



Commercial Loan Pricing Strategies for a Dynamic Rate Environment

Andy Morgan, Director – March 20, 2025

Agenda

1. Loan Yield & Deposit Cost Trends & Forecast
2. Community Banking Trends
3. Loan Pricing Examples
 1. CRE example
 2. CRE including related customer accounts
 3. Commercial LOC
 4. Construction to Perm
4. Dynamic Rate Environment Summary

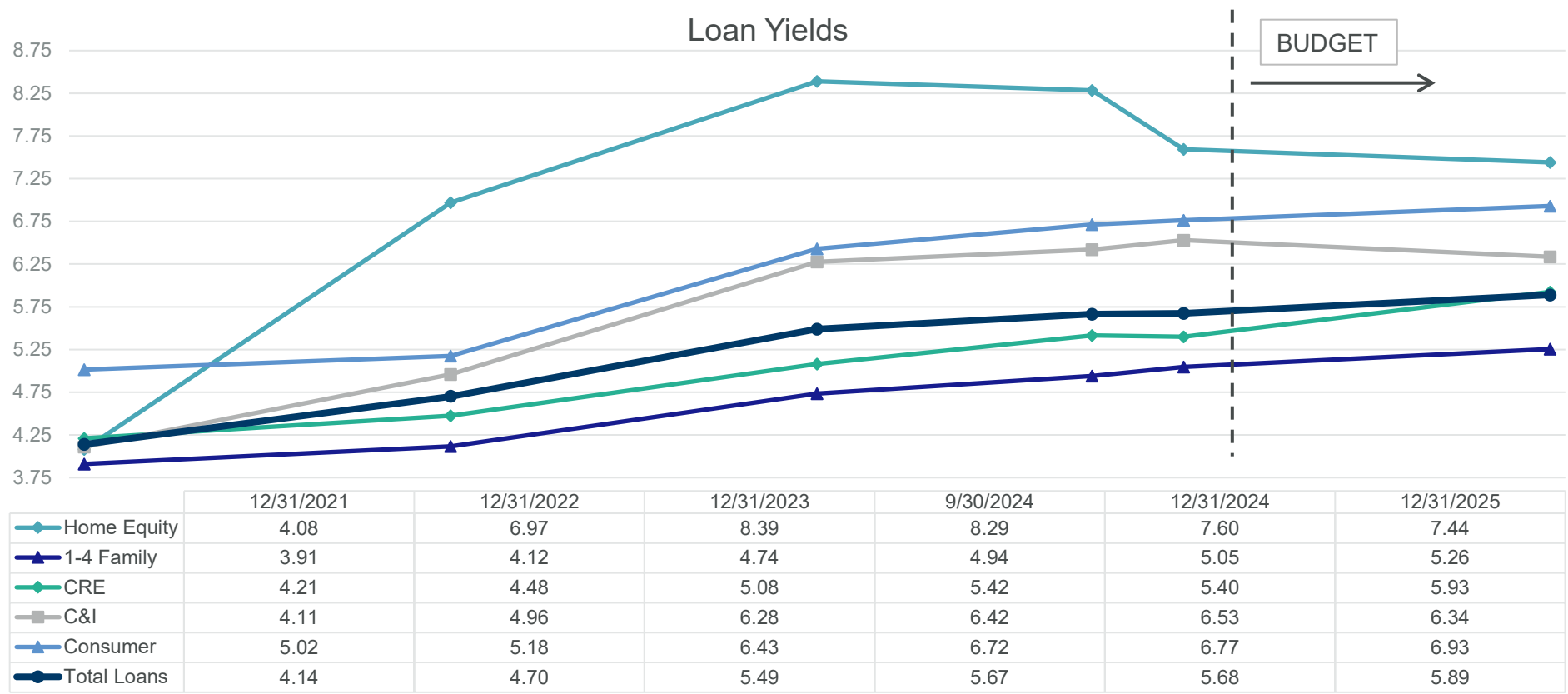


Section 01

Loan Yield & Deposit Cost Trends and Forecast

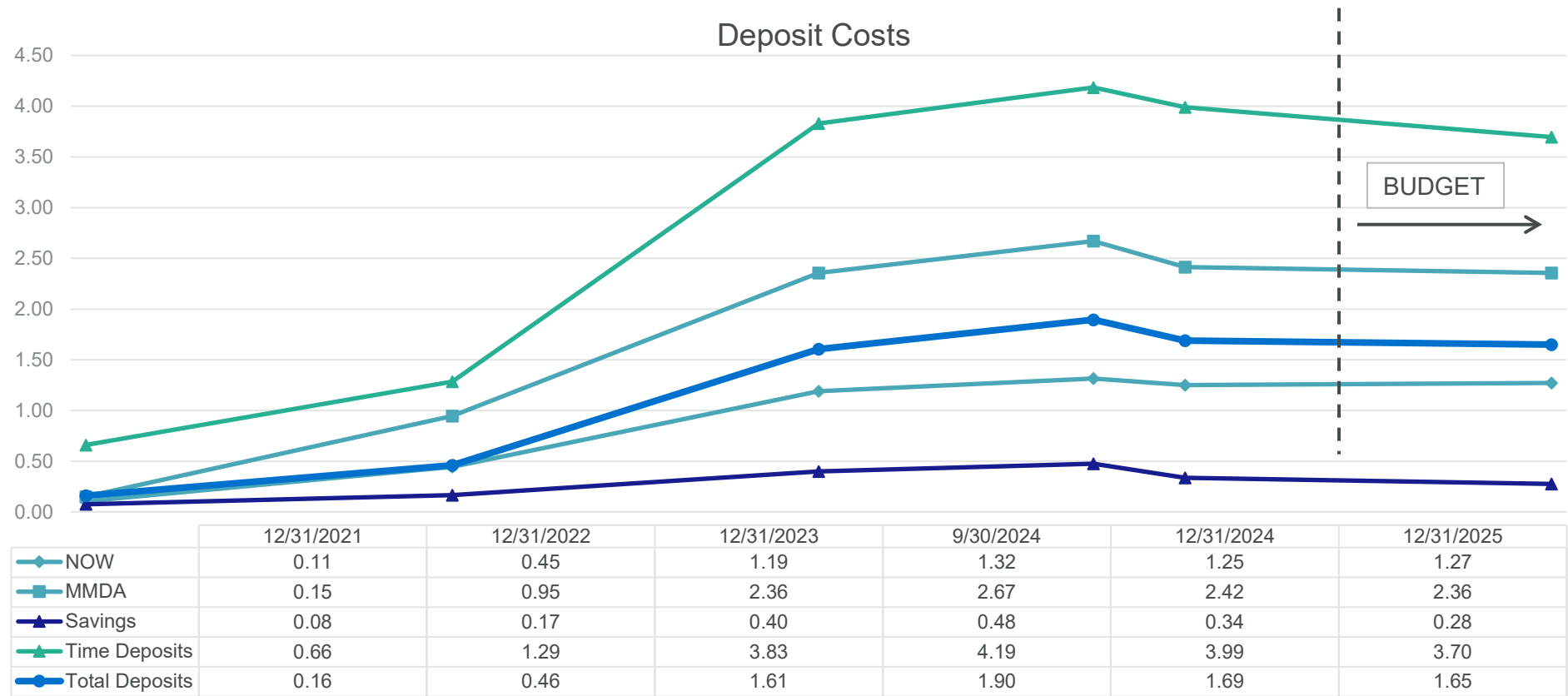
Commercial Loan Pricing Strategies for a Dynamic Rate Environment

Loan Yield Trends



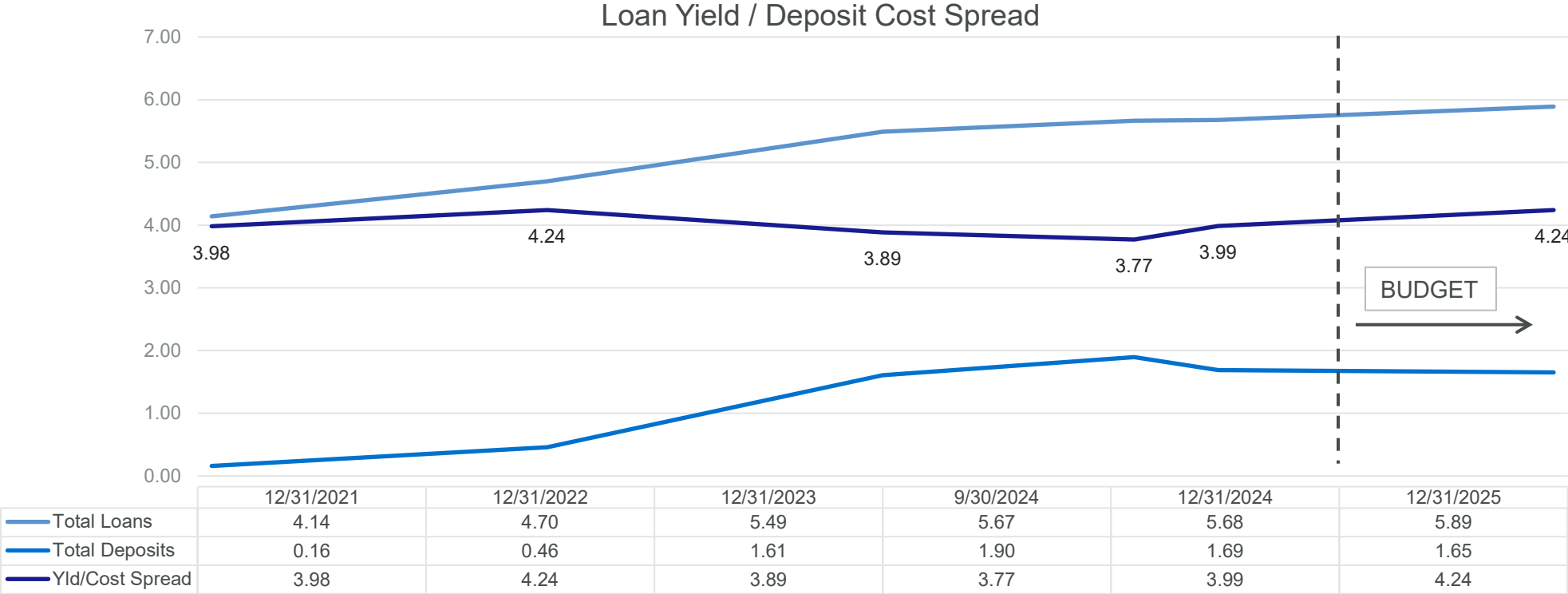
Commercial Loan Pricing Strategies for a Dynamic Rate Environment

