C&I Lending

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Setting the Stage: Loan Priorities

Percentage of Banks Citing Loan Type as a High Priority

	2020	2021	2022	2023
Commercial C&I loans	70%	63%	57%	62%
Commercial real estate loans	76%	45%	53%	49%
Mortgage/refi loans	56%	47%	37%	20%
Home equity loans/lines of credit	39%	9%	20%	17%
Loan participations	NA	5%	15%	11%
Auto loans	13%	6%	9%	6%
Other personal loans	15%	5%	6%	3%
POS/BNPL loans	3%	1%	5%	3%
Student loans	1%	0%	1%	0%

Source: Cornerstone Advisors surveys of bank and credit union senior executives, 2019 to 2022

SO WHAT

Commercial Lending is the way community banks make their money. CRE, especially owner non-occupied, is concerning given the effect of WFH on lease renewals. Shift has been towards Commercial and Industrial loans which require better automation.

But translating to actual growth is challenging…

Only 1 out of every 4 of banks was able to produce a measurable increase in the % of C&I from 2016 - 2022

Only 1 out of every 10 banks that started in 2016 below 18% of loans in C&I was able to grow the % above 18% as of 2022

The C&I Challenge

Primary C&I Success Factors

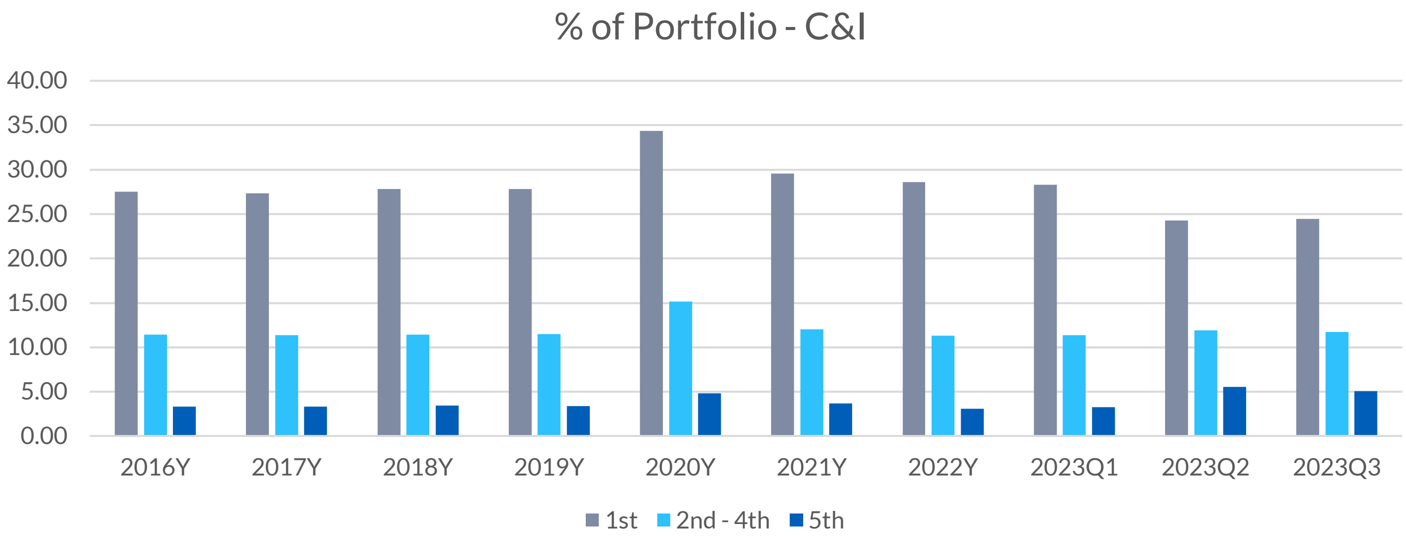
- Longer Sales Cycle/Patience
- Networks
- Talent – Underwriting/Analysis
- Credit Risk Tools/Analysis
- Treasury Management
- Frequent Digital Engagement

SO WHAT

Commercial & Industrial Lending requires a different mindset from the traditional community bank CRE lending.

But there are benefits…

Top Quintile – C&I Loans



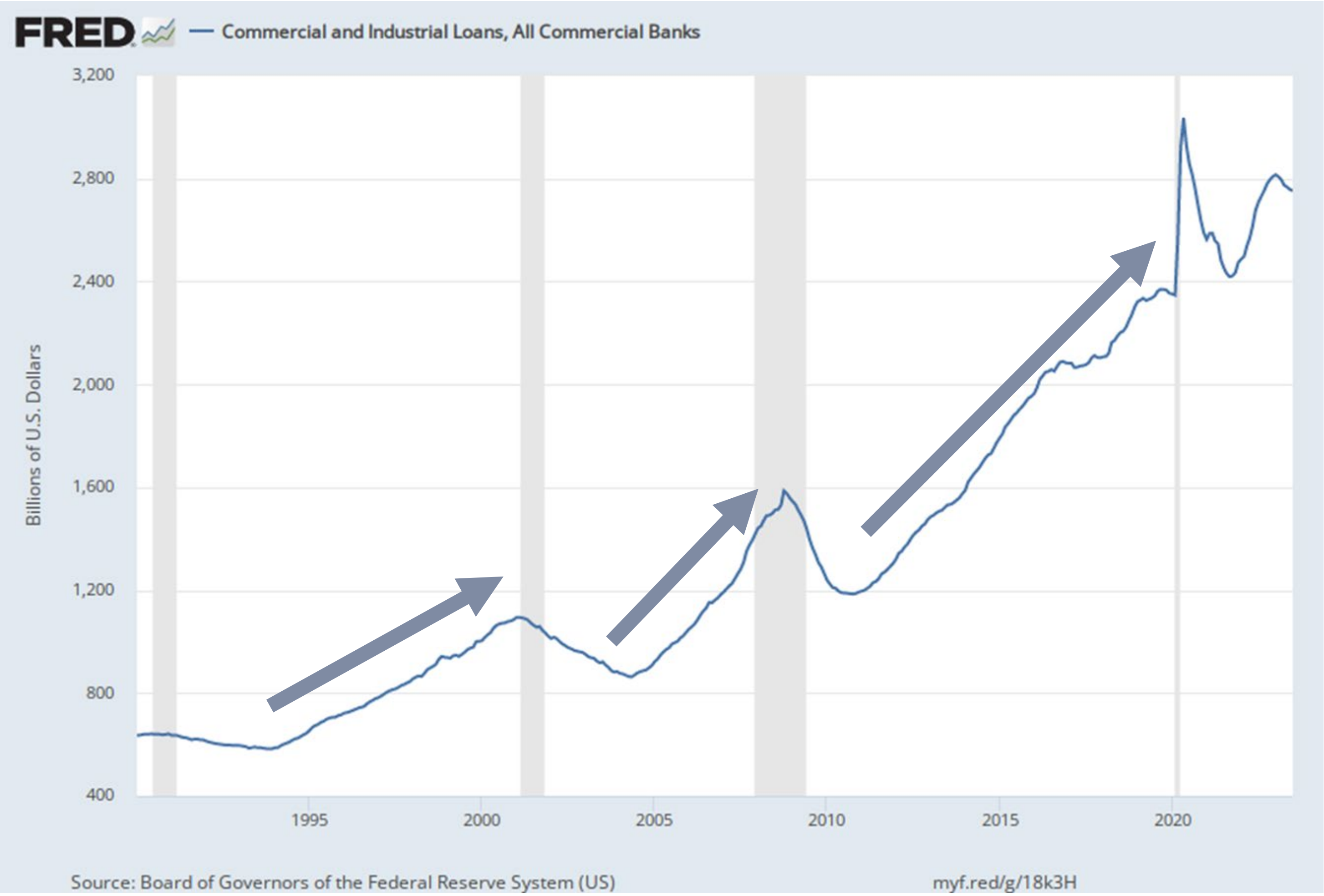
SO WHAT

Reaching the top 20% does have its benefits

Performance vs. the lower 80%

Loan Yield (All Loans)	4 – 68 bps higher
Net Yield (after COF & NCO)	0 – 56 bps higher
Efficiency Ratio	3.43 – 7.86% Lower
ROAA	4 – 35 bps higher
ROAE	131 – 489 bps higher

Growing the C&I Balances



SO WHAT

Prepare now to take advantage of post recession growth

- **Top economist David Rosenberg expects a US recession to hit within 6 months.**

Post Recession Growth Opportunity.- Not surprising that C&I loan growth occurs post recession.

Entering the Slowdown/Recession?

