



Non-Bank Lending Market Perspective Q4 2020

Understanding the Alternative Lending Landscape

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CITATIONS:

Butler, Kelsey. "How Private Credit Soared to Fuel Private Equity Boom." Bloomberg.com, Bloomberg, 2019, www.bloomberg.com/news/articles/2019-09-22/how-private-credit-soared-to-fuel-private-equity-boom-quicktake

Federal Reserve Senior Loan Officer Survey, January 2021
<https://www.federalreserve.gov/data/sloos/sloos-202101.htm>

WHY ARE NON-BANKS IMPORTANT?

Over the past ten years, non-bank lending has risen to prominence, growing to 1/3 of the \$3 trillion credit market for corporate borrowers. They have increased the spectrum of loan structures and options available to corporate borrowers. They have done this while also reducing systemic risk within the broader economy by lending capital provided by accredited investors rather than lending out retail deposits from individuals.

What drove growth of Non-Bank Lending Institutions?

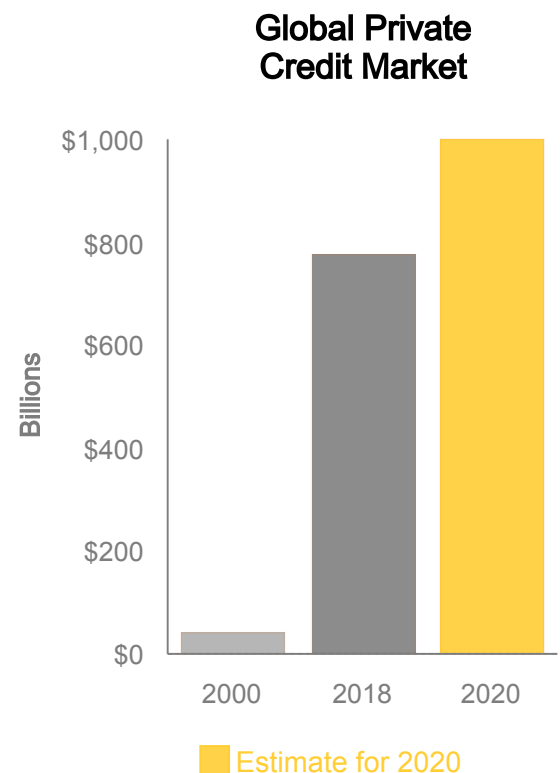
After the financial crisis abated, traditional banks faced increased regulatory scrutiny that resulted in tighter lending criteria. Credit committees declined more borrowers and reduced lending limits. Gone were the days when a long standing relationship could tip the scales for companies who were just outside the bank lending criteria. Many mid-market companies that were still performing well were left asking where to turn. Over the past decade, the vacuum created in the market was filled by a proliferation of non-bank lending. With an ability to provide credit in structures and amounts that traditional banks could not, these lenders experienced strong demand from well-performing firms willing to pay higher interest rates to ensure access to capital.

What helped alternative credit supply?

This demand was met by a strong supply of investment capital from institutional investors like pension funds and insurance companies. To help the economy recover faster, the Federal Reserve introduced an explicit policy of providing liquidity to credit-sensitive products. This reduced the yield on traditional fixed income assets like treasuries and resulted in billions of dollars migrating to higher yield investments like direct lending.

In just the past two decades, “[global] private credit, which includes distressed debt and venture financing, has ballooned from \$42.4 billion in 2000 to \$776.9 billion in 2018. By one estimate, the total is likely to top \$1 trillion in 2020.”

- Bloomberg (Butler), September 2019



NON-BANK LENDING MARKET PERSPECTIVE Q4 2020

“Top middle-market CFOs should be regularly evaluating the expanding universe of corporate lenders, especially in times of economic volatility.”

- Matthew Bjonerud, CEO, Cerebro Capital

Cerebro Capital connects mid-market borrowers to a breadth of lending options across commercial bank and non-bank lending institutions. While commercial bank lending has been tracked over the past 25 years by the Federal Reserve, non-bank lending credit markets are not studied as consistently as commercial banks, leading to opacity in the alternative lending market. Cerebro launched a quarterly survey of non-bank lending activity for middle market commercial and industrial (C&I) loans that illustrates the perspectives of private credit lenders, also known as alternative lenders.

