

HEDGEYE



SENIOR LOAN OFFICER OPINION SURVEY

DETAILED REVIEW BY LOAN CATEGORY

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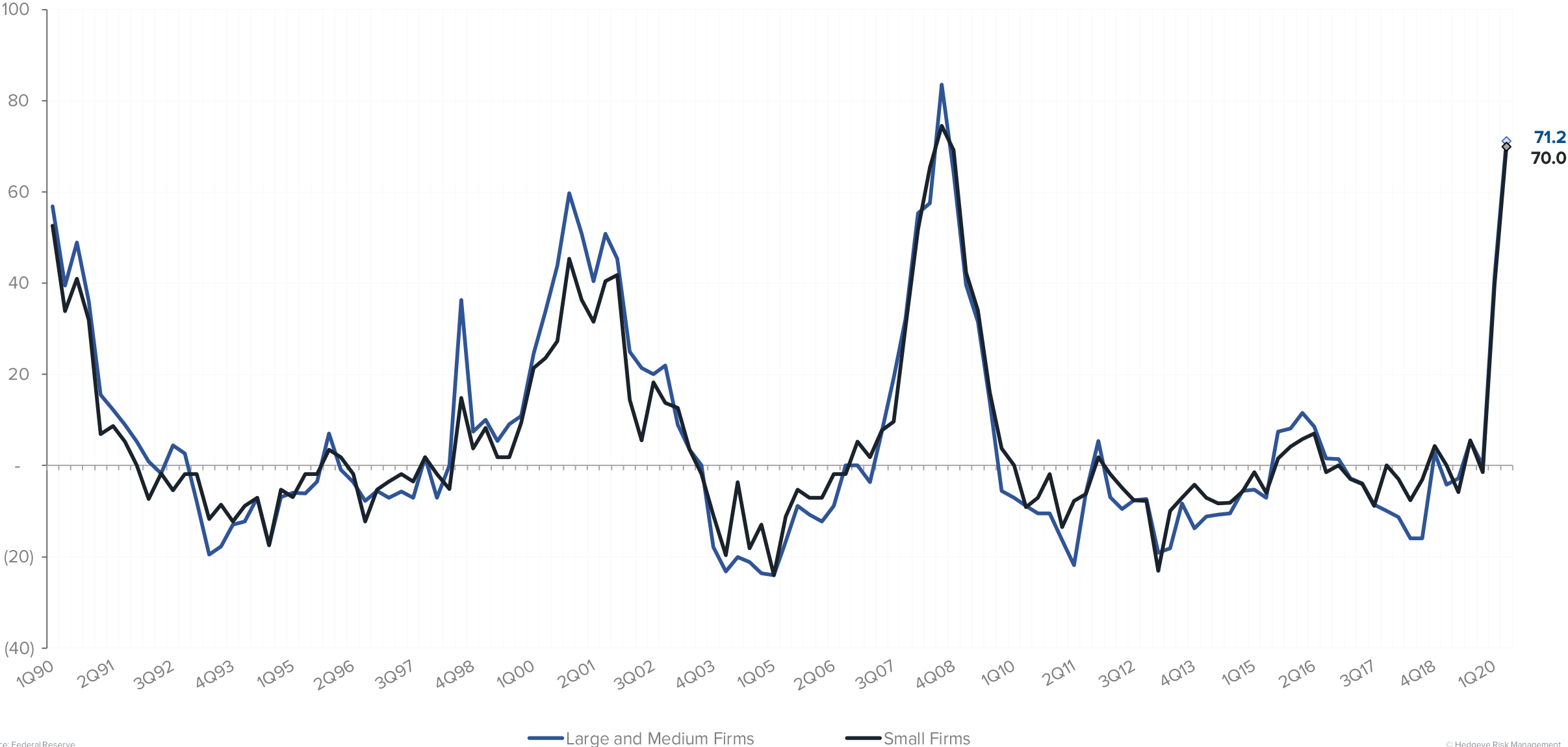
Commercial Lending

