

# Credit Trends in Commercial Lending: Data through July 31, 2020



**Presented by:**  
Tom Cronin, AFS

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# Risk Analysis Service

## Credit Trends in Commercial Lending

Data through July 31, 2020

August 27, 2020

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## June 2020 Recap & July 2020 Summary

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### June 2020

- Short-term C&I and Commercial Real Estate (CRE) delinquencies (30–89 days past due) decreased
- CRE nonaccruals headed up
- Credit quality continues to deteriorate
- Commercial loan volume – outside of government programs – is down

### July 2020

- Short-term delinquencies (30–59 days past due) up sharply
- Nonaccruals flat
- Credit quality slightly down
- C&I volume continues to drop while CRE outstandings are flat

## Risk Analysis Service (RAS) by the Numbers



**\$1 Trillion**

**710,000**

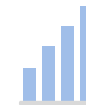
**68**  
(and counting)



The Risk Analysis Service (RAS) database already totals over \$1 trillion in committed exposure, with broad coverage and depth across C&I and Commercial Real Estate (CRE) product categories.



The database is seeded with over 710,000 individual loans, creating a robust set of historical performance metrics and performance to model and analyze.



RMA and AFS have been collecting credit risk data since 2003 and have over 68 quarterly vintages (and now monthly files) of historical credit data spanning an entire credit cycle.

### Do you want to know...

- How your portfolio compares to peers?
- What industries are leading the current downturn?
- What sectors have the most historical volatility?
- What are projected losses for comparable credit?

**RAS gives you the tools and monthly information  
you need to stay ahead of the curve.**



# U.S. C&I Market

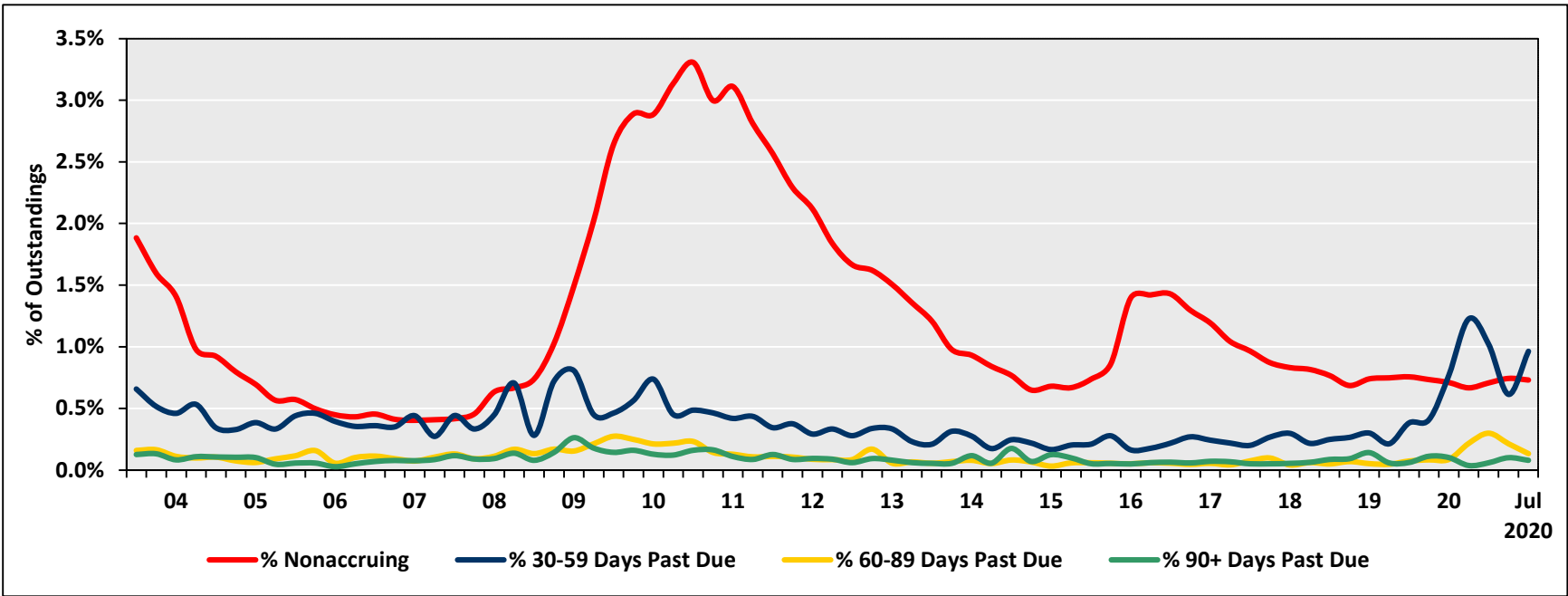
## July 2020 Results



# C&I Delinquency and Nonaccrual Trend



Short-term delinquencies (30–59 days past due) increased in July to near 1.0% again.

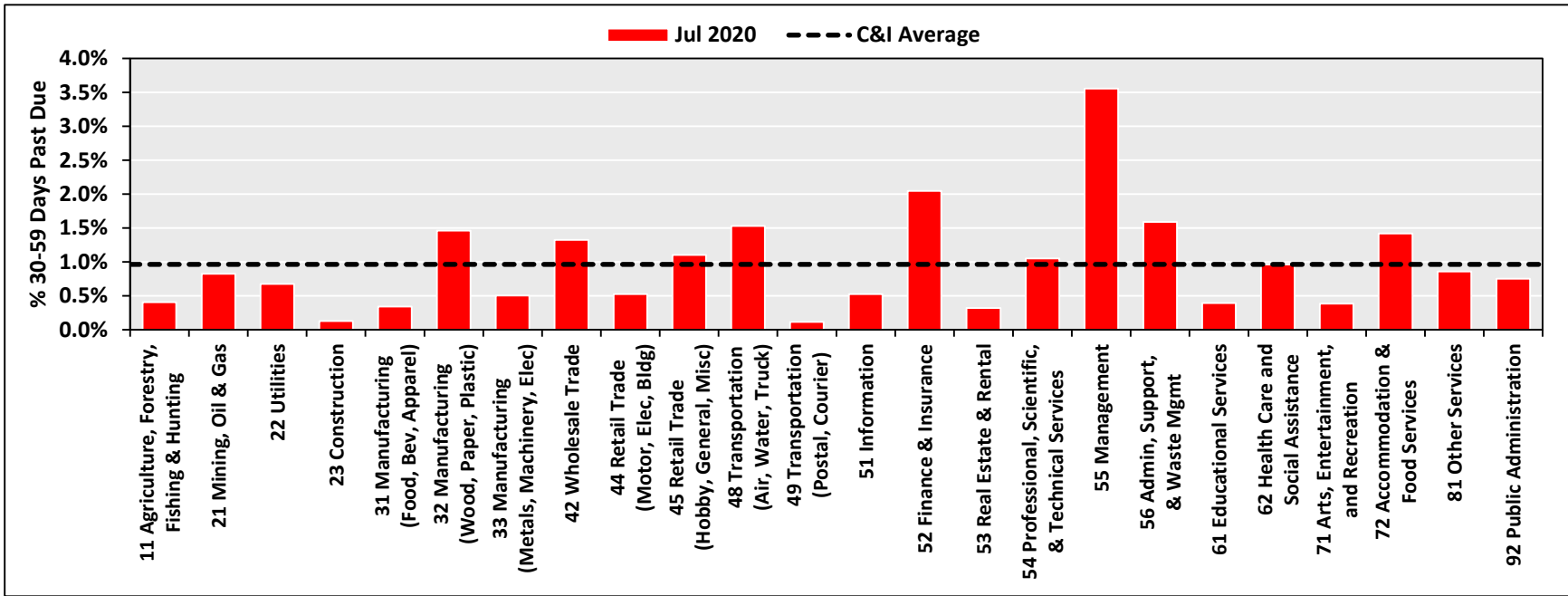


Source: RMA/AFS Risk Analysis Service

# Current Delinquency Ratio by Industry



In July, the percentage of C&I loans past due 30–59 days for the Finance & Insurance sector was more than twice the C&I average.

