

August 27, 2024

# Saltmarsh BankTalk: CRE, CECL, Liquidity and Other Updates

Josh Strickland, Shareholder

Paul Allen, Director

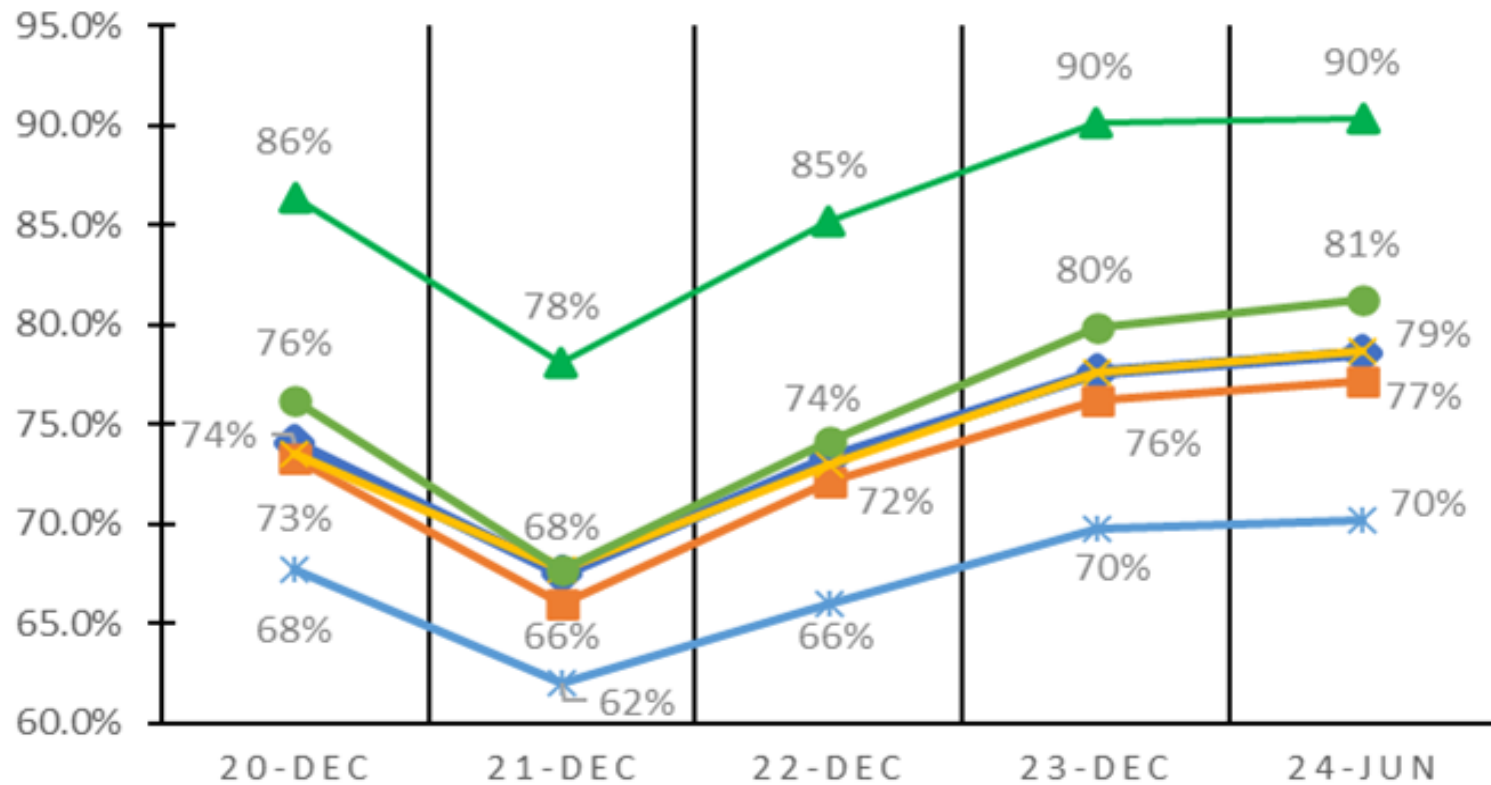
# How's the Loan Portfolio?

- Quick overview and comments on recent trends in Credit Risk and the Loan Portfolio, particularly for community banks
- There continues to be demand for loans as total loans at Banks continues to grow in the 2<sup>nd</sup> quarter of 2024
- Credit Risk appears to be rising

## Q2 '24 Call Report Data

### GROSS LOANS TO DEPOSITS

National Southeast Northeast  
Midwest Southwest West



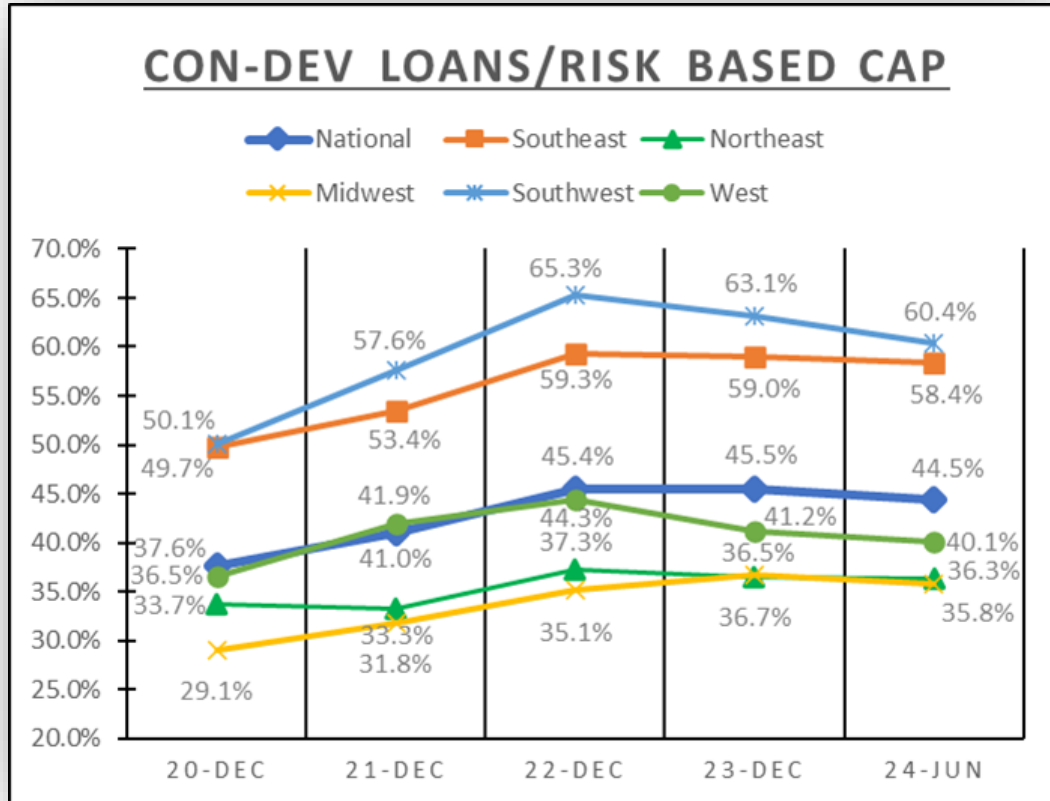
National / Southeast / Northeast / Midwest / Southwest / West

