Credit in Uncertain Times

David Ruffin, *Principal, IntelliCredit*

February 27, 2024

IntelliCredit™
A division of QwickRate

CCB™ CALIFORNIA COMMUNITY BANKING NETWORK

ICBA Preferred Service Provider

Today's Speaker

David Ruffin
Principal
IntelliCredit

- 50 Years in Banking
- 16 years as Chief Credit Officer / Commercial Lender
- 3,000+ Loan Reviews
- ~350 Capital Raise or M&A Due Diligences
- Former Co-Founder of Credit Risk Management
- Prolific author and speaker on credit risk topics

678.797.4057
david.ruffin@intellicredit.com

Affordable Fintech Solutions for Real Bank Problems.

QwickRate®

- Non-brokered Funding and Investing
- DTC CDs, Other Fixed Income Investments *(QwickBonds)*

IntelliCredit™

- Loan Review Services *(by our experts)*
- Loan Review Tool *(for your internal team)*
- Annual Review Tool
- Portfolio Analytics and more

QwickAnalytics®

- CECLSolver Compliance Tool
- Credit Stress Test
- Bank Research, Performance Metrics and Analysis

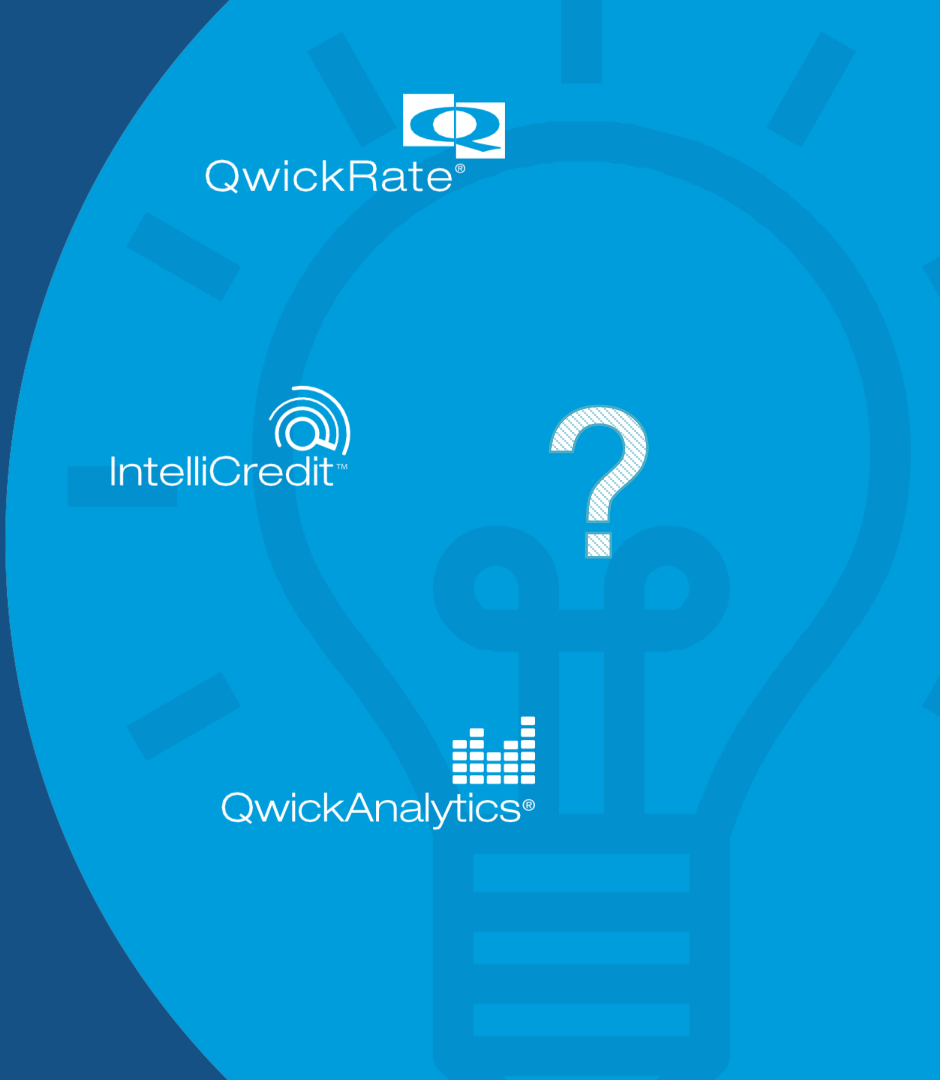
What is Your Role & What Do You Think?

1

IntelliCredit™
A division of QwickRate

This "*Exchange*" is About YOU!

