

COMMERCIAL LENDING TRENDS

A Look At 2024 and 2025

Brad Stevens, Stevens Risk Management, LLC

FINPACK Lenders Conference

2024

© 2024 Stevens Risk Management, LLC, Material May Not Be Used Without Written Permission

BRAD STEVENS

35 Plus Years in Banking

Lead Producer in
Twin Cities Market

Senior Credit Officer
of Two Banks

Led The Workout Dept of
Two Banks



© 2024 Stevens Risk Management, LLC, Material May Not Be Used Without Written Permission

2

OUR AGENDA

- A Look Back
- A Look At Where We Are
- Two Troubled Areas That Need Attention Yesterday
- What Can Be Done

REMEMBER TWO YEARS AGO?

- Commercial Real Estate, High Rents, Rising Vacancies, Warning About CAP Rates
- C & I Real Estate, Growing Supply Riding the Hope of On-Shoring, Good Demand
- Multifamily Real Estate, Targeted Oversupply Areas, Rental Rates Peaked
- Single Family Housing, Trouble with Interest Rates and Costs
- Agriculture, Commodity Prices Had Peaked, Caution Was Urged
- Delinquency Rates Were At Record Lows, But Not Sustainable

SINCE DECEMBER 2022

- SVB, Need One Say More?
- Interest Rates, First Up Then Down, But Long Term?
- Commodity Market Prices Collapse
- The Ripple Effect of The Decline of the Core

© 2024 Stevens Risk Management, LLC, Material May Not Be Used Without Written Permission

5

COMMERCIAL REAL ESTATE FIRST

Our Primary Problem Child

6

© 2024 Stevens Risk Management, LLC, Material May Not Be Used Without Written Permission

THE RIPPLE EFFECT OF THE CORE, ST. PAUL, MN

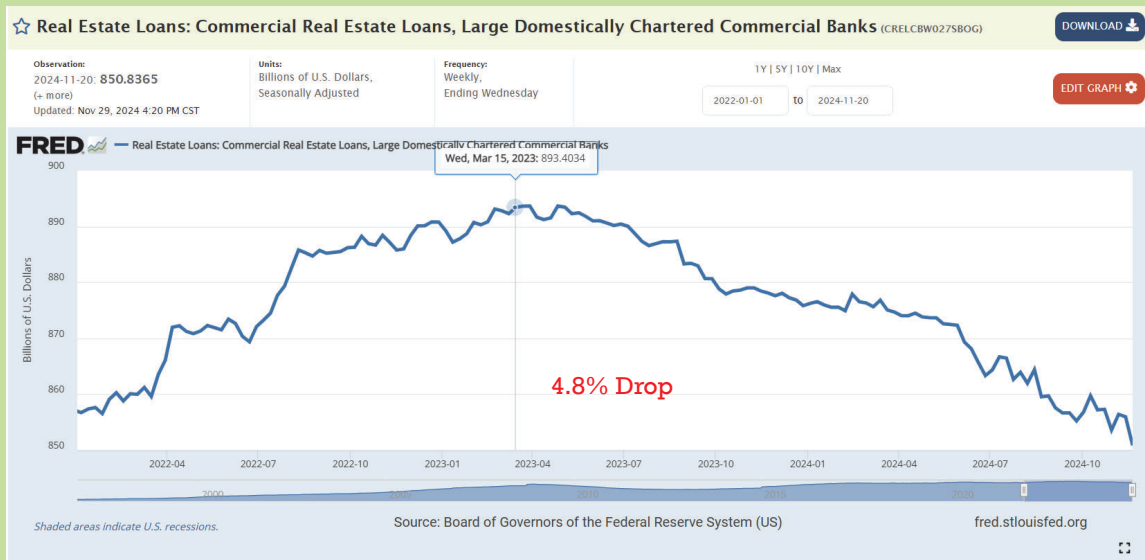
- Madison Equities
- Crime Issues
- Delinquent Taxes
- Taxed Assessed Valuation
- How to Re-Purpose
- Multiple Family Effect



© 2024 Stevens Risk Management, LLC, Material May Not Be Used Without Written Permission

7

LIKE A GAME OF HOT POTATO



© 2024 Stevens Risk Management, LLC, Material May Not Be Used Without Written Permission

8

REASONS?

