years was priced at a fixed rate.

Commercial Loan Yield Curve



The yield curve for commercial loans was inverted as of 1Q20. Yields have fallen sharply for fixed-rate loans over the last year, and customers and banks alike have moved aggressively to lock in rates for >10 year terms.

About AFS Business Intelligence

AFS is committed to helping banks navigate through uncertain times. Call us today to learn how our Business Intelligence Solutions can support your product management, reporting, and market benchmarking needs.

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