# Non-Bank Lending Market Perspective Q1 2021

## Understanding the Alternative Lending Landscape

CEREBRO CAPITAL

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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, April 2021
https://www.federalreserve.gov/data/sloos/sloos-202104.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.

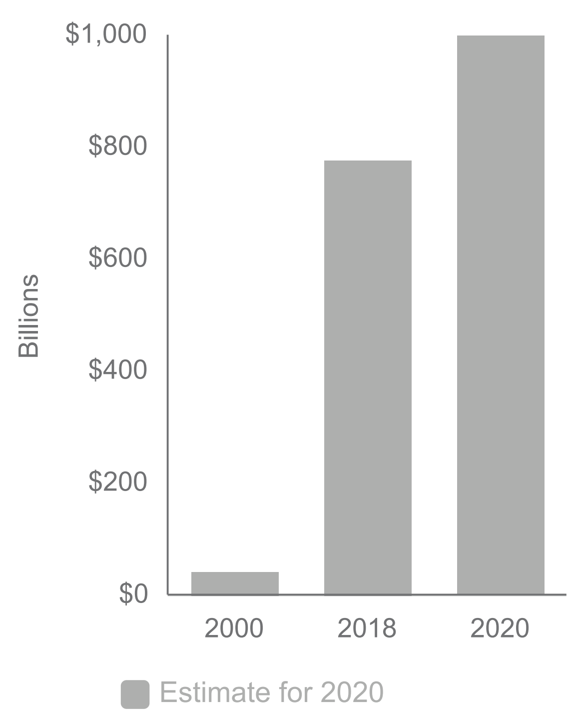
## What helped alternative credit supply?

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

**Global Private Credit Market**



# NON-BANK LENDING MARKET PERSPECTIVE Q1 2021

> **"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. Complete survey results can be found here.

## 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 April 2021 about the previous quarter and future outlook for C&I loans.

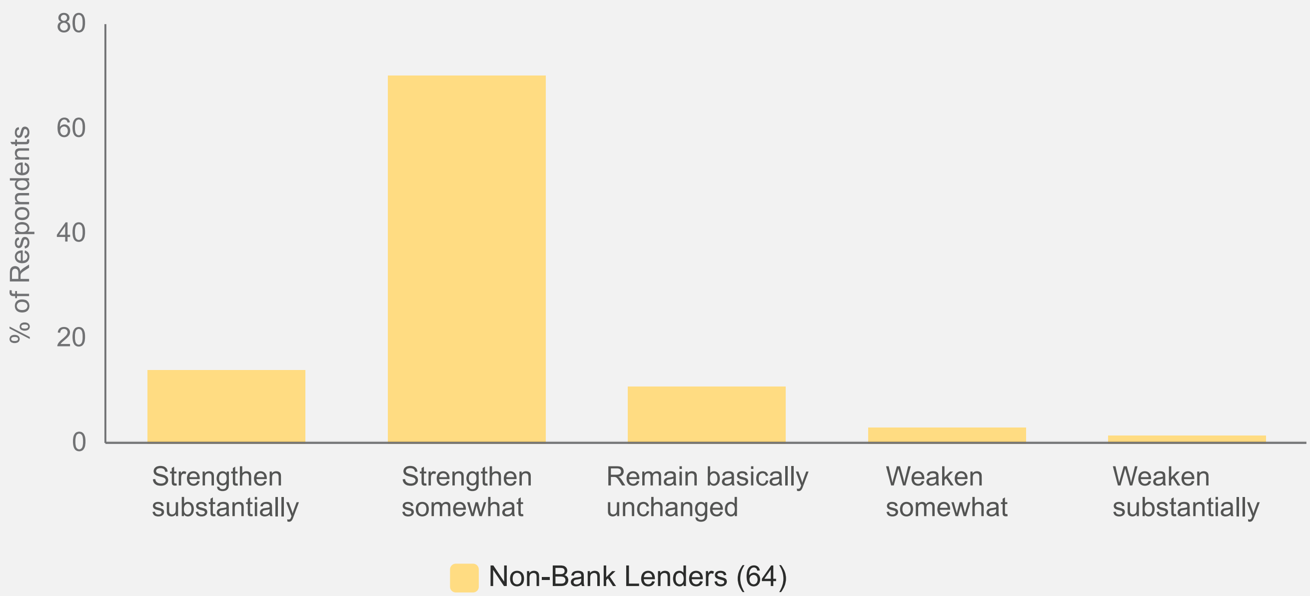
Participating lenders represented over $300 billion in combined assets managed, with a primary lending focus of loan sizes from $2 million to $100 million. Participants included some of the oldest and largest non-bank lenders in the U.S., and both private and publicly traded firms.

