BusinessIntelligence

Risk Management Association

Commercial Credit Quality Bulletin

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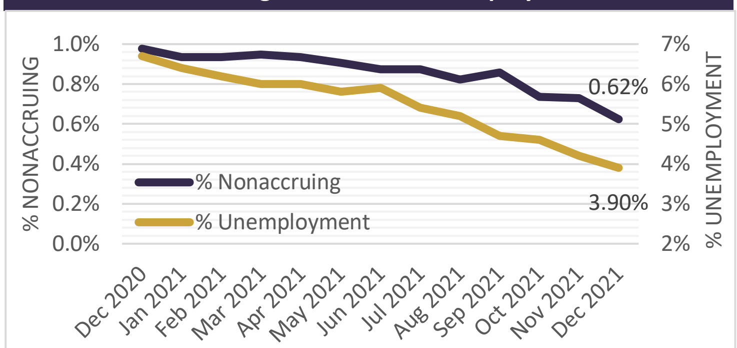
Commercial Loan Credit Quality Metrics Are Pristine Entering 2022; C&I Loan Growth Surges in December

The month of December saw a surge in C&I lending, easily the strongest month of the entire year. C&I balances were up 4.5% in December 2021 alone, driven by both new originations and strong growth in line utilization rates. The federal government's Paycheck Protection Program, for some time the only real source of loan growth for much of the industry, has largely played out and new conventional loans are being created again. Banks took a more measured approach to CRE loans in 2021, perhaps waiting for greater clarity on the pandemic's impact to the space. While the Fed has pivoted to a more hawkish stance to combat widespread inflation, many key factors depict an economy poised for solid growth in 2022, even if they are tempered initially by the impact of the Omicron variant of COVID-19. From a performance standpoint, nonaccruing C&I loans as of December 2021 registered just 0.62% of total outstanding loans, a low point not seen since year-end 2018. Short-term delinquencies (one payment late) remain volatile but manageable at 0.52%.

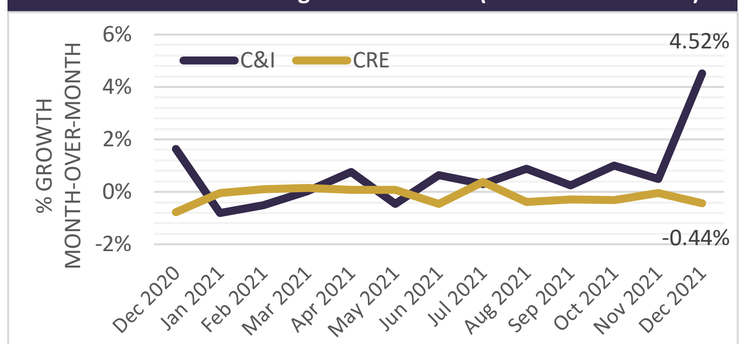
C&I Nonaccruing Rate vs. U.S. Unemployment Rate



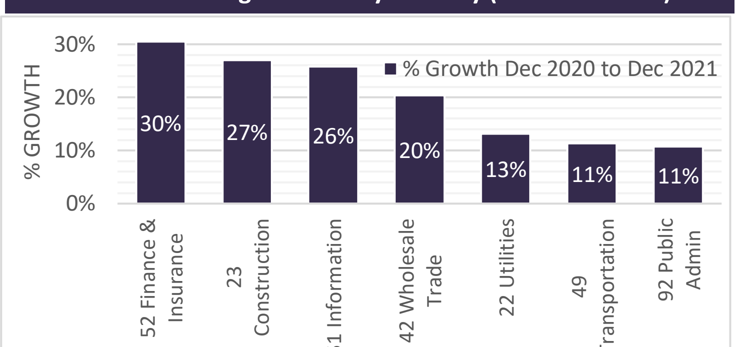
The chart on the left illustrates the strong correlation between the health of the job market and the state of business loan performance and default risk. At month end, the U.S. employment rate was 3.9%, just above the 50-year low of 3.5% reached in February 2020, right before the pandemic took hold in the U.S. Similarly – aided in no small part by fiscal stimulus and regulatory forbearance – commercial loan nonaccrual levels have weathered the worst of the storm and continue to fall.

C&I loan growth, tepid throughout most of the year, spiked near the end of the fourth quarter. A combination of new originations and a 160 bps bump in line of credit usage in December drove the improvement. Despite headwinds created by the spread of Omicron, most forecasters are projecting fourth quarter 2021 GDP growth to be exceptionally strong, which, combined with a strong labor market, created ideal conditions for loan growth.

C&I and CRE Outstandings Growth Trend (Month-over-Month)



C&I Outstandings Growth by Industry (Year-over-Year)



While the bulk of 2021 commercial loan growth was achieved late in the year, it was spread across a broad array of industries. An attractive market for M&A activity fueled growth in Finance. Strong growth in the construction industry was attributable to specialty contractors and heavy demand for consumer home improvement projects. Heading into 2022, strong corporate profits and the need for inventory rebuilding bode well for the growth outlook.

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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