Let's get started with some interactive polling…

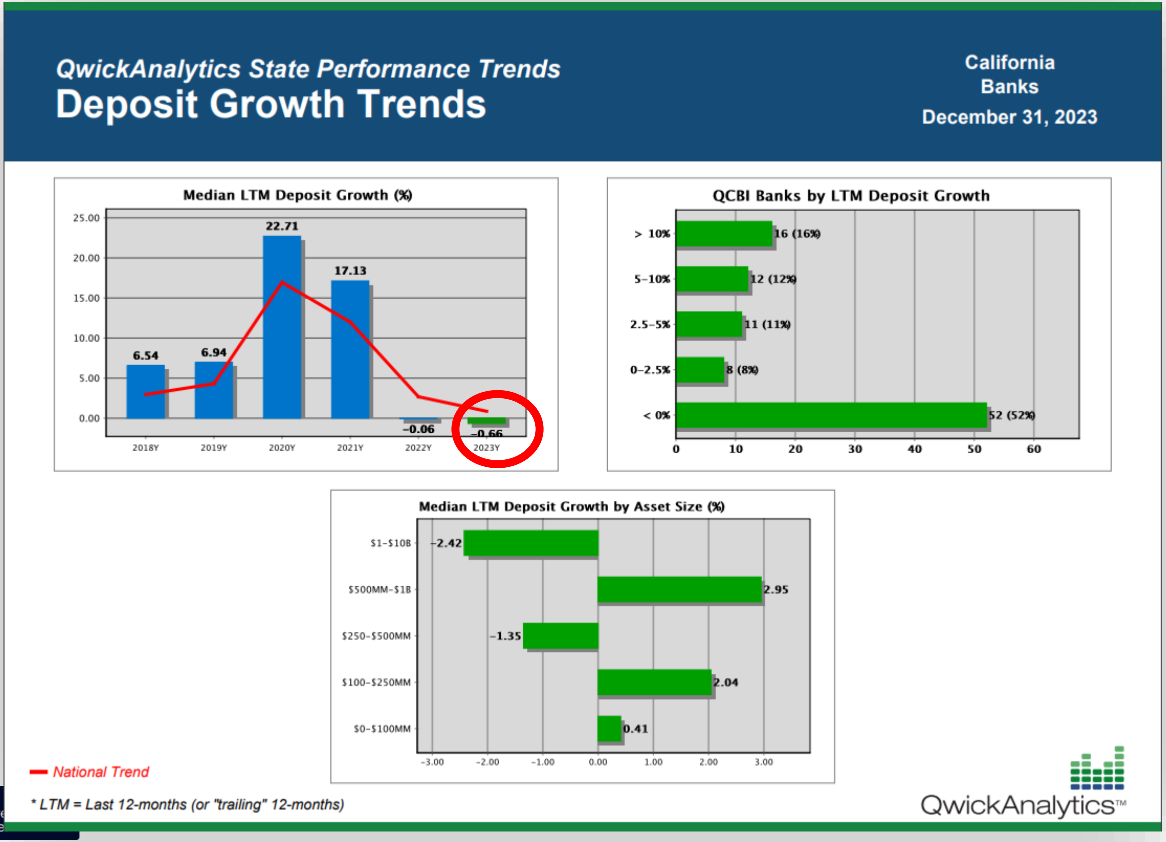


What Credit Trends Are Telling Us

2

IntelliCredit™
A division of QwickRate

Deposit Growth Trends: Banks <$10B

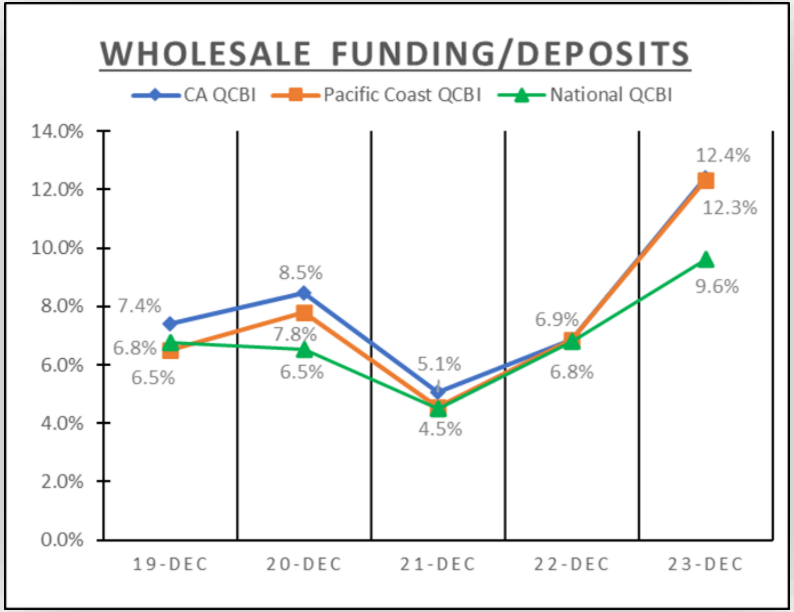


Q4 '23 Call Report Data

Along with concentrations, a key factor in fueling your customers' fear of a **credit crunch ahead!**