# NON-BANK LENDING KEY FINDINGS

## Borrower demand for non-bank alternatives continues to strengthen in 2021.

84% of non-bank lenders expect loan demand to strengthen over the coming months.

**Over the next 6 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?**



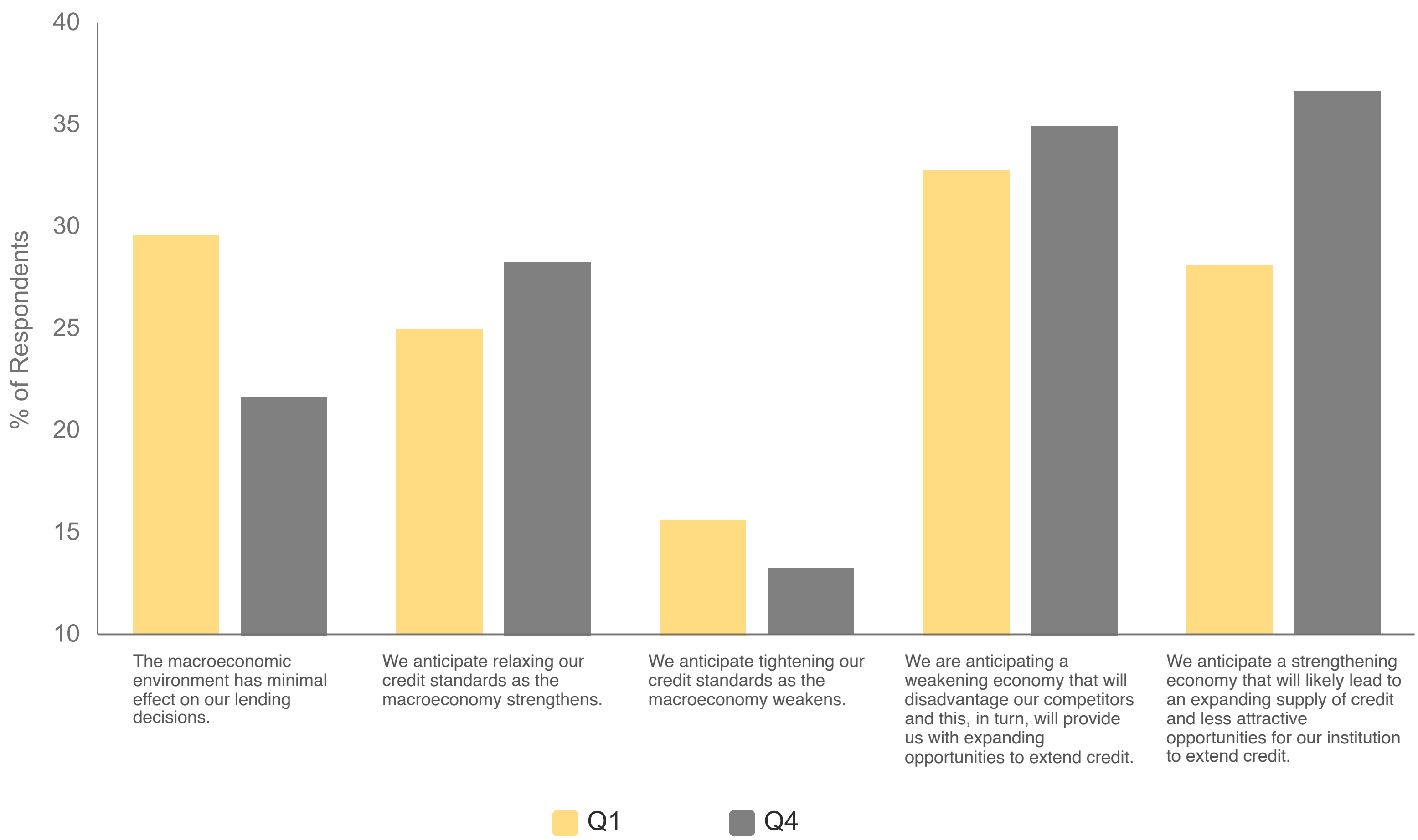

Non-Bank Lender Survey conducted by Cerebro Capital in April, 2021.

