THE GREAT FORBEARANCE EXPERIMENT

December 8th, 2020

S&P Global Market Intelligence

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SPEAKERS

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AGENDA

Welcome

Nathan Stovall

Bryan Corsini

Amitabh Bhargava & Albert Knotts

Q+A

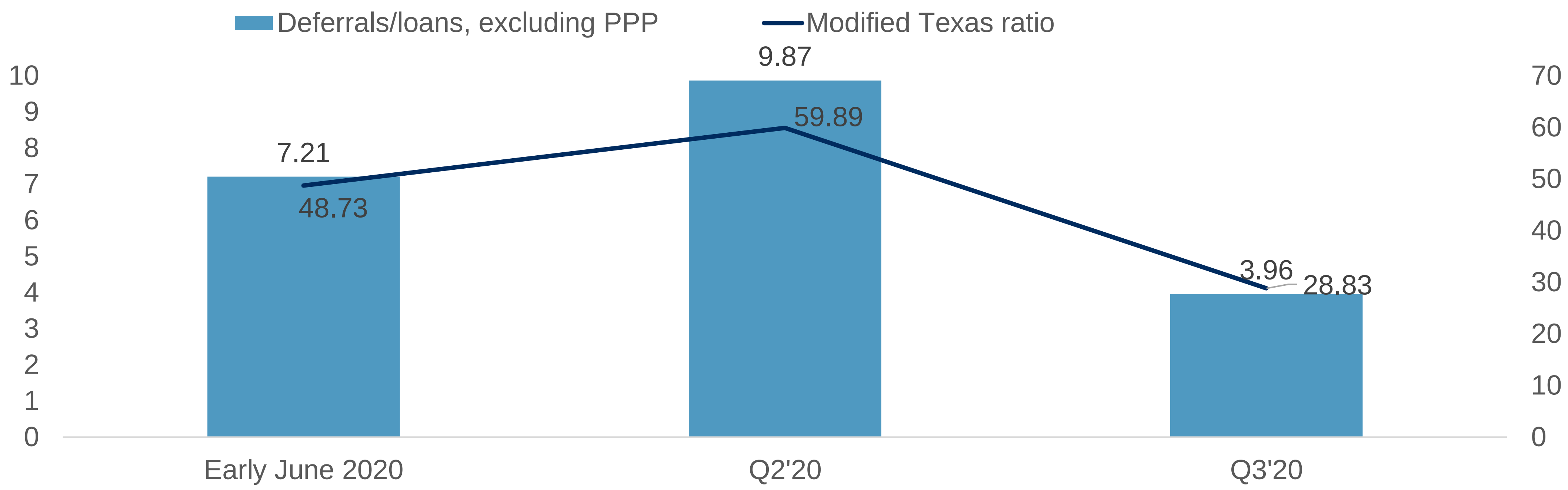
Stimulus, forbearance soften economic blow but cloud outlook

- Congress passes $3 trillion stimulus package, supporting unemployment insurance, small business lending.
- The Federal Reserve has nearly doubled its balance sheet, launching virtually every program from 2007-2009 and many new lending facilities.
- Loan deferrals, forbearance offered by banks reached $1 trillion in June, offering borrowers relief but have plunged since then, falling close to 70% through Sept. 30.
- Unprecedented forbearance, Paycheck Protection Program, stimulus have propped up consumers, businesses, but support is waning.
- Divided government likely reduces changes of large stimulus package coming soon.

Data compiled Nov. 30, 2020.
Source: S&P Global Market Intelligence

Loan deferrals have dropped substantially in the last quarter

Modified Texas ratio, COVID-19 deferrals across the banking industry (%)



Data compiled Dec. 7, 2020.
Modified Texas ratio = Loans deferrals plus nonperforming assets plus loans 90 days or more past due/ tangible common equity plus loan loss reserves.
PPP = Paycheck Protection Program
Loans, including PPP loans, nonperforming assets, loans 90 days or more past due, tangible common equity and loan loss reserves based on the most recent quarter's data.
Balance sheet metrics used for the analysis in early June were based on first-quarter data, which did not include PPP loans. Balance sheet metrics used in the analysis for Q3'20 and Q2'20 were based on their respective period ends.
Analysis based on disclosures of publicly traded banks compiled from sell-side research reports and public filings.
The analysis for Q3'20 and Q2'20 was based on disclosures from more than 450 publicly traded banks. The analysis for early June 2020 was based on disclosures from 150 publicly traded banks as of June 8.
Sources: S&P Global Market Intelligence; Raymond James; Piper Sandler; Stephens; Janney Montgomery Scott; Hovde; Compass Point Research & Trading; Keefe Bruyette & Woods; proprietary estimates