# Regional CRE Concentrations: Banks < \$10B

Regulatory Guidance:  
≤ 100% RBC

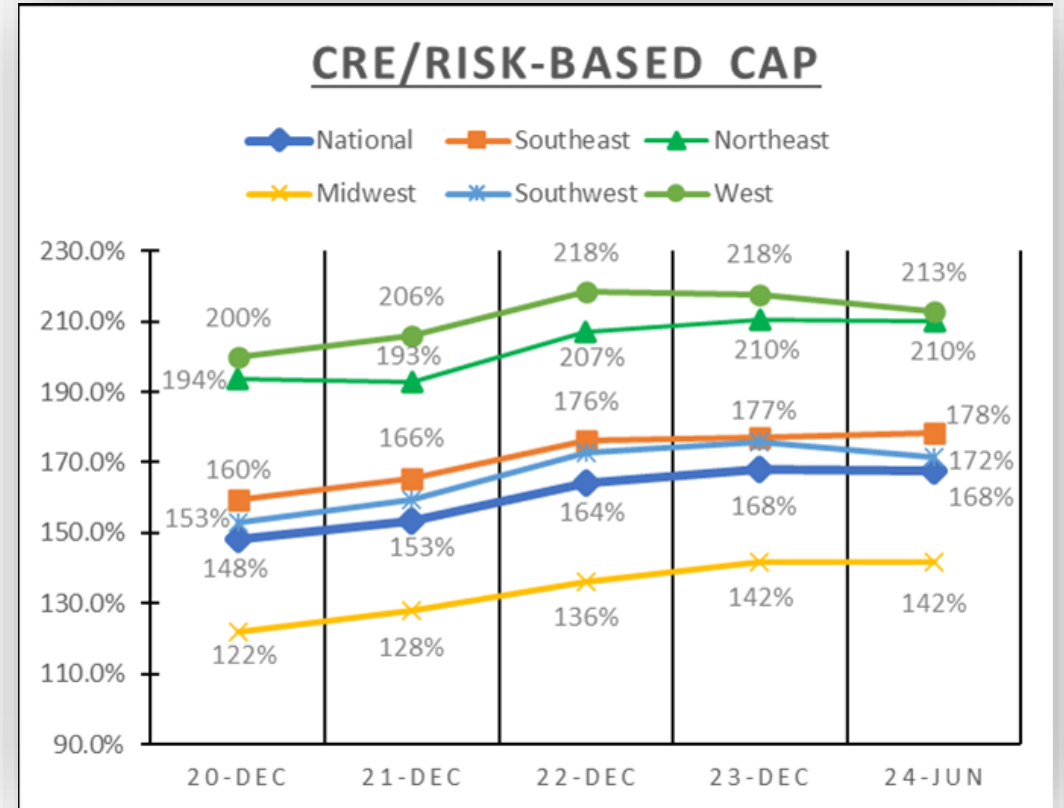
Q2 '24 Call Report Data

Regulatory Guidance:  
≤ 300% RBC



224 National / 76 Southeast / 9 Northeast / 63 Midwest / 64 Southwest / 12 West

↑ 100%:

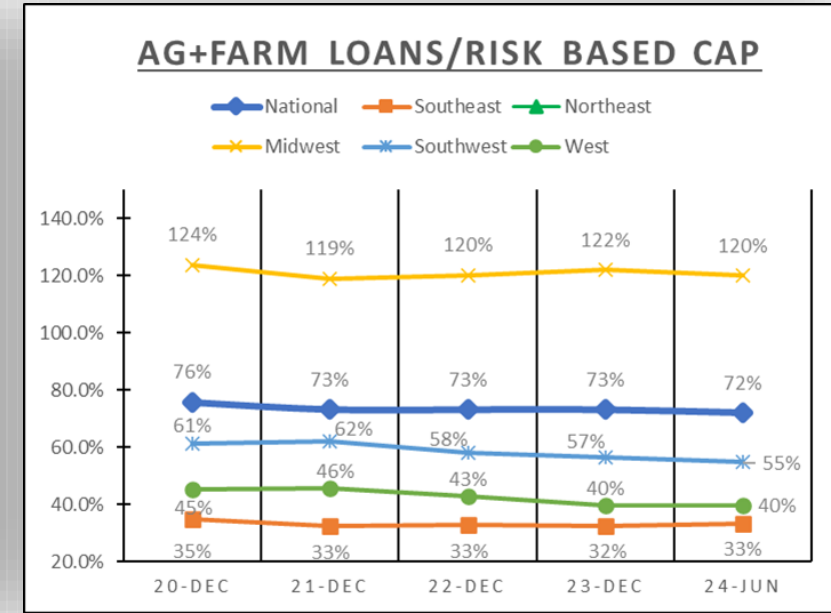
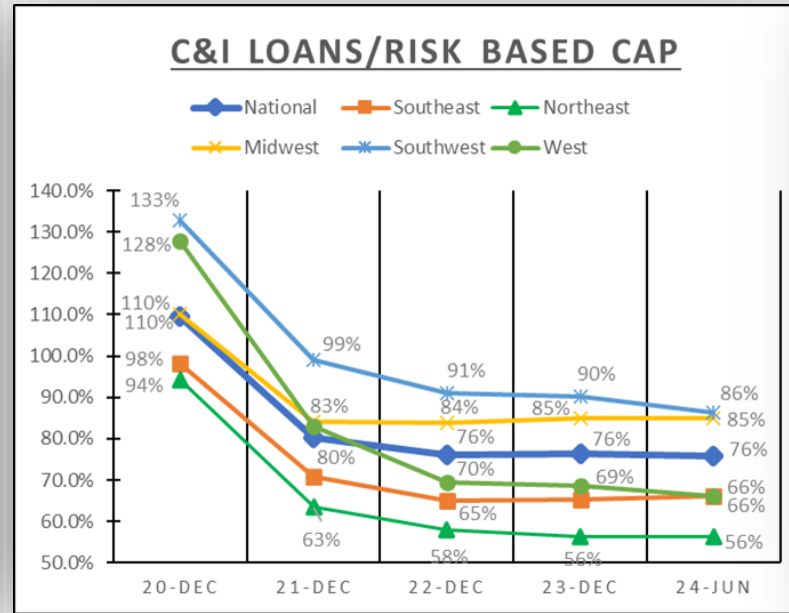
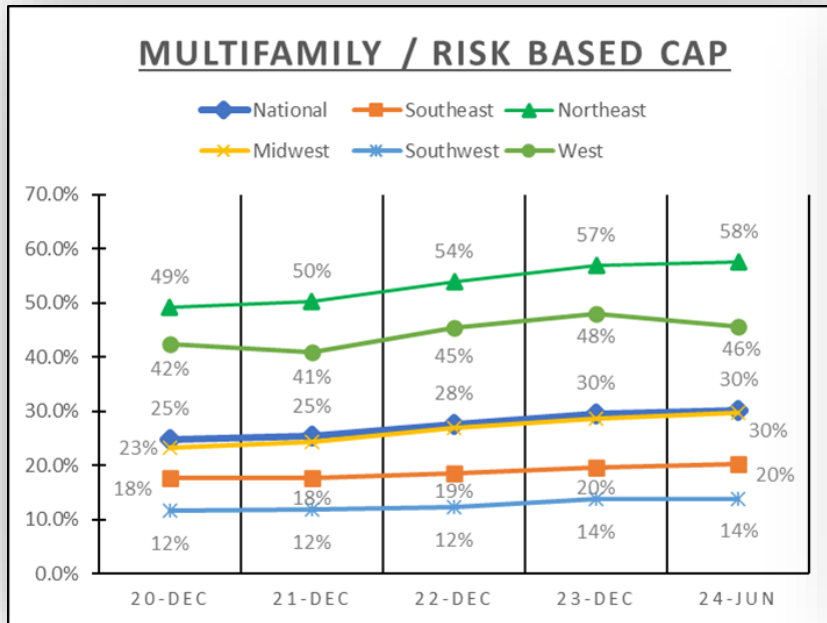


331 National / 62 Southeast / 9 Northeast / 114 Midwest / 38 Southwest / 43 West

↑ 300%:

# Regional Other Concentrations: Banks $\leq$ \$10B

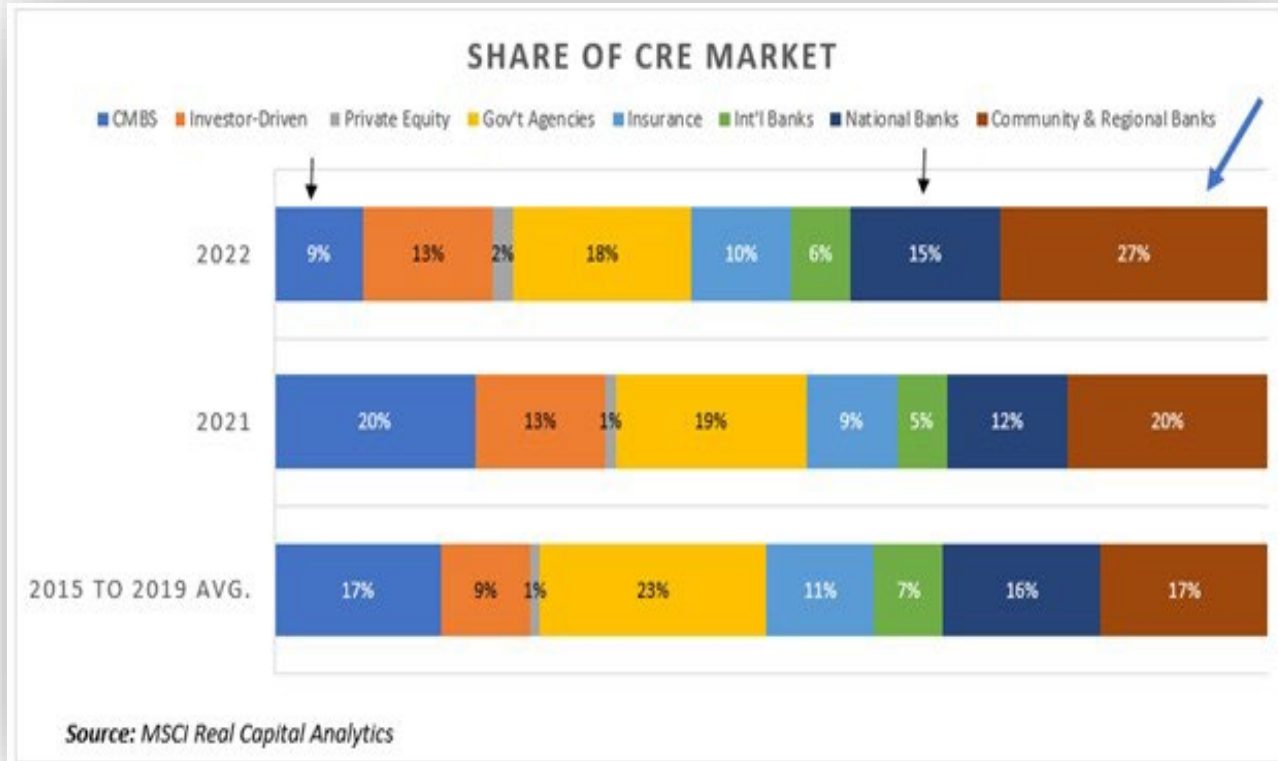
National / Southeast / Northeast / Midwest / Southwest / West



Q2 '24 Call Report Data

# Community And Regional Banks: CRE Exposure Continuing to Grow

All CRE Funding Sources



## CRE Loan Growth YOY (Q1 '24):

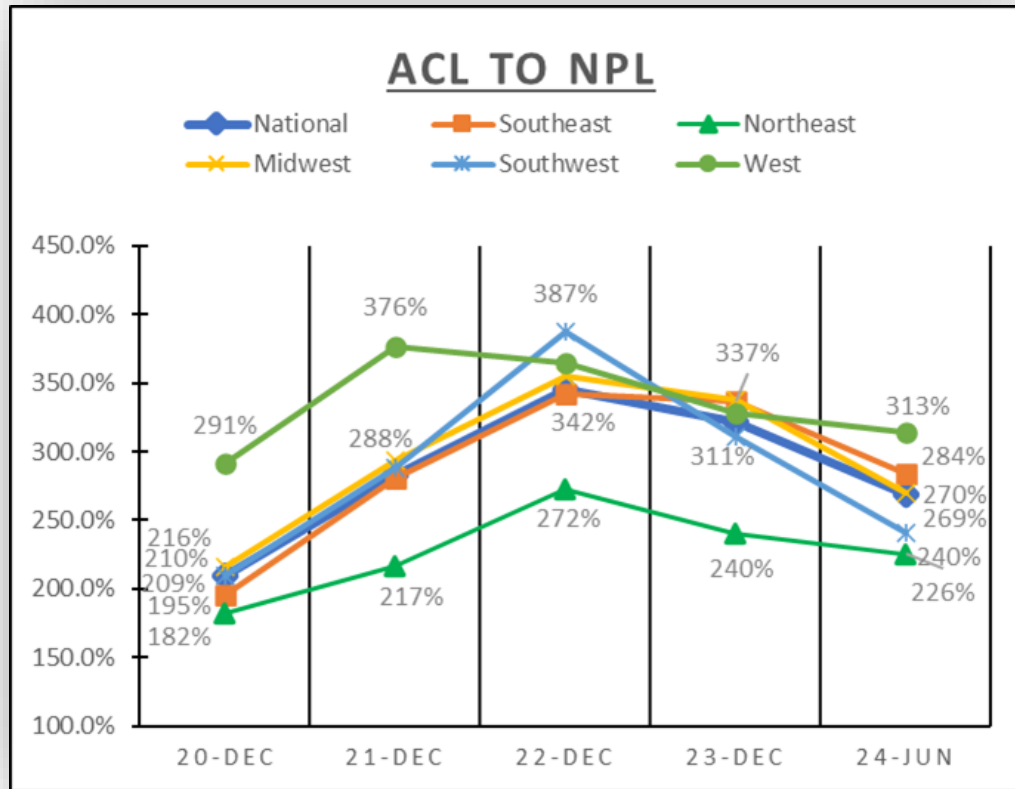
- All Banks **2.4%**
- Community Banks **6.7%**





--Source: FDIC

# Although credit metrics appears still sound, credit risk is increasing:

- Rate and inflation environment beginning to take a toll on borrowers
- The paycheck-to-paycheck consumer and small business stress is growing
- More recent risk downgrades seen than in a decade
- ~\$1.5T of CRE repricing ahead by YE '25
- Post-booking servicing / monitoring tends to be relaxed
- Smaller banks' loan growth almost all CRE while all other providers are avoiding
- Significant regulatory attention to certain types of collateral (Office space, Multifamily, ACLF/Nursing homes)