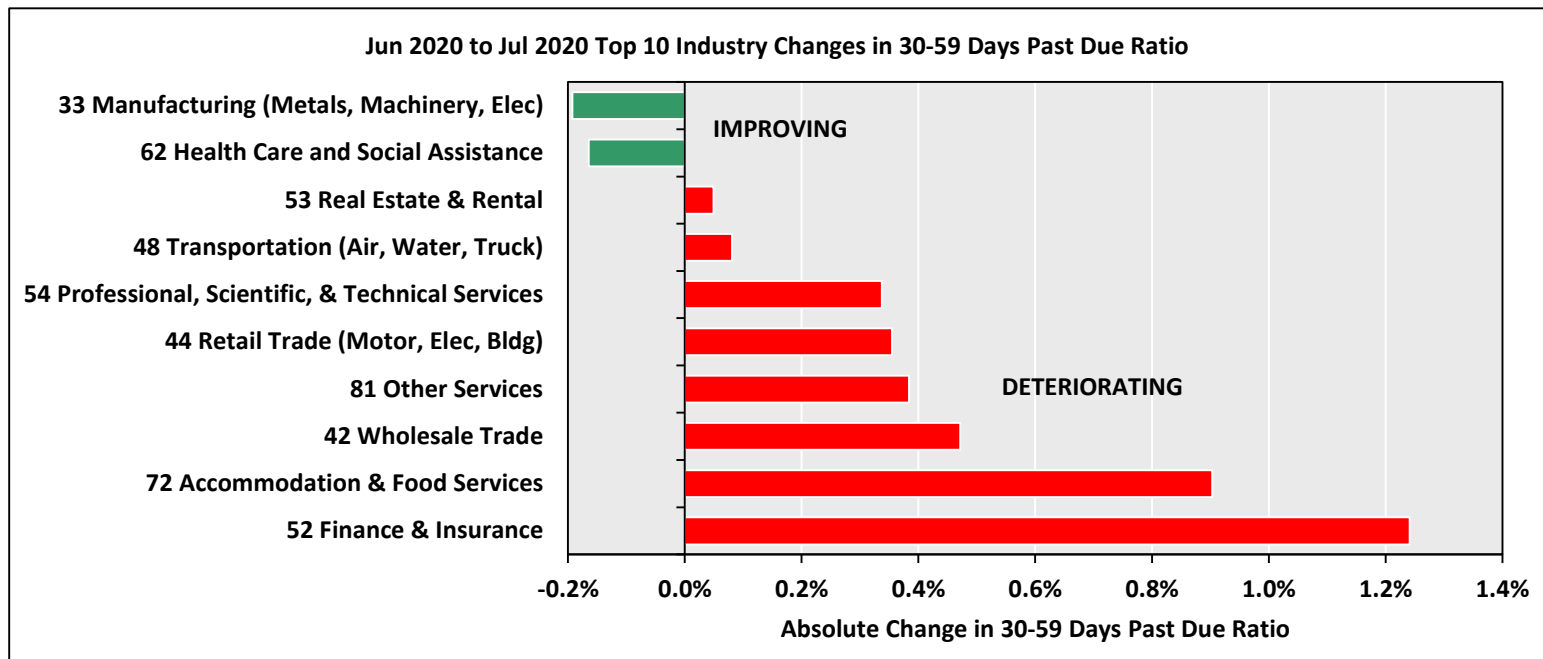


Two-digit industry sectors based on North American Industry Classification System (NAICS).  
Source: RMA/AFS Risk Analysis Service

# Changes in Delinquency Ratios by Largest Industries



Finance & Insurance – one of the fastest growing sectors for C&I lending this past decade – experienced the largest month-over-month deterioration in short-term delinquencies.

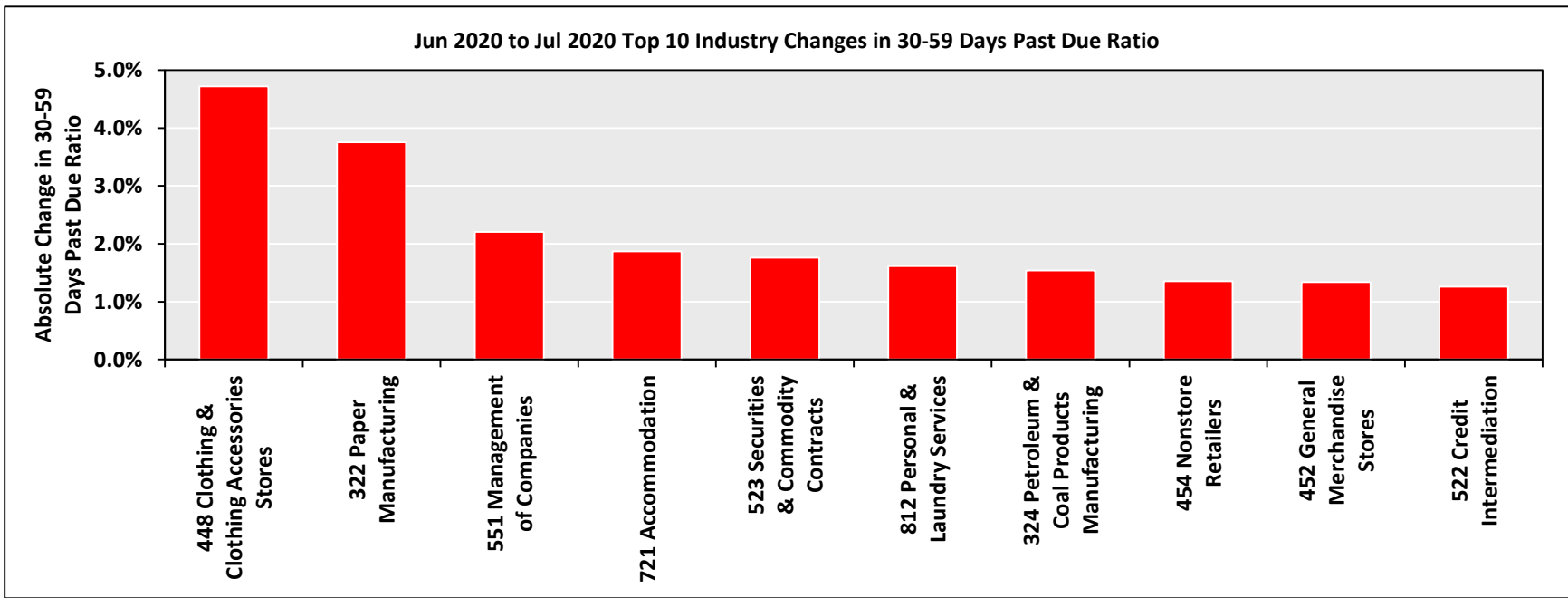


Two-digit industry sectors based on North American Industry Classification System (NAICS).  
Source: RMA/AFS Risk Analysis Service



# Increases in Delinquencies at the Industry Subsector Level

The ten NAICS subsectors illustrated below exhibited the largest month-over-month changes in the percentage of C&I loans past due 30–59 days.

