

# Secondary Loan Market Trends

PNC Financial Institutions Group

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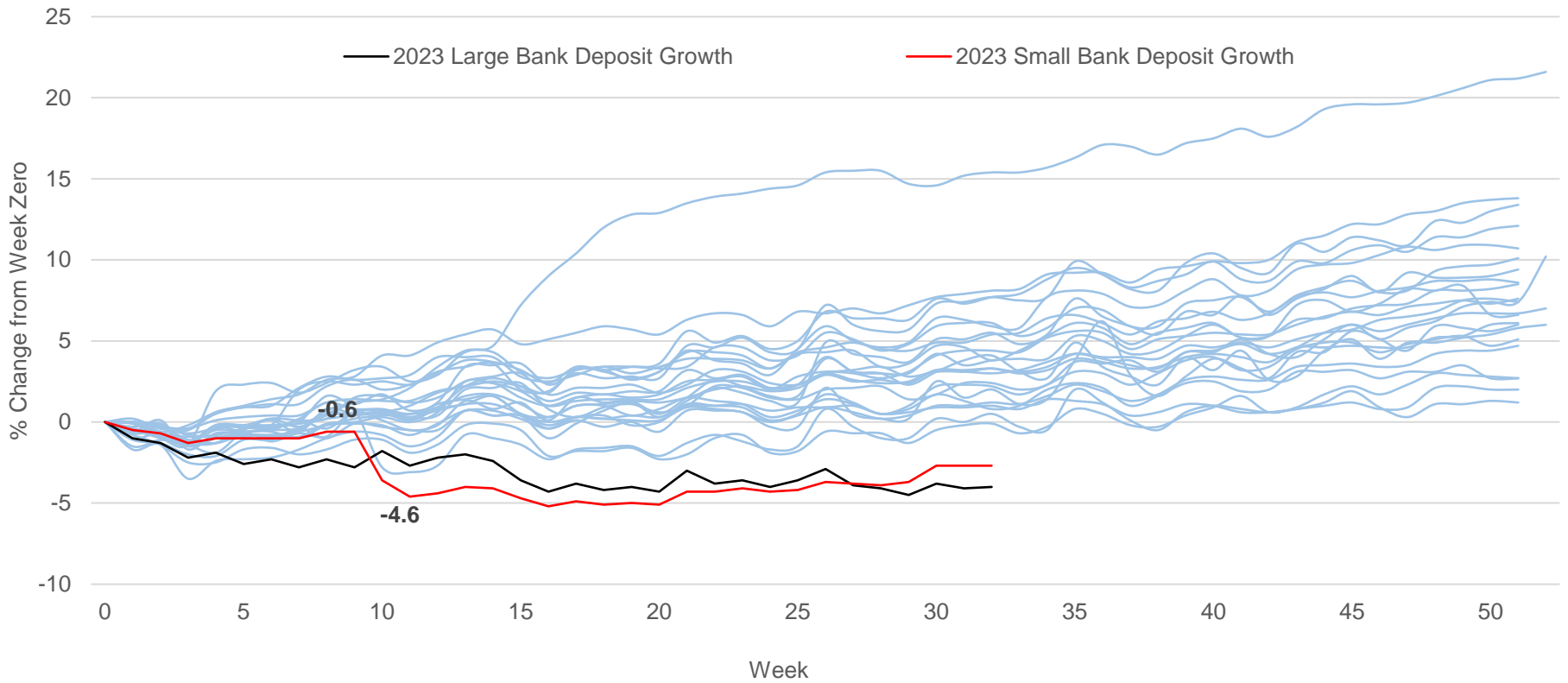