CA Wholesale Funding: Banks <$10B

CA <$10B / Pacific Coast <$10B* / National <$10B



Q4 '23 Call Report Data

QwickAnalytics®

*Pacific Coast: CA / OR / WA

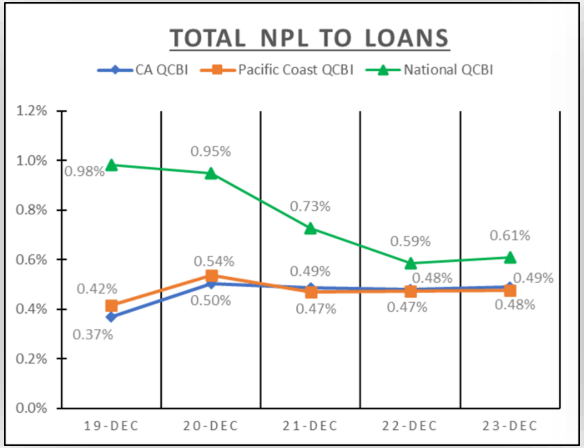
ICBA Preferred Service Provider

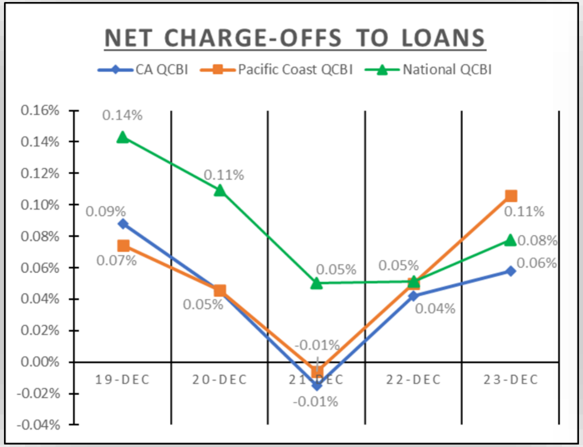
IntelliCredit™
A division of QwickRate

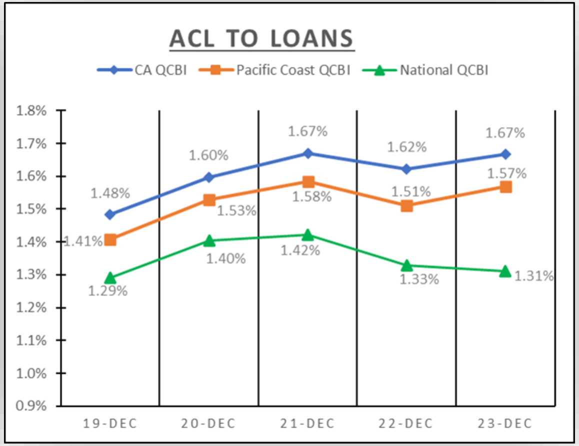
Trifecta of Loan Quality: Banks <$10B

Q4 '23 Call Report Data QwickAnalytics®

CA <$10B / Pacific Coast <$10B* / National <$10B

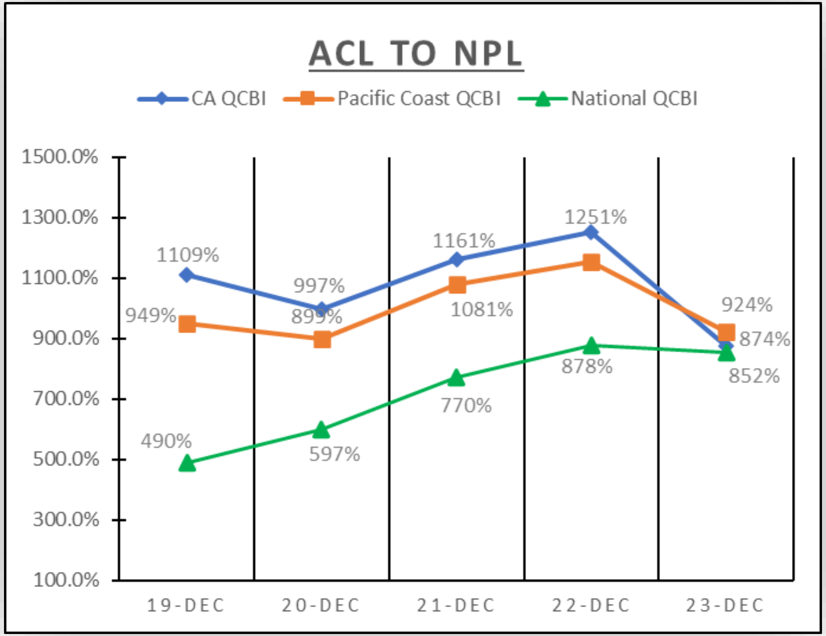






*Pacific Coast: CA / OR / WA

Trifecta of Loan Quality: Banks <$10B



QwickAnalytics®

Q4 '23 Call Report Data

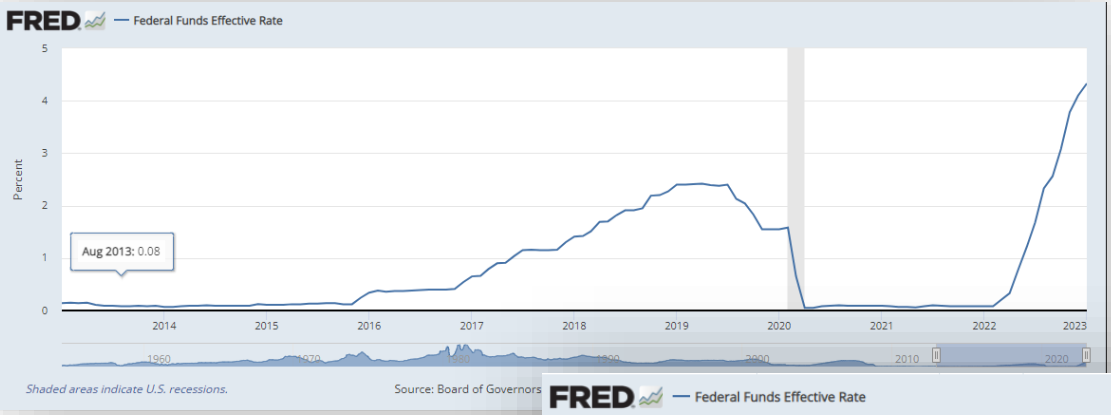
CA <$10B / Pacific Coast <$10B* / National <$10B

Loan quality metrics: *stronger in CA*

	All Insured Institutions California September 30, 2023			All Insured Institutions National September 30, 2023			All Insured Institutions National September 30, 2021		
	All Institutions	Assets Less Than $1 Billion	Assets Greater Than $1 Billion	All Institutions	Assets Less Than $1 Billion	Assets Greater Than $1 Billion	All Institutions	Assets Less Than $1 Billion	Assets Greater Than $1 Billion
30-89 Past Due Loans to Total Loans & Leases	0.29	0.42	0.28	0.54	0.46	0.55	0.44	0.42	0.44
Noncurrent Loans & Leases to Total Loans & Leases	0.44	0.58	0.43	0.82	0.54	0.84	0.94	0.68	0.96
Nonperforming Assets to Total Assets	0.32	0.47	0.31	0.45	0.39	0.45	0.46	0.47	0.46

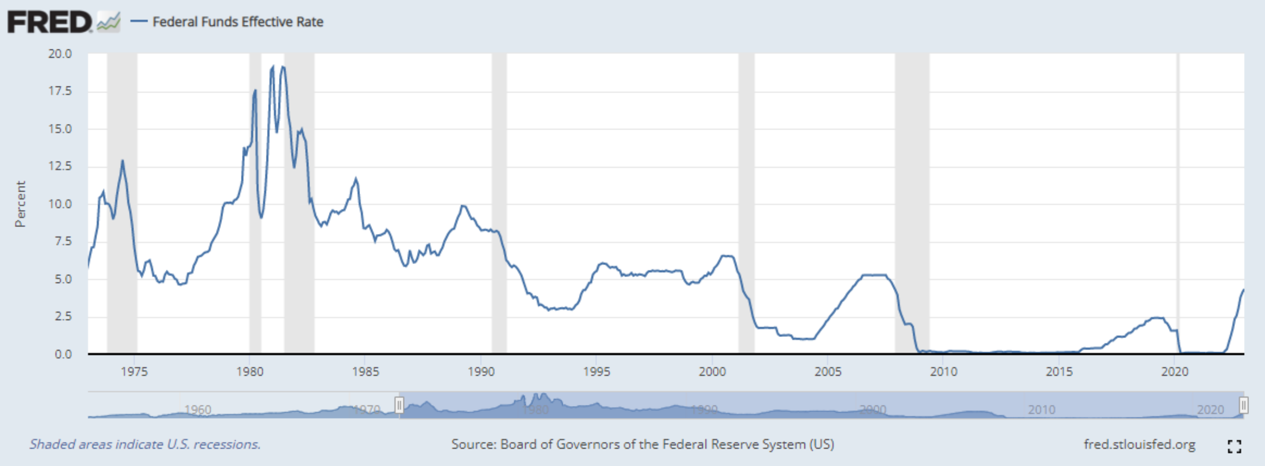
Source: FDIC

Fed Funds Rate (Last 10 years / Last 50 years)



