

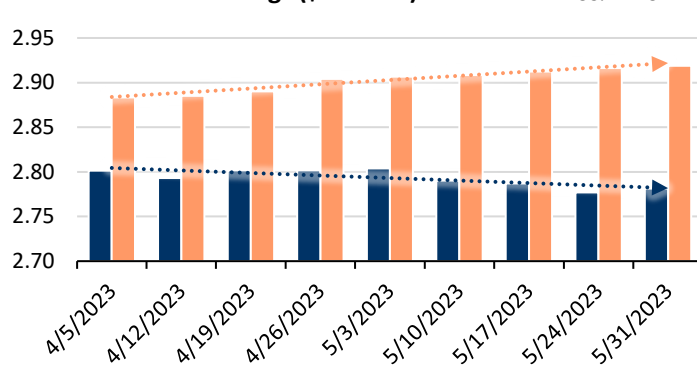
April's momentary reprieve for banks was interrupted by the collapse of First Republic Bank in the beginning of May. The impact of the latest bank failure on loan growth and pricing metrics was relatively muted this month compared with the volatility in March. A few banks capitalized on opportunities to pick up market share in niche segments such as Finance & Insurance. C&I loan spreads widened in May from the start of the year, reflecting the tightening in lending standards that has intensified throughout the last few months. We continue to monitor pockets of stress in the commercial loan market, with sectors such as Retail Trade and Office displaying worrisome nonperforming loan trends.

Want to get ahead of the curve? Explore the AFS suite of Business Intelligence solutions to help your bank manage pricing and credit risks.

C&I balances trend downwards as banks remain cautious about new lending opportunities.

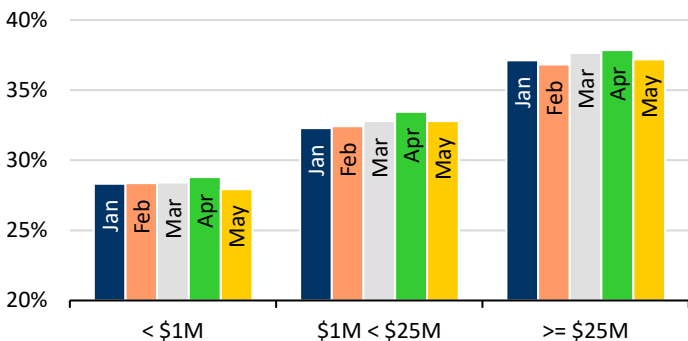
Trends in loan growth have been volatile over the last few months, as the industry recovers from the string of bank failures. Compared to March, the impact of First Republic Bank's failure on loan growth was largely muted in May, as C&I balances increased only modestly during the week in question. When viewed over the last several months, total C&I outstanding balances trended downwards as the industry continues to tighten loan standards and demand wanes outside of a few select industries. Over the same period, CRE balances have been on an upward trajectory. However, within the CRE market, concerns persist about office vacancies and leases being renewed for less square footage.

Growth in Outstandings (\$ Trillion)



Source: Federal Reserve H.8 data release. Unadjusted balances.

C&I Revolving Line of Credit Utilization Rates by Deal Size



Source: AFS Loan Pricing Service. Size ranges based on commitment size.

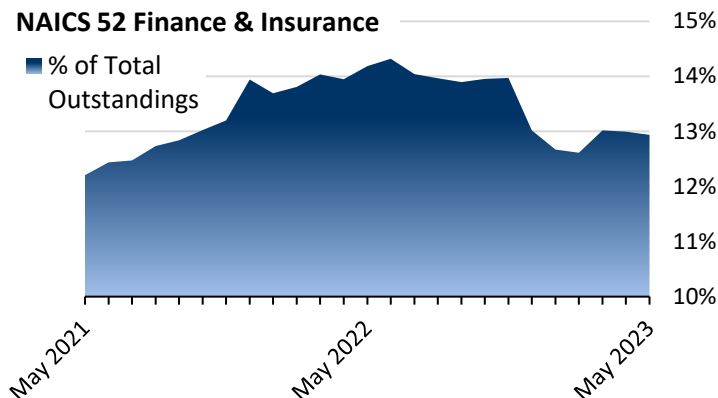
Revolving line of credit utilization declines in May across every deal size range.

When segmented by commitment size, revolving line of credit utilization rates fell in May from the prior month across every range. The results reflect the Fed's latest Senior Loan Officer Opinion Survey in which lenders reported waning demand for C&I credit. In contrast to years past, line utilization in May was positively correlated with commitment size. The PPP program and other forms of government assistance provided ample liquidity to smaller-end borrowers, which perhaps explains the more tepid utilization rates for these sized borrowers. Furthermore, small business optimism remains challenged, thus weakening loan demand from SMEs.

