Leveraging AI for a Strategic Advantage in Commercial Lending
1. State of Commercial Lending in 2024
2. AI’s Impact
3. Empowering Your Workforce with AI
4. Uncovering Hidden Insights with AI
5. Avoiding Common AI Risks
6. Takeaways and Next Steps
Our Speakers

Matt Reidy
Director of Economic Research

Omar Akkor
Senior Director
Head of Banking Product Strategy & Partnerships

Moderator:
Briana Mulherin
Marketing Director
Gross Domestic Product

Growth slows in relation to robust performance in late 2023

[Graph showing compounding annual rate of change for Real Gross Domestic Product from Q1 2023 to Q1 2024, with shaded areas indicating U.S. recessions.]

Source: U.S. Bureau of Economic Analysis
The Consumer

A consumer debt crisis is far from a reality
The Labor Market

Slow softening is ideal; wage pressures subside without a shock to consumers
Risks: Government Debt

Debt servicing becoming costly, places further upward pressure on interest rates
Risks: Global Shipping Costs

No significant relief in sight: wages, containers, conflict
Interest Rate Projections

The neutral rate of interest is now higher, but still reasonably low in historic context
C & I Lending

Stagnant portfolio growth & rising charge-offs

Sources: Federal Reserve
C & I Lending

Tight credit and weaker demand

Sources: Federal Reserve Board Senior Loan Officer Opinion Survey
CRE Lending Activity Plummeted but Shows Signs of Life

Sources: Mortgage Bankers Association, Moody’s CRE
CRE Pricing (Repeat Sales Methodology)
Low transaction activity hiding some larger value declines
CRE Transaction Volume

Activity has suffered, but as “higher forever” is accepted volume will rise

Sources: Moody’s CRE
Maturities Continue to Weigh on Market

2024 maturities increased during 2023, mostly due to extensions

$270 billion increase in 2024 maturities

Sources: Mortgage Bankers Association, Moody’s CRE
Against This Backdrop, Challenges Abound

- Net interest margin pressure
- Slower loan growth
- Potential of increased capital requirements
- Increased focus on asset performance and stress testing
Impact on Commercial Lending
What does this all mean for banks?

1. They need to do more with less – cut costs
2. They need to prioritize their human resources strategically
3. They need to act quicker to risks and unlock opportunities
Opportunities to Leverage AI

1. Streamline loan application and approvals through automation, enhanced onboarding, and better insights.

2. Alleviate tedious manual work and focus time on strategic priorities.

3. Analyze and identify trends across a vast amount of data for a quicker and more accurate credit risk assessment to inform better decisions.
What is Generative Artificial Intelligence?

Artificial Intelligence
Machines that can replicate human behavior, including all aspects of perceiving, reasoning, learning, and problem solving.

Machine Learning
Machines that learn relationships hidden in data, and build approximate models of real systems.

Deep Learning
‘Neural networks’ that model real systems by mimicking how the human brain works, utilizing millions of computational ‘neurons’.

Generative AI
A type of AI that can create new content such as images, text, audio, or video based on the data it has been trained on.
Empowering the Workforce

Collaboration between humans and AI for optimal decision-making

Free up banks’ time from tedious tasks and augment capabilities
→ Reduced time spent on data

Enhanced insights
→ Enables them to provide personalized financial advice

Challenges
- Data gathering and verification
- Limited data on borrower and asset
- Market uncertainty and customer behavior
- Complex loan applications

Streamlines workflow
→ Allows bankers to focus on strategic customer relationships
Uncovering Hidden Insights

Creatively connecting and analyzing vast amount of data and generating novel possibilities

Identify patterns and trends

Predict borrower behavior and credit risk

Make data-driven decisions for better loan performance
Understanding & Mitigating Risk

AI introduces risk to both banks and borrowers

Risk to Banks:
- Regulatory issues
- Legal challenges
- Reputational damage

Risk to Borrowers
- Unfair loan denials
- Inaccurate risk assessment
- Limited access to explanation

Data Quality & Fairness

Model explainability and transparency

Human oversight

Robust security and governance measures
Key Takeaways

What can AI do for you?

Moody’s is investing in AI and partnering with leading companies in this space to bring the very best this technology offers to our clients.

We’d be happy to help you through your AI journey. Reach out in the post-webinar survey.

Build a more resilient and profitable business through operational efficiencies.

Achieve growth driven by better insights and faster decision making.

Offer better customer experience and satisfaction through personalized touch.

MOODY'S