Commercial Loan Portfolio

Portfolio Trends

April 9, 2021

More Notable Bank Examiner Concerns

- With the economic impact of the COVID-19 Global Pandemic still being diluted by numerous economic relief efforts throughout 2020 and into 2021, Community Banks should act conservatively within 2021. Ensuring that your Institution has the proper risk management processes in place along with a comprehensive understanding of the risks within your portfolio is critical.

- There is a greater focus on borrower group and industry concentrations within loan portfolios. It is recommended that Banks review their current concentration limits, adjust limits as appropriate, and closely monitor higher risk industries such as real estate, retail, hospitality & leisure and travel.

- An increased emphasis on having timely & regularly occurring loan reviews, with the expectation that Banks will increase review frequency based on the severity of risk identified within their respective portfolios. 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, and adjust as needed.
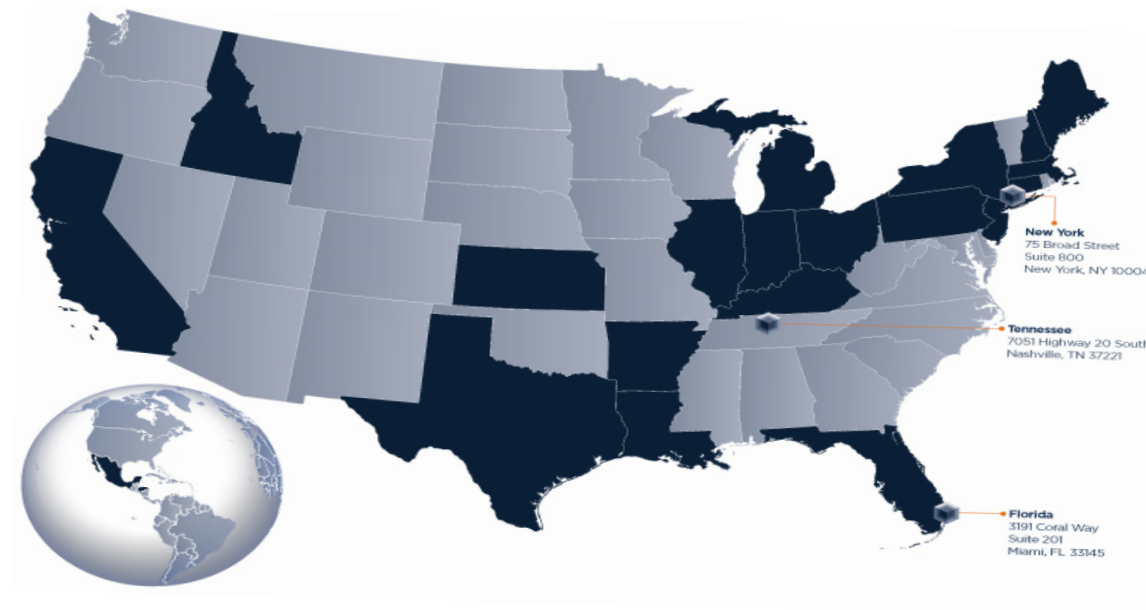
More Notable Bank Examiner Concerns

- 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 judgment with borrowers going forward as they come off the loan deferrals or may need additional time prior to resuming normal operations. 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.

More Notable Bank Examiner Concerns

- While the CECL deadline for Community Banks is not for a few years, Banks are recommended to prepare sooner rather than later and at a minimum have a conversion plan mapped out.

- It is recommended that Banks speak with their regulators before issuing dividends or buying back stock.

New York
75 Broad Street
Suite 800
New York, NY 10004

Tennessee
7051 Highway 20 South
Nashville, TN 37221

Florida
3191 Coral Way
Suite 201
Miami, FL 33145

This chart covers all clients and presents the portfolio mix percentages for the client group. Clearly real estate is a major but declining component while the commercial & industrial is a growing group.
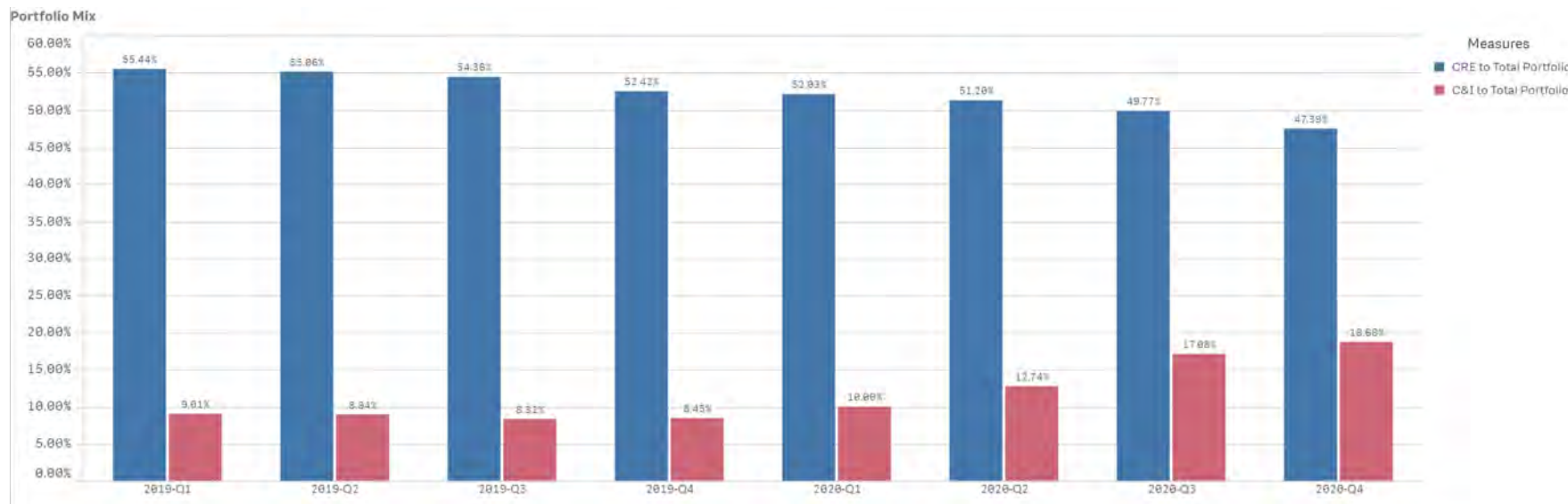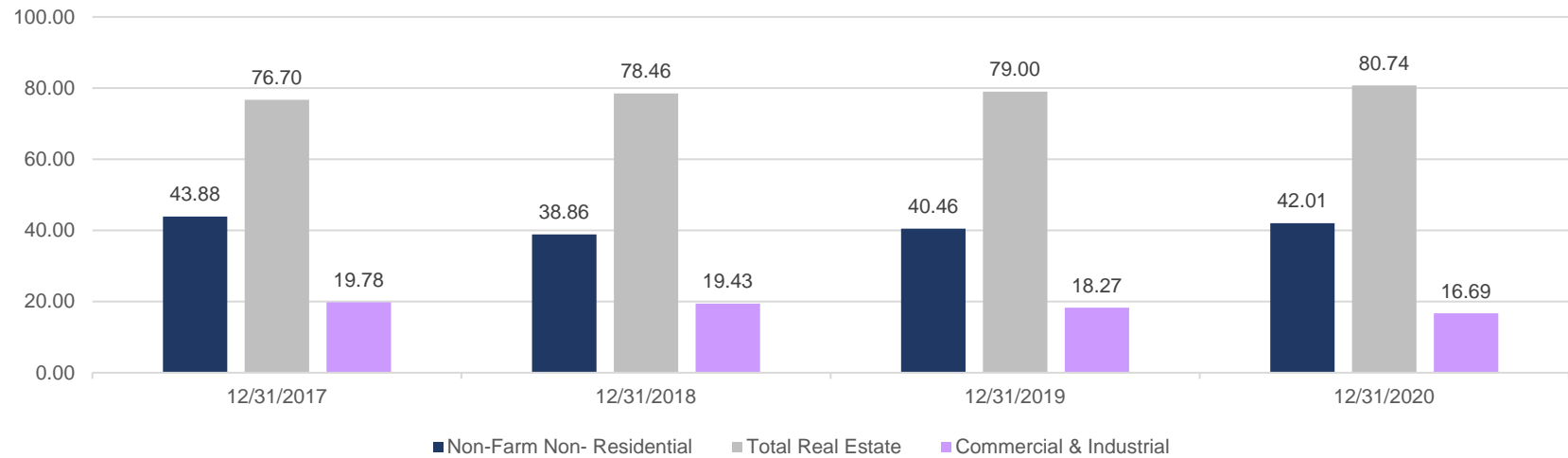
This chart covers all clients and presents the commercial real estate portfolio mix percentages for the client group. Non-owner occupied commercial real estate continues to comprise the largest concentration.
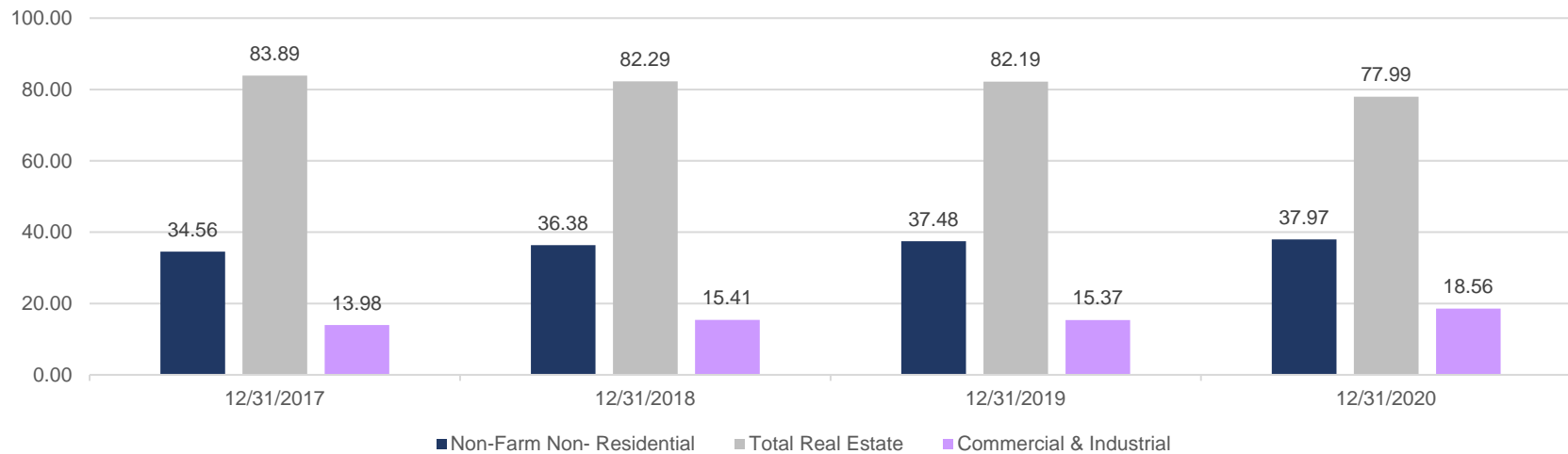

