

CRE Credit Market & Interest Rates

JANUARY 11, 2024



What is a banker's favorite
Christmas season movie?

Answer



Answer



Who is Fremont Bank?

We are active members of the communities we serve

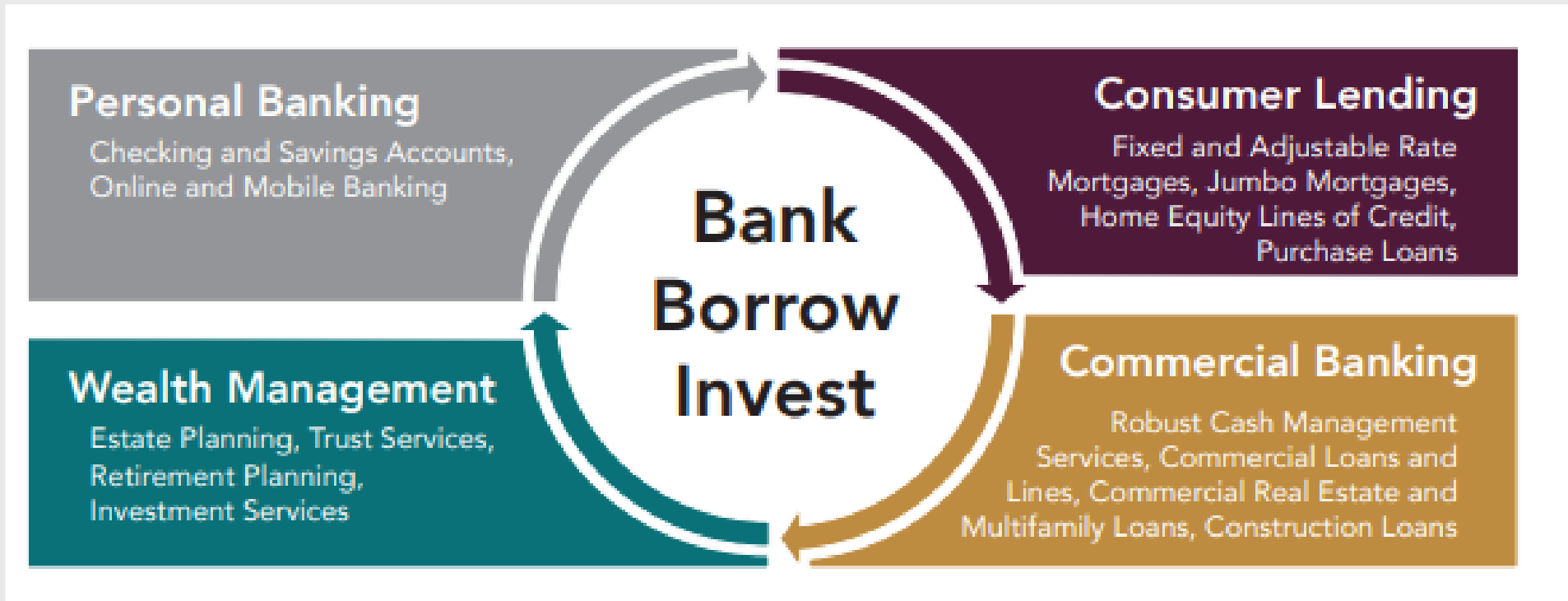
We are agile, responsive, and we provide customized service

Our hospitality mindset elevates the client experience

We build long term internal and external relationships



We are a full-service bank



\$5.5B in Assets, 21 Branches, Founded in 1964

2023 Banking & Finance Lookback

THE WALL STREET JOURNAL

January 2, 2023

Big Banks Predict Recession, Fed Pivot in 2023

More than two-thirds of economists at 23 major financial institutions expect the U.S. to have a downturn this year

