July 2020 Highlights

Loan Growth
- Commercial loans (including PPP) down -1.0% m/m
- Commercial loans (excluding PPP) down -1.0% m/m

New/Renewed Volume
- Aggregate new volume down in July from last month
- Aggregate renewed volume up in July from last month

Pricing
- Weighted average LIBOR-equivalent spreads increased year over year in July for both investment grade and non-investment grade loans, while trends in weighted average interest rates were mixed

Fee Performance
- For new bilateral loans, the Upfront fee incidence increased month over month while the Upfront fee level declined

July 2020 Highlights

Commercial Lending Remains in the Doldrums
Commercial loan growth remained in the doldrums in July, although this month’s decrease in loan balances was less severe than that seen in June. Lending as part of the Paycheck Protection Program (PPP), which buoyed the market earlier this year, plateaued in July, with new PPP originations significantly trailing the spikes seen in April and May. Spread pricing was up year over year in July for both investment grade and non-investment grade loans.

- **Loan Growth**: Total commercial loan balances fell -1.0% month over month in July, a comparatively modest contraction versus June. Consistent with the prior month, C&I bilateral loan balances (excluding PPP loans) were down in July across most states, p. 1–2.
- **New/Renewed Volume**: Aggregate new/renewed volume (excluding PPP loans) was down in July when compared to both last month and July of the prior year. Continuing the trend seen last month, new participation volume decreased in July and was down sharply when compared to the same month a year earlier, p. 3–6.
- **Pricing**: Excluding PPP loans, the weighted average interest rate for C&I bilateral loans with duration greater-than 10 years fell sharply year over year in July, mirroring the trend in the 10-year treasury yield. Spreads on a LIBOR-equivalent basis were up year over year in July for both investment grade and non-investment grade loans, p. 3–6, & 8.
- **Fee Performance**: For new bilateral loans (excluding PPP loans), the Upfront fee incidence increased in July from last month, while the Upfront fee level declined. Fee performance varied little in July versus June for renewed bilateral loans, p. 7.

John H. Shain
President
Automated Financial Systems, Inc.

This newsletter presents monthly reporting on commercial loan characteristics. The information is derived from the AFS Pricing Dashboard, which contains over $1 trillion in commercial banking commitments. Note: The charts below reflect total loan outstandings for participating banks.

Loan Growth

<table>
<thead>
<tr>
<th>M/M Percent Growth</th>
<th>2%</th>
<th>0.1%</th>
<th>-0.3%</th>
<th>-2.4%</th>
<th>-2.3%</th>
<th>-2.6%</th>
<th>-1.0%</th>
<th>-1.0%</th>
</tr>
</thead>
<tbody>
<tr>
<td>0719 Inc. PPP</td>
<td>0520 Exc. PPP</td>
<td>0620 Inc. PPP</td>
<td>0620 Exc. PPP</td>
<td>0720 Inc. PPP</td>
<td>0720 Exc. PPP</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- **M/M Growth Rates**: -1.0% including PPP, -1.0% excluding PPP
- **Trend**: Total commercial loan balances fell -1.0% month over month in July, a comparatively modest contraction when compared to the steep decline in June.

M/M Percent Growth: Jul 2020

<table>
<thead>
<tr>
<th>M/M Percent Growth</th>
<th>2.5%</th>
<th>0.0%</th>
<th>-0.9%</th>
<th>-0.5%</th>
<th>-0.2%</th>
<th>0.0%</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; $1M</td>
<td>-1.6%</td>
<td>-2.5%</td>
<td>-2.4%</td>
<td>-1.6%</td>
<td>-2.5%</td>
<td>-2.4%</td>
</tr>
<tr>
<td>$1M - $5M</td>
<td>-1.5%</td>
<td>-2.3%</td>
<td>-2.2%</td>
<td>-1.5%</td>
<td>-2.3%</td>
<td>-2.2%</td>
</tr>
<tr>
<td>$5M - $25M</td>
<td>-1.4%</td>
<td>-2.1%</td>
<td>-2.0%</td>
<td>-1.4%</td>
<td>-2.1%</td>
<td>-2.0%</td>
</tr>
<tr>
<td>&gt; $25M</td>
<td>-1.3%</td>
<td>-2.0%</td>
<td>-1.9%</td>
<td>-1.3%</td>
<td>-2.0%</td>
<td>-1.9%</td>
</tr>
<tr>
<td>CRE (Bilateral)</td>
<td>-1.2%</td>
<td>-1.9%</td>
<td>-1.8%</td>
<td>-1.2%</td>
<td>-1.9%</td>
<td>-1.8%</td>
</tr>
<tr>
<td>Participations</td>
<td>-1.1%</td>
<td>-1.8%</td>
<td>-1.7%</td>
<td>-1.1%</td>
<td>-1.8%</td>
<td>-1.7%</td>
</tr>
</tbody>
</table>