About the Survey

The survey included non-bank lending partners nationally and was conducted by Cerebro as a complement to the Federal Reserve’s Senior Loan Officer Opinion Survey on Bank Lending Practices, also released quarterly. Cerebro hopes to shed light on this \$1 trillion industry that is now approaching one-third the size of commercial bank lending. Furthermore, our findings provide insights on the impact that the current economic environment is having on lending markets.

COMMON TYPES OF NON-BANK LENDERS

VENTURE DEBT FUNDS

ASSET-BASED LENDERS

MEZZANINE FUNDS

SBICS & BDCS

PRIVATE DEBT FUNDS

Non-bank lenders from Cerebro Capital’s lender network were surveyed in January 2021 about the previous quarter and future outlook for C&I loans.

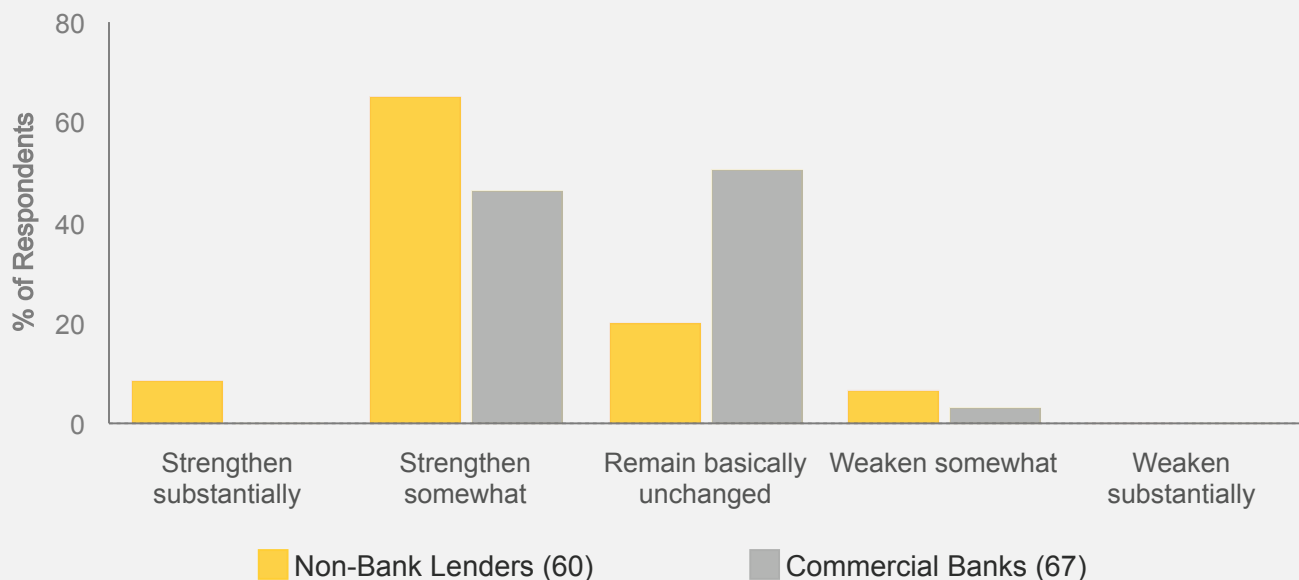
Participating lenders represented over \$335 billion in combined assets managed, with a primary lending focus of loan sizes from \$2 million to \$100 million. Participants included some of the oldest and largest non-bank lenders in the U.S., and both private and publicly traded firms.

NON-BANK LENDING KEY FINDINGS

Borrower demand for non-bank alternatives is expected to strengthen in 2021.

73% of non-bank lenders expect loan demand to strengthen over the coming months, while only 46% of commercial banks anticipate increased borrower demand.

Over the next 12 months, how do you expect demand for C&I loans from your lending institution to change compared to its current level, apart from normal seasonal variation?



