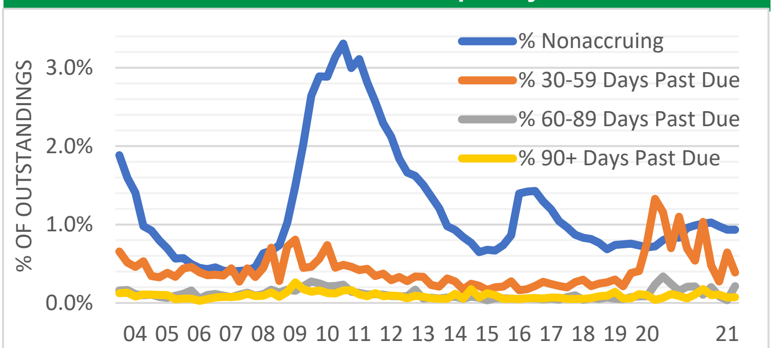
Commercial Credit Quality Bulletin

March 2021

One Year Later: How Bad Did Commercial Credit Quality Get, and What Happens Next?

As the nation reaches and passes the one-year anniversary of the beginning of widespread job losses and stay-at-home orders caused by the pandemic, we assess the state of credit quality one year later. Past due and nonaccrual C&I loans represented 0.4% and 0.9% of total outstanding balances respectively through the end of February 2021, off their rolling twelve month highs of 1.3% and 1.0%. Nonaccrual balances in particular have levelled off noticeably, hovering between 0.9% and 1.0% for 7 consecutive months now. It has become clear that the government's fiscally manufactured bridge to the other side of the pandemic has been strong enough. The next few months will determine if that bridge is long enough.

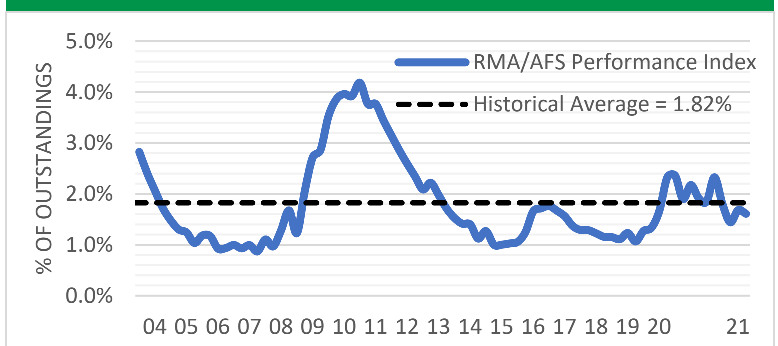
C&I Nonaccrual & Delinquency Trend



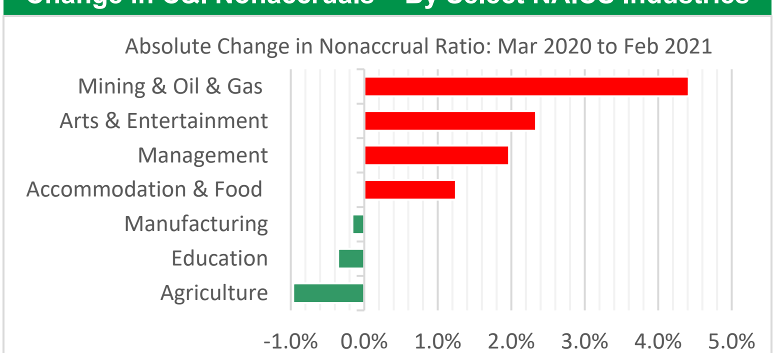
C&I loans on nonaccrual now total 0.93%, effectively unchanged month over month. Nonaccrual loans represent loans where income from the loan is no longer posted and payment in full is not expected. Mining, Oil & Gas continues to have the highest nonaccrual rate of 8.7%, followed by Arts, Entertainment and Recreation (3.2%) and Retail Trade (2.2%). Short-term (30–59 day) delinquencies, while extremely volatile over the past year, remain on a positive, downward trend as deferral programs are largely winding down and borrowers find their footing.

The RMA/AFS Performance Index represents the sum of all delinquent and nonaccrual loans as a percentage of total outstandings. Comparing this metric against the historical average reveals that the 2020–2021 credit downturn to date has not been nearly as severe as the downturn during the Great Recession. This favorable comparison is attributed to an ample and rapid government response, bank payment deferral programs, improved risk management, and banks and borrowers who were otherwise quite healthy when the pandemic hit.

C&I RMA/AFS Performance Index Trend



Change in C&I Nonaccruals – By Select NAICS Industries



While the overall impact appears to have been muted, some individual industries were not as fortunate. Among the industries with the highest (negative) absolute change in nonaccrual balances since March 2020 were Mining, Oil, & Gas (was 4.3%, now 8.7%); Arts & Entertainment (was 0.9%, now 3.2%); Management of Companies (was 0.1%, now 2.1%); and Accommodation & Food Services (was 1.5%, now 2.8%). On a positive note, the Agriculture sector improved, moving from 2.5% in March 2020 to 1.5% at the end of February 2021.

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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