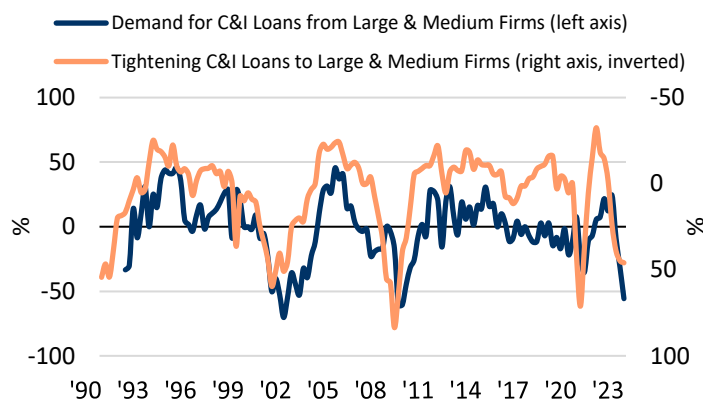


Following a tumultuous March, April brought a much needed though short-lived return to normalcy. Deposit outflows slowed, inflation cooled, and bank stocks slowly rebounded. Banks, however, remained cautious in April, and net C&I balance growth came to a standstill. Loan quality is still strong outside of a few stressed sectors such as CRE loans backed by office properties. Consistent with a recent fed survey on bank lending practices, loan spreads widened in April when compared to the start of the year across most size ranges. With the unfortunate news of yet another regional bank failure in early May, time will tell whether April was merely a momentary reprieve for banks.

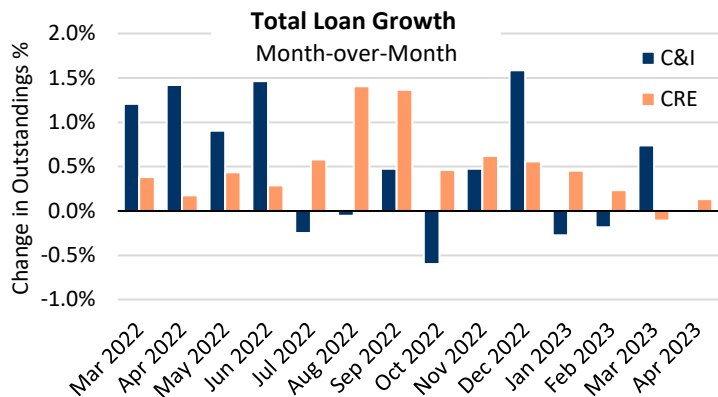
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Are we in the midst of a credit crunch?

The Fed's highly anticipated Senior Loan Officer Opinion Survey was released this month, which is more forward looking than many other traditional economic indicators. The latest report highlighted that banks significantly tightened underwriting standards for C&I loans in the first quarter, while demand from medium to large sized borrowers continued to wane. The results reflect in large part the prominent regional bank failures at the end of the quarter, although both banks and business borrowers had already become more selective about new lending opportunities well before March due to higher borrowing costs caused by the Fed's interest rate hikes and the prospect of a near-term economic recession.



Source: Federal Reserve Senior Loan Officer Opinion Survey



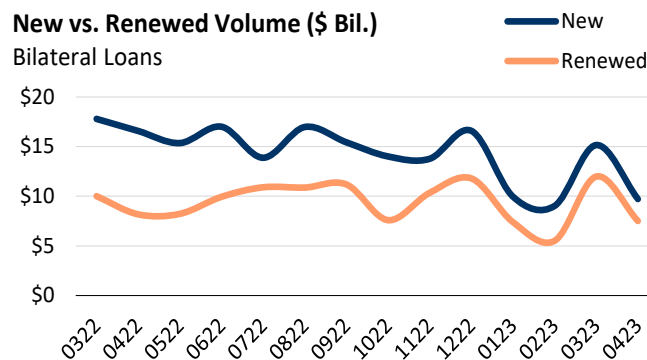
Source: AFS Loan Pricing Service. Balances unannualized, not seasonally adjusted.