# Challenging Year for Deposits

Funding pressures grow



### Annual Deposit Growth 2000 – 2023 (Indexed)



- Quantitative tightening
- March 10, 2023

- Large bank stability
- Small bank recovery

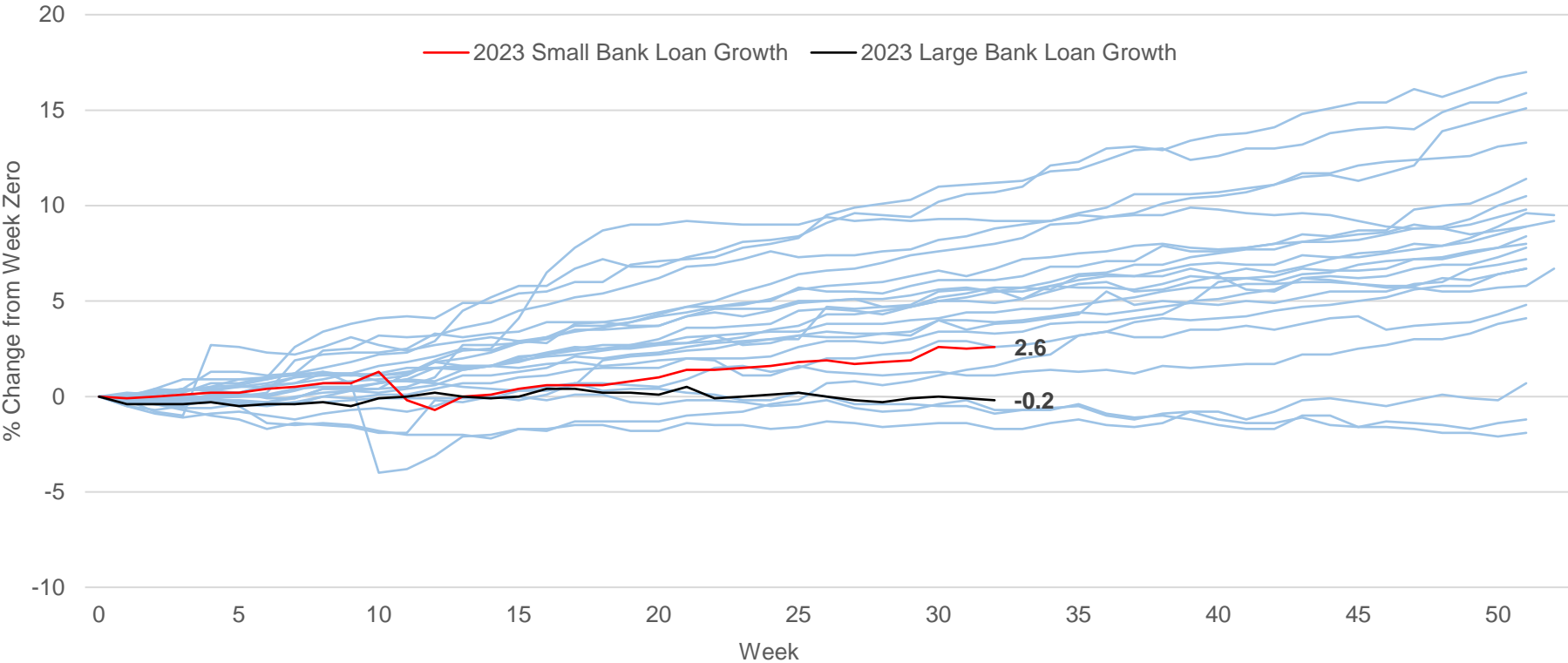
Source: Federal Reserve H8 report on Assets and Liabilities of Commercial Banks in the United States, <https://www.federalreserve.gov/releases/h8/>

# Loan Growth Persists

## Loan growth at small banks



Annual Loan Growth 2000 – 2023 (Indexed)