Quarterly growth by Loan Portfolio: All US Banks

Loan Portfolio	2023 Q3 Amount	Q on Q Growth	Perc
1-4 Family First Liens	2,511,198,548,000	20,643,151,000	0.83
1-4 Family Junior Liens	37,882,582,000	2,370,452,000	6.68
Home Equity Loans	269,300,255,000	181,817,000	0.07
Individuals: Auto Loans	538,901,350,000	-2,568,622,000	-0.47
Individuals: Credit Cards	1,053,769,227,000	25,952,520,000	2.53
Individuals: Other Loans	503,581,645,000	725,370,000	0.14
C&I: US	2,201,929,897,000	-28,865,437,000	-1.29
C&I: non-US	285,190,603,000	-1,283,388,000	-0.45
Lease Financing Receivables	115,036,648,000	1,075,635,000	0.94
CRE: non-Owner Occupied	1,161,965,288,000	3,807,195,000	0.33
CRE: Owner Occupied	642,719,105,000	3,998,909,000	0.63
Const: 1-4 Family	99,583,126,000	-2,892,444,000	-2.82
Const: Other/Land	397,492,174,000	11,418,260,000	2.96
Multifamily Residential RE	605,821,158,000	5,590,593,000	0.93
Farm (Ag) Loans	79,503,014,000	3,777,465,000	4.99
Farmland Loans	115,752,073,000	1,054,024,000	0.92
Nondepository Fin Inst	778,065,164,000	-7,730,888,000	-0.98

C&I US Addresses Growth: 10 Largest Portfolios

Institution	2023 Q2 Amount	2023 Q3 Amount	Growth	Perc
Bank of America	254,229,000,000	250,053,000,000	-4,176,000,000	-1.64
Wells Fargo	171,207,000,000	169,486,000,000	-1,721,000,000	-1.01
JPMorgan Chase	160,123,000,000	156,508,000,000	-3,615,000,000	-2.26
PNC Bank	118,971,822,000	115,748,834,000	-3,222,988,000	-2.71
U.S. Bank	100,377,301,000	98,080,849,000	-2,296,452,000	-2.29
Truist Bank	88,998,000,000	86,631,000,000	-2,367,000,000	-2.66
Citibank	59,651,000,000	57,894,000,000	-1,757,000,000	-2.95
Bank of Montreal	49,379,175,000	48,522,354,000	-856,821,000	-1.74
Capital One	44,633,180,000	45,728,192,000	1,095,012,000	2.45
Fifth Third	45,394,000,000	44,099,000,000	-1,295,000,000	-2.85

SO WHAT

Typically, C&I balances drop before or during a recession. We now have 2 consecutive quarters of declines in the C&I portfolios.

2) C&I: US Addresses fell $28.87B (-1.29%) to $2.20 Trillion. This was the second consecutive drop in the portfolio and was considerably higher than the $10.23B (-0.46%) reduction in Q2. The portfolio is 17.84% of all bank loans - the lowest exposure in 35 quarters going back to 2014 Q4.

Post Recession Growth Opportunity.- Not surprising that C&I loan growth occurs post recession.

C&I Performance Impact Details

C&I Analysis

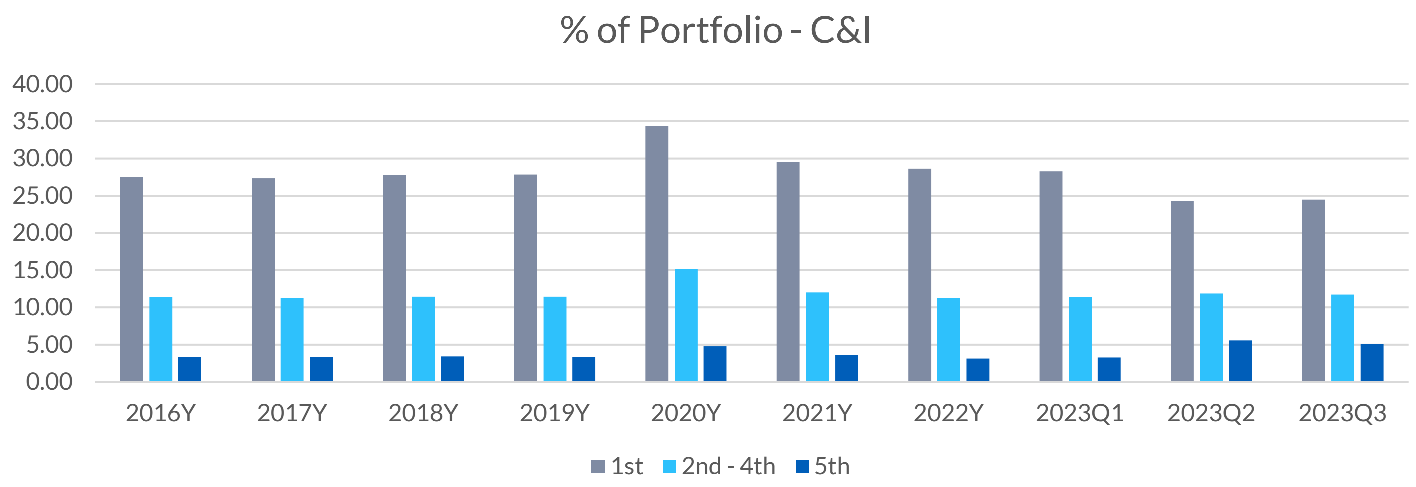
2016 – Q3 2023

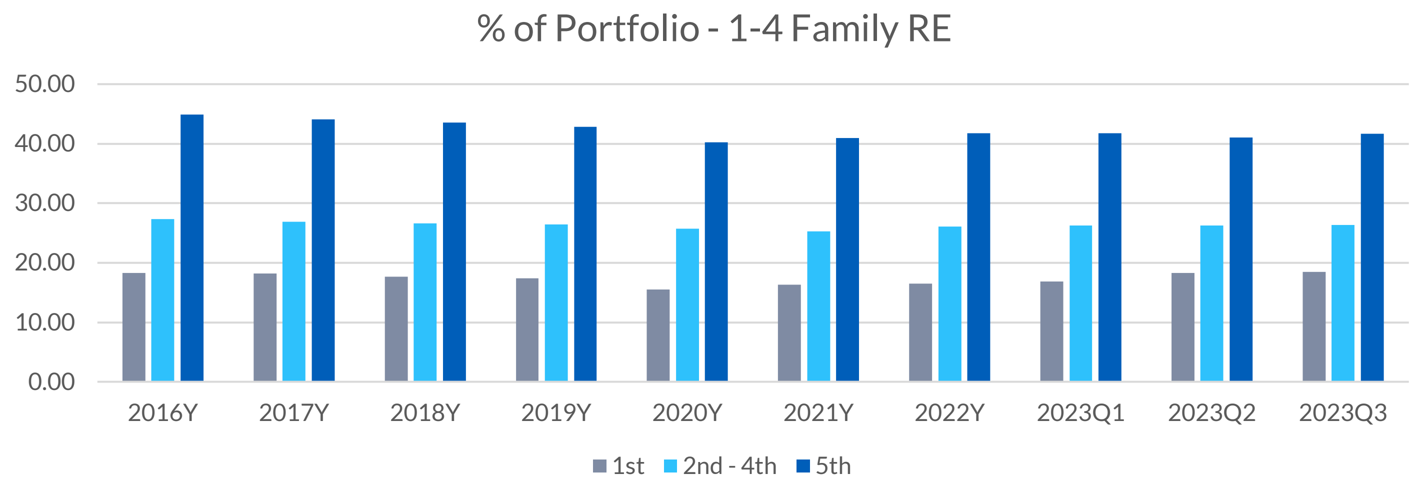
Population Defined

- Bank performance data
  - Annual - 2016 through 2022
  - Quarterly – Q1 – Q3 2023
- Metrics from Call Report Data (Source - S&P Global)
- Banks grouped into Quintiles based upon % of Portfolio in C&I
  - 1st Quintile
  - 2nd – 4th Quintiles
  - 5th Quintile
- Exclusions
  - Banks with assets greater than $70 billion
  - FI with NA as assets
  - FI's with greater than 90% of portfolio in 1-4 family
  - FI's with greater than 90% of portfolio in consumer
  - FI's with Loan to Deposit of less than 10%

Total Population	
Quintile	**# of Banks**
1st	855
2nd-4th	2.563
5th	855
Total	4,272

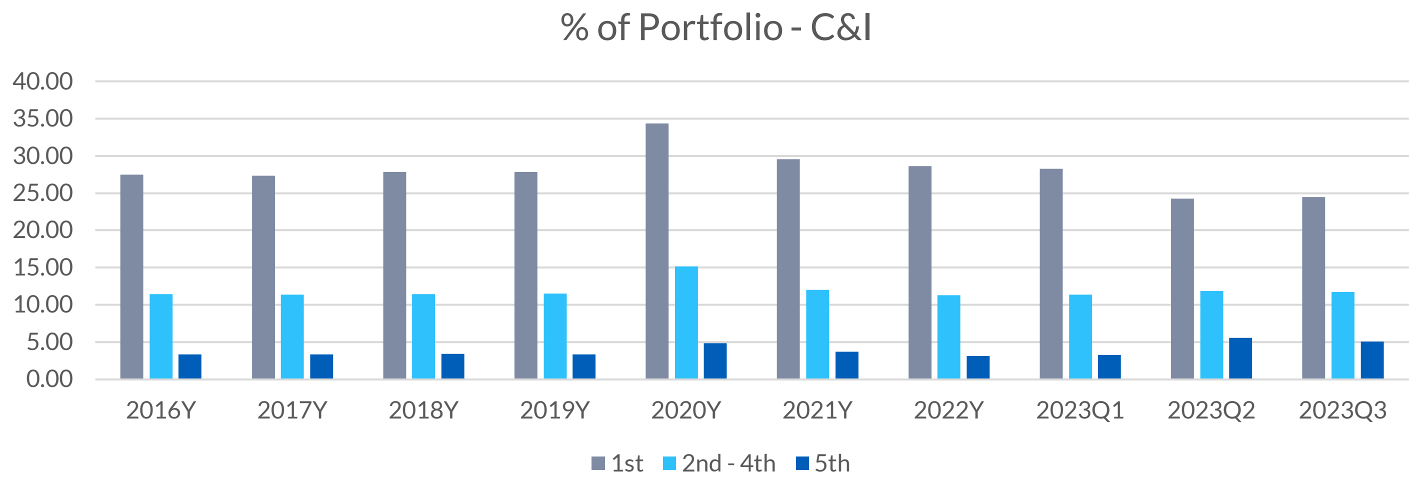
Portfolio % – C&I vs. 1-4 Family Residential