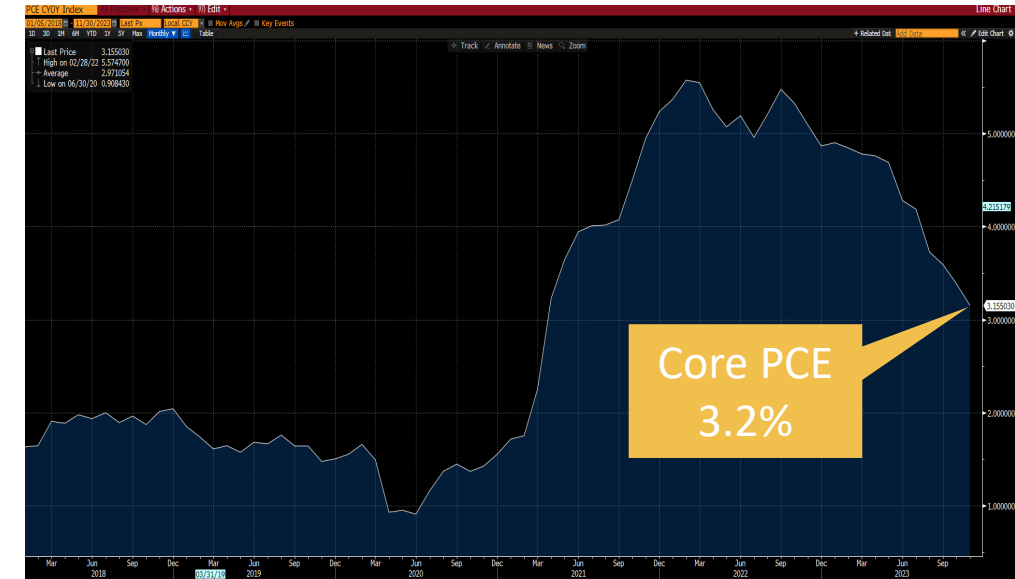
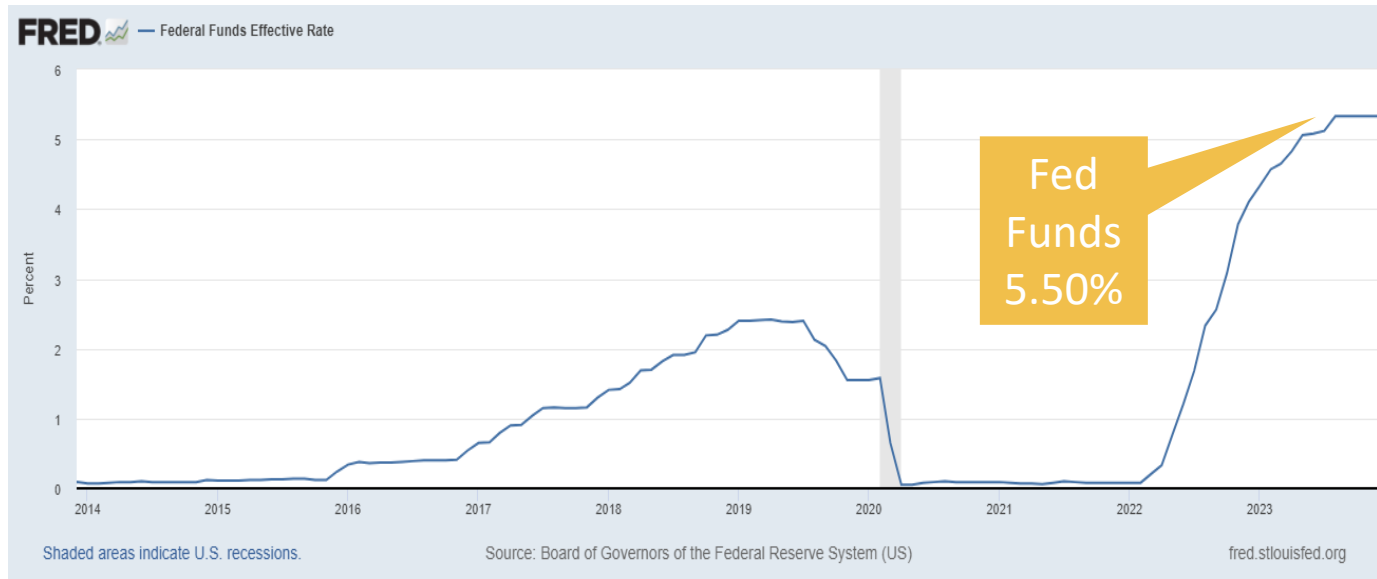
“Most of the economists...expect the higher rates will push unemployment...to above 5%...”

