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Large U.S. Companies Forge Stronger Bonds with National Banks

Private Lenders are increasingly attractive for corporate America—but not everywhere.

August 7, 2024

While private lenders grab headlines by making inroads into the corporate lending business, banks are quietly cementing their market share among the country's largest and highest-rated companies by forging relationships that are increasingly beneficial for both sides.

Amid tightening credit conditions, private lenders have emerged as an important source of capital for U.S. companies. After several years of strong growth, the global private credit market is now roughly the size of the U.S. high-yield market. Preqin estimates private credit could nearly double in size to $2.3 trillion in the next three years. This rapid expansion has triggered broad discussions about the future of corporate finance, risks associated with unregulated lending, and the fates and business strategies of traditional corporate banks.

What has received much less attention are the deepening ties between the largest and financially strongest U.S. companies and corporate bank lenders. For big companies with investment-grade ratings, bank lending remains an efficient means of securing long-term financing (along with the corporate bond market). Over the past year, the largest U.S. national banks and their biggest corporate clients have worked hand-in-hand to make these important relationships even more rewarding.

Mutually Beneficial Relationships

In addition to maintaining a steady flow of affordably priced credit amid economic uncertainty and rising interest rates, national banks have invested heavily to become more valuable to their biggest corporate clients. The national banks have improved service quality with innovative technology platforms that simultaneously meet clients' growing demand for digital banking capabilities while enhancing the quality of relationship manager coverage. Now they are working to use data analytics and artificial intelligence (AI) to leverage financial data accumulated over the course of relationships to generate even more efficiencies for corporate clients.

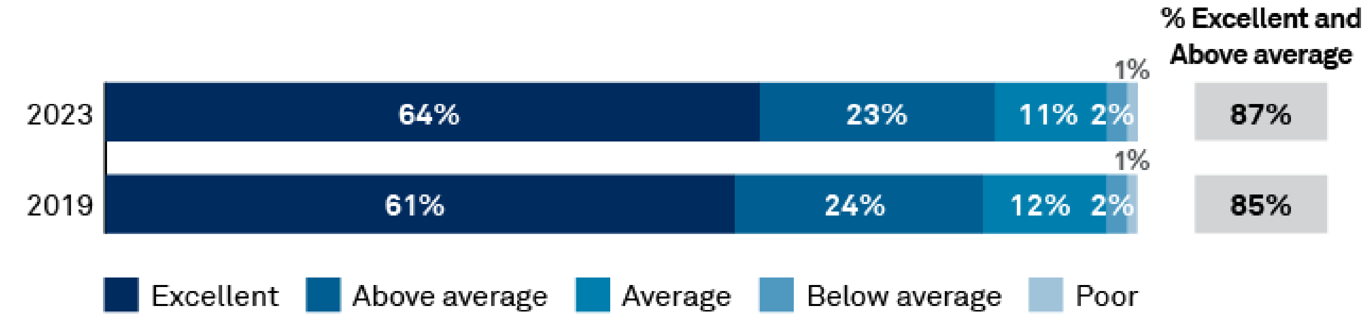
For their part, the largest U.S. companies are consolidating their non-lending banking business with their biggest credit providers to make their relationships more attractive to the national banks. As U.S. regulators increase capital reserve requirements on banks, corporate lending has become a less profitable business. That phenomenon helped open the door to private lenders, who have taken advantage of retrenchment by U.S. banks to gain market share.

For the most part, though, banks have not pulled back from lending to top-tier investment-grade corporates.

In fact, over the last four years, large corporates reported that their banks have remained willing to extend credit in amounts and at terms that meet their expectations.

However, big companies are not taking that favorable position for granted. Instead, they are working to ensure their relationships remain enticing to their important banks by proactively increasing the amount of fee-based business allocated to their biggest lenders in cash management, trade finance and other areas.