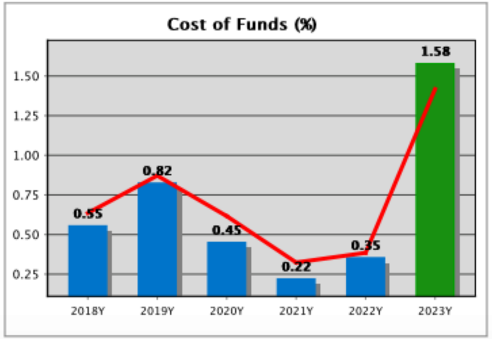
☞ Last 10 Years

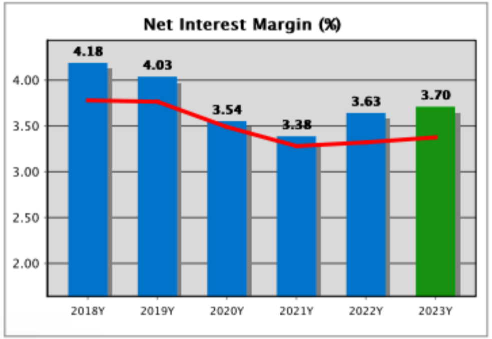
Last 50 Years ☞

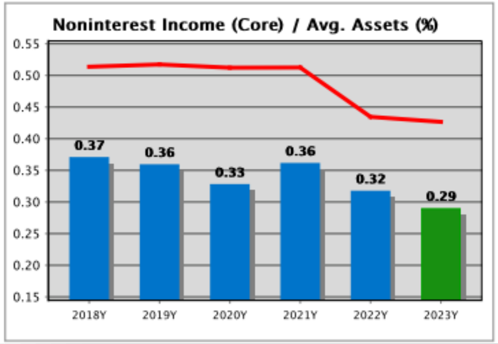


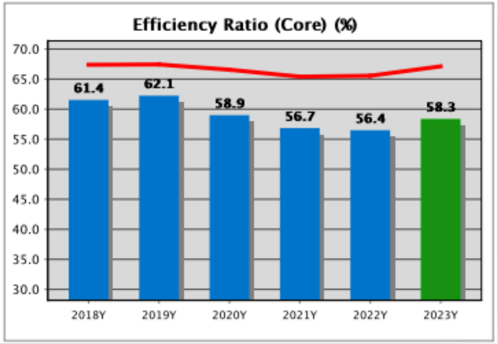
CA Performance Trends

Mixed to National Averages









QwickAnalytics®

Q4 '23 Call Report Data

National Trend

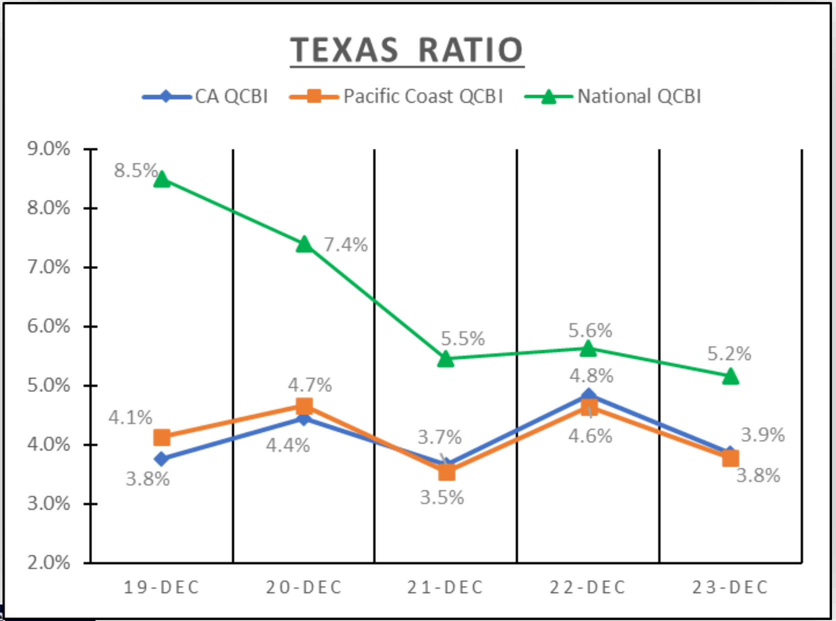
IntelliCredit™

A division of QwickRate

Texas Ratio: Banks <$10B

Q4 '23 Call Report Data QwickAnalytics®

CA <$10B / Pacific Coast <$10B / National <$10B



IF and WHEN this curve turns upward, remember the smaller banks' conundrum:

- Reluctance to move against known borrowers
- Disproportionate capital/reputational impact of losses
- High dependence on real estate (the most illiquid of problem assets)

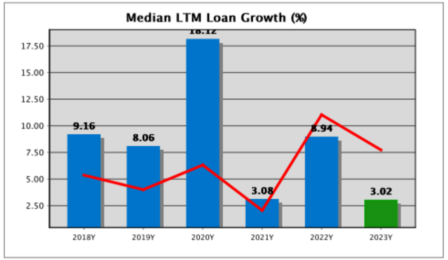
CA Loan Growth Trends: Banks <$10B

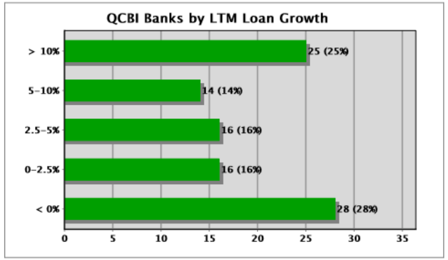
Q4 '23 Call Report Data

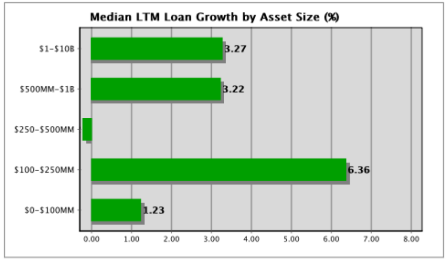
QwickAnalytics State Performance Trends

Loan Growth Trends

California
Banks
December 31, 2023







National Trend

* LTM = Last 12-months (or "trailing" 12-months)

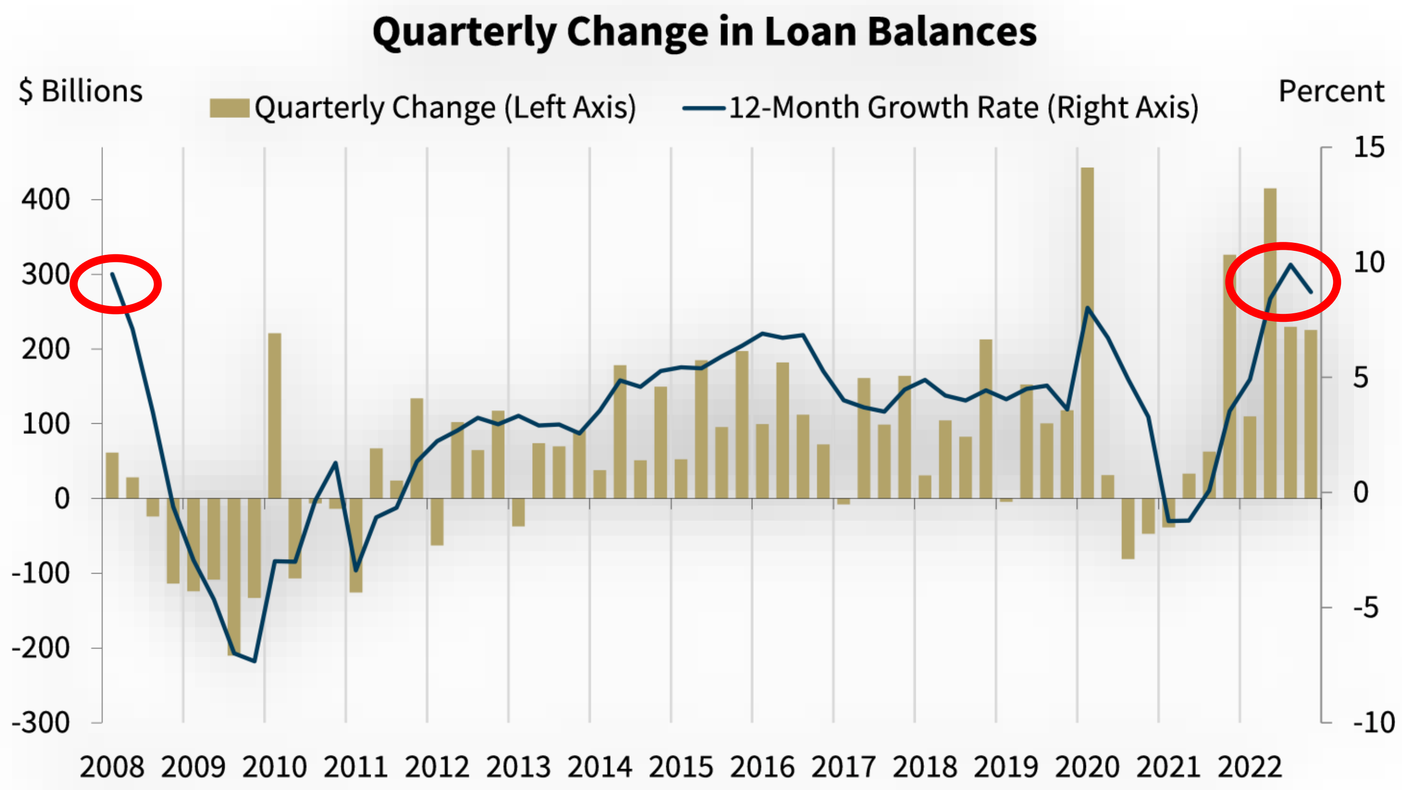
QwickAnalytics™

Vintages matter:
A weakened economy will disproportionately penalize credit quality from the most recent bursts of growth!

