

Nashville Lender Lunch

Hosted by SouthState Bank



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Data Source



- Pricing/risk data and risk-adjusted profitability data from Loan Command aggregates for 1Q to date through 3/31/24.
- Commercial real estate sector performance data from CoStar as of 4/09/24.
- C&I /owner-occupied probabilities of default and loss given default based on PayNet (Equifax) model using 4Q data.



2Q Pricing Trends - Summary



- Nominal spreads increased 2 bps due to lower credit supply, increased demand and deposit pressure. Average SOFR-equivalent credit spread for community banks is currently 2.55%.
- Target risk-adjusted ROE remained at 16%.
- Actual risk-adjusted ROE is 16.1% so far for the quarter.
- The average through-cycle probability of default (POD) is 0.49%, down 2 bps. from 1Q 2024. POD volatility is flat in 2Q and remains low at 0.27%.
- Expected loss given default increased 1.5% percentage points to 44.0% (due to higher cap rates).
- Average community bank portfolio expected loss increased 7bps to 0.28%, or well within bank reserve levels.
- Loan growth is projected at 7.7% in 2024, up from 7.1% from last year.

Typical Nashville Loan



LOAN COMMAND
Calculator Scenarios Relationships Loans Pipeline Stats

NEW SCENARIO

BORROWER	Nashville LLC
ORIGINATION TYPE	Existing Commercial
LOAN TYPE	Owner CRE
LOAN INDUSTRY	Beverage Manufacturing
LOAN AMOUNT	\$2,700,000
RATE	SOFR 1M 2.55%
FEES	1.25%
EXPECTED MATURITY	120 Mo
AMORTIZATION	120 Mo
INTEREST ONLY PERIOD	0 Mo
DEPOSITS	Set Deposits
CREDIT	3
LOCATION	37011
COMMENTS	Add Comments

RECALCULATE RESULTS

CALCULATION
ANALYSIS CASH FLOW SUGGESTIONS
✉ 🖨

LOAN METRICS

Regulatory ROE

21.4%

EXCELLENT

RETURN ON ASSETS

2.1%

DEBT YIELD

21.6%

NOMINAL NIM

3.6%

NET PROFIT

\$319,918

Economic ROE

21.9%

EXCELLENT

Stressed ROE

5.6%

LOW

BOOK SCENARIO

<p style="font-size: 0.7em; margin: 0;">ANNUAL PROBABILITY OF DEFAULT</p> <div style="display: flex; justify-content: space-between; align-items: center; margin-top: 5px;"> <div style="text-align: center;"> <p style="font-size: 1.2em; margin: 0;">2.50%</p> <p style="font-size: 0.7em; margin: 0;">BASELINE</p> </div> <div style="text-align: center;"> <p style="font-size: 1.2em; margin: 0;">5.55%</p> <p style="font-size: 0.7em; margin: 0;">ADVERSE</p> </div> <div style="text-align: center;"> <p style="font-size: 1.2em; margin: 0;">8.23%</p> <p style="font-size: 0.7em; margin: 0;">SEVERELY ADVERSE</p> </div> </div> <div style="margin-top: 5px;"> <div style="width: 100%; height: 10px; background-color: #ccc; position: relative;"> <div style="width: 30%; height: 100%; background-color: #f9c94d; position: absolute;"></div> </div> <div style="display: flex; justify-content: space-between; font-size: 0.7em; margin-top: 2px;"> 0.50% 5.00% </div> </div>	<p style="font-size: 0.7em; margin: 0;">POD VOLATILITY</p> <div style="text-align: center; margin-top: 5px;"> <p style="font-size: 2em; margin: 0;">2.68%</p> <p style="font-size: 0.8em; margin: 0; color: #f9c94d;">AVERAGE</p> </div>	<p style="font-size: 0.7em; margin: 0;">NET POD CHANGE</p> <div style="text-align: center; margin-top: 5px;"> <p style="font-size: 2em; margin: 0;">40.5%</p> <p style="font-size: 0.8em; margin: 0; color: #27ae60;">▲</p> </div>
<p style="font-size: 0.7em; margin: 0;">LOSS GIVEN DEFAULT</p> <div style="text-align: center; margin-top: 5px;"> <p style="font-size: 2em; margin: 0;">32.5%</p> </div> <div style="margin-top: 5px;"> <div style="width: 100%; height: 10px; background-color: #ccc; position: relative;"> <div style="width: 30%; height: 100%; background-color: #f9c94d; position: absolute;"></div> </div> <div style="display: flex; justify-content: space-between; font-size: 0.7em; margin-top: 2px;"> 0% 100.00% </div> </div>	<p style="font-size: 0.7em; margin: 0;">EXPECTED LOSS</p> <div style="text-align: center; margin-top: 5px;"> <p style="font-size: 2em; margin: 0;">0.81%</p> </div>	<p style="font-size: 0.7em; margin: 0;">UNEXPECTED LOSS - CAPITAL AT RISK</p> <div style="text-align: center; margin-top: 5px;"> <p style="font-size: 2em; margin: 0;">\$159,393</p> </div>

Pricing by Grade and Loan Size



Credit Rating	Suggested Target Spread	Actual Spread (@ Booking)	Difference (Bps)	Difference %	Target ROE	Actual ROE (@ Pricing)	Difference	Difference %	Comments
1	1.91%	2.22%	0.31%	16%	16%	14%	⬇️ -3%	-16%	Spreads decreased by 2bp due to more competition for better collateralized loans (sub 50% LTV)
2	2.25%	2.43%	0.18%	8%	16%	15%	⬇️ -1%	-8%	Spreads increased by 3 bps QoQ.
3	2.55%	2.55%	0.00%	0%	16%	16%	⬇️ 0%	-1%	Spreads remained flat to 1Q
4+	2.65%	2.79%	0.14%	5%	16%	16%	⬇️ 0%	-1%	Spreads increased by 9 bps due to greater pricing power.