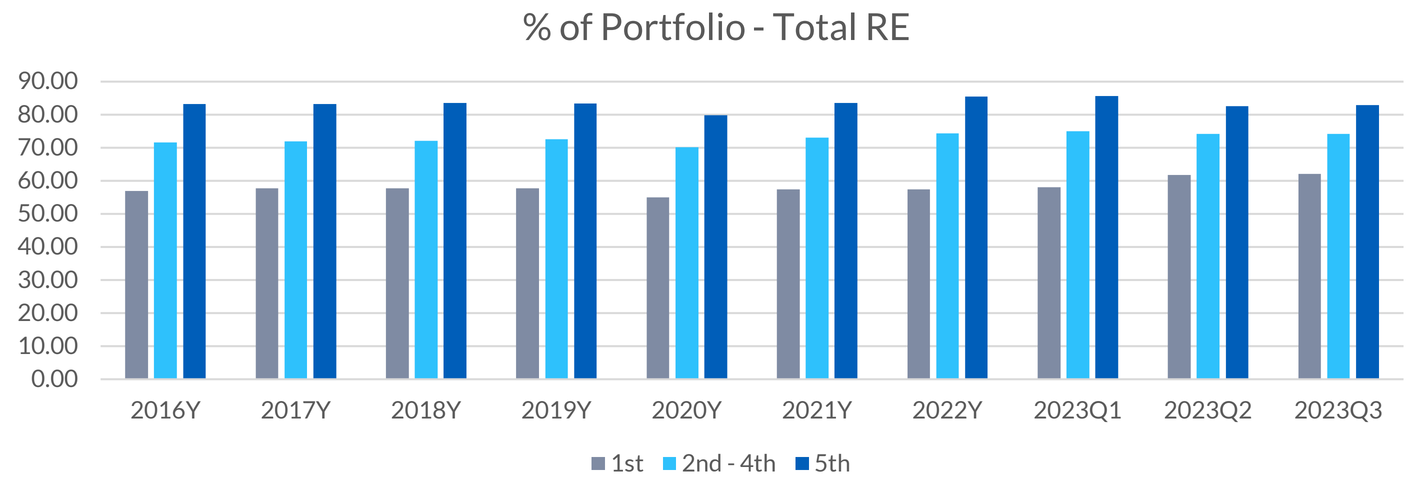




Inverse relationship between C&I and 1-4 Family Residential

Portfolio % – C&I vs. Total Real Estate

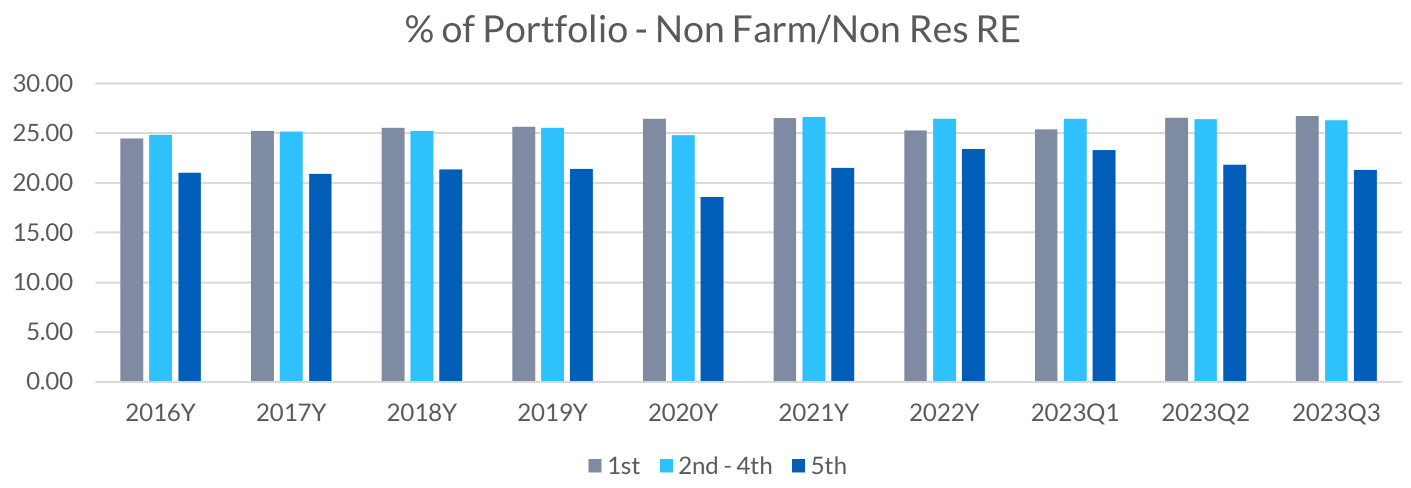


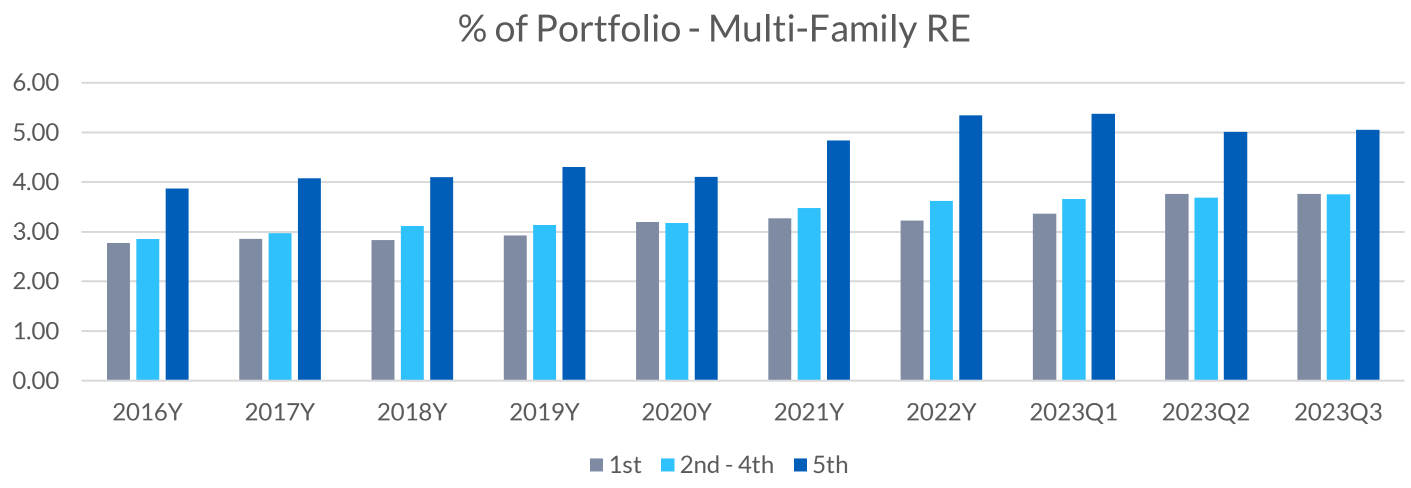


Similar but narrowing disparity between C&I vs. Total Real Estate

Peak differential between 1st & 5th was in 2022 (28.09%) but has dropped to its lowest in Q3 2023 (20.78%)

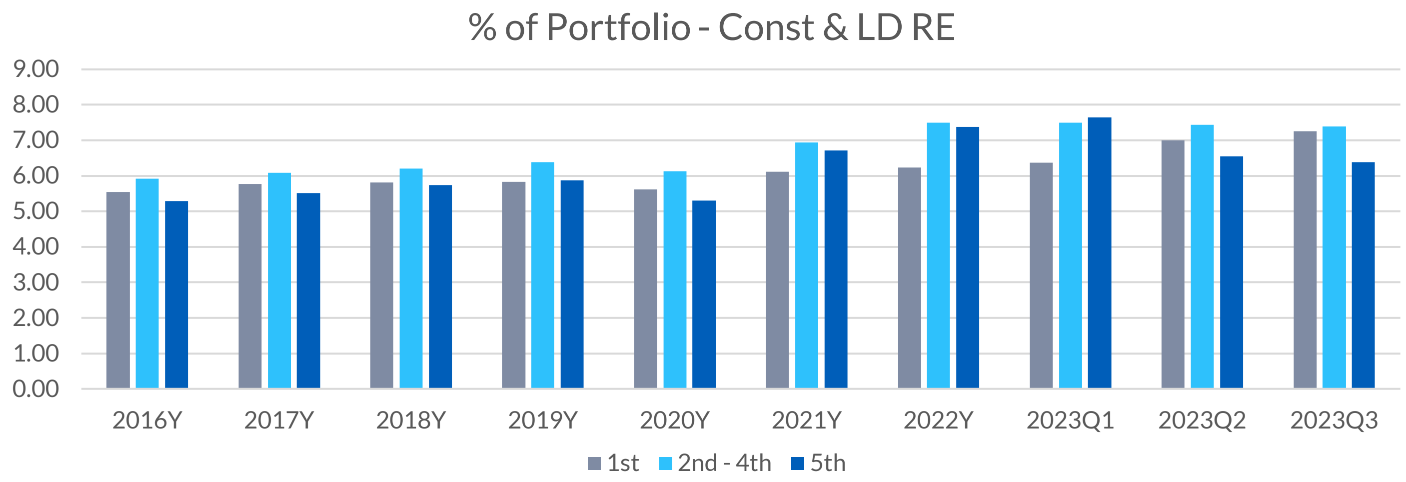
Portfolio % – Non Farm/Non Res & Multi-Family