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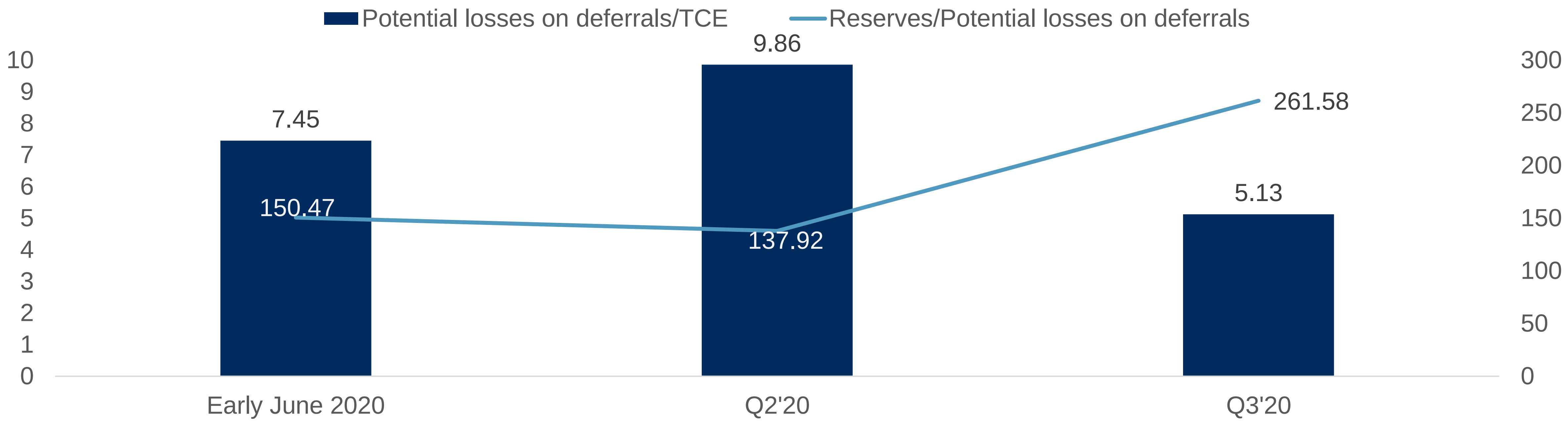
Bank reserves stand strong against potential losses on deferrals

Potential losses on COVID deferrals against TCE, reserves across the banking industry (%)



Data compiled Dec. 7, 2020.
TCE = Tangible common equity
Tangible common equity, reserves, loans based on the most recent quarter's data available.
Analysis based on disclosures of publicly-traded banks compiled from sell-side research reports and public filings.
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Analyses assumes that 30% of deferred loans become nonperforming. Analyses assumes losses on nonperformers would be the average of each group's loss experience from 2007-2009 and loss given default on assets at failed banks during the Great Recession.
Sources: S&P Global Market Intelligence; Raymond James; Piper Sandler; Stephens; Janney Montgomery Scott; Hovde; Compass Point Research & Trading; Keefe Bruyette & Woods; proprietary estimates