# Credit Risk Rising: Banks <\$10B



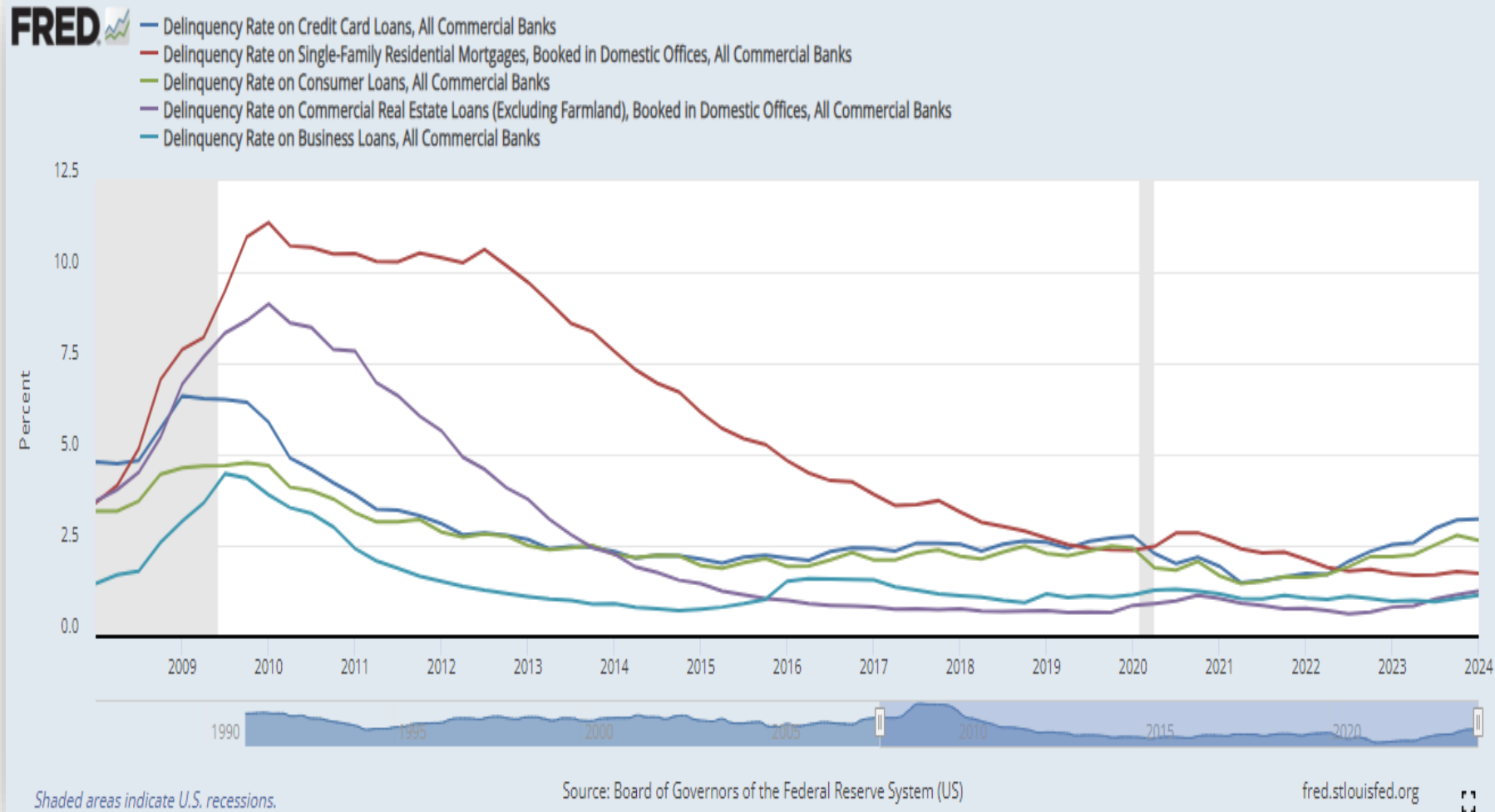
- Large banks' ACL 
- Community banks' ACL 
- Large banks' CRE exposure 
- Community banks' CRE exposure 

National / Southeast / Northeast / Midwest / Southwest / West

Q2 '24 Call Report Data



# Delinquencies



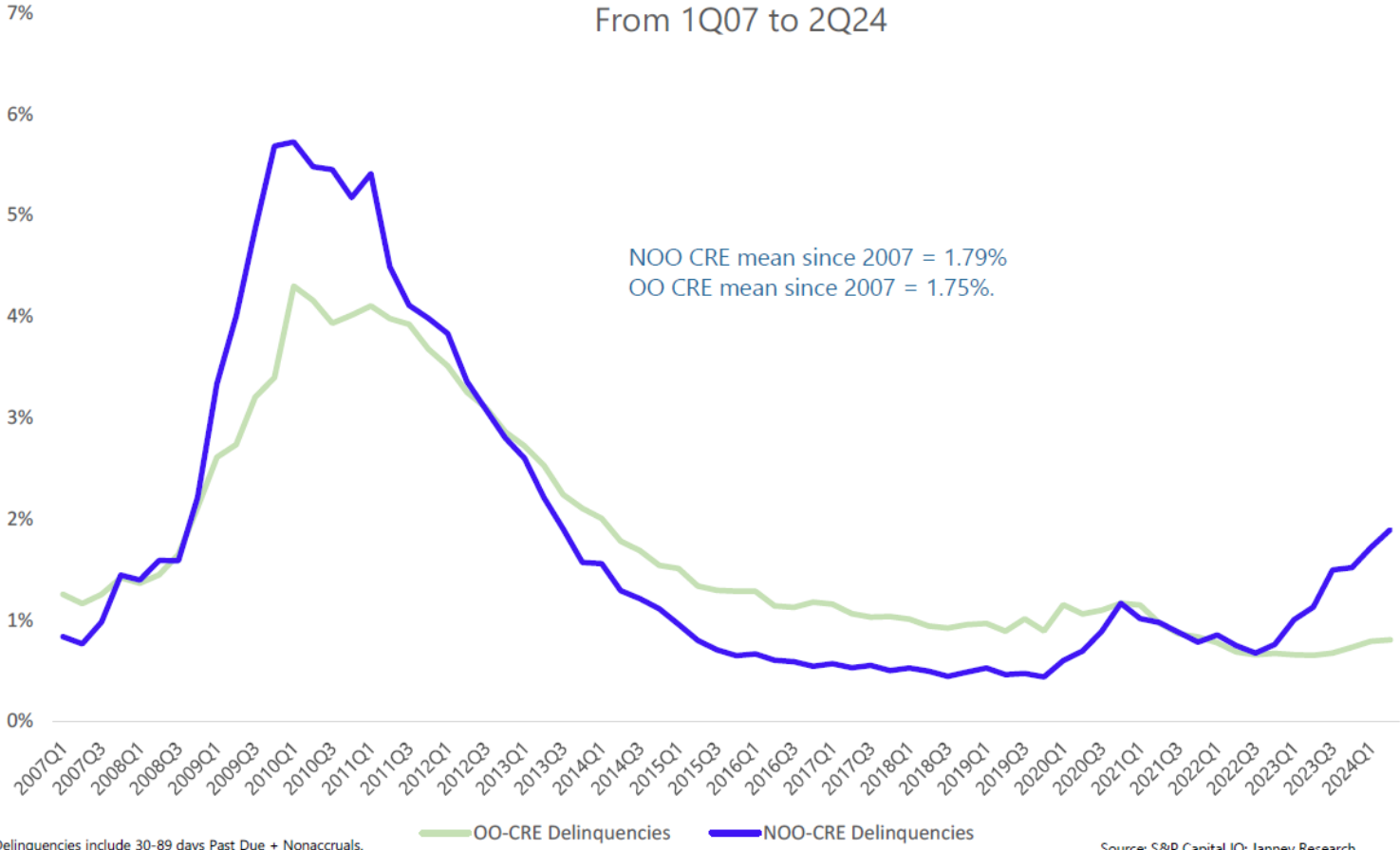
## 30-day Past Dues\*

SF Mortgages	<b>1.73</b>
Credit Cards	<b>3.23</b>
Consumer Loans	<b>2.64</b>
CRE Loans	<b>1.25</b>
Business Loans	<b>1.13</b>

