DECEMBER 2018

# GREATER WASHINGTON MIDDLE MARKET BANKER SURVEY

## *RESULTS AND CONCLUSIONS*

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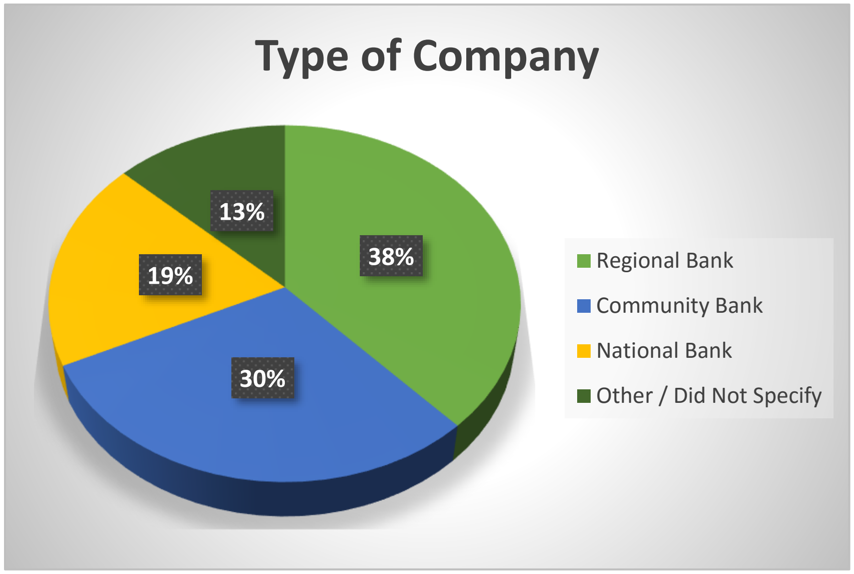
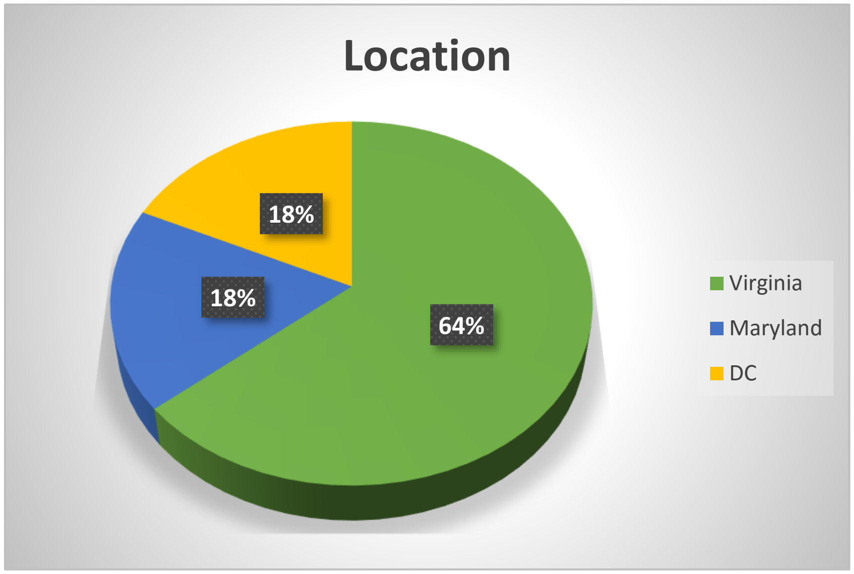
# SURVEY DEMOGRAPHICS

The Greater Washington Middle Market Loan Survey was delivered to 692 bankers and financial services professionals in the Metropolitan Washington region. Shulman Rogers received 94 completed surveys, representing a 14 percent response rate. Based on this rate, when the industry norm response rate is less than 5 percent, we have a high level of confidence that these results reflect the views of the wider survey population. 87 percent of the respondents were lenders representing national, regional and community banks. The remainder of the respondents were non-bank lenders and other financial services professionals.