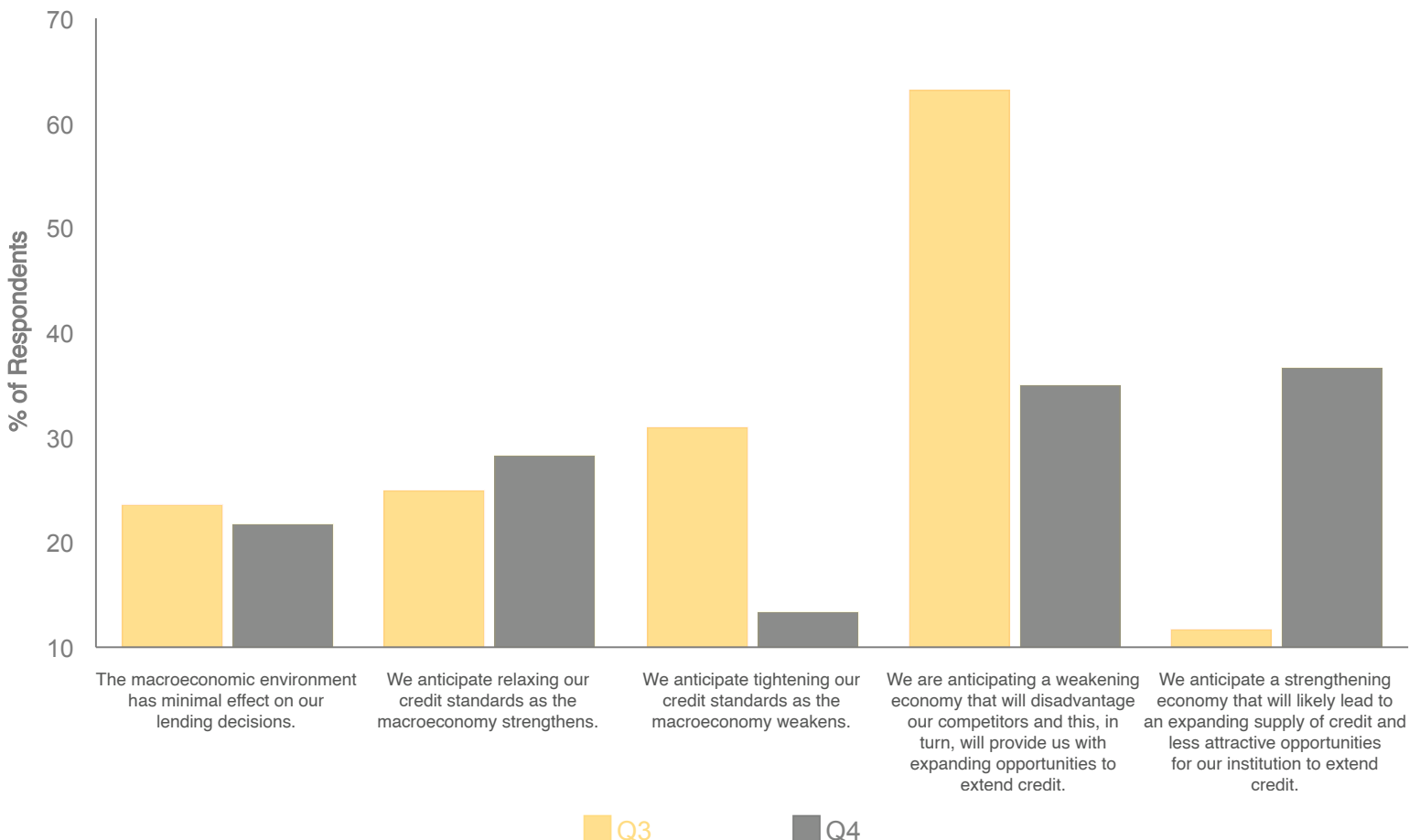
Non-Bank Lender Survey conducted by Cerebro Capital in January, 2021. Commercial Bank data is sourced from the Federal Reserve Senior Loan Officer Survey, January 2021

NON-BANK LENDING KEY FINDINGS

Shifting macroeconomic conditions are changing perceptions of lending impacts for non-bank lenders.

While 63% of non-bank lenders in Q3 anticipated a weakening economy that would provide more opportunities for them to lend, Q4 data shows that competition for borrowers may increase as the economy strengthens.

Looking ahead over the next 12 months, how are changes in the macroeconomy likely to impact your lending business? Please check all that you feel apply:



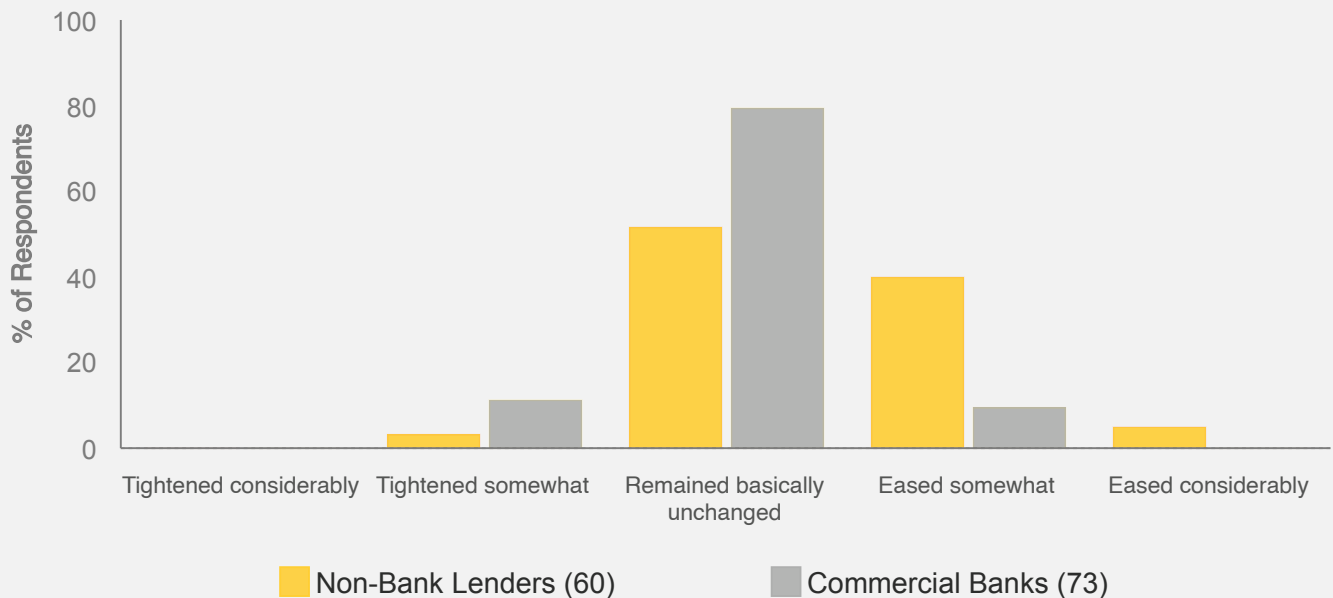
Non-Bank Lender Survey conducted by Cerebro Capital in January, 2021. Commercial Bank data is sourced from the Federal Reserve Senior Loan Officer Survey, January 2021

NON-BANK LENDING KEY FINDINGS

Alternative lenders are more likely to project easing lender standards this year when compared to banks.

40% of non-bank lenders anticipate easing lending standards in the next 12 months, while the vast majority of bank lenders expect standards to remain the same over the course of the year.