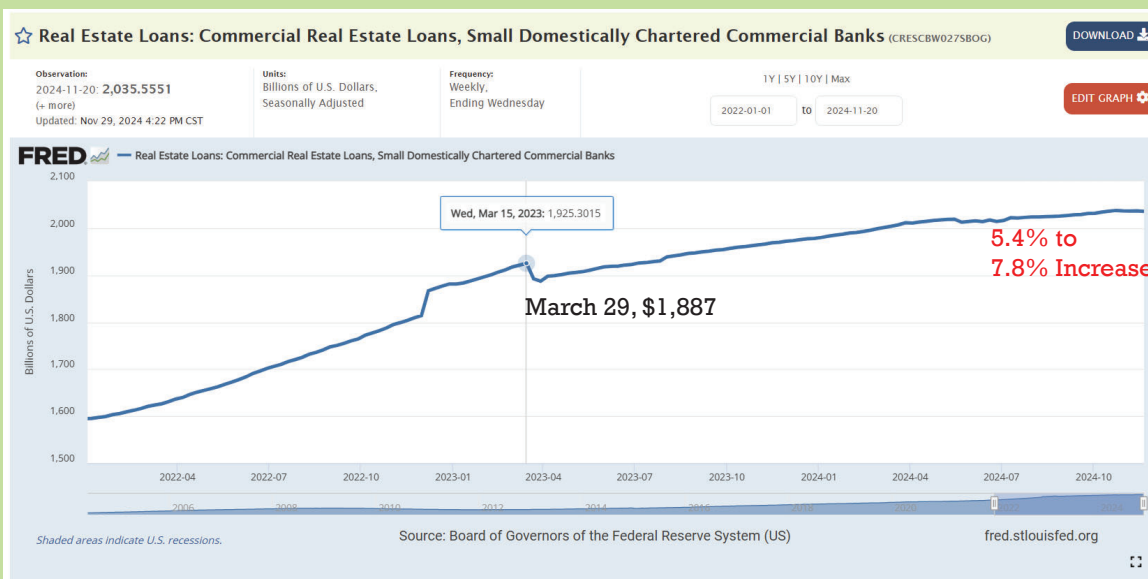
- Liquidity Impact After SVB
- Stress Test Concerns Prior to Mid-2024
- Concentration Levels in the Credit Portfolios
- Internal Market Intel
- Fortuitous Market Timing



© 2024 Stevens Risk Management, LLC, Material May Not Be Used Without Written Permission

9

WHERE THE LOANS GO?



© 2024 Stevens Risk Management, LLC, Material May Not Be Used Without Written Permission