Deposit Cost Trends



Commercial Loan Pricing Strategies for a Dynamic Rate Environment

Loan Yield / Deposit Spread



Section 02

Community Banking Trends

Commercial Loan Pricing Strategies for a Dynamic Rate Environment

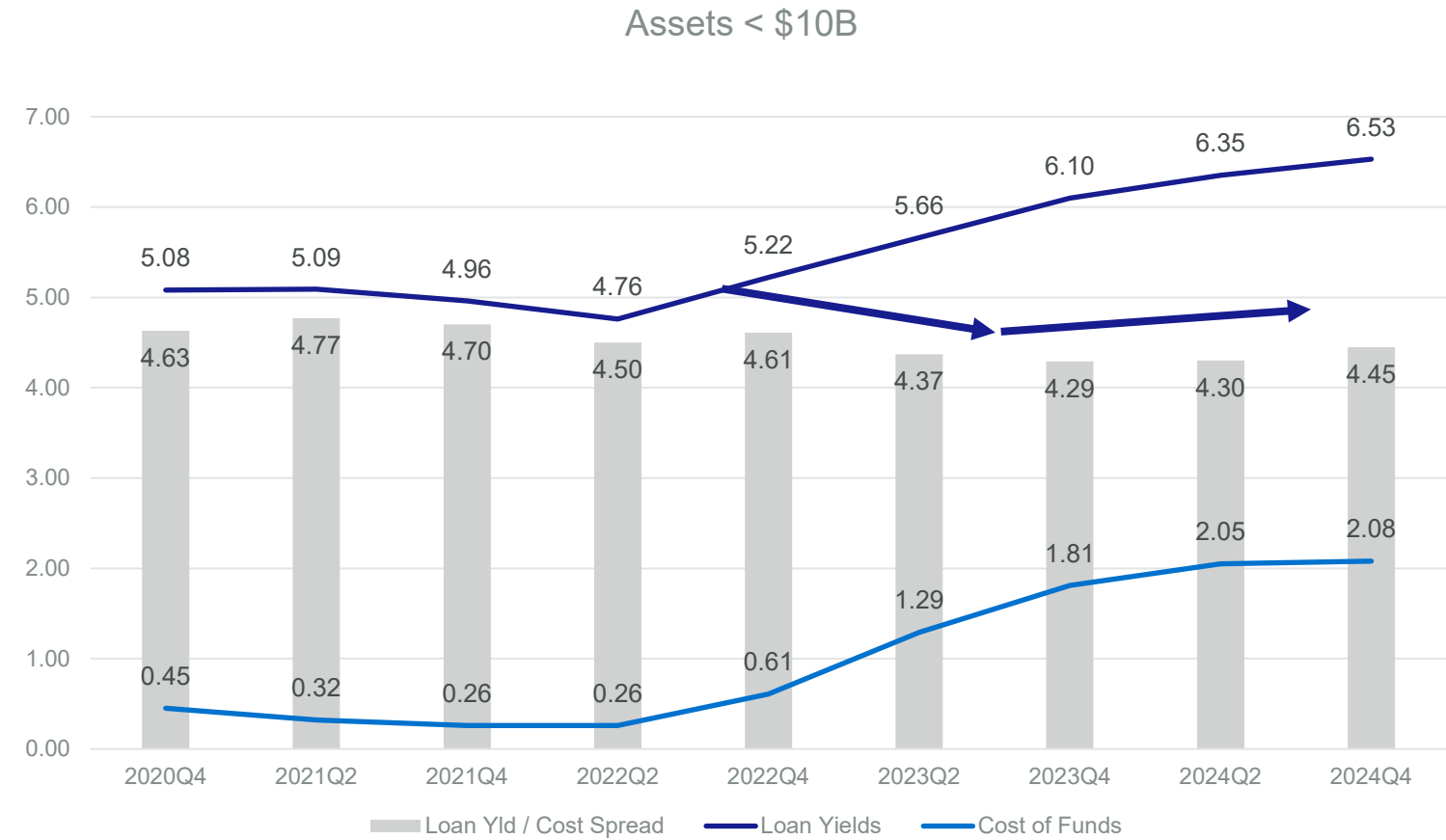
Community Banking Trends

Assets < \$10B	2020Q4	2021Q2	2021Q4	2022Q2	2022Q4	2023Q2	2023Q4	2024Q2	2024Q4
Loan Growth Rate	-7.87	1.24	4.72	15.33	12.09	10.12	7.44	7.10	4.67
Loans / Assets	63.15	56.69	57.70	59.41	63.09	65.23	66.37	67.32	67.88
Deposit Growth Rate	13.79	5.73	10.21	1.08	-1.45	-3.20	3.99	0.24	5.72
Loans / Deposits	73.94	69.67	67.08	67.84	72.93	76.51	78.51	79.82	79.32
ROA	0.98	1.15	0.97	1.02	1.12	1.03	0.90	0.96	0.98
ROE	8.96	10.95	8.74	11.42	13.25	11.50	9.93	10.41	10.04
Equity / Assets	10.67	10.35	10.18	8.85	8.82	9.10	9.42	9.51	9.63
NPLs/ Loans	0.65	0.54	0.45	0.37	0.32	0.28	0.29	0.33	0.37
ACL / Loans	1.30	1.31	1.32	1.29	1.24	1.25	1.22	1.22	1.20

