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Risk Management Association

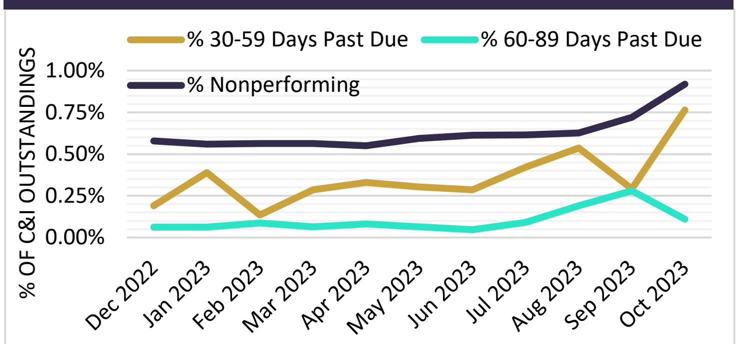
Commercial Credit Quality Bulletin

November 2023

C&I, Commercial Real Estate Loan Delinquencies and Nonperforming Loans Hit 2023 Highs in October

October saw some key measures of commercial loan performance reach 2023 high water marks as the higher-for-longer interest rate environment, stubborn inflationary pressures, and a slowing economy take their toll. Non-performing Commercial & Industrial (C&I) loan balances, defined as loans past due 90 days or more plus nonaccrual, reached 0.92%, up 28% month-over-month and 58% from the first of the year. C&I outstanding loan balances past due one payment also jumped to 0.76% from just 0.29% last month. For Commercial Real Estate loans, non-performing loan levels reached 1.20% at the end of October, while short-term delinquencies jumped 40% month over month to 0.67%. All these figures represent 2023 highs. Read below and contact RMA/AFS for more granular details behind these trends.

C&I Delinquency and Nonperforming Trend

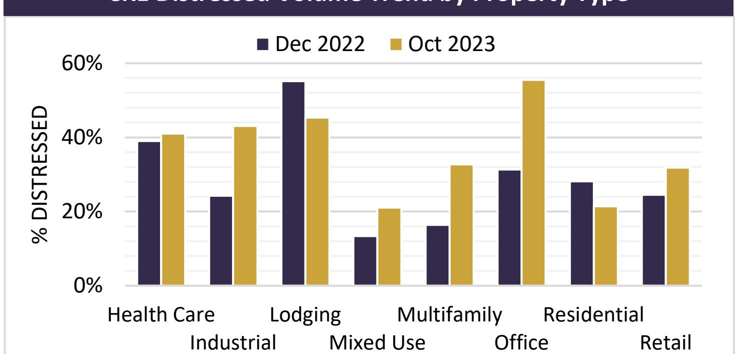


With the chart on the left, we are showing three key loan performance measures. By way of definition, nonperforming loans are loans that are 90+ days past due and loans that are in a nonaccrual status. The chart shows loan performance from December 2022 to October 2023. What we are seeing in the last few months is that the improvement that had occurred post-COVID has just about been eliminated. Nonperforming C&I levels are nearing 1.0%, something we haven't experienced in quite some time. The impact of high inflation coupled with high interest rates have negatively impacted bottom lines and borrowers' abilities to repay outstanding debt.

On the right we are looking at the subsectors for Transportation (NAICS code 48). The transportation sector over the past ten months has experienced a significant jump in nonperforming loans, going from 0.48% as of December 2022 to 3.46% as of October 2023. The subsectors that have experienced the worst decline in performance are related to air transportation and trucking. The Air and Water subsectors would fall under consumer discretionary and have been impacted by inflation. Further, consumers no longer have excess income to spend on vacations/leisure.

C&I Nonperforming Trend by Industry

CRE Distressed Volume Trend by Property Type



On the left, we look at CRE Property types by a category we label as distressed, which means risk ratings of the lowest passing grade or criticized. We have found that a large portion of low pass borrowers migrate to a criticized rating within two years. By combining low pass and criticized we get a more complete picture of property types at risk. The poor credit quality for Office properties has accelerated which is as expected, but now other property types are experiencing similar problems. Industrial properties have displayed an outsized increase in distressed ratings this year.

Why RMA and AFS?

RMA and AFS are committed to providing relevant, timely, and practical credit risk solutions to banks. Combining the strengths of each to offer information and insight, RMA and AFS are ideally situated for collaborations aimed at identifying and responding to the credit risk needs of financial institutions.

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