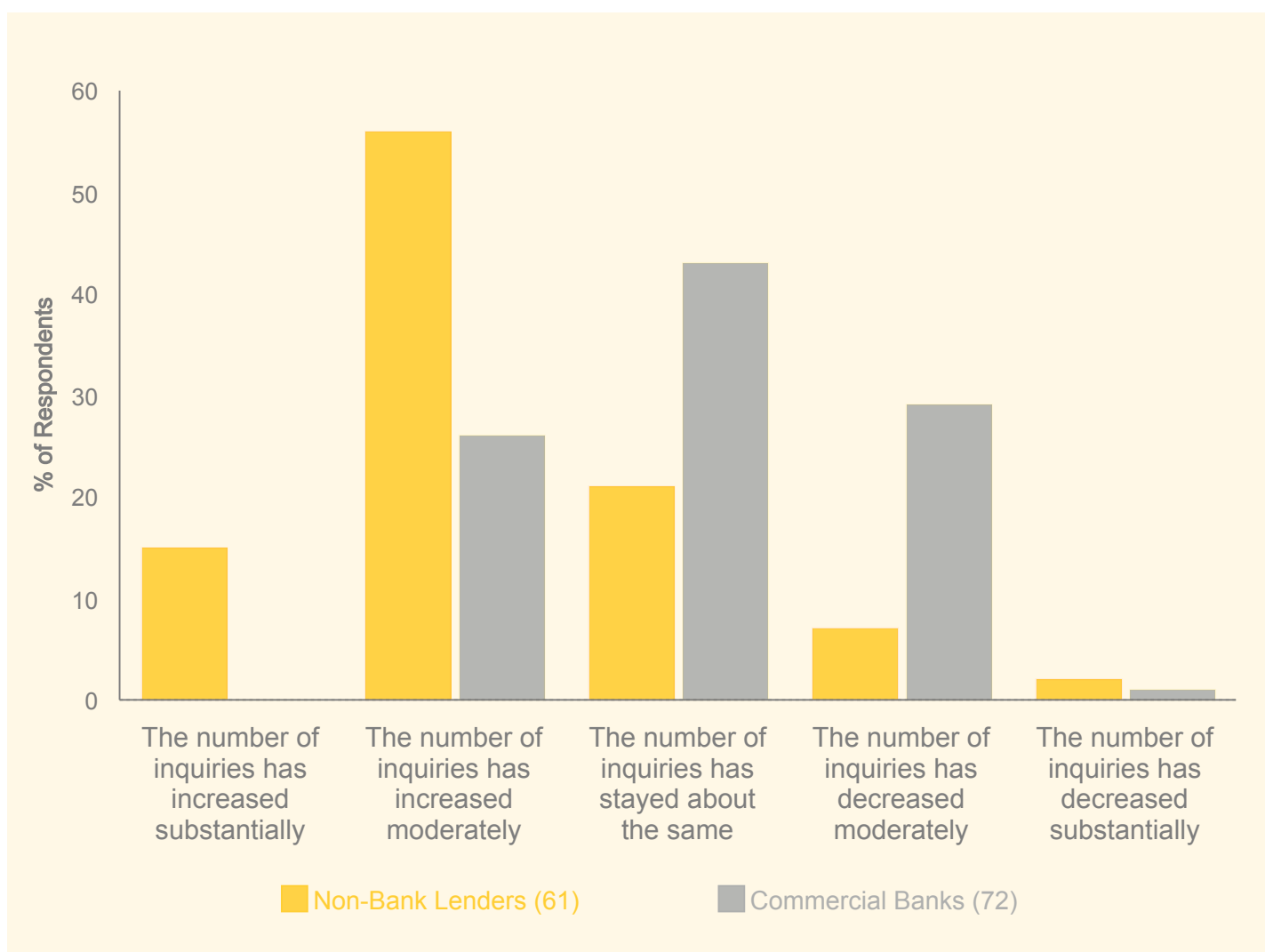
How do you anticipate lending standards for C&I loans at your lending institution to change over the next 12 months, compared to its current standards, apart from normal seasonal variation?



Q4 2020 ADDITIONAL FINDINGS

Looking back over the past three months, how has the number of inquiries from potential corporate borrowers regarding the availability and terms of new credit lines or increases in existing lines changed?

Over 70% of non-bank lenders indicated an increase in the number of inquiries from borrowers seeking new credit.



Non-Bank Lender Survey conducted by Cerebro Capital in January, 2021. Commercial Bank data is sourced from the Federal Reserve Senior Loan Officer Survey, January 2021