# NON-BANK LENDING KEY FINDINGS

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

A more neutral view on the economy has 30% of lenders showing little impact to their lending decisions, while 33% of alternative lenders are indicating that a continued weak economic environment has created more opportunities for them to extend credit.

**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:**

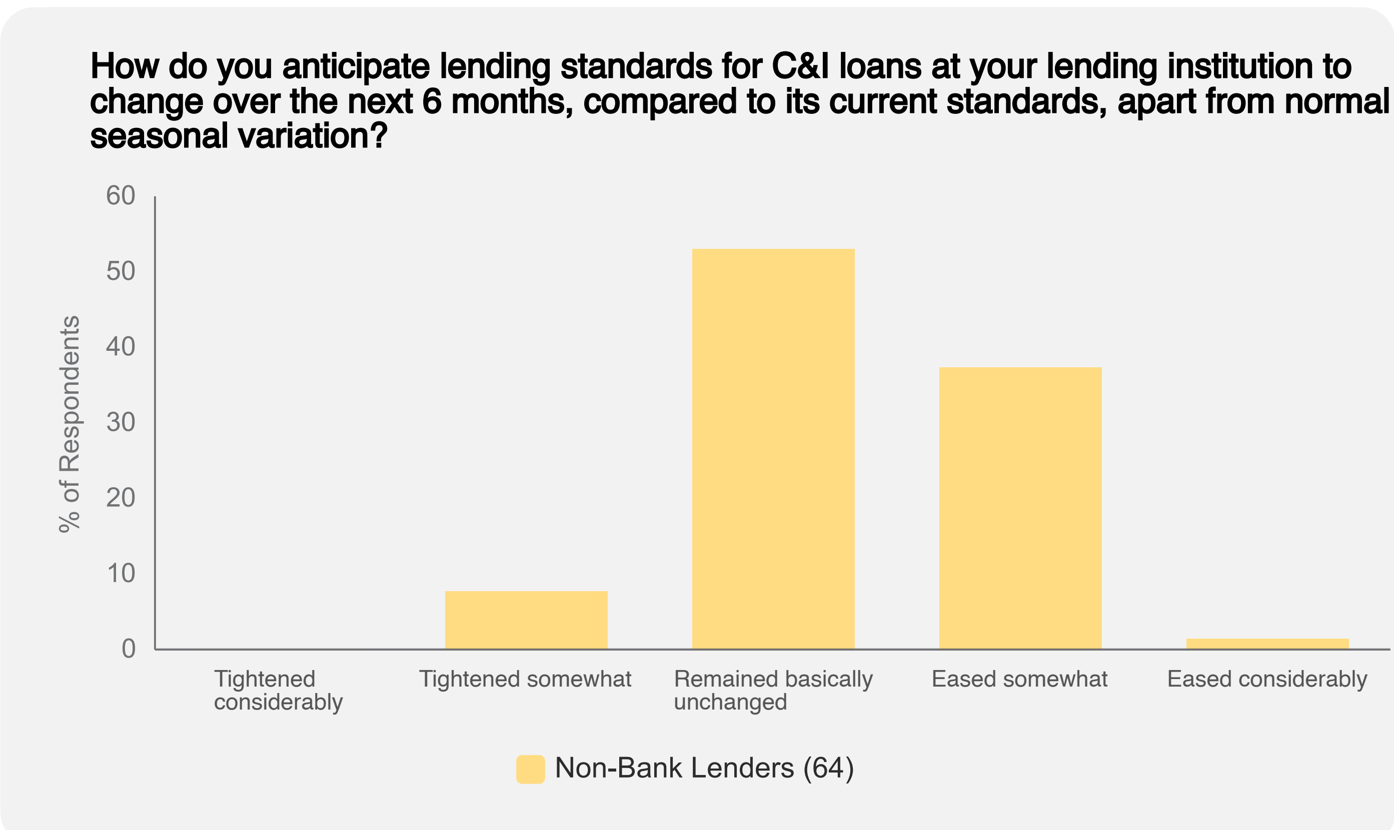



Non-Bank Lender Survey conducted by Cerebro Capital in April, 2021.