Commercial Real Estate Mix
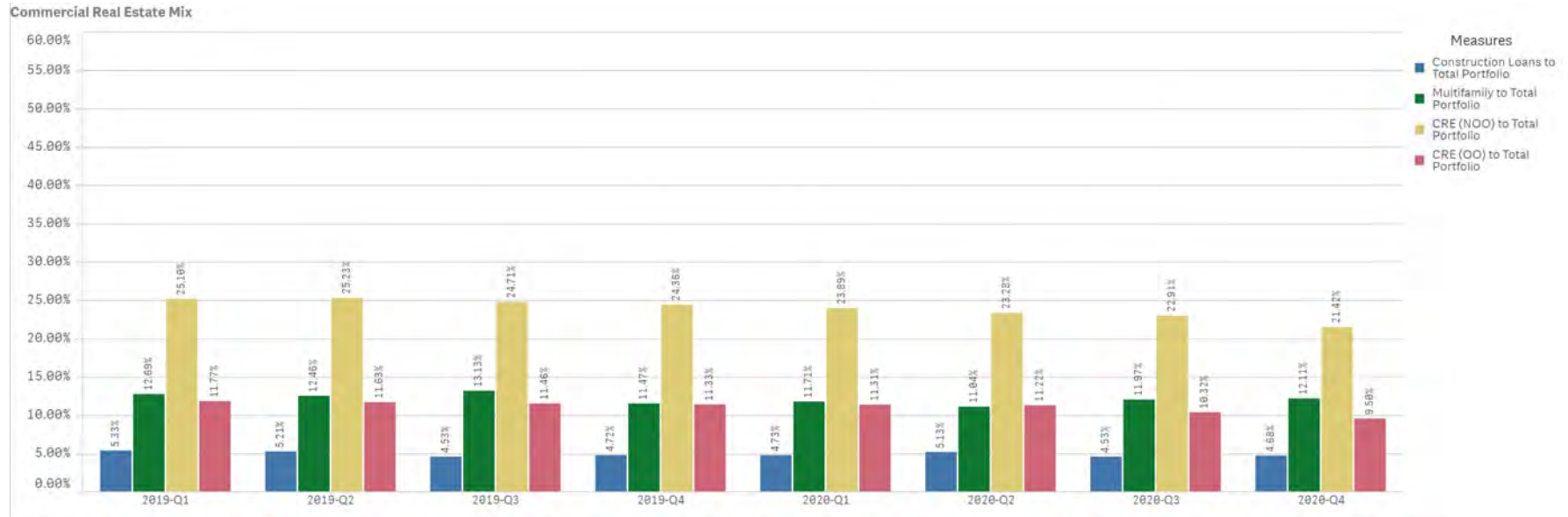
Loan Portfolio Mix

California

Connecticut

Loan Portfolio Mix

Florida

Date	Non-Farm Non-Residential	Total Real Estate	Commercial & Industrial
12/31/2017	47.01	87.02	10.13
12/31/2018	45.09	87.61	8.91
12/31/2019	45.28	86.65	10.07
12/31/2020	44.31	83.25	14.68

Massachusetts

Date	Non-Farm Non-Residential	Total Real Estate	Commercial & Industrial
12/31/2017	34.30	74.22	22.82
12/31/2018	31.40	73.01	23.68
12/31/2019	32.61	74.47	22.75
12/31/2020	31.75	70.74	26.90
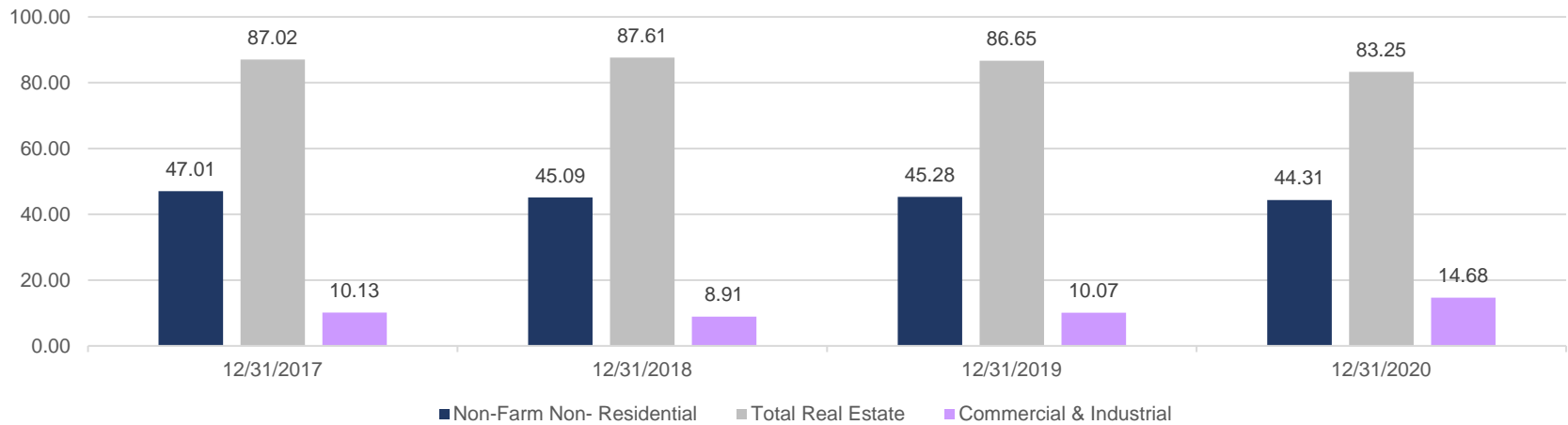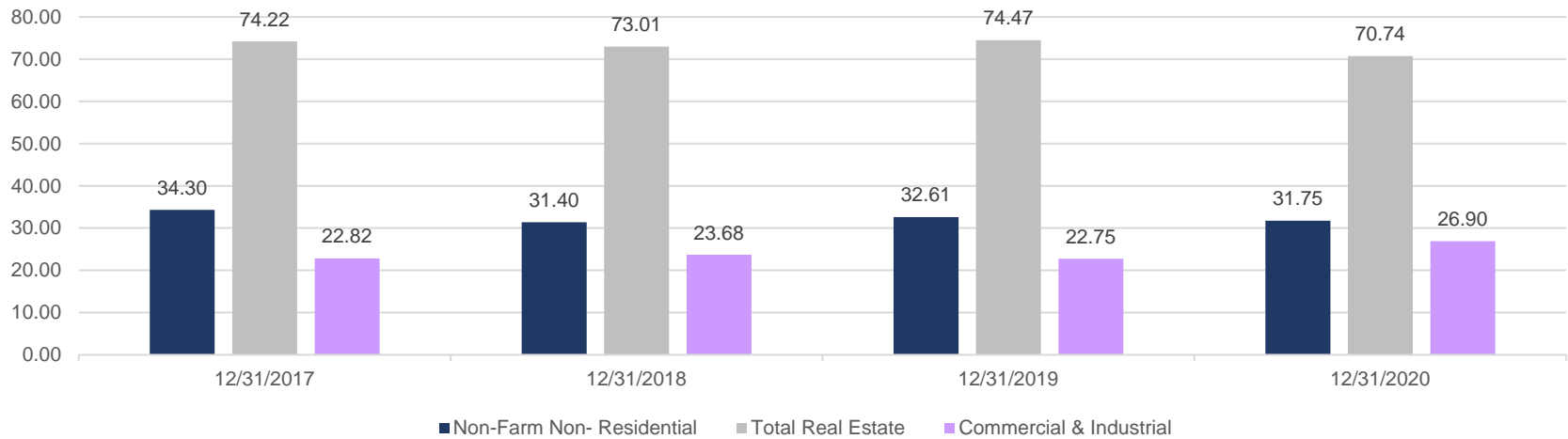
Loan Portfolio Mix

New Jersey

Legend: ■ Non-Farm Non- Residential ■ Total Real Estate ■ Commercial & Industrial

Category	12/31/2017	12/31/2018	12/31/2019	12/31/2020
Non-Farm Non- Residential	34.55	35.02	33.83	32.89
Total Real Estate	90.05	90.09	89.16	83.90
Commercial & Industrial	5.91	5.69	5.79	14.60

New York

Legend: ■ Non-Farm Non- Residential ■ Total Real Estate ■ Commercial & Industrial

Category	12/31/2017	12/31/2018	12/31/2019	12/31/2020
Non-Farm Non- Residential	32.90	33.51	33.70	30.74
Total Real Estate	82.03	82.99	83.31	78.84
Commercial & Industrial	13.36	12.35	12.11	17.31