“Fed will raise interest rates in the first quarter, pause in the second and begin cutting rates in the third or fourth quarter.”

“They expect increased volatility to the stock market but overall deliver middling returns.”

2023 Banking & Finance Lookback

- Federal Open Market Committee (FOMC) raised rates 4 out of it's 8 meetings
 - Fed Funds Rate is 5.50%, up 100 bps since Jan 1, 2023
 - Last three meetings since September, Fed has held
- 2023 was a banner year for equities
 - S&P up 23%
 - Nasdaq up 45%
 - Unemployment held at 3.7%

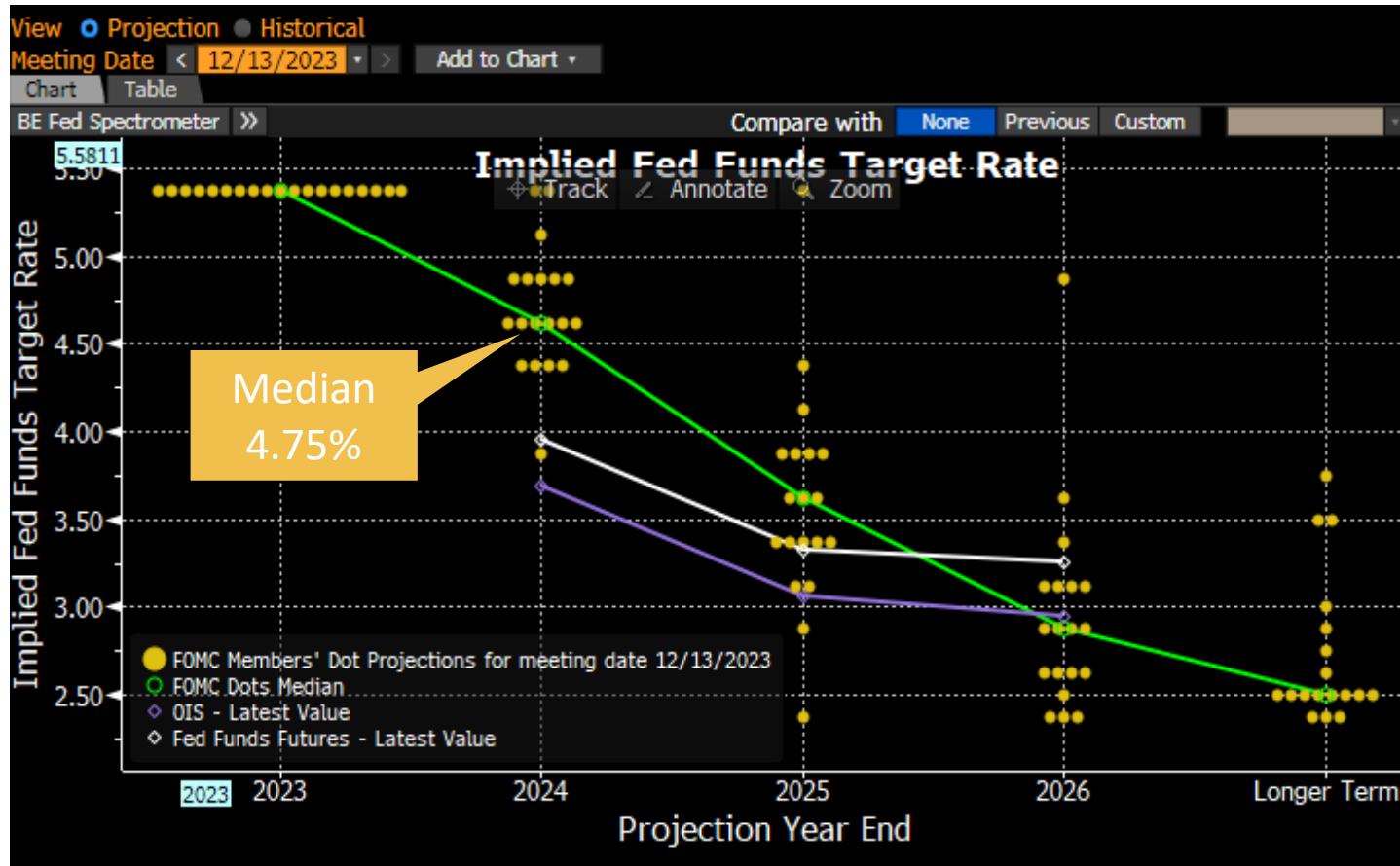


2023 Banking & Finance Lookback

5 Year SOFR Swap Rate – One Year Lookback as of 1/10 (3.10% to 4.70%)



2024 – Thoughts on the Year (NOT a Prediction)



The “Dot Plot”

Rates down 0.75% by end of 2024

The “Market”

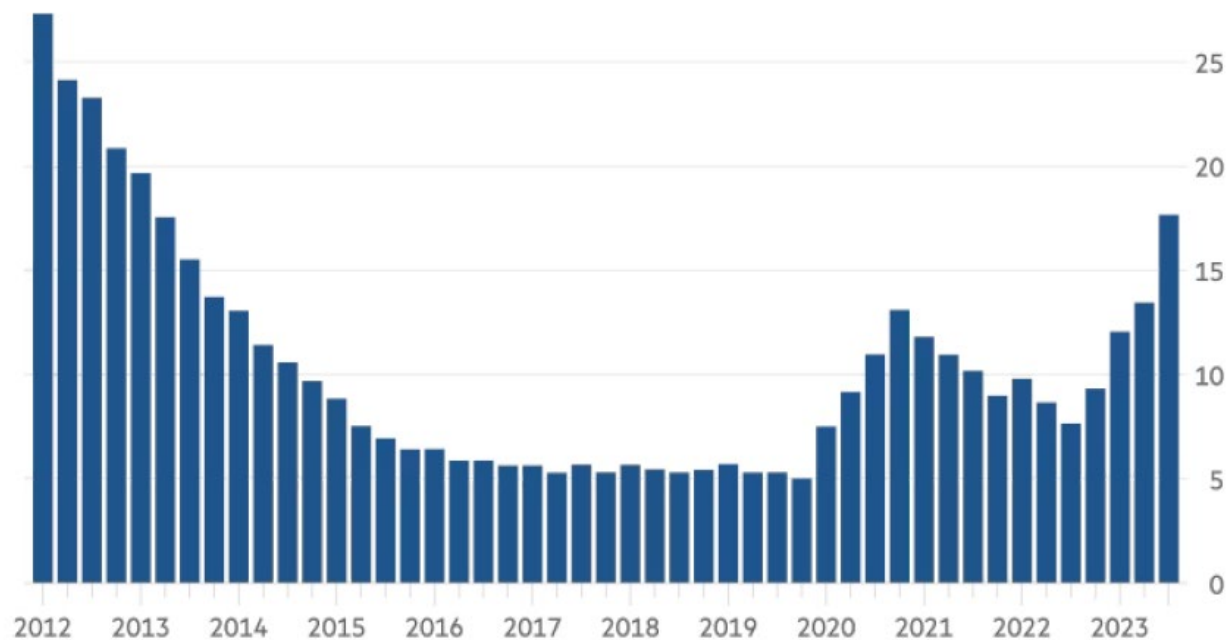
Rates down 1.4% by end of 2024

- Inflation seems to be tempering
- Employment is still resilient

But are credit issues looming, especially in the office sector?