ICBA Preferred Service Provider

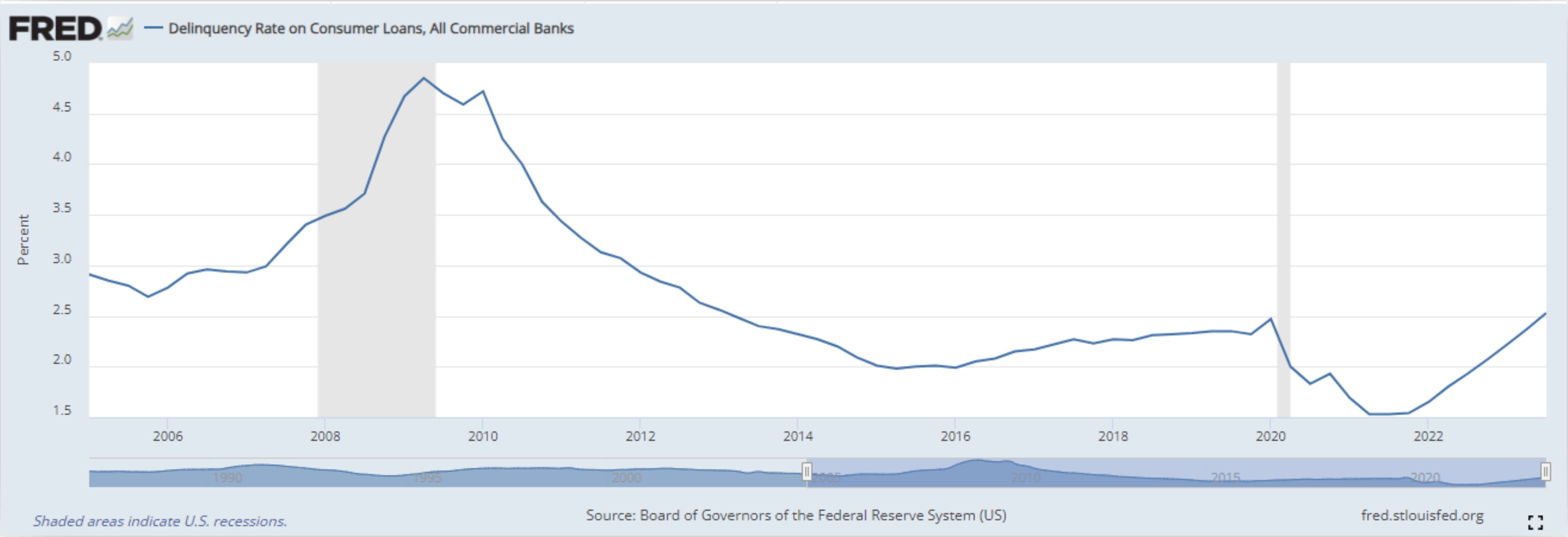
IntelliCredit™
A division of QwickRate

National Loan Growth Trends: All Banks



Source: FDIC.

Consumer stress / delinquencies on the rise…



What are Current Concerns?

3

IntelliCredit™
A division of QwickRate

Current Credit Concerns

Credit *performance* metrics still good, but stress always trails public data.

Initial underwriting is stellar; post-booking servicing / monitoring is not

Loan demand moderating, but recent vintages require monitoring.

Despite our *commercial* focus, foolish to dismiss growing *consumer* stress

Regulators ARE applying more scrutiny; more MRA's seen

~$2T of CRE repricing ahead by YE '25; what's the impact?

But, for commercial bankers, it appears to be: *it's about CRE stupid!*

4

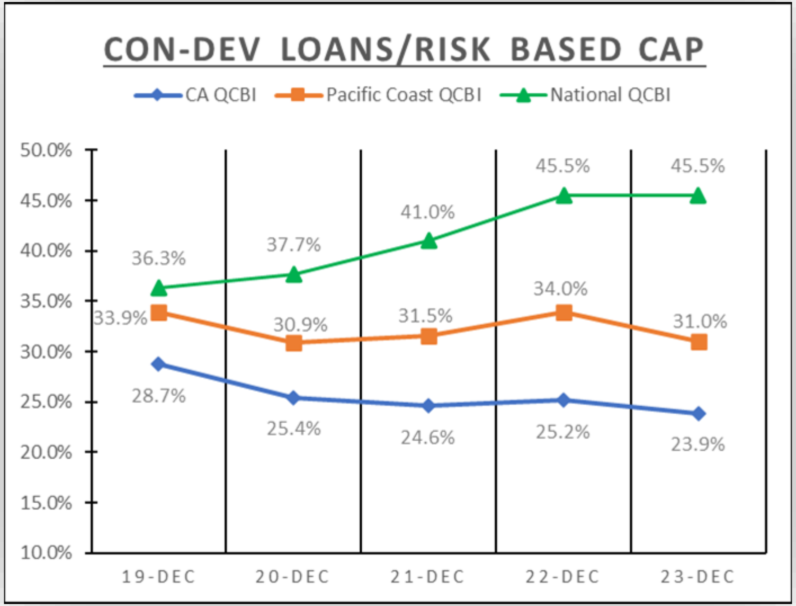
So, Let's Look Specifically at CRE

IntelliCredit™
A division of QwickRate

CRE Concentrations: Banks <$10B

Q4 '23 Call Report Data*

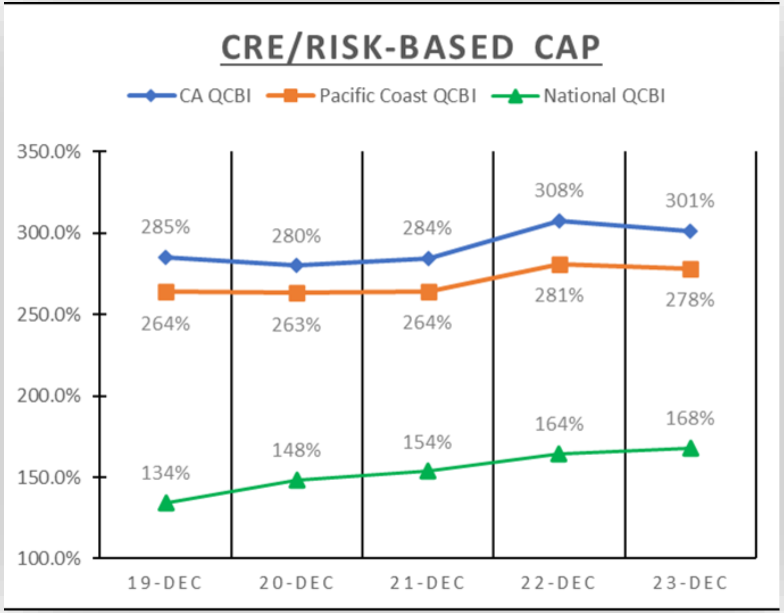
Regulatory Guidance:
≤ 100% RBC



CA: 0 / Pacific Coast: 2 / National: 259

↑ 100%

Regulatory Guidance:
≤ 300% RBC

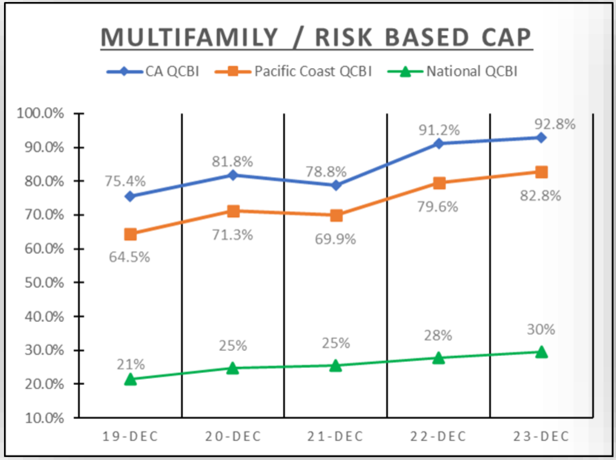


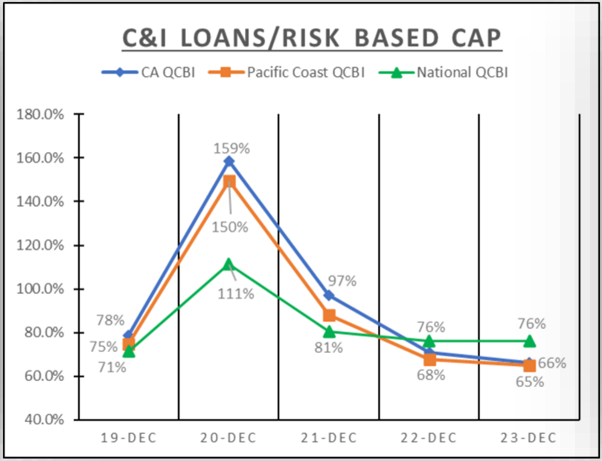
CA: 27 / Pacific Coast: 36 / National: 333