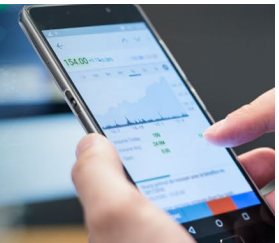
Lending to Finance & Insurance borrowers creates complicated risks for banks.

For many years, lending to the Finance & Insurance sector – representing nonbank lenders, fund managers, and private equity – was a major catalyst for C&I balance growth. Note that by lending to such entities, commercial banks may create indirect exposures to CRE and other potential risky asset classes. A year ago, bank exposure to this sector peaked at 14.3% of total C&I and CRE outstandings. While lending to Finance & Insurance borrowers slowed during the first few months of 2023, momentum returned to the industry in recent months as the banks represented in our sample picked up market share and new clients from the recently failed regional institutions.

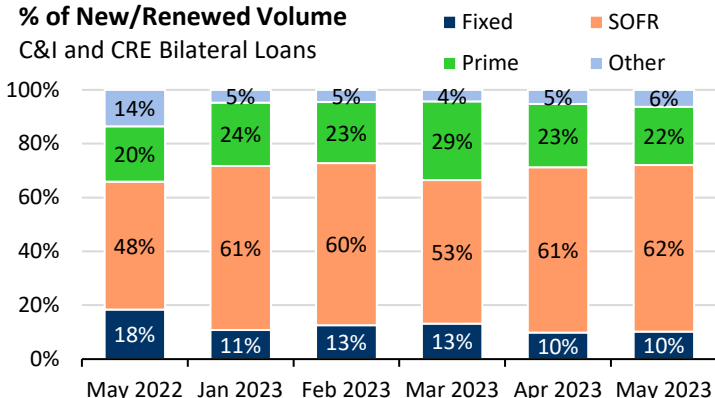
NAICS 52 Finance & Insurance



Source: AFS Loan Pricing Service.



% of New/Renewed Volume C&I and CRE Bilateral Loans



Source: AFS Loan Pricing Service

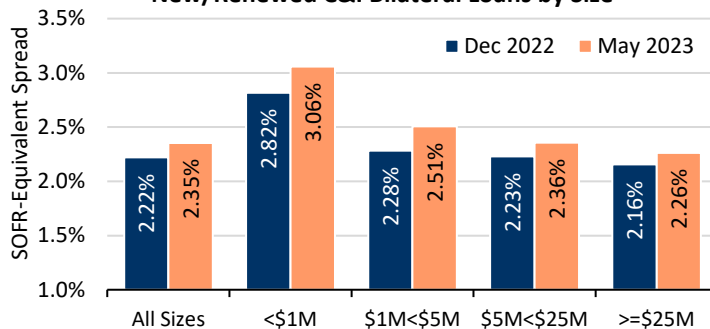
Banks remain cautious about fixed-rate lending, SOFR adoption continues to expand.

In its latest meeting, the Federal Open Market Committee decided to hold off on what would have been its 11th consecutive interest rate increase. With the rate cycle potentially approaching its peak, some banks have gone longer on their assets and lending, while others remain cautious about duration risk and fixed-rate lending. For the market as a whole, fixed-rate C&I and CRE bilateral volume was down 8 percentage points in May when compared to the same month a year earlier. By comparison, SOFR volume increased substantially over the last year and now represents more than half of total new and renewed deal flow.

Banks increase C&I loan spreads as they continue to tighten lending standards.

The chart on the right illustrates SOFR-equivalent spreads, in which the pricing for loans of varying types has been reindexed relative to SOFR. Recent surveys conducted by both the Fed and AFS reveal that banks have become increasingly more cautious about new lending opportunities and, as such, have prioritized optimizing spread and fee levels. When compared to the beginning of the year, SOFR-equivalent spreads widened in May across every deal size range. The increases were inversely correlated with size, in which the smaller borrowers displayed the largest uptick in spread.

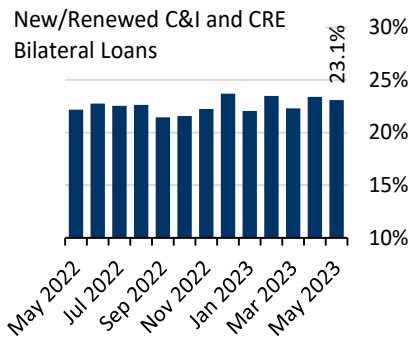
New/Renewed C&I Bilateral Loans by Size



Source: AFS Loan Pricing Service. Size ranges based on commitment size.