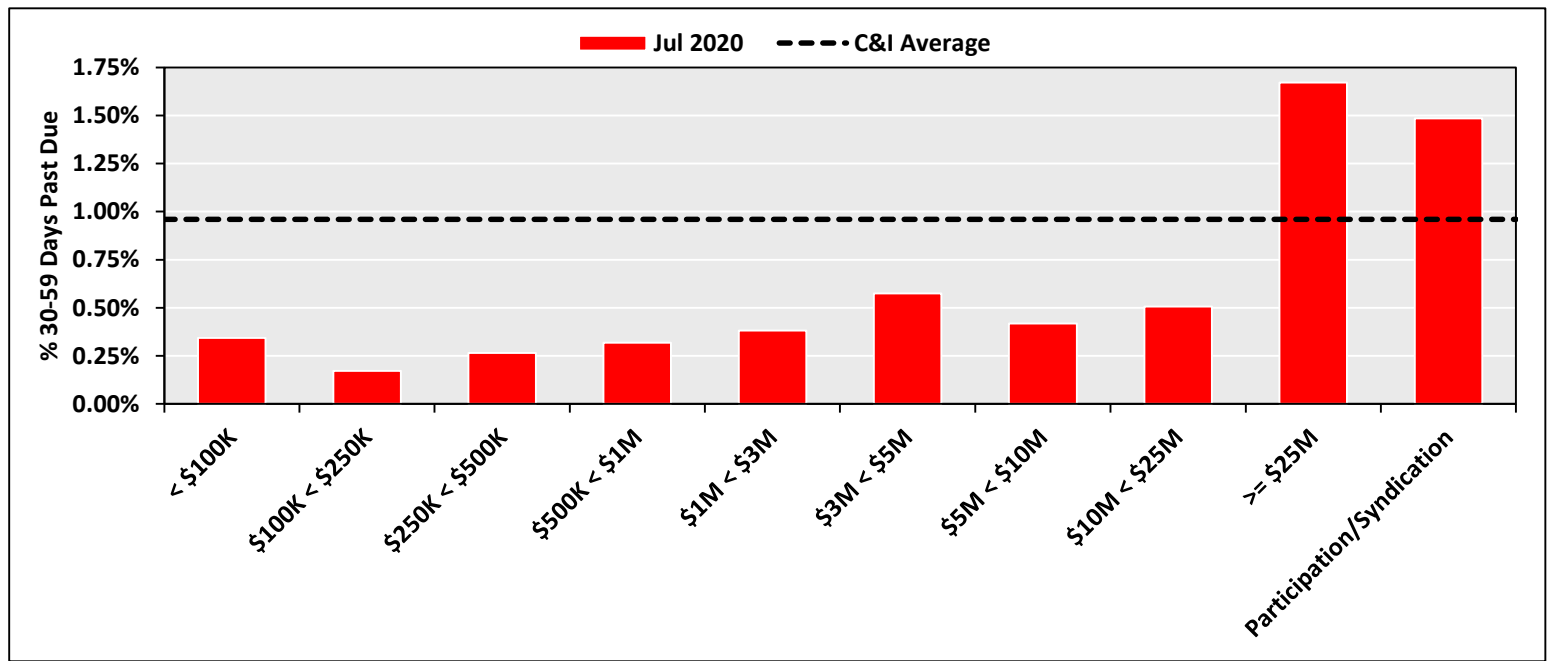


Three-digit industry subsectors based on North American Industry Classification System (NAICS).  
Source: RMA/AFS Risk Analysis Service

# Current Delinquency Ratio by Deal Size



Contrary to conventional wisdom, past-due levels were highest in July for larger-end deals. So far, smaller deal performance has benefited from government programs like the PPP and liberal payment deferral practices by banks.

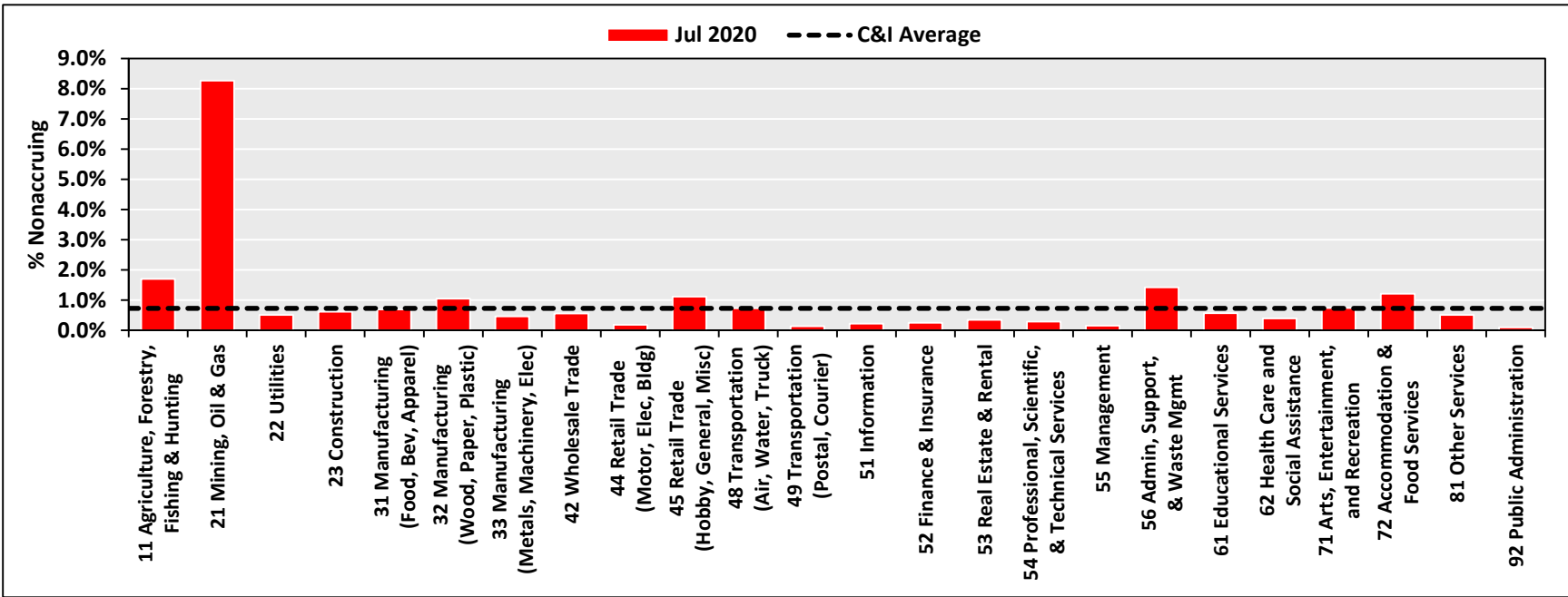


Deal size ranges based on C&I bilateral loans. A bilateral loan is a one bank, one borrower lending relationship. A participation/syndication is a borrower lending relationship involving more than one bank.  
Source: RMA/AFS Risk Analysis Service

# Current Nonaccrual Ratio by Industry



In July, the nonaccrual ratio for the Mining, Oil & Gas sector far exceeded those seen for the other two-digit NAICS industries.