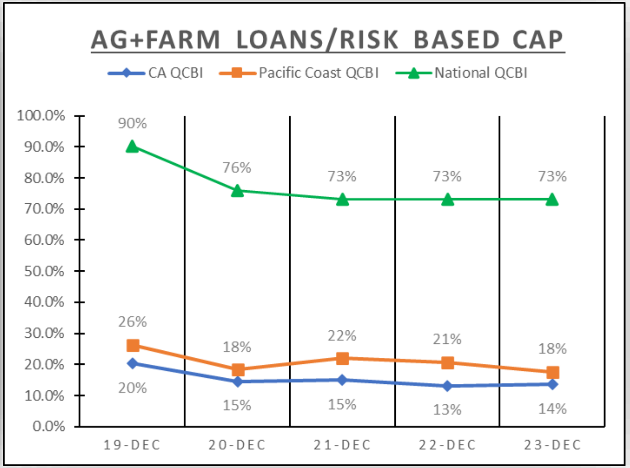
↑ 300%

Other Concentrations: Banks <$10B

CA <$10B / Pacific Coast <$10B / National <$10B







QwickAnalytics®

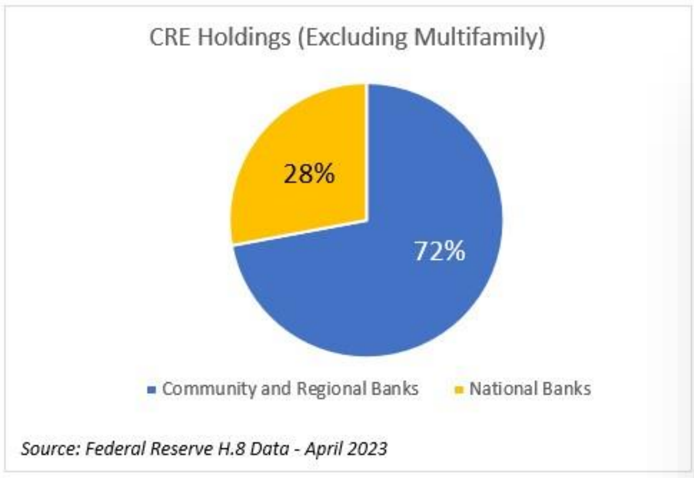
Q4 '23 Call Report Data*

ICBA Preferred Service Provider

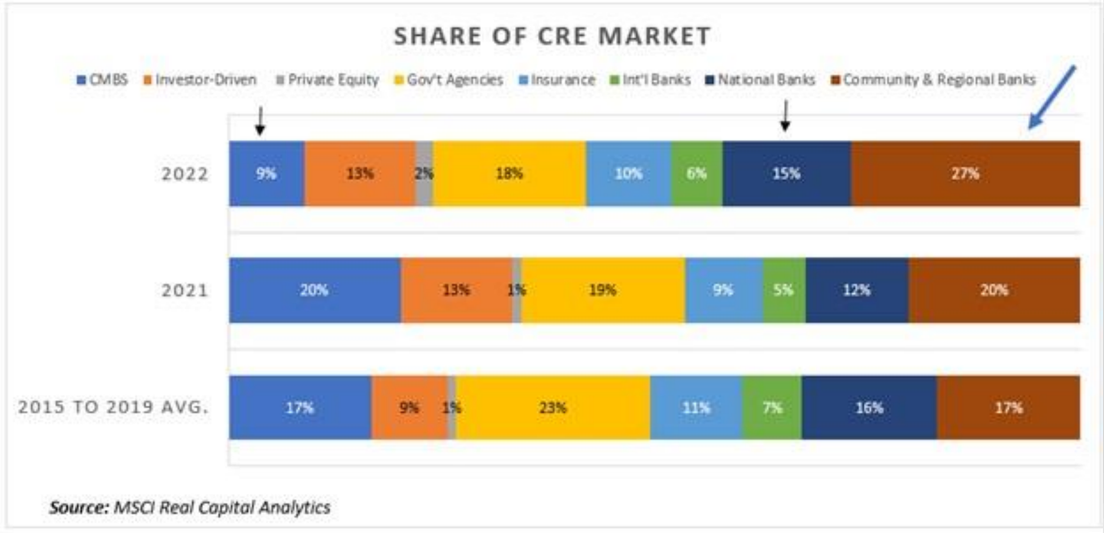
IntelliCredit™
A division of QwickRate

Community And Regional Banks:
CRE Has Exploded In Exposure *Just Since The Pandemic!*

Commercial Banking Exposure



All CRE Exposure

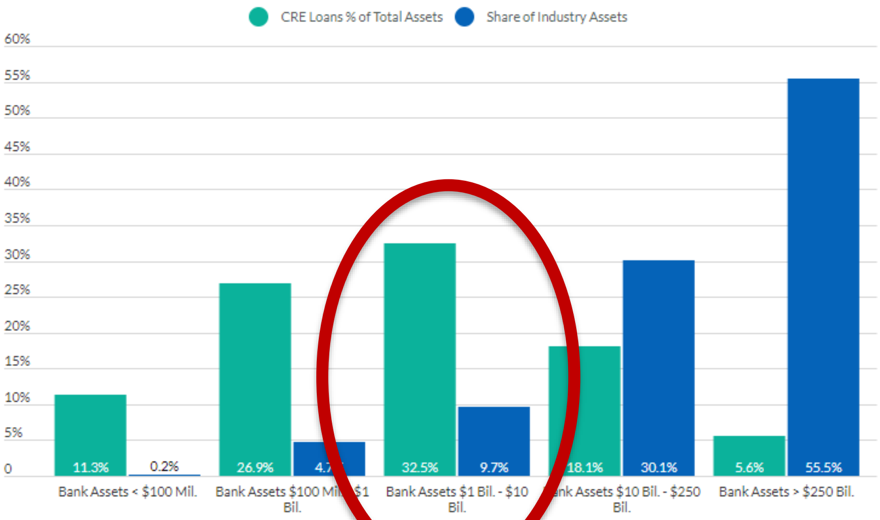


CRE Lending (% Of Assets):
Smaller Banks’ CRE Exposure Dwarfs Larger Banks

Smaller Banks Exposure to CRE Significantly Higher than Larger Banks

Higher CRE Exposures and Elevated Loan Growth Have Historically Been Correlated to Small Bank Failures

Percentage of Total Capital | Share of Assets



Note: CRE includes all owner occupied and construction CRE loa... Total capital include... Tier 1 and Tier 2 capital per definitions under U.S. regulations.