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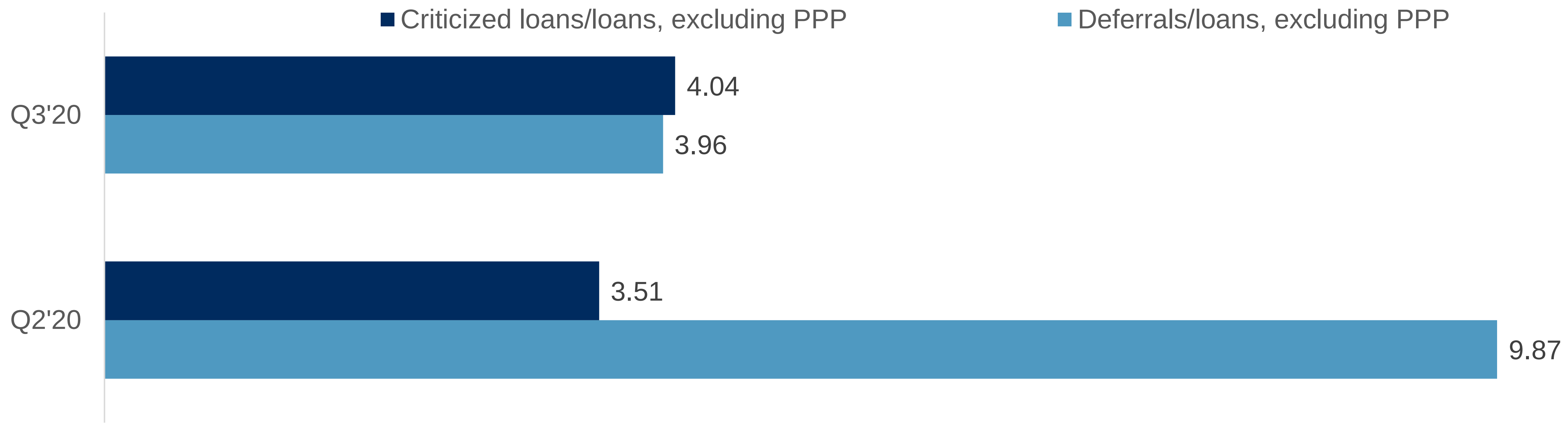
As loan deferrals have plunged, criticized loans have risen modestly

COVID-19 deferrals, criticized loans across the banking industry (%)



Data compiled Dec. 7, 2020.
Criticized loans = Loans that are categorized by the company as special mention, substandard, doubtful or loss.
PPP = Paycheck Protection Program
Balance sheet metrics used in the analysis for Q3'20 and Q2'20 were based on their respective period ends.
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Sources: S&P Global Market Intelligence; proprietary estimates

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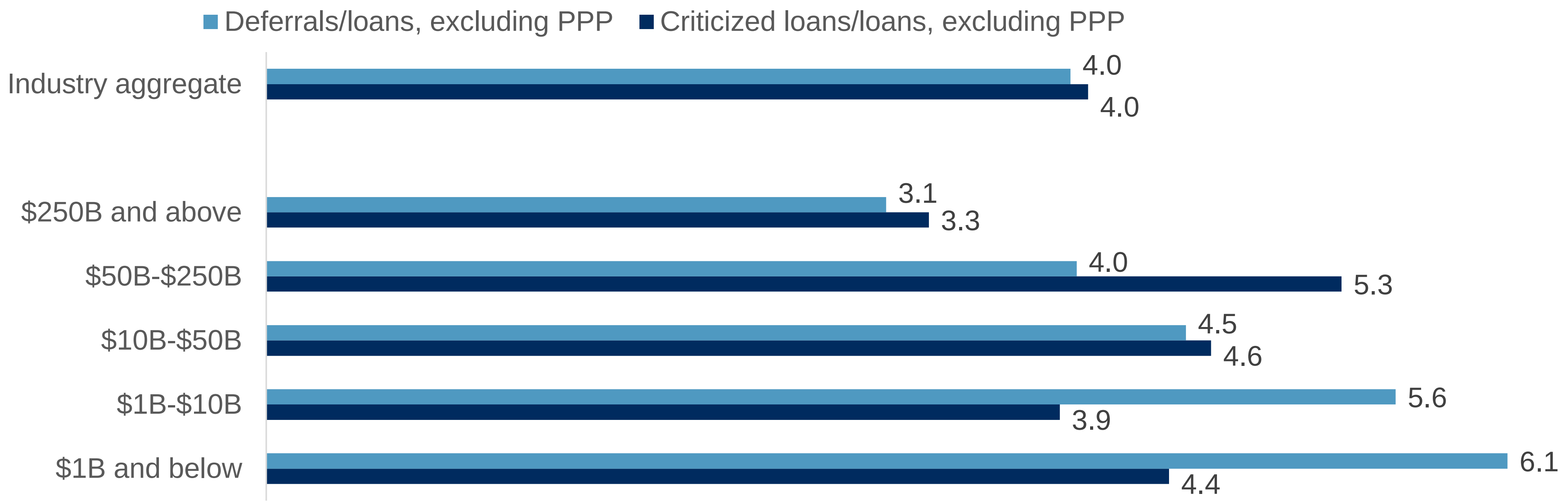
Small banks lead the way in deferrals, but criticized loans more widely distributed