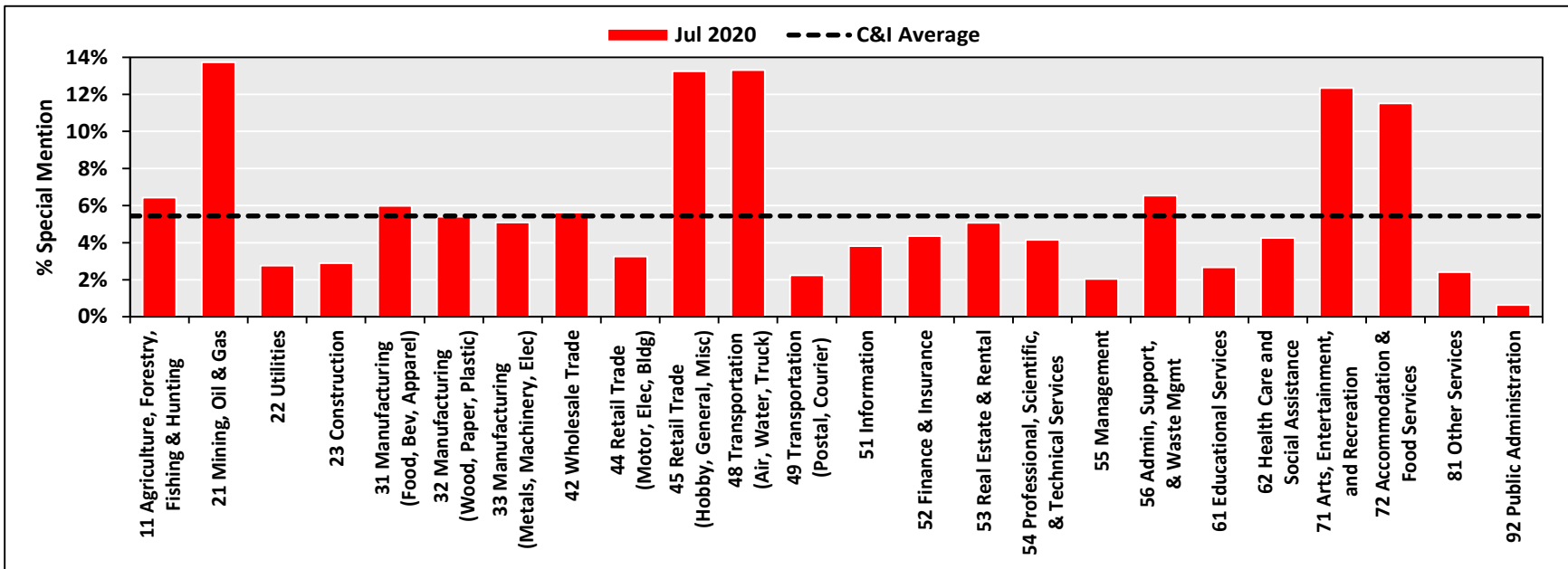


Two-digit industry sectors based on North American Industry Classification System (NAICS).  
Source: RMA/AFS Risk Analysis Service



# Current Special Mention Ratio by Industry

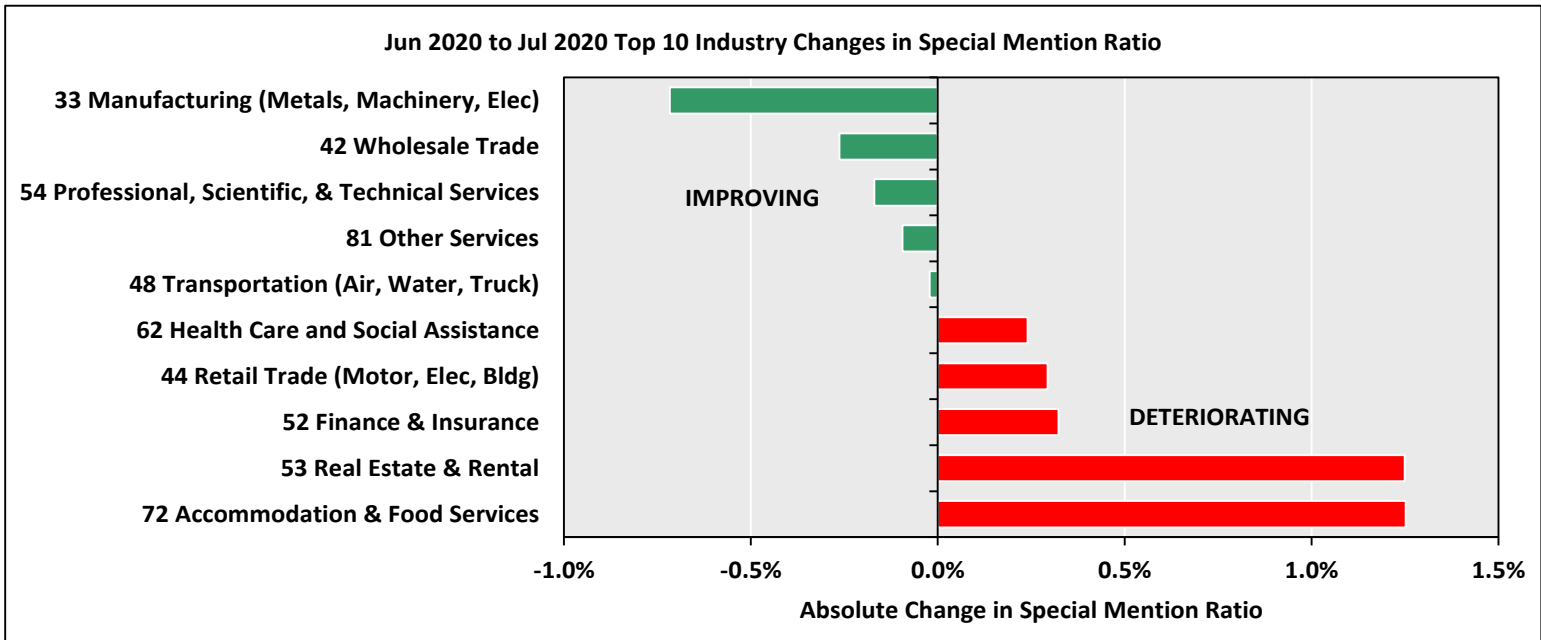
From an industry perspective, Mining, Oil & Gas, followed by Transportation (Air, Water, Truck) and Retail Trade (Hobby, General, Misc.) ranked highest in terms of Special Mention concentrations in July.



Criticized = percentage of loan outstandings risk rated Special Mention, Substandard, Doubtful, or Loss.  
 Two-digit industry sectors based on North American Industry Classification System (NAICS).  
 Source: RMA/AFS Risk Analysis Service

# Changes in Special Mention Ratios by Largest Industries

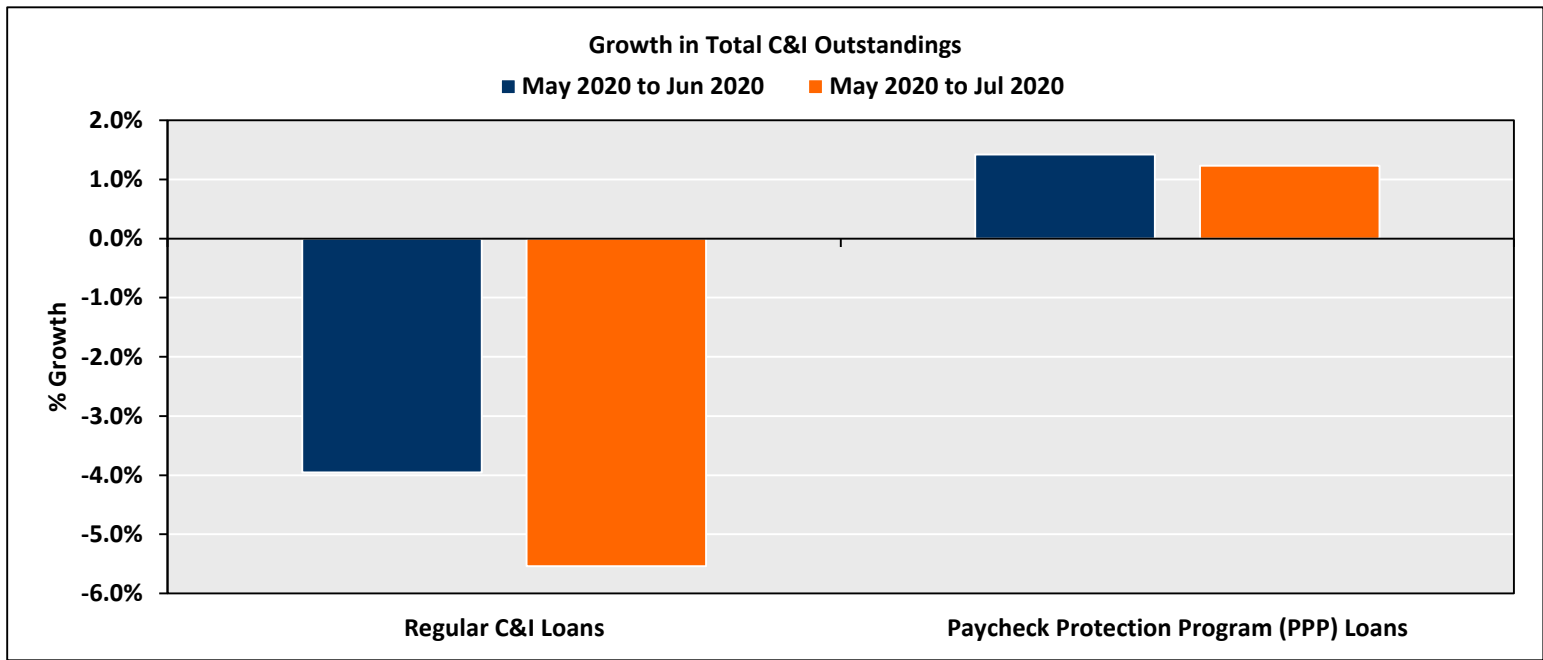
From June to July, Special Mention levels for 72 Accommodation & Food Services (i.e., Hotels and Restaurants) and 53 Real Estate & Rental increased substantially.