Following a tumultuous March, C&I balance growth comes to a standstill in April.

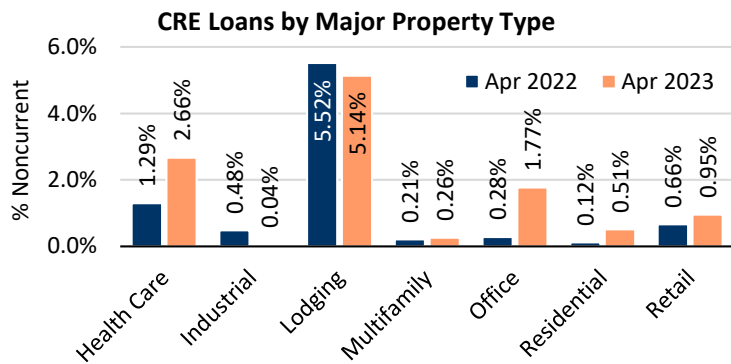
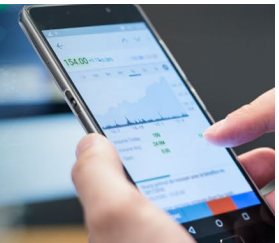
Last month, C&I loan balances spiked as larger-end borrowers drew down defensively on lines of credit in order to shore up extra liquidity amid the bank runs. By the end of April, momentum in loan growth had come to a standstill, with C&I balances essentially flat when compared to the prior month. When segmented by industry, C&I balances fell sharply in the Manufacturing and Retail Trade sectors, two segments whose trends serve as a barometer for consumer spending and confidence. CRE balances increased modestly from March to April but were well off the pace compared to only a few months ago.

New borrowing trends downwards as both banks and business borrowers pull back.

Following the events in March, banks have become more cautious about credit and interest rate risk and have focused on borrowers with robust collateral or strong credit histories. This is evidenced in the picture for new loan volume, which has trended downwards over the last year as banks have pulled back on lending in certain segments of the market. Per the Fed's report, demand from business borrowers has also waned in recent months as higher interest rates have made new borrowing more expensive. On a year-over-year basis, new volume in April was down over 40 percent. Renewed volume also fell from March to April but was down only modestly when compared to April of the prior year.



Source: AFS Loan Pricing Service. Data based on combined C&I and CRE activity.



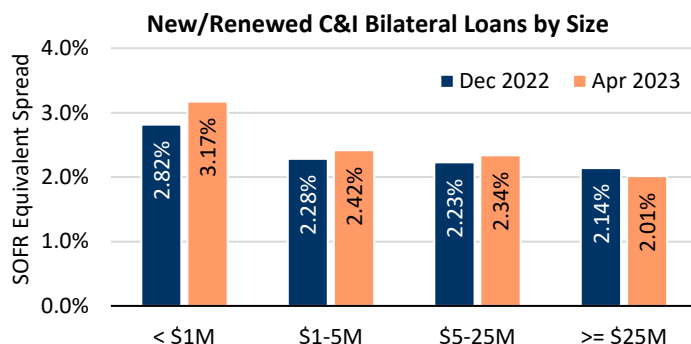
Source: RMA Credit Risk Navigator, powered by AFS

Signs of stress in the CRE loan market.

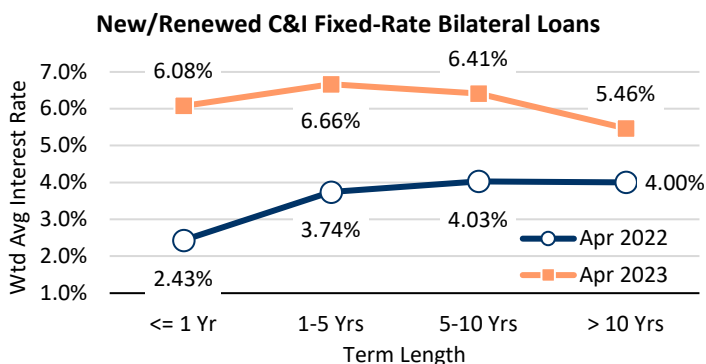
Here, we illustrate noncurrent ratios for major property types, representing the percentage of loans on nonaccrual and accruing loans past due 90 days or more. Noncurrent balances for Lodging – the hardest hit property type during the pandemic – continue to gradually resolve. Conversely, signs of stress are emerging for the Health Care and Office segments, both of which have seen vacancy rates rise in recent months. For the Office sector in particular, a large number of leases expired in 2022, and the effects of vastly different market conditions are now reverberating throughout the industry.

