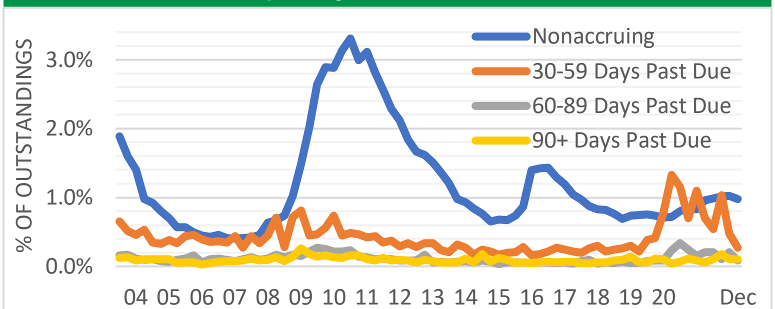
Commercial Credit Quality Bulletin

January 2021

Delinquencies Fall, Commercial Credit Migration Stalls Heading into COVID Winter Months

Levels of nonaccruing C&I loans remained stable at year's end, representing 1.0%, which was down 5 bps and 1 bp month over month and quarter over quarter, respectively. Generous government stimulus and unprecedented amounts of forbearance offered to borrowers through loan payment deferrals appear to have insulated banks from a worst-case scenario. Short-term delinquencies, after spiking as high as 1.3% in the initial throes of the recession, finished the year at just 0.3% as most borrowers coming off deferral programs have resumed their contractual repayment terms.

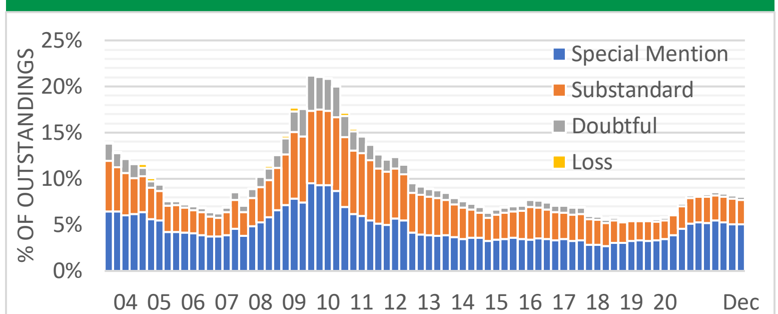
C&I Delinquency and Nonaccrual Trend



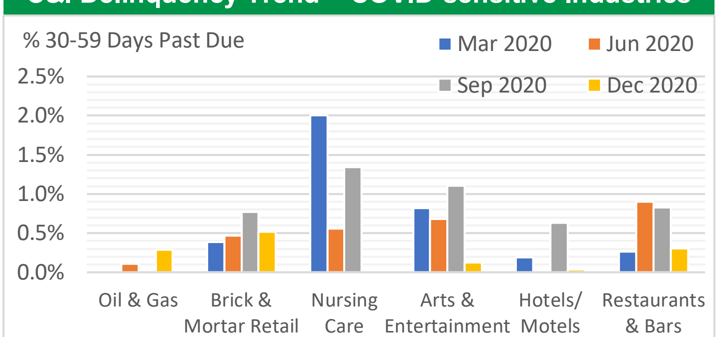
C&I loans on nonaccrual totaled 1.0% as of the end of the fourth quarter, largely unchanged (down 1 bp) quarter over quarter. While remaining near a cycle high, nonaccrual levels have largely held steady for four months. Short-term delinquencies have also retreated significantly and now total just 0.3%. While the 2020–2021 story of bank credit risk is still being written, vaccine rollouts and increasing prospects for additional fiscal stimulus bode well for borrower performance and banks' commercial credit quality.

Criticized loans represented 8.1% of total commercial loans at year end, and while this figure is 41% higher than year-end 2019, criticized loan levels are actually down 6% quarter over quarter. Banks moved aggressively throughout the summer to identify and re-rate vulnerable borrowers, and criticized loan balances have largely moved sideways since peaking in September. Since then, further negative credit migration has been minimal as the nascent economic recovery takes hold.

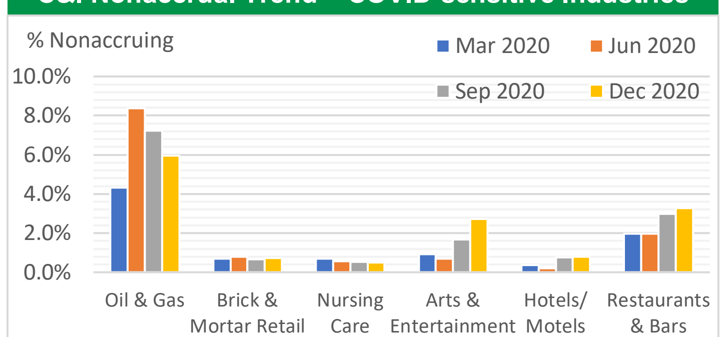
C&I Criticized Loan Trend



C&I Delinquency Trend – COVID-sensitive Industries



C&I Nonaccrual Trend – COVID-sensitive Industries



Certain industries have been hit harder than others during this pandemic-induced economic downturn. Sectors most affected by stay-at-home orders and a need for social distancing have borne the brunt of this recession, such as travel and entertainment, lodging, and restaurants. That being said, banks have taken aggressive risk mitigation steps to identify and contain vulnerable industries, and through the fourth quarter credit problems have not spread materially.

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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