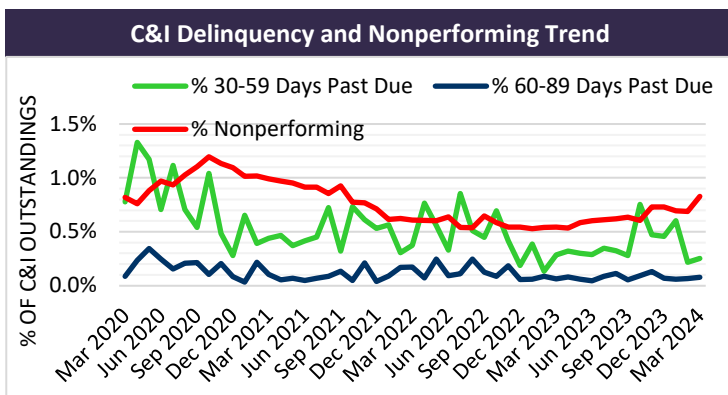


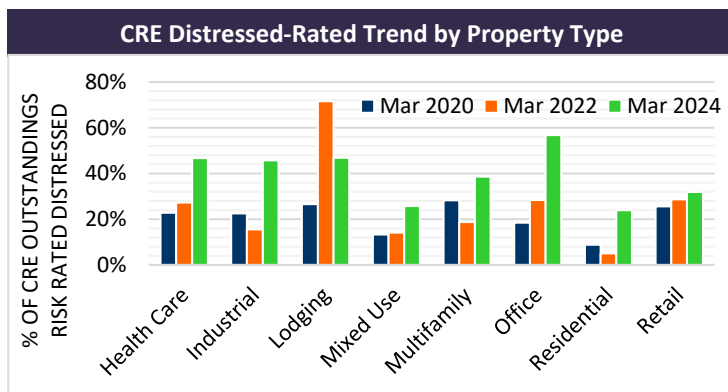
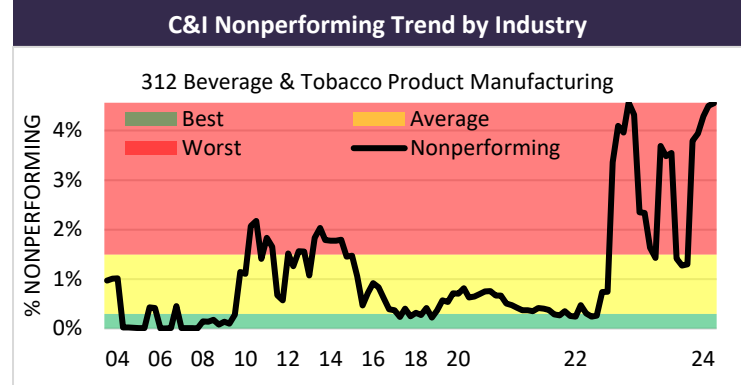
## C&I Nonperforming Loans Spike in March, Stress in the Office Sector Drives Distressed CRE Loans Higher

The percentage of nonperforming C&I loans (defined as nonaccruing loans and accruing loans past due 90 days or more) increased sharply from February to March, a sign that prolonged high interest rates are straining business borrowers. The industry-wide C&I nonperforming rate jumped 14 basis points month over month, the largest increase seen since the onset of the pandemic. This month's trend was reflected across multiple industries, most notably the Manufacturing sector. The turn for C&I adds to the stress that regional lenders were already feeling in their commercial real estate books. The timing and magnitude of a potential easing of interest rates is clouded by persistently high inflation, meaning that high interest rates and lagging loan performance are likely to persist until at least the latter half of the year.



With the chart on the left, we are showing three key loan performance measures for commercial and industrial (C&I) loans over the last four years, starting with the onset of COVID. The nonperforming metric combines loans that are 90+ days delinquent with loans that are in a nonaccrual status. The green line shows the percentage of loans that are 30–59 days delinquent. This measure has been extremely volatile since the start of the pandemic, reaching a high of 1.33% in April 2020 and a low of 0.13% in February 2023. After climbing close to 1.00% again in the fall of 2023, the short-term past due level has declined and is closer to the four-year low point, sitting at 0.25% as of March 2024.

On the right, we are analyzing the nonperforming trend for the Beverage and Tobacco subsector (NAICS 312) of the broader Manufacturing industry. This chart is divided into three categories, all based on historical results – the red represents the worst performance quartile, the green is the best, and the yellow represents the middle quartiles. NAICS 312 is showing historically high nonperforming results. The current nonperforming ratio is above 4.00%, which is about twice what we saw during the Great Recession. Most of this decline in performance is related to a decline in beer sales.



The chart here examines the trend in credit quality for commercial real estate (CRE) loans, segmented by the major property types and again starting with the onset of COVID in March 2020. “Distressed” loans are those rated Low Pass plus Criticized. Midway through this period, Lodging had the worst credit quality, but it is now recovering. Every other property type is experiencing a decline in credit quality, led by the well-publicized issues with Office. But we are also seeing declines for Health Care, Industrial, and Multifamily properties as interest rates and inflation strain cash flow.

### 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.

Tom Cronin, AFS, [tcronin@afsvision.com](mailto:tcronin@afsvision.com) • Ann Adams, RMA, [aadams@rmahq.org](mailto:aadams@rmahq.org)

[www.afsvision.com](http://www.afsvision.com) • [www.rmahq.org](http://www.rmahq.org)

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