Loan Size	Suggested Target Spread	Actual Spread (@ Booking)	Difference (Bps)	Difference %	Target ROE	Actual ROE (@ Pricing)	Difference	Difference %	Comments
\$50k to \$500,000	3.25%	2.69%	-0.56%	-17%	16%	10%	⬇️ -6%	-39%	Industry is underpricing small loans
\$500,000	2.75%	2.69%	-0.06%	-2%	16%	14%	⬇️ -3%	-16%	Slightly underpriced
\$1,000,000	2.55%	2.67%	0.12%	5%	16%	17%	⬇️ 1%	3%	Increase of 16 bps
\$2,000,000	2.50%	2.56%	0.06%	2%	16%	16%	⬇️ 0%	1%	This remains the most competitive area but banks are showing discipline
\$3,000,000	2.43%	2.39%	-0.04%	-2%	16%	15%	⬇️ -1%	-7%	
\$4,000,000	2.40%	2.32%	-0.08%	-3%	16%	14%	⬇️ -2%	-10%	
\$5,000,000	2.38%	2.35%	-0.03%	-1%	16%	15%	⬇️ -1%	-5%	Decrease of 1 bps.
\$10,000,000	2.35%	2.48%	0.13%	6%	16%	18%	⬇️ 2%	13%	This area is down 4 bps from last quarter

Pricing By Loan Type



	Target Spread	Actual Spread (@ Booking)	Difference (Bps)	Difference %	Target ROE	Actual ROE (@ Pricing)	Difference	Difference %	Comments
NOOCRE									
Office	2.65%	2.91%	0.26%	10%	16%	19%	▲ 3%	18%	Mostly all refinance volume. Spreads increased 5 bps over 1Q
Retail	2.80%	2.76%	-0.04%	-1%	16%	18%	▬ 2%	14%	Spreads decreased by 2 bps due to better credit outlook and firmer rents.
Hospitality	3.20%	3.14%	-0.06%	-2%	16%	22%	▲ 6%	38%	Hospitality pricing decreased 3 bps due to higher performance
Industrial	2.25%	2.19%	-0.06%	-3%	16%	17%	▬ 1%	6%	Spreads increased 4 bps
Multifamily	2.35%	2.18%	-0.17%	-7%	16%	13%	▬ -3%	-20%	Spreads increased 6 bps.
Other	2.50%	2.73%	0.23%	9%	16%	19%	▲ 3%	18%	Self-storage, MH, etc
C&I									
General	2.45%	2.23%	-0.22%	-9%	16%	16%	▬ 0%	0%	Pricing increased 13 bps
Line of Credit	3.00%	2.80%	-0.20%	-7%	16%	12%	▬ -4%	-25%	Pricing remained largely unchanged from last quarter
Municipal	1.80%	1.81%	0.01%	1%	16%	13%	▬ -3%	-19%	Cost of muni deposits is hurting profitability. Pricing increased 3 bps from 1Q
Other	2.45%	1.80%	-0.62%	-25%	16%	13%	▬ -3%	-19%	Skewed towards higher quality and long term project finance
OOCRE									
Industrial	2.20%	2.38%	0.18%	8%	16%	16%	▬ 0%	-3%	Loans to manufacturing and distribution companies increased 6 bps
Office/Retail	2.55%	2.64%	0.09%	4%	16%	17%	▬ 1%	8%	Spreads increased by 6 bps
Medical	2.15%	2.19%	0.04%	2%	16%	14%	▬ -2%	-14%	Spreads increased by 5 bps
Church	2.90%	2.56%	-0.34%	-12%	16%	15%	▬ -1%	-6%	Underpriced given elevated risk. Spreads increased 10 bps.
Other	2.45%	3.06%	0.61%	25%	16%	21%	▲ 5%	33%	Restaurants, child care, etc. Spreads increased 4 bps
Other									
Other	2.45%	2.97%	0.52%	21%	16%	21%	▲ 5%	34%	Mostly ag loans. Spreads decreased 16 bps
Construction	3.25%	3.15%	-0.10%	-3%	16%	5%	▼ -11%	-66%	Elevated risk increased pricing by 8 bps

Industries That Are Increasing in Credit Risk (4Q 2023)



Top 30 Industries Where Credit Risk Is The Highest					
Industry	NASICS	POD	POD Chg.	Volatility	
1	General Freight Trucking	4841	5.85%	356	4.13%
2	Specialized Freight Trucking	4842	5.63%	354	3.95%
3	Apparel Accessories and Other Apparel Manufacturing	3159	5.19%	325	4.08%
4	Special Food Services	7223	5.19%	241	3.71%
5	Junior Colleges	6112	4.87%	174	3.38%
6	Local Messengers and Local Delivery	4922	4.57%	254	3.20%
7	Wired Telecommunications Carriers	5171	4.49%	287	3.27%
8	Freight Transportation Arrangement	4885	4.46%	243	3.08%
9	Motor Vehicle Manufacturing	3361	4.35%	223	3.42%
10	General Medical and Surgical Hospitals	6221	4.22%	161	2.91%
11	Traveler Accommodation	7211	4.14%	133	2.72%
12	Personal Care Services	8121	4.11%	144	2.79%
13	Colleges, Universities, and Professional Schools	6113	3.99%	165	2.60%
14	Pipeline Transportation of Natural Gas	4862	3.98%	217	2.67%
15	Clothing Stores	4481	3.97%	136	2.78%
16	Other Support Activities for Transportation	4889	3.97%	214	2.57%
17	Other Transit and Ground Passenger Transportation	4859	3.94%	148	2.52%
18	Deep Sea, Coastal, and Great Lakes Water Transportation	4831	3.92%	198	2.59%
19	Rooming and Boarding Houses	7213	3.92%	172	2.66%
20	Continuing Care Retirement Communities and Assisted Living Facilities for the Elderly	6233	3.90%	137	2.76%
21	Tobacco Manufacturing	3122	3.86%	214	2.93%
22	Nursing Care Facilities (Skilled Nursing Facilities)	6231	3.86%	131	2.68%
23	Electronic Shopping and Mail-Order Houses	4541	3.85%	145	2.69%
24	Taxi and Limousine Service	4853	3.84%	102	2.56%
25	Urban Transit Systems	4851	3.80%	189	2.42%
26	Lessors of Real Estate	5311	3.74%	147	2.63%
27	Other General Merchandise Stores	4529	3.69%	90	2.57%
28	Nonscheduled Air Transportation	4812	3.69%	198	2.39%
29	Drinking Places (Alcoholic Beverages)	7224	3.68%	115	2.36%
30	Bakeries	3118	3.64%	102	2.51%