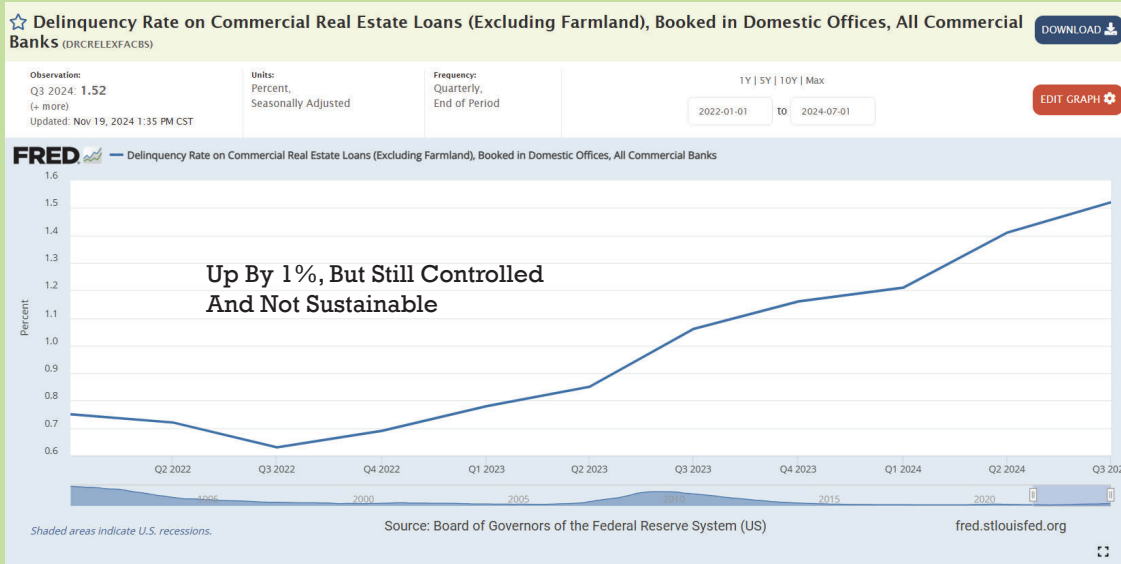
10

THE FASTEST GROWTH AREA?



11

A LAGGING INDICATOR THAT WE HAVE A PROBLEM



© 2024 Stevens Risk Management, LLC, Material May Not Be Used Without Written Permission

12

BUT.....



13

PAST DUES AND OVERDRAFTS ARE NOT EARLY WARNING SIGNS

- They Reflect a Borrower that Has a Cash Shortfall
- It is a Cash Shortfall That Can Not Be Solved By Providing More Credit
- The Time Has Passed When Your Best Options to Assist The Borrower Existed
- Tenancy Issues, Insurance/Tax/Overhead Costs Have Created A Dangerous Condition



14

IF YOU HAVEN'T ALREADY.....

- Initiate Regular Site Visits, Documenting them in the File
- Reassess NOI- Key Expense Increases, Taxes, Insurance, Utilities. Vacancy Changes
- Meet Face to Face With All Your RE Borrowers, Managing Credit Risk Does Not Stop At Closing, It Continues Until The Last Payment is Received
- Do Your Best to Get Updated Information, Rent Rolls, New Leases, Recent Financials
- Complete A New Sensitivity Analysis, Does It Indicate A New Or Updated Appraisal Is Required?

© 2024 Stevens Risk Management, LLC, Material May Not Be Used Without Written Permission

15

SENSITIVITY SPREADSHEET

© 2024 Stevens Risk Management, LLC, Material May Not Be Used Without Written Permission

16

DOWN ON THE FARM

No Pun Intended

17

© 2024 Stevens Risk Management, LLC, Material May Not Be Used Without Written Permission

REMEMBER TWO YEARS AGO?

- Farmers Had Near All Time Liquidity Levels
- Corn \$6.80 in 2022, Now \$4.23, Down 38%
- Beans \$14.36 in 2022, Now \$9.90, Down 31%
- Wheat \$312/Ton in 2022, Now \$223, Down 28.5%
- Major Concern Was Rising Prices for Crop Inputs
- Land Prices and Rents Were High

© 2024 Stevens Risk Management, LLC, Material May Not Be Used Without Written Permission

18

A TOUGH OUTLOOK TODAY

- Crop Prices at Post Pandemic Lows
- Carry Over Debt Has Many Borrowers Well Underwater
- Livestock Farmers Doing Well, Low Feed Costs, Limited Supply with Good Demand
- High Interest Rates and A Strong Dollar are Making Things Worse
- Strong Competition from South America
- European Self-Inflicted Wounds

© 2024 Stevens Risk Management, LLC, Material May Not Be Used Without Written Permission