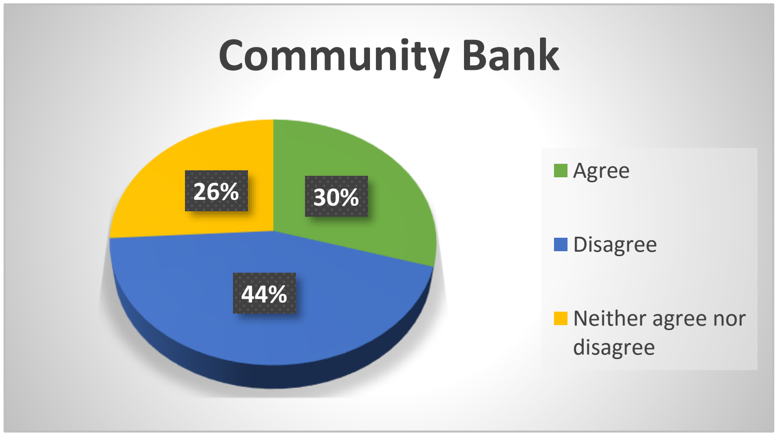



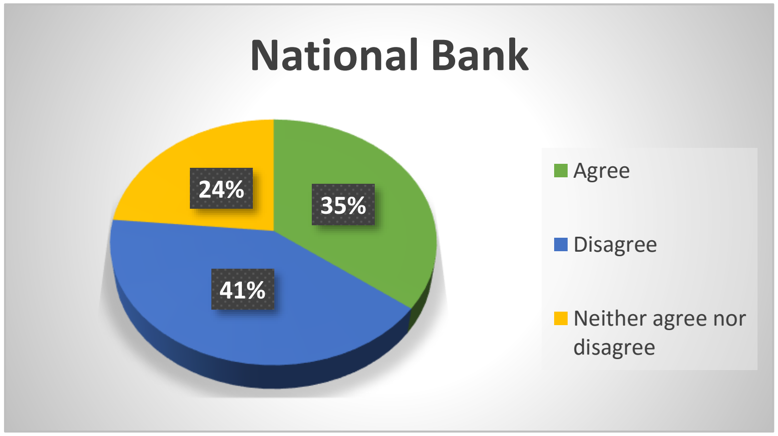

## Sample of Respondents' Titles

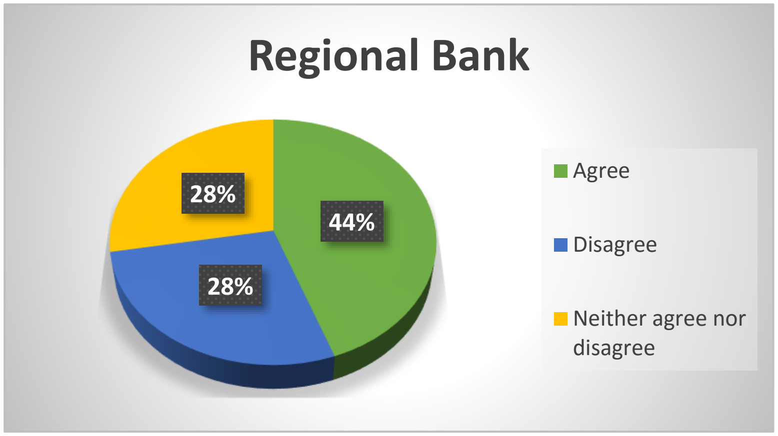
- Associate General Counsel
- Associate Vice President
- Business Services Officer
- Chief Executive Officer
- Commercial Loan Officer
- Executive Vice President
- Group Manager
- Managing Director
- Market President
- Portfolio Manager
- Relationship Manager
- Senior Credit Officer
- Senior Relationship Manager
- Senior Vice President
- Special Assets Officer
- Team Leader

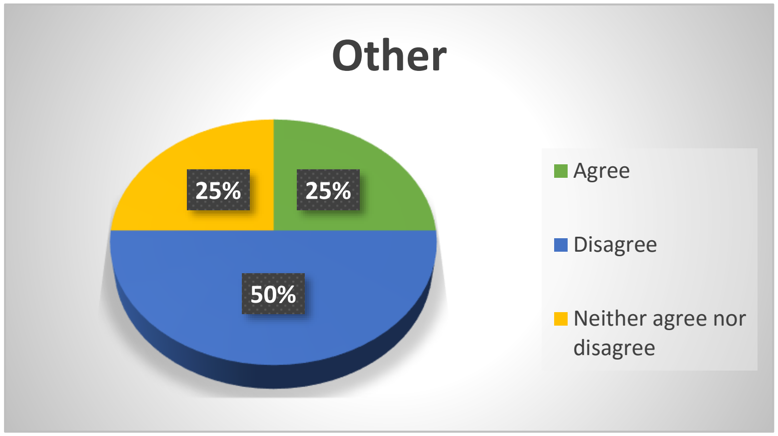
## Would you agree that middle market loan demand dropped precipitously during the second quarter of 2018?

Only 38 percent of respondents disagreed that there had been a noticeable drop in loan demand during the second quarter of 2018. When broken down by institution, regional bankers seemed to have seen more of a drop during the second quarter than national or community banks.