- Commercial & Industrial Loans
- Commercial Real Estate Loans

Commercial & Industrial Loans

Standards

Net Percentage of Domestic Respondents Tightening Standards for C&I Loans

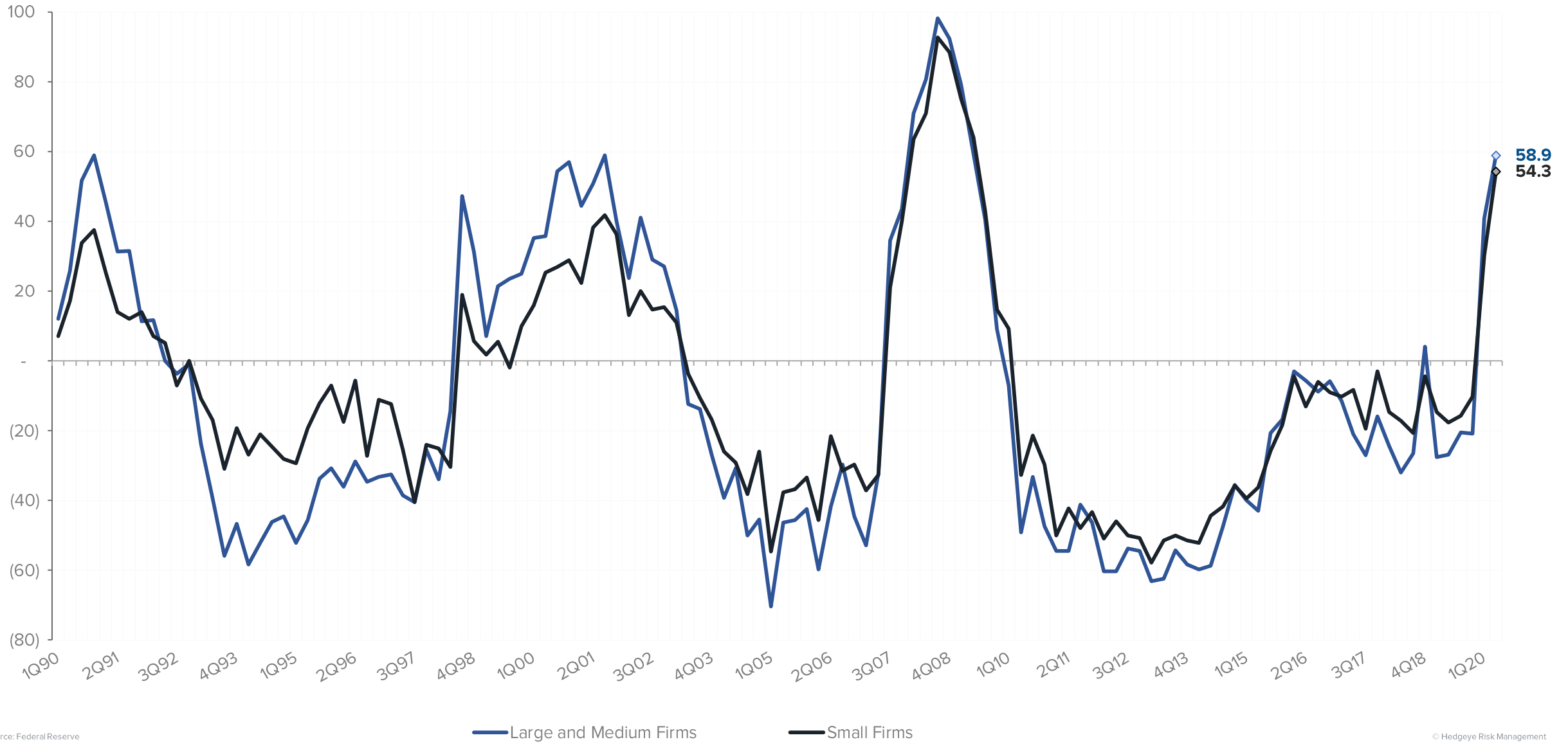


Source: Federal Reserve

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Spreads

Net Percentage of Domestic Respondents Increasing Spreads of Loan Rates Over Banks' Cost of Funds