Industries That Are Decreasing in Credit Risk (4Q 2023)

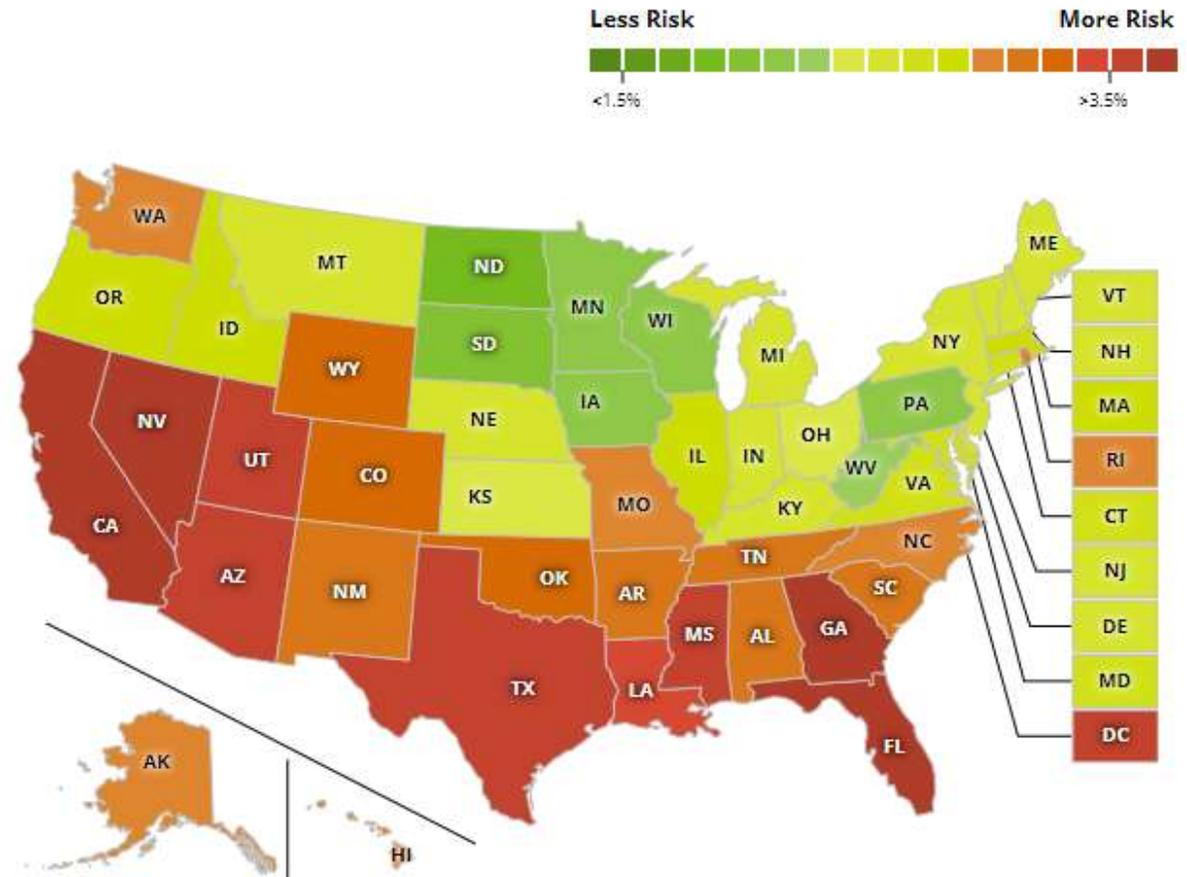


Top 30 Industries Where Credit Risk Is The Lowest				
Industry	NASICs	POD	POD Chg.	Volatility
1 Hog and Pig Farming	1122	1.12%	35	2.32%
2 Oilseed and Grain Farming	1111	1.16%	43	2.43%
3 Sheep and Goat Farming	1124	1.16%	39	2.33%
4 Aquaculture	1125	1.17%	42	2.21%
5 Cattle Ranching and Farming	1121	1.24%	44	2.53%
6 Other Crop Farming	1119	1.37%	50	2.28%
7 Other Animal Production	1129	1.40%	49	2.24%
8 Vegetable and Melon Farming	1112	1.42%	54	2.29%
9 Poultry and Egg Production	1123	1.44%	39	2.28%
10 Greenhouse, Nursery, and Floriculture Production	1114	1.46%	59	2.33%
11 Fruit and Tree Nut Farming	1113	1.50%	55	2.02%
12 Farm Product Raw Material Merchant Wholesalers	4245	1.54%	53	2.42%
13 Hunting and Trapping	1142	1.60%	64	2.40%
14 Support Activities for Animal Production	1152	1.60%	54	2.43%
15 Fishing	1141	1.67%	60	2.25%
16 Support Activities for Crop Production	1151	1.71%	54	2.31%
17 Oil and Gas Extraction	2111	1.85%	43	2.05%
18 Hardware Manufacturing	3325	1.86%	57	2.02%
19 Engine, Turbine, and Power Transmission Equipment Manufacturing	3336	1.89%	26	2.16%