Assets < \$10B	2020Q4	2021Q2	2021Q4	2022Q2	2022Q4	2023Q2	2023Q4	2024Q2	2024Q4
Prime Rate	3.25	3.25	3.25	4.25	7.25	8.25	8.50	8.50	7.50
New Volume Rates	3.91	3.67	3.61	4.29	5.76	7.29	7.76	7.81	7.18
Loan Yields	5.08	5.09	4.96	4.76	5.22	5.66	6.10	6.35	6.53
Cost of Funds	0.45	0.32	0.26	0.26	0.61	1.29	1.81	2.05	2.08
Loan Yld / Cost Spread	4.63	4.77	4.70	4.50	4.61	4.37	4.29	4.30	4.45

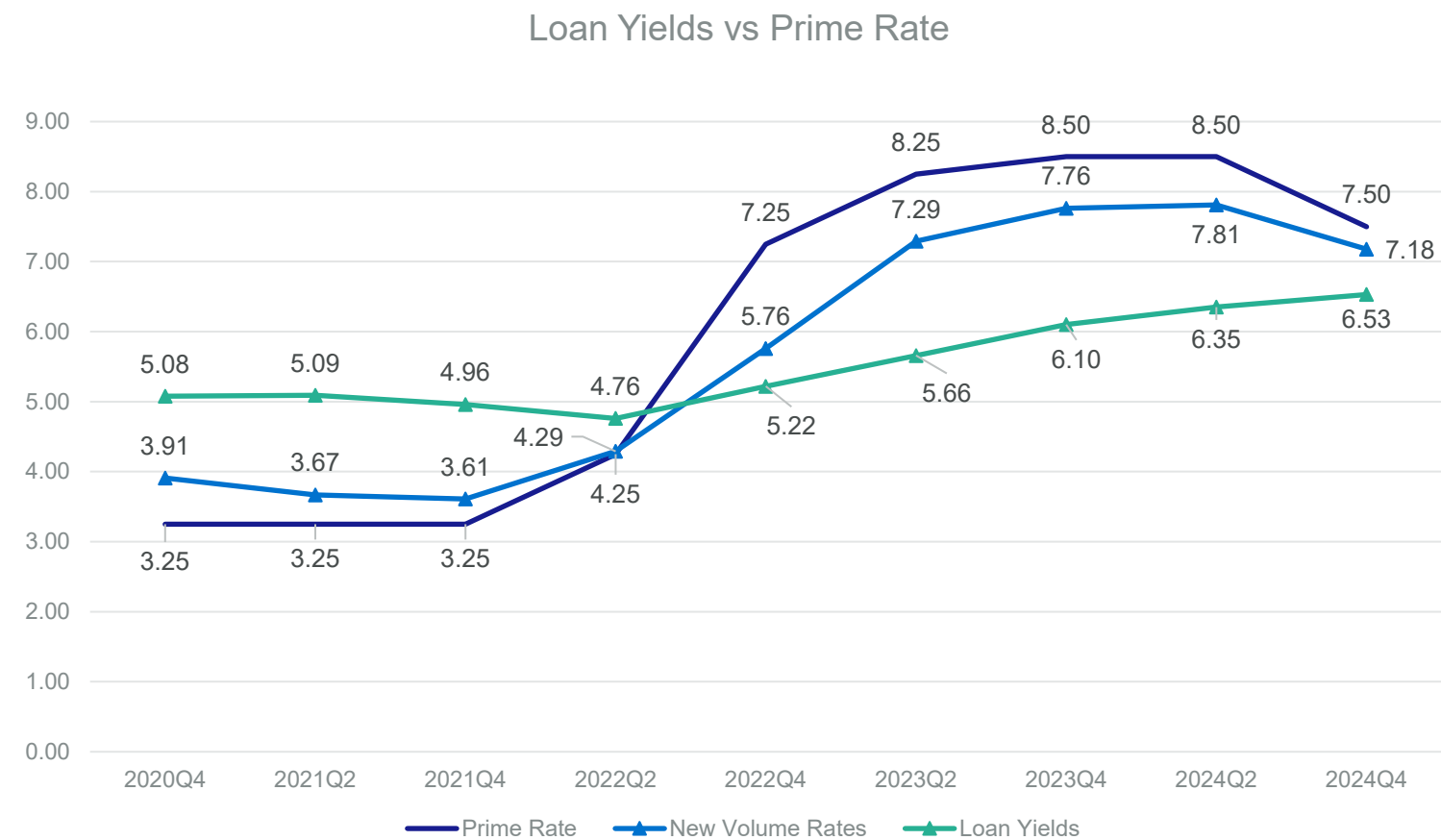
Commercial Loan Pricing Strategies for a Dynamic Rate Environment