Loan and Lease Analysis

California	3/31/2020	6/30/2020	9/30/2020	12/31/2020
Net Loss to Average Loans (%)	0.10	0.09	0.09	0.08
Loss Provision to Average Loans (%)	0.12	0.13	0.08	0.05
Ln&Ls Allowance to Total Ln&Ls (%)	1.52	1.43	1.49	1.55
NonCurrent Ln&Ls to Total Ln&Ls (%)	0.48	0.49	0.50	0.57
30-89 P/D to Total Ln&Ls (%)	0.42	0.25	0.27	0.23
Ln&Ls Allowance to NA Ln&Ls (%)	14.83	12.17	35.32	36.17

Connecticut	3/31/2020	6/30/2020	9/30/2020	12/31/2020
Net Loss to Average Loans (%)	0.23	0.23	0.21	0.21
Loss Provision to Average Loans (%)	0.15	0.17	0.12	0.09
Ln&Ls Allowance to Total Ln&Ls (%)	1.36	1.41	1.49	1.53
NonCurrent Ln&Ls to Total Ln&Ls (%)	0.91	0.94	0.98	1.09
30-89 P/D to Total Ln&Ls (%)	0.59	0.44	0.32	0.40
Ln&Ls Allowance to NA Ln&Ls (%)	48.81	30.85	34.48	34.86

| Florida	3/31/2020	6/30/2020	9/30/2020	12/31/2020
Net Loss to Average Loans (%)	0.09	0.09	0.10	0.10
Loss Provision to Average Loans (%)	0.10	0.21	0.11	0.06
Ln&Ls Allowance to Total Ln&Ls (%)	1.33	1.32	1.37	1.41
NonCurrent Ln&Ls to Total Ln&Ls (%)	0.84	0.83	0.82	0.79
30-89 P/D to Total Ln&Ls (%)	0.79	0.59	0.48	0.53
Ln&Ls Allowance to NA Ln&Ls (%)	9.58	8.08	9.54	19.54

Loan and Lease Analysis

Massachusetts	3/31/2020	6/30/2020	9/30/2020	12/31/2020
Net Loss to Average Loans (%)	0.04	0.04	0.04	0.05
Loss Provision to Average Loans (%)	0.08	0.09	0.05	0.05
Ln&Ls Allowance to Total Ln&Ls (%)	1.03	1.05	1.09	1.14
NonCurrent Ln&Ls to Total Ln&Ls (%)	0.52	0.54	0.59	0.58
30-89 P/D to Total Ln&Ls (%)	0.49	0.26	0.23	0.27
Ln&Ls Allowance to NA Ln&Ls (%)	8.31	7.16	20.18	4.20

New Jersey	3/31/2020	6/30/2020	9/30/2020	12/31/2020
Net Loss to Average Loans (%)	0.15	0.11	0.08	0.08
Loss Provision to Average Loans (%)	0.11	0.09	0.05	0.03
Ln&Ls Allowance to Total Ln&Ls (%)	1.12	1.08	1.14	1.16
NonCurrent Ln&Ls to Total Ln&Ls (%)	0.78	0.86	0.87	0.92
30-89 P/D to Total Ln&Ls (%)	0.71	0.50	0.42	0.57
Ln&Ls Allowance to NA Ln&Ls (%)	2.41	2.86	3.39	3.88

New York	3/31/2020	6/30/2020	9/30/2020	12/31/2020
Net Loss to Average Loans (%)	0.08	0.07	0.07	0.08
Loss Provision to Average Loans (%)	0.14	0.11	0.08	0.07
Ln&Ls Allowance to Total Ln&Ls (%)	1.11	1.12	1.17	1.20
NonCurrent Ln&Ls to Total Ln&Ls (%)	0.82	0.87	0.85	0.92
30-89 P/D to Total Ln&Ls (%)	0.99	0.53	0.46	0.61
Ln&Ls Allowance to NA Ln&Ls (%)	4.37	4.52	3.23	3.37

The following presents the trendline on criticized (Special Mention, Substandard, Doubtful) and classified (Substandard, Doubtful) loans relative to portfolio and Tier I Capital + LLR. The trendline indicates an increase in criticized and classified levels.

CRCL/Total Portfolio
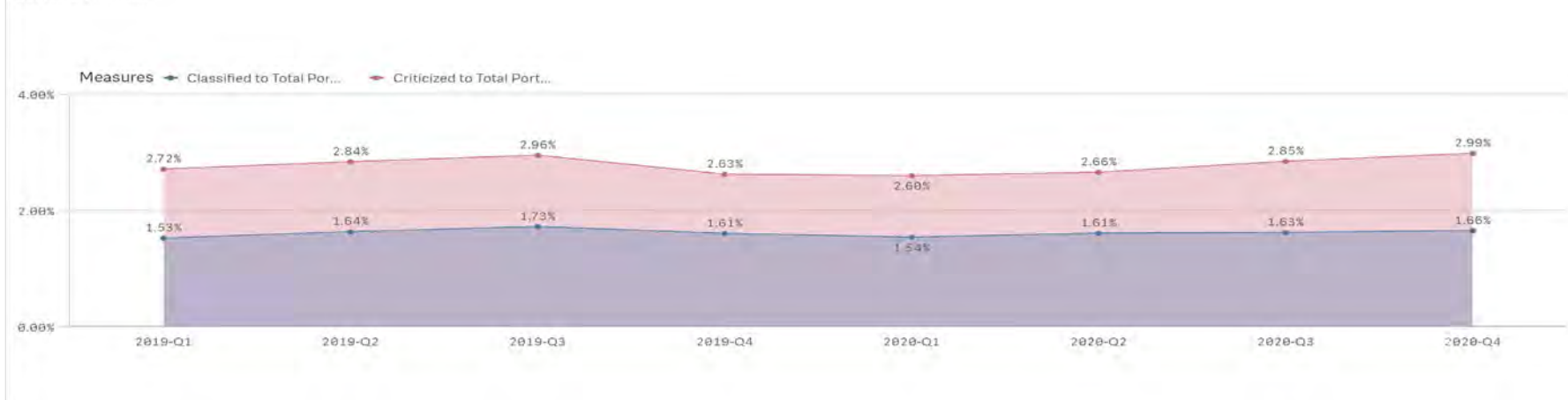
CRCL/Capital + LLR
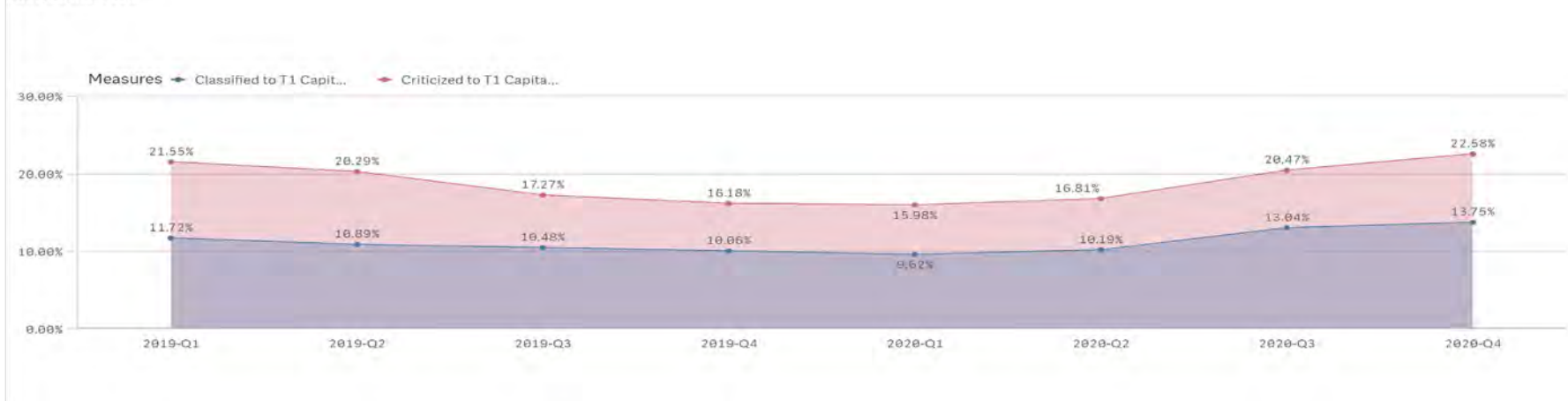
The following represents the number of clients in each of the noted ranges of percentage. The data addressing the classified (Substandard, Doubtful) segment shows that there is negative direction in the client group's overall migration.