20 Cutlery and Handtool Manufacturing	3322	1.91%	74	2.14%
21 Foundries	3315	1.93%	62	2.08%
22 Metalworking Machinery Manufacturing	3335	1.95%	73	2.33%
23 Animal Food Manufacturing	3111	1.97%	85	2.26%
24 Alumina and Aluminum Production and Processing	3313	1.97%	46	2.18%
25 Forest Nurseries and Gathering of Forest Products	1132	1.98%	79	2.14%
26 Coal Mining	2121	1.98%	36	2.21%
27 Metal and Mineral (except Petroleum) Merchant Wholesalers	4235	1.98%	72	2.30%
28 Hardware, and Plumbing and Heating Equipment and Supplies Merchant Wholesalers	4237	1.98%	77	2.16%
29 Offices of Dentists	6212	2.03%	66	2.40%
30 Sawmills and Wood Preservation	3211	2.04%	89	2.11%

Geographical Credit Conditions Forecast



Bottom of the U.S. is worsening but only because of above average credit performance in 2023.



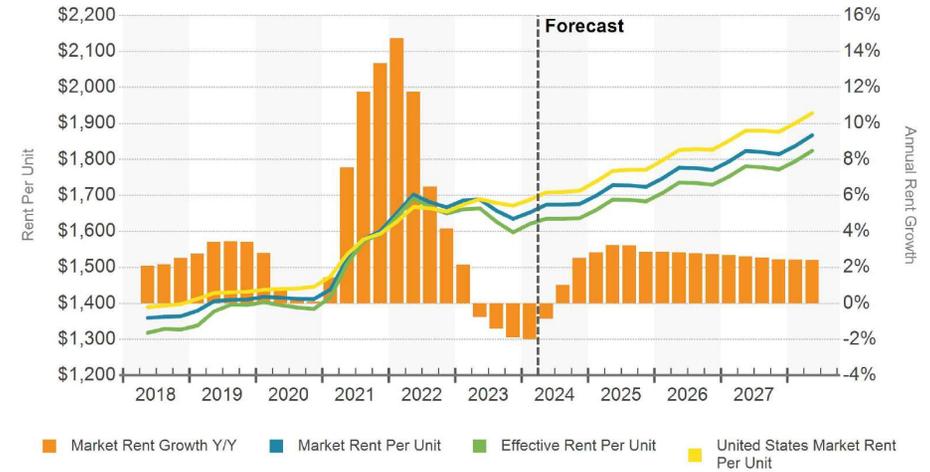
Nashville: Multifamily



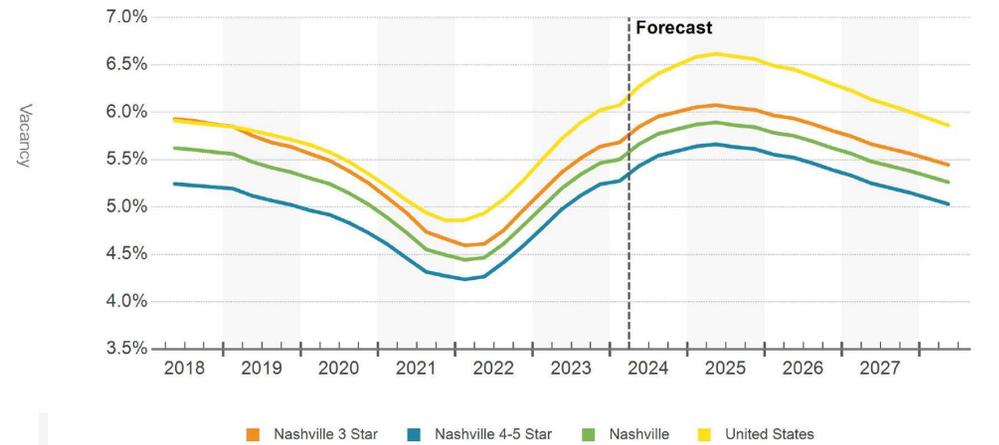
Record setting increase in supply is hurting occupancy rates and pushing down rents. While housing demand remains strong, there is more pricing pressure in class B and C properties.

	Historic	Current	5Y Forecast
Rent Growth	2.1%	-1.8%	2.4%
Vacancy Rate	8.6%	12.1%	10.3%