Willingness to Extend Credit to Top-Tier Corporates

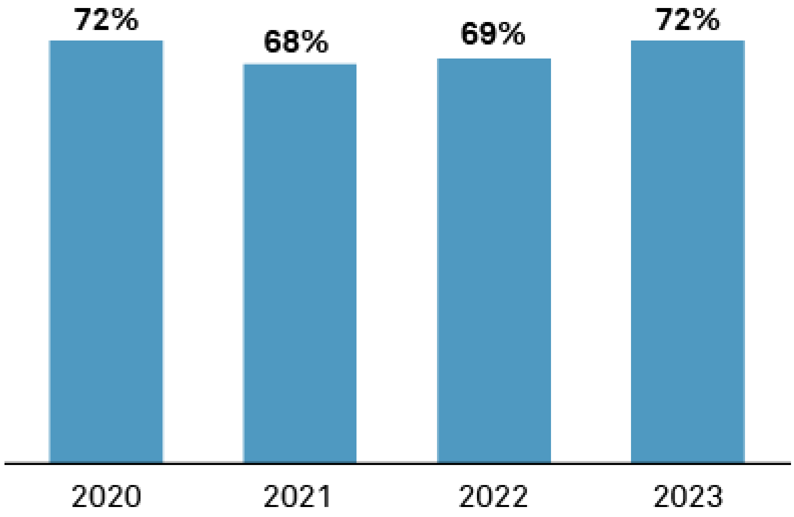


Note: Based on 311 respondents in 2019 and 200 in 2023.
Source: Coalition Greenwich Voice of Client – 2023 U.S. Large Corporate Banking Study

Winner Takes All

These dynamics are contributing to a "winner-takes-all" atmosphere in corporate banking. In businesses like trade finance and domestic cash management, roughly three-quarters of companies' product providers are also credit providers. That share tops 80% in foreign exchange (FX) and investment banking, and approaches 90% in structured finance, debt capital markets and interest-rate derivatives. In cash management, roughly three-quarters of companies cite willingness to extend credit as a key criterion in their selection of providers.

“Size of Credit Commitment” as a Key Criterion for Corporates Selecting a Cash Management Provider



Note: Based on 88 respondents in 2020, 68 in 2021, 65 in 2022, and 140 in 2023.
Source: Coalition Greenwich Voice of Client – 2023 U.S. Large Corporate Banking Study

Gains made by companies’ biggest lenders in these and other businesses are coming at the expense of other banks lower on companies’ lists of providers. For example, from 2022 to 2023, the average share of spending captured by companies’ three lead banks increased from 35% to 40% in trade finance, while in cash management, a disproportionate allocation of 57% of spending goes to the top three.

That level of consolidation could be bad news for smaller banks and international competitors. For smaller U.S. banks, the loss of fee-based business and provider relationships will likely increase pressure for consolidation. In fact, the small increase in the number of lead corporate lending relationships held by mega-regionals from 2022 to 2023 mainly reflects the accumulation of new relationships from recent acquisitions.

Putting Corporates in the Strongest Position

These trends will change the funding dynamics for companies of all sizes. The largest U.S. companies will be increasingly tied to the national banks in deepening relationships that encompass lending and an ever-expanding list of functions and services. Companies outside the very top tier of U.S. corporates could face challenges as national banks become less willing to extend balance sheet and smaller banks consolidate.

Private lenders are stepping into this void with badly needed capital. Initially, private lenders’ gains came mainly from companies at the smaller end of the large corporate segment and from lower-rated companies experiencing balance sheet pressure as a result of increasing rates and higher funding costs. Over time, however, companies further up the size spectrum have started viewing private lenders as a viable alternative to banks.

For corporates, the question going forward is: **Where will the largest national banks draw the line in terms of the profitability of corporate banking and lending relationships?**

Companies that meet the national banks' criteria for attractive relationships will be positioned for fairly secure access to relatively affordable and consistent credit, along with an expanding menu of efficiencies and benefits derived from national banks' powerful technology, data analytics and AI offerings. For companies that fall short of that mark, it will probably make sense to consolidate spending in cash management, trade and other areas to woo national lenders and secure access to this exclusive club.

Large corporates that still don't make the cut needn't despair. Private lenders are sitting on billions of dollars in dry powder, and mega-regionals and other smaller banks are hungry for corporate relationships. Large companies that find themselves underserved by national banks will have no shortage of alternatives, but they will likely find themselves more exposed to the ups and downs of the economy and credit cycle.

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