Criticized / Portfolio	3/31/2019	6/30/2019	9/30/2019	12/31/2019	3/31/2020	6/30/2020	9/30/2020	12/31/2020
0% to 1%	16.95%	13.56%	16.98%	13.46%	12.50%	10.20%	12.00%	12.24%
1% to 2%	33.90%	32.20%	24.53%	26.92%	27.08%	26.53%	26.00%	22.45%
2% to 3%	20.34%	23.73%	24.53%	26.92%	29.17%	28.57%	22.00%	24.49%
3% to 4%	13.56%	13.56%	13.21%	19.23%	16.67%	20.41%	24.00%	22.45%
4%+	15.25%	16.95%	20.75%	13.46%	14.58%	14.29%	16.00%	18.37%

Classified / Portfolio	3/31/2019	6/30/2019	9/30/2019	12/31/2019	3/31/2020	6/30/2020	9/30/2020	12/31/2020
0% to 1%	45.76%	35.59%	32.08%	30.77%	31.25%	30.61%	36.00%	30.61%
1% to 2%	27.12%	35.59%	35.85%	44.23%	45.83%	42.86%	34.00%	38.78%
2% to 3%	16.95%	16.95%	18.87%	17.31%	16.67%	18.37%	16.00%	18.37%
3% to 4%	5.08%	8.47%	9.43%	7.69%	6.25%	6.12%	12.00%	6.12%
4%+	5.08%	3.39%	3.77%	0.00%	0.00%	2.04%	2.00%	6.12%

The following represents the number of clients in each of the noted ranges of percentage. The data addressing the overall criticized and the more specific classified segments shows that there is negative direction in the client group's overall migration.
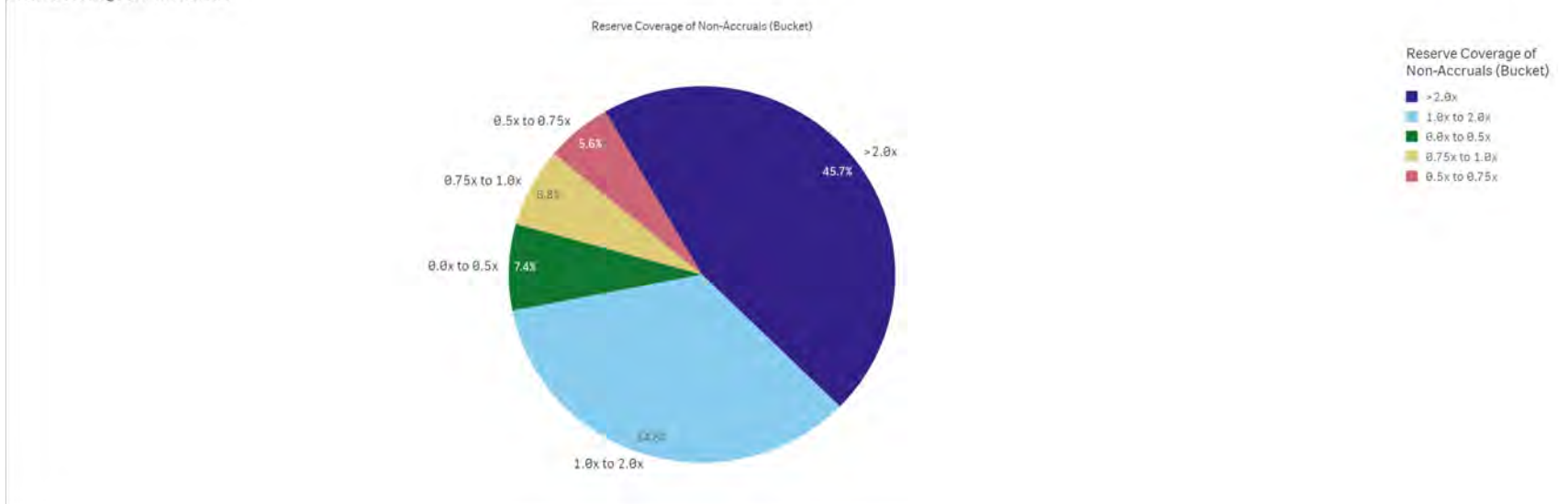
Criticized / Portfolio	3/31/2019	6/30/2019	9/30/2019	12/31/2019	3/31/2020	6/30/2020	9/30/2020	12/31/2020
0% to 1%	16.95%	13.56%	16.98%	13.46%	12.50%	10.20%	12.00%	12.24%
1% to 2%	33.90%	32.20%	24.53%	26.92%	27.08%	26.53%	26.00%	22.45%
2% to 3%	20.34%	23.73%	24.53%	26.92%	29.17%	28.57%	22.00%	24.49%
3% to 4%	13.56%	13.56%	13.21%	19.23%	16.67%	20.41%	24.00%	22.45%
4%+	15.25%	16.95%	20.75%	13.46%	14.58%	14.29%	16.00%	18.37%

Classified / Portfolio	3/31/2019	6/30/2019	9/30/2019	12/31/2019	3/31/2020	6/30/2020	9/30/2020	12/31/2020
0% to 1%	45.76%	35.59%	32.08%	30.77%	31.25%	30.61%	36.00%	30.61%
1% to 2%	27.12%	35.59%	35.85%	44.23%	45.83%	42.86%	34.00%	38.78%
2% to 3%	16.95%	16.95%	18.87%	17.31%	16.67%	18.37%	16.00%	18.37%
3% to 4%	5.08%	8.47%	9.43%	7.69%	6.25%	6.12%	12.00%	6.12%
4%+	5.08%	3.39%	3.77%	0.00%	0.00%	2.04%	2.00%	6.12%

Reserve Coverage
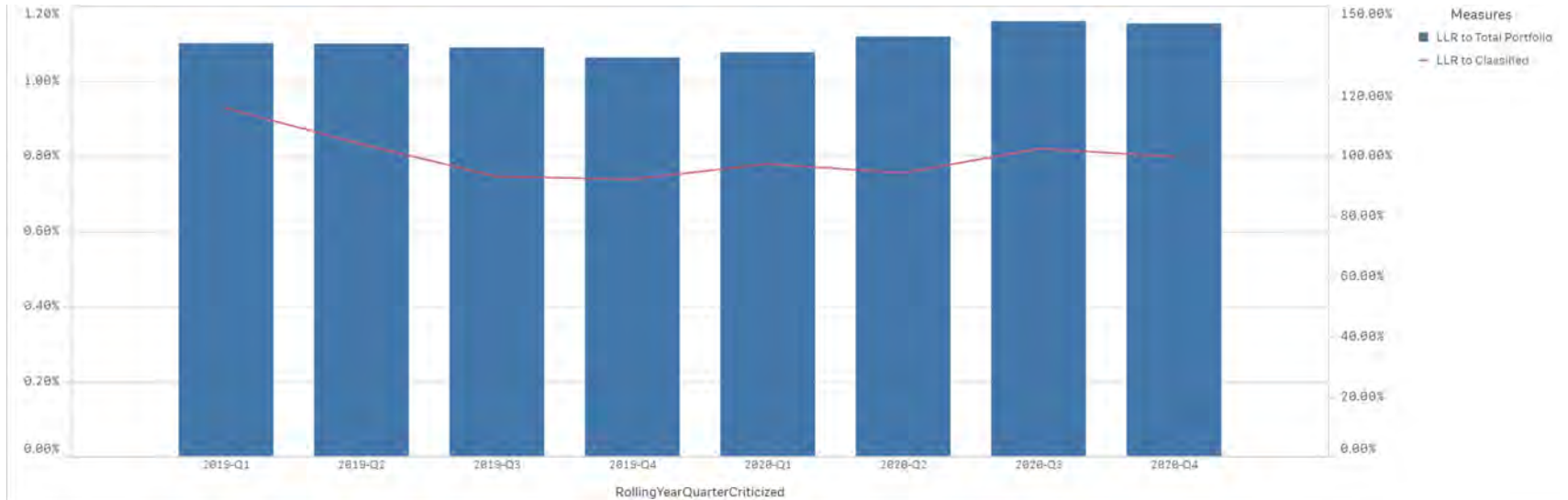
Reserve Coverage of Non-Accruals

# Non-Performing Loans

Non-Accruals and Delinquencies / Portfolio

Measures — Non-Accruals/Total P... — Loans Past Due 30 Da...