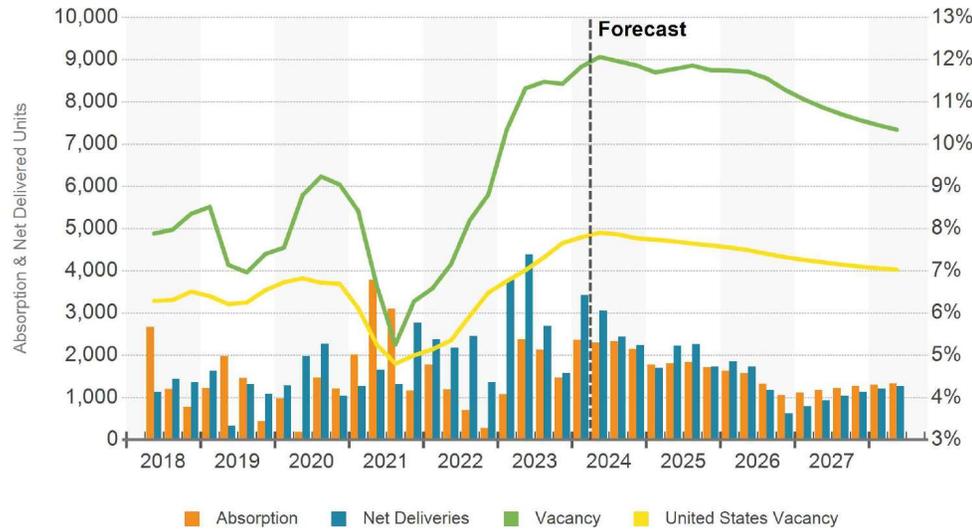
MARKET RENT PER UNIT & RENT GROWTH



MARKET CAP RATE



ABSORPTION, NET DELIVERIES & VACANCY



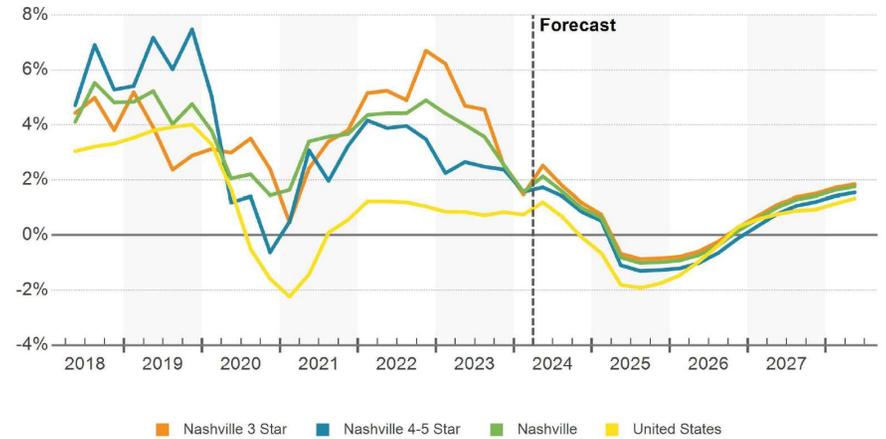
Nashville: Office



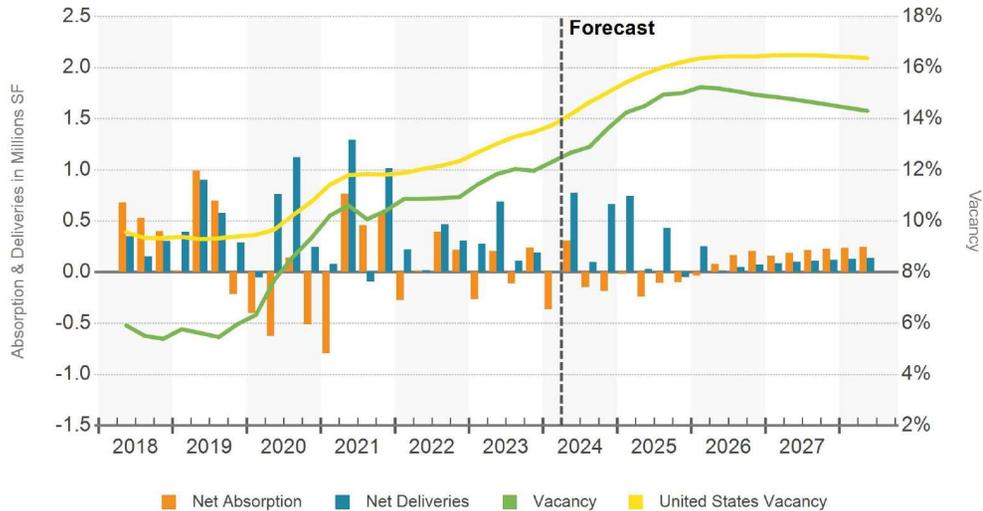
Corporate clients are still consolidating space, but Nashville has continued to attract from out of state. While vacancies are expected to tick up, rents remain positive.

	Historic	Current	5Y Forecast
Rent Growth	2.5%	2.1%	0.7%
Vacancy Rate	9.3%	12.1%	14.4%

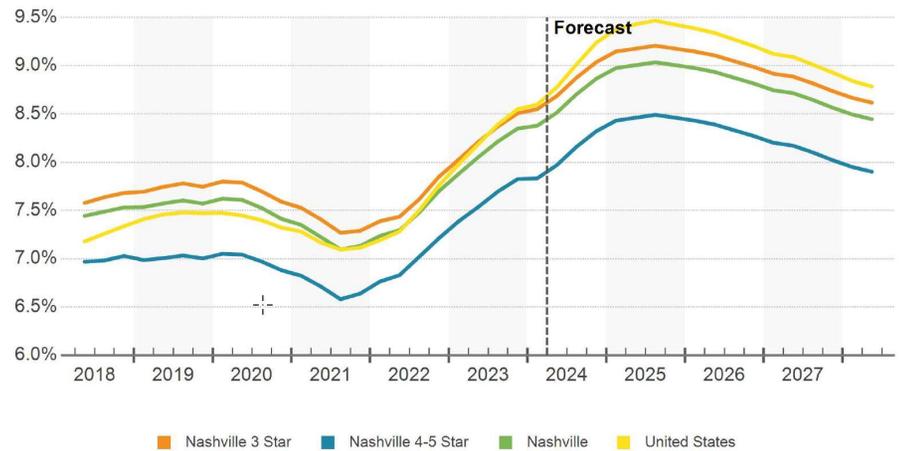
MARKET ASKING RENT GROWTH (YOY)