\*Q1 '24

# CRE Delinquencies

Non-Owner-Occupied & Owner-Occupied CRE Delinquencies  
From 1Q07 to 2Q24



Q2 2024 Delinquency Rate

NOO - CRE **1.89%**

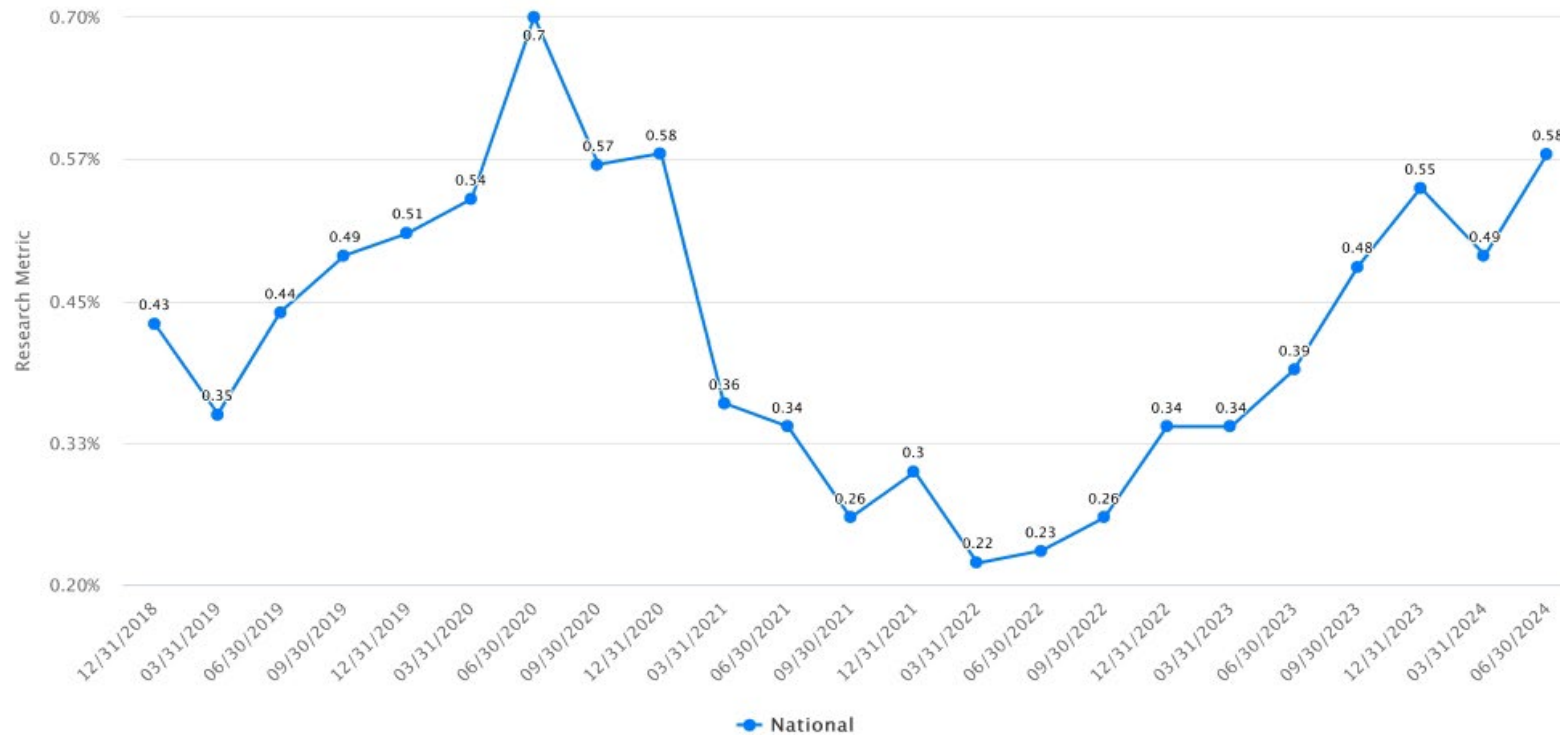
OO - CRE **0.80%**

Delinquencies include 30-89 days Past Due + Nonaccruals.

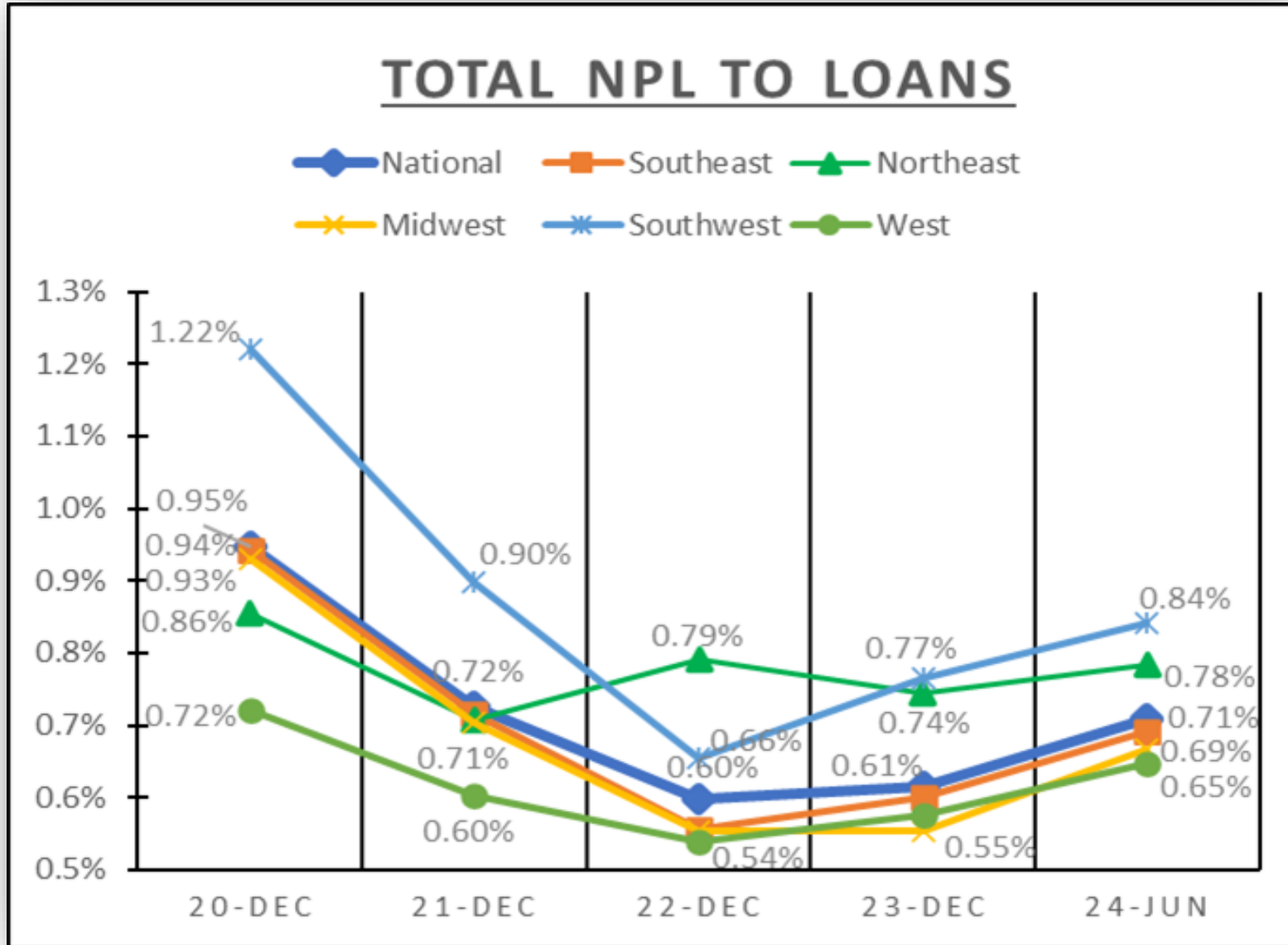
Source: S&P Capital IQ; Janney Research

# C&I Loan Quality

Charge-off rate on C&I loans fell sharply in 2021 and 2022, has rebounded to pre-pandemic levels.