Loan size ranges represent C&I bilateral loans

- **Trend**: C&I bilateral balances were down in July from last month across every loan size range, led by a sharp decrease in the <$1M segment. In July, participation balances continued to fall at a rapid pace, while CRE bilateral loan growth stalled.

AFS Continues to Lead in the Technology Space

©2020 Automated Financial Systems, Inc. All Rights Reserved.
AFS and all AFS product trademarks are registered trademarks of Automated Financial Systems, Inc. Confidential & Proprietary.
CRE bilateral balances (excluding PPP loans) increased in July from the prior month across slightly more than half of the states.

- In New York (+0.6%), July’s increase in CRE bilateral balances partially offset a steep decline in C&I bilateral balances.
- In July, Minnesota (-4.8%) reported the largest month-over-month reduction in CRE bilateral balances.

Consistent with the prior month, C&I bilateral loan balances (excluding PPP loans) were down in July across the majority of states.

- Missouri (+3.0%) ranked highest for C&I bilateral loan growth in July, driven by a large increase in the Hospitals subsector.
- New York (-2.8%) led the declines in C&I bilateral loans this month, with the drop focused heavily in the Finance & Insurance sector.

<table>
<thead>
<tr>
<th>Top 5 States</th>
<th>Bottom 5 States</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Missouri</td>
<td>1. New York</td>
</tr>
<tr>
<td>2. Florida</td>
<td>2. Illinois</td>
</tr>
<tr>
<td>4. Utah</td>
<td>4. Kentucky</td>
</tr>
<tr>
<td>5. Oregon</td>
<td>5. Georgia</td>
</tr>
</tbody>
</table>

*Geographic data refers to the location of the borrower, not necessarily the bank booking the loan.*
For both investment grade and non-investment grade loans, the percentage of C&I loans past due (but still accruing interest) more than doubled in July when compared to the start of the year.

For new/renewed commercial loans, weighted average LIBOR-equivalent spreads increased year over year in July across risk ratings 01 (Substantially Risk Free) to 05 (Average Risk).

For both investment grade and non-investment grade loans, the percentage of C&I loans past due (but still accruing interest) more than doubled in July when compared to the start of the year.

In July, the Financials sector displayed the highest past-due ratio for investment grade loans, whereas delinquencies for non-investment grade loans were highest in the Industrials sector.
Volume for both new and renewed C&I bilateral loans increased in July from the prior month.

Year-to-date new and renewed C&I bilateral volume in July was well above the levels seen in the same period a year ago.

Weighted average interest rates for both new and renewed C&I bilateral loans decreased in July from the prior month.

Pricing fell sharply year over year for C&I bilateral loans with duration >10 years, mirroring the 10-year treasury yield trend.

In July, C&I bilateral loans risk rated 06 (Low Pass) displayed the largest year-over-year decrease in interest rate.

On a year-over-year basis, pricing for C&I bilateral loans fell broadly and evenly across the deal size spectrum.

The spread for new/renewed C&I bilateral loans tied to LIBOR narrowed in July versus June but was up when compared to the previous July.

The average spread for Prime-based new/renewed C&I bilateral loans fell in July from last month, trending in line with the average spread seen a year ago.

The weighted average interest rate for fixed-rate new/renewed C&I bilateral loans fell in July, mirroring a comparable decline in the 10-year treasury yield.

Risk ratings based on the RMA 10-point obligor risk rating scale.
New & Renewed Deal Flow & Pricing – CRE Bilateral Loans (Excludes PPP Loans)

From June to July, an increase in renewed CRE bilateral volume was offset by a decrease in new CRE bilateral volume.

Aggregate new/renewed CRE bilateral volume year to date in July was down versus the same period a year ago.

From June to July, pricing for new CRE bilateral loans increased, while pricing for CRE bilateral renewals held steady.

Compared to a year ago, pricing for new/renewed CRE bilateral loans in July varied little across the term length spectrum.

Across the risk spectrum, CRE bilateral loans risk rated 03 experienced the largest year-over-year pricing decrease.