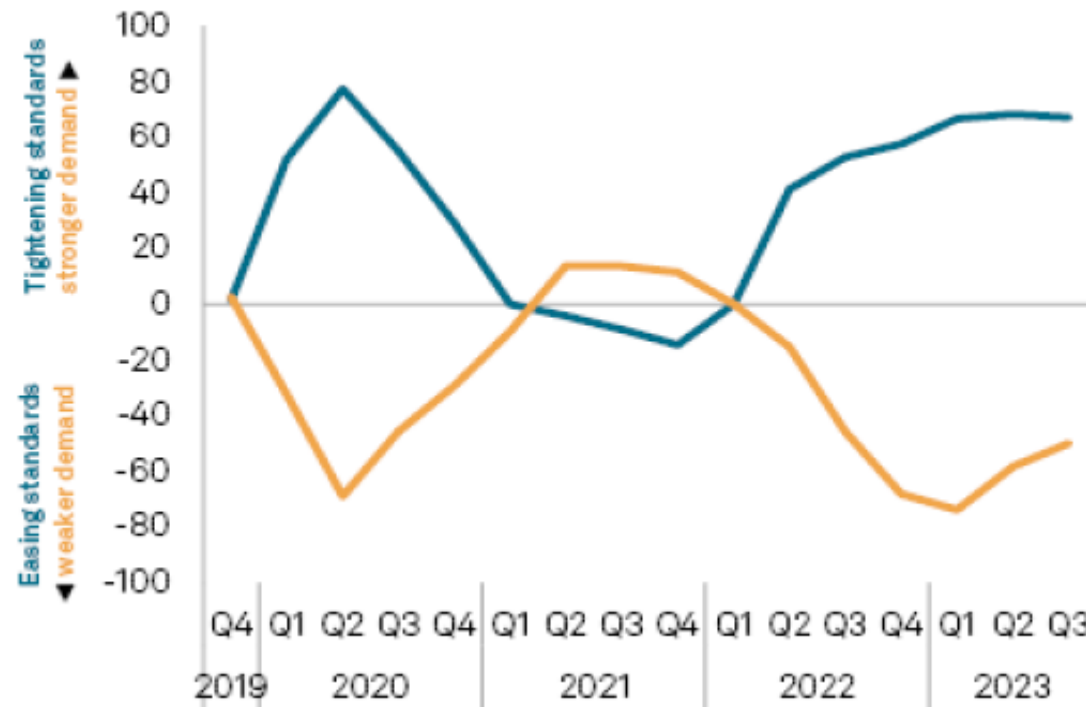
CRE delinquencies increasing, credit still tight

CRE delinquencies of non-owner occupied property loans (\$bn)



