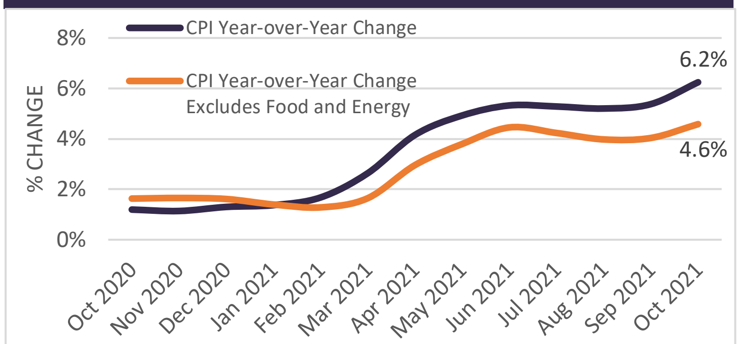
Commercial Credit Quality Bulletin

November 2021

Commercial Loan Credit Quality Shrugs Off Inflation & Consumer Confidence Worries, Continues to Improve

Through the end of October, several key performance metrics for commercial credit quality improved month over month, despite broader economic news painting a less rosy picture. Commercial loans on nonaccrual fell 13% month over month, and now at 0.75% represent the lowest figure since April 2020. Criticized loans fell 11 basis points to 6.4% at month end, the thirteenth consecutive monthly drop. Short-term delinquencies, while more volatile of late, remain manageable. These favorable results paint a stark contrast to recent developments in the economy. Labor shortages, climate change, and increasing shipping costs have driven inflation to 30-year highs, casting doubt on whether this is a transitory event. The expiration of government support programs and pandemic-related uncertainty still pose risk to the economy, reflected by consumer confidence hitting a 10-year low in November. But while underwriting standards have eased somewhat in 2021, banks still remain fairly risk averse, waiting for greater clarity on what 2022 will portend.

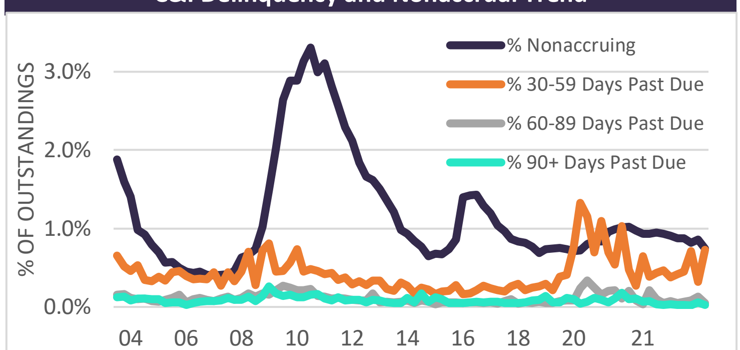
U.S. Inflation Rate – Year-over-Year



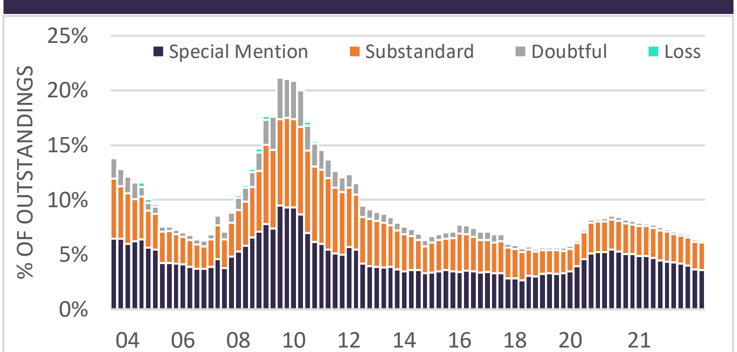
The chart on the left illustrates the trend in the Consumer Price Index. The current spike is a consequence of supply constraints meeting very strong demand, complicated by a global economy that is still in many respects reopening. Rising energy prices, lingering COVID concerns, and supply-chain impediments are all contributing to prices rising on a wide range of products, fueling concerns that the Fed may raise interest rates sooner than expected, thereby dampening growth.

Short-term C&I delinquencies have been on a bit of a yo-yo, month to month, but remain in a manageable range. Nonaccrual loans fell and are now below a five-year rolling average level. From an industry standpoint weaknesses persist in Agriculture, Energy, Arts & Entertainment, Lodging, and Restaurants, although all are down from their cycle high points. CRE nonaccrual levels remained stable but at 1.1% remain well above C&I levels (0.75%).

C&I Delinquency and Nonaccrual Trend



C&I Criticized Loan Trend



Criticized loans, or loans risk-rated Special Mention, Substandard, Doubtful, or Loss continue to decline as banks shed problem assets and rebalance their portfolios. Criticized loans as a percentage of total loans fell for the thirteenth consecutive month and now represent 6.4% of total loans. This is the lowest criticized loan levels have been since the onset of the pandemic-induced recession.

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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