Criticized loans, COVID-19 deferrals by asset group as of Sept. 30, 2020 (%)



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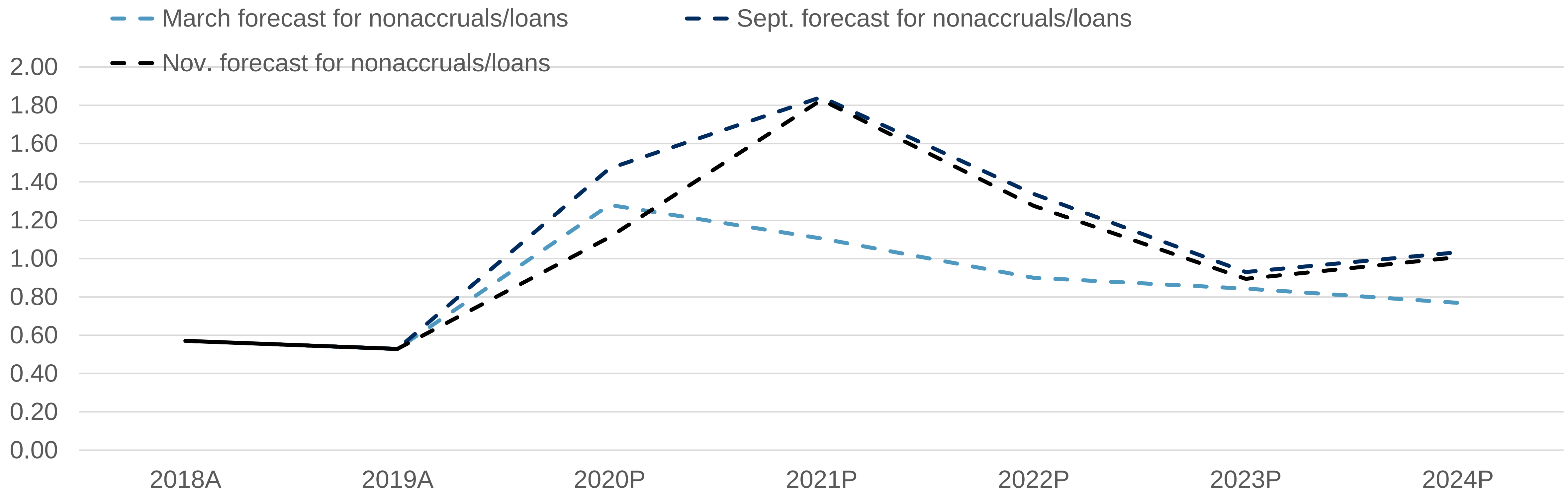
Stimulus, forbearance delaying credit slippage, but vaccines could temper long-term losses

Nonaccruals/loans (%)



November forecast current as of Nov. 30, 2020.
September forecast current as of Sept. 8, 2020.
March forecast compiled on March 19, 2020.
A = actual; P= projected
Sources: S&P Global Market Intelligence; proprietary estimates