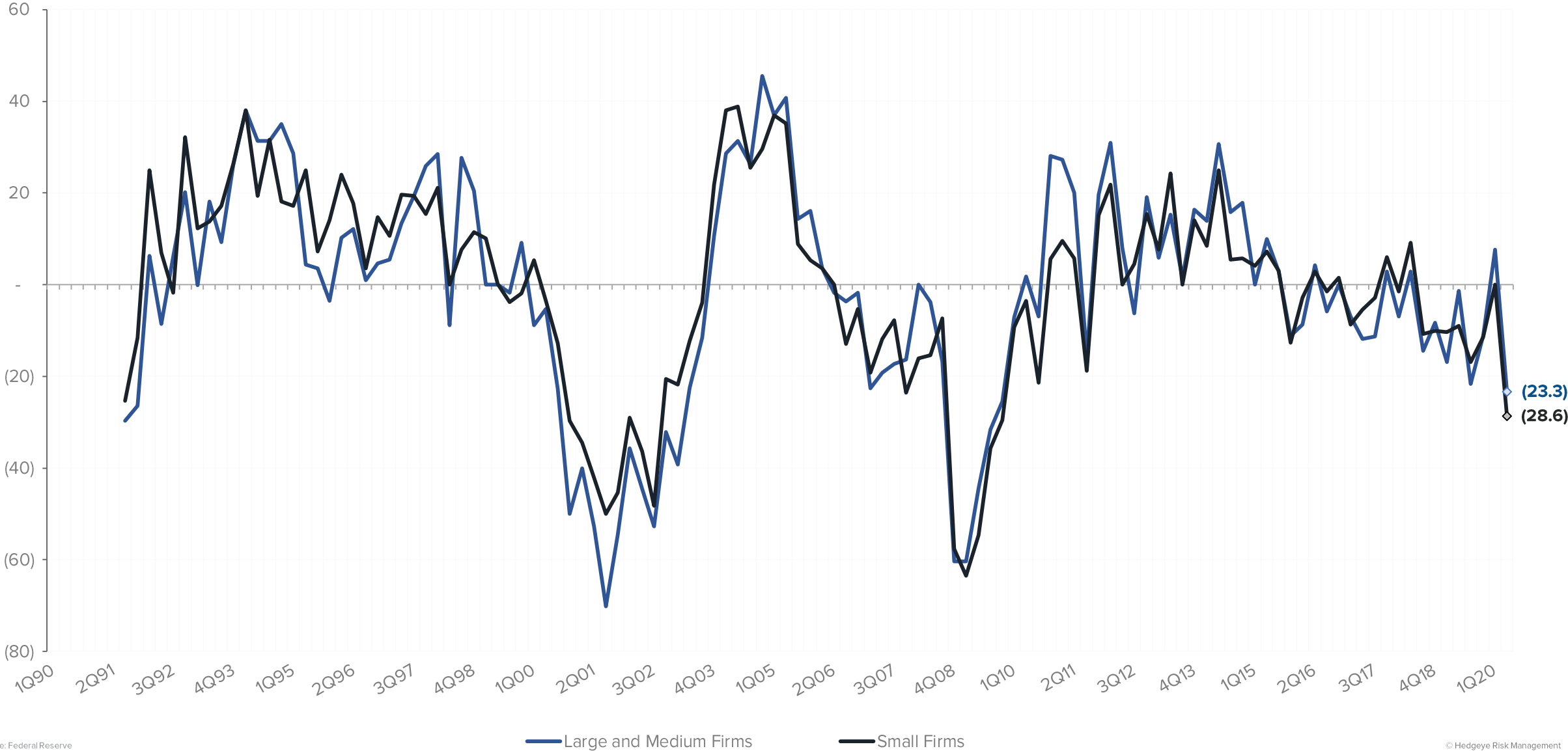


Source: Federal Reserve

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Demand

Net Percentage of Domestic Respondents Reporting Stronger Demand for C&I Loans

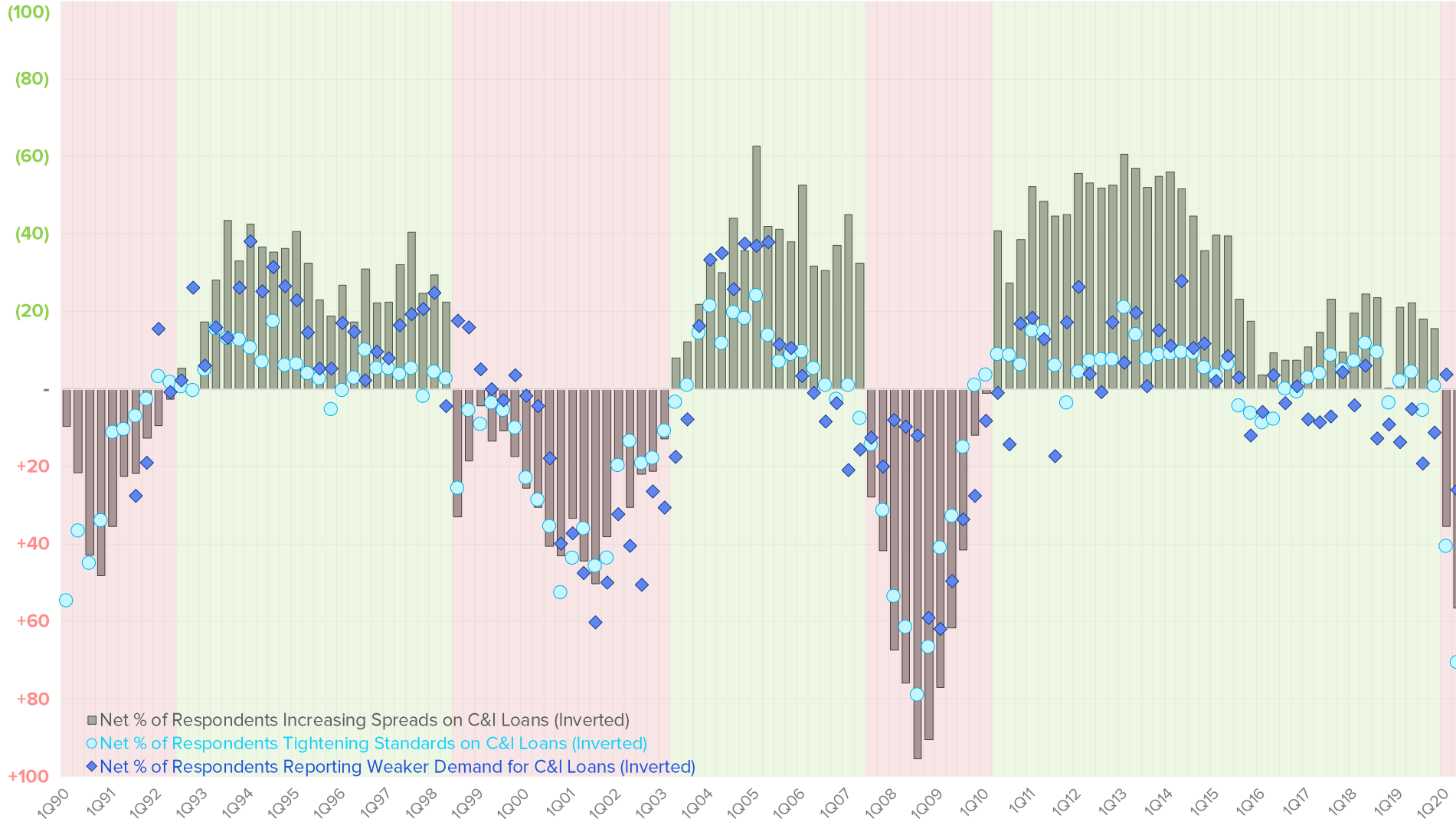


Source: Federal Reserve

Why This Matters

C&I Lending: Spreads, Standards, & Demand

Midpoint of Large & Medium and Small Firms



We've gone back historically and looked at the Senior Loan Officer Survey many different ways in an effort to discern its usefulness as a forward indicator. After much trial and error, our biggest takeaway is that when two of the three C&I questions have turned negative historically, it has portended a recession in the near future. This isn't coincident; it's causal. Banks tightening the screws, increasing the price of money or reporting reduced demand for money all portend a slowing of economic activity. The problem is that the cyclical activity tends to autocorrelate, or self-reinforce.

In other words, banks tighten credit => consumption/investment decline => workers are laid off => delinquencies rise => banks further tighten credit => and so on and so forth.