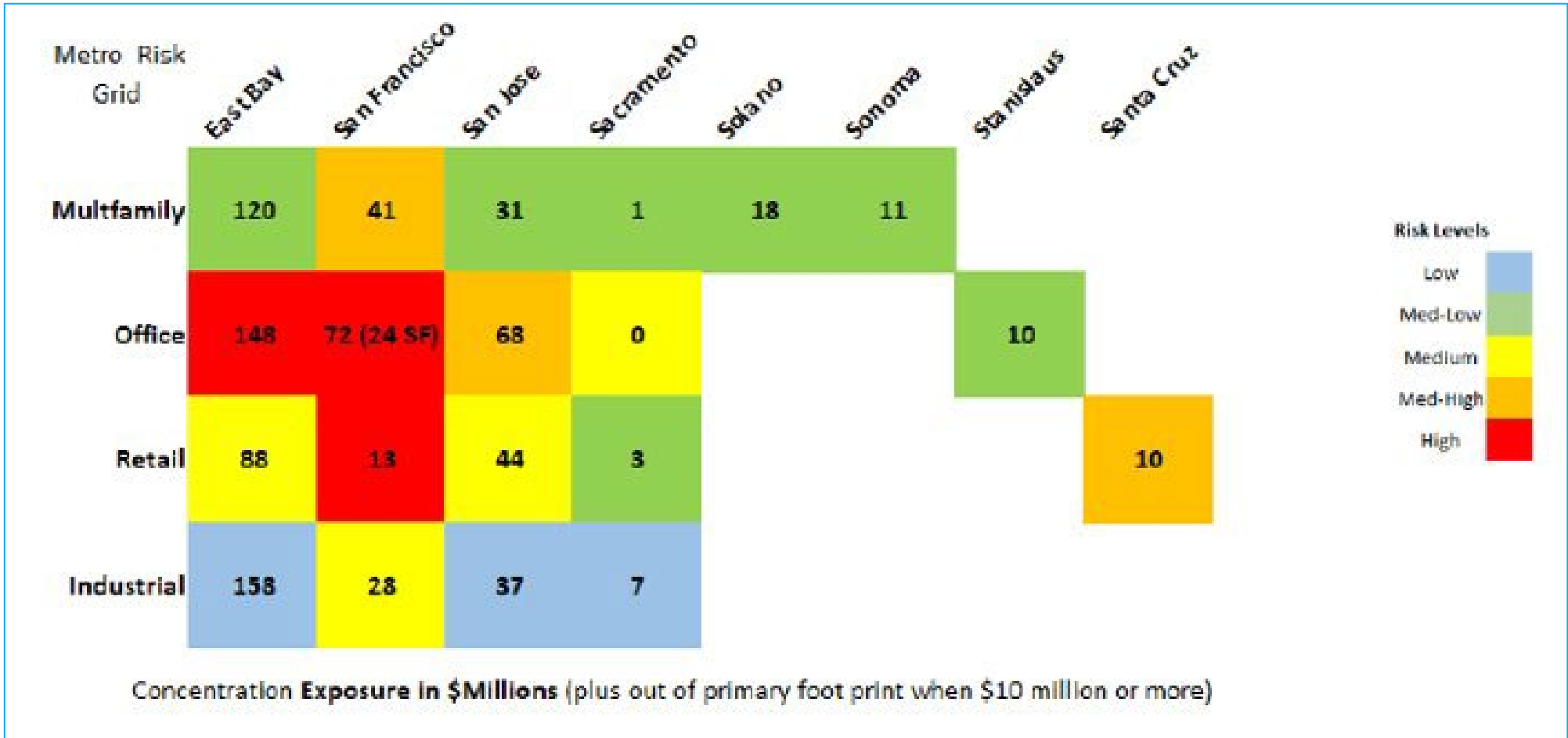
Source: BankRegData
© FT

CRE, secured by nonfarm nonresidential structures



Source: S&P Global, Capital IQ

Banks are enhancing their credit review & analysis



Look for hot spots, know your client, update building values

Optimizing or rationalizing our portfolios

Example "A"

Collateral: **R&D Building**
Loan Balance: **\$3.2MM**
Original LTV & DSCR: **50% / 1.45x (2016)**
Current LTV & DSCR: **44% / 2.15x**
Original Rate: **3.79%**
Variable Rate: **7.76% (105% increase)**

Modified Terms: Rate: **6.50%**
 Term: **~3 YRS**
 Pre-Pay: **3,2,1**

KEEP



Example "B"

Collateral: **Single-Tenant Retail**
Loan Balance: **\$1.9MM**
Original LTV & DSCR: **46% / 1.60x (2014)**
Current LTV & DSCR: **36% / 1.36x**
Original Rate: **3.67%**
Variable Rate: **8.21% (124% increase)**

Strategy:

- "Do Nothing" - Leave at variable rate

EXIT



Questions?