Banks tighten C&I loan spreads in the smaller end of the market.

The chart on the right illustrates SOFR-equivalent spreads, in which the pricing for loans of varying types has been re-indexed relative to SOFR. As banks pivot from growing to optimizing their balance sheets, maximizing spread and fee levels on loans has become a top priority. For deals under \$25 million in size, banks widened C&I loan spreads in April when compared to levels seen at the start of the year. The largest increase was seen for the under \$1 million segment. Banks are still willing to compete for the larger, most credit-worthy borrowers, as evidenced by the spread decline for the over \$25 million deal size range.



Source: AFS Loan Pricing Service. Ranges represent commitment size.



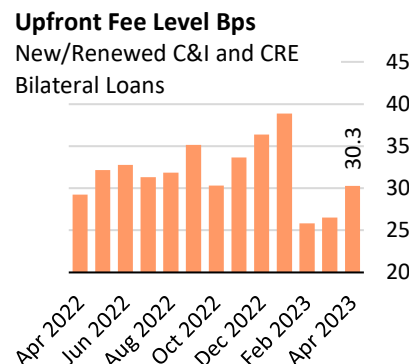
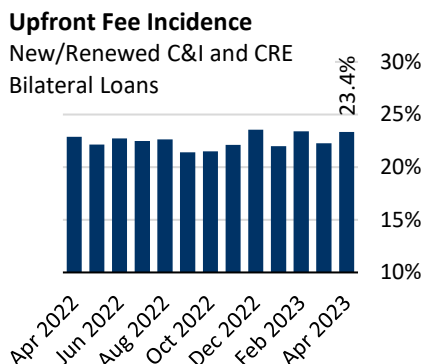
Source: AFS Loan Pricing Service

The commercial loan yield curve remained inverted in April.

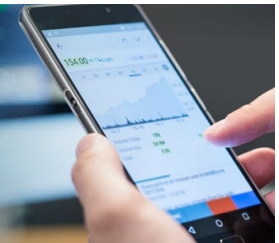
In light of the recent bank failures, interest rate risk has taken center stage, with regulators having become more focused on fixed lending practices and bank funding mixes. In April, fixed interest rates charged on new and renewed C&I bilateral loans displayed an inverted profile when segmented by term length, mirroring in many ways the slope of the treasury yield curve. With the futures market predicting a Fed rate cut in the near future, some banks appear willing to go long on their assets in order to lock in higher pricing before rates reset.

Upfront fee pricing continues to trend upwards.

Fees remain an important and, in some cases, an unrealized revenue driver for banks. Upfront fee incidence – the percentage of loans assessed with an origination or renewal fee – has oscillated within a narrow range over the last year, ending in April at a slightly higher rate than seen a year ago. The weighted average upfront fee level continued its upward trend in April, rising above the average seen in the same month a year earlier.



Source: AFS Loan Pricing Service



AFS Pricing Guidance File

Market Intelligence Tailored to Your Bank • Real Facts on Pricing • Easy to Integrate Flat File Delivery

Segmentations (Lending Characteristics)

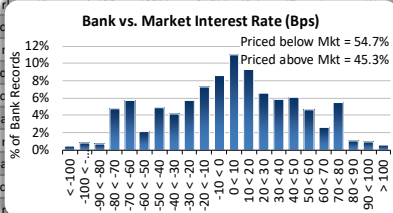
Filterable and sortable by indicative characteristics
Report is fully customizable: Additional parameters from the AFS Pricing Dashboard can be added to the report grid

Benchmarks (Metrics)