19

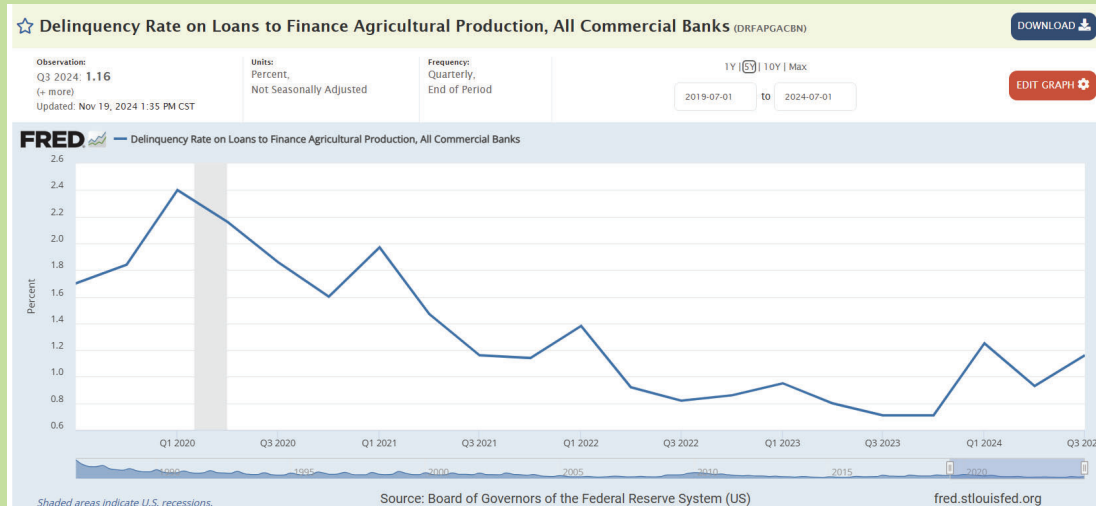
THE OUTSTANDINGS CONTINUE TO GROW



© 2024 Stevens Risk Management, LLC, Material May Not Be Used Without Written Permission

20

A ROLLING LOAN GATHERS NO LOSS



21

THE COMING FARM CRISIS

- The Strong Dollar and Trade Policies
- Continued Input Cost Increases/Is It Profitable to Plant In 2025?
- No Sign of Commodity Prices Increases
- Fraud is Surging

22

THE COMING BANK FARM CRISIS

- With Shrinking Margins, Most Banks Saw Their Net Income Fall in 2024
- Organic Loan Growth is Soft
- Deposits Continue to Be Elusive
- Reserves are Likely Insufficient
- Rock Meet Hard Place, How Do You Respond To New Crop Input Loans?

LET'S TALK CREDIT

- Likely The Second Year of Carry Over Loan Extensions
- The Primary Source of Repayment is Impaired. Check Your Collateral Coverage!
- With Impairment Comes Sub-Standard Risk Rating
- What's The Break-Even Price Point?
- You Can't Restructure Your Way Out, Course of Dealing

WHAT NEEDS TO BE DONE NOW

- Full Legal File Review, Make Sure Nothing is Missing
- Full Loan Review
- Site Visit With Specific Attention to Collateral Verification
- Total Amount of Tonnage, Condition, Location
- Any Extension Requires a Forward Contract
- Downgrade and Reserve

© 2024 Stevens Risk Management, LLC, Material May Not Be Used Without Written Permission

25

RECENT EXAM EXPERIENCE

- Heavier Focus On RE & Agriculture
- Justify The Cap Rates
- Enhanced Monitoring On Both
- Re-Assess Collateral



© 2024 Stevens Risk Management, LLC, Material May Not Be Used Without Written Permission

26



Thank You

Brad Stevens

**Stevens Risk Management, LLC
SRMALLC.net**

**You can subscribe to my
Weekly Economic Update on
My Website**

**Email or Call Me Anytime At
Email**

Brad.Stevens@SRMALLC.net

Phone 612-751-7982