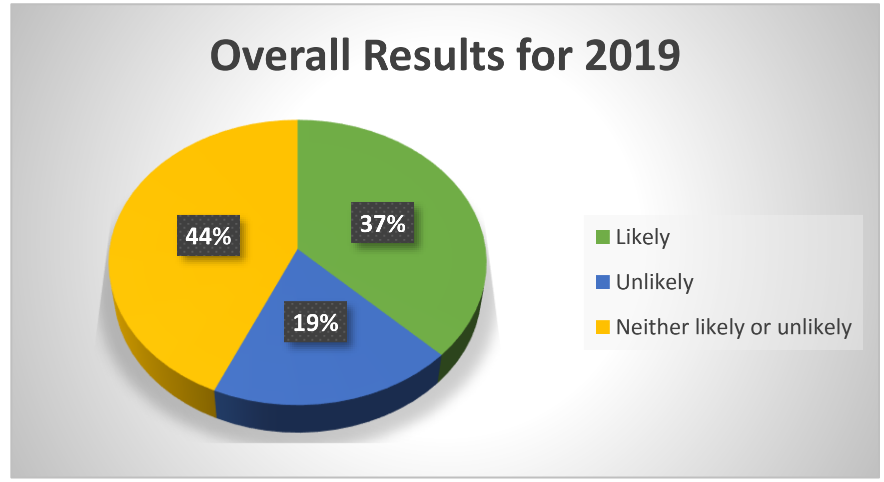



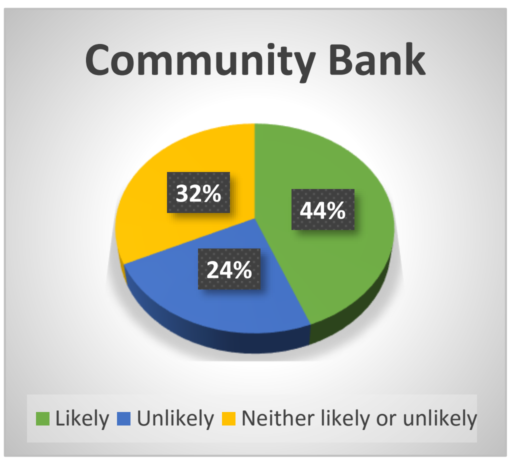



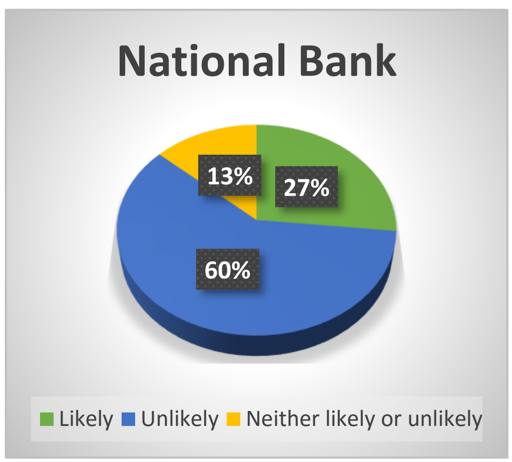
# Do you expect middle market loan demand to increase significantly during 2019?

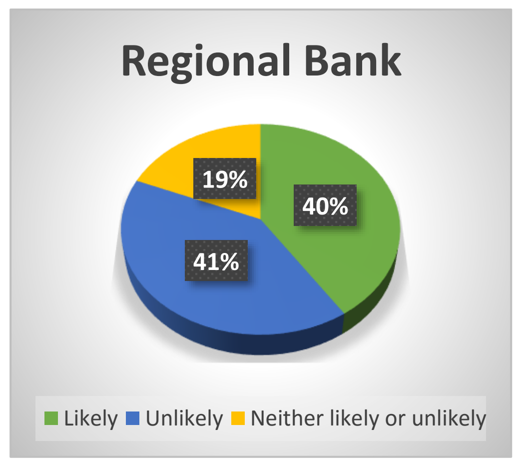
This survey was conducted in October 2018. At the time, only 19 percent of respondents predicted a significant increase in middle market loan demand for the remainder of 2018 when, in fact, many of Shulman Rogers' bank clients experienced a noticeable increase in loan demand/activity throughout November and December 2018. Is that indicative of what's to come?

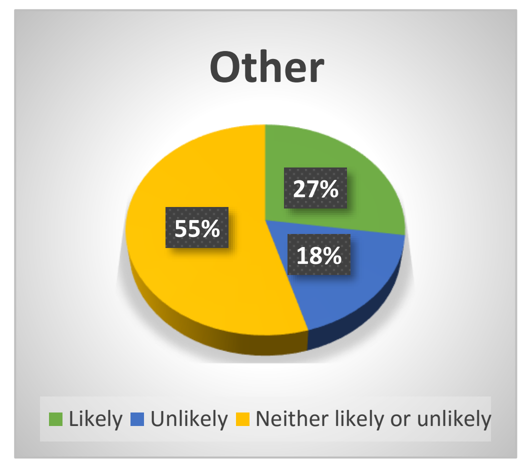



Overall, the respondents were more optimistic for 2019, with 37 percent of respondents expecting a significant increase in demand. Among bank respondents, community bankers seem to be the most optimistic and national bankers seem to be the least optimistic about a significant increase for 2019.