Source: Fitch Ratings, FedFis.

FitchRatings

Share

Yellen expects bank 'stress' due to commercial real estate losses

By Claire Williams February 08, 2024, 2:59 p.m. EST 4 Min Read

Yellen said that the largest banks' exposure is quite low, but "there may be smaller banks that are stressed by these developments."

AMERICAN BANKER

Goldman Sachs recently estimated that if all S&P 500 companies refinanced at current rates, **~29% would be unprofitable.**

IntelliCredit™
A division of QwickRate

All Four National Regulators Send Red Flag On CRE

PRESS RELEASE / June 29, 2023

Inter-Agency Guidance Policy Statement on Commercial Real Estate Loan Accommodations and Workouts

IF within basic safety & soundness protocols, examiners will not:

- criticize financial institutions adopting CRE workout plans and short-term accommodations; and
- automatically downgrade loans to “Substandard or worse” solely due to declining RE values, and borrower objectively is not deemed to be beyond ultimate repayment capacity.

All Four National Regulators Send Red Flag On CRE

PRESS RELEASE / June 29, 2023

Inter-Agency Guidance Policy Statement on Commercial Real Estate Loan Accommodations and Workouts

Other Highlights include guidance on:

- Short-term accommodations
- Loan workout programs
- Long-term workout arrangements
- Classification of loans, relative to:
  - Loan Performance
  - Renewals/restructurings
  - CRE dependent on sale of collateral
  - Classifications & treatment of accrual status

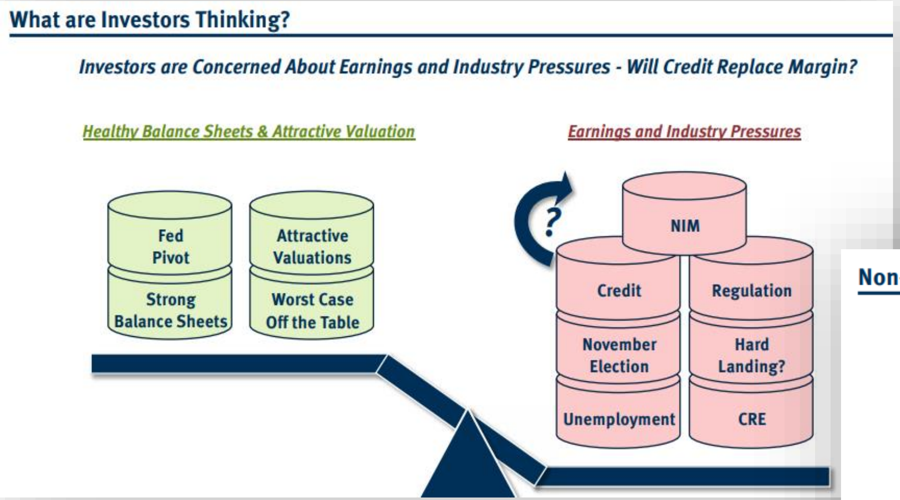
The guidance makes no changes in regulatory reporting and accounting protocols.

How Investors are Viewing Credit

5

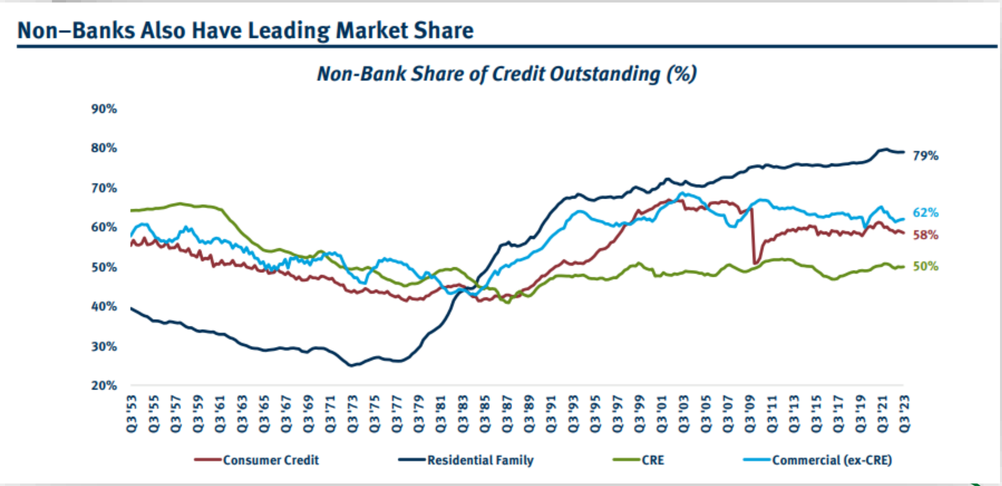
IntelliCredit™
A division of QwickRate

Heightened Credit Concerns / Erosion of Market Share

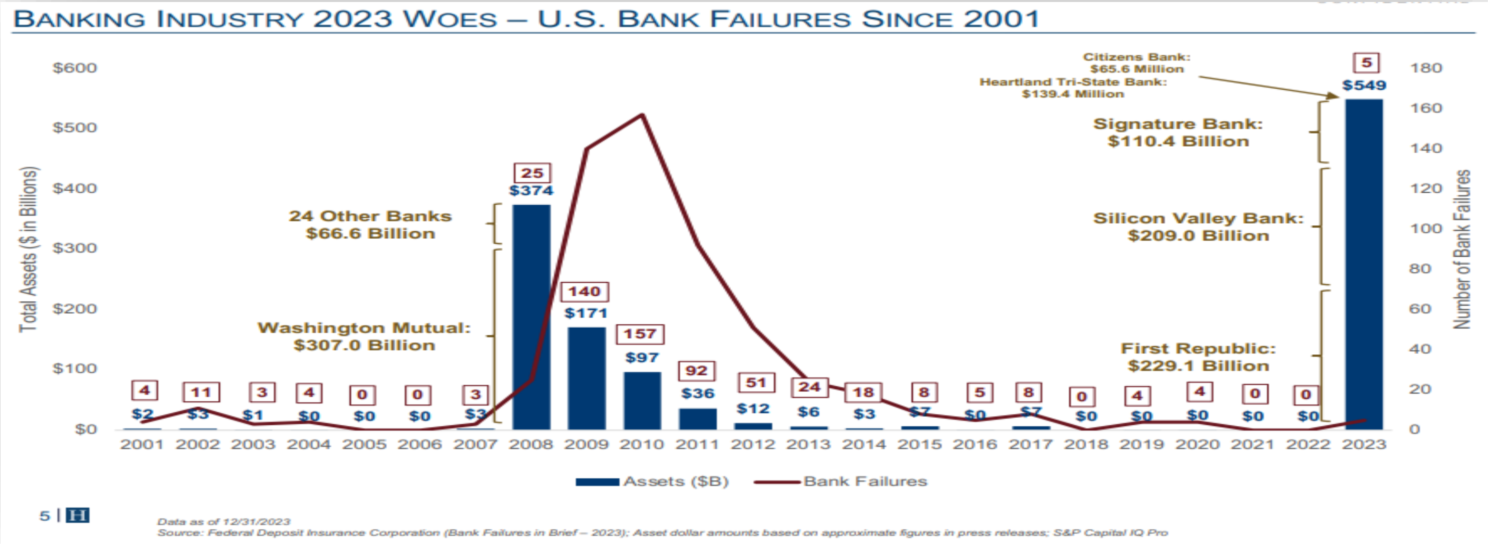


Source: Tom Michaud, CEO KBW

KEEFE, BRUYETTE & WOODS
A Stifel Company



$’s, not #’s, dominate recent failures / Divergency in “marks”