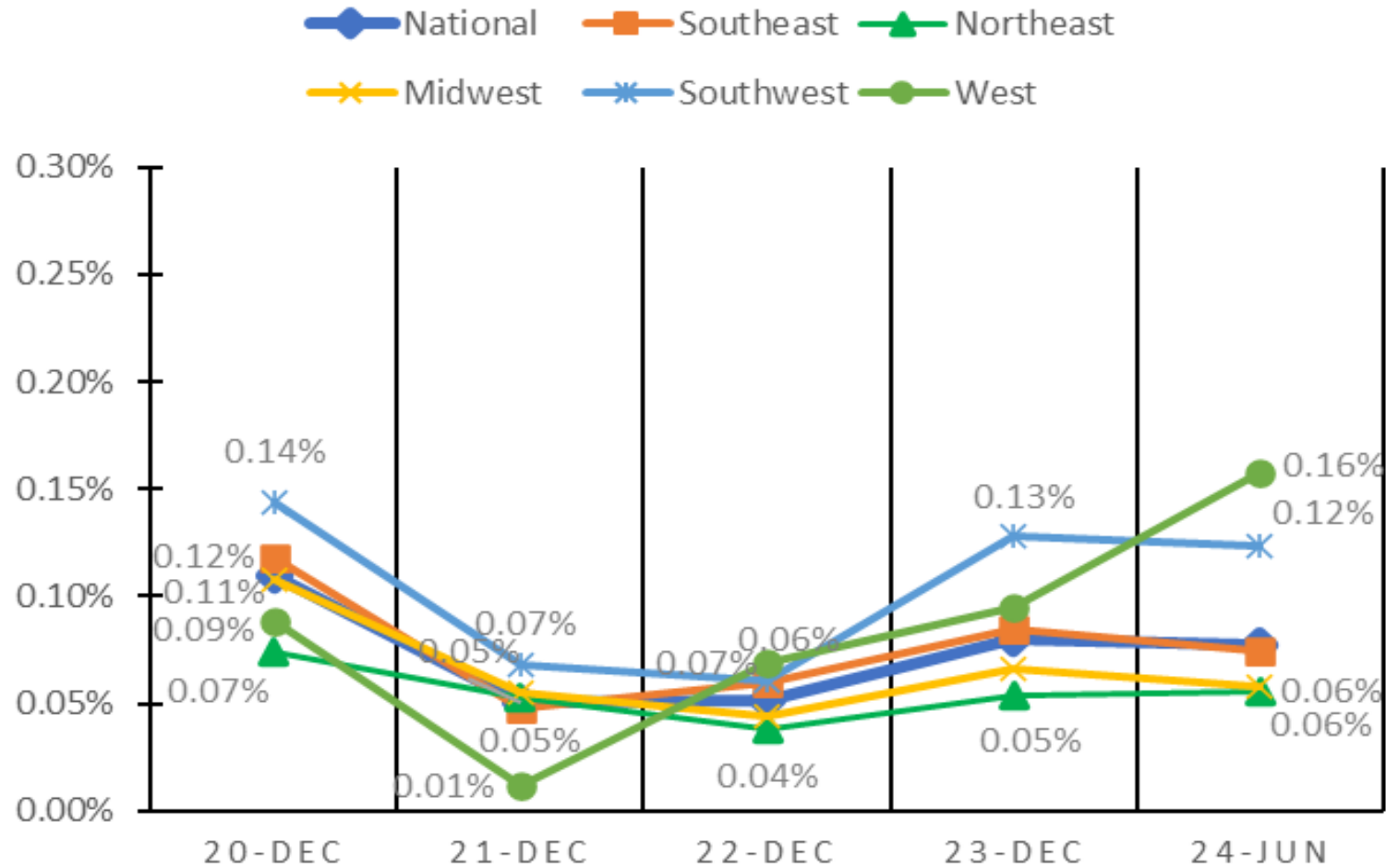
## Q2 '24 Call Report Data



National / Southeast / Northeast / Midwest / Southwest / West

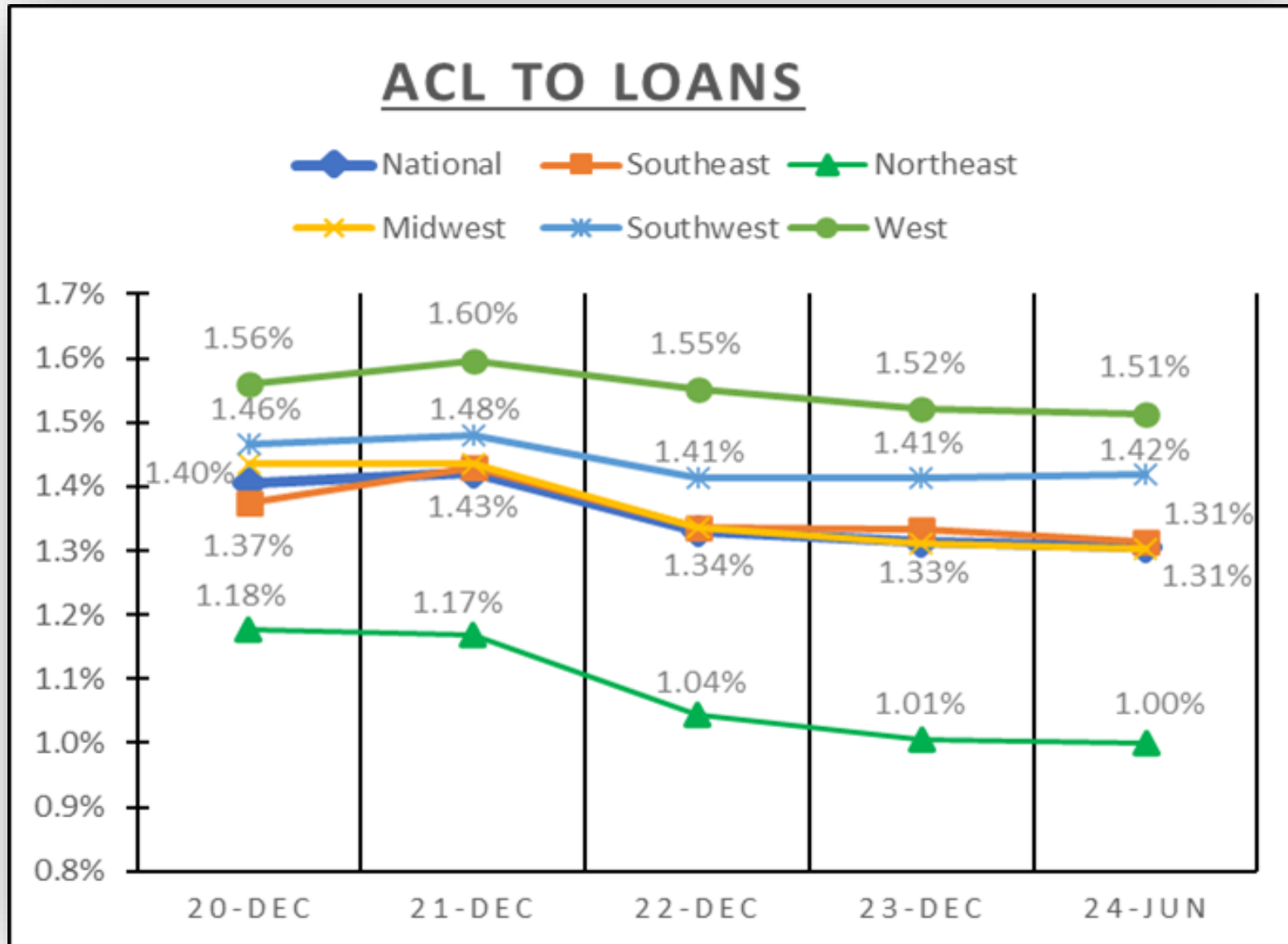
## Q2 '24 Call Report Data

### NET CHARGE-OFFS TO LOANS



National / Southeast / Northeast / Midwest / Southwest / West

## Q2 '24 Call Report Data



National / Southeast / Northeast / Midwest / Southwest / West

# CECL

- Overall, the impact of loan reserve levels remains low
- Still questions about the reserve for unfunded commitments
- Some concerns over what will happen when economic conditions worsen, and the industry begins to experience charge offs
- Loan modifications and restructurings

# Thoughts about CECL going forward

- You will need to have a model validation completed
- Should be discussing how best to track actual funding of loan commitments, and establish a process for evaluating the assumptions and level of reserves on unfunded
- The market seems to be presuming significant changes in economic conditions. You should be thinking about how to react to changes, with respect to adjustments to qualitative factors and the forecasting component of the CECL model.