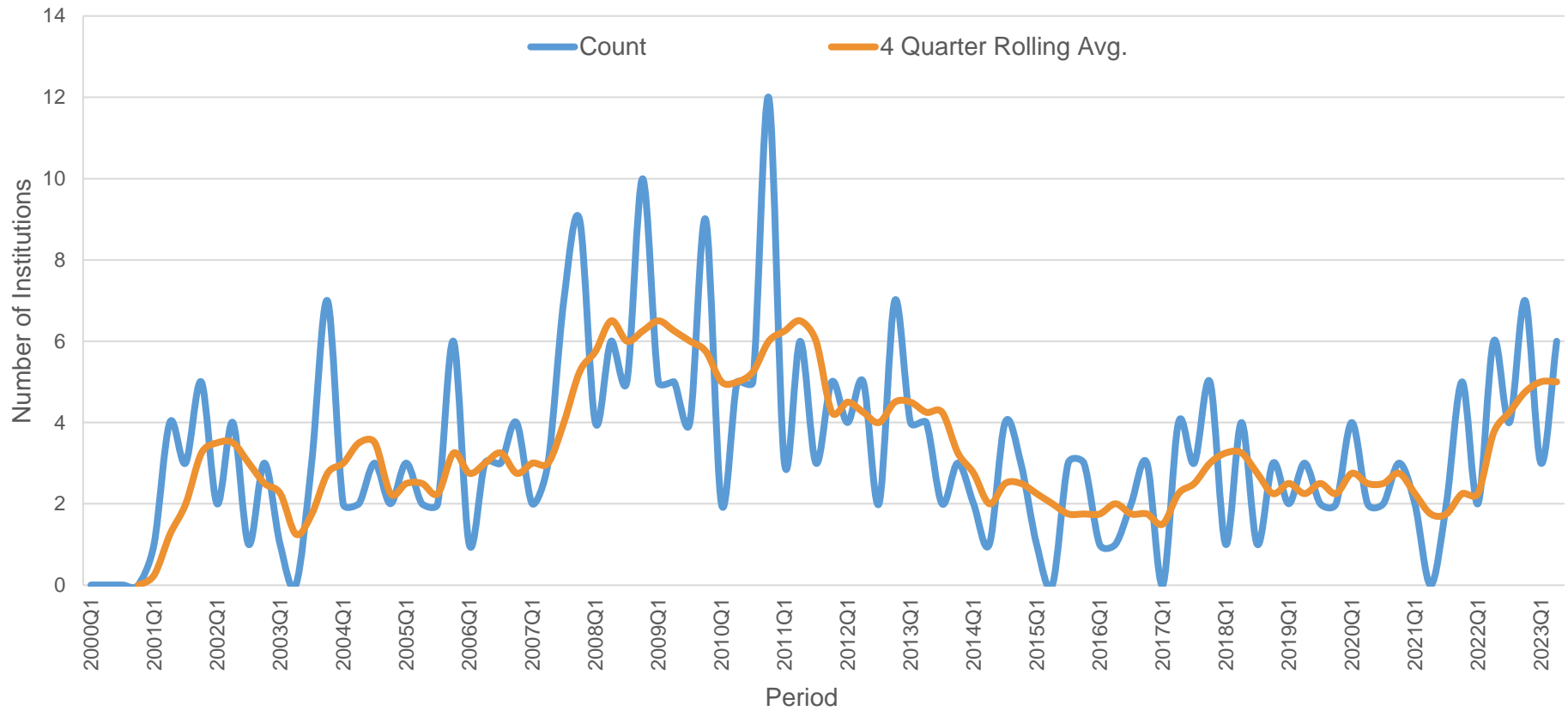
Source: Federal Reserve H8 report on Assets and Liabilities of Commercial Banks in the United States, <https://www.federalreserve.gov/releases/h8/>

# Increasing Loan Transactions

Liquidity driven sales



## Banks Recognizing Loss on Sale of Loans >5% of Adjusted Net Revenue<sup>1</sup>



■ Adjusted net revenue is the sum of net interest income and non interest income less loss on sale of loans

Source: S&P Global Intelligence  
1) Banks 1-50bn in assets

# Select Loan Transactions

Announced since March 10, 2023



Company	Assets (\$MM)	Commentary	Unpaid Balance (\$MM)
Customers Bancorp	22,045	Short term syndicated capital call loans	670.0
		Consumer installment loans	556.7
Columbia Banking System	53,592	Non-relationship loans and MSR portfolio	373.0
MVB Financial Corp.	3,362	Subprime auto loans	20.4
Truist Financial Corporation	554,549	Student loans	5,000.0
Synovus Financial Corp.	60,656	Exit of medical office CRE	1,300.0
PacWest Bancorp	38,337	74 construction loans with aggregate purchase price of \$2.1B	2,300.0
		Lender finance loans including \$3.5B of unfunded commitments	2,210.0
		Resi rehab portfolio including \$24MM of unfunded commitments	521.0
Great Southern Bancorp, Inc.	5,725	16 non performing 1-4 family mortgages	0.5
EverBank NA	36,454	Sale of loans to former parent TIAA	2,300.0
Webster Financial Corp.	74,038	32 commercial loans, 55% office	80.0
First Hawaiian, Inc.	24,512	Non-relationship SNC portfolio	55.0
Prosperity Bancshares, Inc.	39,915	Preparing to mortgage pool for secondary market sale	NA