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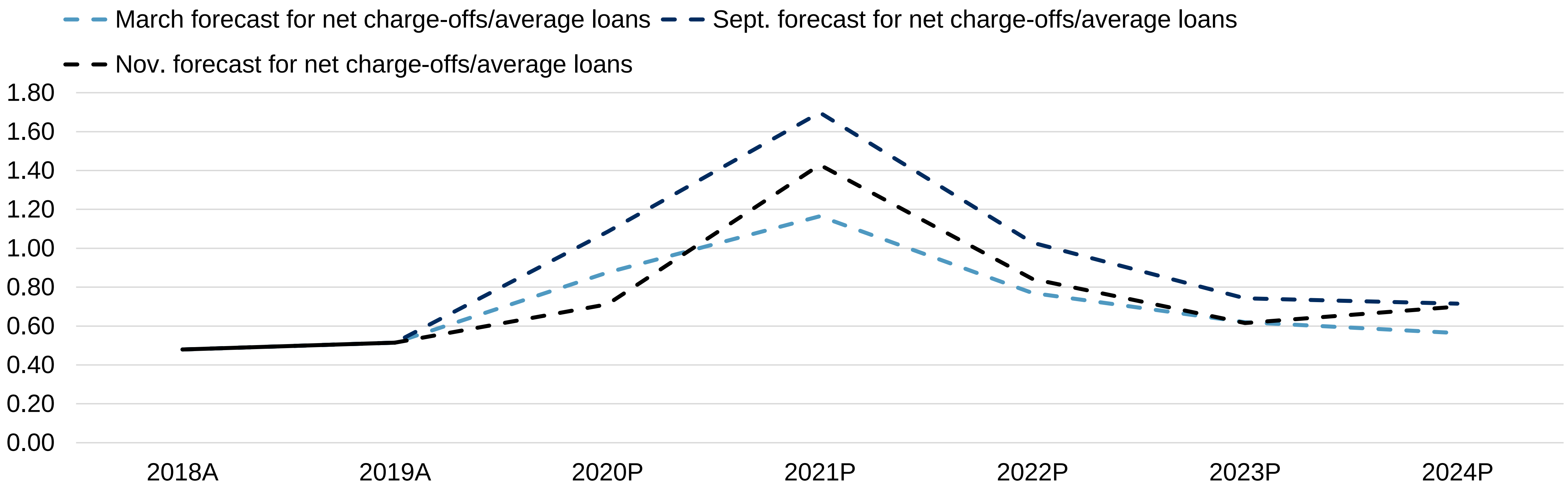
Stimulus, forbearance delaying credit slippage, but vaccines could temper long-term losses

Net charge-offs/average loans (%)



November forecast current as of Nov. 30, 2020.
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Borrowers still seeking relief are in at-risk industries

- Many borrowers that have asked for a second deferral period operate in the hospitality, retail and restaurant sectors.
- COVID-19 has disproportionately impacted those sectors.
- Leisure and hospitality sectors have produced the greatest job losses. U.S. revenue per room, or RevPAR, expected to be down 50% in 2020, according to S&P Global Ratings. A recovery is expected in 2021 but RevPAR will still remain 20% to 30% below pre-pandemic levels.
- Banks say they are eying re-deferrals with great trepidation and have worked to mitigate losses.

Data compiled Nov. 30, 2020.
Source: S&P Global Market Intelligence

BRYAN CORSINI

EVP CHIEF CREDIT OFFICER

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Great Recession vs Pandemic

	2008 Great Recession	2020 Pandemic
Pre-Crisis	Build-up of imbalances -Run-up of credit/housing -Thinly capitalized (shadow) banks	Well balanced -US gov. debt expansion -Corporate debt
Trigger	Re-evaluation: real estate -Regional correlation	Pandemic induced rapid deceleration of economic activity - Corporate cash flow crash - Pre-pandemic strong and weak borrowers alike are impacted
Amplification	HH and Banks' Balance sheet	Corporate sector balance sheet
Who needed bailout	Banks	Borrower
Policy Objective	Demand Stimulus	Survival
Bailout Speed	Fast	Extremely Fast, Reg and Accounting reaction very accommodating **SO FAR**

- Just like 2008 it takes time for the credit impact to play out
- **Forbearance last time usually resulted in the lender improving its position – not for free**

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Current State

- Stimulus programs have been very effective
- Industry winners and losers
- Financial firms have analyzed their portfolios, increased reserves, and worked with borrowers
- Forward-looking stress tests, accurate risk ratings, new loans to strong borrowers
- Deferrals vs large "R" forbearance