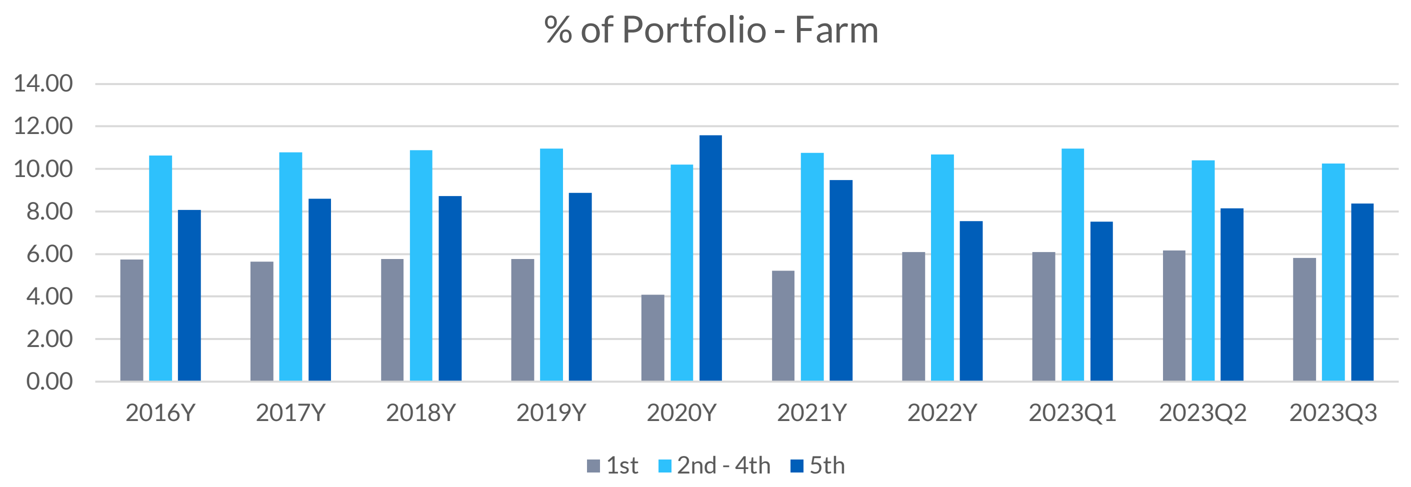
While neither demonstrates significant variances a similar inverse relationship exists between Commercial and Residential

Portfolio % – Construction & Land Development

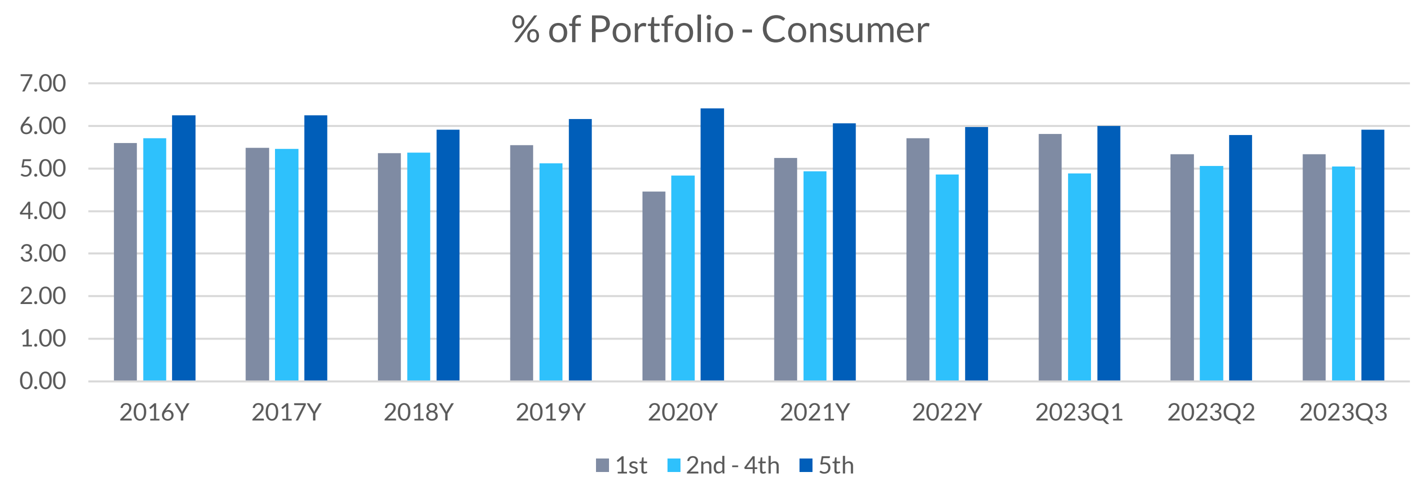


Slight variances between the groups but typically a slightly higher percentage in the 2nd – 4th Percentiles

Portfolio % – Consumer & Farm

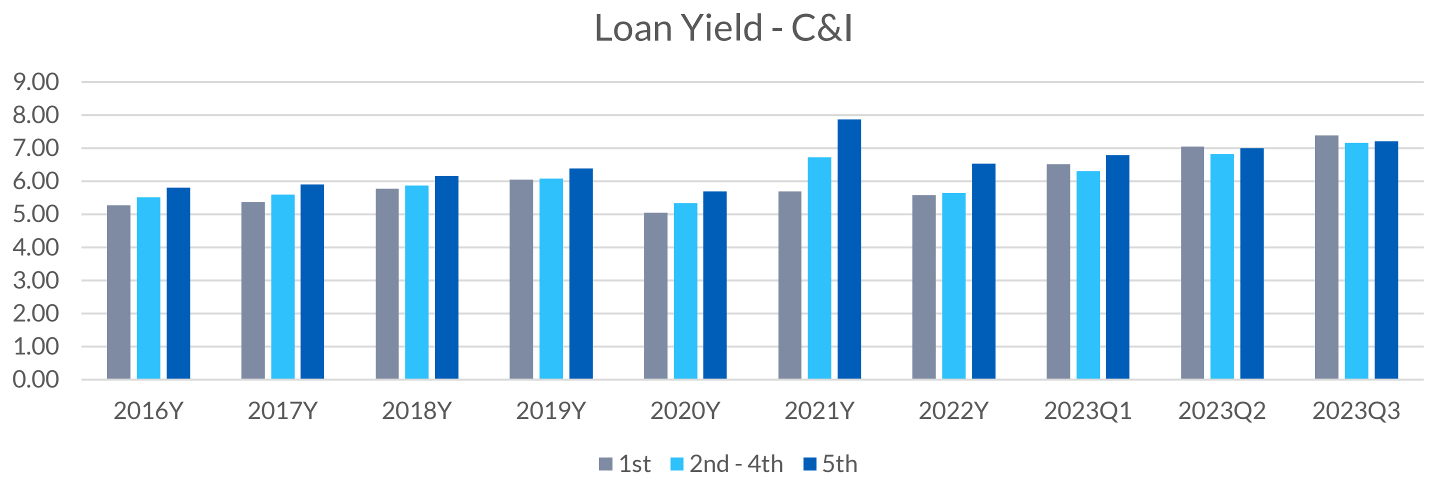


Farm is small relative overall % of portfolios with the 1st quintile consistently the lowest %

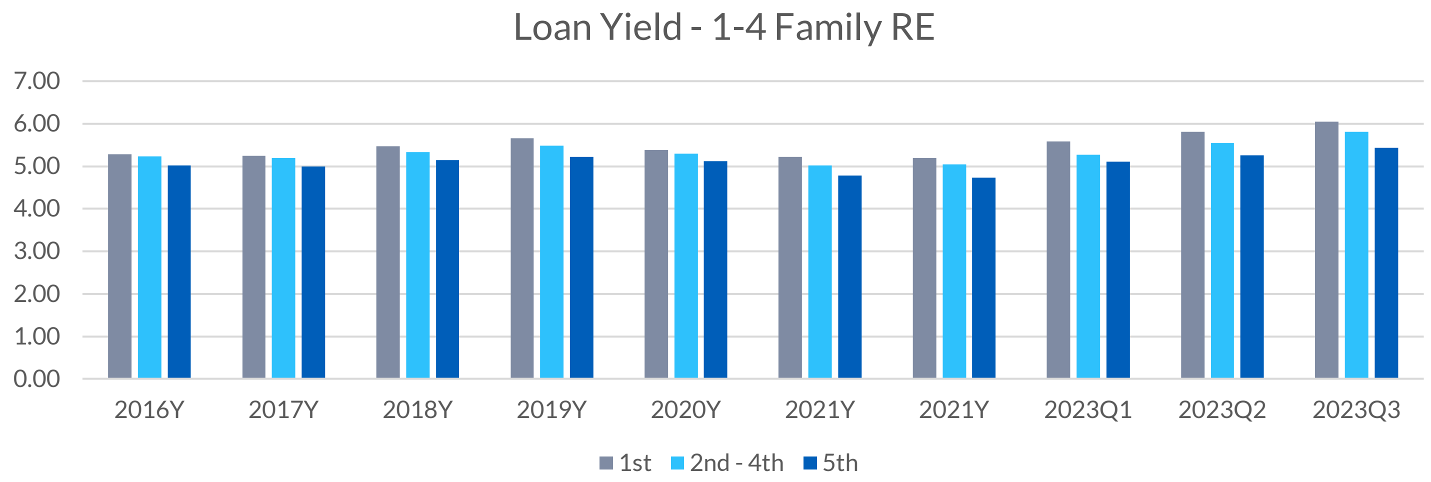


Consumer is small relative overall % of portfolios and appear to be influenced by the focus on 1-4 Family RE