Balances, interest rates, spreads, and fees presented along with **market-equivalent** averages for each bank transaction

Vintage	Borrower Name	Obligation	Original Last Renewed Date	Maturity Date	Officer Name	Industry	Region	Line of Business	New/ Renewed	Risk Rating	Loan Size	Pricing Index	Product Type	Collateral	Bank Outstandings	Bank Interest Rate	Market Interest Rate	Opportunity
4Q	WeHeartShoes	61819	10/8/2021	3/11/2027	Corinne Sampson	Health Care	Houston	Business Banking	Renewed	03	\$5M to < \$15M	SOFR	Term Loan	Non-Real Estate	14,250,114	1.77	1.76	0.00
4Q	Refresh Random	42001	10/7/2021	6/30/2027	Addisyn Zimmerman	Food Services	Austin	Business Banking	New	06	\$1M to < \$5M	LIBOR	Line of Credit	Unsecured	2,228,754	2.37	2.23	0.14
4Q	The Green Thumb Guys	46595	11/2/2021	9/30/2027	Kyla Floyd	Manufacturing	Seattle	Middle Market	Renewed	02	\$5M to < \$15M	Prime	Term Loan	Non-Real Estate	14,429,423	3.01	3.36	-0.36
4Q	221A Random Street	17836	10/26/2021	12/31/2026	Andy Buck	Manufacturing	Boston	Large Corporate	New	07	< \$1M	Fixed	Line of Credit	Unsecured	745,550	3.68	3.65	0.03
4Q	Tell Me About It	58329	11/12/2021	9/30/2024	Justus Mathews	Food Services	Portland	Middle Market	Renewed	02	\$5M to < \$15M	SOFR	Term Loan	Real Estate	5,382,035	3.89	4.76	-0.86
4Q	Snared Services	56264				Finance & Management	Charlotte	Large Corporate	Renewed	03	\$5M to < \$15M	SOFR	Term Loan	Real Estate	3,836,262	3.29	3.73	-0.44
4Q	Table Your Needs	80729				Food Services	El Paso	Middle Market	Renewed	03	\$5M to < \$15M	SOFR	Term Loan	Real Estate	2,000,404	2.14	2.04	0.10
4Q	Don't Break a Bill	78109				Health Care	San Diego	Large Corporate	Renewed	03	\$5M to < \$15M	SOFR	Term Loan	Real Estate	753,104	2.33	2.55	-0.22
4Q	Admire Artists	77431				Accommodation & Leisure	Phoenix	Large Corporate	Renewed	03	\$5M to < \$15M	SOFR	Term Loan	Real Estate	1,344,514	2.00	2.07	-0.07
4Q	Mystery Meats Co.	63406				Retail & Wholesale Trade	Chicago	Business Banking	Renewed	05	\$1M to < \$5M	SOFR	Term Loan	Real Estate	2,846,826	2.49	3.06	-0.57
4Q	Hook, Line, and Sinker	81202				Real Estate & Construction	El Paso	Middle Market	Renewed	04	\$1M to < \$5M	Fixed	Line of Credit	Non-Real Estate	1,529,551	2.77	3.02	-0.25
4Q	Sanguine Services	10826				Real Estate & Construction	Boston	Business Banking	Renewed	08	\$5M to < \$15M	Fixed	Line of Credit	Real Estate	5,306,270	3.41	3.24	0.18
4Q	Maxxx Energy	42775	12/5/2021	12/31/2024	Keyla Sherman	Retail & Wholesale Trade	Seattle	Large Corporate	Renewed	03	\$25M to < \$50M	LIBOR	Line of Credit	Real Estate	48,337,441	2.64	2.32	0.32
4Q	EtchSketch	19959	12/10/2021	6/30/2026	Rachael Roach	Real Estate & Construction	Los Angeles	Middle Market	Renewed	03	\$25M to < \$50M	LIBOR	Line of Credit	Real Estate	48,337,441	2.64	2.32	0.32
4Q	Pop-Culture Partners	43999	11/13/2021	3/11/2026	Annabelle Powell	Food Services	Boston	Business Banking	New	03	\$1M to < \$5M	SOFR	Line of Credit	Real Estate	1,344,514	2.00	2.07	-0.07
4Q	The Helping Hands	50484	10/19/2021	6/30/2025	Liliana David	Finance & Management	Austin	Middle Market	New	06	\$1M to < \$5M	LIBOR	Term Loan	Non-Real Estate	2,846,826	2.49	3.06	-0.57
4Q	Spilling The Beans Inc.	13445	10/7/2021	9/30/2023	Carla Holloway	Food Services	Phoenix	Business Banking	Renewed	05	\$1M to < \$5M	SOFR	Term Loan	Real Estate	2,678,997	2.00	2.24	-0.24
4Q	Scout Over Services	44332	12/28/2021	3/11/2025	Precious Mcmillan	Retail & Wholesale Trade	Austin	Business Banking	Renewed	04	\$1M to < \$5M	Fixed	Line of Credit	Non-Real Estate	1,529,551	2.77	3.02	-0.25
4Q	Apples and Oranges	97975	11/3/2021	9/30/2024	Dashawn Valdez	Food Services	San Francisco	Middle Market	New	08	\$5M to < \$15M	Fixed	Line of Credit	Real Estate	5,306,270	3.41	3.24	0.18
4Q	Random Repairs	57971	12/19/2021	9/30/2023	Kaylah Arellano	Real Estate & Construction	Phoenix	Middle Market	Renewed	03	\$25M to < \$50M	LIBOR	Line of Credit	Real Estate	48,337,441	2.64	2.32	0.32

