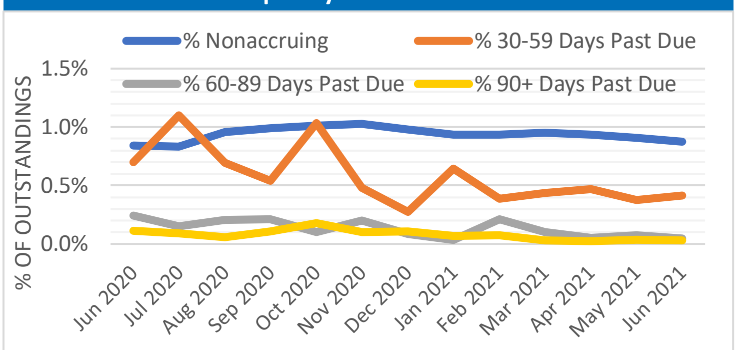
Commercial Credit Quality Bulletin

July 2021

Credit Quality Continues to Hold Up Through the Second Quarter Despite Frictions in the Economy

As second quarter bank earnings releases trickle in, several shared themes have emerged concerning the outlook for commercial loan growth and credit quality. Many banks this past quarter reported sluggish C&I loan growth, which has been tempered by supply chain bottlenecks and concerns about rising inflation. Encouragingly, commercial loan credit quality remains solid. Levels of both nonaccruing and delinquent C&I loans improved in June when compared to the prior quarter. While labor shortages persist in several key sectors, notable job gains were reported in June in the Leisure & Hospitality and Retail Trade industries. This trend not only bodes well for the real economy but also has favorable implications for credit quality. In the Commercial Real Estate space, nonaccruing loans remained stubbornly high in June, although issues in this space were predominantly confined to the Lodging segment.

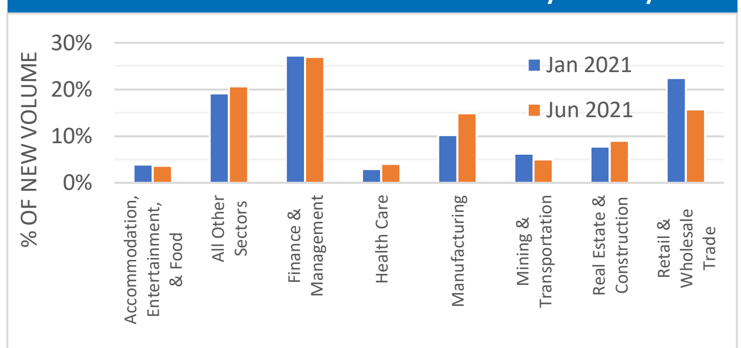
C&I Delinquency and Nonaccrual Trend



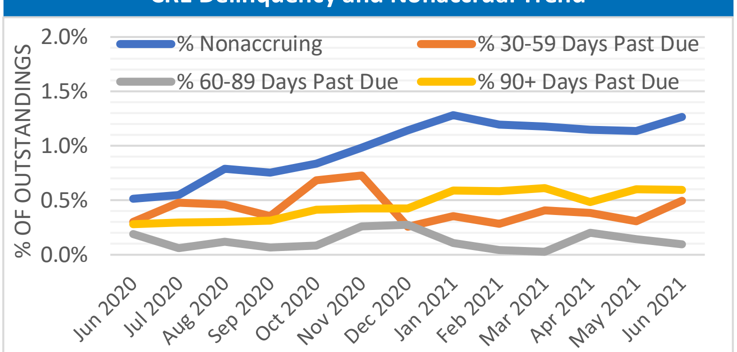
For C&I loans, key performance measures improved in June when compared to the prior quarter. C&I loans on nonaccrual – comprising 0.87% of total balances in June – trended downwards throughout the second quarter, and distressed industries such as Retail Trade and Accommodation/Food posted especially large improvements when compared to the start of the year. C&I loans past due more than 30 days (but still accruing interest) totaled 0.49% of total balances in June, down from a ratio of 0.57% in the prior quarter.

New C&I volume increased in June from the prior month, a trend we typically observe at quarter-end. Consistent with prior months, much of the June volume was focused in the Finance & Management sector, an area that includes nonbank lenders and private equity firms. Outside of this sector, Manufacturing comprised a healthy amount of the total new volume in June, with its share of the total volume rising when compared to the start of the year.

C&I Distribution of New Loan Volume – By Industry



CRE Delinquency and Nonaccrual Trend



With a large number of consumers still working from home or limiting their travel, the medium term outlook for Commercial Real Estate (CRE) credit quality remains uncertain. The percentage of CRE loans on nonaccrual in June (1.26%) was up from May's already high level, although much of this increase was driven by the Lodging property type. For now, the level of nonaccruing loans in the Office segment remains low, representing only 0.15% of total Office outstandings in June.

Tom Cronin, AFS, tcronin@afsvision.com ● Steven Martin, RMA, smartin@rmahq.org

www.afsvision.com ● www.rmahq.org