PATHWAY
ADVISORS LLC
WORKOUT & SELL-SIDE PROFESSIONALS

Getting it Done

Management & Financial Insights for Business Professionals

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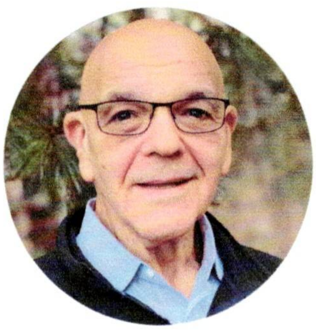

Dear Friend,

Back in February, in preparation for my 2026 presentation at the Risk Management Association's annual Loan Officer Resident Seminar (LORS), I pulled out the deck I had used in 2025. To both my amazement – and chagrin, I realized that I had to do a substantial rewrite. Why was that? The AI age is coming upon us at breathtaking speed, and I needed to address this fact in my talk.

To put it in perspective, when I was a lending trainee (a few years ago to say the least), I had four basic tools: a pencil, pads of paper, a calculator and a phone. Since that time, there have been ***evolutionary*** changes to that toolkit: laptops, spreadsheets, cellphones and the internet to name a few. Now, though, the adoption of AI is well underway and growing more ***revolutionary*** by the day – for both bankers and borrowers.

Not being an expert in AI (again, to say the least), I dove head-first into the process of researching AI's adoption into the commercial lending industry. Today I'll be sharing what I've learned about the impacts AI will have on both commercial banks and borrowers over the next few years. From a general standpoint, my comments are focused on the smaller to mid-sized borrowers that Pathway works with. For the sake of clarity, these companies usually have lines of credit and term loans that total from $2 million to $25 million. Regardless, these thoughts have much broader relevance.

As always, your comments and questions are invited.

Best Wishes,
Gerry

AI AND COMMERCIAL LENDING: Different But Still The Same

TODAY'S LANDSCAPE – *Key Factors in Play*

AI gathers and analyzes massive amounts of information used in commercial lending with extraordinary speed including:

1. Company-specific financial data.
2. Economic impacts on a global, industry and company specific basis.
3. Industry specific information regarding technological change and competitive forces, etc.
4. Company specific information on issues like technology advances, industry consolidation, etc. – as well as financials needless to say.

The real breakthrough is that AI can quickly synthesize all of this information and potentially provide insights that could have taken days to develop – if at all – in the past.

The ability to generate and synthesize massive amounts of information on a virtually real-time basis will create profound changes in how commercial lending is conducted. Here are some of the major impacts that I can foresee:

1. Credit analysis will be completed much more efficiently and robustly.
2. Loan decisions can be made more quickly. AI will take on more, though still less sophisticated, decisions. When "good old" human input is essential, needed information will be available more quickly to support decisions.
3. Loan monitoring will be much more timely, and accordingly, more useful from a relationship management standpoint.
4. Many job functions will change. For example, there will be fewer credit analysts across the board but more of them will be at senior levels that require extensive experience and perspective.
5. On an overall basis, customer interactions will be less frequent on a face-to-face basis – and those meetings will involve more complex issues such as growth financing, the reasons for a downturn, senior management transitions, and M&A transactions.

At the same time, the basics of credit decisions will remain the same. And a borrower will still need to have an acceptable level of profitability, and/or sufficiently strong collateral. A borrower will also still need a Balance Sheet which can support day-to-day operations, growth and business downturns.

There is a broad consensus, which I fully agree with, that human judgment will still be essential to addressing both more complex lending situations and the resolution of problem loans. In those instances, direct conversations with the borrower are irreplaceable.

Net, net, I see these changes being beneficial to borrowers. They can be serviced more efficiently, albeit often without human interaction. At the same time, loan monitoring will become more frequent. Because of this, I believe that many of these borrowers, albeit far from all, will become more accountable to themselves. That's because they'll know that their bank will have the capacity to see, more quickly, when their financial metrics are headed in the wrong direction.

FINAL COMMENTS – *What This All Means*

Putting it all together, the business of commercial banking will be changing profoundly but its analytical essence will remain the same.

Nonetheless, I have little doubt that within five years the process will *feel, and, in actuality, be* different. There will be fewer of the close-knit relationships that many borrowers were lucky enough to have with their banker. Conversely, bankers will have access to more information and analysis about their borrowers than ever before. Given this, borrowers should make every effort to "profile" well. Providing required financial and operating reports on a timely and accurate basis will be clearly noticed automatically. All the more important, banks will be able to easily – as well as quickly - measure and evaluate a company's performance. ***Putting it another way, many borrowers will be known much more for how their numbers look as opposed to who they are.***

I also want to note that this edition represents the first time I used the Claude AI tool to edit **"GETTING IT DONE".** Beyond the usual checks for spelling and grammatical errors, Claude made several substantive contributions. The more routine suggestions led me to reconstruct several paragraphs. Claude also made one suggestion that led me to introduce a new, substantive area. Claude did not write this newsletter in any way – but it did help make it a little better. *Given this, I'm announcing that Claude is now a permanent contributing editor!*

Pathway Advisors LLC is a boutique financial and management advisory firm. We specialize in helping the owners of undercapitalized, privately held companies achieve their short and long-term goals. Our primary services include:

- ***The arrangement of new and replacement financing***
- ***Financial and organizational restructuring***
- ***A sale to a synergistic buyer that has the capital and skill sets that allow our client to better achieve their business and personal goals***

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