Opportunity to enhance reputation with customers

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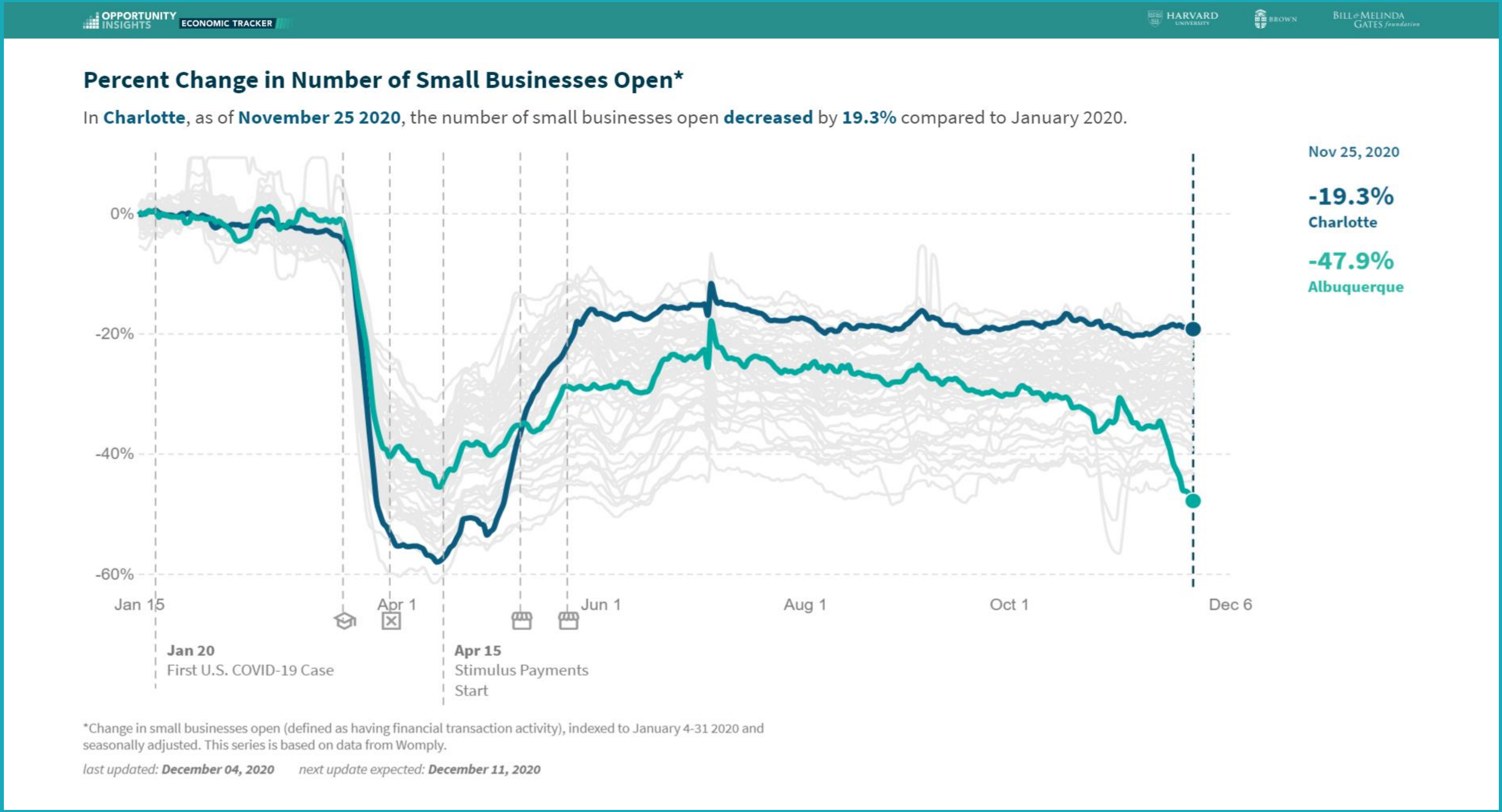
Epidemiological impact and local administration response varies across metros



