

CEIS REVIEW INC.

Stresses to Commercial Loan Portfolios Emerging Trends and Risks

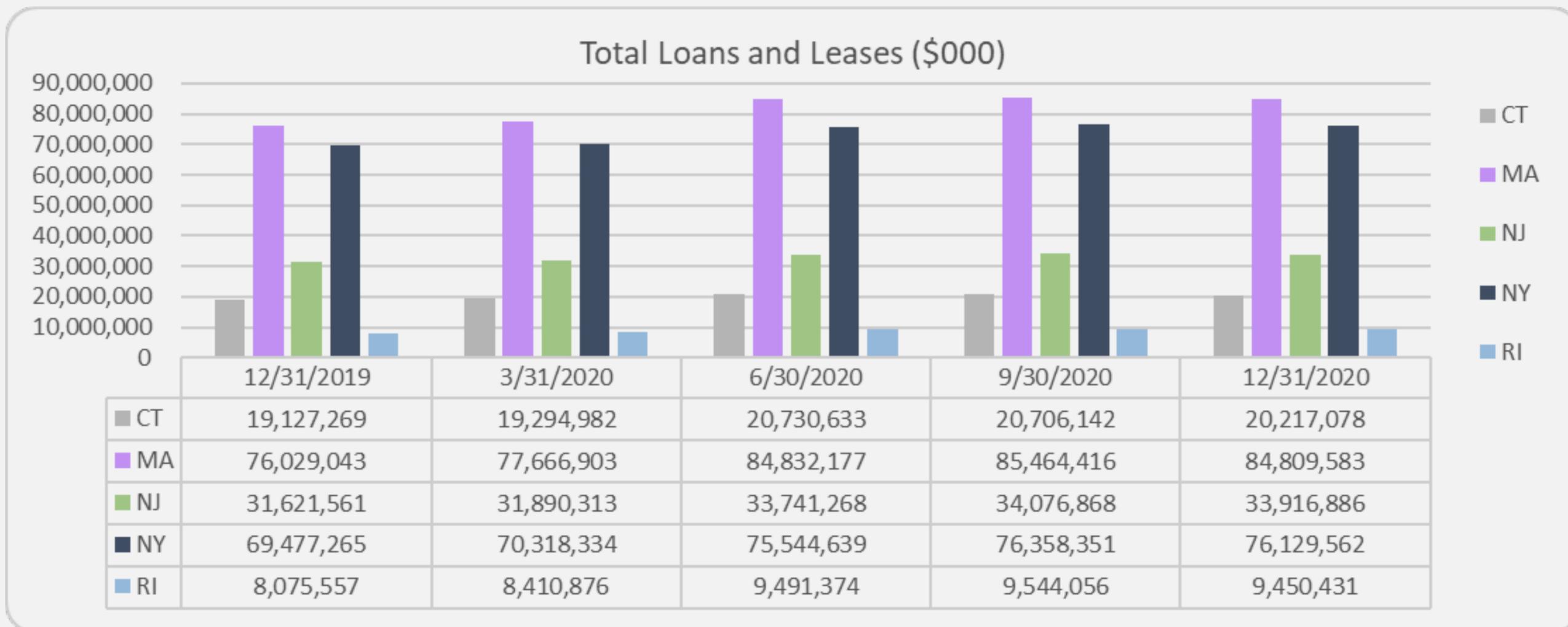
RMA New England Webinar

February 25, 2021





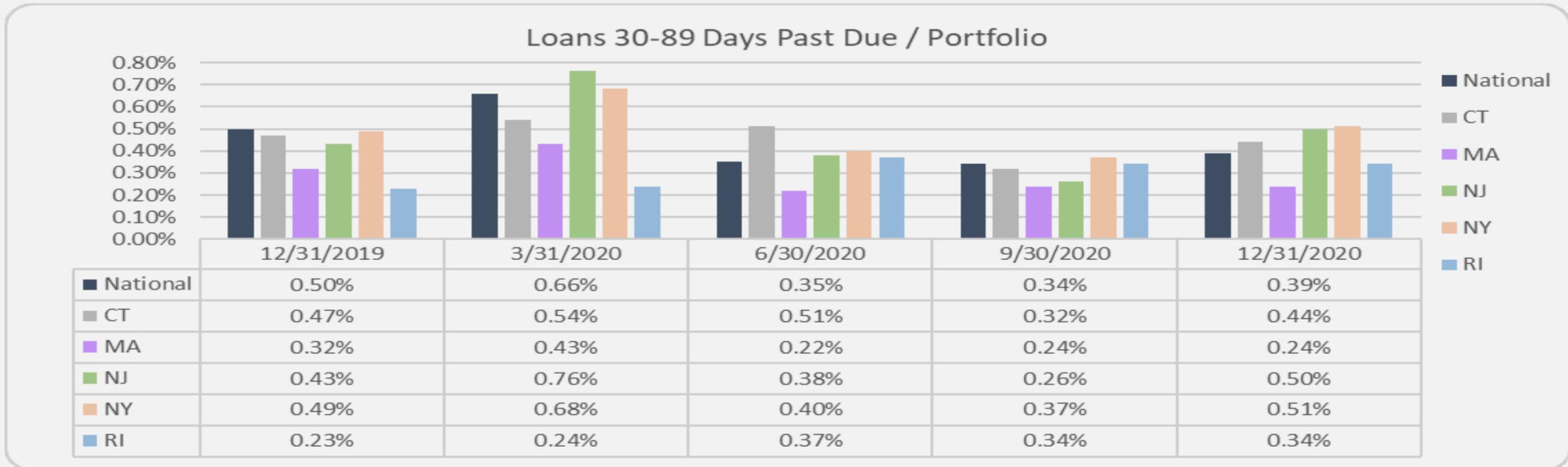
Loan Portfolio Size



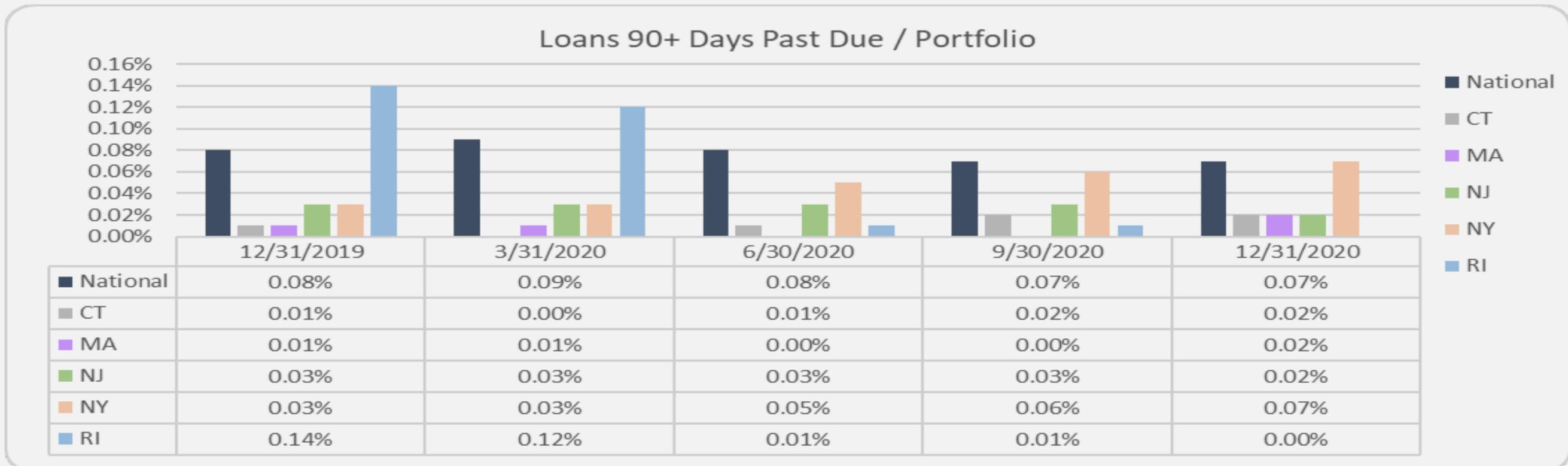
Source: UBPR Data for Banks with Total Loans & Leases between \$500 million and \$5 billion



Delinquency Levels



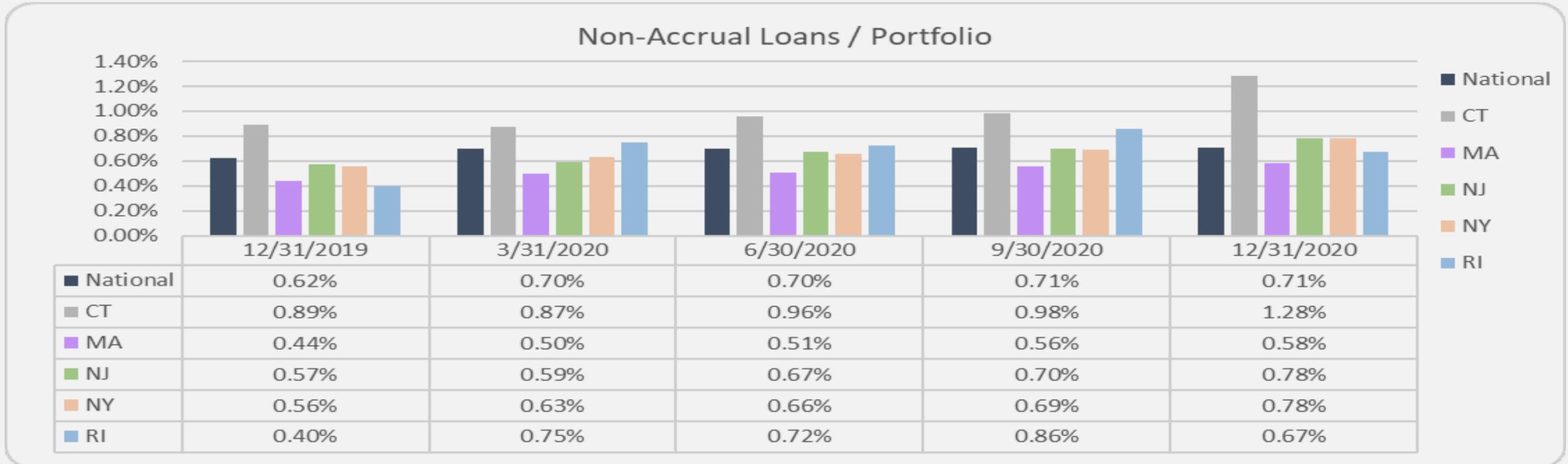
Source: UBPR Data for Banks with Total Loans & Leases between \$500 million and \$5 billion



