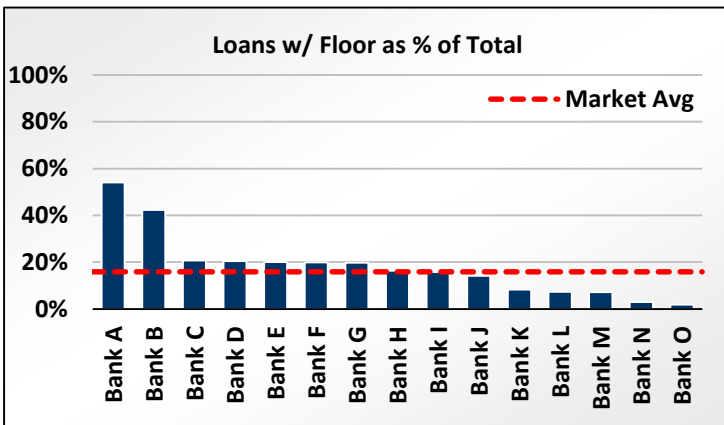


How Prominent are Interest Rate Floors in Commercial Lending?

June 2020

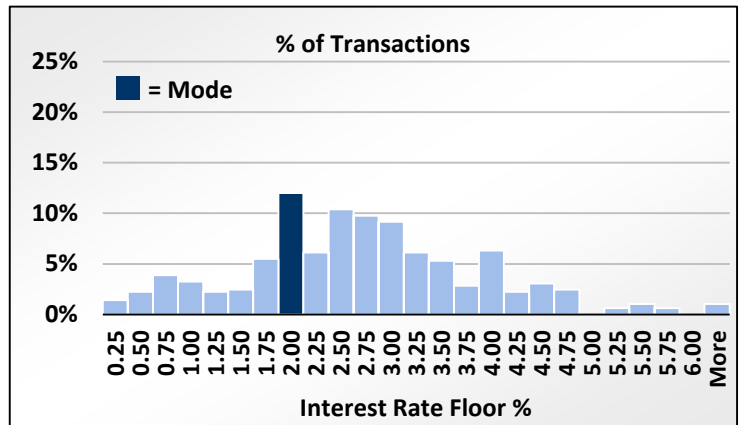
Once interest rates fell so precipitously in March, the discussion around the use of interest rate floors in commercial lending took center stage at many banks. In recent months, many banks have taken steps to hedge interest income by implementing interest rate floors for new originations as well as renewals. AFS Business Intelligence shows a clear uptick in the incidence of interest rate floors in commercial lending for both LIBOR- and Prime-based deals.

LIBOR-Based Loans – May 2020



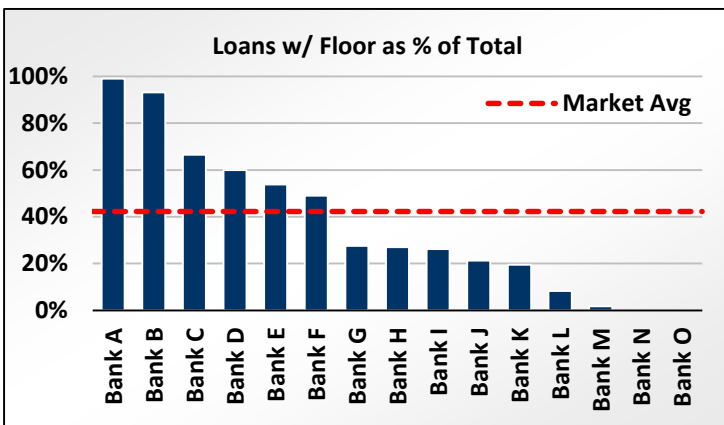
Comparing May 2020 activity to April 2020, the percentage of new and renewed LIBOR-based loans priced with a floor increased 60%. 16% of the new and renewed LIBOR loans made in May had an interest rate floor, up from 10% in April. As shown by this chart, the use of floors varies widely across the market.

LIBOR-Based Floor Frequency – May 2020



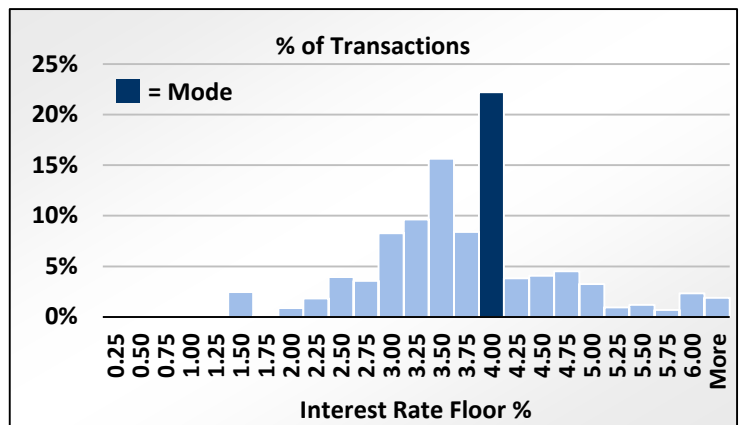
For the May 2020 volume, the most common floor value for LIBOR loans was 200 basis points. While the mode LIBOR floor value was 200 basis points, transactional floor values were distributed across a fairly broad range of values. Approximately half of the observations fell between 200 and 350 basis points.

Prime-Based Loans – May 2020



The use of floors is currently far more prevalent in Prime-based lending. 42% of new/renewed, Prime-based loans in May had a floor, up from 39% in April. 63% of the May 2020 loans with a floor were booked at the actual floor rate.

Prime-Based Floor Frequency – May 2020



For the May 2020 deal flow, the most common floor value for Prime loans was 400 basis points. 22% of the new and renewed deal activity has a Prime floor of 400 basis points. Approximately 63% of the observations fell between 300 and 400 basis points.

Note: The bank ordering for the LIBOR charts is not necessarily the same ordering as that pictured for the Prime charts.

About AFS Business Intelligence

AFS is committed to helping banks navigate through uncertain times. Call us today to learn how our Business Intelligence Solutions can support your product management, reporting, and market benchmarking needs.

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