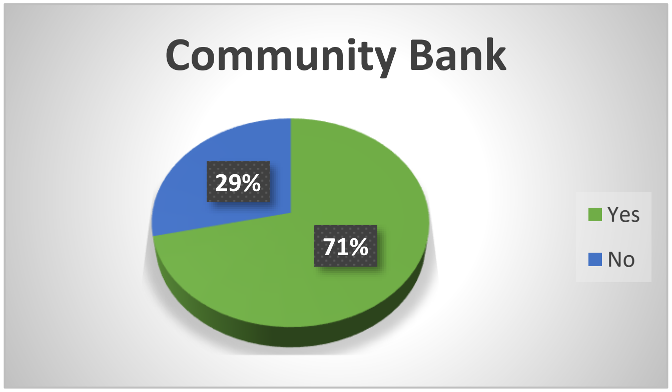



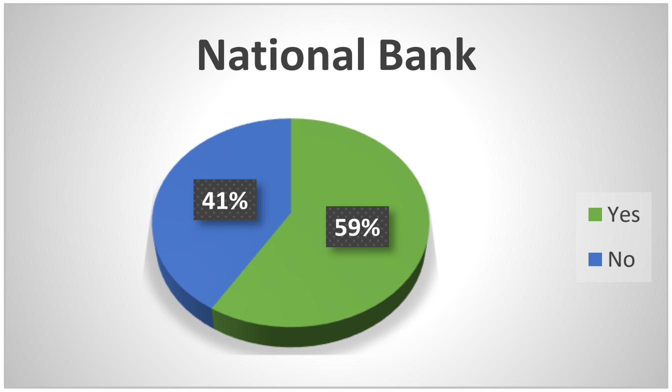



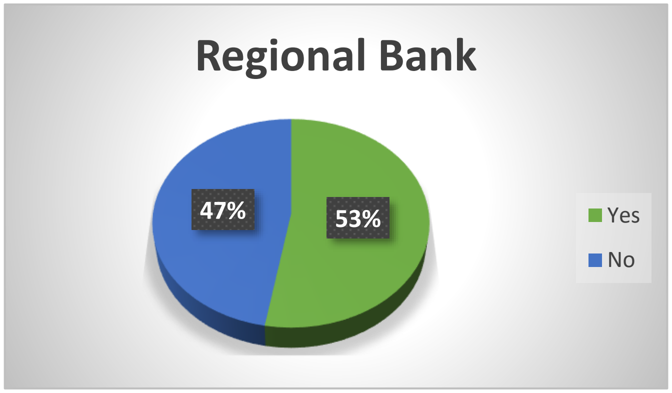



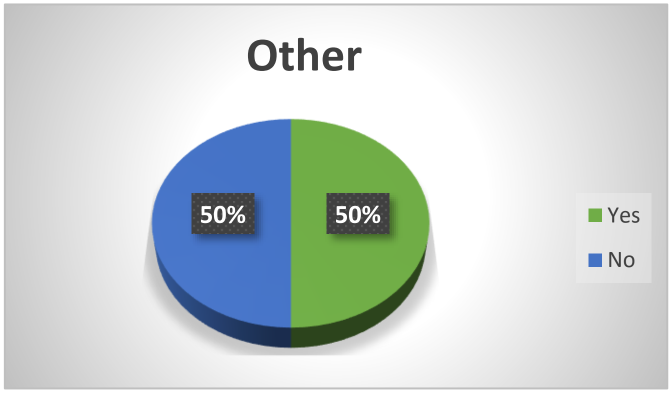
## Do you believe that banks will likely take on more credit risk in order to increase middle market loan activity?

Overall, 57 percent of respondents believed that banks would take on more credit risk to increase loan activity. Community bankers (as opposed to regional and national bankers) seem to have the highest expectations of an increase in credit risk to increase business.



## Between cash flow lending and asset-based lending, which do you now consider to be more prevalent in the middle market?

| | Cash Flow Lending More Prevalent | Asset-Based Lending More Prevalent |
|---|---|---|
| Overall | 67% | 33% |
| National | 69% | 31% |
| Regional | 67% | 33% |
| Community | 70% | 30% |
| Other | 42% | 58% |

Overall, two-thirds of lenders see cash flow lending as more prevalent than asset-based lending in the middle market.

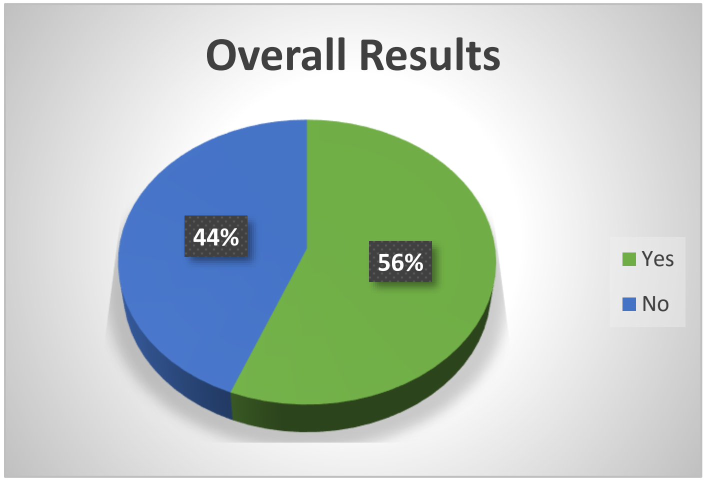
## Between C&I and CRE lending, which do you now consider to be more prevalent in the middle market?

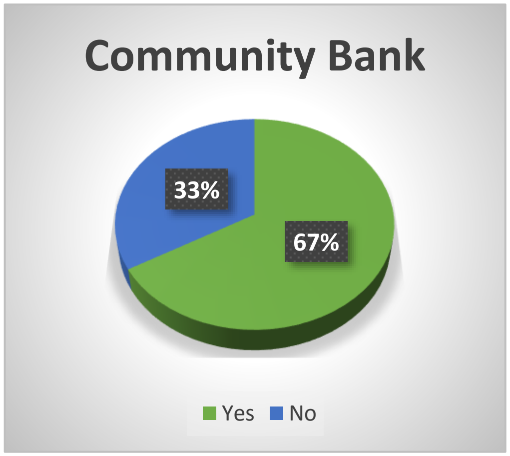
| | C&I More Prevalent | CRE More Prevalent |
|---|---|---|
| Overall | 54% | 46% |
| National | 63% | 37% |
| Regional | 50% | 50% |
| Community | 64% | 36% |
| Other | 33% | 67% |

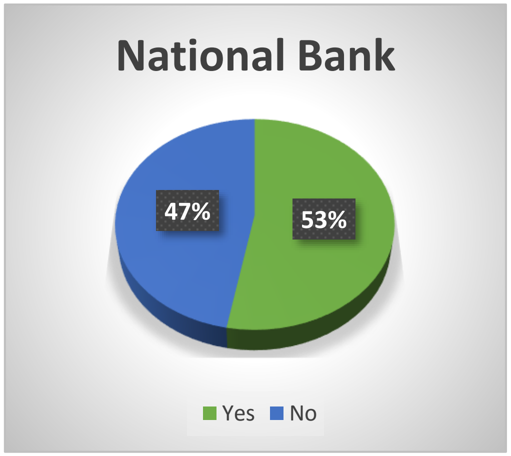
Overall, C&I is deemed by the respondents to be more prevalent in the middle market.