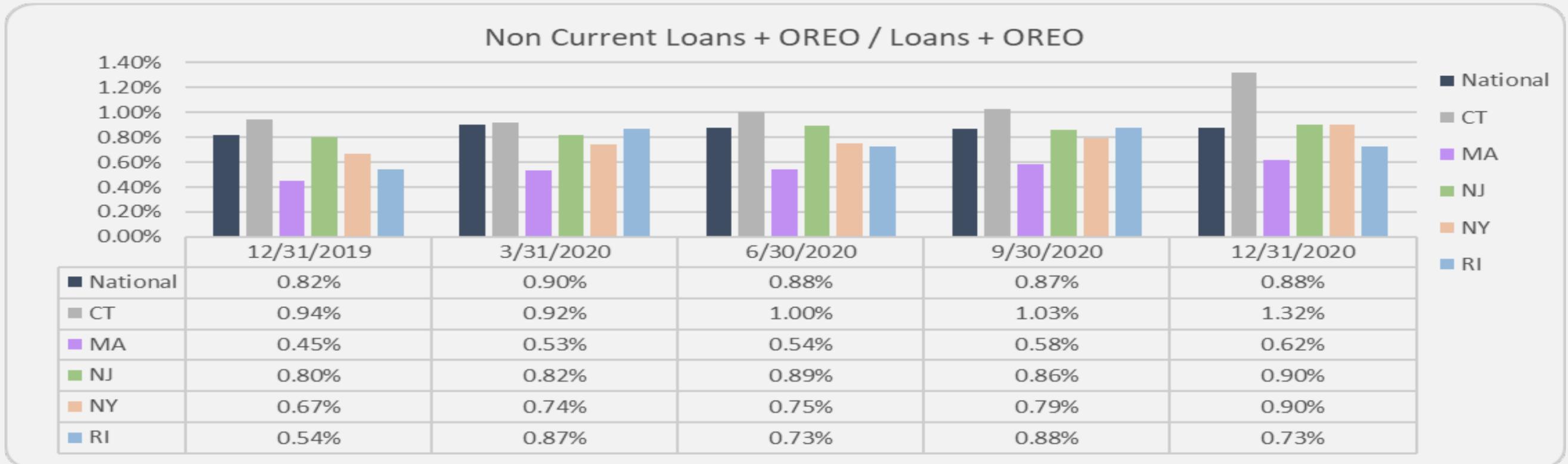
Source: UBPR Data for Banks with Total Loans & Leases between \$500 million and \$5 billion



Delinquency Levels



Source: UBPR Data for Banks with Total Loans & Leases between \$500 million and \$5 billion

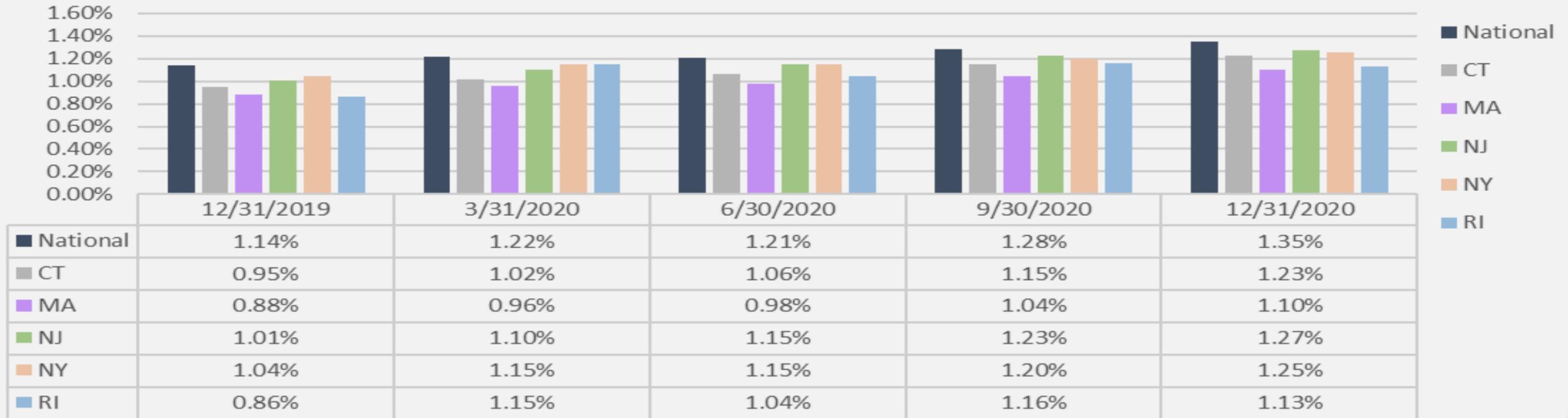


Source: UBPR Data for Banks with Total Loans & Leases between \$500 million and \$5 billion



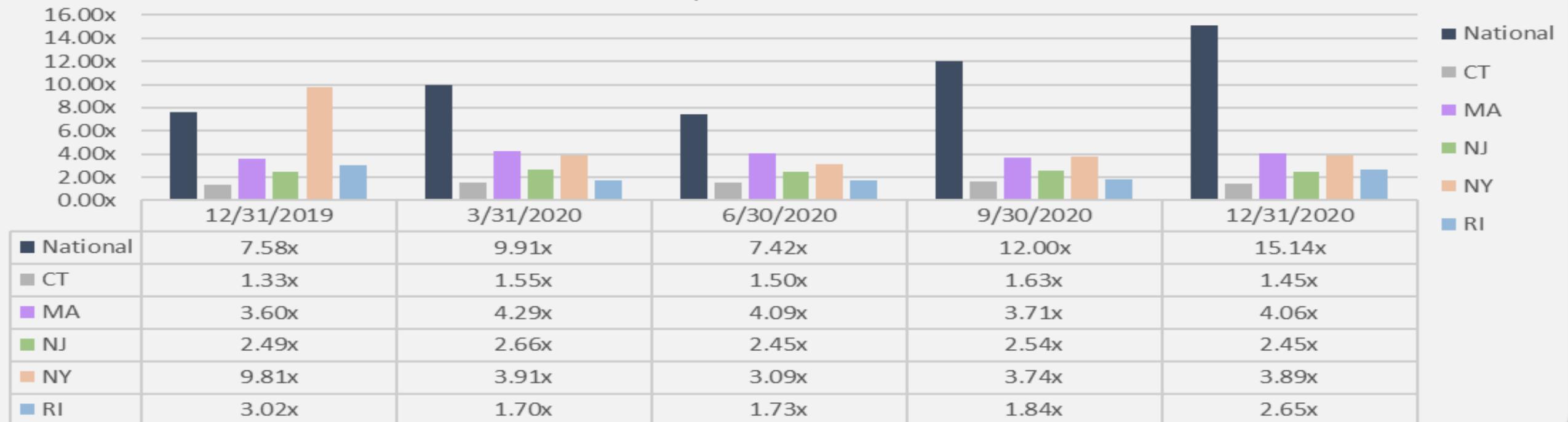
Loan Loss Reserve Coverage and Charge-Offs

ALLL / Portfolio



Source: UBPR Data for Banks with Total Loans & Leases between \$500 million and \$5 billion

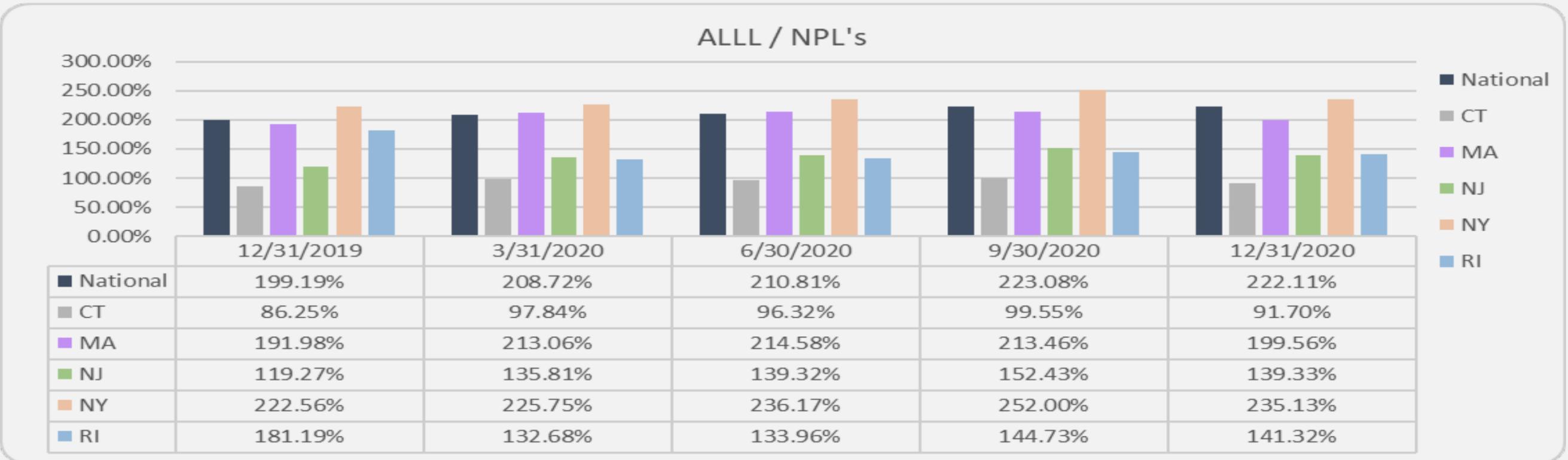
ALLL / Non-Accruals



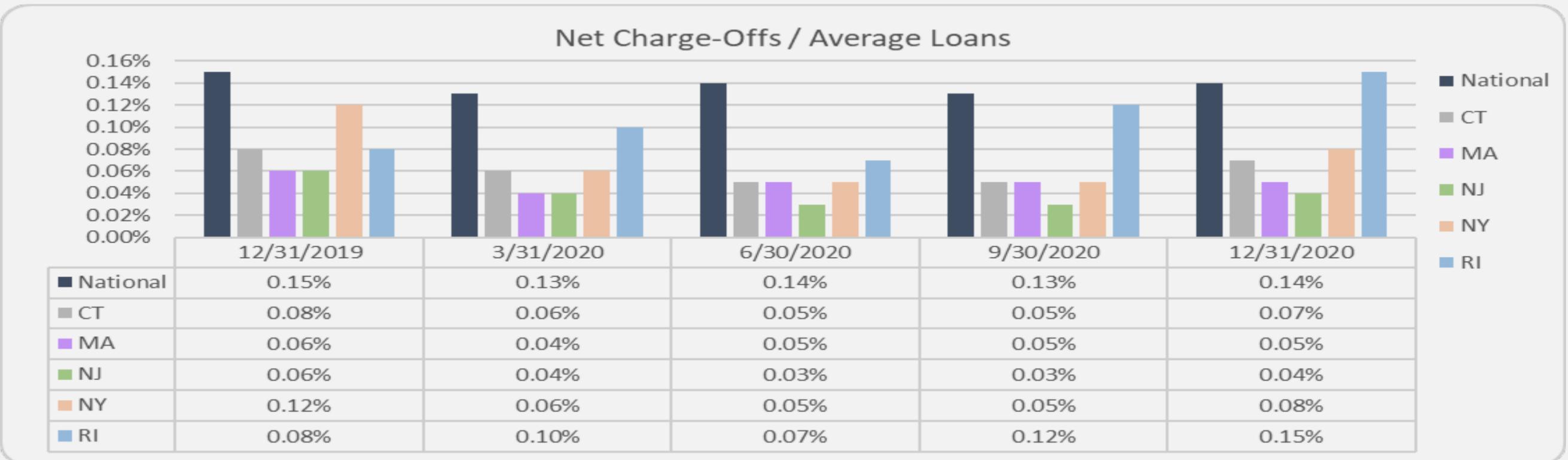
Source: UBPR Data for Banks with Total Loans & Leases between \$500 million and \$5 billion