Community Banking Trends



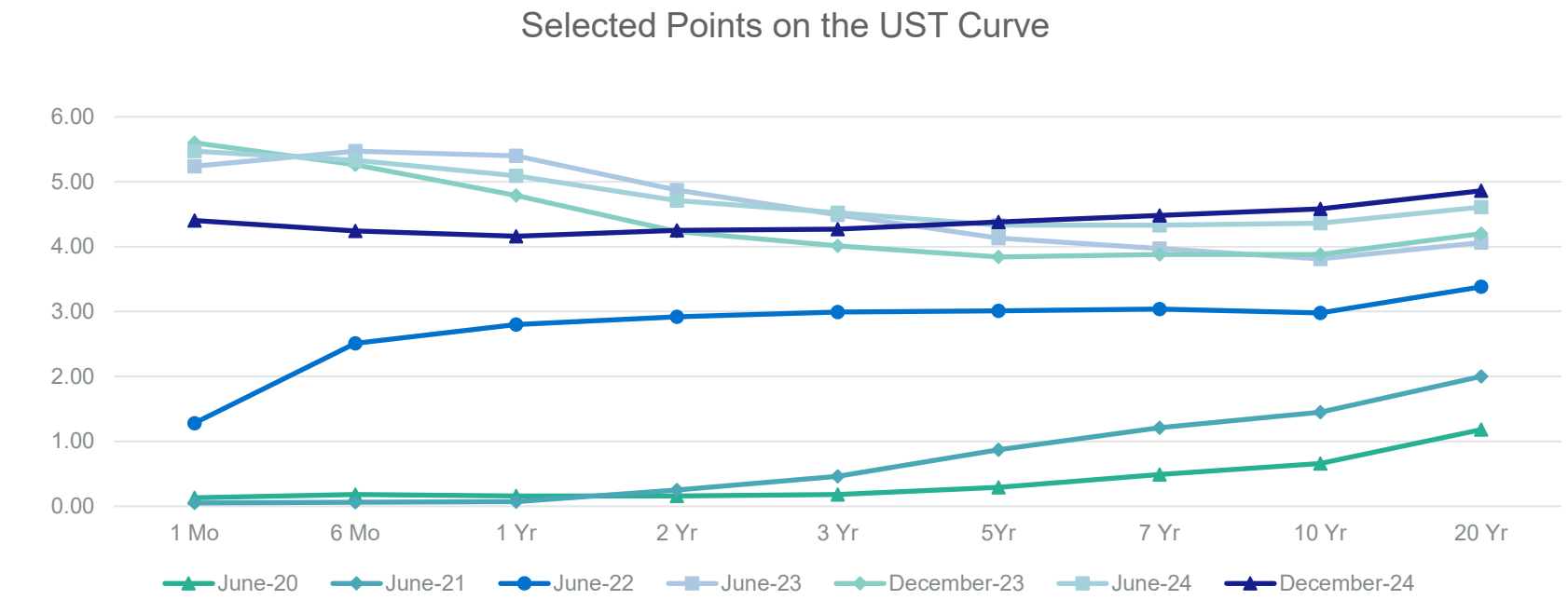
Commercial Loan Pricing Strategies for a Dynamic Rate Environment

Community Banking Trends



Commercial Loan Pricing Strategies for a Dynamic Rate Environment

Selected Points on the UST Curve



UST CURVE	1 Mo	6 Mo	1 Yr	2 Yr	3 Yr	5Yr	7 Yr	10 Yr	20 Yr
June-20	0.13	0.18	0.16	0.16	0.18	0.29	0.49	0.66	1.18
June-21	0.05	0.06	0.07	0.25	0.46	0.87	1.21	1.45	2.00
June-22	1.28	2.51	2.80	2.92	2.99	3.01	3.04	2.98	3.38
June-23	5.24	5.47	5.40	4.87	4.49	4.13	3.97	3.81	4.06
December-23	5.60	5.26	4.79	4.23	4.01	3.84	3.88	3.88	4.20
June-24	5.47	5.33	5.09	4.71	4.52	4.33	4.33	4.36	4.61
December-24	4.40	4.24	4.16	4.25	4.27	4.38	4.48	4.58	4.86

Section 03

Loan Pricing Examples

Commercial Loan Pricing Strategies for a Dynamic Rate Environment

Commercial Real Estate Example

▼ Loan Parameters

Loan Structure

Fixed Rate

Loan Amount

\$ 1,000,000.00

Fixed Rate

7.600

%



Fixed Term

60

months



Amort/Commit

240

months



Loan Details

Product Type*

Commercial

Product*

COMMERCIAL RE NON-OWNER OCCUPIED

▼ Payment Structure

Structure*

Principal & Interest

Payment Frequency*

Monthly

▼ Loan Fees

Fees

0.500

%

Amount

\$ 5,000.00

Frequency

Up Front

Commercial Loan Pricing Strategies for a Dynamic Rate Environment

Commercial Real Estate Example

▼ Credit Quality

Base Provision Expense

Percentage

0.750

%

Amount

\$ 7,500.00

Frequency*

Up Front

▼

Credit Quality*

Average

Risk-Adjusted Provision Expense

0.600% \$6,000.00

Funds Transfer Pricing

Funding Curve*

US Treasury

▼ Product Costs

Origination Expense

Percentage

0.150

%

Amount

\$ 1,500.00

Up Front

Servicing Expense

Percentage

0.090

%

Amount

\$ 75.00

Frequency*

Monthly \$

▼

Fixed Expense

Percentage

0.850

%

Amount

\$ 708.33

Frequency*

Monthly %

▼

Tax Rate

21.000

%

Risk Adjustment*

Default

▼

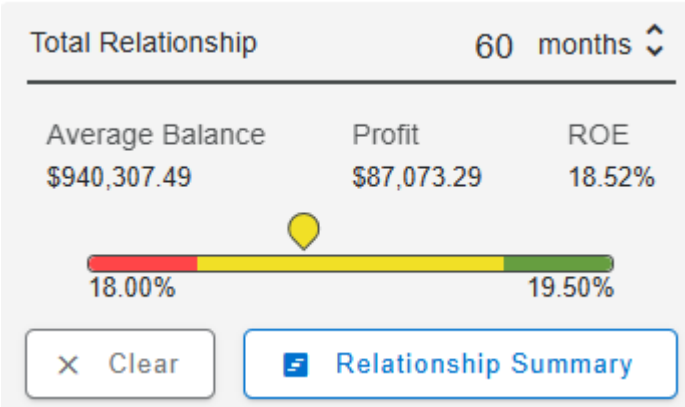
Capital Allocation

10.000

%

Commercial Loan Pricing Strategies for a Dynamic Rate Environment

Commercial Real Estate Example



Benchmark Calculator

Minimum / Maximum
Desired

Solve for Loan
FORVIS Demo Term Loan

Select a loan rate, fee, or add a deposit account to the current customer, to reach your ROE target.