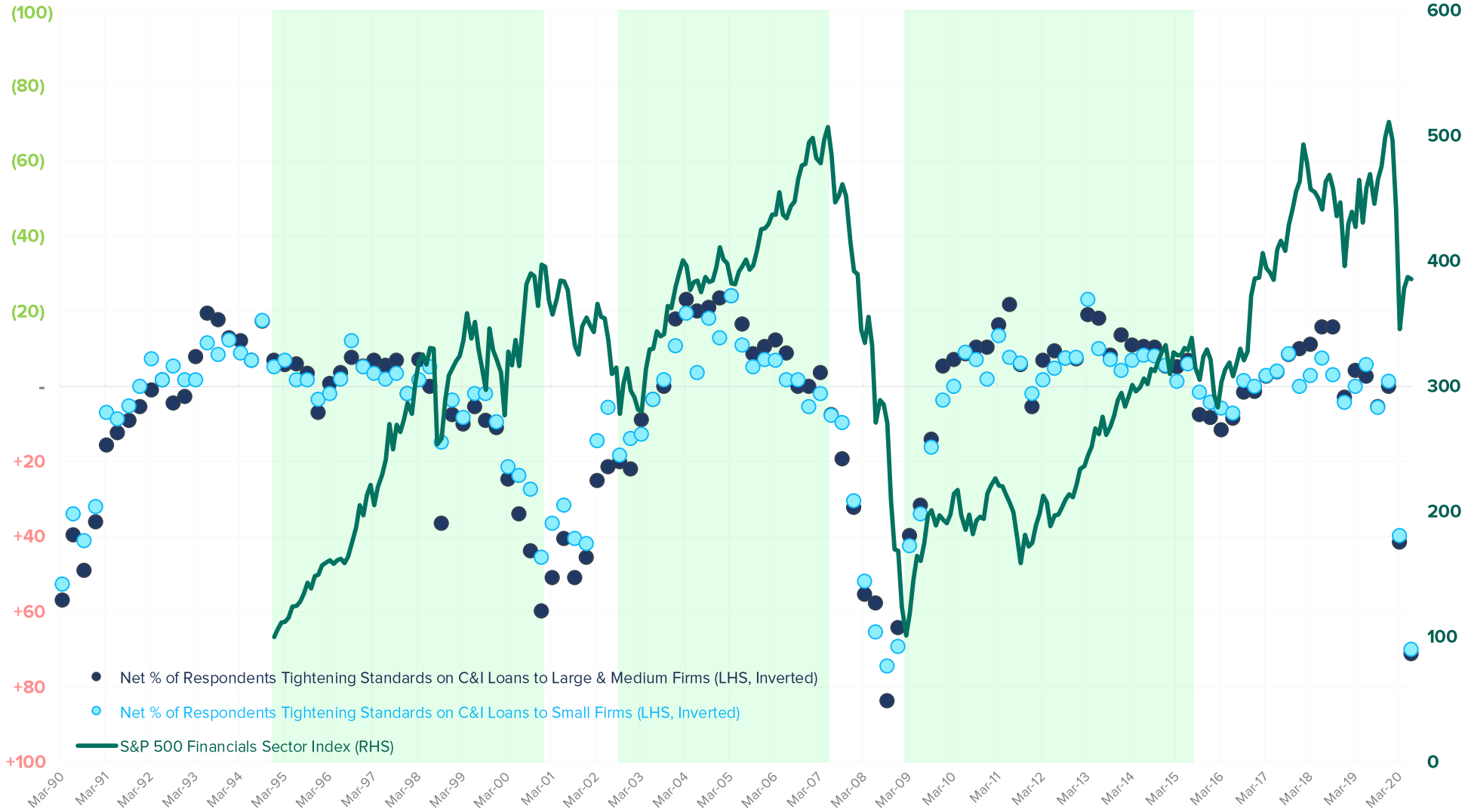
Here is a chart showing the three questions in the C&I survey back to 1990. To be clear, we've inverted the primary y-axis and we've also reversed the demand question so that all three categories are directionally consistent, i.e. when credit is constricting/price is rising/demand is falling, the survey measures on this chart fall, and vice versa.

Source: Federal Reserve

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Why This Matters Cont.

C&I Lending Standards Vs. S&P 500 Financials Sector Index



This chart looks at the historical C&I lending standards (LHS) juxtaposed against the S&P 500 Financials Index (RHS). C&I lending standards have historically begun tightening coincident with or ahead of peaks in Financial equity prices, with the reverse generally holding true as well.

We've highlighted in green the periods during which Financials stocks have risen. In the 1990s it was clear that lending standards were tightening by late 1999, suggesting the roll was near. In the 2003-2007 period standards began to tighten in 2007.

Source: Federal Reserve

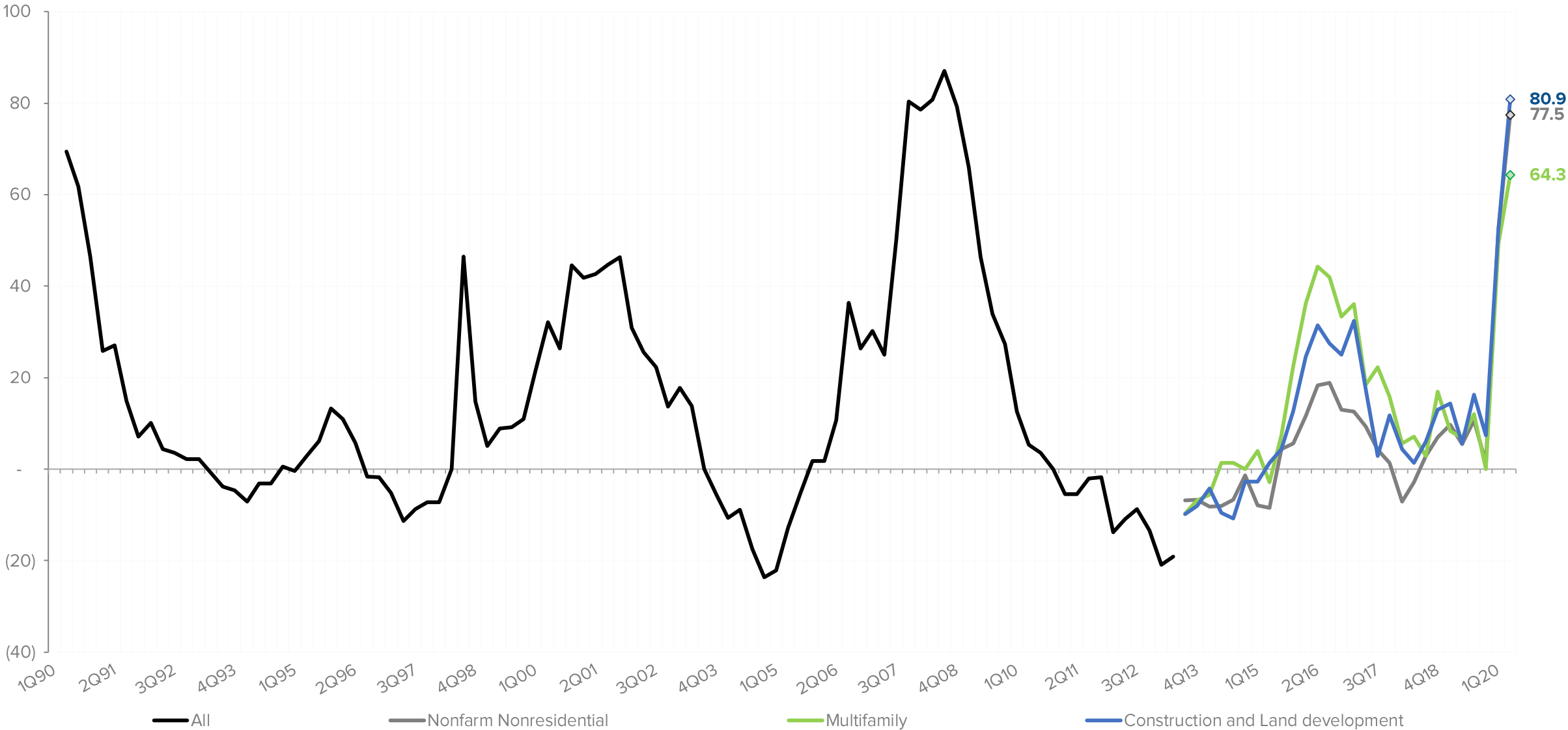
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Commercial Real Estate Loans