Loan Loss Reserve Coverage and Charge-Offs



Source: UBPR Data for Banks with Total Loans & Leases between \$500 million and \$5 billion

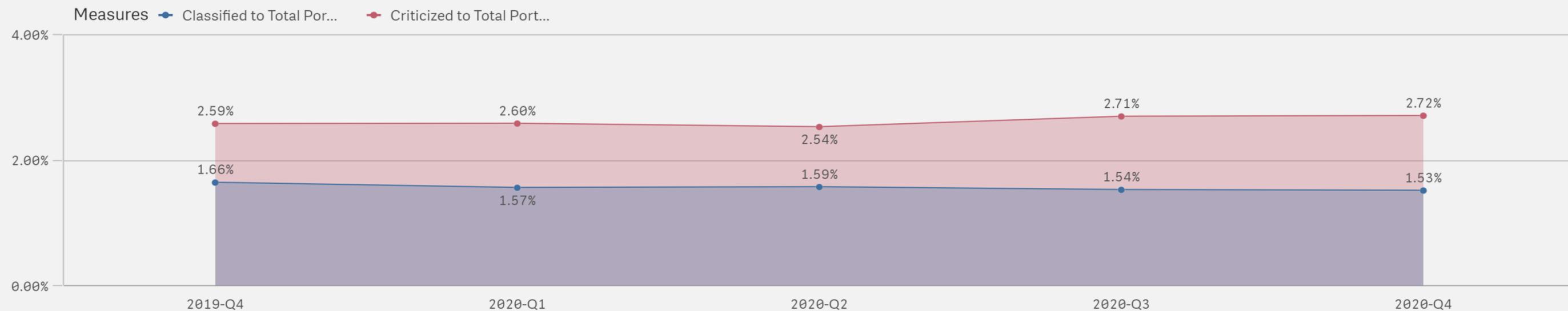


Source: UBPR Data for Banks with Total Loans & Leases between \$500 million and \$5 billion