Criticized = percentage of loan outstandings risk rated Special Mention, Substandard, Doubtful, or Loss.  
 Two-digit industry sectors based on North American Industry Classification System (NAICS).  
 Source: RMA/AFS Risk Analysis Service

# Trends in C&I Loan Growth

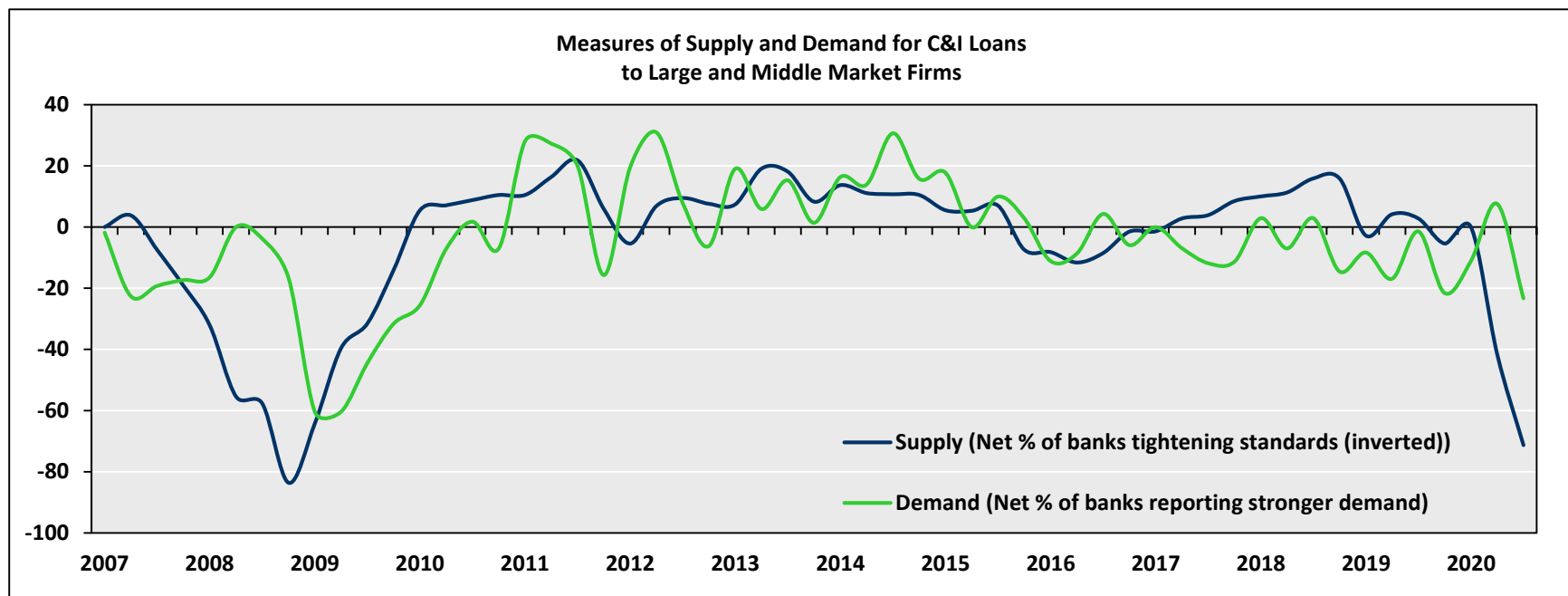
Excluding Paycheck Protection Program (PPP) loans, total C&I loan balances were down significantly in July versus May. PPP lending, which buoyed the market earlier this year, plateaued in June.



Note: Cumulative change in C&I outstanding balances for banks in the Risk Analysis Service (RAS) database.  
Source: RMA/AFS Risk Analysis Service

# Supply and Demand for C&I Loans

Banks on balance significantly tightened underwriting standards on C&I loans in July, while a net 23% of Fed survey respondents also reported weaker demand in the period. The supply of credit has not been this restricted since the fourth quarter of 2008.



Source: Federal Reserve

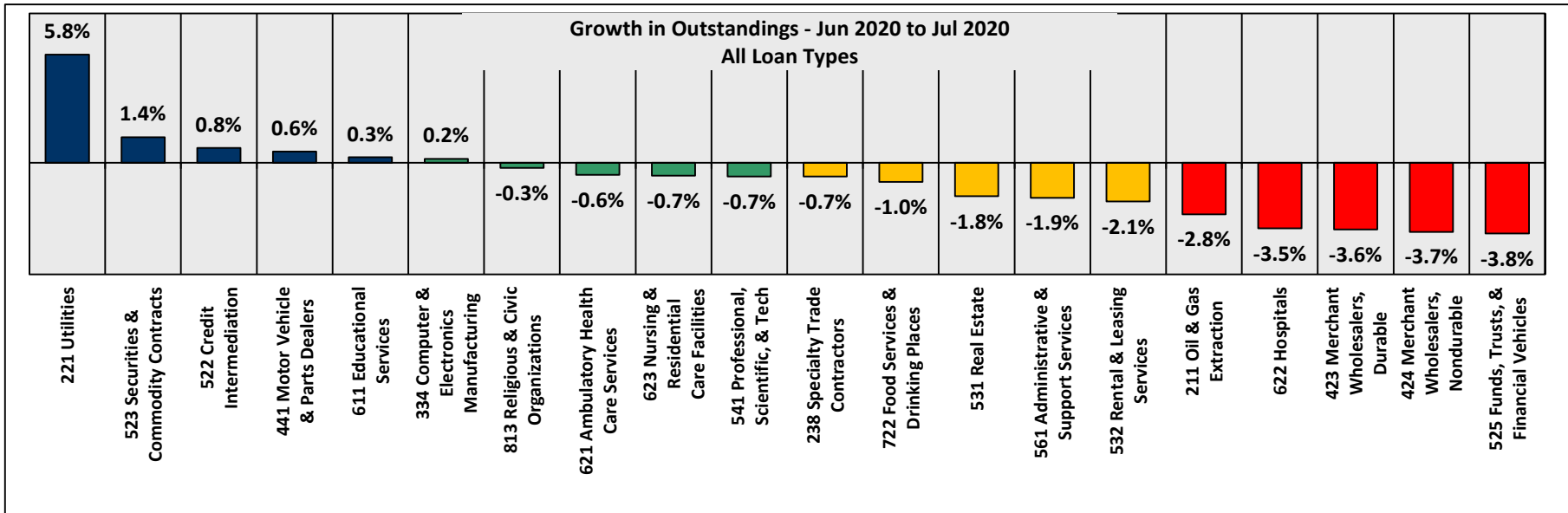


# Total Loan Growth by Industry Subsector

Month over Month; with PPP Loans



The chart below ranks the 20 largest three-digit NAICS industry subsectors in descending order by their July 2020 month-over-month C&I loan growth rates. Industries shaded blue represent the top quartile of this group for balance growth.