# NON-BANK LENDING KEY FINDINGS

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

Similar to 4Q20, 39% of non-bank lenders anticipate easing lending standards in the coming months, while the majority expect to standards to remain unchanged.

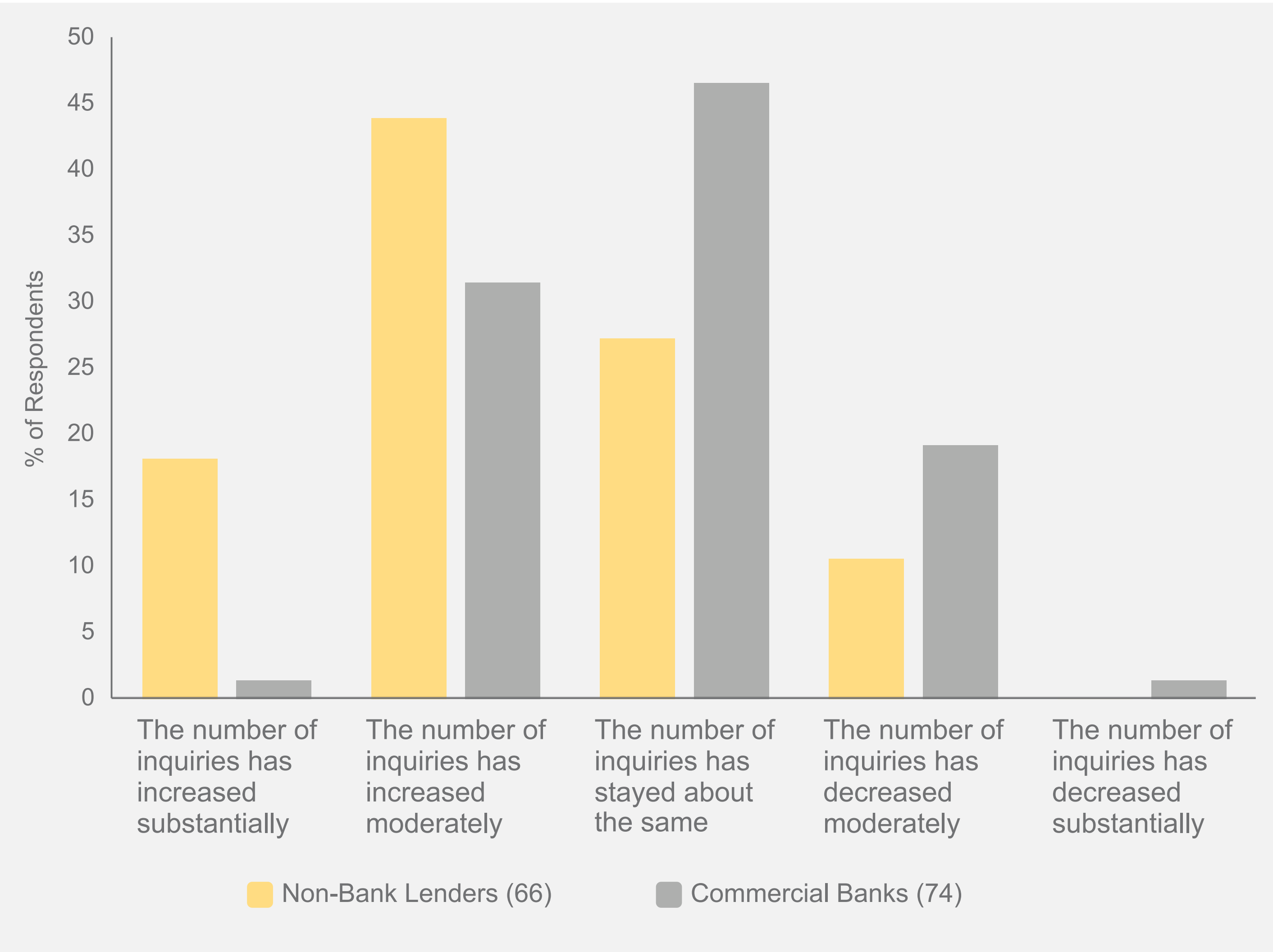



Non-Bank Lender Survey conducted by Cerebro Capital in April, 2021.