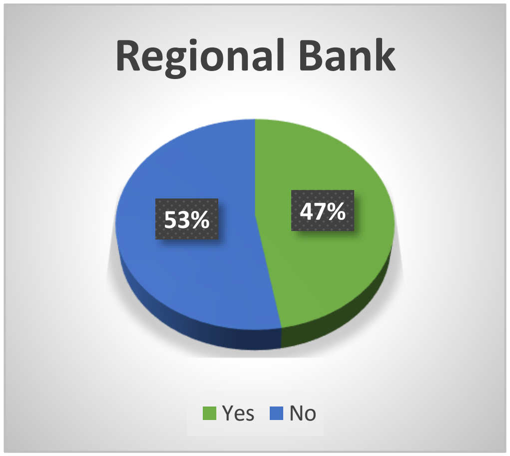
## Do you think that banks are trending toward becoming more amenable to highly leveraged transactions, with debt-to-EBITDA multiples trending upward?

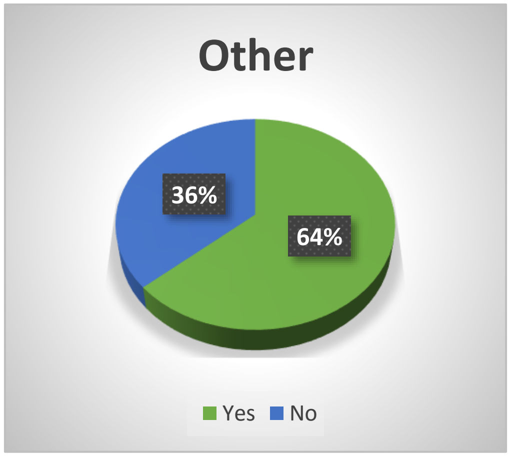
Overall, lenders are expecting to see higher debt-to-EBITDA multiples, with community bankers having the highest expectations of an upward trend.



## Are you seeing an uptick in ESOP loan transaction activity?

| | No, I haven't seen an uptick | Yes, I've seen an uptick |
|---|---|---|
| **Overall** | 56% | 44% |
| **National** | 59% | 41% |
| **Regional** | 53% | 47% |
| **Community** | 59% | 41% |
| **Other** | 58% | 42% |

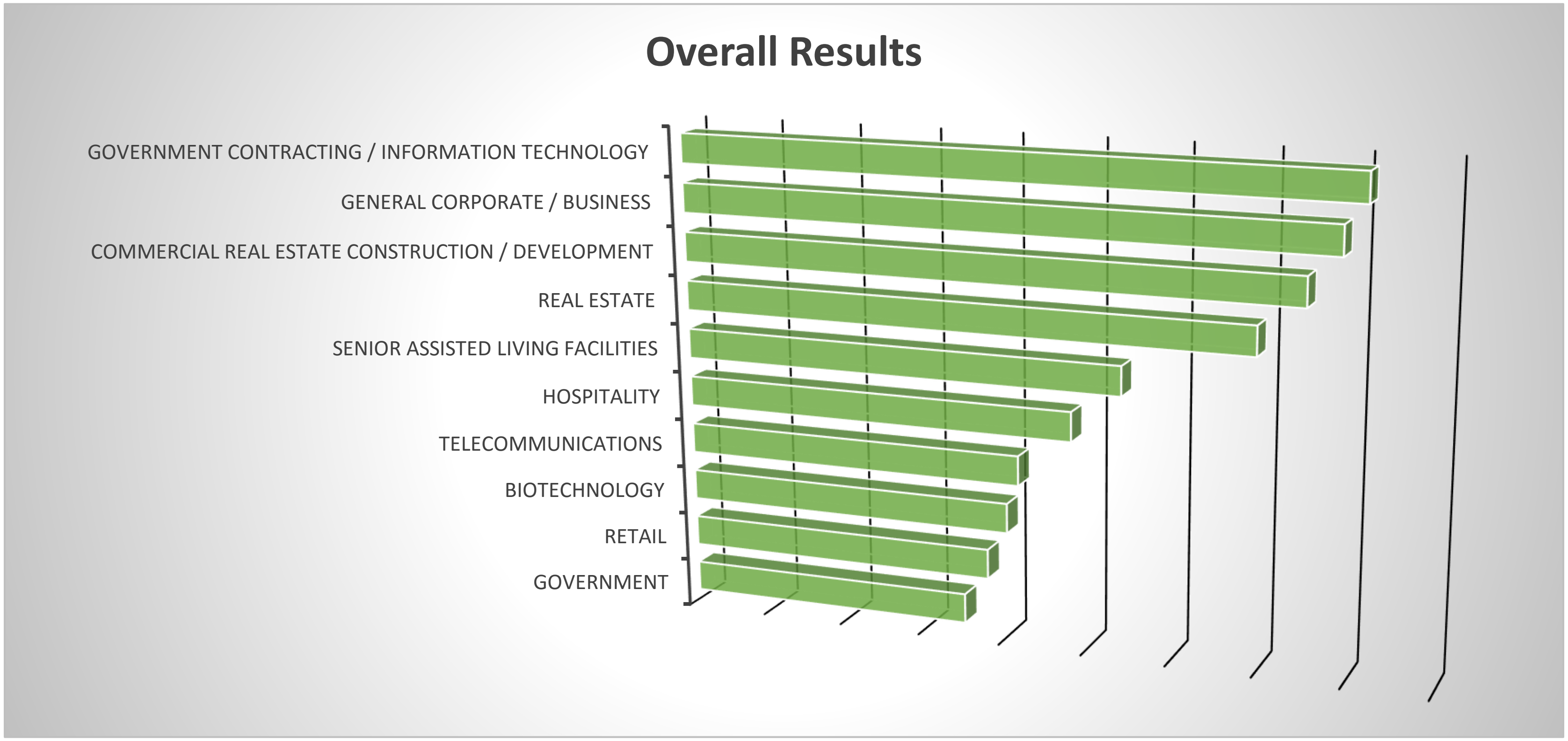
Overall, the majority of lenders are not seeing an uptick in ESOP loan transaction activity. However, while it may be coincidence and a stark contrast to the survey results noted above, Shulman Rogers' Commercial Lending and Finance Practice has experienced a noticeable uptick in ESOP loan transactions.

