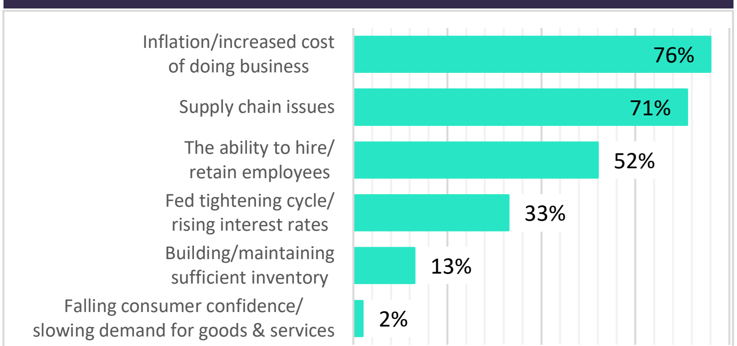
Commercial Credit Quality Bulletin

May 2022

Strong Credit Fundamentals Persist Entering Period of Heightened Uncertainty

The quality of commercial bank loan portfolios remained strong through the end of April, despite obvious signs of slowing in the U.S. economy. The only notable exception was early-stage delinquencies – defined as loans past due 30–59 days – which jumped sharply from 0.49% at the end of March to 0.97% at the end of April. Delinquency trends have been abnormally volatile throughout the pandemic period, due in large part to repeated economic closures, re-openings, and supply chains unable to regain their normal footing. Fortunately, we have not seen these more recent spikes in delinquencies migrate to more severe stages or even defaults. Nonetheless, we note that banks, as an industry, allocated net-positive provisions for future credit losses in the first quarter after four successive quarters of releasing reserves throughout 2021. Finally, we note strong month-over-month loan growth of 1.07% in the month of April 2022.

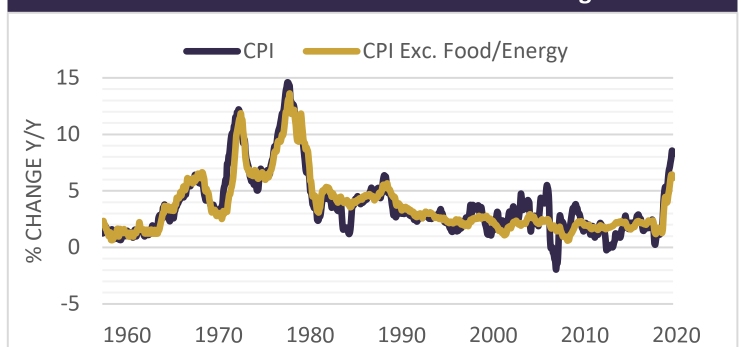
Survey: What Are Your Commercial Customers' Top Concerns?



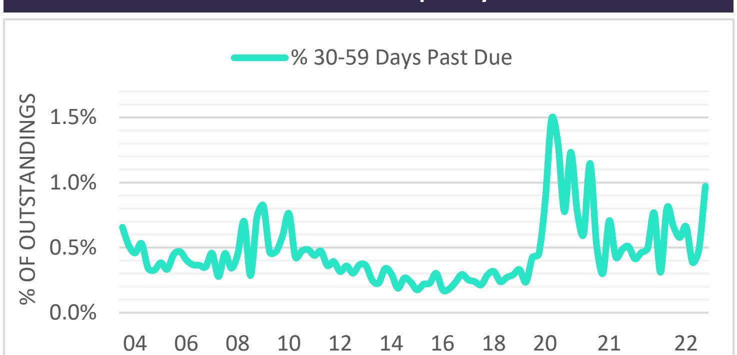
During a recent RMA/AFS webcast, we asked the banks what were their commercial customers' major concerns. More than one answer could be selected. Over three quarters of the attending bankers responded that the major concern of their customers was inflation. Almost the same number felt that supply-chain issues continued to be a major concern. Only one third of the respondents noted concerns with rising interest rates, and only 2% noted slowing demand was an issue at this time.

Inflation, a commercial borrower's primary concern, has not been this high since the 1980s. The impact of the higher prices has caused reductions in earnings for major retailers as their costs of production have increased and consumers have begun to cut back on spending, especially for discretionary items such as entertainment. Disappointing corporate earnings have fueled the recent sharp decline in equity markets. Higher gas prices could lead to reduced travel and impact industries such as lodging, which is still trying to recover from the pandemic

U.S. Inflation – Year-over-Year CPI Change



C&I Short-Term Delinquency Trend



The percentage of loans past due 30–59 days increased in April compared to the prior month. We continue to see extreme patterns of volatility in the past due numbers. Over the past two years, at the end of each quarter, a focus on collection activities tend to pull the delinquency figure down; but, during off-quarter month ends, short-term past due levels often surge. The volatility is caused by supply chain issues, fluctuating government support programs, and staffing challenges that have led to project delays or cancellations that impacted company cash flow.

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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