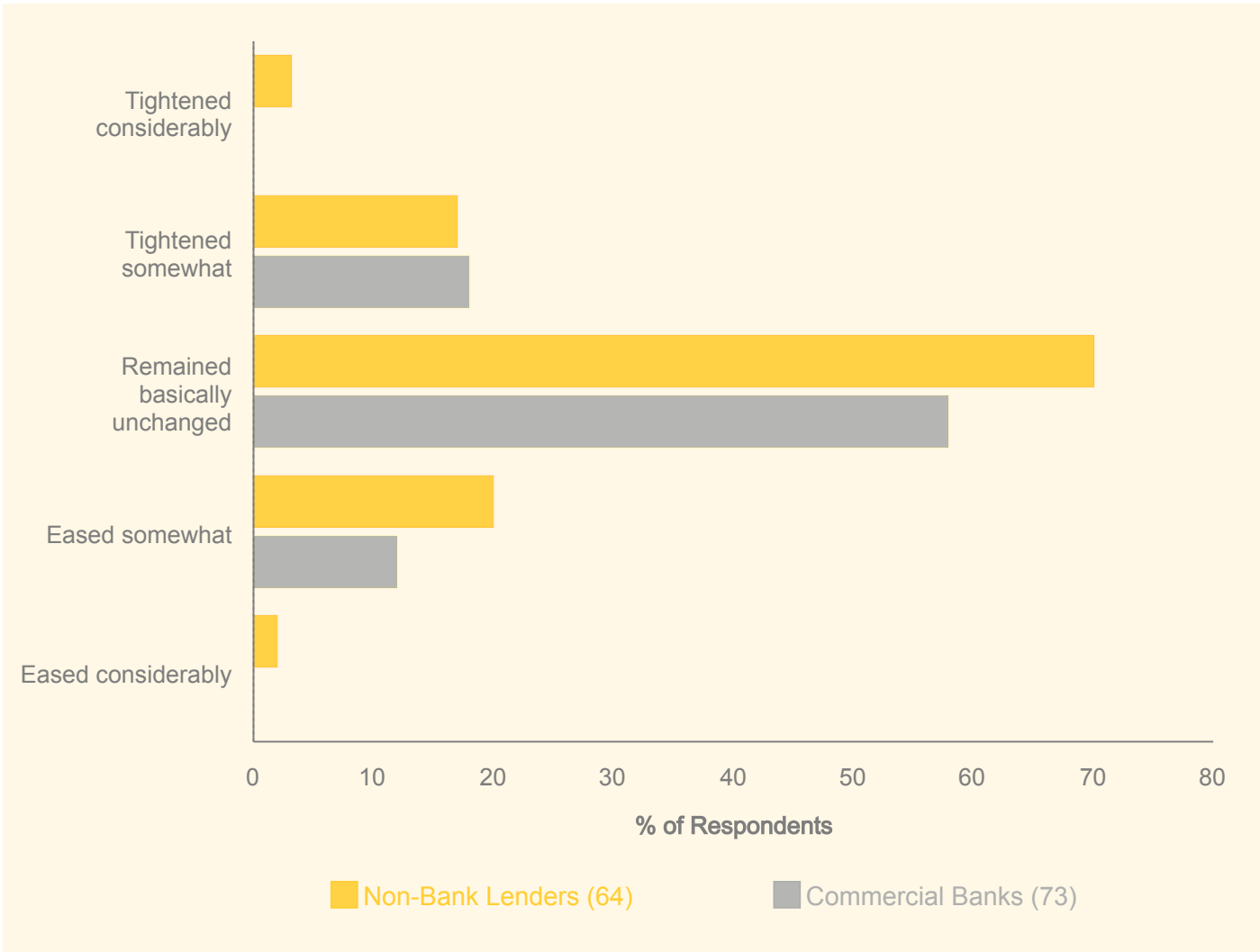
Corresponding Federal Reserve Question

"At your bank, apart from seasonal variation, how has the number of inquiries from potential business borrowers regarding the availability and terms of new credit lines or increases in existing lines changed over the past three months? (Please consider only inquiries for additional or increased C&I lines as opposed to the refinancing of existing loans.)"

Q4 2020 ADDITIONAL FINDINGS

Looking back over the past three months, how have your lending institution's credit standards changed for C&I loans?

Non-bank lenders that are easing standards indicated that a more favorable economic outlook along with an increased tolerance for risk are the top reasons contributing to this position.