## When competing for a customer's business, which is the most common reason for not winning that business?

| | Competitor offered lower pricing | Competitor offered fewer covenants and/or reporting obligations | Customer considers moving its banking relationship too much trouble |
|---|---|---|---|
| **Overall** | 49% | 35% | 16% |
| **National** | 22% | 45% | 33% |
| **Regional** | 42% | 42% | 16% |
| **Community** | 71% | 25% | 4% |
| **Other** | 55% | 18% | 27% |

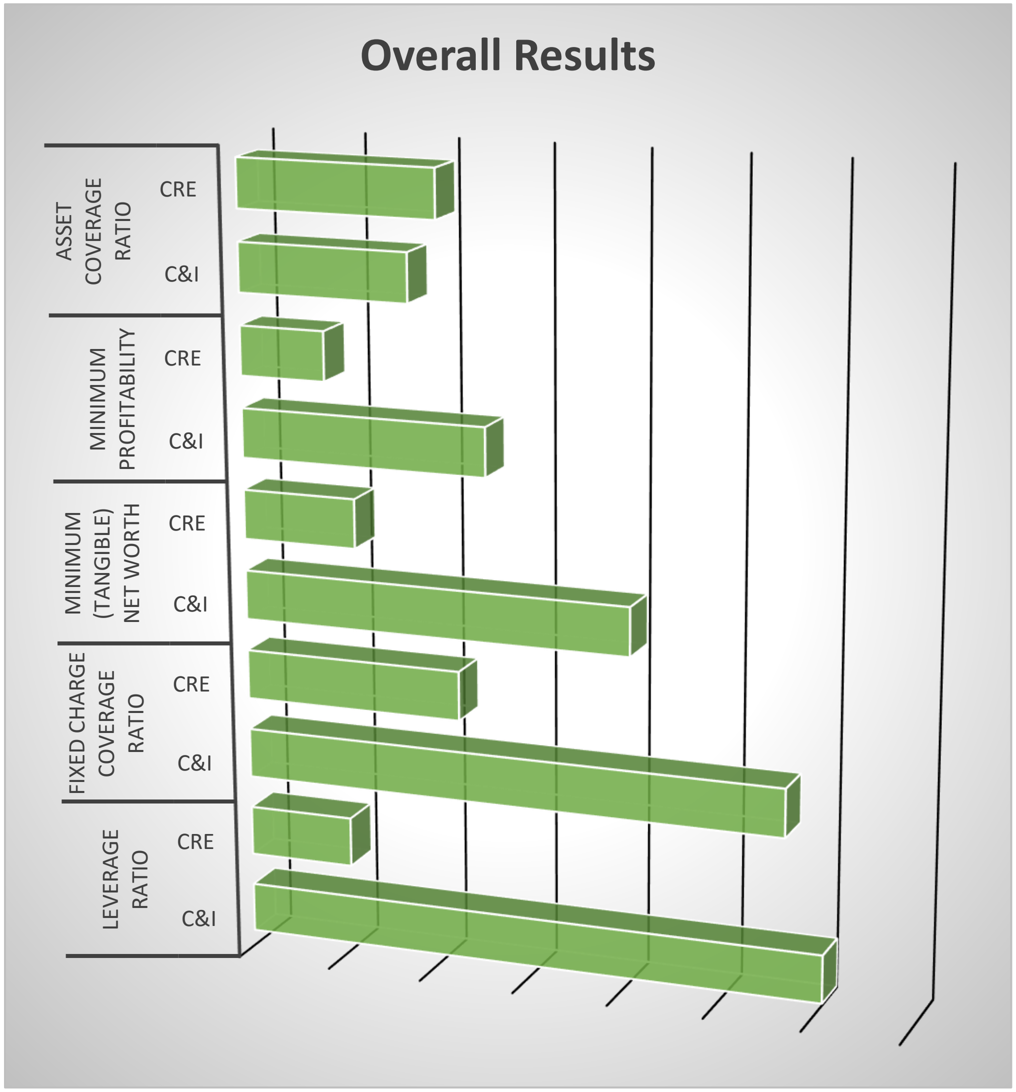
Community bankers seem to believe they lose business on price, whereas regional and national bankers believe they lose business due to financial covenant requirements.

## Which industry verticals are more active from a loan demand perspective lately?




Survey respondents see Government Contracting/IT, General Corporate/Business and Commercial Real Estate Construction/Development as the more active middle market loan segments.

