

Fund Finance Friday



Fund Finance Credit Availability Still Locked In

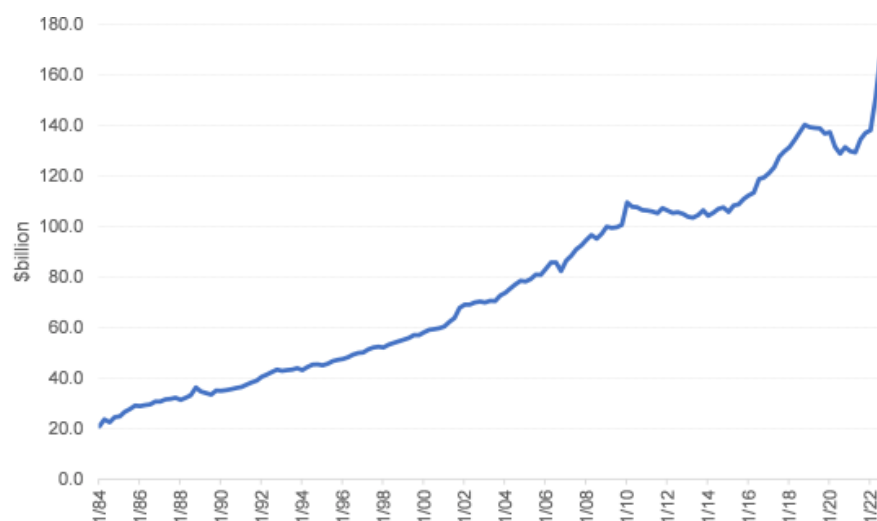
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2022 has been a remarkable year for the banking industry. Yields on interest earning assets stayed well ahead of funding costs to drive record gains in net interest margins. The lift from higher rates, combined with broad based loan growth, translated to record net income.

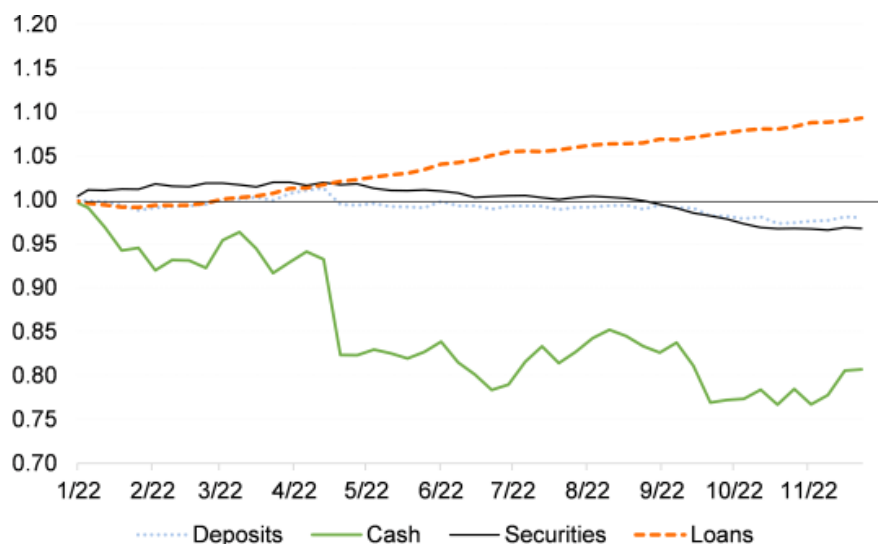
Exhibit 1: Quarterly Net Interest Income Powered Higher by NIM Expansion and Loan Growth



Quarterly net interest income for all FDIC insured institutions.
Source: Federal Deposit Insurance Corporation.

It certainly helped that, coming into the year, lending standards were still easing as the COVID brakes came off and demand for credit was still expanding across all major lending categories. That's not the setup for 2023.

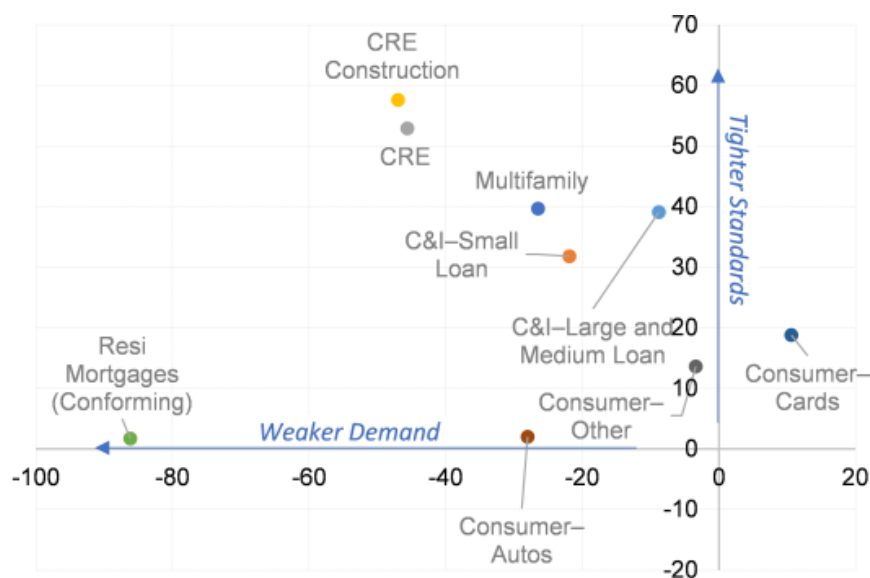
Exhibit 2: Bank Balance Sheets – The Deposit Drain Showed Up in Cash and Securities



Source: Federal Reserve H.8 Assets and Liabilities of Commercial Banks in the United States.

With year-end approaching, the pace of the tightening in bank lending standards already looks recessionary, and loan demand is not far behind. (Credit cards are the lone exception where demand is still growing, which is probably not a positive economic indicator.) Loan growth is clearly going to be more difficult to come by in 2023.

Exhibit 3: All Loan Products Ex-Cards Face Tougher Terms and Weaker Demand



Measures net share of banks reporting, not magnitude of change.

Source: Federal Reserve Senior Loan Officer Opinion Survey.

What does this mean for fund finance? For starters, lender interest in fund finance looks set to stay high even as fundraising decelerates. We're seeing this play out now with new lenders having recently entered the market and in ongoing discussions with several incumbents on their next phase of growth.

Our [October survey](#) of the heads of fund finance groups at banks showed that 64% of respondents expected fund finance commitments at their institution to grow in 2023. Along with that finding, a majority of participants anticipated utilization levels to decline as rates rise, and for pricing to continue to widen consistent with broader market trends.

Sustained lender engagement in 2023 should also continue to support price stability in fund finance as it has this year. While subscription facility margins are wider year to date, fund finance pricing has proven far less volatile in 2022 than in other credit products, a reflection of sustained lender commitment. While a softening economic outlook is likely to challenge bank performance in 2023, we think credit availability for fund finance is staying locked in.