Segmentations (industry sectors, geographic regions, etc.) can be tailored to reflect the bank's unique reporting



Pinpoint and quantify pricing outliers for further analysis and remediation

Footnotes

- The SOFR-equivalent spread for a new or renewed variable rate loan is calculated by subtracting the daily SOFR rate in effect as of the posted date of the loan from the actual interest rate. The SOFR-equivalent spread for an existing variable rate loan is calculated by subtracting the daily SOFR rate as of the last business day of the month from the actual interest rate.
- The SOFR-equivalent spread for fixed-rate loans is calculated by subtracting the SOFR swap rate in effect on the day that the loan was originated or renewed from the actual interest rate.
- The Spread for Prime- and SOFR-based loans is the difference between the all-in interest rate and the base rate.
- A bilateral loan is a one bank, one borrower lending relationship. A participation is a borrower lending relationship involving more than one bank.
- Geographic data refers to the location of the borrower, not necessarily the bank booking the loan.
- Geographic Regions are based on states: Eastern Midwest (IL, IN, KY, MI, OH, WI), Middle Atlantic (DC, DE, MD, NC, NJ, PA, VA, WV), Northeast (CT, MA, ME, NH, NY, RI, VT), South (AL, AR, FL, GA, LA, MS, SC, TN), Southwest (AZ, CO, NM, OK, TX, UT), West (AK, CA, HI, ID, NV, OR, WA), and Western Midwest (IA, KS, MN, MO, MT, ND, NE, SD, WY).
- 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.
- Risk ratings based on a standardized 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).
- The Investment Grade risk rating category encompasses risk grades 1-4, while the Non-Investment Grade category encompasses risk grades 5-10.
- Upfront Fee Incidence represents the number of obligations with upfront fees as a percentage of all obligations.
- 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.

About this article.

Drawn from our experience in the marketplace and one of the largest lending databases in the world, no other source has earned the title of trusted advisor to the extent that AFS has. Whether you seek performance metrics on your pricing tactics, credit quality or to take an in-depth, analytical look at your loan metrics, AFS provides best practices analysis and reporting capabilities that can transform your business. AFS Business Intelligence offerings have grown to include some of the industry's most crucial services. Top U.S. banks rely on our services to:

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If you have any questions about the insights that appeared in this article, please reach out to Don Dougherty, Director of AFS Business Intelligence, at ddougherty@afsvision.com or Doug Skinner, Director of AFS Business Intelligence, at dskinner@afsvision.com.