# Q1 2021 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 60% of non-bank lenders indicated an increase in the number of inquiries from borrowers seeking new credit, while only 40% of bank lenders saw the same increase in demand.




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

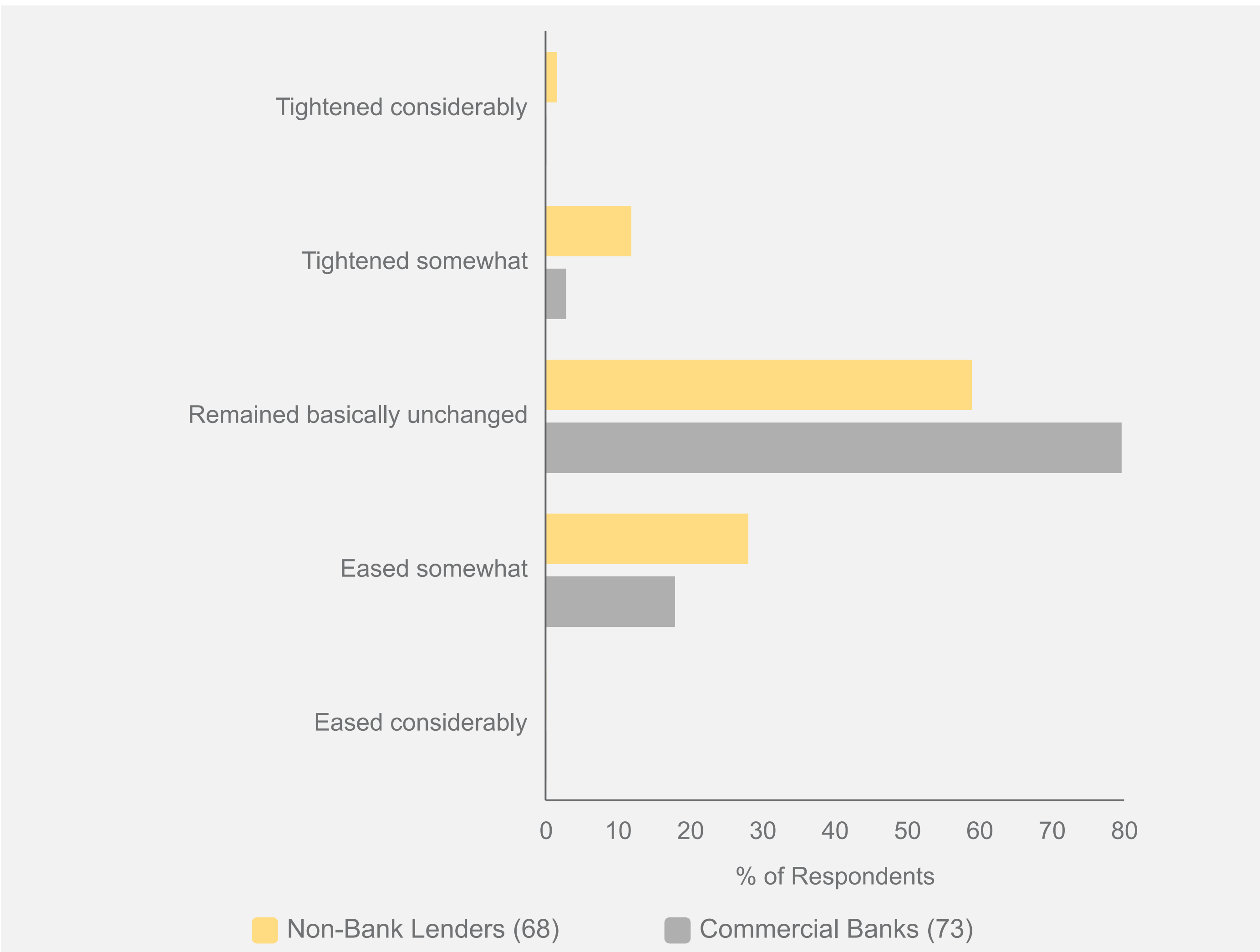
***Corresponding Federal Reserve Question***

"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.)"

# Q1 2021 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 more aggressive competition from other lenders, as well as improvement in industry-specific problems are contributing to these changes.