Notes:  
 Data based on C&I portfolio only (excludes Investor Real Estate).  
 Three-digit industry subsectors based on North American Industry Classification System (NAICS).  
 The 20 subsectors illustrated above represent the largest concentrations of loan outstanding balances in the database.  
 Sources: RMA/AFS Risk Analysis Service and AFS Pricing Dashboard.



# U.S. CRE Market

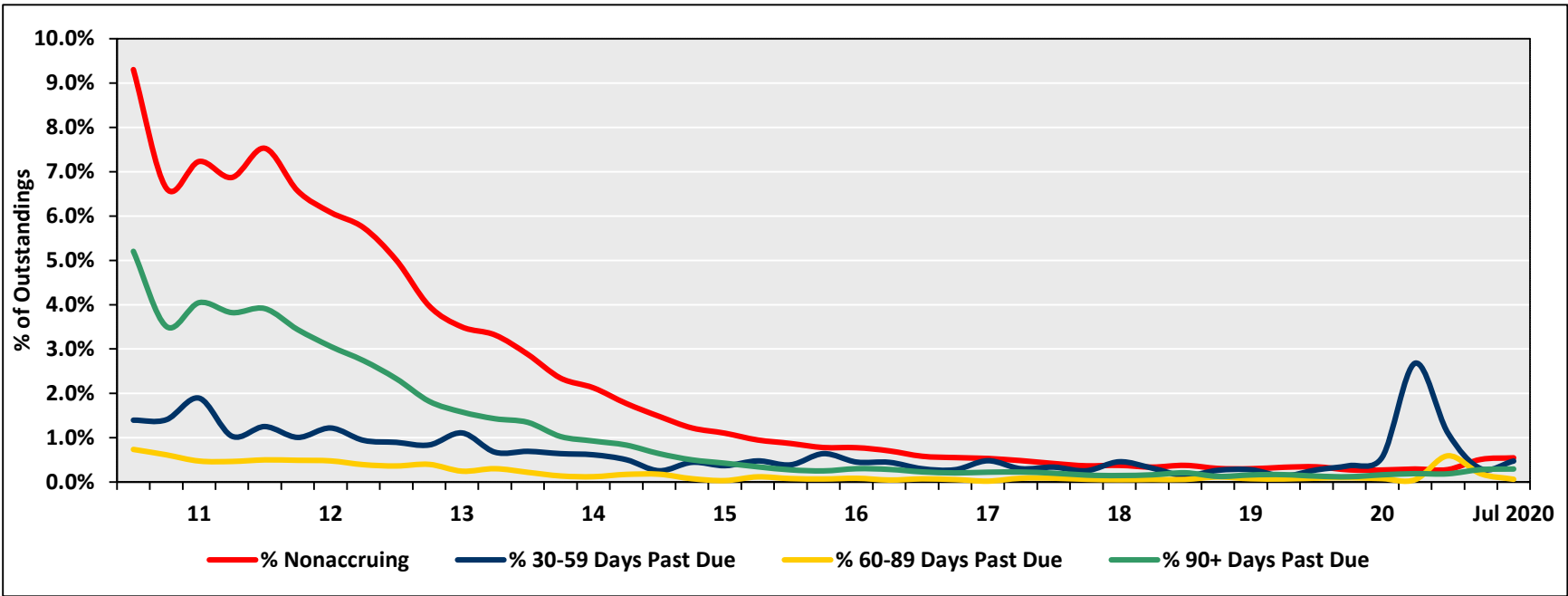
## July 2020 Results



# CRE Delinquency and Nonaccrual Trend



The percentage of CRE loans on nonaccrual continued to edge higher in July, nearly doubling when compared to the nonaccrual rate seen at the beginning of the year.

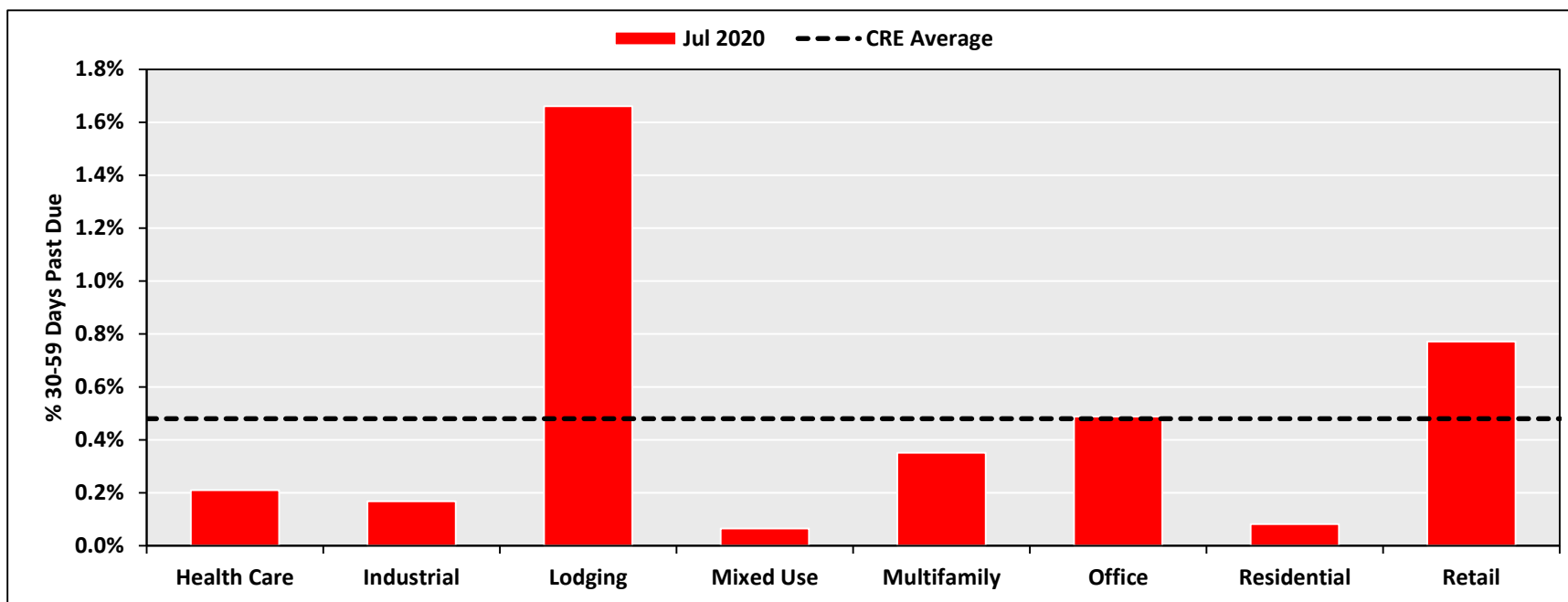


Source: RMA/AFS Risk Analysis Service

## CRE Current Delinquency Ratio by Property Type



In July, delinquency ratios (30–59 days past due) for the Lodging and Retail property types were worse than the CRE average.