	2019-Q1	2019-Q2	2019-Q3	2019-Q4	2020-Q1	2020-Q2	2020-Q3	2020-Q4
Non-Accruals	0.65%	0.66%	0.58%	0.65%	0.60%	0.60%	0.64%	0.75%
Loans Past Due	0.54%	0.52%	0.38%	0.55%	0.58%	0.58%	0.64%	0.71%
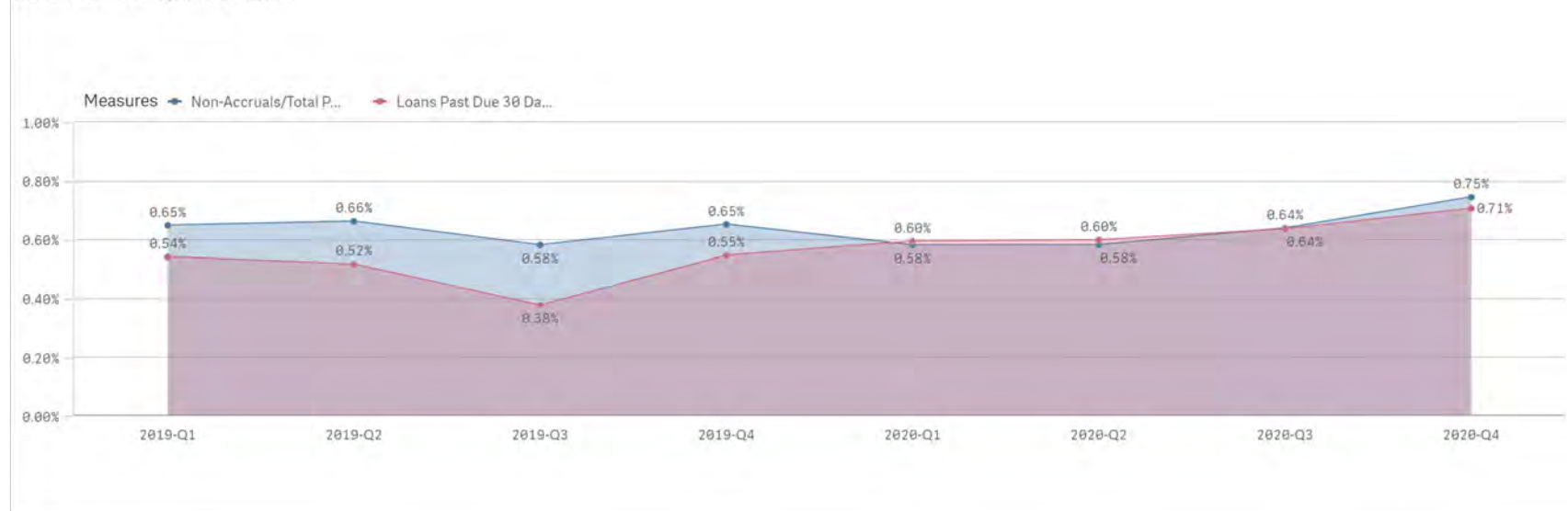
Non-Performing / Capital + LLR
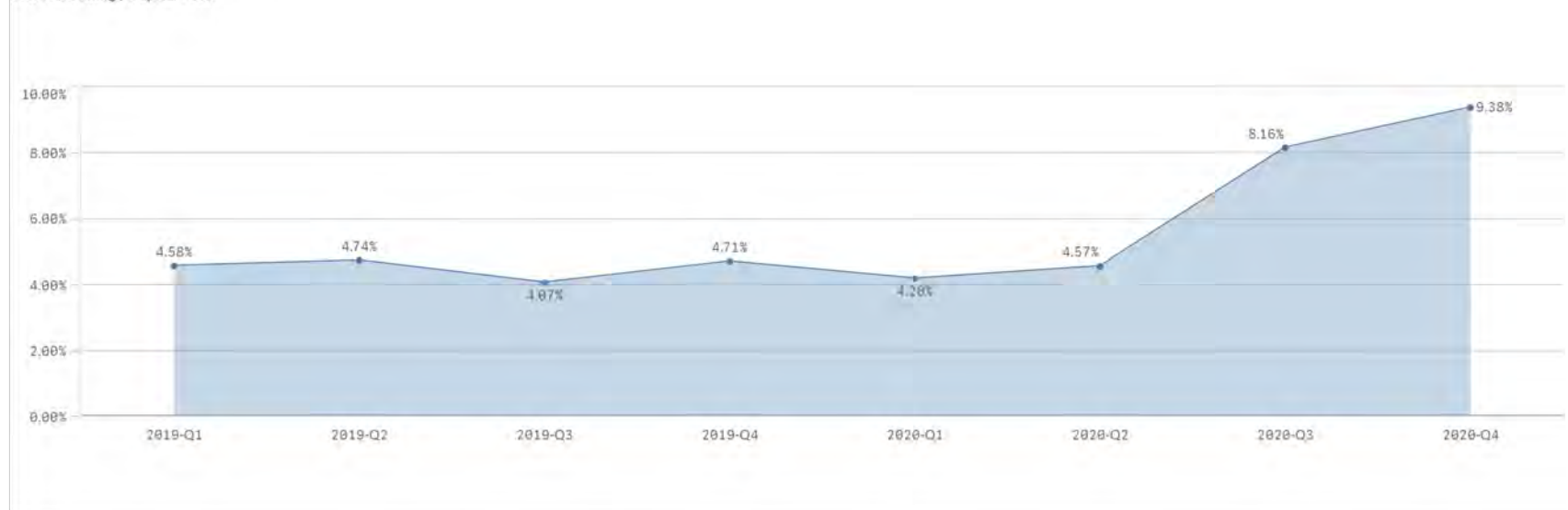
|	2019-Q1	2019-Q2	2019-Q3	2019-Q4	2020-Q1	2020-Q2	2020-Q3	2020-Q4
	4.58%	4.74%	4.07%	4.71%	4.28%	4.57%	8.16%	9.38%

The following are patterns in statistics regarding variances in assigned risk ratings by the Bank versus CEIS. While there can be multiple influences in the results, when viewed in the overall, resulting variances are one indicator in the direction of risk.
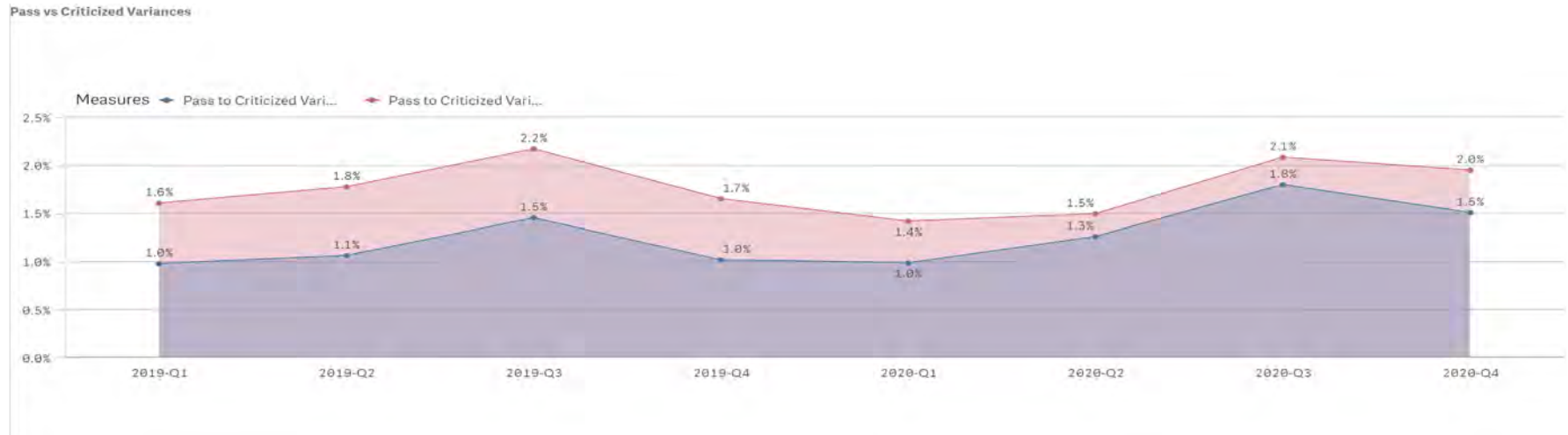