Loan Yield – C&I vs. 1-4 Family RE

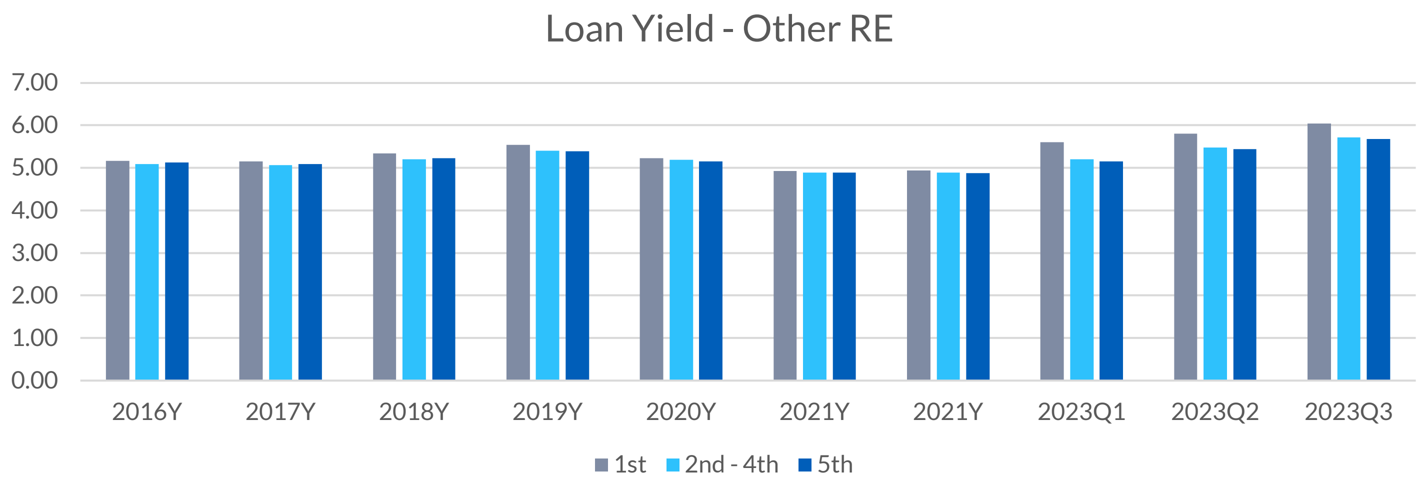


Up until Q1 of 2023, the higher the percentage of C&I (1st Quintile) the lower the yield but starting in Q2 of 2023, the 1st Quintile has caught up with the 5th and in Q3 actually took the lead.

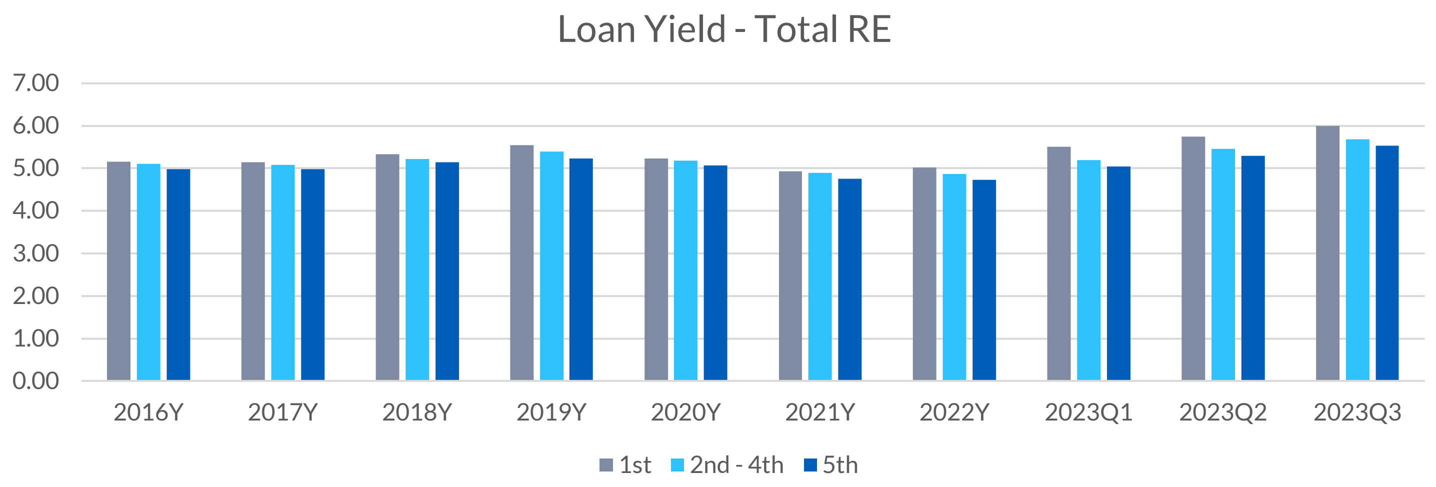


More consistent relationship between % of portfolio and loan yield for 1-4 Family RE

