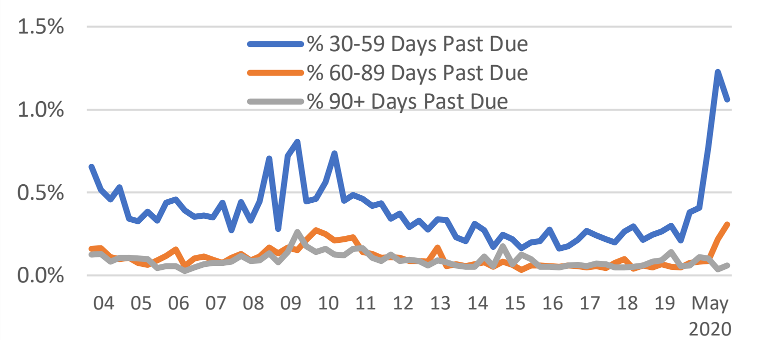
Commercial Credit Quality Bulletin

June 2020

C&I Delinquencies Jump Sharply as Record U.S. Expansion Officially Ends

This is the inaugural issue of the Commercial Credit Quality Bulletin, a byproduct of the RMA/AFS Risk Analysis Service (RAS), the industry's standard for monthly credit risk benchmarking. The advent of the global pandemic brought an end to 128 consecutive months of economic growth in the United States, and ushered in an unprecedented period of market uncertainty. With the economy at a standstill and the devastating effects of yet another energy crisis still lingering, delinquent commercial loans spiked to their highest levels in the history of the RAS Program. The below data is through May 31, 2020.

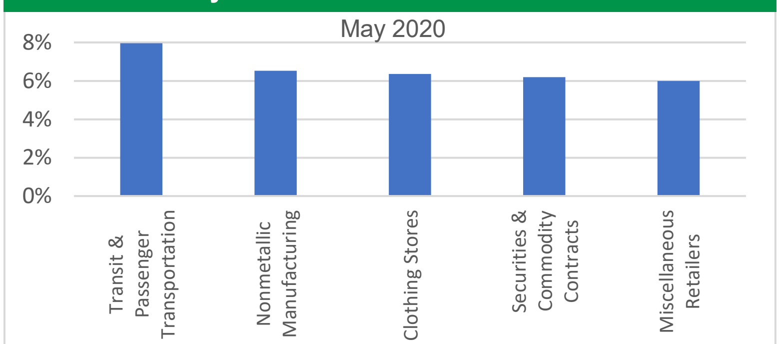
C&I Delinquency Trend



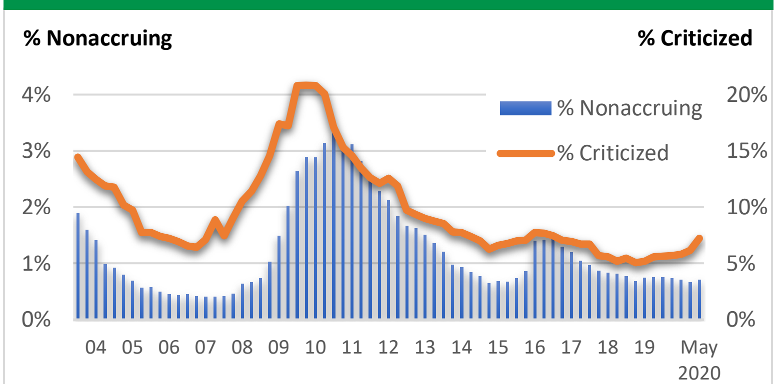
April data displayed sharp increases in delinquencies, especially for loans past due 30-59 days, as the vast effects of stay-at-home orders took hold nationwide. This is an acceleration of weaknesses that first appeared towards the end of 2019. May's rate for 30-59 days past due dropped slightly from April, as states began gradual rollbacks of restrictions and more and more businesses reopened.

Certain industry sectors bore the brunt of the pandemic's initial impact, especially Transportation, Hospitality, and Retail. Transit & Passenger Transportation jumped from 0.13% as a sector to 7.94% in just 5 months. We are also seeing across-the-board weaknesses throughout the Retail Trade subsectors, as bankruptcy filings have spiked sharply.

30-89 Days Past Due Ratio – Select Industries



C&I Criticized & Nonaccrual Trend



Despite the deterioration in delinquencies, nonaccruing and criticized loans remained little changed. While risk ratings can often be a lagging indicator of risk, we expect many banks are taking a wait-and-see approach to gauge whether or not borrowers can bounce back from the economic shutdown and a recovery can indeed take hold.

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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