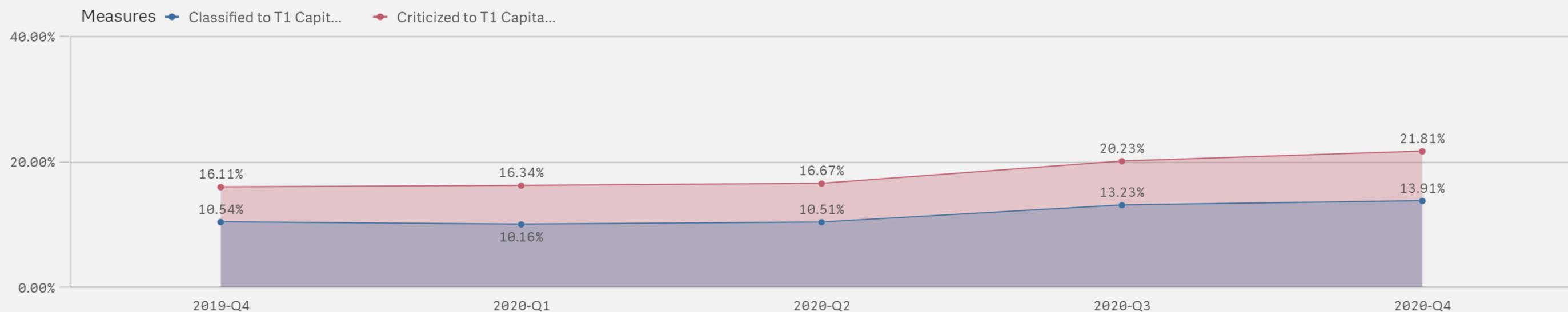
Loan Quality Ratios

Criticized and Classified to Portfolio



Data for CEIS Clients in CT, MA, ME, NJ, NY

Criticized and Classified to Tier 1 Capital + LLR

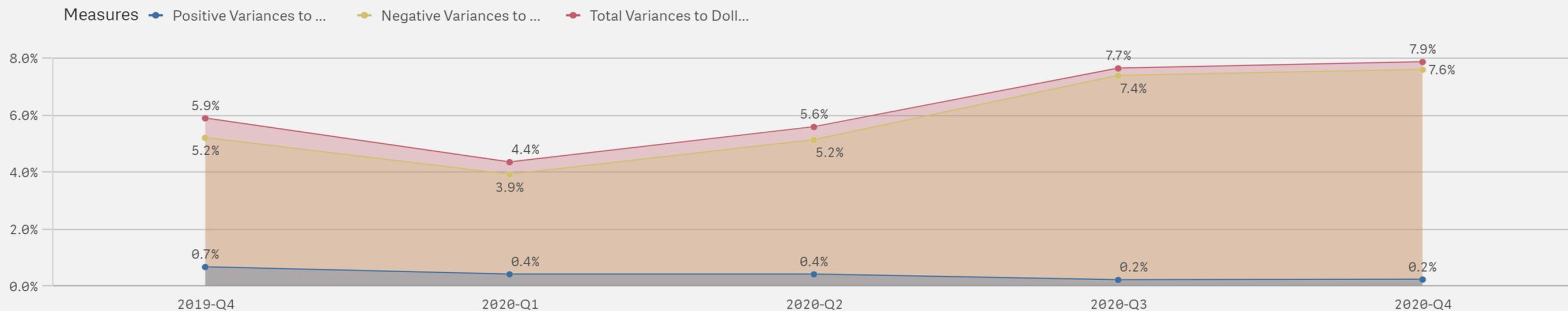


Data for CEIS Clients in CT, MA, ME, NJ, NY



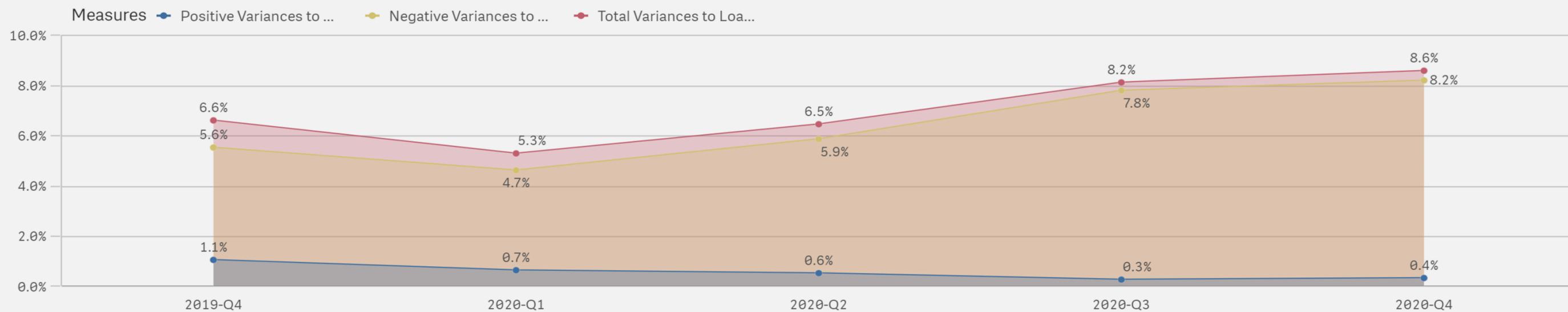
Grade Variances

Grade Variances - % of Dollars Reviewed



Data for CEIS Clients in CT, MA, ME, NJ, NY

Grade Variances - % of Number of Loans Reviewed

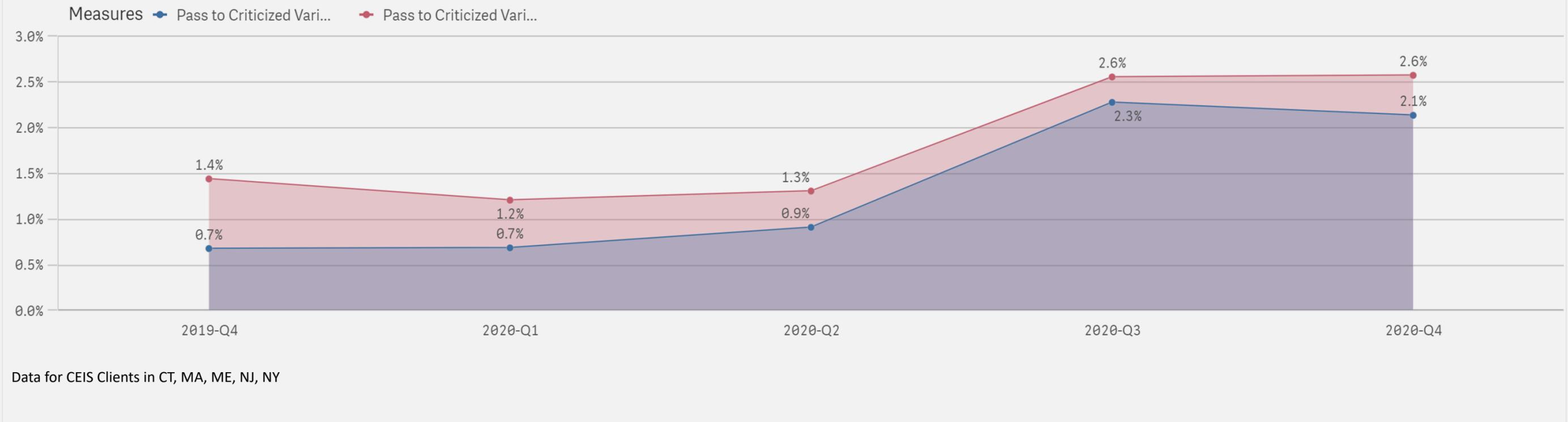


Data for CEIS Clients in CT, MA, ME, NJ, NY



Grade Variances

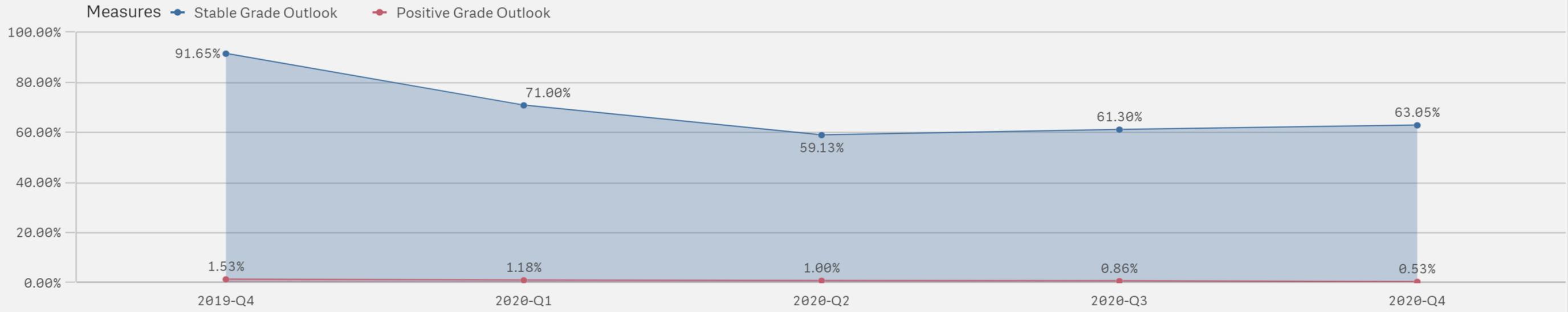