Loan Only

ROE Target
19.500 %

☐ Rate 7.724%

☐ Fees \$10,831.25

Total Relationship

ROE Target
19.500 %

☐ Rate 7.724%

☐ Fees \$10,831.25

☐ Deposit \$106,759.94

Into Account
BUSINESS CHECKING ...

Commercial Loan Pricing Strategies for a Dynamic Rate Environment

CRE Incl. Related Customer Accounts

My Accounts

+ Add Account

Include ⓘ	Account Description	Balance	Credit	COF	Annual Fees	Provision Exp	Origination Exp	Annual Var Exp	Annual Fixed Exp	Capital Allocation	Profit	ROE
✓	CRE Loan	\$550,000.00	5.000%	1.200%	\$0.00	1.250%	\$1,500.00	\$900.00	0.750%	10.000%	\$56,090.00	20.396%
✓	Business Checking	\$150,000.00	3.750%	1.500%	\$0.00	0.000%	\$125.00	\$80.00	0.100%	2.000%	\$12,324.00	82.160%

Linked Customer Accounts

+ Link Customer

☒ Include in Total Relationship Summary

Forvis Mazars Demo Linked Customer

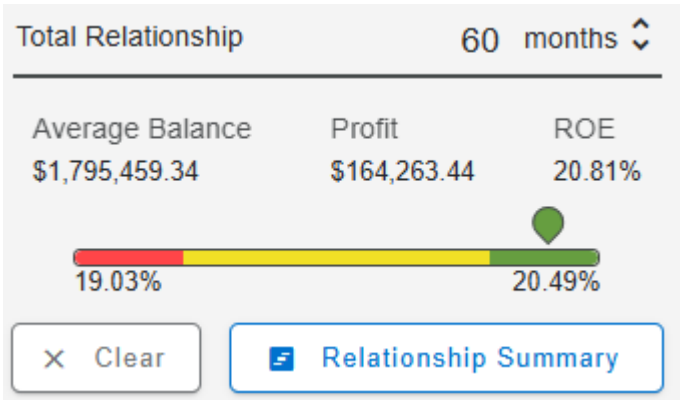
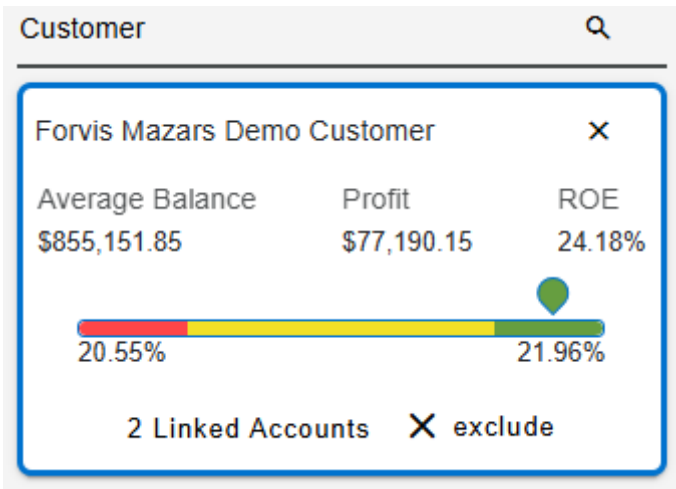
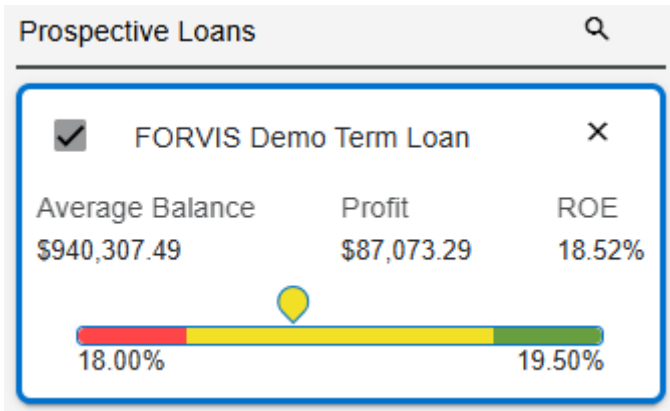
View Customer

× Unlink Customer

Include ⓘ	Account Description	Balance	Credit	COF	Annual Fees	Provision Exp	Origination Exp	Annual Var Exp	Annual Fixed Exp	Capital Allocation	Profit	ROE
✓	Business Checking with Interest	\$125,000.00	3.750%	2.000%	\$50.06	0.000%	\$205.56	\$205.56	0.500%	2.270%	\$5,395.26	38.028%

