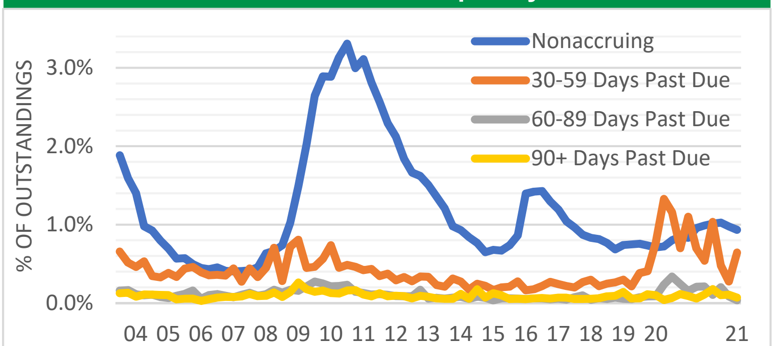
Commercial Credit Quality Bulletin

February 2021

Defaulted Commercial & Industrial Loan Balances Fall Again: Is This the Inflection Point?

Nonaccrual C&I loans fell for the second straight month and now represent 0.9% of total outstanding balances as of the end of January 2021, down from the 1.03% for November 2020 month end. After increasing in seven out of eight months between April and November of 2020, Nonaccruals appear to have peaked, at least for now. Short-term (30–59 day) delinquencies for January were up substantially, climbing from 0.3% at year-end 2020 to 0.6%. Delinquency measures continue to fluctuate wildly (from a high of 1.3% to a low of 0.3%) as the combined effects of industry payment deferral programs and ample government stimulus have so far provided a successful bridge to consumers and businesses.

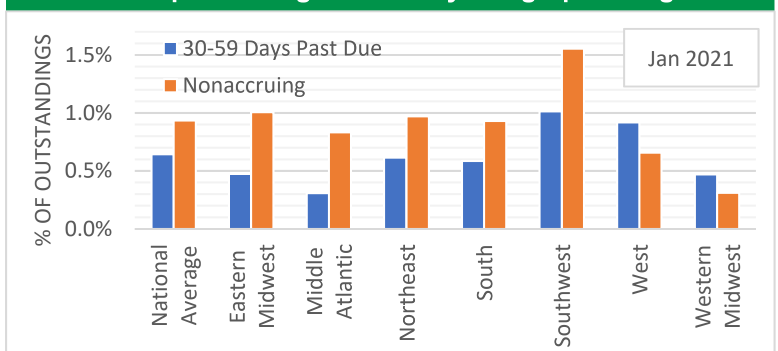
C&I Nonaccrual & Delinquency Trend



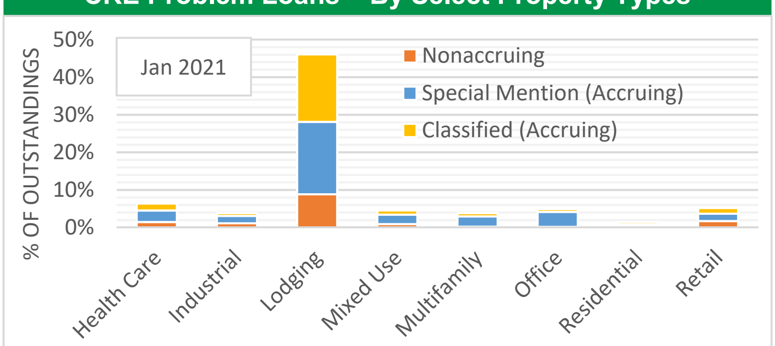
C&I loans on nonaccrual now total 0.9% as nonaccrual balances dropped 6% month over month. Nonaccruing loans represent loans where payment is past due 90 days or more or payment in full is no longer expected. Mining, Oil & Gas continues to have the highest nonaccrual rate of 7.6% as of the end of January 2021. Short-term delinquencies increased again and are following the pattern of higher levels in intra-quarter months. Collection efforts appear to intensify during quarter-end months, leading to the ongoing fluctuations in past due levels.

In looking at the key performance measures of delinquency and nonaccrual, the Southwest region had the highest short-term delinquency level (1.0%) and the highest nonaccrual level (1.6%) through the end of January 2021. While borrowers engaged in Oil and Gas Drilling are the primary reason for the high nonaccrual level in the Southwest, the delinquencies are spread across several different sectors. The Middle Atlantic had the lowest short-term delinquency level (0.3%) and the Western Midwest had the lowest nonaccrual level (0.3%).

C&I Nonperforming Loans – By Geographic Region



CRE Problem Loans – By Select Property Types



Aggregating nonaccruing loans with accruing Special Mention and Classified loans provides a glimpse into a potential worst-case scenario. Applying this formula to Commercial Real Estate loans and segmenting by Property Types, the well-documented issues with Lodging are highlighted. With nonaccruing Lodging loans already approaching 10%, if the Criticized loans were to also fall into a nonaccrual state, almost 50% of Lodging exposure would be in default. Health Care is a distant second at 6.4% of outstandings, either on nonaccrual or criticized but still accruing interest.

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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