Average marks (discounts) in loan due diligences last two years:

- Loan Portfolio Credit Marks ~1.5%
- Loan Portfolio Gross Interest Marks ~3.5%

HOVDE GROUP

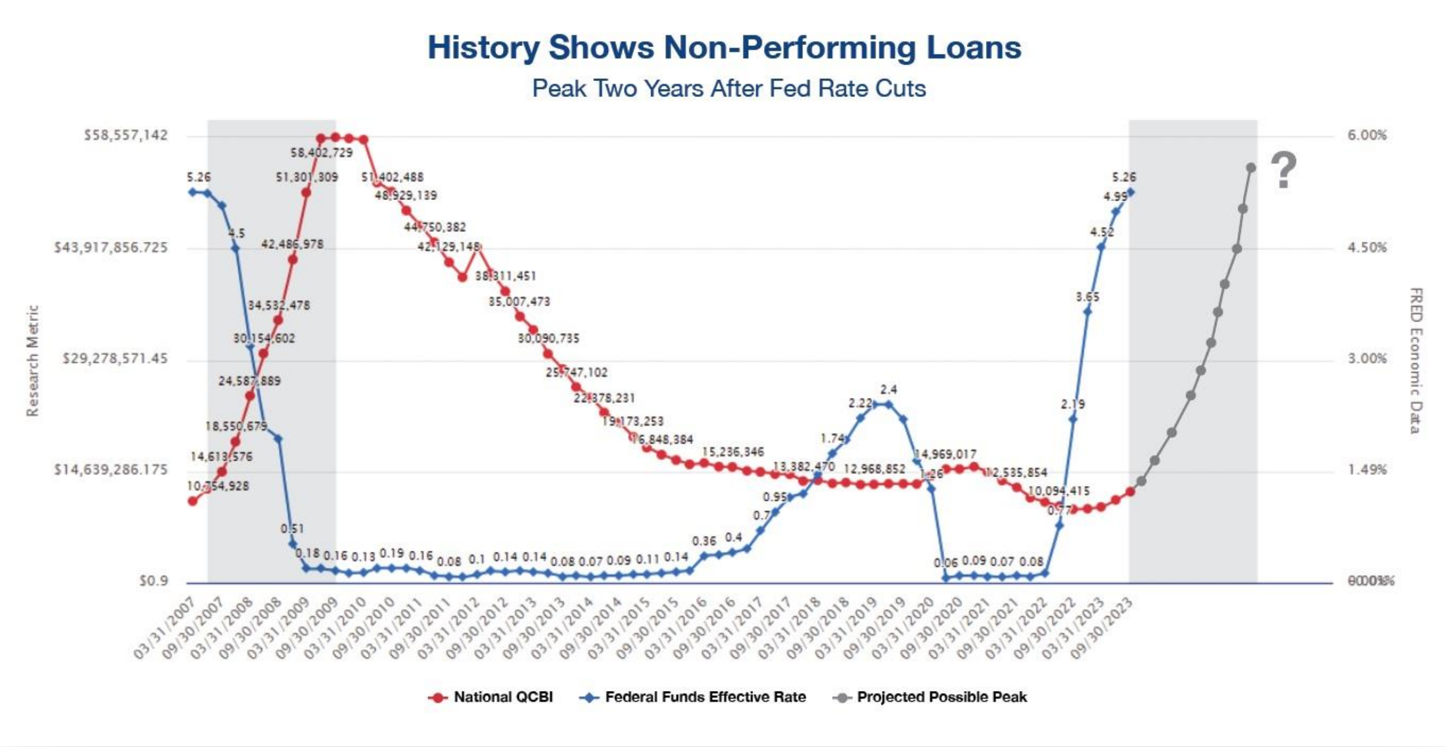
Source: Curtis Carpenter, Hovde Group, LLC

Closing Thoughts

6

IntelliCredit™
A division of QwickRate

Not so soon (celebrating rate peaks)….



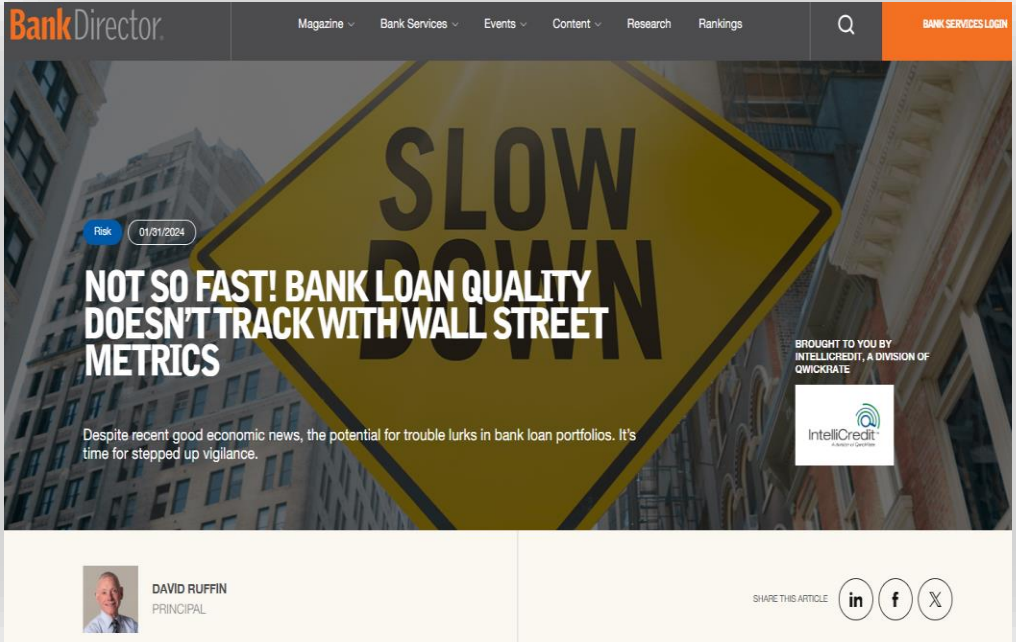
QwickAnalytics®

QCBI:
Banks ≤ $10B
in Assets

ICBA
Preferred Service
Provider

IntelliCredit™
A division of QwickRate

In conclusion



https://www.bankdirector.com/article/not-so-fast-bank-loan-quality-doesnt-track-with-wall-street-metrics/

The Good:

- Reserves & capital cushions
- Some risk has left our space
- Overall job market resilience
- Inflation abating
- Rates appear paused

The Bad:

- Smaller banks' CRE exposure
- Trailing NPL effects
- Segments of consumers struggling

The Now:

- Heightened regulatory scrutiny
- New focus on more robust
  - loan reviews
  - stress testing
  - portfolio analytics

ICBA Preferred Service Provider

IntelliCredit™ A division of QwickRate

IntelliCredit™

Please Reach Out for any
Credit Portfolio Review Needs.
Also, Deeply Experienced in M&A / Re-Caps.

Real-time combo:

Loan Review / Portfolio Analytics

(P) 800.285.8626 ext. 4057
david.ruffin@intellicredit.com

ICBA Preferred Service Provider

IntelliCredit™
A division of QwickRate