Loan Yield – Other RE & Total RE

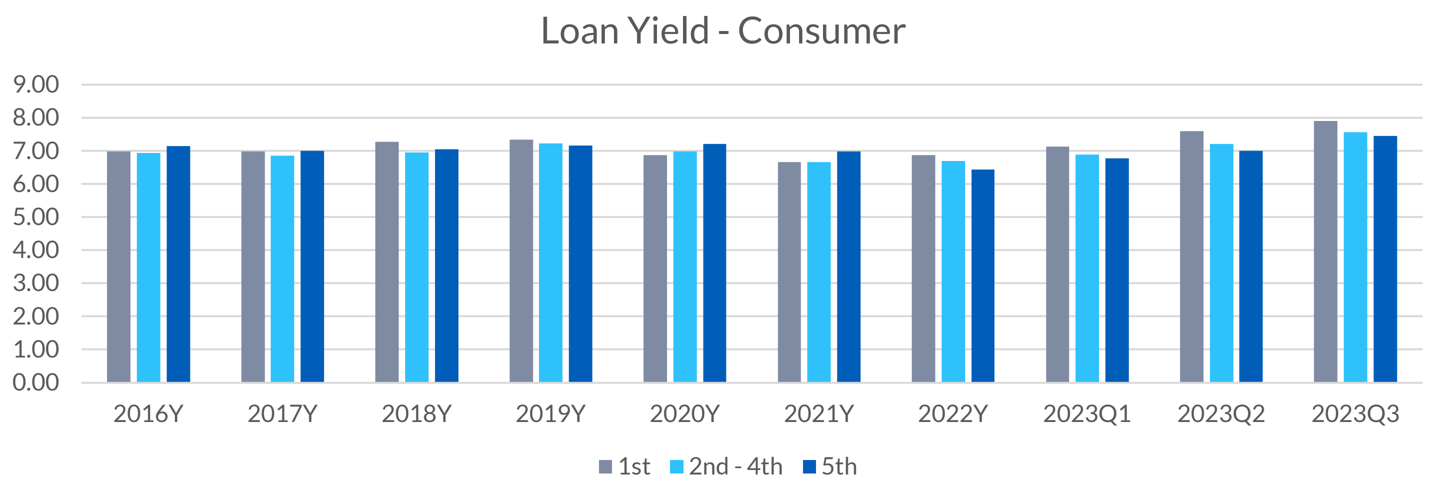


Slight advantage for the 1st Quintile through 2022 with gap widening on Other RE

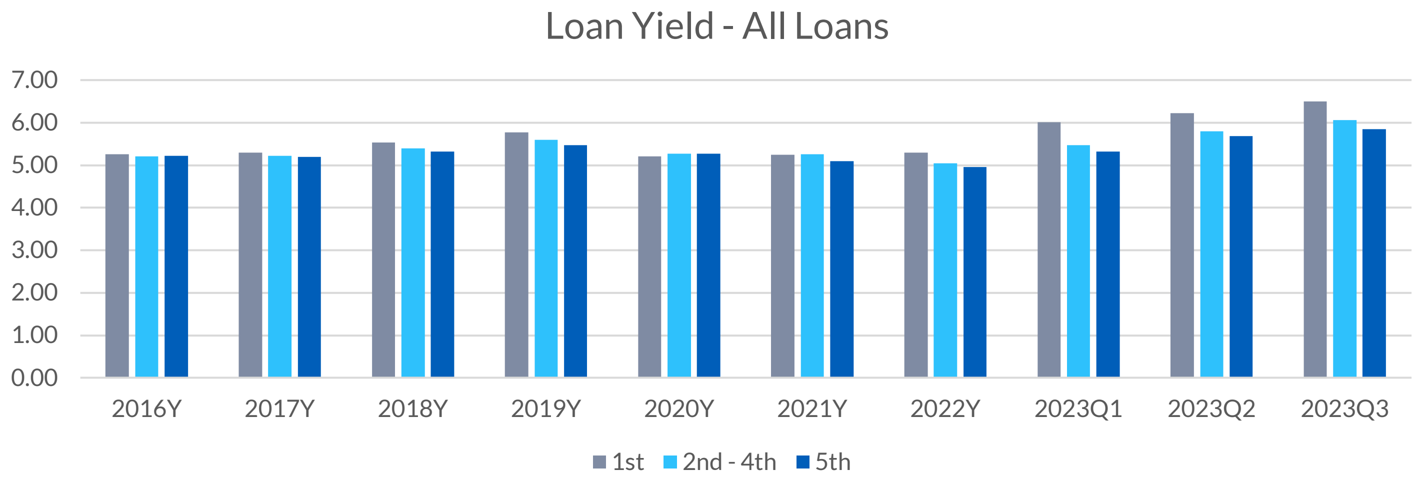


Similar experience with the yield on Total RE

Loan Yield – Consumer & All Loans

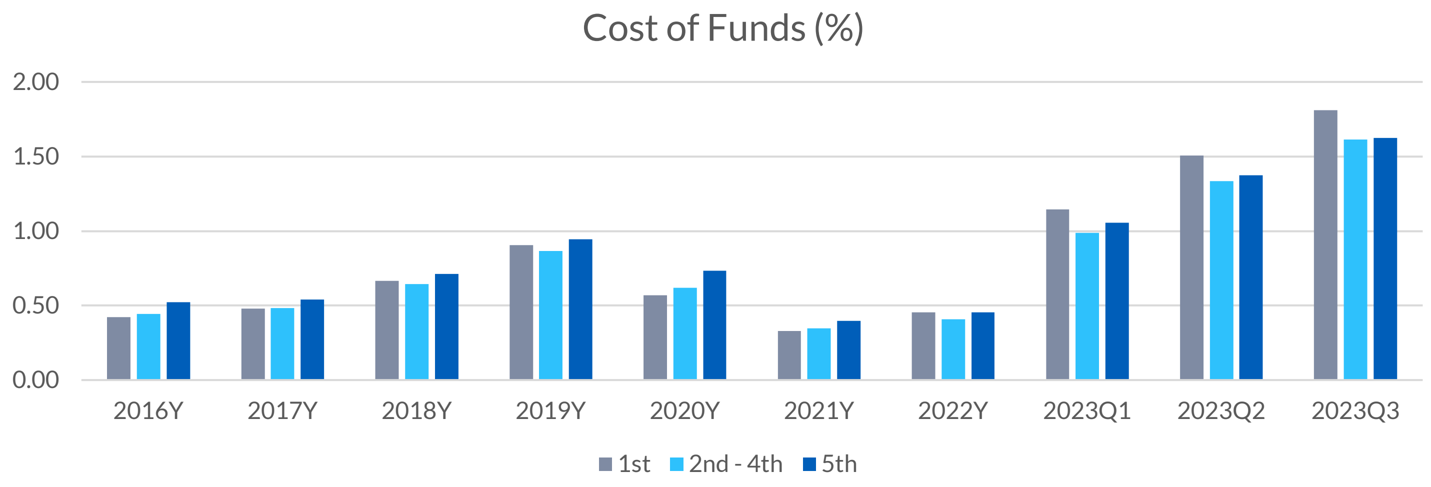


Loan yields in Consumer are fairly with somewhat similar behaviors as Yield on All Loans (below)

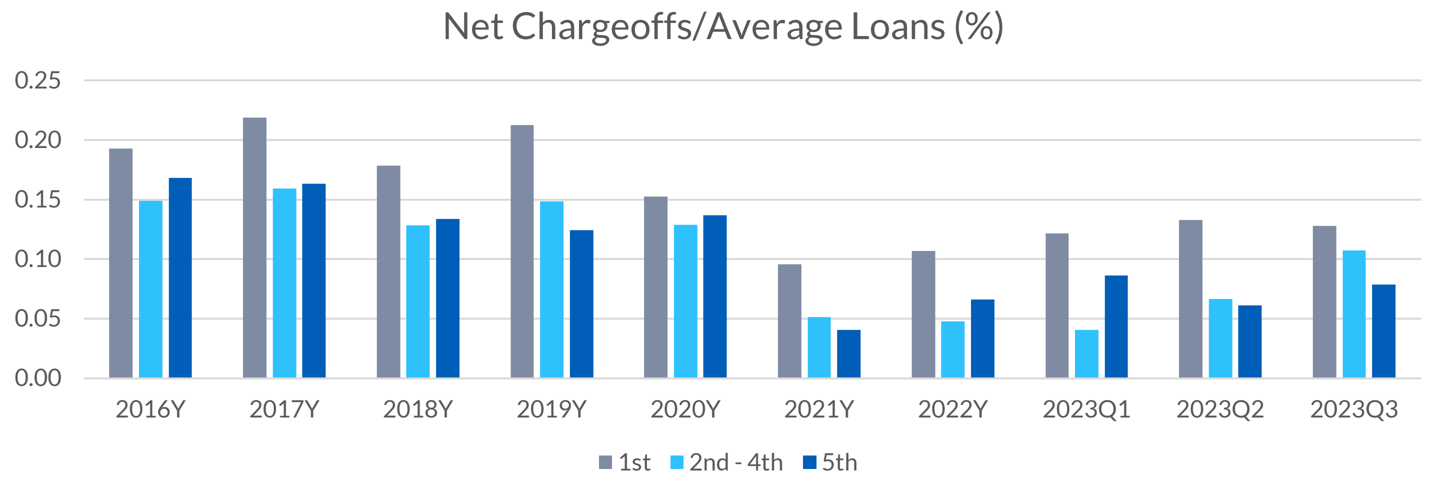


While the Pandemic years (2020 & 2021) saw a tightening of the gap, 2022 and the first 3 quarters of 2023 has the 1st Quintile taking the lead

Impact on Revenue – Cost of Funds & Chargeoffs

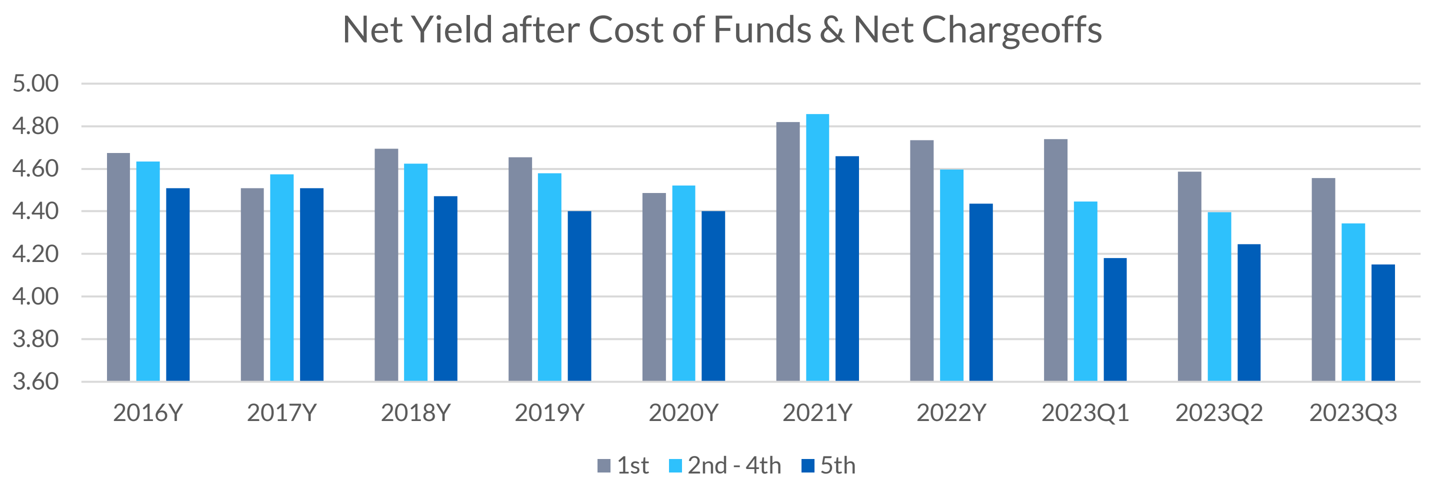


Overall dramatic increase in Cost of Funds in 2023 with 1st Quintile impacted more than the others