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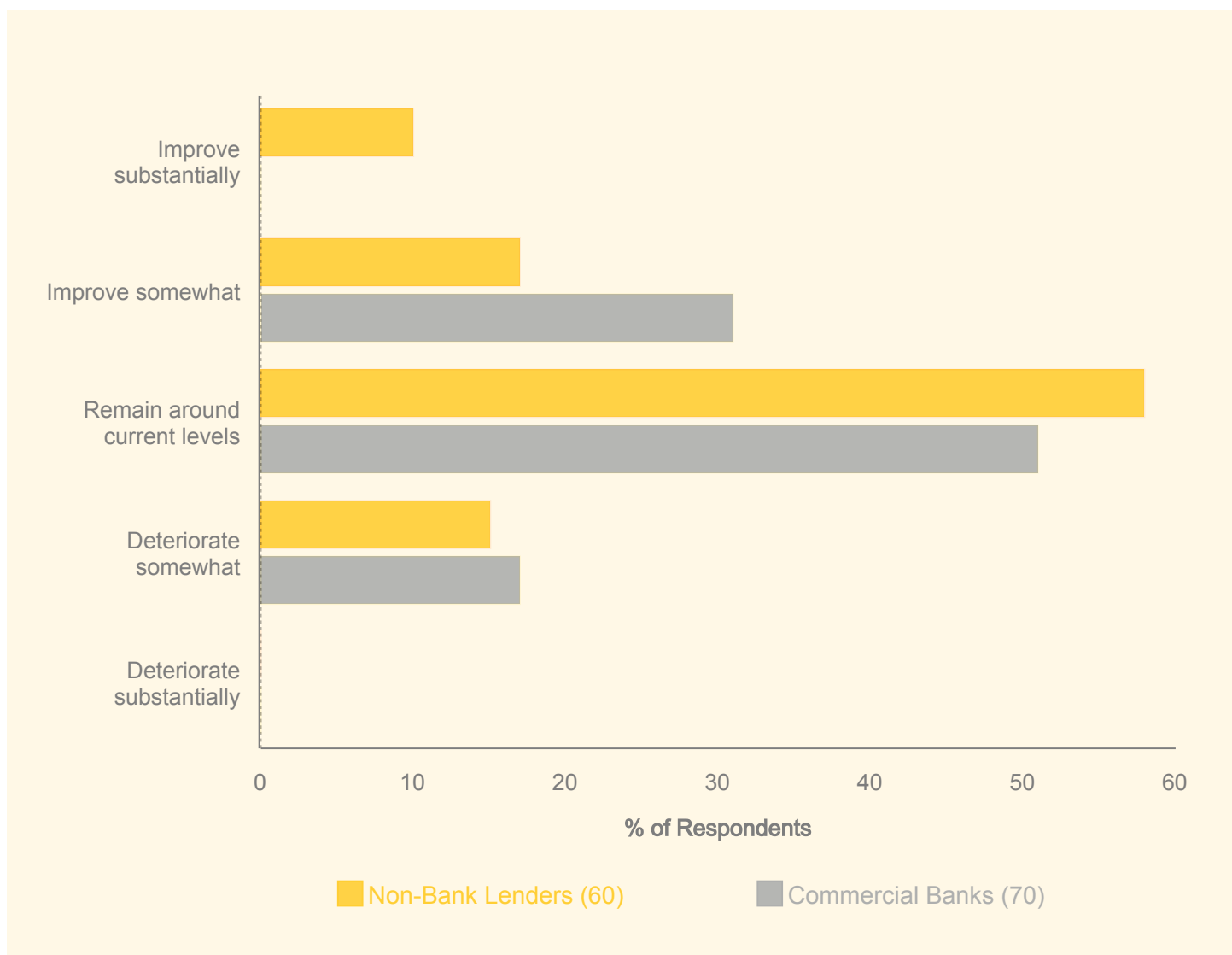
Corresponding Federal Reserve Question

"Over the past three months, how have your bank's credit standards for approving applications for C&I loans or credit lines—other than those to be used to finance mergers and acquisitions—to large and middle-market firms and to small firms changed?"

Q4 2020 ADDITIONAL FINDINGS

Over the next 12 months, what is your outlook for delinquencies and charge-offs on your lending institution's C&I loans?

More commercial banks than non-bank lenders expect loan delinquencies and charge-offs to improve in 2021.



Non-Bank Lender Survey conducted by Cerebro Capital in January, 2021. Commercial Bank data is sourced from the Federal Reserve Senior Loan Officer Survey, January 2021

Corresponding Federal Reserve Question

"Assuming that economic activity progresses in line with consensus forecasts, what is your outlook for delinquencies and charge-offs on your bank's C&I loans in the following categories in 2021? C. The quality of my bank's nonsyndicated C&I loans to large and middle-market firms over 2021, as measured by my bank's outlook for delinquencies and charge-offs on these loans, is likely to:"

ABOUT CEREBRO CAPITAL

Debt Placement Innovated

Cerebro Capital offers the only data-driven matching algorithm for middle-market corporate borrowers and commercial lenders. Combining the power of technology, streamlined processes, and transactions team expertise, Cerebro offers the greatest certainty that your company will find the right lending partner in the market.

Benefits of the platform include:



**800+ BANK & NON-BANK
LENDERS**



**MATCHING
ALGORITHMS**



**MANAGED RFP
PROCESS**



**CONFIDENTIALITY & DATA
SECURITY**



**TRANSACTION & LOAN
EXPERTS**



**SUCCESS-BASED
FEE MODEL**

Powered by over 800 bank and non-bank lenders, Cerebro Capital is a data-driven platform purposefully designed to democratize access to credit markets by connecting corporate borrowers and lenders to source corporate loans ranging from \$2 million to \$100 million. Cerebro has created a holistic corporate loan management solution designed to revolutionize the way borrowers, lenders, intermediaries and stakeholders manage corporate debt. **[Contact Cerebro](#)**