Standards

Net Percentage of Domestic Respondents Tightening Standards for Commercial Real Estate Loans

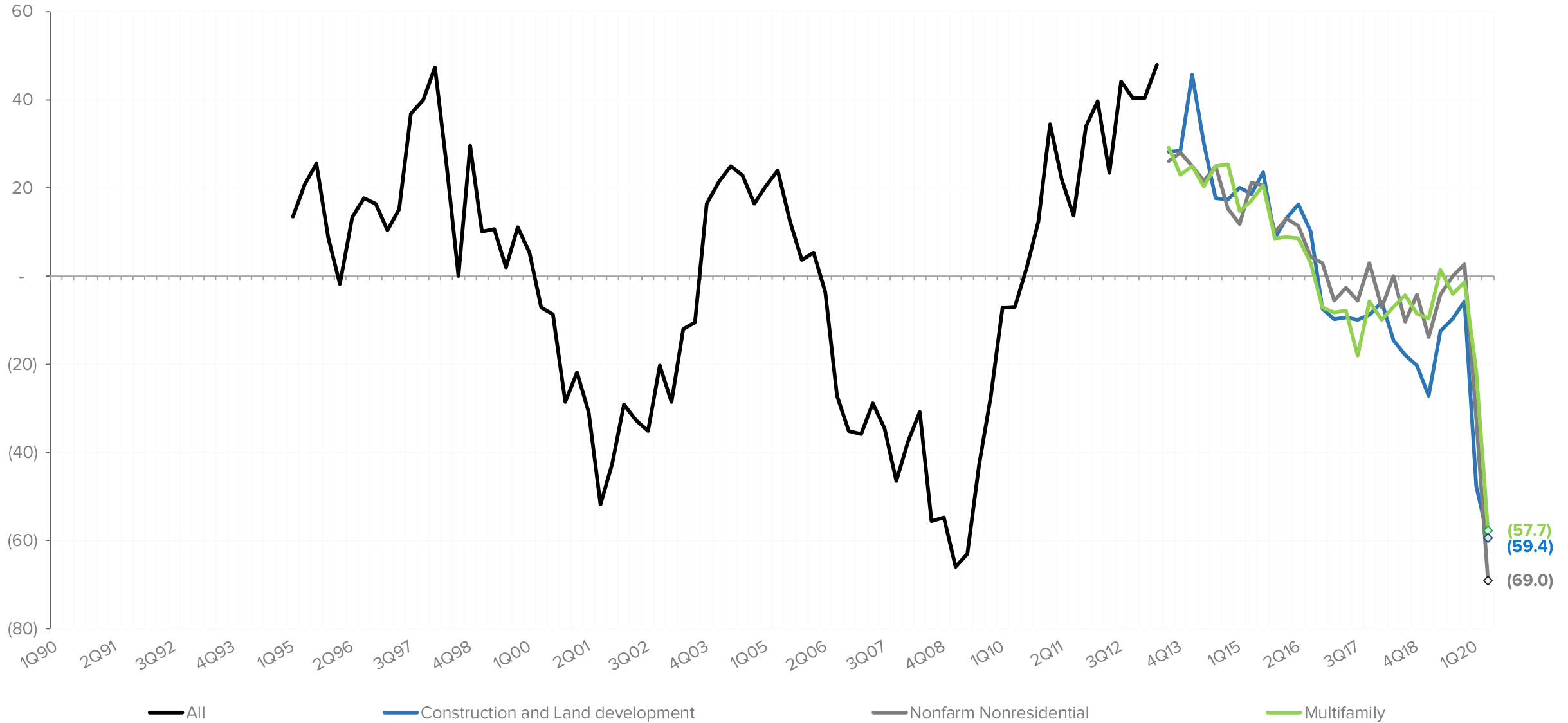


Source: Federal Reserve

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Demand

Net Percentage of Domestic Respondents Reporting Stronger Demand for Commercial Real Estate Loans