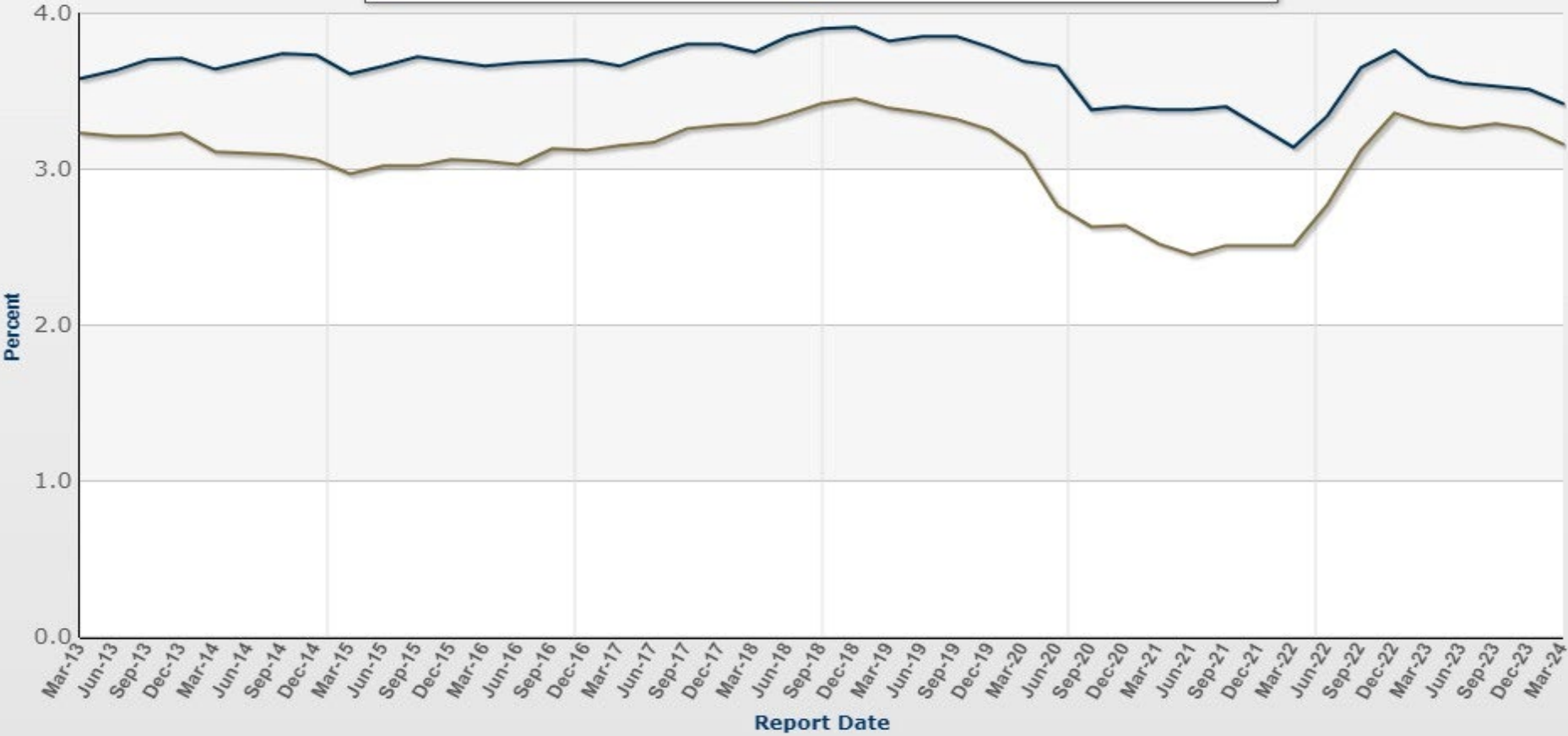
# Current Cost of Funds and Liquidity Issues

- Compressed NIM remains a significant challenge to community banks
- Yield curve has been inverted for over 2 years
- Given the shape of the yield curve (inverted or flat), it is very challenging to match fund loans