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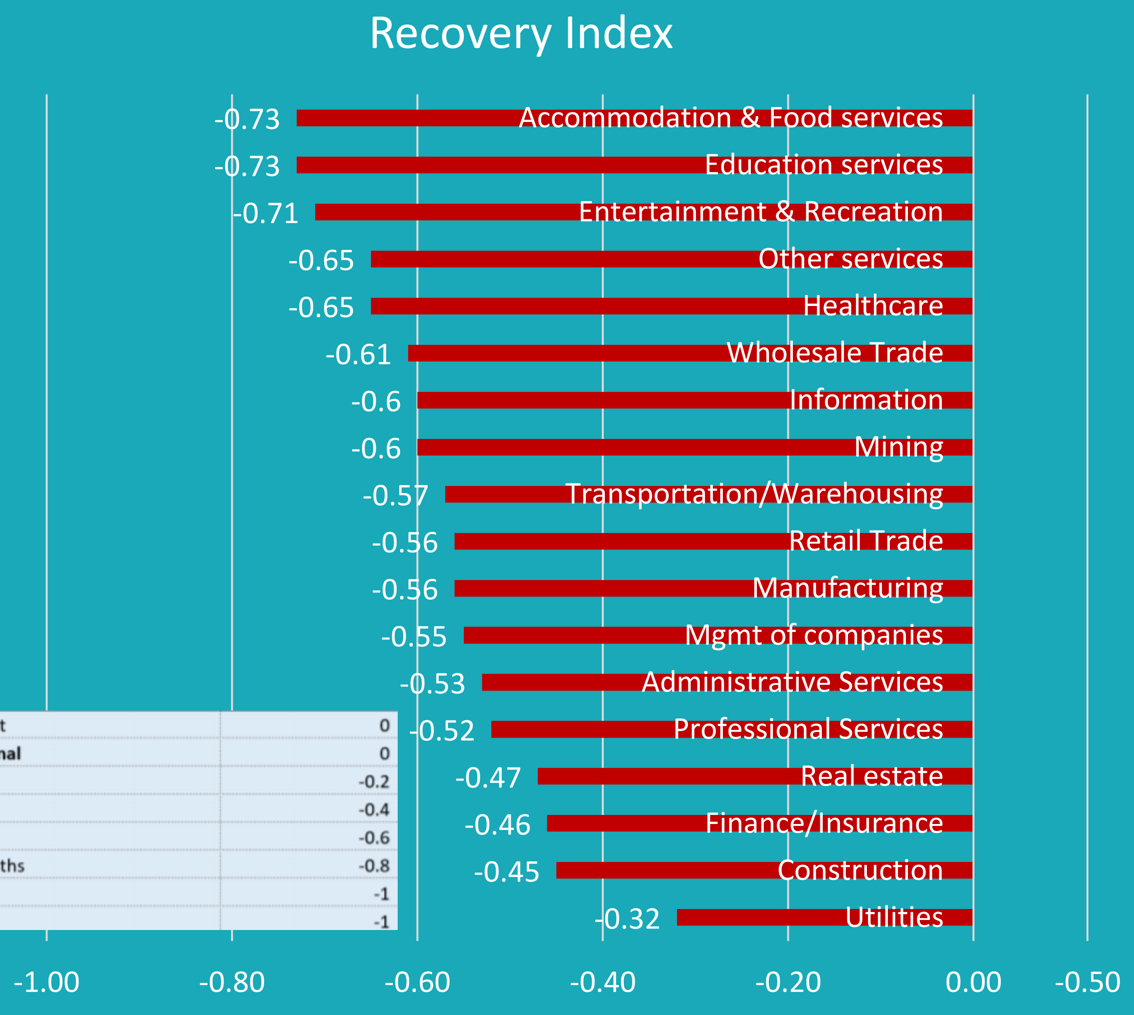
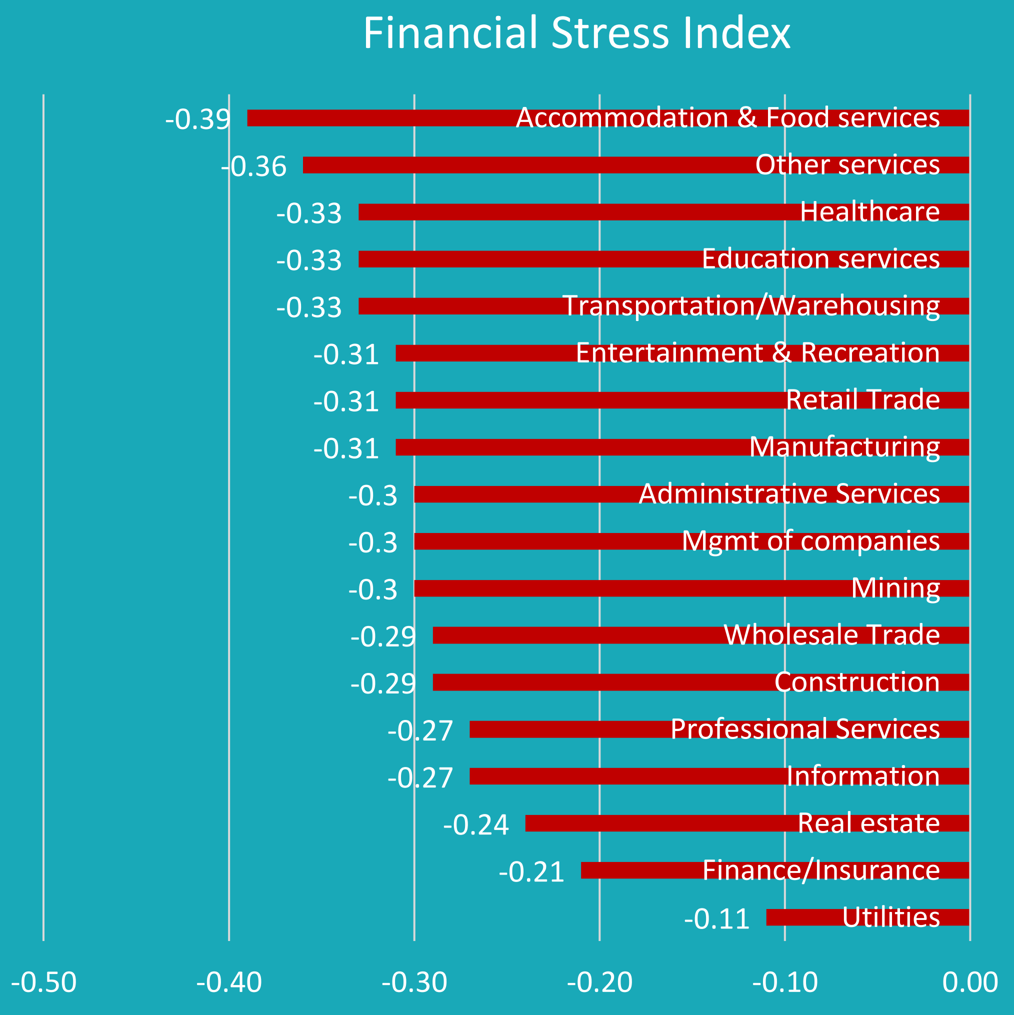
Forbearance programs have mitigated Financial stress, but recovery prospects stay weak and disparate across sectors