Combined Grade Variances - $
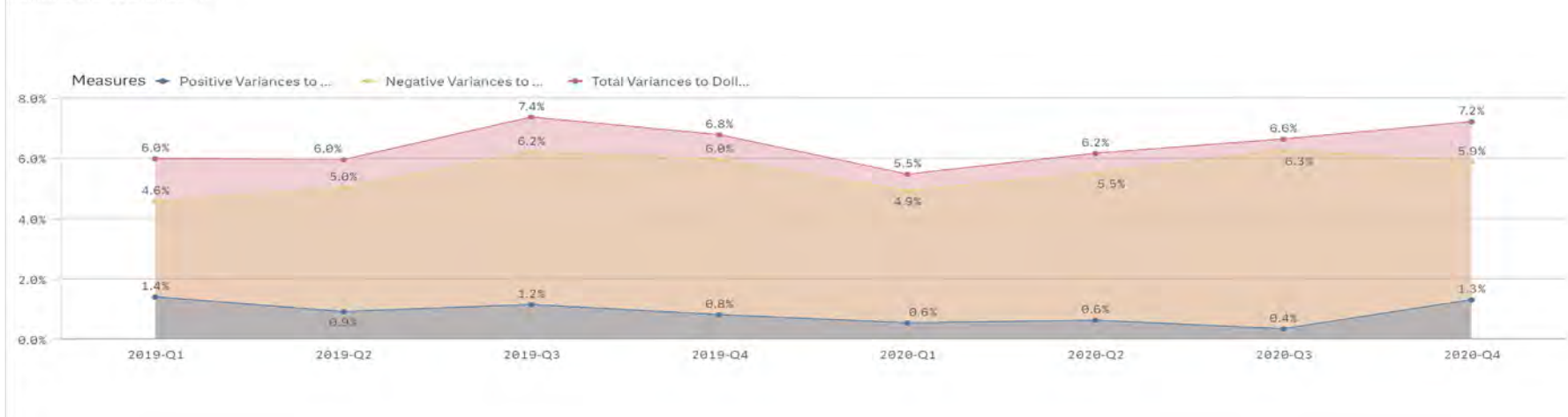
Combined Grade Variances - # of Loans
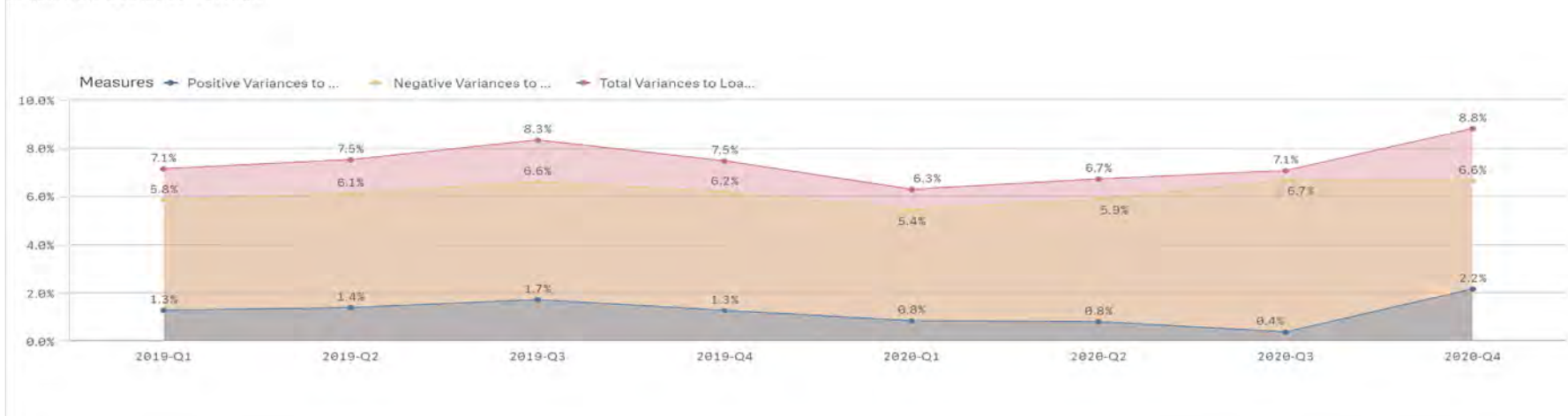
The following are patterns in statistics regarding variances in assigned risk ratings by the Bank versus CEIS. While there can be multiple influences in the results, when viewed in the overall, resulting variances are one indicator in the direction of risk.
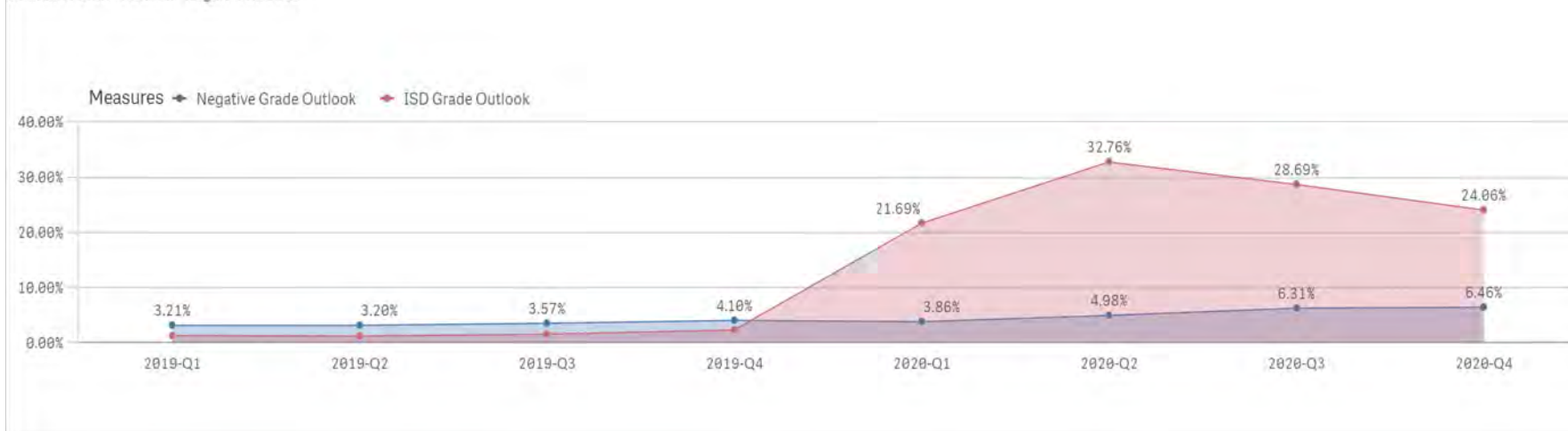
The following are CEIS' estimates of the six-month outlook for assigned grades. The graphs show that since 4QE19, the level of uncertainty regarding the COVID impact on portfolios is clearly evident.
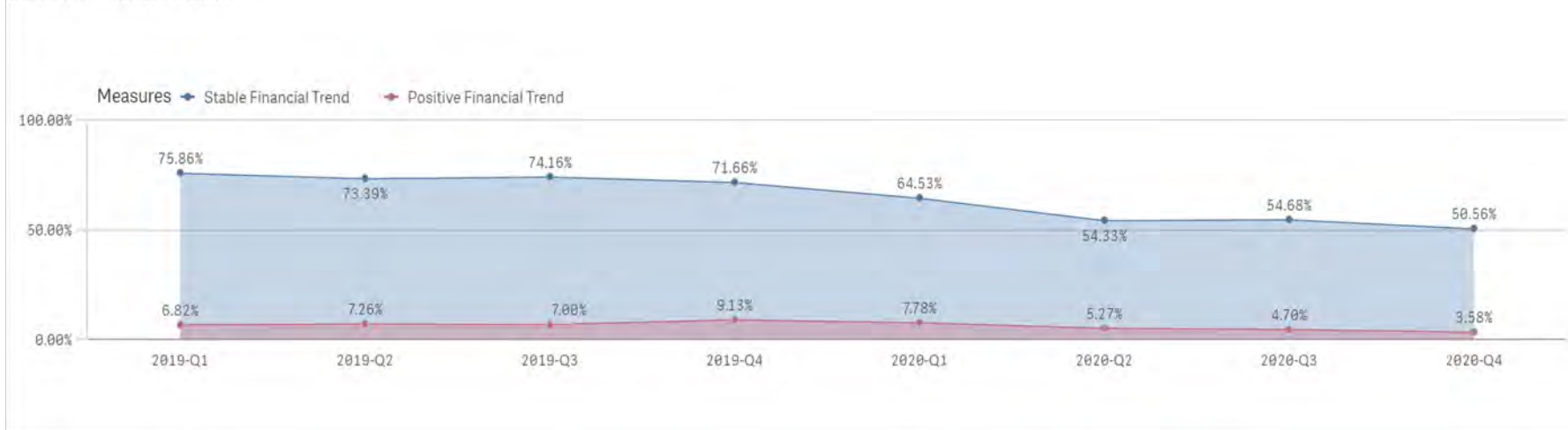

Combined Grade Outlook - Positive and Stable

Measures ← Stable Grade Outlook   → Positive Grade Outlook
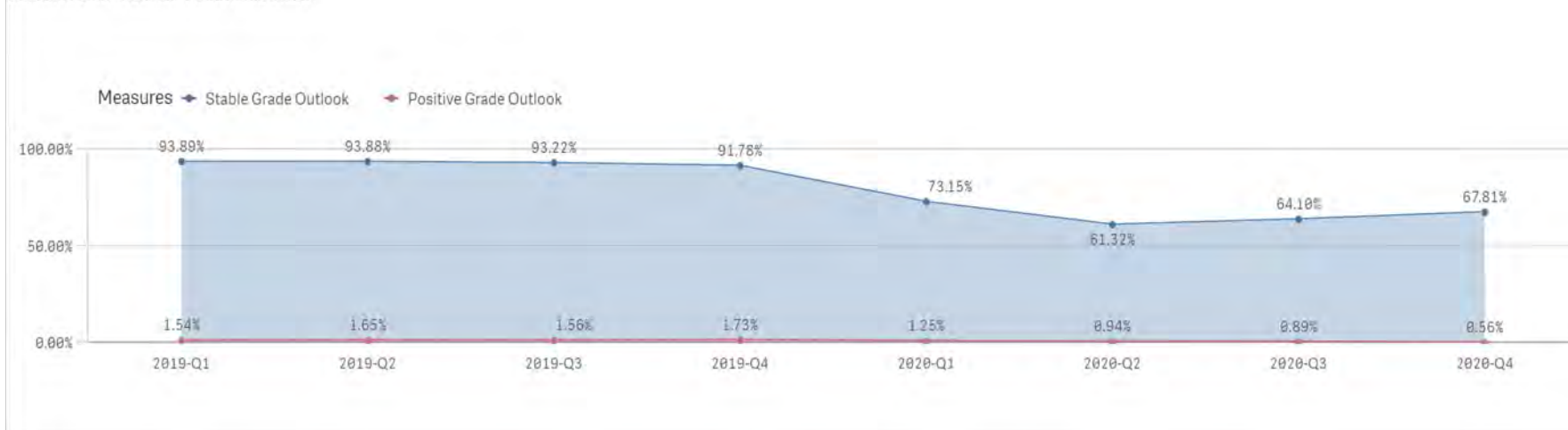
Combined Grade Outlook - Negative and ISD

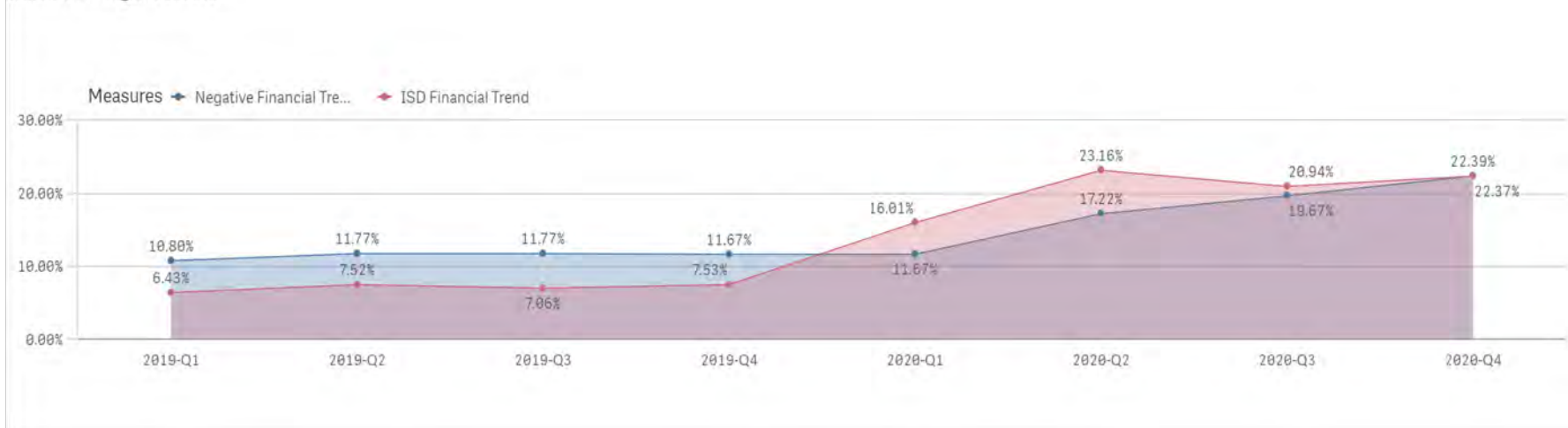Measures ← Negative Grade Outlook   → ISD Grade Outlook

The following are the observations made regarding the financial trend of the borrowers. The graphs show that since 4QE19, the level of uncertainty regarding the COVID impact on borrowers is clearly evident.

