OBJECTIVE OF THE SURVEY

As a follow-up to our inaugural Energy Bank Price Deck Survey that we published last fall, we asked leading energy banks in mid-February 2020 to provide their current oil and gas price decks that they use to determine oil and gas producers’ borrowing bases under their reserve-based loans. We received responses and data from 21 of these banks by late March 2020.

By way of background, the borrowing base, which is the amount of credit a lender is willing to extend to an oil and gas producer, is based on a number of factors. Each energy lender has its own proprietary algorithm on how to determine its borrowing base. Future expectations of commodity prices (the price deck) over the life of the loan is not the sole determiner. However, it is a principal variable in a bank’s calculations. Therefore, predictions regarding future borrowing base redeterminations are heavily influenced by future commodity price expectations.
CAVEAT FOR SPRING 2020 SURVEY

After we sent requests in mid-February 2020 to leading energy banks for their “current price decks,” the price of oil dropped precipitously in the first week of March after the announcement of price cuts by Saudi Arabia following the OPEC meeting on March 6. While 21 of these energy banks provided their “current price decks” not all banks set their price decks on the same day. During the course of collecting price decks, the price of oil crashed. The Monday after March 6, we reached out to these banks to ask if they wanted to submit revised price decks. The pre-crash price decks included in this survey were dated from January 7 to March 5, 2020. The post-crash price decks provided were dated from March 9 to March 20, 2020. Therefore, movement in commodity markets around the date a bank set its price deck will influence the price decks they reported at such time. The results of the survey charted in the following slides reflects a “general” consensus, while also illustrating some deviations among responding banks.

Accordingly, the results of our Spring 2020 Energy Bank Price Deck Survey are not exactly an “apples to apples” comparison and should be viewed more as an indication of bank price expectations.

Note that due to confidentiality requests from the participating banks, we are unable to share the raw data associated with our survey.
BY THE NUMBERS

FALL 2019
- 30 banks invited to participate
- 17 banks responded to survey
- 56.6% participation rate

Of the 17 participating banks, 53% provided sensitivity cases for their Fall 2019 price decks.

Sensitivity Analysis
- 53% Did Not Provide Data
- 47% Provided Data

SPRING 2020
- 32 banks invited to participate
- 21 banks responded to survey
- 65.6% participation rate

Of the 21 participating banks, 76% provided sensitivity cases for their Spring 2020 price decks.

Sensitivity Analysis
- 76% Did Not Provide Data
- 24% Provided Data
This chart shows the cumulative Minimum, Mean and Maximum for pre-crash price decks and the cumulative Minimum, Mean and Maximum for post-crash price decks.
This chart shows the cumulative Minimum, Mean and Maximum for pre-crash price decks and the cumulative Minimum, Mean and Maximum for post-crash price decks.
This chart shows the cumulative Minimum, Mean and Maximum for pre-crash price decks and the cumulative Minimum, Mean and Maximum for post-crash price decks.
GAS SENSITIVITY CASE – SPRING 2020

Gas Sensitivity - Spring 2020

- Indicate a pre-crash price deck
- ▲ Indicates a post-crash price deck
This chart shows the cumulative Minimum, Mean and Maximum for pre-crash price decks and the cumulative Minimum, Mean and Maximum for post-crash price decks.
KEY TAKEAWAYS – SPRING 2020

Fall vs. Spring Pricing - Oil: The average Base Case for oil post-crash is 15.6% lower than the Fall 2019 Base Case.

Will Oil Price Collapse bring Borrowing Base Collapse?: The significant drop in bank price decks from last Fall signal a significant drop in collateral value for oil-weighted producers. However, the continued uncertainty in global oil markets caused by the OPEC+ promise to increase supply coupled with the unknown impact on world demand caused by the COVID-19, may give banks and borrowers an excuse to skip or postpone the Spring Borrowing Base season.

Fall vs. Spring Pricing – Gas: The average Base Case for gas post-crash is 12.3% lower than the Fall 2019 Base Case.

The Tortoise and the Hare: Gas prices have been low for so long, gas is starting to look like a more bankable commodity. Oil’s volatility to the down side will give banks (and producers) more reason to discount its future collateral value. Perhaps this will be a case of “Slow and steady, wins the race.”
Borrowing Bases are not based on Price Decks Alone

The 15.6% drop in the average oil price from last Fall’s Energy Bank Price Deck Survey mean that all producers will see a similar percentage drop in their bank line of credit. Most borrowers produce some combination of oil, gas and liquids. Average gas prices have only dropped 12.3%, so depending upon a producer’s production mix, their borrowing base redeterminations will vary. Other producers may have made acquisitions of additional collateral since last Fall or may have other credit support that will lessen the impact of the drop in commodity prices on their Spring Borrowing Bases.

Hedges are your Friend

In a falling price environment, well-structured hedges can support a borrowing base above the bank price deck. On balance, most bank loan agreements require producers to hedge up to 60-80% of expected production on a rolling 12-24 month basis. For those producers who have been layering on hedges over the last six months, they will be better insulated from changes in oil and gas price decks, at least in the near term.
THANK YOU TO OUR PARTICIPATING BANKS

We would like to acknowledge and thank the following banks, and the eleven additional banks, that participated in our Spring 2020 Survey:

- Capital One
- DNB Bank ASA
- East West Bank
- Fist Capital Bank of Texas
- First Horizon Bank
- Hancock Whitney Bank
- ING Bank
- Texas Capital Bank
- US Bank
- Zions Bancorporation d/b/a Amegy Bank
HAYNES AND BOONE ENERGY REPORTS

Our oil and gas lawyers have been helping clients make the right connections and navigate the ever-changing legal maze to successfully close deals. Take advantage of our other reports, surveys and publications that help keep you one step ahead:

- **Borrowing Base Redeterminations Survey**: a forward-looking survey that reveals what lenders, borrowers and others in the industry expect regarding the borrowing base redeterminations in light of oil price uncertainty.
- **Energy Roundup**: a comprehensive report on the industry.
- **Midstream Report**: includes details on midstream companies that have filed for bankruptcy since 2015.
- **Oil Patch Bankruptcy Monitor**: includes details on oil and gas producers that have filed for bankruptcy since 2015.
- **Oilfield Services Bankruptcy Tracker**: includes details on oilfield services companies that have filed for bankruptcy since 2015.

Contact Hal Means at 713.547.2137 or hal.means@haynesboone.com to receive our latest reports, alerts, surveys and invitations to our energy related events.
## OFFICES

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