Little or no impact	0
Returned to normal	0
1 month or less	-0.2
2-3 months	-0.4
4-6 months	-0.6
More than 6 months	-0.8
Never	-1
Permanent close	-1

Source: Small Business Pulse Survey- Census Bureau- Data collected Nov 23-29

Deferral, Forbearance, Collection Best Practices

- Payment option programs supported by a disciplined and well documented process
- Accurate risk ratings
- Customer communication should be crystal clear
- Deferrals are a little "r" restructuring
- Big "R" restructuring requires a formal Forbearance agreement – reservation of rights, waiver of lender liability, and an improvement in the lenders position (right size the loan)
- Workout talent, legal support, accounting support, information, digital, expenses, policies and procedures
- Plan the RR upgrade or exit strategy

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Forward Looking

- Some borrower business models will be permanently compromised
- Deferrals will convert to large “R” forbearance and TDRs
- A and B note solutions
- Bulk sale of vulnerable loans
- Avoid surprises and don’t surprise examiners
- Strong borrowers in weak industries will benefit from a vaccine
- Clean, efficient, agile, and strong

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Geographic and sectoral analytics can aid in refining monitoring of deferral programs and finetuning exit strategies

Geographic Health Score

- Credit Quality Index
- Employment Index
- Demographics Index
- Business activity Index
- Income Index
- Housing Index

Cross-sectional Health score
How does economic health of select MSAs compare to 390 MSAs in the country?

Time series Health score
How does economic health of select MSAs compare to 30-year averages?

Sectoral Health Score

TTC Credit volatility/resilience

Recent Performance

Short term outlook

Long term outlook

Historical trends in employment and credit quality

Multifactor analysis using bespoke factors that are determinants of an industry's health

Factors encompass quantitative variable (economic variables and industry specific performance indicators) and qualitative assessments

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QUESTIONS

TOP TAKE A WAYS

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THANK YOU!

Please fill out the survey
as the webinar concludes

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