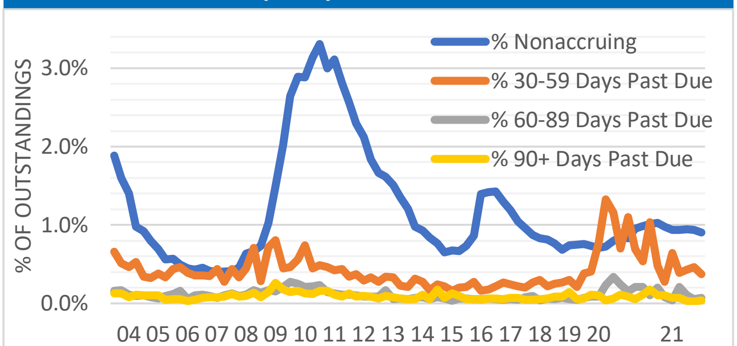
Commercial Credit Quality Bulletin

June 2021

Credit Performance and Outlook Continues to Improve Amid Lessening Pandemic Impact

The favorable economic news has finally translated into notable improvements in key commercial lending performance statistics. Nonaccrual and delinquency levels are down across the board. There are still some industry sectors with elevated levels of nonaccruals – oil & gas, particularly in Louisiana and Oklahoma, indoor recreation, restaurants, and hotels. Nevertheless, the overall trends are positive. Risk Analysis Service performance statistics are showing dramatic improvements in manufacturing, certain retail sectors, and administrative industries. Other industries that are performing well are software publishers, data processing and hosting firms, and pharmaceutical manufacturers. Credit quality also improved, as loans previously rated Special Mention are being resolved and mostly returning to passing grades. Leading the way with low levels of Criticized loans are Public Administration, Finance & Insurance, and Information.

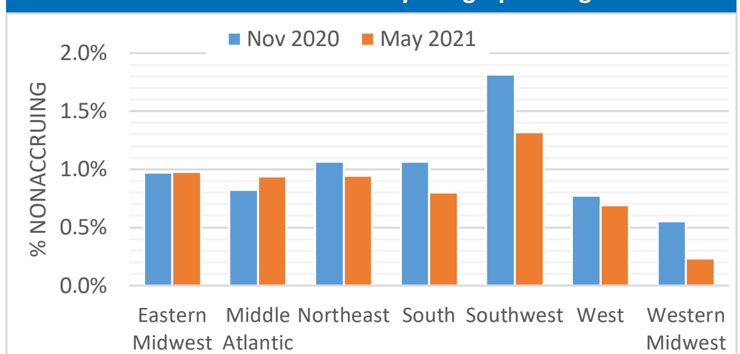
C&I Delinquency and Nonaccrual Trend



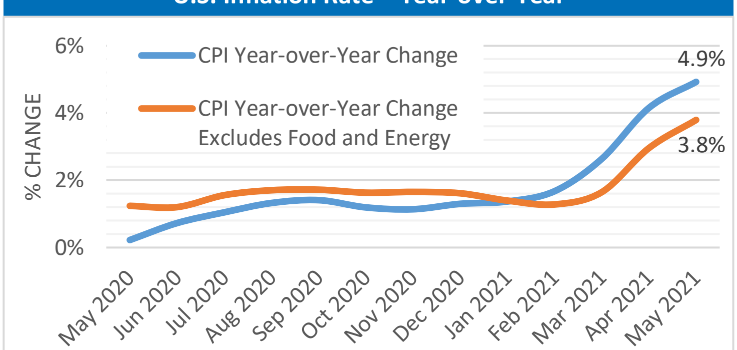
Overall, key performance measures continue to improve. The percentage of loans on nonaccrual dropped in May and has now improved in five of the last six months. After reaching a pandemic high of 1.03% in November of 2020, the May 2021 nonaccrual rate is down to 0.91%. Short-term delinquencies continue to decline and are now almost 100 basis points off the cycle high of 1.33% reached in April 2020. The level of mid-term delinquencies (60–89 days past due) is currently inconsequential at 0.07%.

The improvement in the nonaccrual levels has been seen throughout most of the country. The chart on the right compares the level of nonaccruals at the crest of the cycle (November 2020) with the current level (May 2021). Every region except the Middle Atlantic has experienced an overall improvement in nonaccruals. Dramatic improvements in the Southwest have been led been declines in the nonaccrual level for oil and gas loans.

C&I Nonaccrual Trend – By Geographic Region



U.S. Inflation Rate – Year-over-Year



On the left, we present a chart sourced from the US Bureau of Labor Statistics. This chart depicts the trend in the change in the Consumer Price Index (CPI) and is indicative of the trend in inflation. While most of the economic news has been favorable, the recent increase in the CPI is giving cause for concern. The rapid rise in both measures, with and without food and energy, has stoked fears of an economy that may be overheating. However, still other economists believe this is a temporary acceleration and inflation will ease later this year.

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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