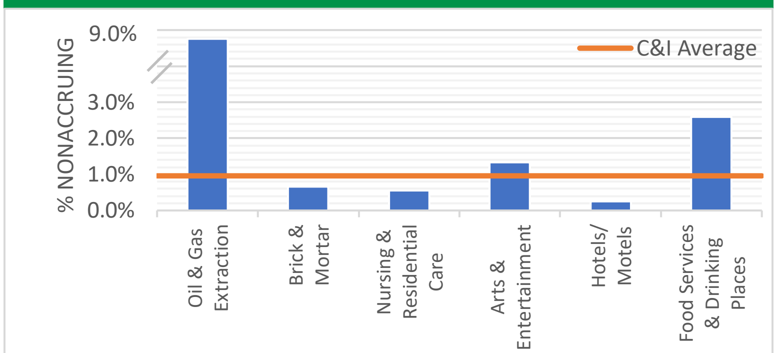
Commercial Credit Quality Bulletin

September 2020

Nonaccrual C&I loans rise 17% month-over-month and 37% since beginning of downturn.

Nonaccrual C&I loans reached 1.0% of total outstanding balances as of the end of August, representing a sharp rise over July and March 2020 month-end levels. Nonaccrual C&I loans are now at their highest level in three years. Short-term (30–59 day) delinquencies continued to yo-yo, falling back to 0.7% of total outstanding balances at the end of August after exceeding 1.1% a month ago. Since first spiking in March, delinquent loan balances have been buffeted by offsetting forces. COVID-induced state shutdowns have hampered borrower performance, while extensive government support programs such as the PPP as well as banks' liberal use of payment deferral programs have given borrowers a lifeline.

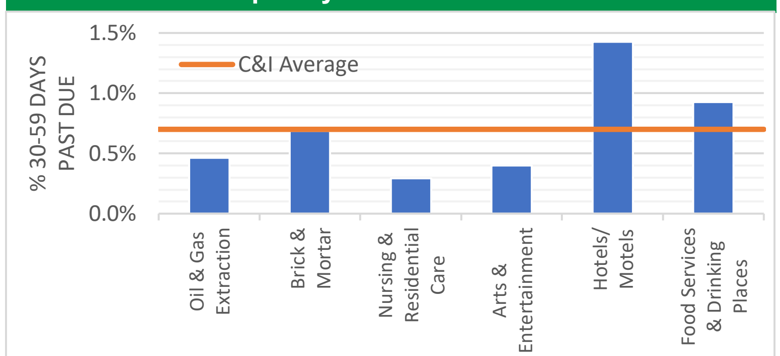
C&I Nonaccrual Rates – Select Industries



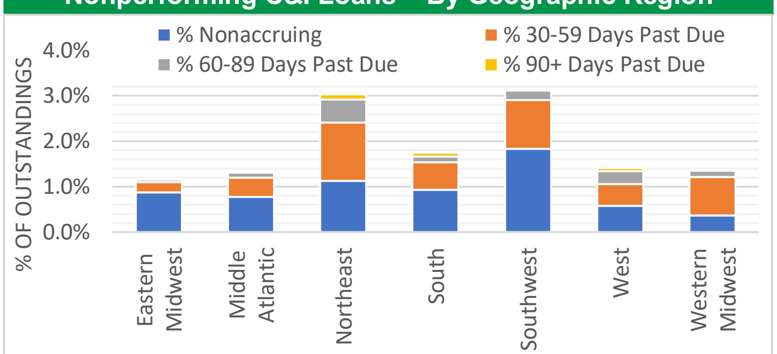
C&I loans on nonaccrual now total 1.0%, up 17% month over month. Nonaccrual loans represent loans where principal or interest is 90 days or more past due, or payment in full is not expected. Of some of the most vulnerable industries, 8.6% of oil & gas extraction loan balances are currently on nonaccrual, followed by restaurants (2.6%) and arts, entertainment, and recreation (1.3%), the latter of which includes theatres, spectator sports, amusement parks, casinos, and fitness centers.

In terms of industries to watch, hotels & motels had the highest short-term delinquency levels through the end of August (1.4%), followed by food services & drinking places (0.9%), brick & mortar retail (0.7%), and oil & gas extraction (0.5%). With the first round of payment deferral periods starting to expire and, as of this writing, Congress at a stalemate over the need for additional stimulus, the coming months will be critical to determining the direction of nonperforming loans.

C&I Delinquency Rates – Select Industries



Nonperforming C&I Loans – By Geographic Region



C&I loan performance continues to vary widely by geographic region. The northeastern states, hit early and hard by the pandemic, currently show over 3% of C&I loan balances as being past due or on nonaccrual. The southwestern states, home to a concentration of energy-related borrowers, also register a past due and nonaccrual ratio in excess of 3%. The next highest region is the South (1.7% nonperforming loans), followed by the West and the Western Midwest, both reporting approximately 1.4% of loans as nonperforming.

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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