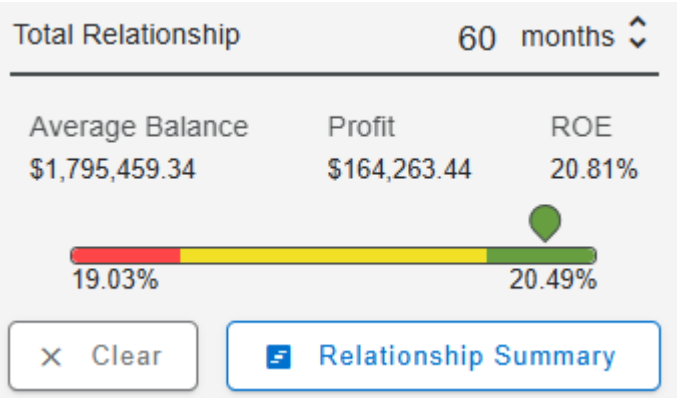
Commercial Loan Pricing Strategies for a Dynamic Rate Environment

CRE Incl. Related Customer Accounts



Commercial Loan Pricing Strategies for a Dynamic Rate Environment

CRE Incl. Related Customer Accounts



Benchmark Calculator

Minimum / Maximum
Desired

Solve for Loan
FORVIS Demo Term Loan

Select a loan rate, fee, or add a deposit account to the current customer, to reach your ROE target.

Loan Only

ROE Target
19.500 %

☐ Rate 7.724%

☐ Fees \$10,831.25

Total Relationship

ROE Target
20.494 %

☐ Rate 7.533%

☐ Fees \$1,860.48

☐ Deposit n/a

Into Account
BUSINESS CHECKING ...

Commercial Loan Pricing Strategies for a Dynamic Rate Environment

Commercial LOC

Loan Details

Product Type*
Commercial

Product*
COMMERCIAL LINES OF CREDIT

▼ Loan Parameters

Loan Structure
Adjustable/Floating

Average Usage
\$ 625,000.00

Adjustable Rate
7.500 %

Reprice Frequency
0 months

Amort/Commit
12 months

Commitment
☒

Amount
\$ 1,000,000.00

☐ Cancellable

☐ Balloon

☐ Participation

Commercial Loan Pricing Strategies for a Dynamic Rate Environment

Commercial LOC

Draw Schedule

Commitment

Months

12 months

Amount

\$ 1,000,000.00

Months	% of Commitment	\$ Amount
1	<div><div>Percent</div><div>25.000</div><div>%</div></div>	<div><div>Amount</div><div>\$ 250,000.00</div></div>
2	<div><div>Percent</div><div>0.000</div><div>%</div></div>	<div><div>Amount</div><div>\$ 0.00</div></div>
3	<div><div>Percent</div><div>0.000</div><div>%</div></div>	<div><div>Amount</div><div>\$ 0.00</div></div>
4	<div><div>Percent</div><div>25.000</div><div>%</div></div>	<div><div>Amount</div><div>\$ 250,000.00</div></div>
5	<div><div>Percent</div><div>0.000</div><div>%</div></div>	<div><div>Amount</div><div>\$ 0.00</div></div>
6	<div><div>Percent</div><div>0.000</div><div>%</div></div>	<div><div>Amount</div><div>\$ 0.00</div></div>

7

Percent

25.000

%

Amount

\$ 250,000.00

8

Percent

0.000

%

Amount

\$ 0.00

9

Percent

0.000

%

Amount

\$ 0.00

10

Percent

25.000

%

Amount

\$ 250,000.00

11

Percent

0.000

%

Amount

\$ 0.00

12

Percent

0.000

%

Amount

\$ 0.00

Total %

100.000%

Remaining Amount

\$0.00

Average Balance

\$625,000.00

Commercial Loan Pricing Strategies for a Dynamic Rate Environment

Commercial LOC

▼ Payment Structure

Structure*
Interest Only

Payment Frequency*
Monthly

▼ Loan Fees

Fees
0.500 %

Amount
\$ 5,000.00

Frequency
Up Front ▼

▼ Credit Quality

Base Provision Expense

Percentage
0.750 %

Amount
\$ 4,687.50

Frequency*
Up Front ▼

Credit Quality*
Average

Risk-Adjusted Provision Expense
0.600% \$3,750.00

Funds Transfer Pricing

Funding Curve*
US Treasury

Commercial Loan Pricing Strategies for a Dynamic Rate Environment

Commercial LOC

▼ Product Costs

Origination Expense

Percentage

0.240 %

Amount

\$ 1,500.00

Up Front

Servicing Expense

Percentage

0.144 %

Amount

\$ 75.00

Frequency*

Monthly \$ ▼

Fixed Expense

Percentage

0.250 %

Amount

\$ 130.21

Frequency*

Monthly % ▼

Tax Rate

21.000 %

Risk Adjustment*

Default ▼

Capital Allocation

10.000 %

Risk Weightings

Unconditionally Cancellable

0.000%

Unfunded Commitment to More than 1 YR

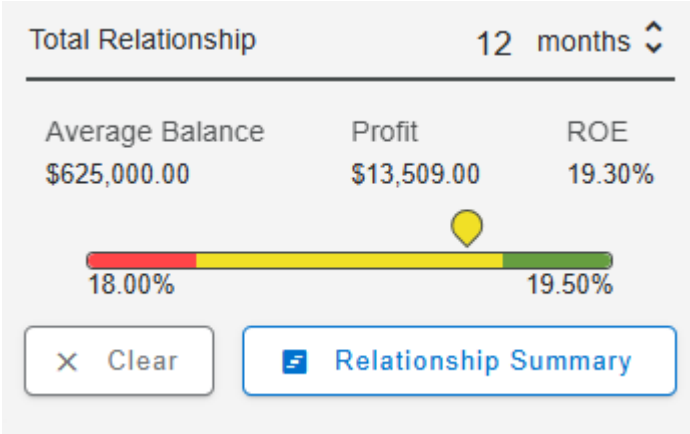
50.000%

Unfunded Commitment 1 YR or Less

20.000%

Commercial Loan Pricing Strategies for a Dynamic Rate Environment

Commercial LOC



Benchmark Calculator

Minimum / Maximum

Minimum

Solve for Loan

Demo LOC

Select a loan rate, fee, or add a deposit account to the current customer, to reach your ROE target.