The weighted average interest rate for fixed-rate new/renewed CRE bilateral loans continued to trend upwards in July.

LIBOR Loans
Wtd Avg in bps
Interest Rate Spread

The average spread for new/renewed CRE bilateral loans tied to LIBOR continued to widen in July, far exceeding the average spread seen a year ago.

Prime Loans
Wtd Avg in bps
Interest Rate Spread

For new/renewed CRE bilateral loans tied to Prime, the average spread narrowed in July when compared to both last month and July of the prior year.

Fixed Loans
Wtd Avg in bps
Interest Rate 10-Yr Treasury

Risk ratings based on the RMA 10-point obligor risk rating scale.
New & Renewed Deal Flow & Pricing – Participations/Syndications (Excludes PPP Loans)

- Volume for new and renewed participations decreased in July from last month and was down sharply from a year ago.

- On a year-to-date basis, new participation volume in July topped the prior year while renewed participations lagged behind.

- Weighted average interest rates for new and renewed participations increased significantly in July from the prior month.

- Pricing for new/renewed participations with duration >10 years varied little in July when compared to the same month a year earlier.

- When viewed by risk rating, new/renewed participations risk rated 06 displayed the largest year-over-year pricing decline.

- Compared to a year ago, the slope between pricing and deal size for new/renewed participations steepened in July.

- The average spread for LIBOR-based new/renewed participations edged higher in July and was up significantly relative to the average spread seen a year ago.

- The average spread for new/renewed participations tied to Prime was down in July from last month but up significantly relative to the previous July.

- The weighted average interest rate for fixed-rate new/renewed participations ticked up in July, as contrasted with a decline in the 10-year treasury yield.

Risk ratings based on the RMA 10-point obligor risk rating scale.
Fee Performance (Excludes PPP Loans)

**Upfront Fee Incidence Trend**
New and Renewed Bilateral Loans

- The Upfront fee incidence for new bilateral loans ticked up in July from last month but was down sharply versus the previous July.
- For renewed bilateral loans, the Upfront fee incidence was essentially flat in July when compared to both the prior month and the same month a year earlier.

**Upfront Fee Level (in BPS) Trend**
New and Renewed Bilateral Loans

- The Upfront fee level for new bilateral loans was down in July relative to both last month and the previous July.
- The Upfront fee level for renewed bilateral loans continued to trend downwards in July, falling slightly beneath the average level seen in the same month a year earlier.

**New/Renewed Bilateral Loans**

- The Upfront fee incidence rate for new/renewed bilateral loans in the **Northeast** decreased sharply year over year in July, falling well beneath the averages for most other regions.
- Upfront fee levels for new and renewed bilateral loans were down year over year in July across every geographic region except the **Northeast**.

**Footnotes**

1. The LIBOR-equivalent spread for Prime- and LIBOR-based loans is calculated by subtracting the one-month LIBOR rate (as of the last business day of the month) from the actual interest rate.
2. The LIBOR-equivalent spread for fixed-rate loans is calculated by subtracting the Federal Reserve swap rate in effect on the day that the loan was originated or renewed from the actual interest rate.
3. The Spread for Prime- and LIBOR-based loans is the difference between the all-in interest rate and the base rate.
4. A bilateral loan is a one bank, one borrower lending relationship. A participation is a borrower lending relationship involving more than one bank.
5. Geographic data refers to the location of the borrower, not necessarily the bank booking the loan.
6. CRE loans are investor real estate loans for the purpose of construction, land development, and other land loans; multifamily residential properties; and loans secured by other nonfarm nonresidential properties. Owner-occupied is not included.
7. Risk Ratings based on the RMA 10-point obligor risk rating scale. This scale contains six “Pass” gradations, and the standard regulatory classification gradations of Special Mention, Substandard, Doubtful, and Loss (grades 7–10, respectively).
8. New/renewed trends exclude loans risk rated Substandard, Doubtful, and Loss (grades 8–10, respectively).
9. Upfront Fee Incidence represents the number of obligations with Upfront fees as a percentage of all obligations.
10. Upfront Fee Level (in BPS) represents the amount of Upfront fees assessed as a percentage of the original/last renewed amount for only those deals with Upfront fees.
## Rates by Loan Size: New – Bilateral Loans (Excludes PPP Loans)