Grade Variances between Pass and Criticized Ratings





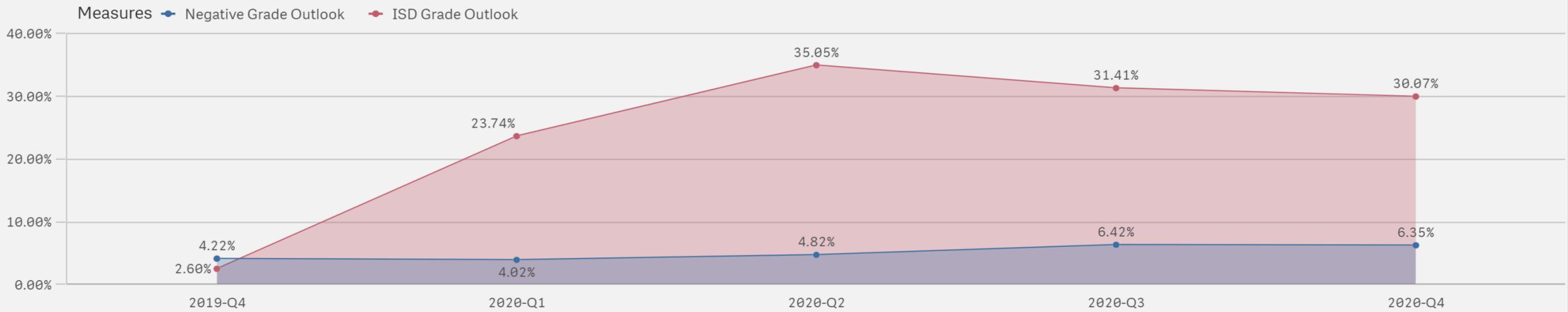
Grade Outlook

Grade Outlook – Positive and Stable



Data for CEIS Clients in CT, MA, ME, NJ, NY

Grade Outlook – Negative and ISD

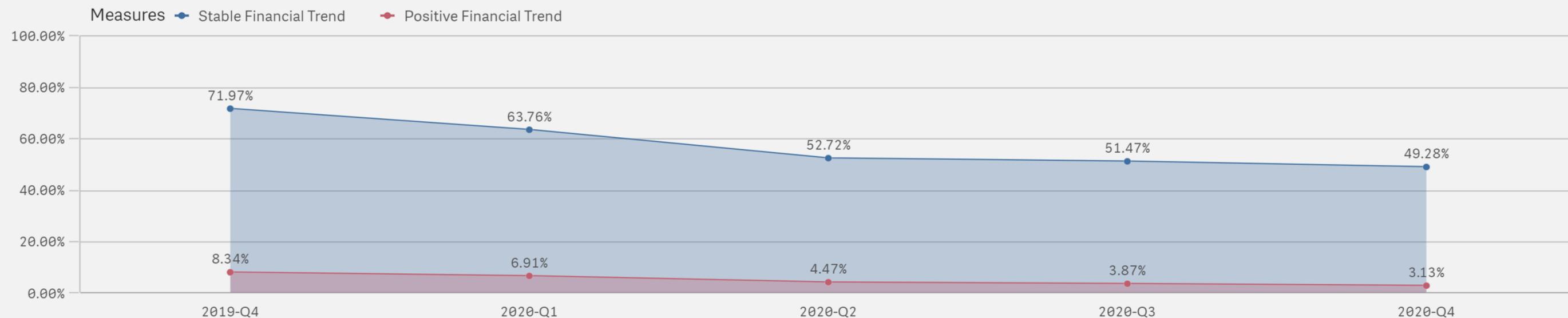


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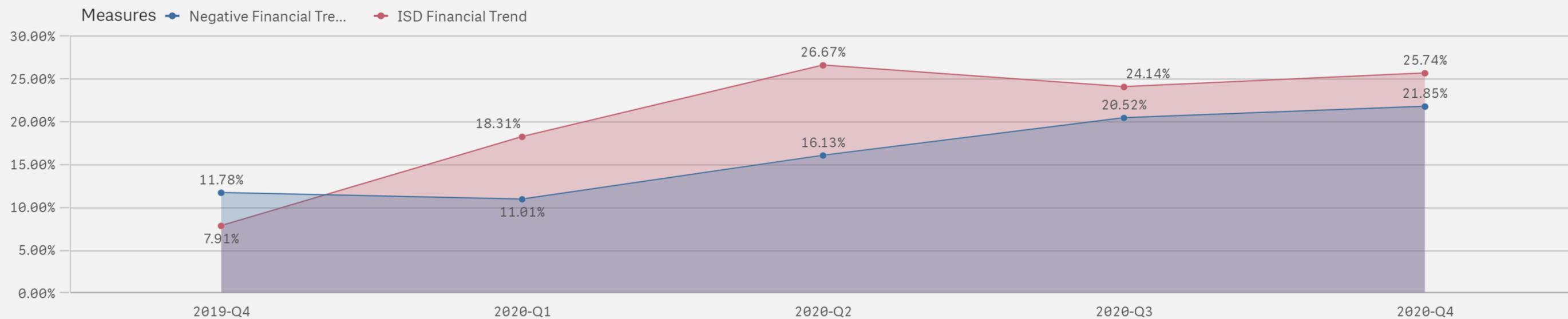
Financial Trend

Financial Trend – Positive and Stable



Data for CEIS Clients in CT, MA, ME, NJ, NY

Financial Trend – Negative and ISD

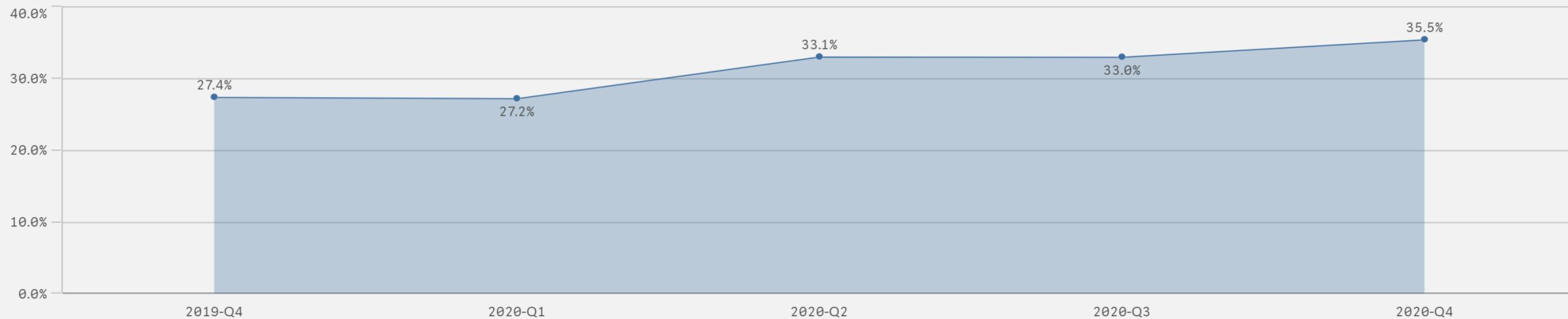


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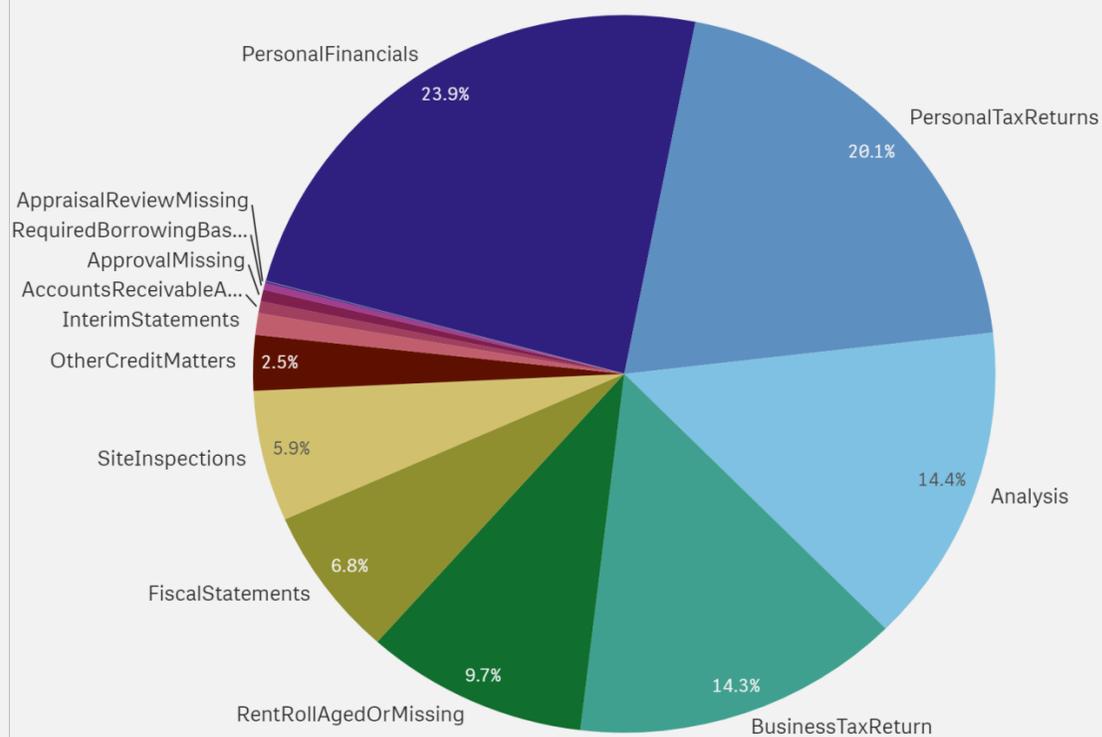
Technical Exceptions