Source: Federal Reserve

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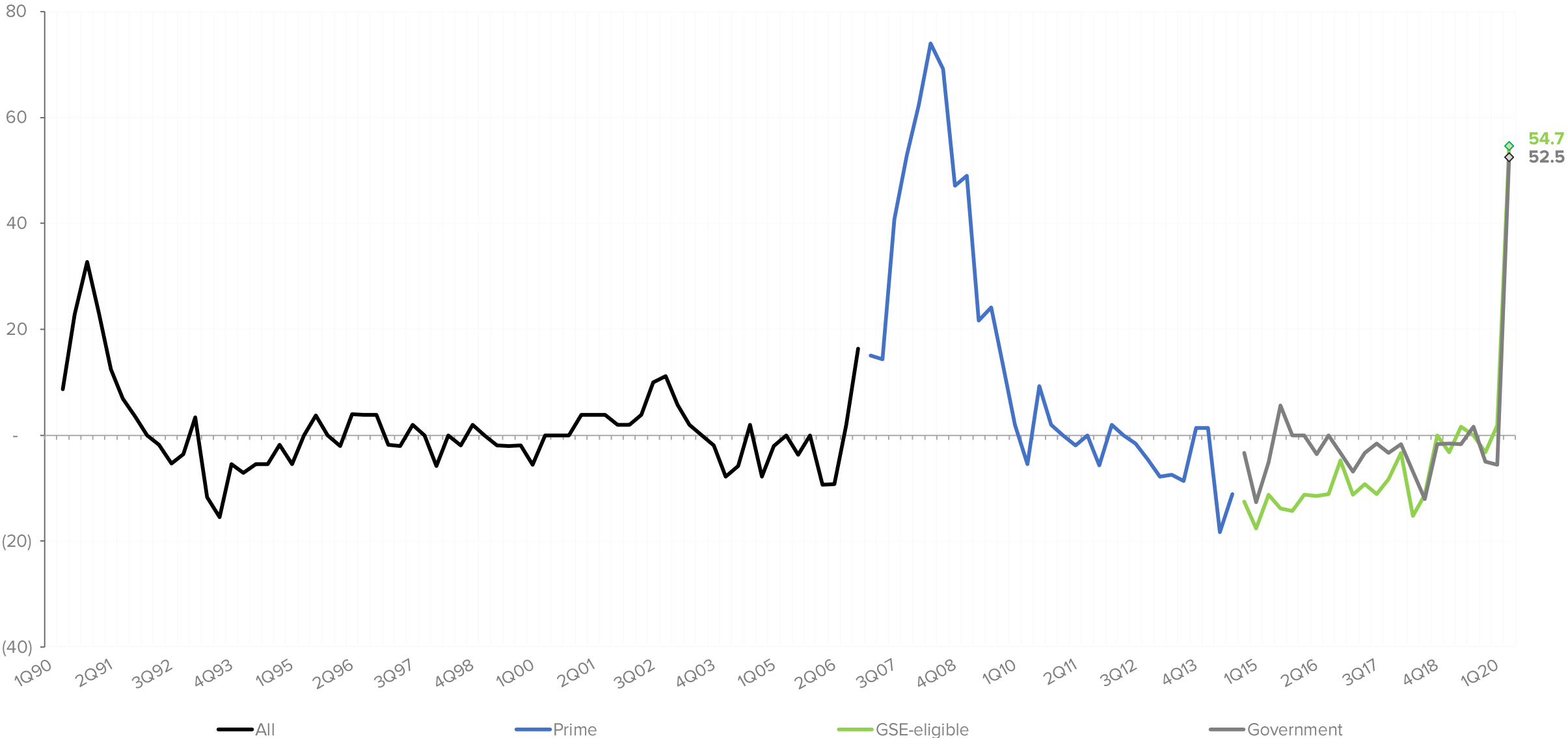
Consumer Lending

- Residential Mortgage Loans
- Non-Mortgage Consumer Loans

Residential Mortgage Loans

Standards

Net Percentage of Domestic Respondents Tightening Standards for Mortgage Loans

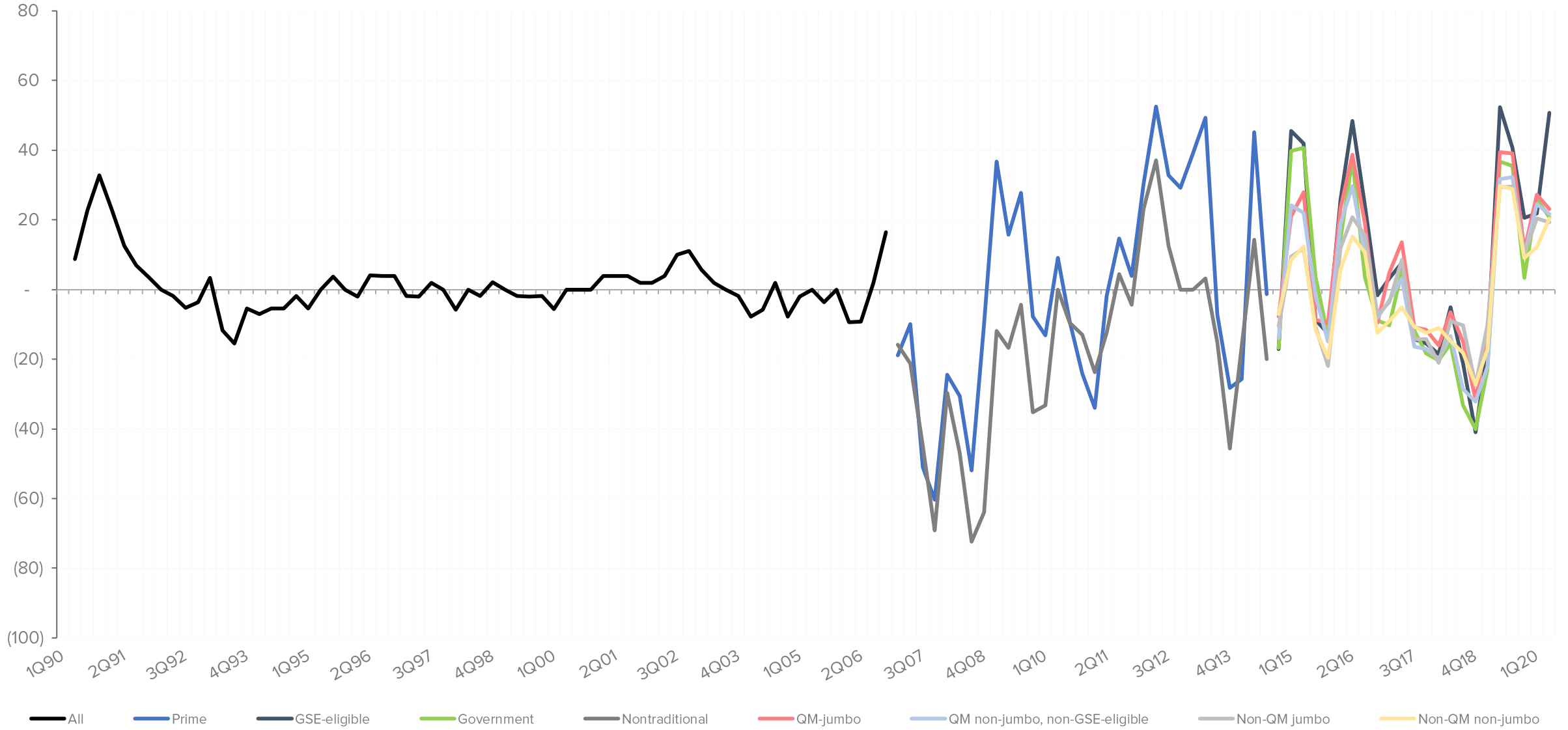


Source: Federal Reserve

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Demand

Net Percentage of Domestic Respondents Reporting Stronger Demand for Mortgage Loans