### FIXED-RATE LOANS

<table>
<thead>
<tr>
<th>Loan Size</th>
<th>Jul 2019</th>
<th>Jun 2020</th>
<th>Jul 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest Rate</td>
<td>4.66</td>
<td>3.18</td>
<td>3.14</td>
</tr>
<tr>
<td>LIBOR-Equivalent Spread</td>
<td>2.75</td>
<td>2.68</td>
<td>2.71</td>
</tr>
<tr>
<td>WARR</td>
<td>5.0</td>
<td>5.0</td>
<td>4.8</td>
</tr>
</tbody>
</table>

### LIBOR-RATE LOANS

<table>
<thead>
<tr>
<th>Loan Size</th>
<th>Jul 2019</th>
<th>Jun 2020</th>
<th>Jul 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest Rate</td>
<td>4.34</td>
<td>2.31</td>
<td>2.29</td>
</tr>
<tr>
<td>LIBOR-Equivalent Spread</td>
<td>2.11</td>
<td>2.15</td>
<td>2.13</td>
</tr>
<tr>
<td>WARR</td>
<td>4.9</td>
<td>4.9</td>
<td>4.7</td>
</tr>
</tbody>
</table>

### PRIME-RATE LOANS

<table>
<thead>
<tr>
<th>Loan Size</th>
<th>Jul 2019</th>
<th>Jun 2020</th>
<th>Jul 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest Rate</td>
<td>5.99</td>
<td>3.86</td>
<td>3.81</td>
</tr>
<tr>
<td>LIBOR-Equivalent Spread</td>
<td>3.76</td>
<td>3.70</td>
<td>3.66</td>
</tr>
<tr>
<td>WARR</td>
<td>5.2</td>
<td>5.1</td>
<td>5.1</td>
</tr>
</tbody>
</table>

### Rates by Loan Size: Renewed – Bilateral Loans (Excludes PPP Loans)

### FIXED-RATE LOANS

<table>
<thead>
<tr>
<th>Loan Size</th>
<th>Jul 2019</th>
<th>Jun 2020</th>
<th>Jul 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest Rate</td>
<td>4.66</td>
<td>3.18</td>
<td>3.14</td>
</tr>
<tr>
<td>LIBOR-Equivalent Spread</td>
<td>2.75</td>
<td>2.68</td>
<td>2.71</td>
</tr>
<tr>
<td>WARR</td>
<td>5.0</td>
<td>5.0</td>
<td>4.8</td>
</tr>
</tbody>
</table>

### LIBOR-RATE LOANS

<table>
<thead>
<tr>
<th>Loan Size</th>
<th>Jul 2019</th>
<th>Jun 2020</th>
<th>Jul 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest Rate</td>
<td>4.34</td>
<td>2.31</td>
<td>2.29</td>
</tr>
<tr>
<td>LIBOR-Equivalent Spread</td>
<td>2.11</td>
<td>2.15</td>
<td>2.13</td>
</tr>
<tr>
<td>WARR</td>
<td>4.9</td>
<td>4.9</td>
<td>4.7</td>
</tr>
</tbody>
</table>

### PRIME-RATE LOANS

<table>
<thead>
<tr>
<th>Loan Size</th>
<th>Jul 2019</th>
<th>Jun 2020</th>
<th>Jul 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest Rate</td>
<td>5.99</td>
<td>3.86</td>
<td>3.81</td>
</tr>
<tr>
<td>LIBOR-Equivalent Spread</td>
<td>3.76</td>
<td>3.70</td>
<td>3.66</td>
</tr>
<tr>
<td>WARR</td>
<td>5.2</td>
<td>5.1</td>
<td>5.1</td>
</tr>
</tbody>
</table>

Weighted Average Risk Rating (WARR) based on the RMA 10-point obligor risk rating scale.

---

If you have any questions regarding the **Commercial Loan Pricing Trends** Newsletter or the AFS Pricing Dashboard, please contact:

**Don Dougherty**  
Director  
ddougherty@afsvision.com  
+1 484-875-1334

**Doug Skinner**  
Director  
dskinner@afsvision.com  
+1 484-875-1562

www.afsvision.com

Neither AFS nor any of its staff makes any warranty, expressed or implied, or assumes any legal liability or responsibility for the accuracy, completeness, or usefulness of any information, opinion or conclusion in this newsletter. This newsletter has been developed for the purposes of informing. It is not intended to be used as a comprehensive treatise on pricing practices and should not be relied upon as such.

©2020 Automated Financial Systems, Inc. All Rights Reserved.

AFS and all AFS product trademarks are registered trademarks of Automated Financial Systems, Inc. Confidential & Proprietary.