Loan Only

ROE Target

18.000%

☐ Rate 7.316%

Loan Only

ROE Target

19.500%

☐ Rate 7.529%

Commercial Loan Pricing Strategies for a Dynamic Rate Environment

Construction to Perm

▼ Loan Parameters

Loan Structure

Adjustable then Fixed

Commitment

✓

Amount

\$ 1,000,000.00

Average Usage

\$ 625,000.00

Fixed Rate

7.250

%

Reprice Frequency

0

months

Fixed Term

60

months

Convert After

12

months

Adjustable Rate

7.250

%

Amort/Commit

252

months

Loan Details

Product Type*

Commercial

Product*

CONSTRUCTION LOANS

▼ Payment Structure

Structure*

Int Only then P&I

After Months

12

Commercial Loan Pricing Strategies for a Dynamic Rate Environment

Construction to Perm

▼ Loan Fees

Fees	Amount	Frequency
0.500 %	\$ 5,000.00	Up Front ▼

▼ Credit Quality

Base Provision Expense		
Percentage	Amount	Frequency*
0.750 %	\$ 4,687.50	Up Front ▼

Credit Quality*
Average

Risk-Adjusted Provision Expense

0.503% \$3,140.63

Funds Transfer Pricing

Funding Curve*
US Treasury

▼ Product Costs

Origination Expense		
Percentage	Amount	Frequency
0.224 %	\$ 1,400.00	Up Front

Servicing Expense		
Percentage	Amount	Frequency*
0.080 %	\$ 41.67	Monthly \$ ▼

Fixed Expense		
Percentage	Amount	Frequency*
0.250 %	\$ 130.21	Monthly % ▼

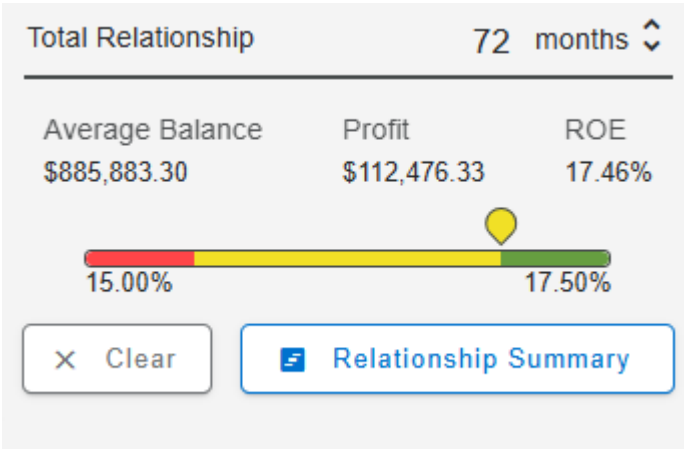
Tax Rate
21.000 %

Risk Adjustment*	Capital Allocation
Default ▼	10.000 %

Commercial Loan Pricing Strategies for a Dynamic Rate Environment

Construction to Perm

Construction to Perm



Benchmark Calculator

Minimum / Maximum

Desired

Solve for Loan

Demo Construction to Perm

Select a loan rate, fee, or add a deposit account to the current customer, to reach your ROE target.

Loan Only

ROE Target

17.500 %

☐ Rate 7.296%

☐ Fees \$5,289.77

Total Relationship

ROE Target

17.500 %

☐ Rate 7.296%

☐ Fees \$5,289.77

Section 04
Summary

Commercial Loan Pricing Strategies for a Dynamic Rate Environment

Summary

- There is no one-size-fits-all approach to setting rates on commercial loans in today's environment
- A complete understanding of the whole relationship is essential
- The rate environment is changing everyday so real-time pricing should be utilized
- Disciplined pricing approach allows lenders to value the whole relationship rather than just loan growth
- Calibration is key. A model is only as good as its configuration and is important for lender buy in
- Profitability can be improved by setting realistic targets

Section 05

LoanPricingPRO[®] resources

Commercial Loan Pricing Strategies for a Dynamic Rate Environment

Transform Your Loan Pricing Approach

LoanPricingPRO resources

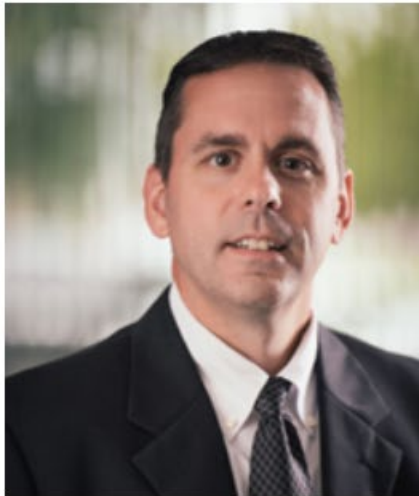
- Product page on website
 - forvismazars.us/loanpricingpro
- System Demonstration – see the model in action
 - Schedule a LoanPricingPRO demo



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