## Which of the following covenants are you seeing most often required in C&I and/or CRE loan transactions?




In C&I loan transactions, leverage ratios, fixed charge coverage ratios and minimum net worth were seen as the three most common requirements, respectively.

For CRE loans, there was not a noticeable distinction among required covenants.

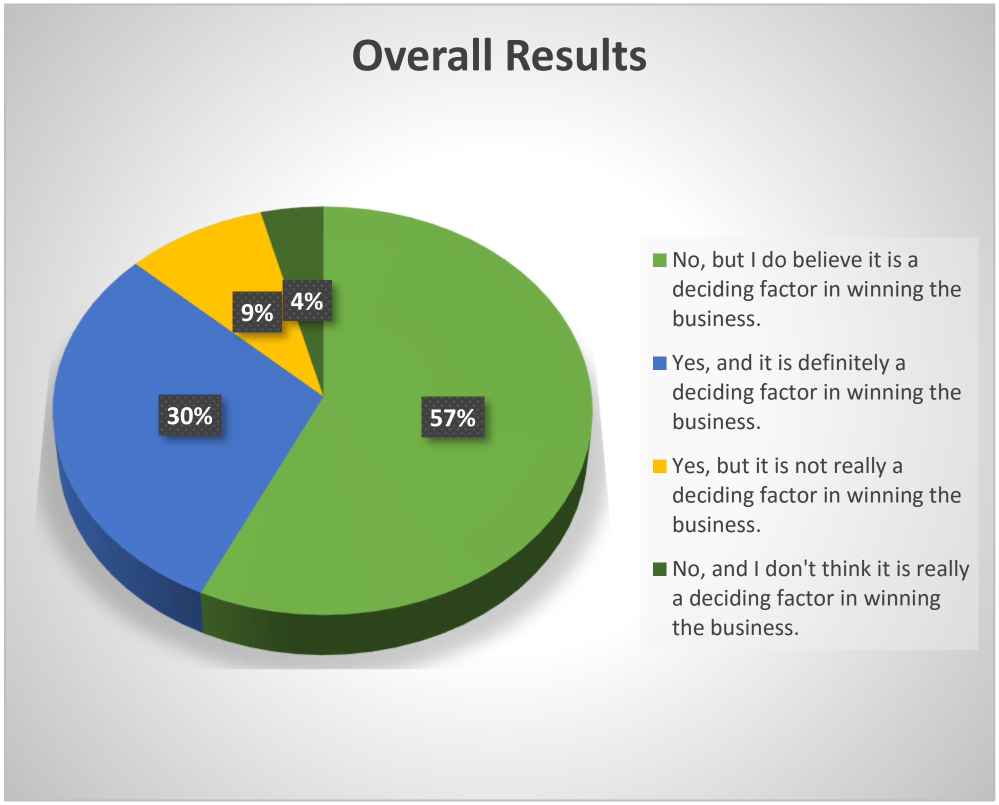
## Were our survey respondents right or wrong when asked whether they expected interest rates/debt pricing to rise, fall or stay about the same for the remainder of 2018?

| | Rise | Fall | Stay the Same |
|---|---|---|---|
| Overall | 76% | 3% | 21% |
| National | 78% | 0% | 22% |
| Regional | 70% | 8% | 22% |
| Community | 82% | 0% | 18% |
| Other | 75% | 0% | 25% |

This survey was conducted in October 2018, after the Federal Reserve Board's September rate increase to 2.25 percent. 76 percent of respondents predicted that interest rates/debt pricing would continue to rise throughout the remainder of 2018. That prediction rang true with the Federal Reserve Board's Dec. 19, 2018 quarter-point rate increase (after it kept rates flat in November 2018).

