FTI Consulting U.S. Loan Market Survey: Lenders Expect Slightly More Workout Activity in 2022

February 23, 2022

WASHINGTON, Feb. 23, 2022 (GLOBE NEWSWIRE) -- FTI Consulting, Inc. (NYSE: FCN) today released the findings of its *2022 U.S. Loan Market Survey*, which provides insight into the impact of COVID-19, inflation and other economic trends on the U.S. loan industry, along with expectations for leveraged credit market conditions this year.

Following 2021's sharp fall in workout activity, respondents to this year's survey foresee activity modestly increasing. Nearly half of respondents (47%) expect slightly higher workout activity in 2022, with another 35% expecting 2022 workout levels to be approximately equal to 2021. Just 4% of respondents said loan defaults and workout activity will be substantially higher this year.

Respondents believed that retail, hospitality and lodging, restaurants and dining, and real estate and REITs are the sectors most likely to experience distress in the next 12 months. This reflects the ongoing continued impact of the COVID-19 pandemic on these industries as well as growing concerns over inflation.

Respondents' sentiment and expectations around the COVID-19 pandemic and its economic impact have changed materially over the past year. Last year, most loans in workout were attributed to COVID-19, and most respondents expressed concerns about its lingering impact on unemployment and a resumption of normal lifestyles.

"This year's survey cited far fewer concerns about COVID's impact on the recovery and financial markets even as the Omicron variant was peaking nationally," said Sanjeev Khemlani, Leader of the Senior Lender Advisory practice within the Corporate Finance & Restructuring segment at FTI Consulting. "Notably, many more respondents said that federal financial relief programs and Federal Reserve Bank policies meant to counter the economic effects of COVID were excessive. In retrospect, it appears that policies intended to mitigate the economic blow from COVID have gone too far and are now contributing to accelerating inflation, full risk-on mode in leveraged credit markets, as well as very depressed levels of default and restructuring activity."

Key findings from the survey include:

- Lenders expect heady inflation, but below current run-rate levels. Despite the Fed's stated intentions to bring inflation under control, 75% of respondents believe inflation will range between 3% and 6% this year. Only 21% expect inflation to exceed 6% for the year, compared to the 7.5% CPI increase reported in January.
- Geopolitical event risk, which in 2021 only ranked as the top worry for 17% of respondents, was the top concern for 24% of respondents in 2022. Another new concern was strained supply chains. That concern ranked second only to inflation The persistence of COVID-19 and its negative effects was last among the top concerns of respondents.
- Only 26% of respondents said that loans actively managed by their workout groups were driven by COVID-19 effects, unlike 2021, when 52% of respondents cited the same cause.
- 60% of respondents expect that supply chain issues afflicting the global economy will be resolved in the second half of 2022, while another one-third of respondents believed the issue will not be resolved until 2023 or later.
- 75% of respondents said that the Fed's easy money policies in 2020-21 will continue to dampen default and restructuring activity for up to a year.
- 81% of respondents said environmental, social and governance ("ESG") considerations were impacting their investment or industry exposure decisions, with 23% of respondents saying they were having a substantial impact.

"Looking at 2022 responses next to those from 2021, one can see what may be the beginning of a slow shift in underwriting expectations to more conservative standards," said Dave Katz, a Senior Managing Director in the Corporate Finance & Restructuring segment at FTI Consulting. "Only 14% of respondents expected looser standards this year, well less than half the amount who expected the same the year prior, while more than one-quarter of respondents expected tighter lending standards, a 70% increase from last year."

Survey Methodology
FTI Consulting surveyed more than 200 bank and non-bank lenders across the United States between January 20 and February 7, 2022. Respondents included workout group lenders, Managing Directors, Directors, Vice Presidents, Executive Directors and Chief Credit Officers.

About FTI Consulting
FTI Consulting, Inc. is a global business advisory firm dedicated to helping organizations manage change, mitigate risk and resolve disputes: financial, legal, operational, political & regulatory, reputational and transactional. With more than 6,600 employees located in 29 countries, FTI Consulting professionals work closely with clients to anticipate, illuminate and overcome complex business challenges and make the most of opportunities. The Company generated $2.46 billion in revenues during fiscal year 2020. In certain jurisdictions, FTI Consulting's services are provided through distinct legal entities that are separately capitalized and independently managed. For more information, visit www.fticonsulting.com and connect with us on Twitter (@FTIConsulting), Facebook and LinkedIn.

FTI Consulting, Inc.
555 12th Street NW
Washington, DC 20004
+1.202.312.9100

Investor Contact:

Mollie Hawkes
+1.617.747.1791
mollie.hawkes@fticonsulting.com

Media Contact:
Matthew Bashalany
+1.617.897.1545
matthew.bashalany@fticonsulting.com

Source: FTI Consulting, Inc.