- Enhance liquidity, exit a business or dispose of non-core loans
- Purchase accounting

Source: Company SEC filings, earnings call transcripts, company presentations

# Single Family Mortgages & Multifamily

Historically commonly traded loan types



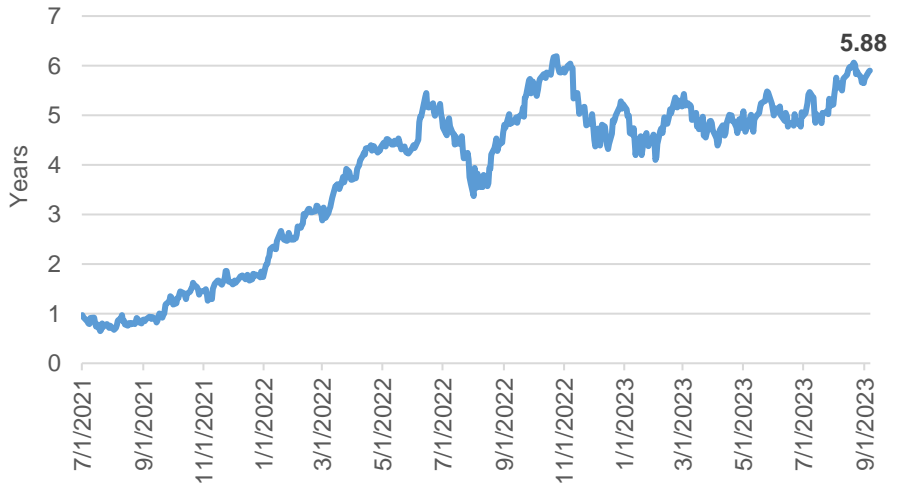
## Single Family Mortgages

- Losses reduce liquidity
- Newer production and specialty types
- Lack of hedging
- Full extension
- Money managers, funds, and insurance company buyers
- Cost of capital
- Coupon > Credit
- Affordability

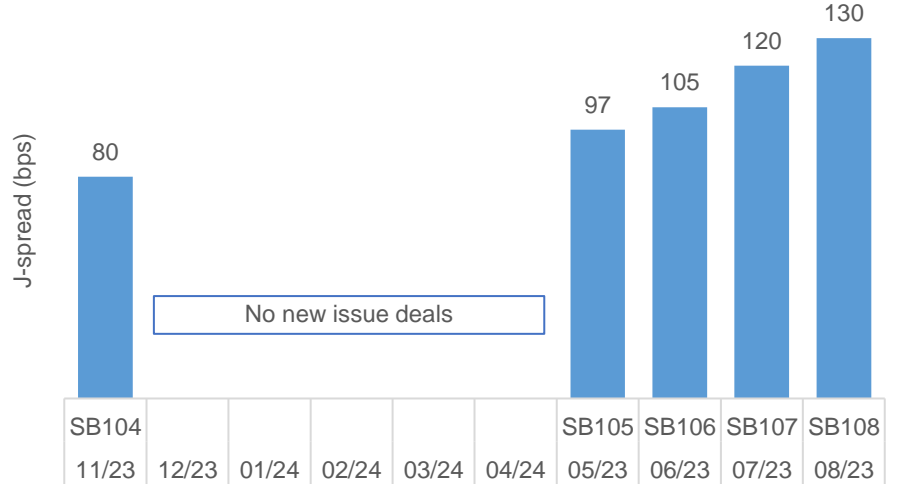
## Multifamily

- Small balance / brokered
- 5/1 and 7/1 hybrid structure
- Bank to bank
- FRESB / Q securitizations
- Consistent credit performance
- BANC loans
- Near reset pools