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

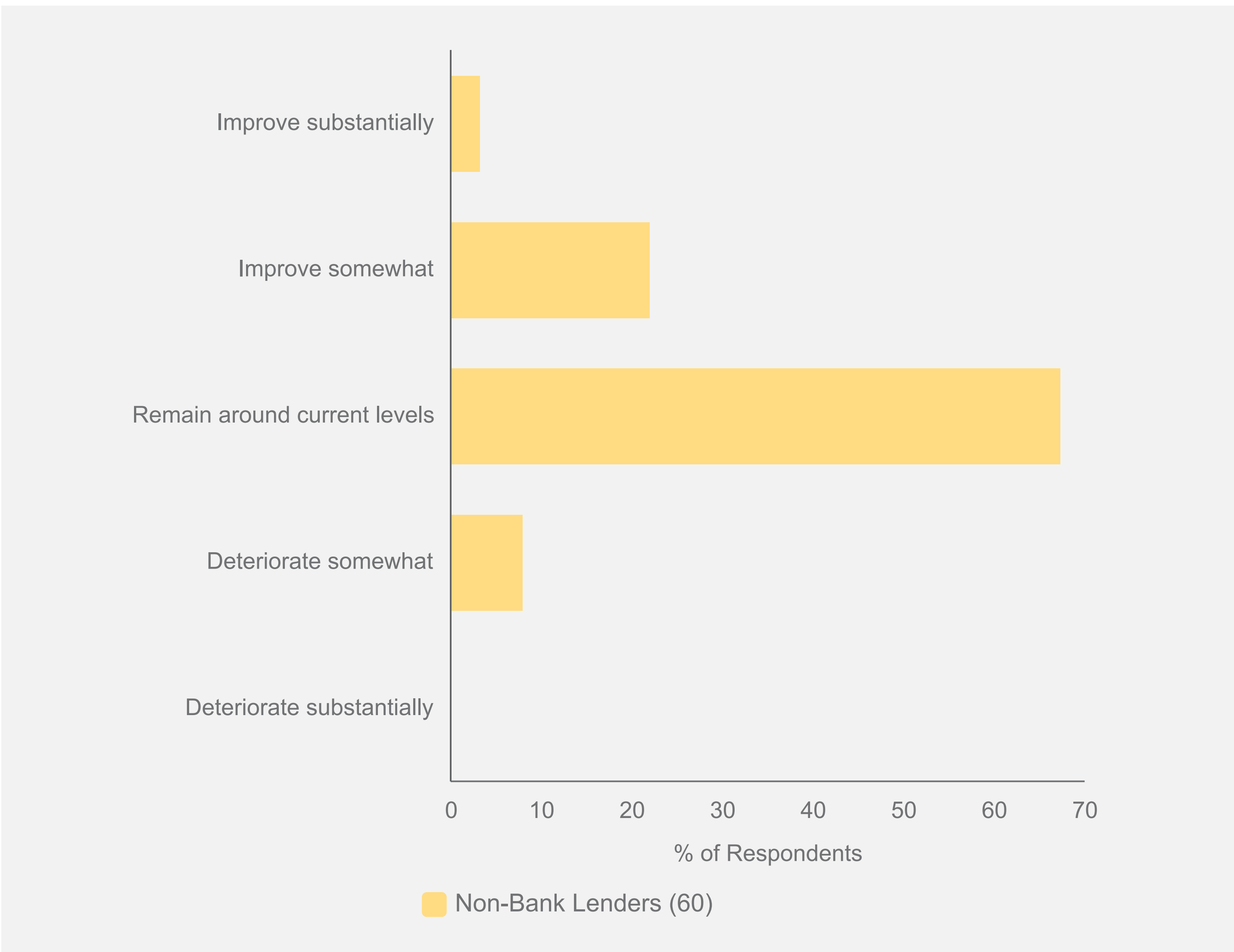
***Corresponding Federal Reserve Question***

"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?"

# Q1 2021 ADDITIONAL FINDINGS

**Over the next 6 months, what is your outlook for delinquencies and charge-offs on your lending institution's C&I loans?**

25% of non-bank lenders expect loan delinquencies and charge-offs to improve in the coming months, while the majority expect levels to remain around the same.




Non-Bank Lender Survey conducted by Cerebro Capital in April, 2021.

# 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