NET ABSORPTION, NET DELIVERIES & VACANCY



MARKET CAP RATE



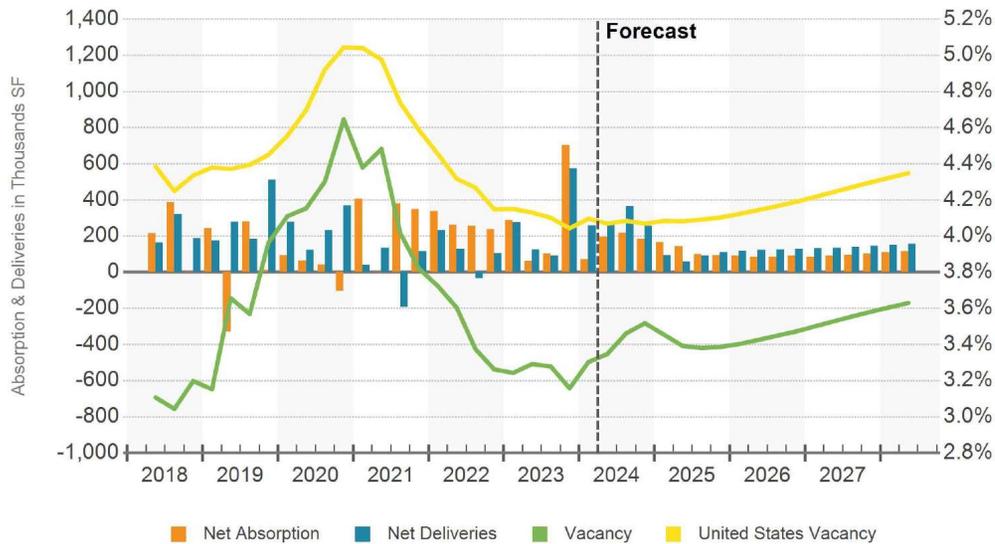
Nashville: Retail



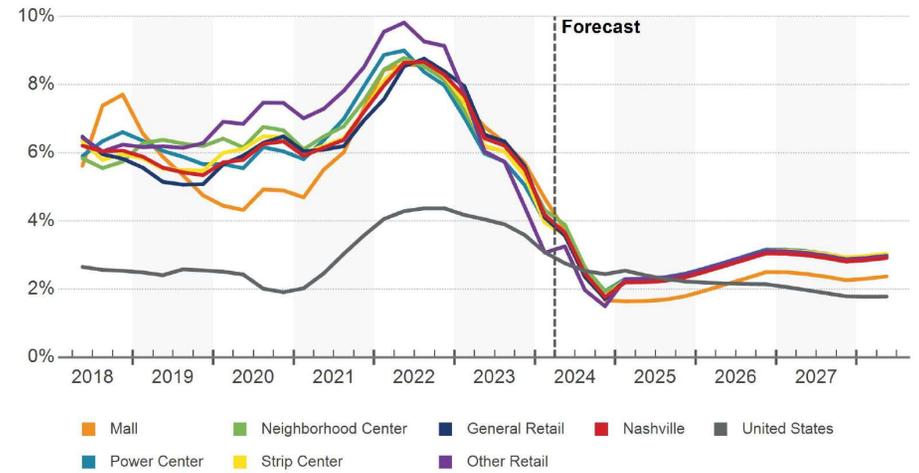
Above average population and economic growth combined with low supply has kept retail CRE performing for banks (except malls).

	Historic	Current	5Y Forecast
Rent Growth	3.9%	4.0%	2.7%
Vacancy Rate	4.5%	3.3%	3.5%

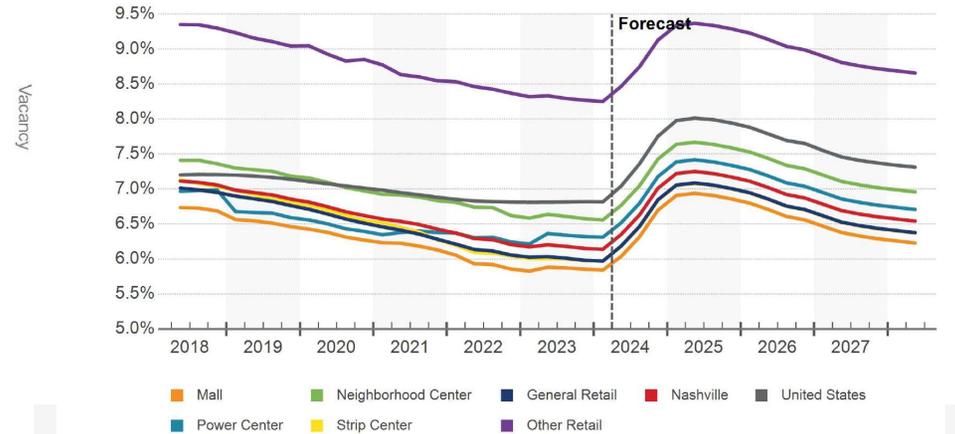
NET ABSORPTION, NET DELIVERIES & VACANCY



MARKET ASKING RENT GROWTH (YOY)