% of Borrower with Technical Exceptions



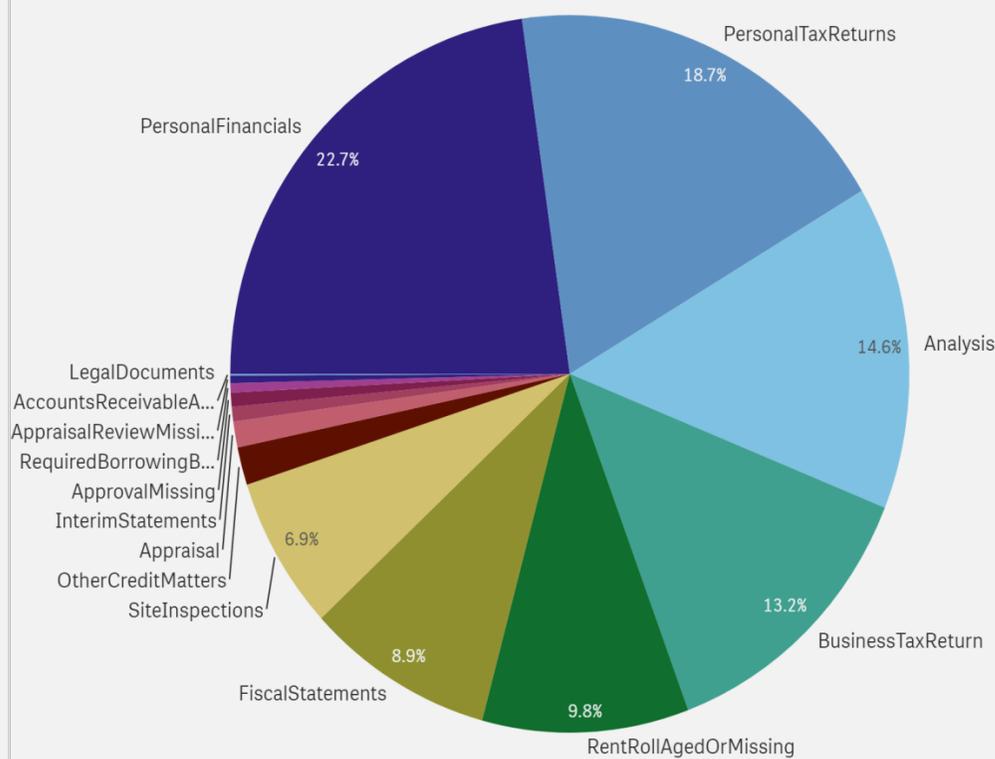
Data for CEIS Clients in CT, MA, ME, NJ, NY

Exceptions by Type – 2019 – Q4



Data for CEIS Clients in CT, MA, ME, NJ, NY

Exceptions by Type – 2020-Q4

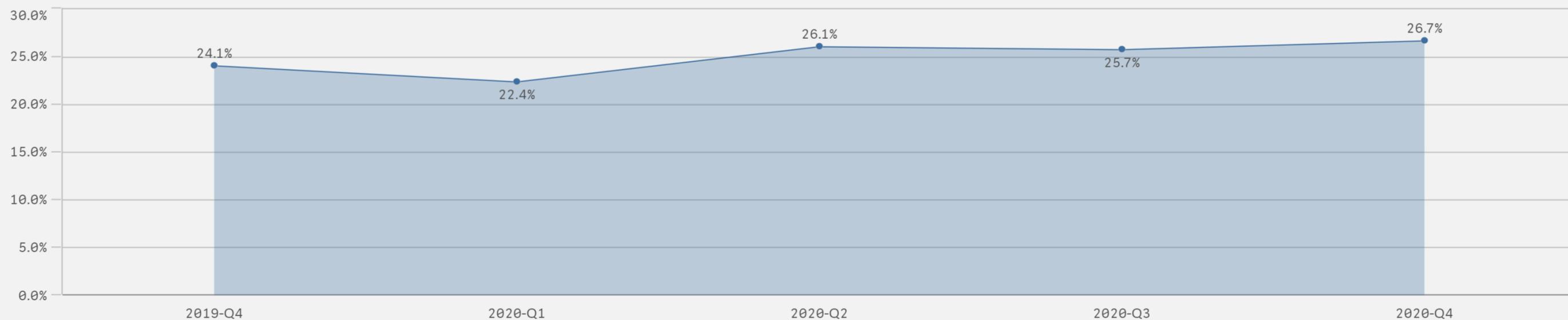


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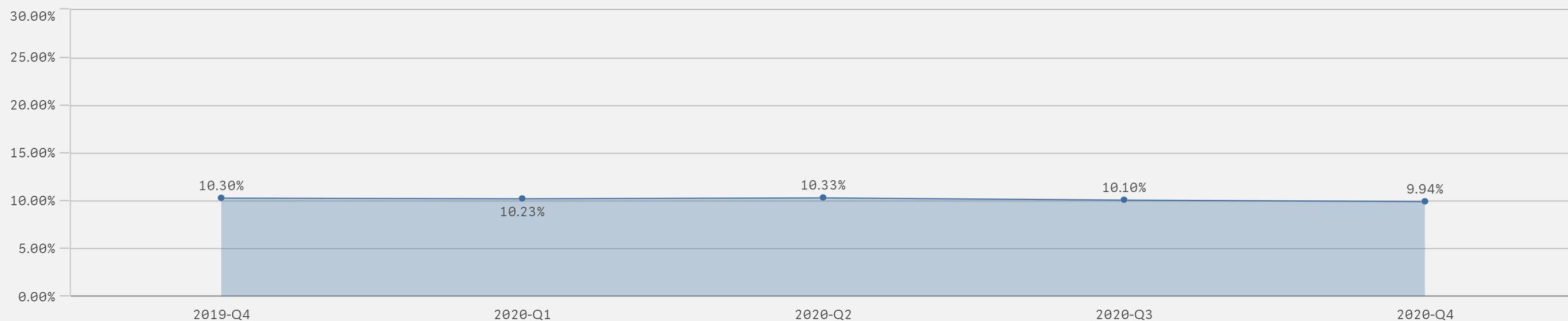
Covenant Compliance

Non-Compliant Covenants



Data for CEIS Clients in CT, MA, ME, NJ, NY

Covenants Waived or Amended

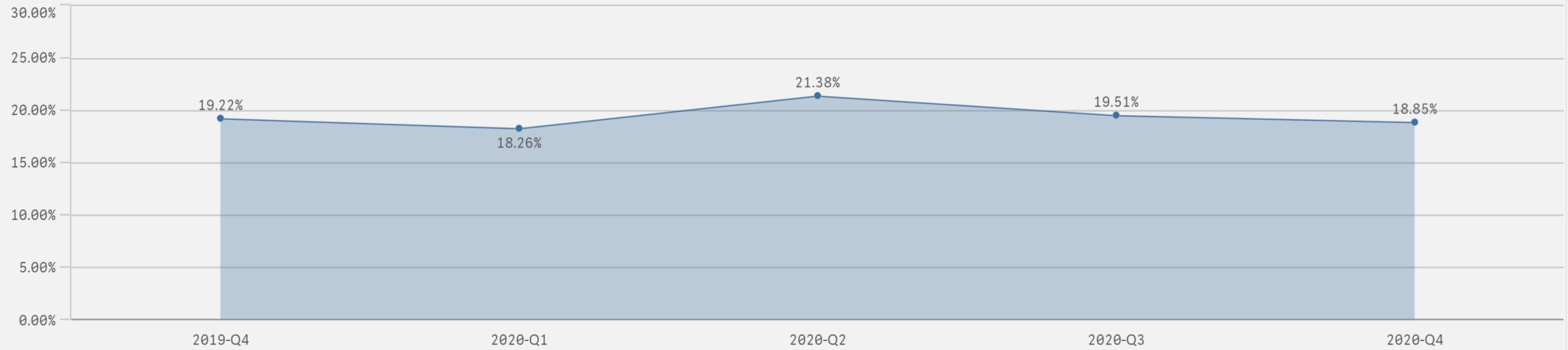


Data for CEIS Clients in CT, MA, ME, NJ, NY



Covenant Compliance

Covenants Not Tracked



Data for CEIS Clients in CT, MA, ME, NJ, NY

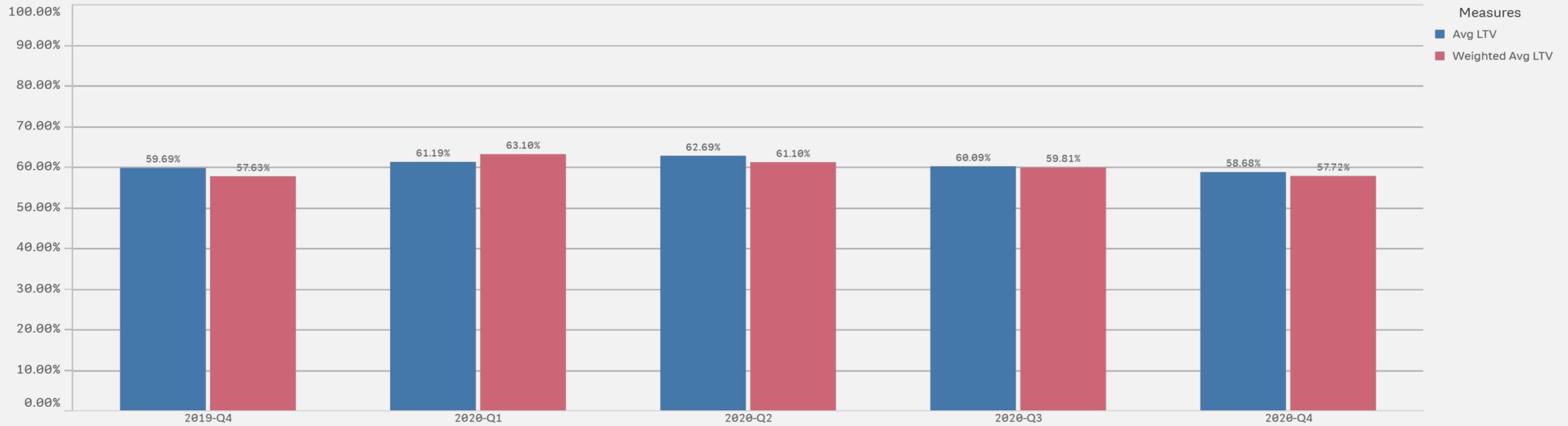


New and Renewed
(Following Pages)