Combined FT - Positive and Stable

Measures → Stable Financial Trend → Positive Financial Trend

Stable Financial Trend: 2019-Q1 75.86%, 2019-Q2 73.39%, 2019-Q3 74.16%, 2019-Q4 71.66%, 2020-Q1 64.53%, 2020-Q2 54.33%, 2020-Q3 54.68%, 2020-Q4 50.56%

Positive Financial Trend: 2019-Q1 6.82%, 2019-Q2 7.26%, 2019-Q3 7.00%, 2019-Q4 9.13%, 2020-Q1 7.78%, 2020-Q2 5.27%, 2020-Q3 4.70%, 2020-Q4 3.58%

Combined FT - Negative and ISD

Measures → Negative Financial Tre... → ISD Financial Trend

Negative Financial Trend: 2019-Q1 10.80%, 2019-Q2 11.77%, 2019-Q3 11.77%, 2019-Q4 11.67%, 2020-Q1 11.67%, 2020-Q2 17.22%, 2020-Q3 19.67%, 2020-Q4 22.37%

ISD Financial Trend: 2019-Q1 6.43%, 2019-Q2 7.52%, 2019-Q3 7.06%, 2019-Q4 7.53%, 2020-Q1 16.01%, 2020-Q2 23.16%, 2020-Q3 20.94%, 2020-Q4 22.39%
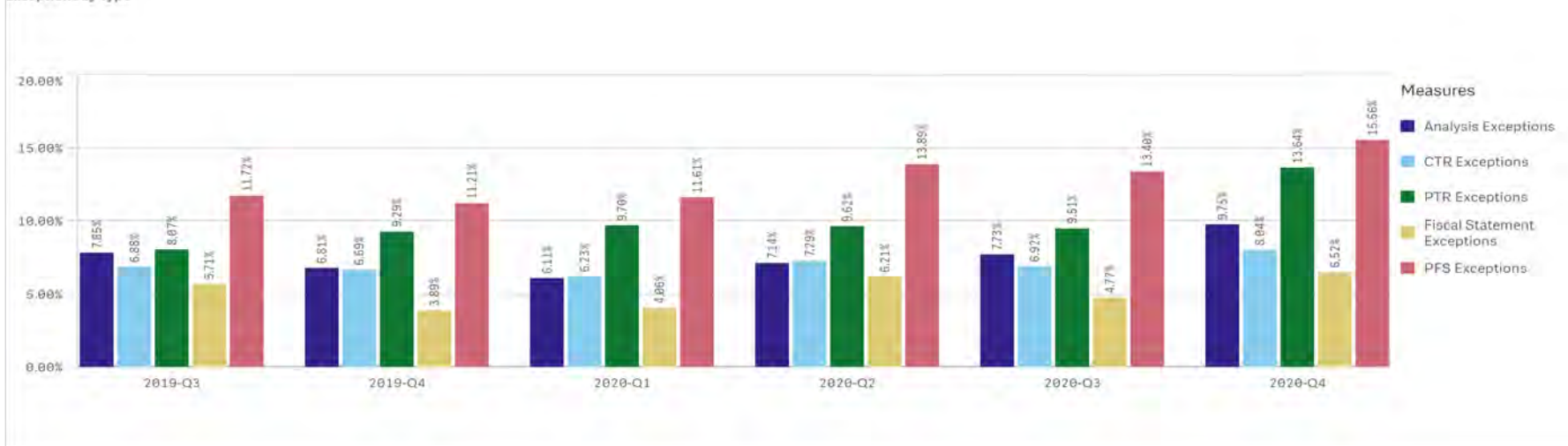
The following represents the pattern on technical exception levels. The data shows a rise in the exception levels caused in part by the COVID environment impacting administrative priorities.

Borrowers with Exceptions

Exceptions by Type

Covenant Compliance

Non-Compliant Covenants

	2019-Q1	2019-Q2	2019-Q3	2019-Q4	2020-Q1	2020-Q2	2020-Q3	2020-Q4
	20.9%	24.2%	23.0%	23.7%	22.6%	26.6%	25.9%	27.6%

Covenants Waived or Amended

	2019-Q1	2019-Q2	2019-Q3	2019-Q4	2020-Q1	2020-Q2	2020-Q3	2020-Q4
	9.92%	10.54%	9.12%	10.09%	9.82%	11.04%	11.48%	11.46%

Covenants Not Tracked

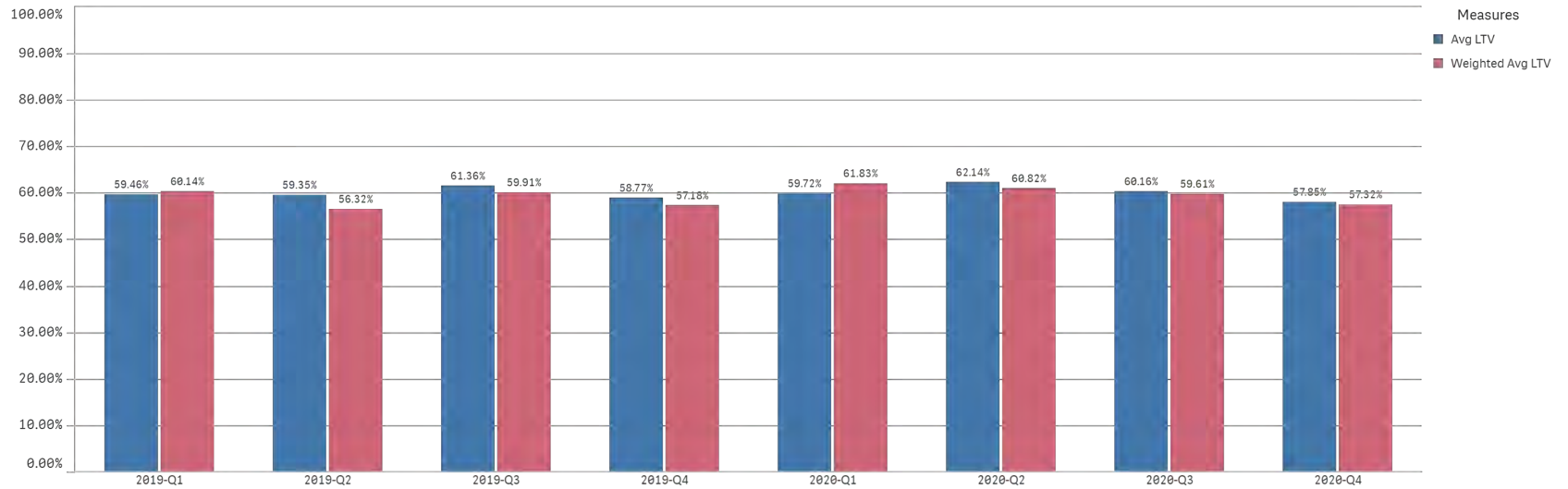|	2019-Q1	2019-Q2	2019-Q3	2019-Q4	2020-Q1	2020-Q2	2020-Q3	2020-Q4
	17.08%	21.44%	21.40%	19.04%	17.19%	19.29%	19.16%	20.63%

New and Renewed
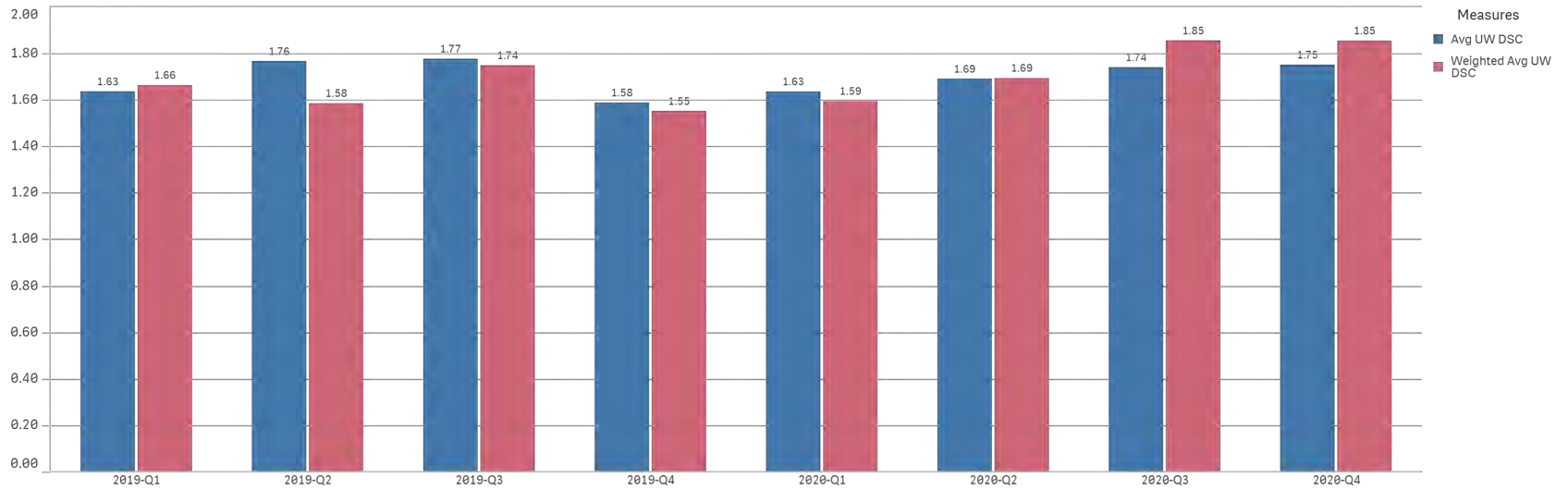## (Following Pages)
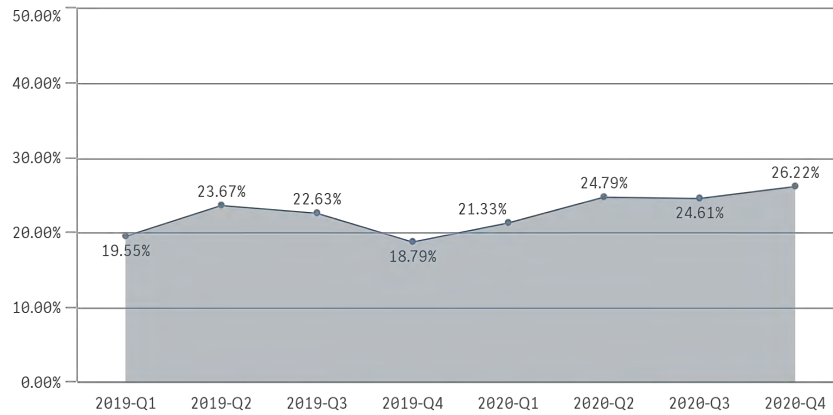
Loan to Value and Debt Service Coverage