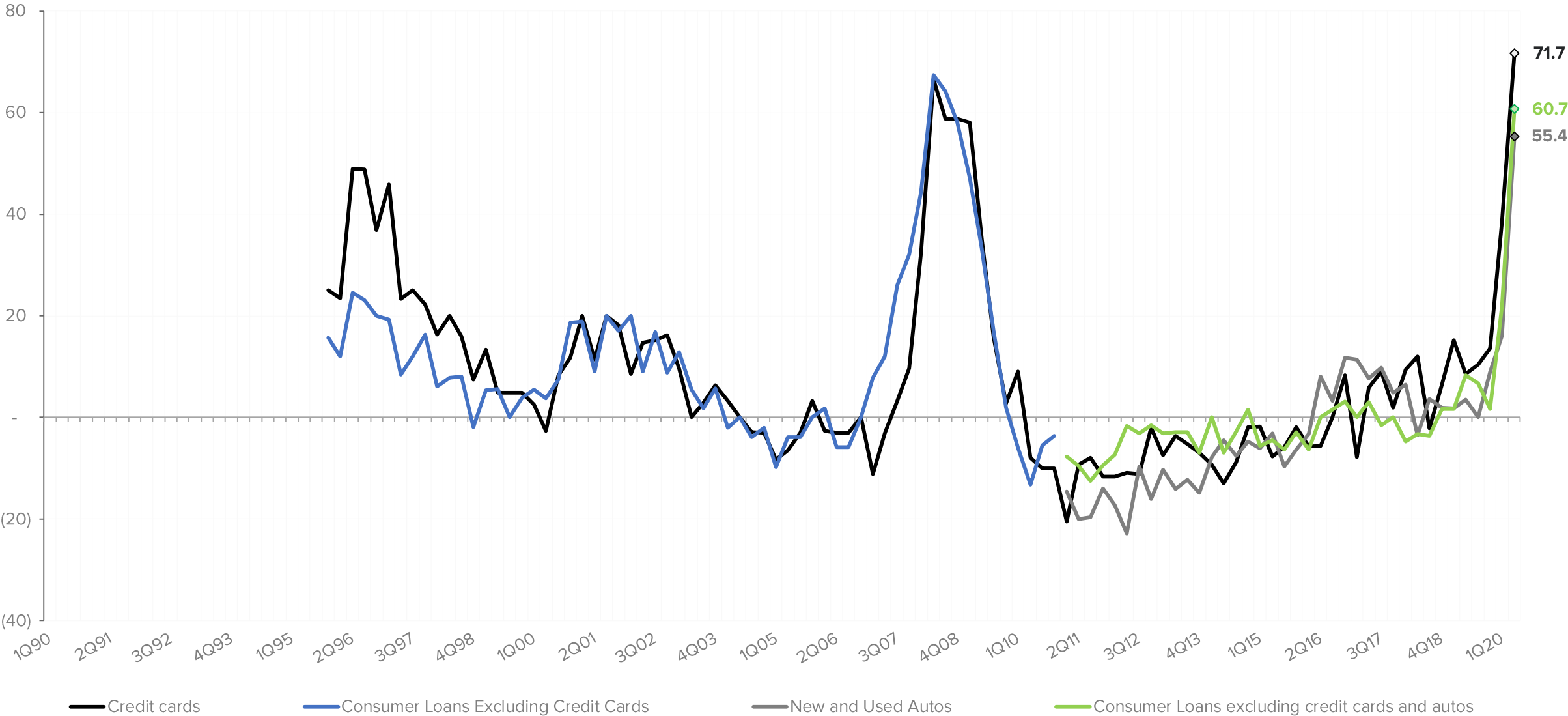
Source: Federal Reserve

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Non-Mortgage Consumer Loans

Standards

Net Percentage of Domestic Respondents Tightening Standards on Consumer Loans

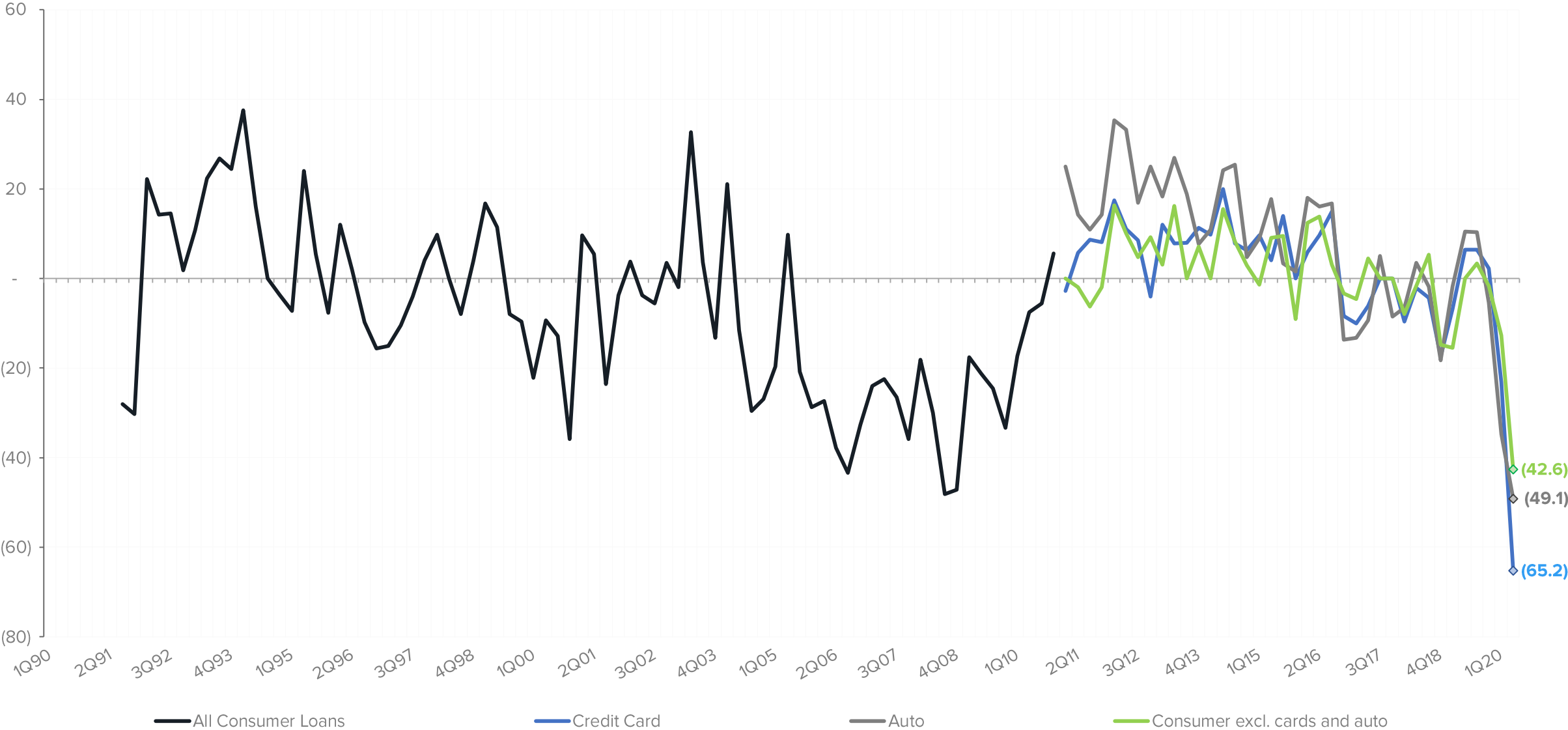


Source: Federal Reserve

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Demand