Upfront Fee Incidence

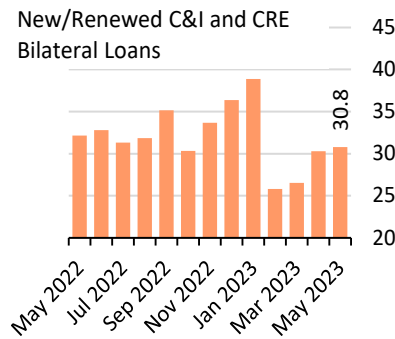
New/Renewed C&I and CRE Bilateral Loans



Source: AFS Loan Pricing Service

Upfront Fee Level Bps

New/Renewed C&I and CRE Bilateral Loans

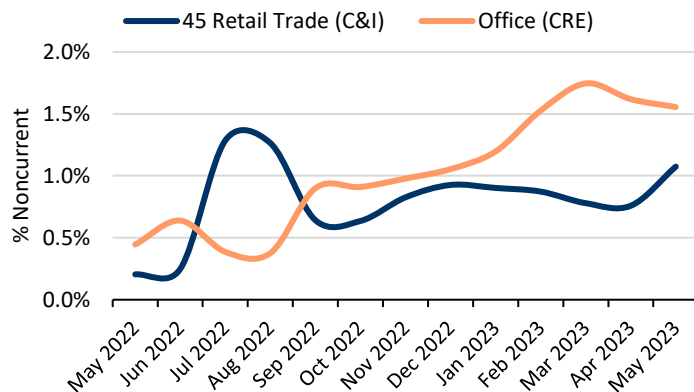


Fees remain an important driver of return and profitability.

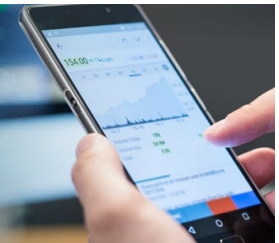
With banks continuing to tighten lending standards for C&I and CRE loans, optimizing spread and fee levels on new and renewed lending has become a strategic priority for most lenders. Upfront fee incidence – the percentage of loans assessed with an origination or renewal fee – was up slightly in May when compared to the same month a year earlier. Over the same period, the weighted average upfront fee level was down slightly. Fee pricing varies the most across banks for deals under \$1 million.

Signs of stress emerge in the commercial loan market.

While overall credit conditions remain steady for both C&I and CRE loans, pockets of stress persist in the market. Inflation, while improving, remains above the Fed's target level, and prices continue to rise for housing, recreation, household furnishings, and new vehicles. These trends have pressured credit quality for the Retail Trade sector, as evidenced by the recent uptick in the percentage of noncurrent loans (i.e., nonaccruing loans and accruing loans past due over 90 days). In the CRE market, the percentage of noncurrent Office loans more than tripled year over year in May.



Source: AFS Loan Pricing Service



AFS Pricing Guidance File

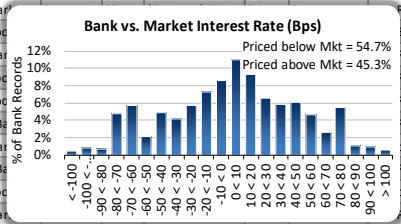
Market Intelligence Tailored to Your Bank • Real Facts on Pricing • Easy to Integrate Flat File Delivery

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	Non-Real Estate	5,382,035	3.89	4.76	-0.86
4Q	Snared Services	56264				Finance & Management	Charlotte	Large Corporate	Renewed	02	\$5M to < \$15M	SOFR	Term Loan	Non-Real Estate	3,836,262	3.29	3.73	-0.44
4Q	Table Your Needs	80729				Food Services	El Paso	Middle Market	Renewed	02	\$5M to < \$15M	SOFR	Term Loan	Non-Real Estate	2,000,494	2.14	2.04	0.10
4Q	Don't Break a Bill	78103				Health Care	San Diego	Large Corporate	Renewed	03	\$1M to < \$5M	SOFR	Line of Credit	Real Estate	753,104	2.33	2.55	-0.22
4Q	Admire Artists	77431				Accommodation & Leisure	Phoenix	Large Corporate	New	06	\$1M to < \$5M	LIBOR	Term Loan	Non-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	2,678,997	2.00	2.24	-0.24
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	New	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	\$5M to < \$15M	SOFR	Term Loan	Non-Real Estate	1,344,514	2.00	2.07	-0.07
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	Lillianna 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:

- Vet their approach to valuable credit and lending metrics
- Mitigate risk
- Leverage revenue opportunities
- Define ubiquitous metrics and terminology
- Validate benchmarking data with true-life experiences
- Provide in-depth, customizable and strategic reporting

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.