Loan to Value

Debt Service Coverage

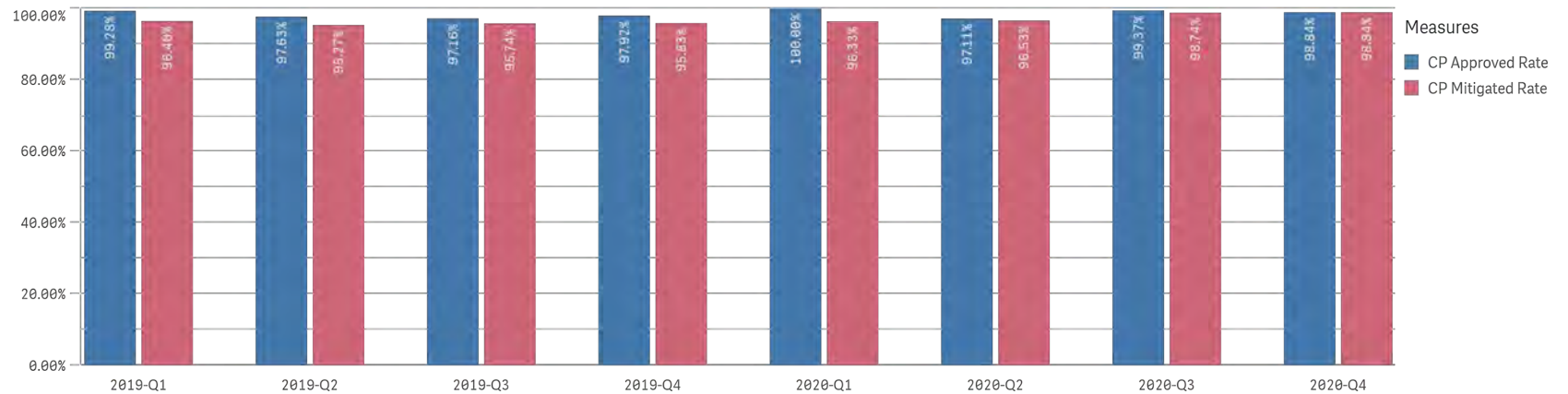# Credit Policy Exceptions
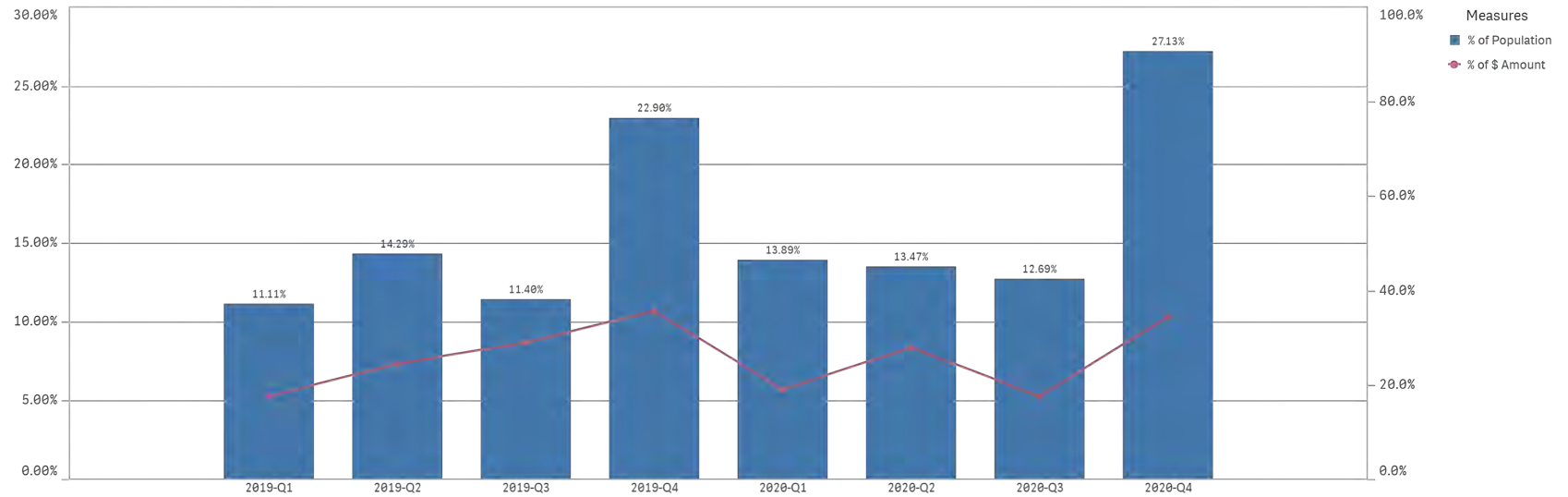
Loans with Credit Policy Exceptions

Quarter	Value
2019-Q1	19.55%
2019-Q2	23.67%
2019-Q3	22.63%
2019-Q4	18.79%
2020-Q1	21.33%
2020-Q2	24.79%
2020-Q3	24.61%
2020-Q4	26.22%

CP Exceptions by Type

CP Exceptions

CP Exceptions
- PE DSCR — 26.9%
- PE Personal Guarantee — 23.5%
- PE LTV — 23.3%
- PE Amort — 12.1%
- PE I/O — 9.1%
- PE Financials — 4.0%
- PE Max Hard Cost
- PE Leases Matured
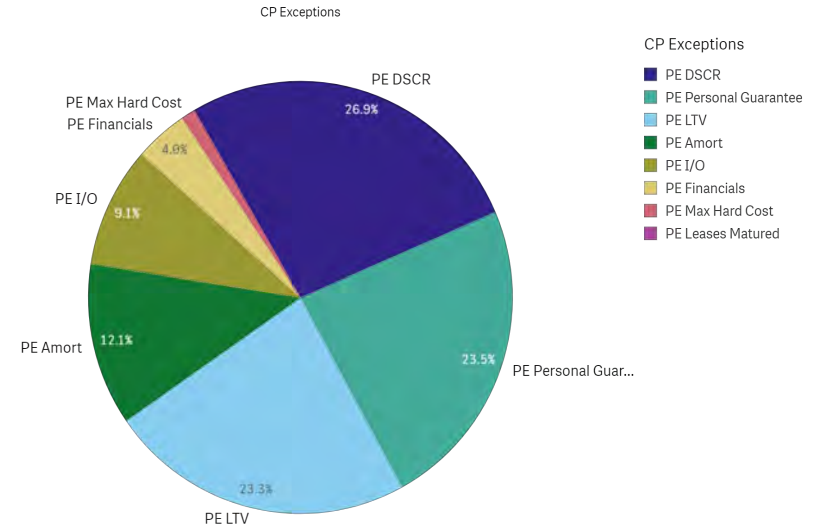
CP Exceptions Approved and Mitigated

Quarter	CP Approved Rate	CP Mitigated Rate
2019-Q1	99.28%	96.40%
2019-Q2	97.63%	95.27%
2019-Q3	97.16%	95.74%
2019-Q4	97.92%	95.83%
2020-Q1	100.00%	96.33%
2020-Q2	97.11%	96.53%
2020-Q3	99.37%	98.74%
2020-Q4	98.84%	98.34%

Non-Recourse

Non Recourse % of Population and Value

Measures
- % of Population
- % of $ Amount

% of Population by Recourse Type

Legend:
- R - Recourse
- NR - Non Recourse
- L - Limited
- RD - Reducing
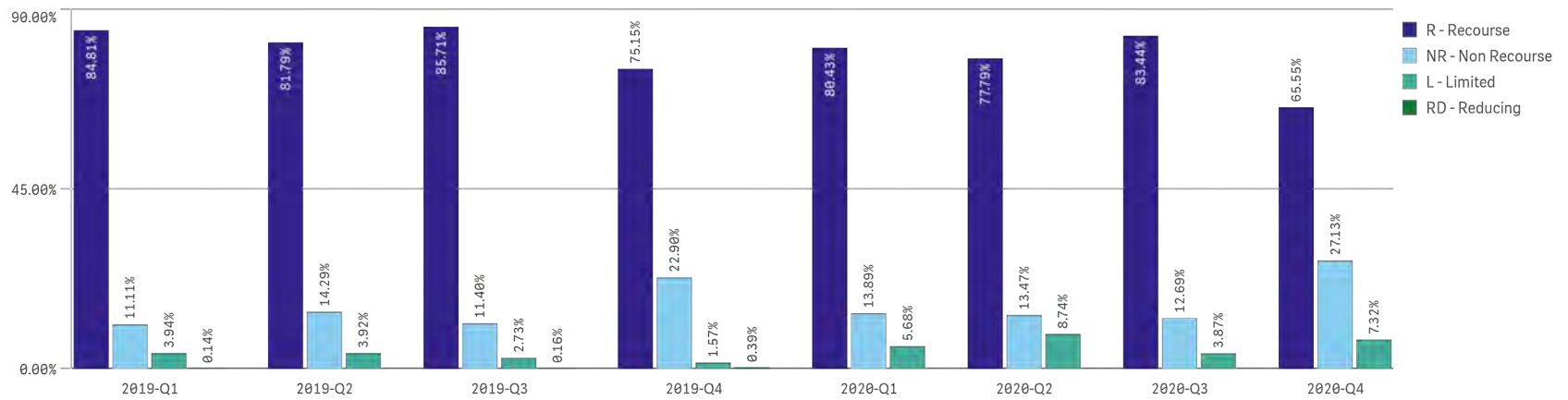
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