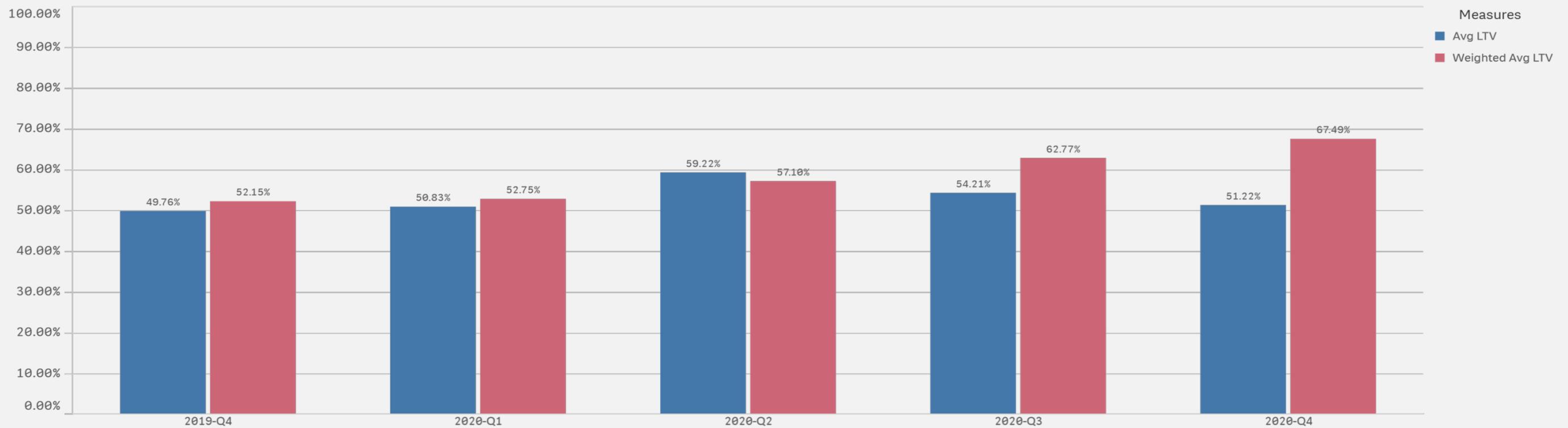


Loan To Value Ratios

LTV - New Loans



LTV - Renewed Loans

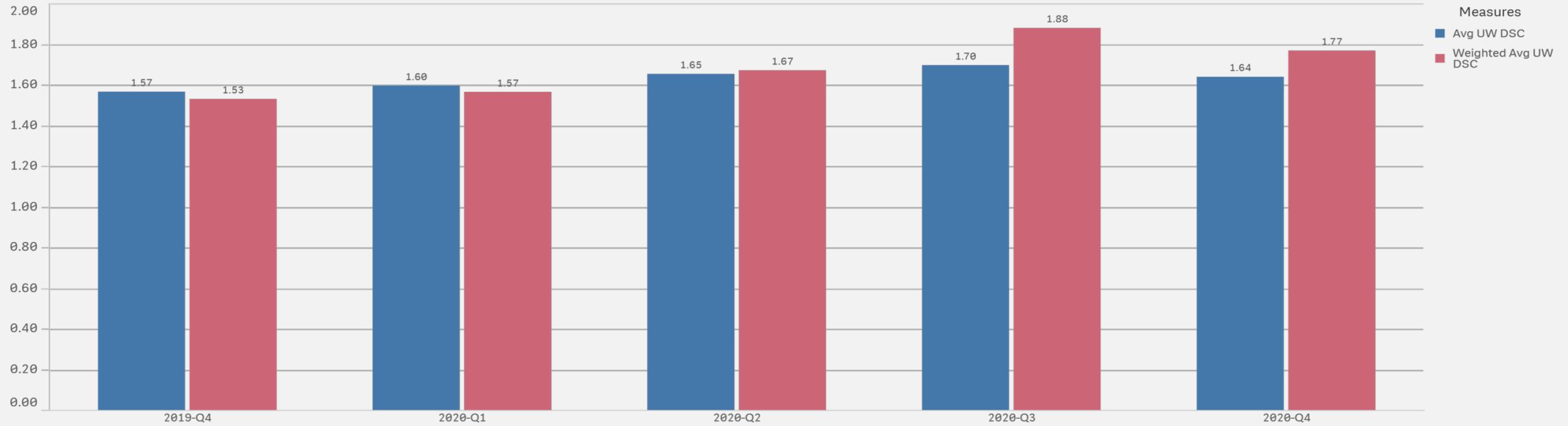


CRE Loan Data for CEIS Clients in CT, MA, ME, NJ, NY

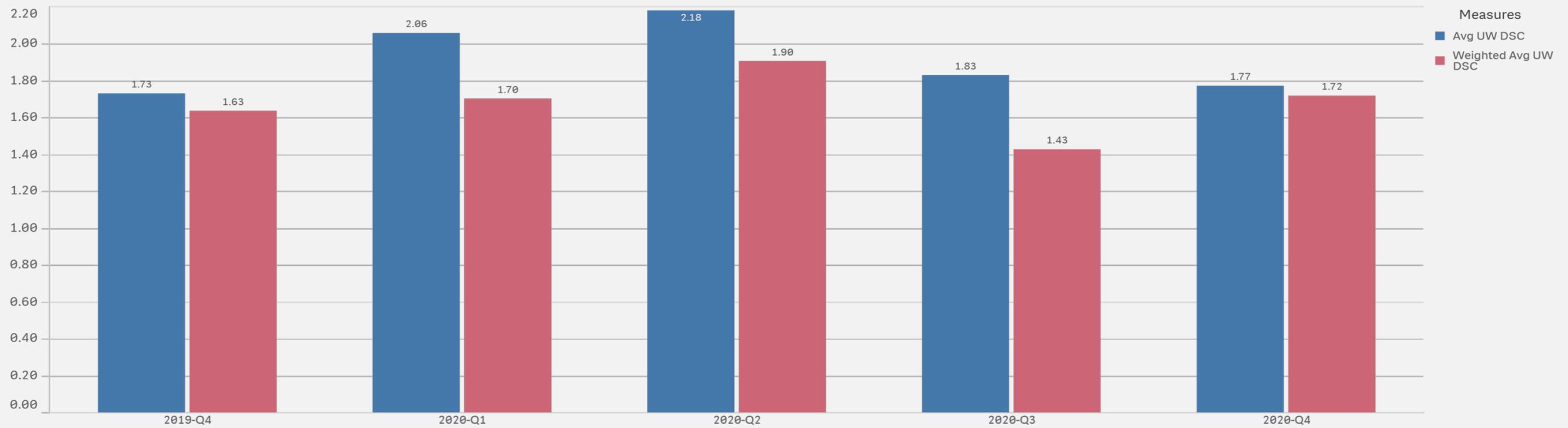


Debt Service Coverage Ratios

DSC - New Loans



DSC - Renewed Loans

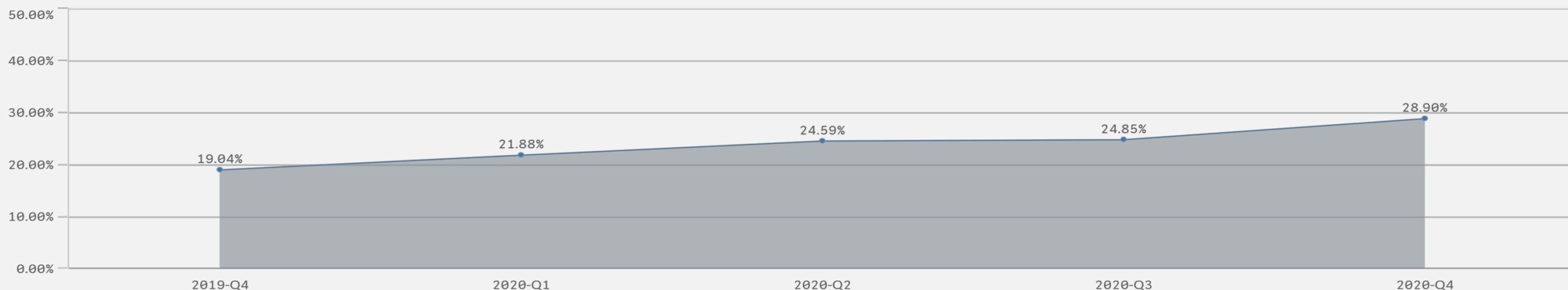


CRE Loan Data for CEIS Clients in CT, MA, ME, NJ, NY



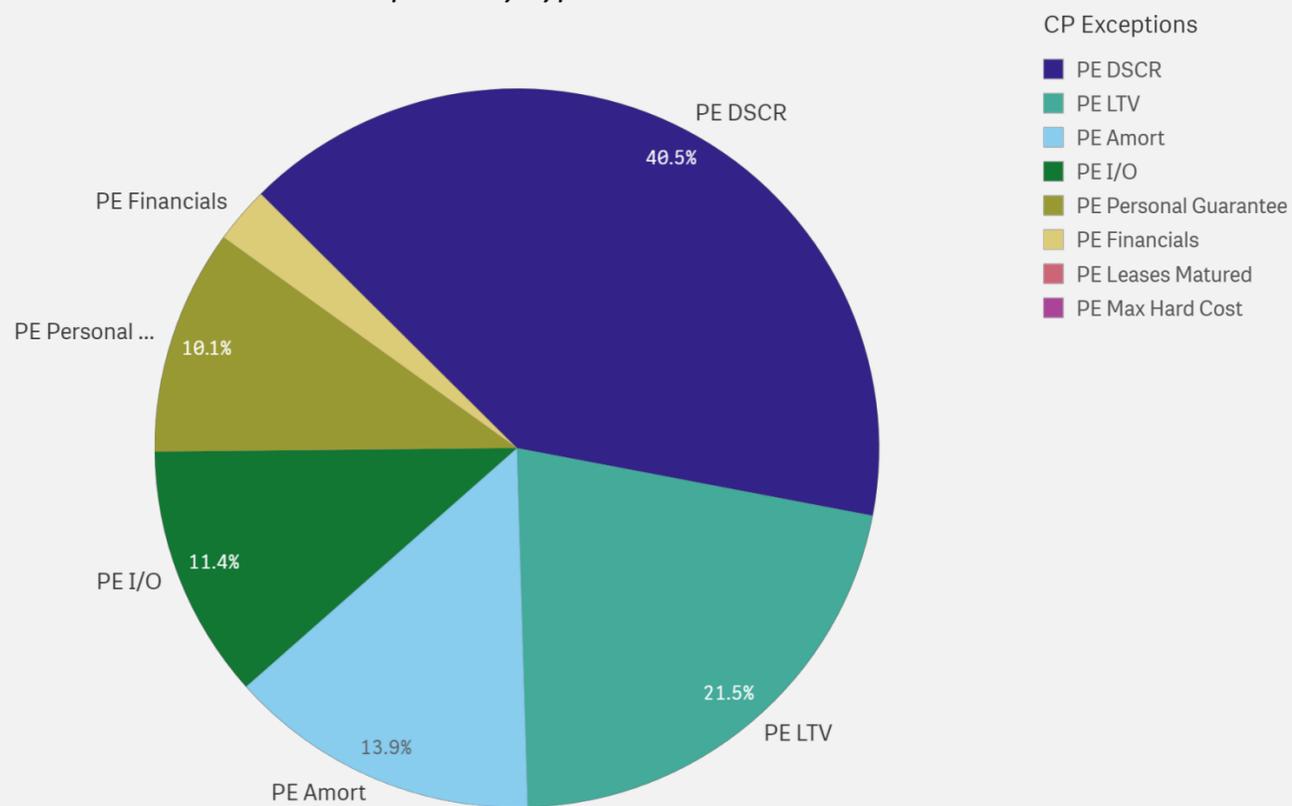
Credit Policy Exceptions

% of Borrower with Credit Policy Exceptions



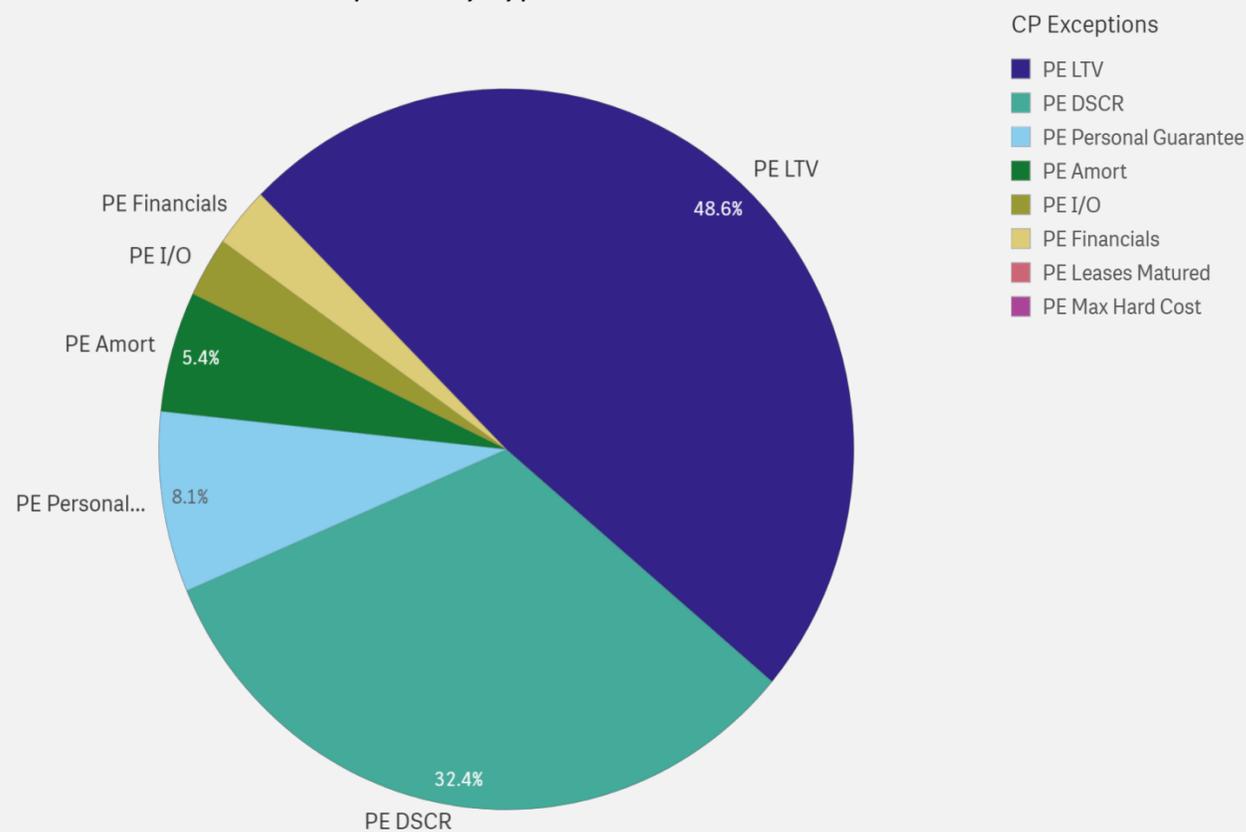
CRE Loan Data for CEIS Clients in CT, MA, ME, NJ, NY