### Quarterly Net Interest Margins, Annualized

Source: FDIC

■ Assets Greater Than \$1 Billion
 ■ Assets Less Than/Equal to \$1 Billion

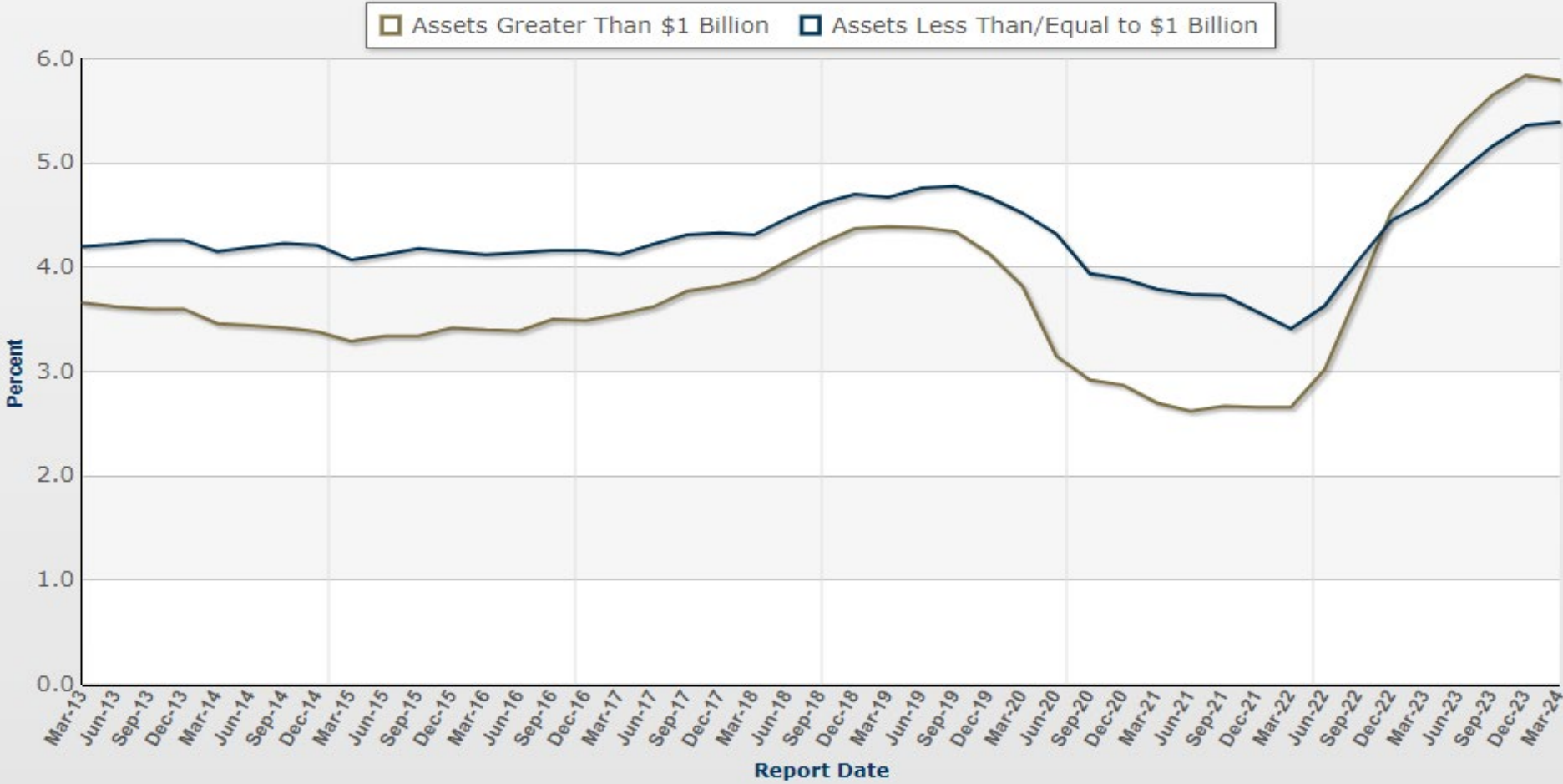


FDIC 3/31/2024 NIM  
March 2013 to 2024

Update for June 30,  
2024: NIM 3.33%

### Quarterly Yield on Earning Assets, Annualized

Source: FDIC



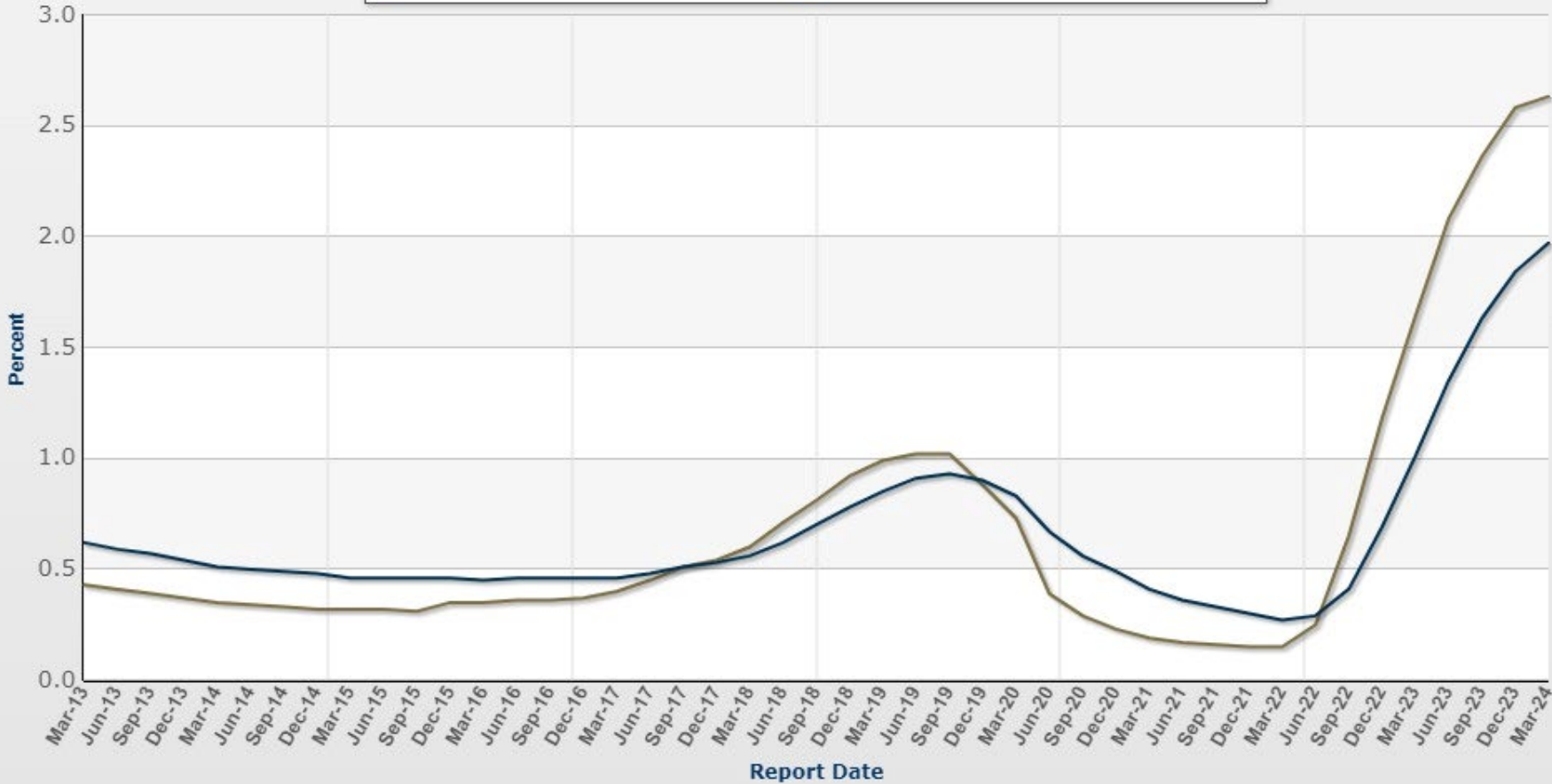
FDIC 3/31/2024 Asset Yields  
March 2013 to 2024

Update to June 30, 2024: Loan Yield up to 6.28%

### Quarterly Cost of Funding Earning Assets, Annualized

Source: FDIC

■ Assets Greater Than \$1 Billion
 ■ Assets Less Than/Equal to \$1 Billion



FDIC /31/2023  
 Cost of Funds  
 March 2013 to 2024

Update for June 30,  
 2024 Industry COF is  
 2.07%

# Cost and Composition of Funding

- Bank Deposits have increased the past two quarters in a row after decreasing for the previous 6 quarters.
- Liquidity has stabilized back above the trailing 10 year average
- Mix of funding has shifted, with levels of CDs and Borrowings back to pre-pandemic levels in 2019
- From 2011 to 2019, nonmaturity funds averaged 72%, compared to 76% currently.

# FDIC Insurance and Deposits – Uninsured Deposit Levels

Per initial June 30 Call Reports:

- 2,712 Banks have > 20% of their deposits uninsured
- 1,294 Banks have > 30% of their deposits uninsured
- 204 Banks have > 50% of their deposits uninsured

Since Liquidity Crisis of 2023, significant attention is directed toward “Large Deposits”, with Uninsured Deposit levels being held as an indicator or proxy for potentially “at risk” deposits

Strategies to Address Stability of Deposit Base:

- Review current deposit gathering strategies
- Better understanding of your deposit base
- Proactive approaches to pricing
- Institute/ employ Digital Marketing efforts
- Utilize multiple wholesale funding sources

# Impact of AOCI (Unrealized Losses on Securities) on Liquidity and CFP

# Of Underwater Securities Portfolios Has Improved.., more relief should be on the way

Tangible Common Equity/Tangible Assets % TCE/TA %	# of Banks at 3/31/2024	# of Banks at 6/30/2024
Less than 0%	12	10
0% to 1%	6	6
1.01% to 2%	13	12
2.01% to 3%	28	24
3.01% to 4%	60	47
4.01% to 5%	113	104

- Banks with significant AOCI Losses have limited availability for borrowings, with FHLB restrictions on lending to banks with 0% tangible equity
- Have you considered that in your CFP and Liquidity stress testing?

# Best Practices related to Liquidity Monitoring

- Perform liquidity stress testing
- Don't be reliant on one alternative funding source
- Monitor levels of uninsured deposits
- Track large balance customers and about reasons and details of (at least significant) deposit outflows
- Revisit your Contingency Funding Plan and Liquidity related policies
- Review your beta and decay assumptions in your ALM model, given recent market conditions



# CONTACT



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# FAST FACTS

## Saltmarsh, Cleaveland & Gund

At Saltmarsh, we believe the way to achieve success is by contributing to the success of others, which is why we thrive in **genuine relationships**. Our passion for people and **excellence** is more than a shared value; it's the foundation of our work.

### SIZE OF FIRM



### OFFICE LOCATIONS

5

FLORIDA  
Destin  
Orlando  
Pensacola  
Tampa

TENNESSEE  
Nashville

### AFFILIATIONS

SALTMARSH FINANCIAL ADVISORS, LLC



THE BDO ALLIANCE USA



### WHAT WE DO

Audit & Assurance | Business Valuation | Employee Benefits Consulting | Financial Planning | Litigation Support & Dispute Advisory | Outsourced Accounting Solutions | Retirement Plan Administration | Tax Compliance & Consulting | Technology & Managed IT Consulting | Wealth Management

### WHO WE SERVE

Financial Institutions | Construction & Real Estate Development | Governments, Municipalities & Pension Plans | High Net Worth Individuals | Manufacturing & Distribution | Non-Profit | Post-Acute Healthcare | Professional Employer Organizations (PEOs)