MARKET CAP RATE



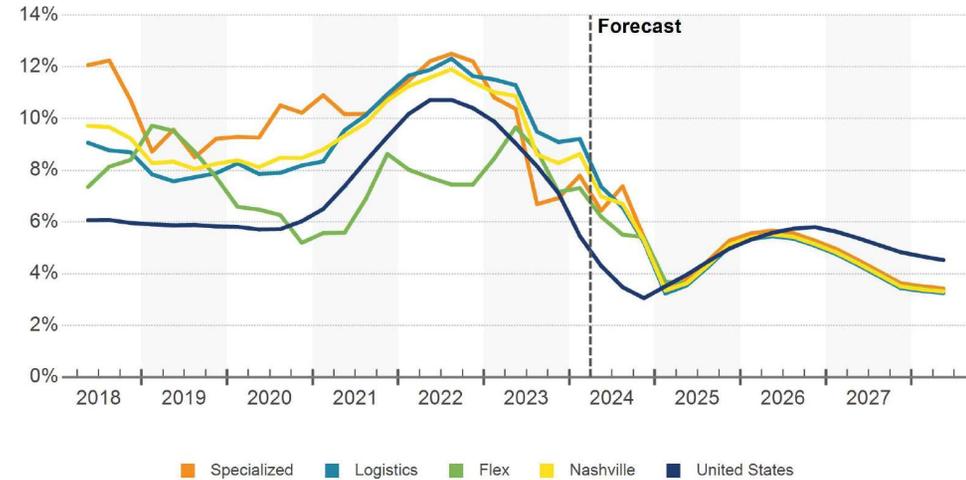
Nashville: Industrial



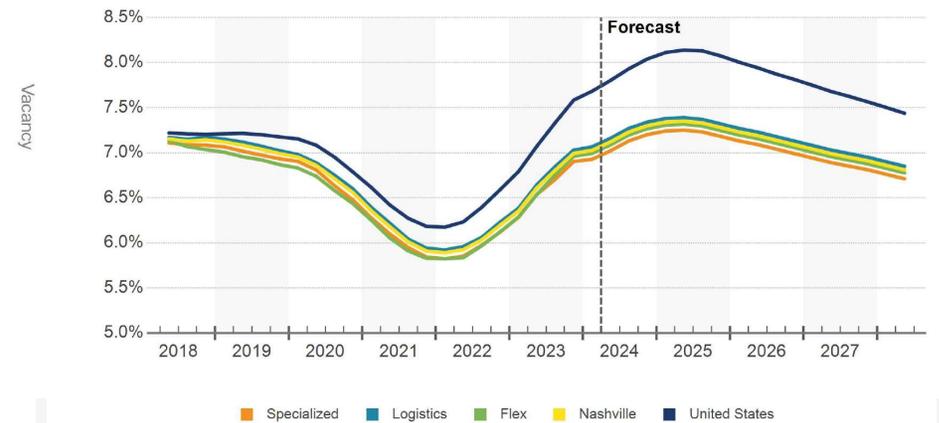
Nashville's industrial market has begun to cool off from the scorching growth from 2021 & 2022. Leasing activity has slowed by loans continue to outperform.

	Historic	Current	5Y Forecast
Rent Growth	3.4%	8.6%	4.6%
Vacancy Rate	4.1%	4.6%	4.5%

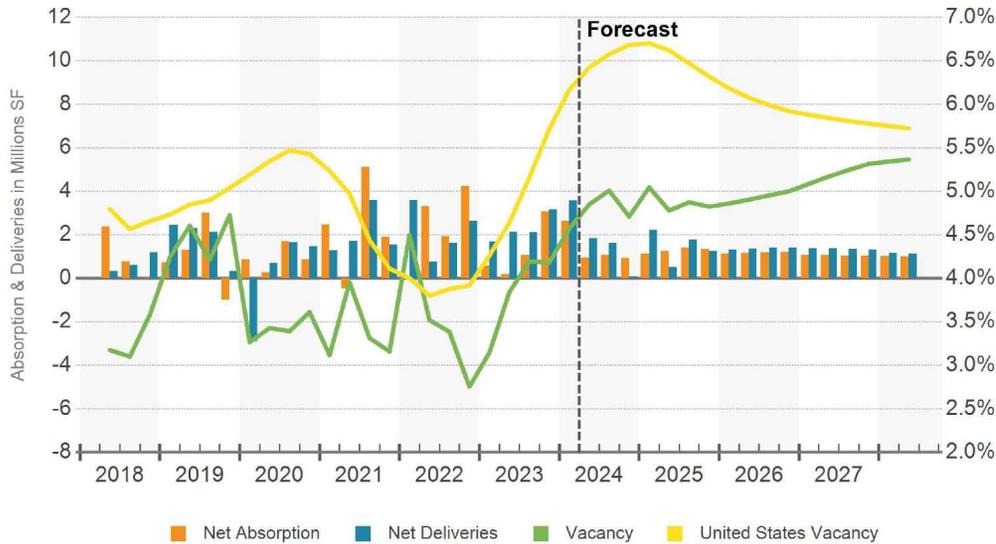
MARKET ASKING RENT GROWTH (YOY)