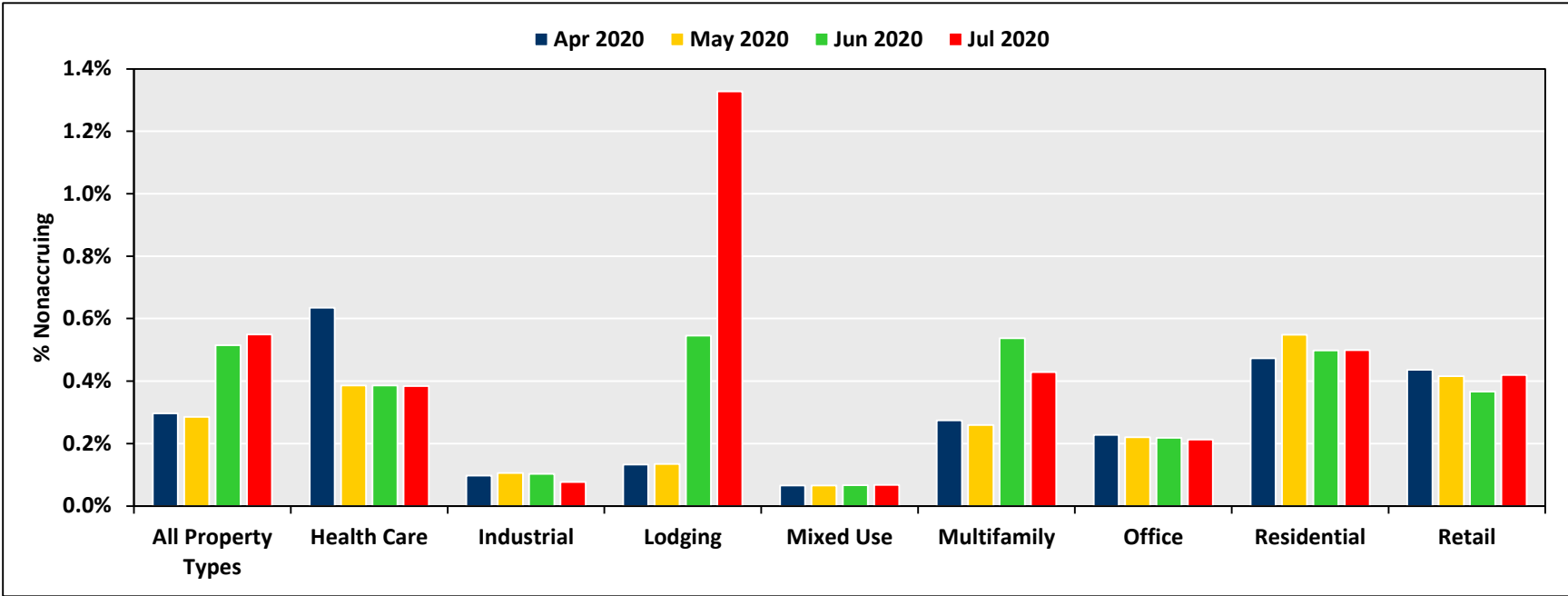


Top property types based on concentration of loan outstanding balances.  
Source: RMA/AFS Risk Analysis Service

# CRE Nonaccrual Trend by Property Type



The percentage of CRE loans on nonaccrual spiked in June and again in July for the Lodging property type. The Multifamily segment also experienced a material increase in nonaccrual levels when measured over the last four months.

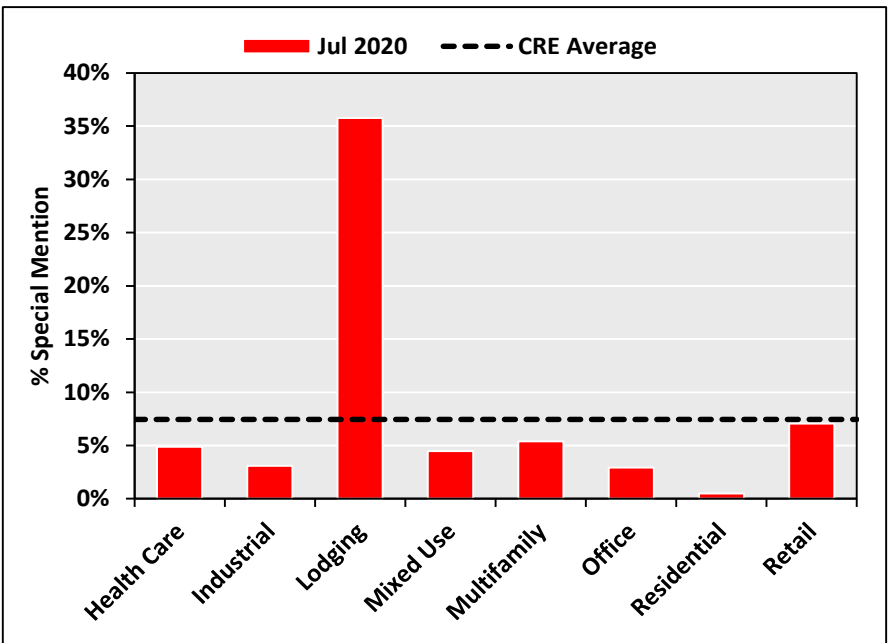
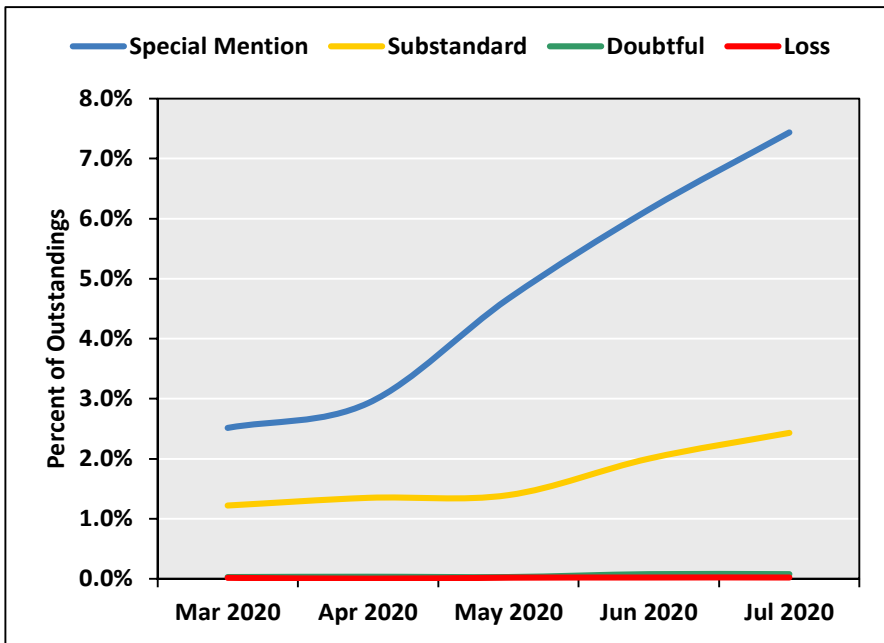


Top property types based on concentration of loan outstanding balances.  
Source: RMA/AFS Risk Analysis Service

# CRE Criticized Trend and Current Special Mention Ratio by Property Type



The percentage of CRE loans risk rated Special Mention nearly tripled in July when compared to March (left chart). As of July, over one-third of the total CRE outstandings in the Lodging property type was risk rated Special Mention (right chart).