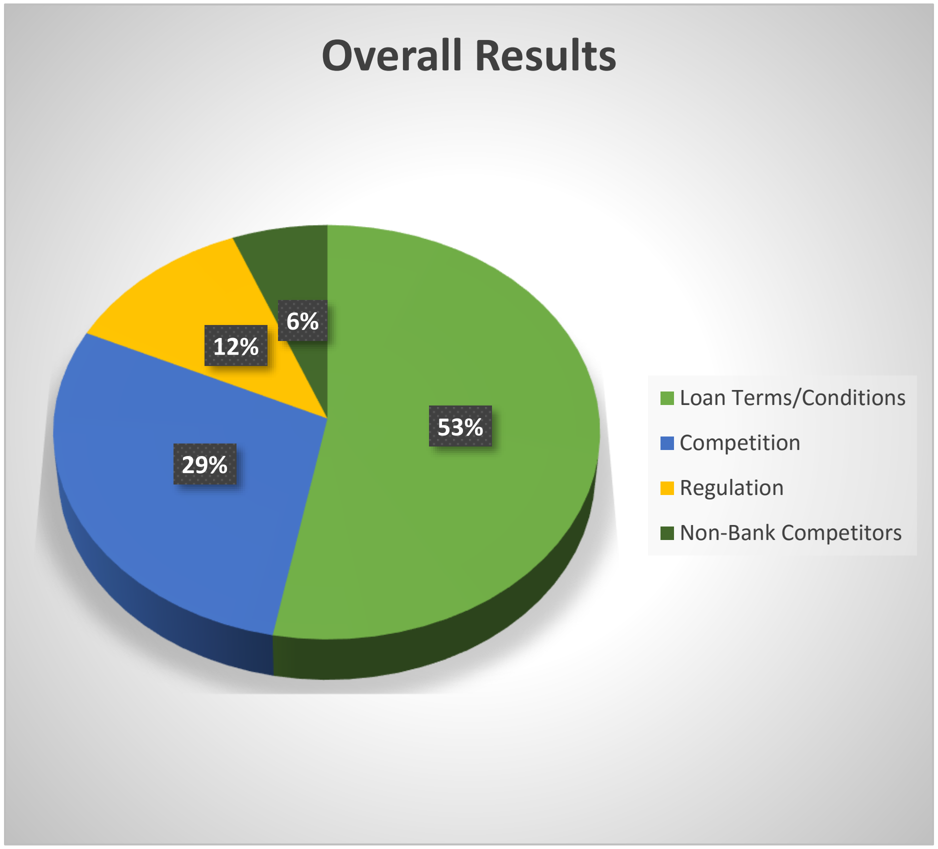
# 12. FULL RECOURSE REQUIREMENTS

**Do you think that banks are now trending toward requiring full recourse? If so, do you think that becomes a deciding factor in winning the business?**




Overall, our lender respondents do not see a trend towards more full recourse deals. Nonetheless, 87 percent do feel it is a deciding factor in winning business.

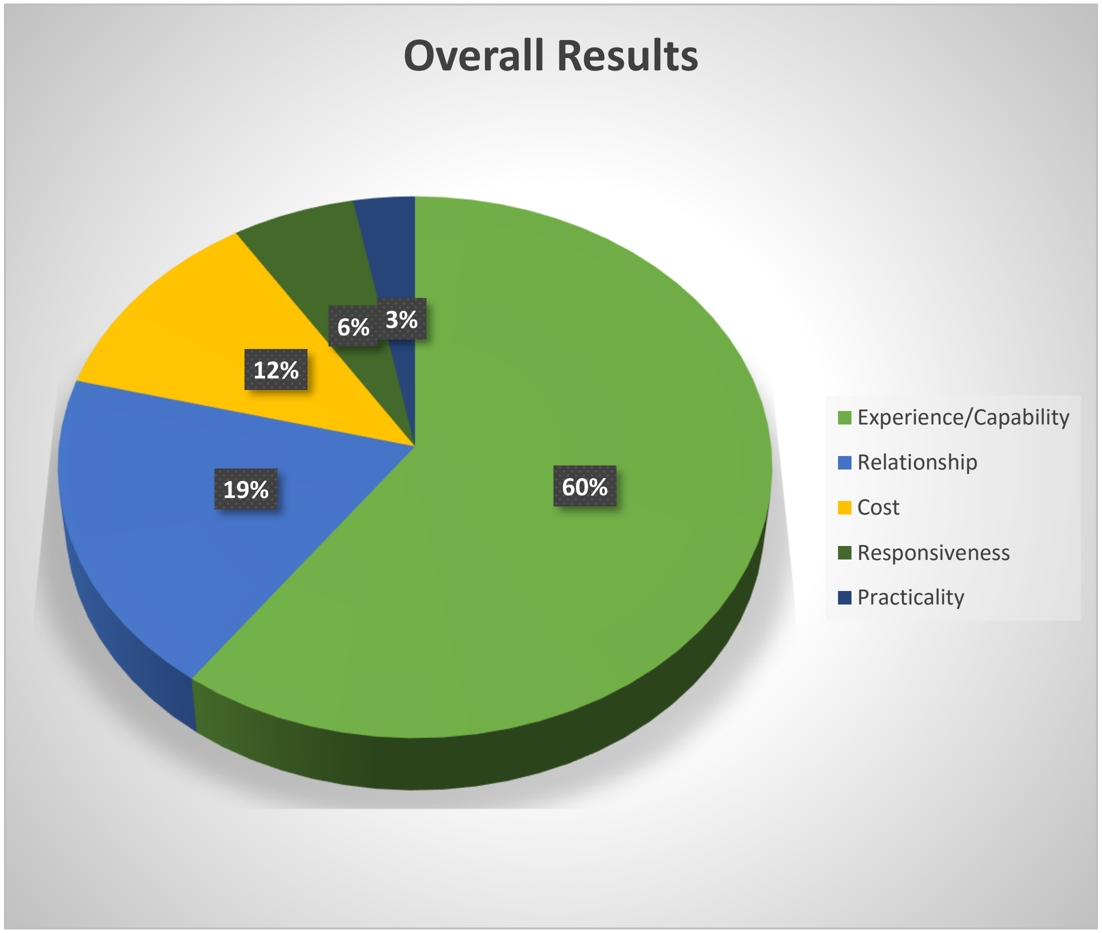
## If there was one thing that you could change with respect to middle market lending, what would that be?




There were a wide array of answers to this open-ended question. We grouped the responses into four broad categories: Competition, Loan Terms/Conditions, Non-Bank Competitors and Regulation.

Fifty-three percent of our respondents identified Loan Terms/Conditions as the area they would most want to change (considering them currently too onerous). However, we also saw a noticeable concern for Regulation among national banker respondents.

## When selecting outside counsel to document, negotiate and close a loan, what factor is the most important?




By a wide margin, respondents picked Experience / Capability as the most important factor in selecting outside counsel, with Relationship and Cost as a distant second and third, respectively.

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## 2018 GREATER WASHINGTON MIDDLE MARKET BANKER SURVEY SPONSORS


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