MARKET CAP RATE



NET ABSORPTION, NET DELIVERIES & VACANCY



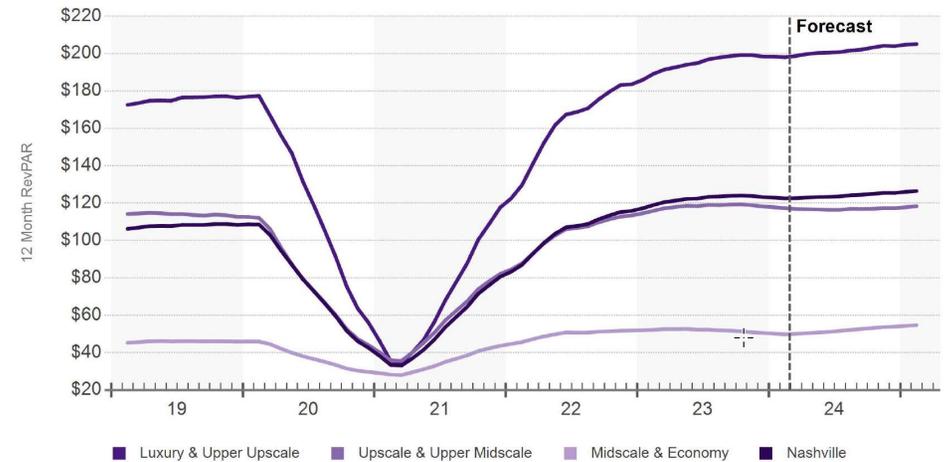
Hospitality



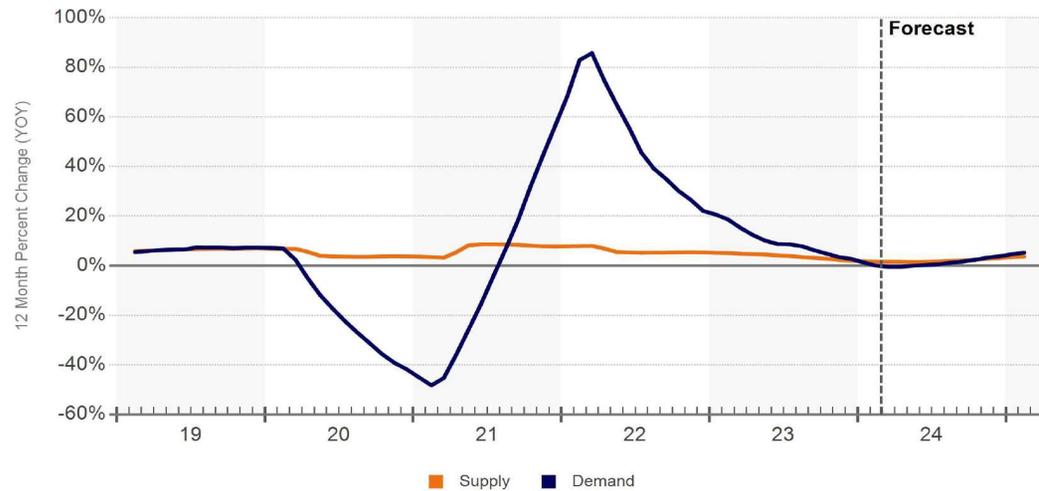
Nashville continues to be one of the top hotel markets in the region, as evidenced by 4.3% increase in RevPAR between last year and now.

	Historic	Current	5Y Forecast
Occupancy	61.9%	68.4%	69.7%
RevPar Chg.	2.9%	3.0%	2.9%

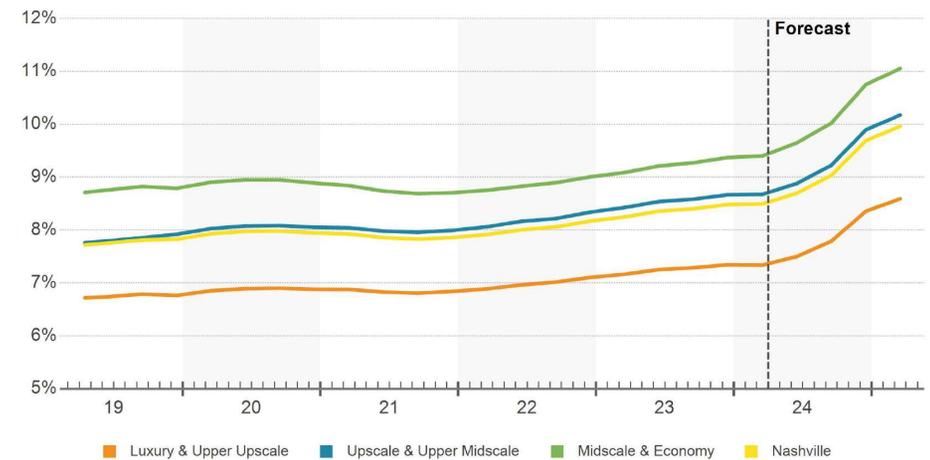
REVPAR BY CLASS



SUPPLY & DEMAND CHANGE



MARKET CAP RATE



Industries That Are Increasing in Credit Risk (4Q 2023)



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4 Aquaculture	1125	1.17%	42	2.21%
5 Cattle Ranching and Farming	1121	1.24%	44	2.53%
6 Other Crop Farming	1119	1.37%	50	2.28%
7 Other Animal Production	1129	1.40%	49	2.24%
8 Vegetable and Melon Farming	1112	1.42%	54	2.29%
9 Poultry and Egg Production	1123	1.44%	39	2.28%
10 Greenhouse, Nursery, and Floriculture Production	1114	1.46%	59	2.33%
11 Fruit and Tree Nut Farming	1113	1.50%	55	2.02%
12 Farm Product Raw Material Merchant Wholesalers	4245	1.54%	53	2.42%
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14 Support Activities for Animal Production	1152	1.60%	54	2.43%
15 Fishing	1141	1.67%	60	2.25%
16 Support Activities for Crop Production	1151	1.71%	54	2.31%
17 Oil and Gas Extraction	2111	1.85%	43	2.05%
18 Hardware Manufacturing	3325	1.86%	57	2.02%
19 Engine, Turbine, and Power Transmission Equipment Manufacturing	3336	1.89%	26	2.16%
20 Cutlery and Handtool Manufacturing	3322	1.91%	74	2.14%
21 Foundries	3315	1.93%	62	2.08%
22 Metalworking Machinery Manufacturing	3335	1.95%	73	2.33%
23 Animal Food Manufacturing	3111	1.97%	85	2.26%
24 Alumina and Aluminum Production and Processing	3313	1.97%	46	2.18%
25 Forest Nurseries and Gathering of Forest Products	1132	1.98%	79	2.14%
26 Coal Mining	2121	1.98%	36	2.21%
27 Metal and Mineral (except Petroleum) Merchant Wholesalers	4235	1.98%	72	2.30%
28 Hardware, and Plumbing and Heating Equipment and Supplies Merchant Wholesalers	4237	1.98%	77	2.16%
29 Offices of Dentists	6212	2.03%	66	2.40%
30 Sawmills and Wood Preservation	3211	2.04%	89	2.11%