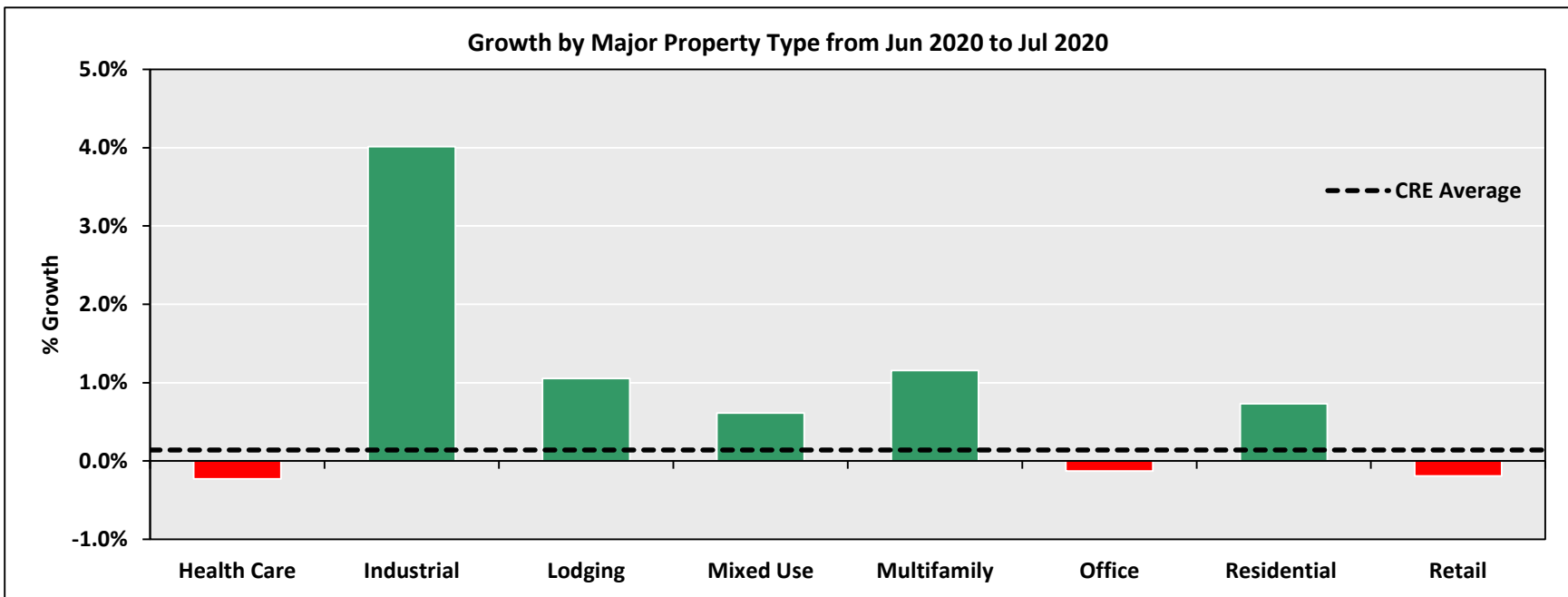


Criticized = percentage of loan outstandings risk rated Special Mention, Substandard, Doubtful, or Loss.  
 Top property types based on concentration of loan outstanding balances.  
 Source: RMA/AFS Risk Analysis Service

# Trends in CRE Loan Growth by Property Type



In July, the Industrial property type led month-over-month growth in CRE outstanding balances.



Top property types based on concentration of loan outstanding balances.  
Source: RMA/AFS Risk Analysis Service

# Risk Analysis Service: Solutions for Your Challenges

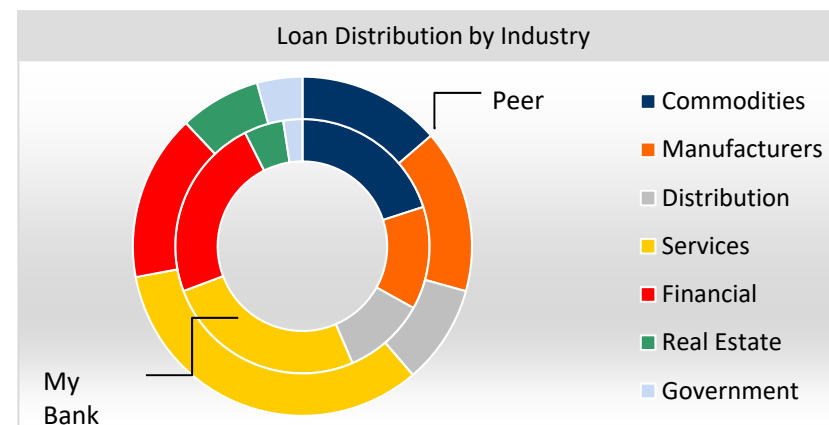
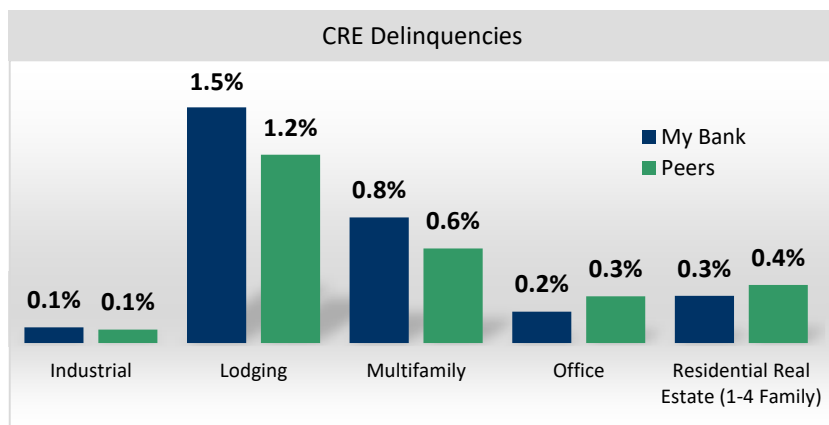


Dynamic, Web-Based Analytical Tool

	Time		Deal Size		Market		Collateral		New Renewed		Industry	
	Current Period	All Deal Sizes	All Markets	All Collateral	All Deals	All Industries						
	Nonaccrual %		Diff from Mkt		60+ Days Past Due %		Diff from Mkt					
	My Bank	All	My Bank	All	My Bank	All	My Bank	All	My Bank	All	My Bank	All
USA	0.67%	0.79%	-0.12%		0.02%	0.13%	-0.11%					
Los Angeles-Long Beach-Santa Ana, CA 31100	0.00%	0.32%	-0.32%		n/a	0.21%	-0.21%					
Washington-Arlington-Alexandria, DC-VA-MD-WV 47900	0.65%	0.28%	0.37%		n/a	0.01%	-0.01%					
Chicago-Naperville-Joliet, IL-IN-WI 16980	0.12%	0.68%	-0.57%		0.00%	0.15%	-0.15%					
Boston-Cambridge-Quincy, MA-NH 14460	0.73%	0.53%	0.19%		0.01%	0.04%	-0.03%					
New York-Northern New Jersey-Long Island, NY-NJ-PA 35620	1.36%	0.81%	0.55%		0.00%	0.14%	-0.14%					
Philadelphia-Camden-Wilmington, PA-NJ-DE-MD 37980	0.58%	1.18%	-0.59%		0.00%	0.00%	0.00%					
Houston-Sugar Land-Baytown, TX 26420	1.53%	1.51%	0.02%		0.09%	0.28%	-0.19%					

## Program Highlights

- Comparative scorecards on portfolio mix and performance, industry volatility rankings, and sector outlooks under varying economic scenarios
- Data delivered via a dynamic, web-based analytical tool, with standardized reports to guide data exploration plus ability to customize
- Robust time series (quarterly data from 2003 to present) provides a sound platform with which to analyze industry volatility
- Experienced AFS business analyst assigned to support your bank supplemented by initial and ongoing training onsite and via webcast





## Thank You for Taking the Time to Join us Today

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Thank you for taking the time to join us today.

### Question or comments?

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# Questions?



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