## FNCL 4.5% Effective Duration



## Freddie Mac Small Balance New Issue Spreads



Source: Bloomberg

# Commercial & Institutional

## Active secondary market



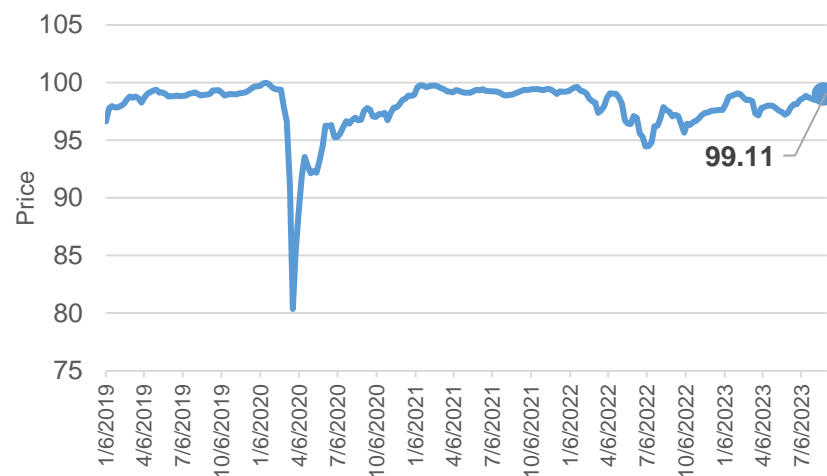
### Commercial

- Active secondary market
- Shorter vs longer maturity loans
- Central business district commercial real estate
- Class-C office
- Private credit, asset managers, insurance companies and banks
- Net yield targets
- Seller financed structures
- Participations / 51%
- Flow arrangements for homogenous asset classes

### Institutional

- Term loan B
- Shared National Credits (SNCs)
- Collateralized loan obligation (CLO) demand
- Floating rate / near par
- Supplemental loan growth
- Special situations
- Larger / more complex

### S&P/LSTA BB Index



# Participating in the Secondary Market

## Considerations

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- Rate, credit and liquidity
- Marketplace vs direct outreach
- Single loan vs pool vs flow
- Price expectations
- Acceptable loss / target gain
- Servicing
- Rationale...
  - Credit
  - Liquidity
  - Non-core
  - Capital
  - Interest rate risk
- State of the asset...
  - Trophies
  - Performing
  - Distressed
  - Non-performing
- Hedging HFS positions
- Reverse inquiries
- Purchase accounting
- Accounting, finance, operations
- Participation infrastructure
- Complete credit package
- Alternative data sources
- Structuring to maintain optionality



# PNC Financial Institutions Group

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- **Patient and Thoughtful:** Unique priorities, personalities and strategies shape each institution and as such, we seek to understand each organization as a foundation for our relationship
- **Tailored Approach:** The depth of our experience and the expertise of our PNC partners shape our perspectives and serve as the basis for client advisory and bespoke solutions
- **Industry Expertise:** As bankers ourselves, dedicated specifically to understanding the challenges of domestic banks, we have unique insights on industry trends, opportunities, regulations and the economic environment
- **Centralized Relationship Model:** A team of dedicated bankers support each client relationship, comprised of a regional manager, a day-to-day relationship manager, a team of product partners and pool of associates and analysts

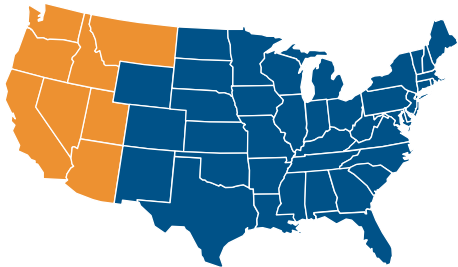
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**1,000+**

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**37+**

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- Valuations
- Branch Acquisition & Sale
- Fairness Opinions
- M&A Escrow Services

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- Common & Preferred Equity
- Private Placements / 144A / Registered
- IPO Advisory
- Board Updates & Education

### Balance Sheet Management

- Funding & Balance Sheet Hedging
- Loan Analytics & Opportunities
- Fixed Income Strategies
- Asset / Liability Modeling
- Loan-Level Interest Rate Swaps
- Securitizations

<sup>1)</sup> Information as of 9/1/2023

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