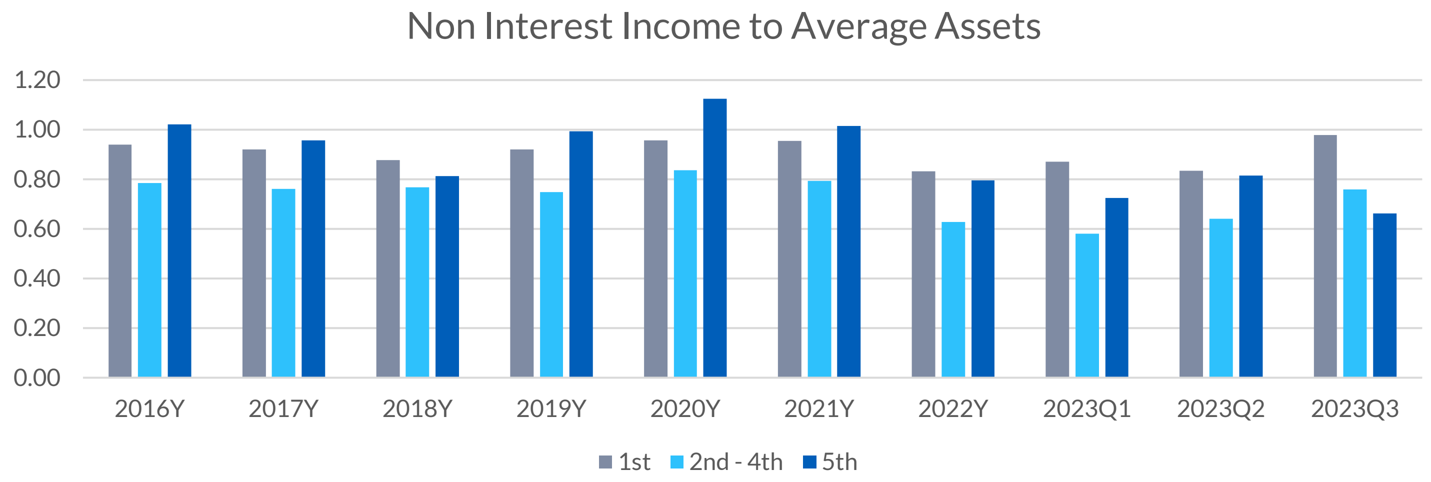


Consistently higher net chargeoffs in 1st Quintile but will watch the 2nd – 4th Quintiles given the relatively large increase from Q2 to Q3 (7 to 11 bps)

Impact on Revenue – Net Yield & Non Interest Income

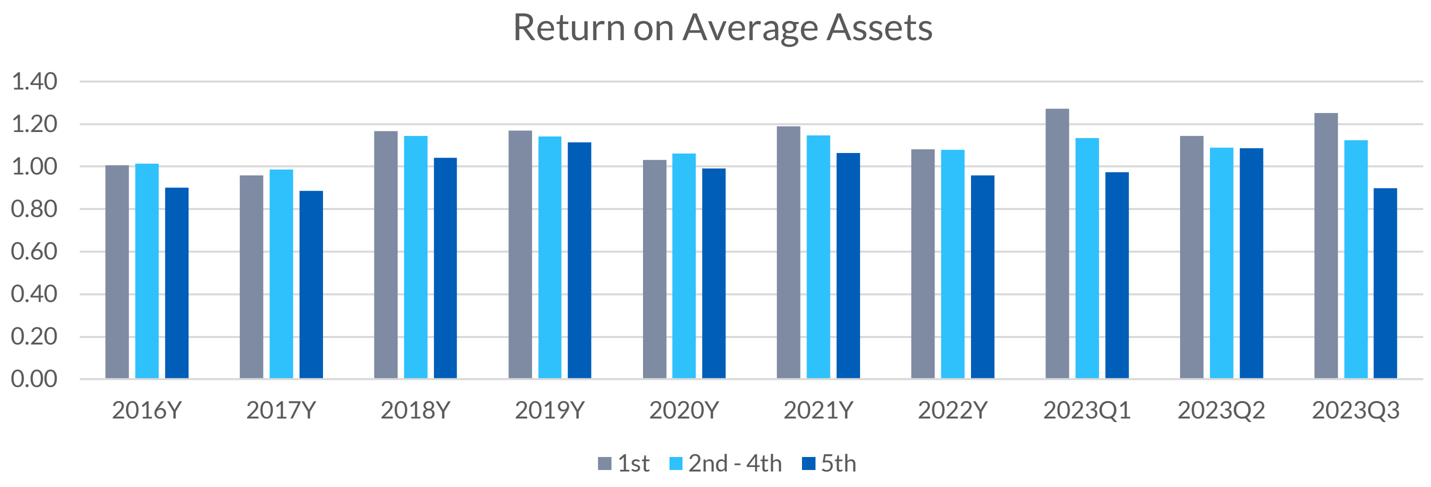


With the exception of 2017 and the Pandemic years, 1st Quintile leads with the widest gap in Q1 (56 bps)

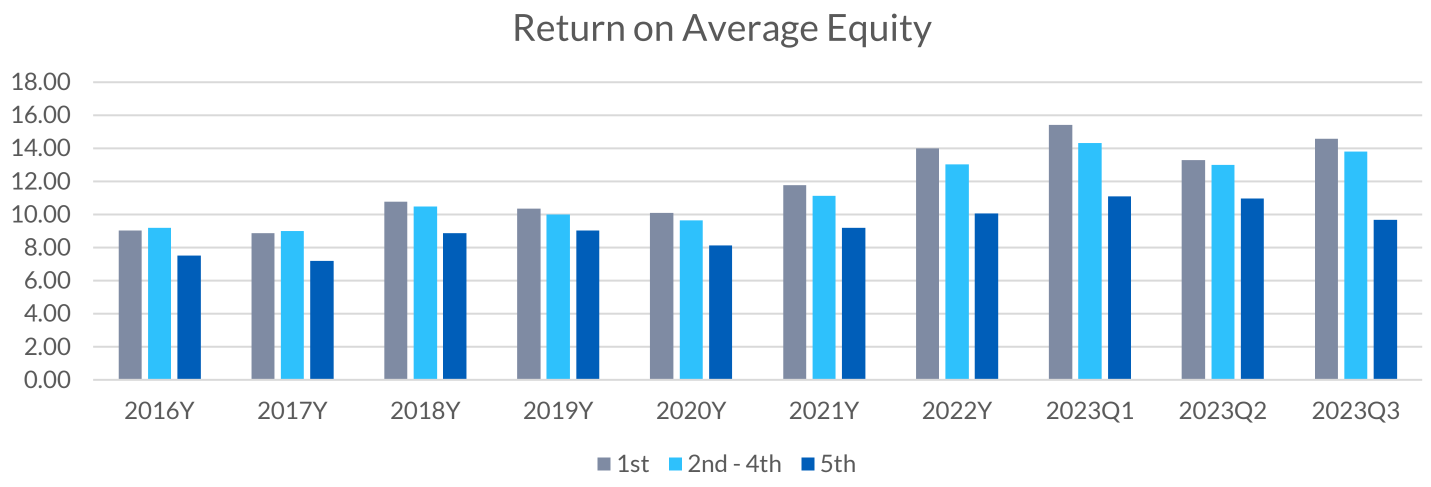


As residential mortgage volumes drop, the overall impact on Non-Interest Income is realized for the 5th Quintile while the 1st Quintile performance remains steady in the range of 83 – 98 bps