Net Percentage of Domestic Respondents Reporting Stronger Demand for Consumer Loans

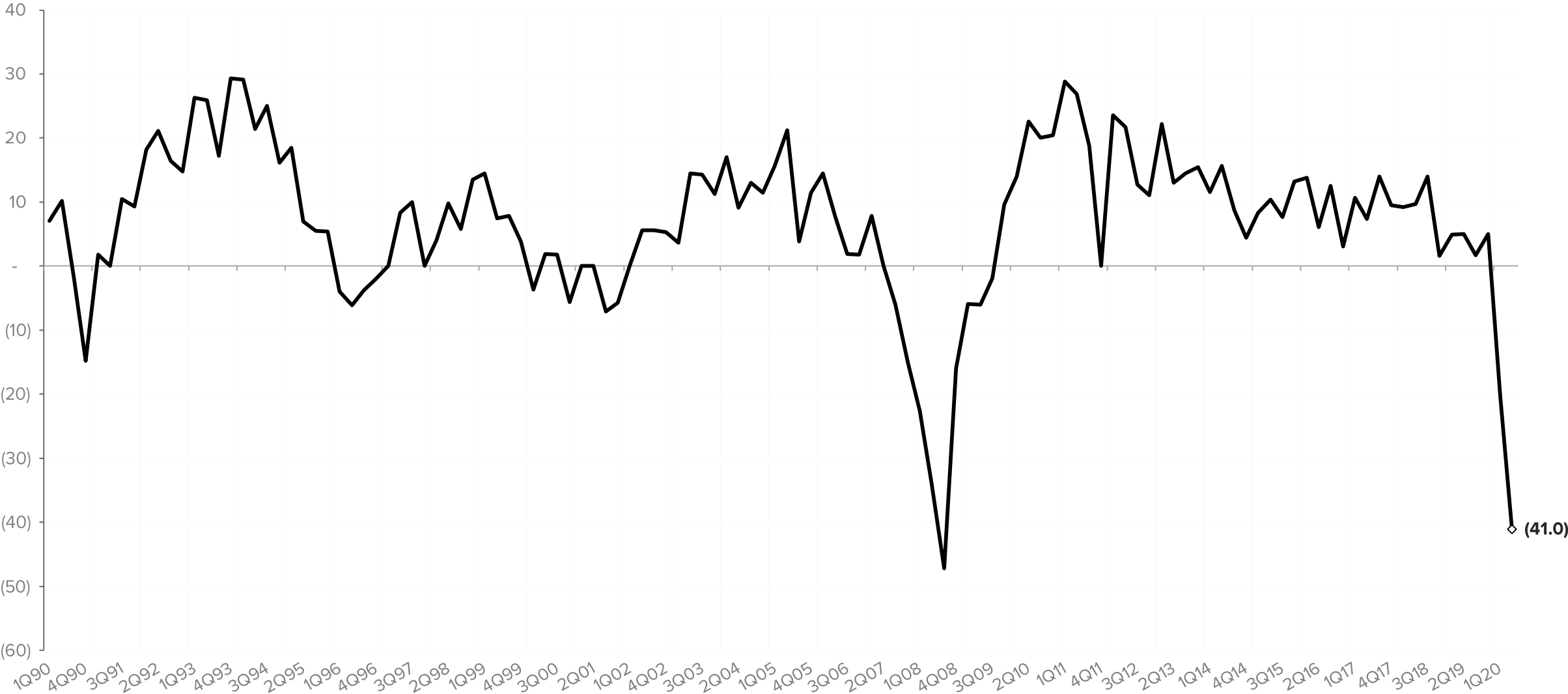


Source: Federal Reserve

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Willingness

Net Percentage of Domestic Respondents Reporting Increased Willingness to Make Consumer Installment Loans



Source: Federal Reserve

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