CP Exceptions by Type – 2019 – Q4



CRE Loan Data for CEIS Clients in CT, MA, ME, NJ, NY

CP Exceptions by Type – 2020-Q4

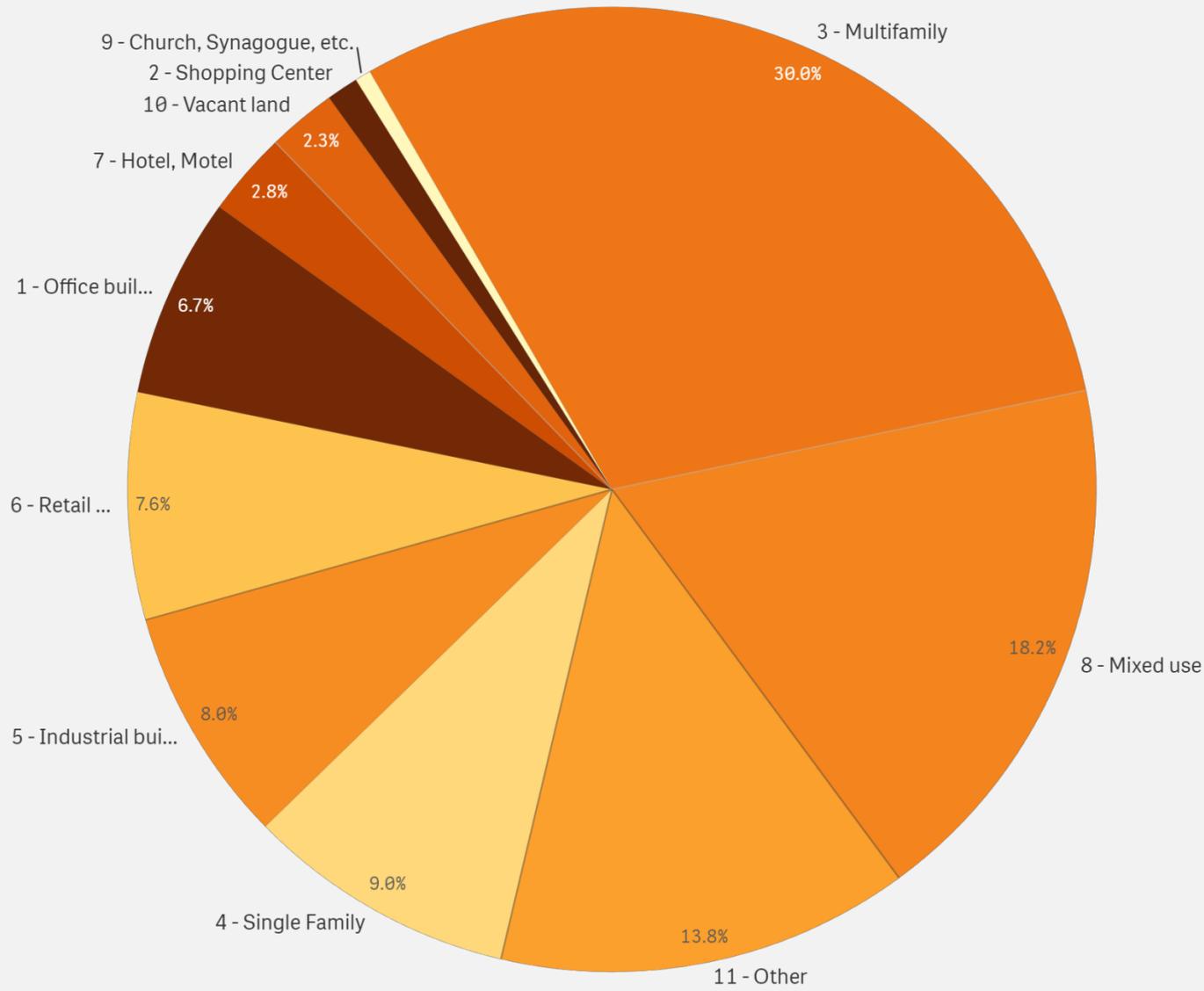


CRE Loan Data for CEIS Clients in CT, MA, ME, NJ, NY



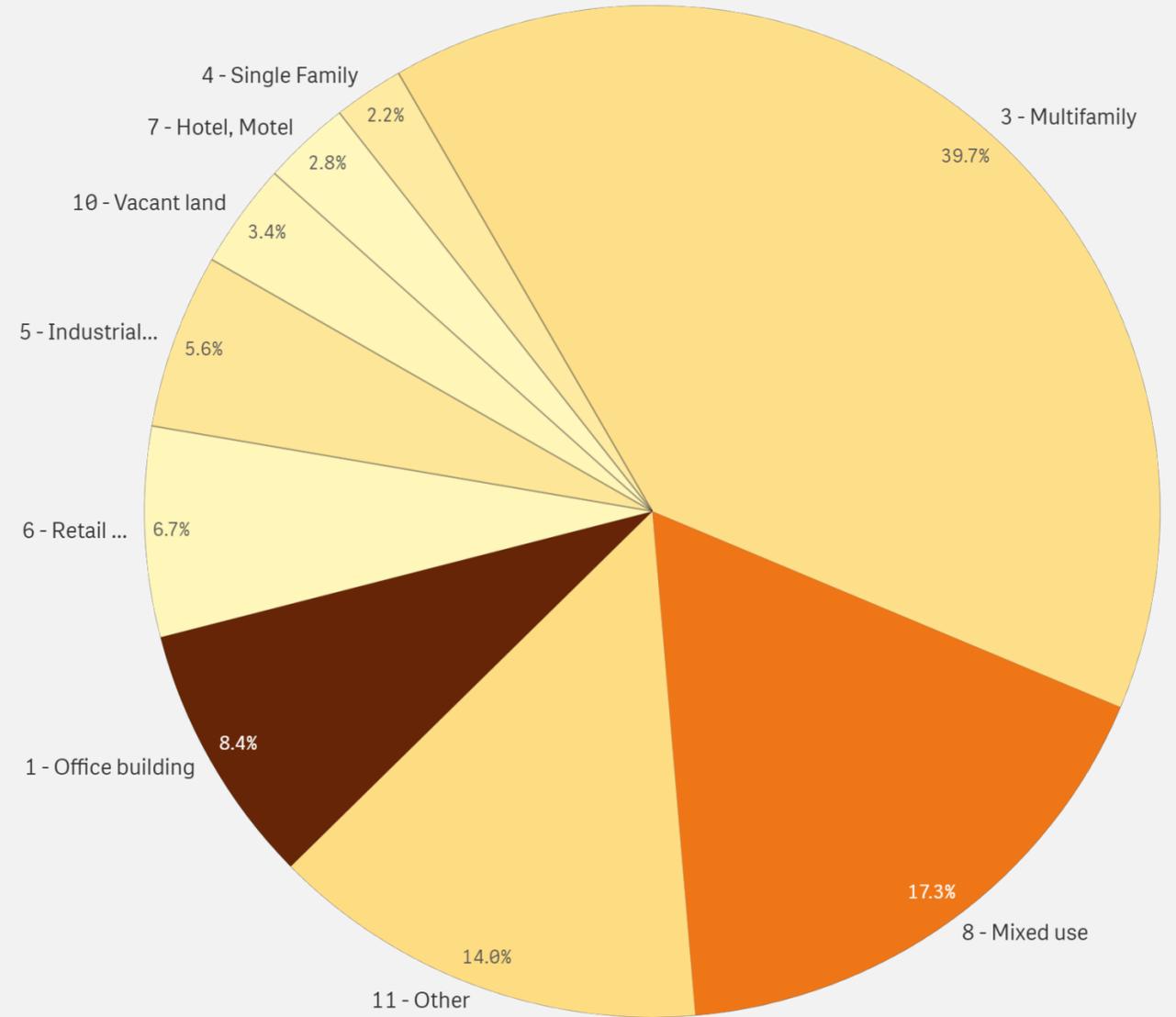
Number of Loans by Property Type

2019 – Q4



CRE Loan Data for CEIS Clients in CT, MA, ME, NJ, NY

2020 – Q4



CRE Loan Data for CEIS Clients in CT, MA, ME, NJ, NY

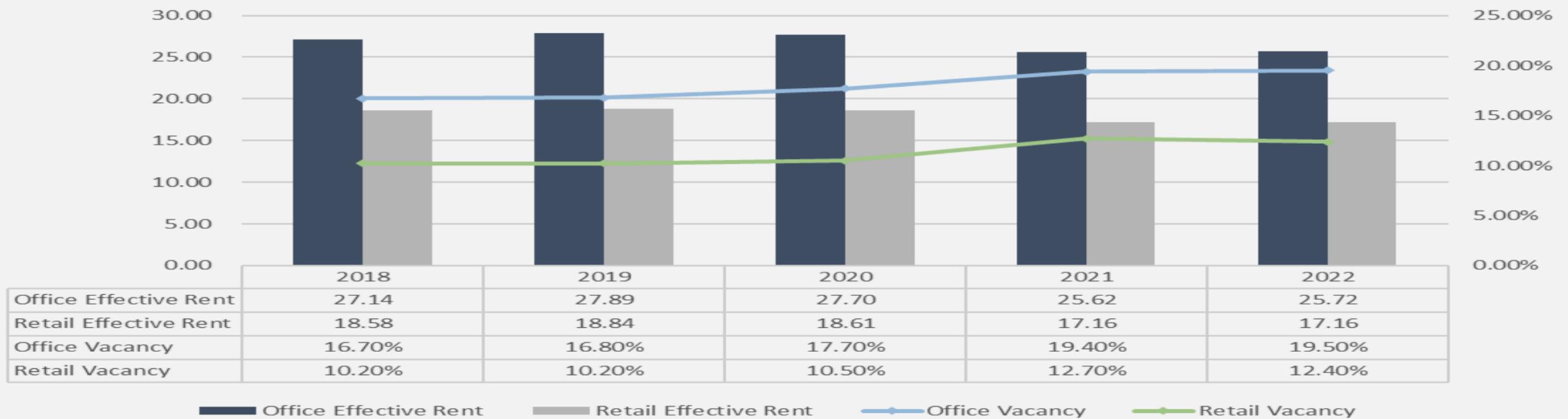


Real Estate Market Conditions - National



Source: Moody's Analytics REIS – Quarterly Economic Briefing (February 11, 2021)
79 of 274 Apartment Markets

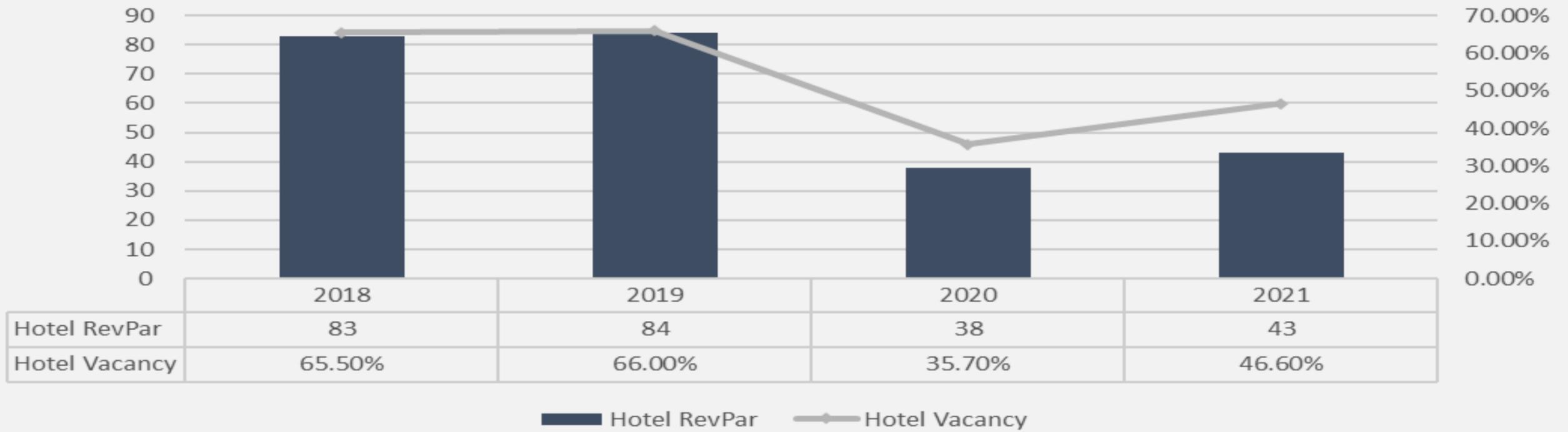
Real Estate Market Conditions - National



Source: Moody's Analytics REIS – Quarterly Economic Briefing (February 11, 2021)
79 of 190 Office Markets and 77 of 190 Retail Markets (Neighborhood & Community Shopping Centers)



Real Estate Market Conditions - National



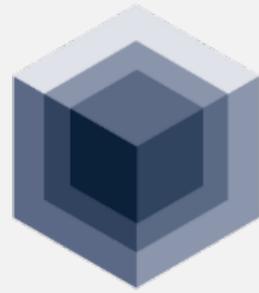
Source: Moody's Analytics REIS – Quartely Economic Briefing (February 11, 2021)

More Notable Bank Examiner Concerns

- Given the economic impact of the coronavirus still masked by numerous relief efforts in 2020 and proposed for 2021, community banks should act conservatively in 2021. Ensuring they have proper risk management processes in place. Understand the risk in your portfolio.
- A greater focus on industry and group concentrations in loan portfolios. It is recommended that Banks review current concentration limits, adjust as appropriate and closely monitor, especially in higher risk industries such as real estate, retail, hospitality & leisure and travel.
- More emphasis placed around timely and ongoing loan reviews with expectations that Banks increase the frequency of individual loan reviews based on severity of risk. Quarterly or monthly reviews for higher risk transactions may be appropriate.
- Closer tracking of adherence to credit policy. Banks are cautioned to keep policy exceptions to a minimum and properly document all mitigating factors in detail. Banks are recommended to take a thorough look at their policies including determination of appropriate underwriting risk parameters and metrics.

More Notable Bank Examiner Concerns

- Risk Ratings – It is important to understand the key risks of each individual borrower, considering financial performance pre-COVID-19, the impact of COVID-19 both short term and long term, relief/stimulus provided during the pandemic, repayment ability, collateral, and industry considerations. Banks should be in close contact with their largest borrowers and those with higher risk loans.
- Banks need to exercise good judgement with borrowers going forward as they come off the loan deferrals or may need additional time. Regulators will continue to look at all aspects of risk and relevant information on borrowers including the willingness and ability of sponsors to support the underlying borrowers, with focus on sufficient liquidity or alternative cash flow to cover shortfalls.
- Stress testing is suggested on both a loan and portfolio basis. Additionally, Banks are recommended to perform a pandemic stress test analysis that segregates the loan portfolio by NAICS code so Banks can see which industries are potential problem segments.
- Expected increase in M&A activity in 2021 as stronger banks take advantage of opportunities with weaker performing institutions as well as the potential for more IT and Fintech related partnerships.
- While the CECL deadline for Community Banks is not for a few years, Banks are recommended to prepare sooner rather than later.
- It is recommended that Banks speak with their regulators before issuing dividends or buying back stock.



CEIS REVIEW INC.

CEIS is an independent consulting firm established in 1989, serving the needs of organizations with general and/or specialized commercial loan portfolios.

Loan Review, ALLL / LLR Methodology and Validation, Portfolio Stress Testing, Portfolio Acquisition Review, Leveraged Lending Review, Municipal and Public Finance Review, Loan Policy Maintenance, Process Review, and Customized Loan and Credit Seminars.

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