



ON Scenario Analysis | COMMERCIAL REAL ESTATE (CRE)

Part of the wider ON Credit Intelligence Suite - enables you to identify risk up to 12 months earlier with dynamic forward-looking scenarios

ON Scenario Analysis for CRE provides lenders the ability to run city-specific macroeconomic scenarios on their CRE loan portfolio using forward-looking ON CRE Forecasts. Risk professionals get access to immediate and actionable intelligence on the CRE portfolio down to the individual property level, enabling you to:

- Run scenarios on your entire CRE loan portfolio without worrying about limited and costly resources, backward-looking data, technology, and modeling capabilities.
- Plan ahead for market changes and formulate targeted risk mitigation strategies to reduce defaults and charge-offs and better manage capital requirements.
- Use early warning indicators to take a proactive approach to portfolio monitoring and adjust your lending and review strategy to gain efficiency without sacrificing credit quality.
- Identify opportunities for growth, even in turbulent economic cycles making your lending process less restrictive, thereby supporting borrowers in times of stress.

Value proposition:

1 Identify risk in your loan book earlier with scenarios that consider dynamic macroeconomic forces

- Know where risk is coming from and instill peace of mind with OakNorth Credit Intelligence (ONci) Base Scenario and Stress Scenario.
- **BASE SCENARIO:** A forward-looking view which considers the impact of prevailing trends in the economy across various cities and property types.
- **STRESS SCENARIO:** A forward-looking downside scenario considering severely stressed economic conditions across cities and property types.

6

PROPERTY TYPES

ONci's CRE scenarios provides coverage for 6 property types – multi-family, office, retail, industrial, warehouse, and hotels; and caters to both investment loans and construction loans

20+

MACRO VARIABLES BEHIND CRE SCENARIOS

Built from the bottom up, using 20+ macroeconomic variables and property specific demand and supply data from 100+ metropolitan statistical areas

COVERAGE FOR

1000

CITIES ACROSS THE US

Forecasts models for 1000 cities across US for each property type. Identify the main drivers of risk across CRE portfolio and develop targeted risk mitigation strategies.

- Analyze the impact of each scenario on your CRE portfolio and identify losses up to 12 months earlier.
- Use ONci's forward-looking city and property-level forecasts to better understand risk, and layer these onto existing historical analyses which don't consider the changing future macroeconomic environment.
- Improve efficiency by segmenting your loan portfolio by scenario impact and identify the major drivers of risk.
- Pick up vulnerable borrowers early for detailed review and reduce time spent on low-risk borrowers.

ON Scenario Analysis

ON Base Scenario

Risk breakdown

Compared to the current ON Risk Score Based on 1,747 Financials, the downgrade/upgrade ratio for the ON Base Scenario is 4.9%.
 Downgrades: 14.3% of your loan book exposure
 Upgrades: 10.1% of your loan book exposure

Segment your loan book and identify most vulnerable borrowers for detailed review

2 Allow your teams to access insights powered by the same data and analysis, from the portfolio down to the borrower level

- Break the silos throughout the credit lifecycle with connected portfolio views.
- Drill up and down, from the overall portfolio and location level down to the property type (six property types) and borrower level, to better understand the impact each scenario could have on your CRE portfolio.
- Give your teams the data and tools they need to identify the sources of risk and the underlying drivers behind it – enabling you to formulate a targeted risk mitigation strategy for better capital allocation.
- Identify the borrowers that have the greatest impact on your CRE loan book and the property types or regions that contribute the most to changes in performance.

Property type risk

The top 3 property types are responsible for downgrades in 8.3% of loan book exposure

Property type	Exposure	Scenario ON Risk Score
Multifamily (31)	21.5% of loan book exposure, 22.7% downgraded	Medium
Office (42)	12.9% of loan book exposure, 15.5% downgraded	Low
Warehouse (42)	7.3% of loan book exposure, 17.3% downgraded	Medium

Risk upgrades

The top 3 property types are responsible for downgrades in 8.4% of loan book exposure

Property type	Exposure	Scenario ON Risk Score
Retail (42)	13.9% of loan book exposure, 27% upgraded	Low
Manufacturing (21)	21% of loan book exposure, 12.1% upgraded	Low

Downgraded borrowers

Top 5 borrowers with downgraded ON Risk Score (at least 2 steps) sorted by exposure.

Name	Property type	Current ON Risk Score	Scenario ON Risk Score
Borrower 2041	Office (325411)	Low	High
Borrower 1888	Warehouse (325413)	Lowest	Medium
Borrower 3193	Multifamily (333316)	Lowest	High
Borrower 2980	Retail (339020)	Low	High
Borrower 8874	Hotels (420848)	Low	High

Get insights at the property type and borrower level to formulate risk mitigation strategy

3 Take preventive action to get ahead of market changes and reduce defaults and charge-offs

- Highlight areas of risk for property types and individual borrowers that may not be identified by internal rating models, thus helping you take proactive steps to prevent potential credit deteriorations.
- Identify high-risk locations and property types in your CRE loan portfolio across ONci scenarios, investigate further (informed by your internal risk rating view) and make targeted decisions through a nuanced forward-looking view of location-specific and property type-specific risk.
- Support borrowers better through the cycle with a more detailed forward-looking view of their property's projected performance

Borrower 10055
Last updated: Dec 31, 2022

Exposure: USD 150.0M
Internal risk rating: 7
DSCR: 0.30x
Current ON Risk Score: High
Scenario ON Risk Score: Medium
Relationship manager: Collier Wright

ON Risk Score

Scenario ON Risk Score is a current and forward-looking assessment of the borrower projections and thresholds. What is ON Risk Score?

Component of ON Risk Score	Weighting	Current ON Risk Score	Scenario ON Risk Score
MGR	30.0%	0.30x High	0.30x High
Real economy	40.0%	0.30x High	4.30x Medium
Business profitability	20.0%	48.5% Green	57.6% Green
Months of liquidity	10.0%	0.44x High	1.19x High

ON Stress Scenario

In this scenario, inflation slows less sharply in the near term than expected. Federal Reserve will continue to follow aggressive policy tightening with additional rate hikes. Higher rates and tight prices as well as hit business and consumer demand. Avoid the fall-out, the US economy enters a more severe recession.
Last updated: May 12, 2023 [What is a scenario?](#)

Summary | Macro assumptions | Property type | **Borrowers**

Name	Industry	Internal risk rating	Current ON Risk Score	Scenario ON Risk Score
Borrower 10055	Office 221122	7	High	Medium
Borrower 10285	Warehouse 541110	4	Low	Low
Borrower 5618	Retail 221114	8	High	High

Drill down on high-risk properties and identify drivers of risk

PROACTIVE FORWARD-LOOKING PORTFOLIO MANAGEMENT

ON Scenario Analysis enhances your team's risk mitigation practices with an easy-to-use automated solution for creating multiple "what-if" scenarios that apply forward-looking models to commercial loan books, allowing them to better assess credit risk and support borrowers through the lending cycle.

[Request a demo](#)

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