Performance – ROAA & ROAE

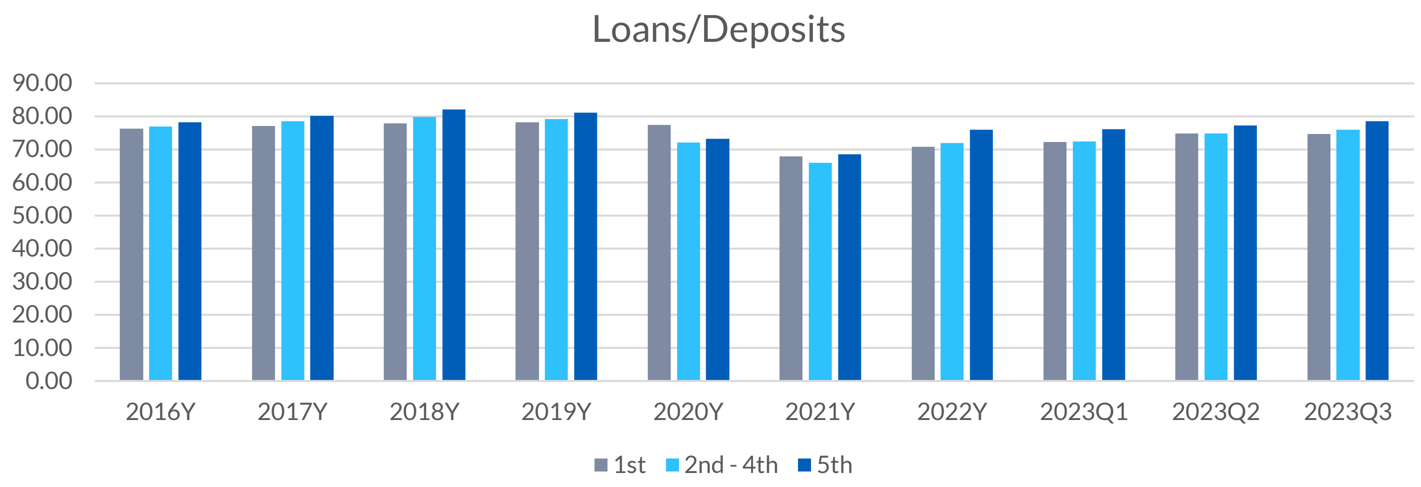


Typically, a higher ROAA

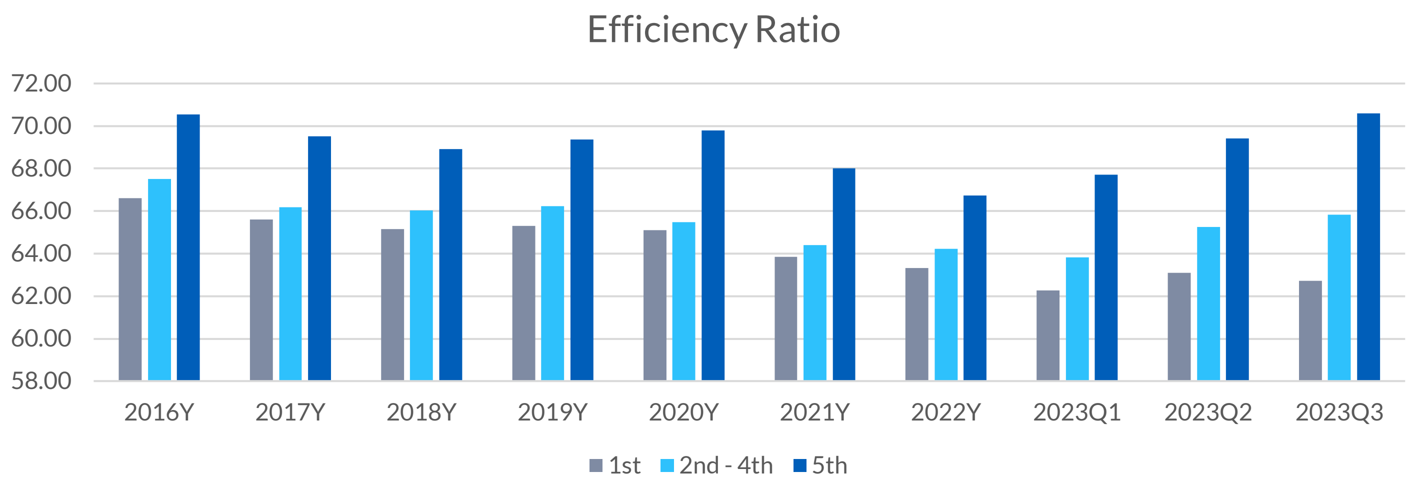


As well for ROAE

Performance – Loans/Deposits & Efficiency Ratio

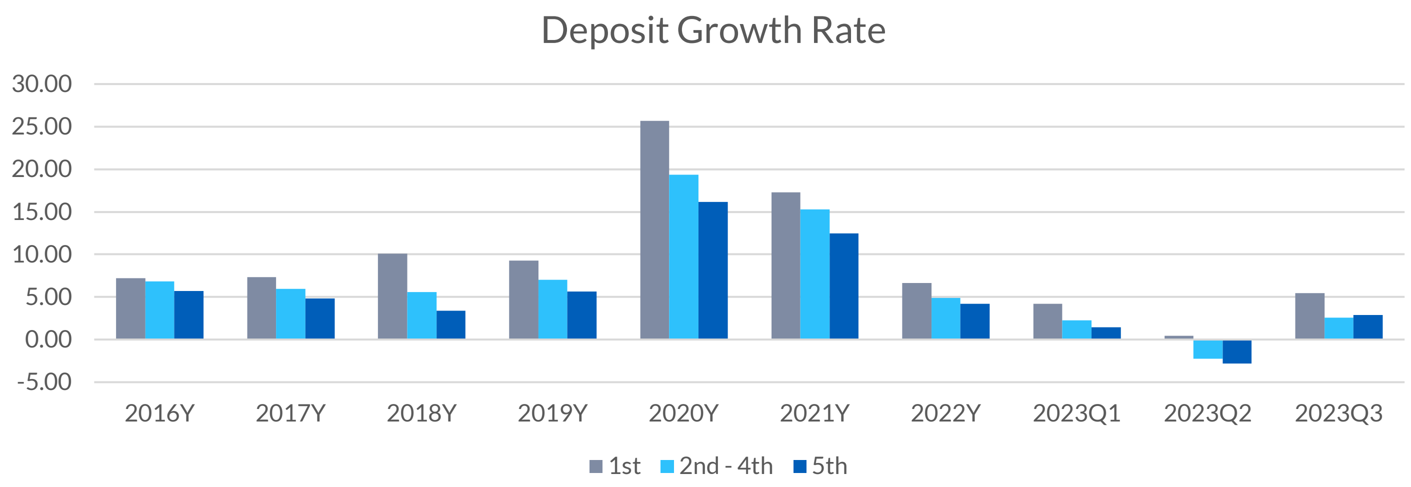


Except for the impact from the Pandemic, 1st Quintile consistently has lower Loan/Deposit

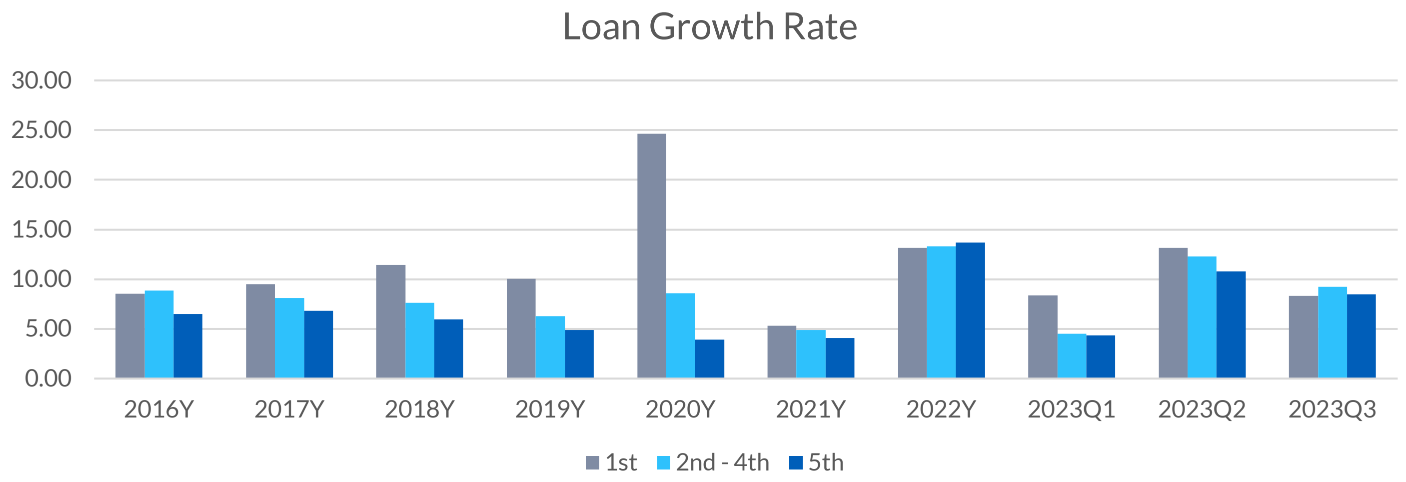


Across all the periods the 1st Quintile has stronger efficiency ratio by 3.77 (2018) to 7.86 (Q3 2023)

Growth Rates

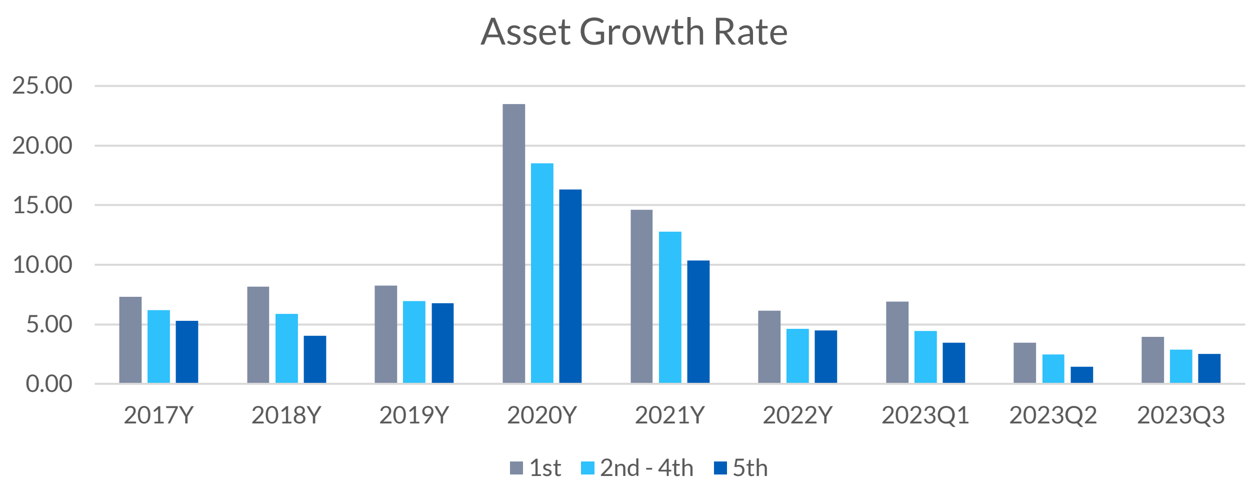


Consistently higher deposit growth rates for 1st Quintile and the only group to demonstrate growth in Q2 2023 (while nominal) in the wake of SVB



Consistently higher loan growth rates for 1st Quintile and the highest growth rate in 2020 resulting from the PPP program but Q3 2023 showing signs of potential slowing growth in anticipation of recession?

Growth Rates



Overall consistently higher asset growth rates for the 1st Quintile

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CONTINUE THE CONVERSATION

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Thank You