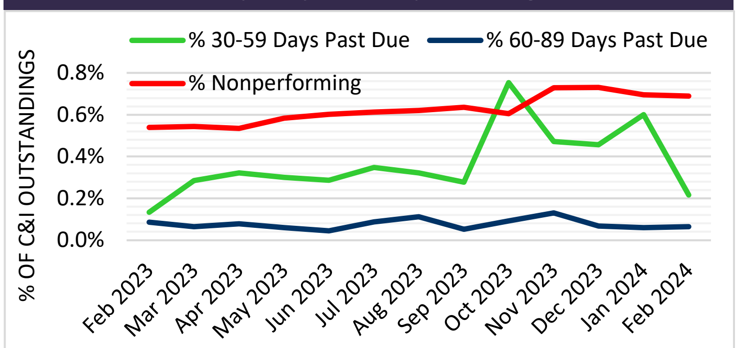
# Commercial Credit Quality Bulletin

March 2024

## Commercial Real Estate Nonperformers Trend Higher; Further Normalization Expected In Coming Months

Commercial Real Estate (CRE) nonperforming loans, defined as loans past due 90 days or more plus loans on nonaccrual, continued a general upward trajectory this month. CRE nonperformers totaled 1.3% of total outstanding balances, up 6.5% month over month and 27% year over year. The property types driving the negative migration are largely associated with office buildings, health care facilities, and lodging, although lodging continues to fall off previous high-water marks. Many banks have taken measures over the last year to offload, reserve for, or otherwise contain CRE exposure. Further, regulatory forbearance will likely play a positive role in helping to avoid a free fall in property prices. Nevertheless, defaults and charge-offs associated with CRE are largely expected to rise further throughout 2024.

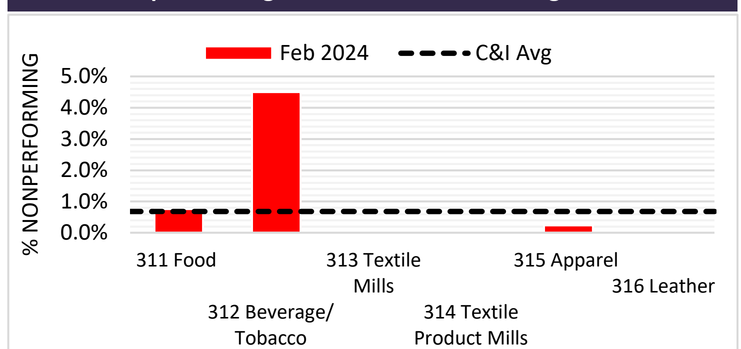
**C&I Delinquency and Nonperforming Trend**



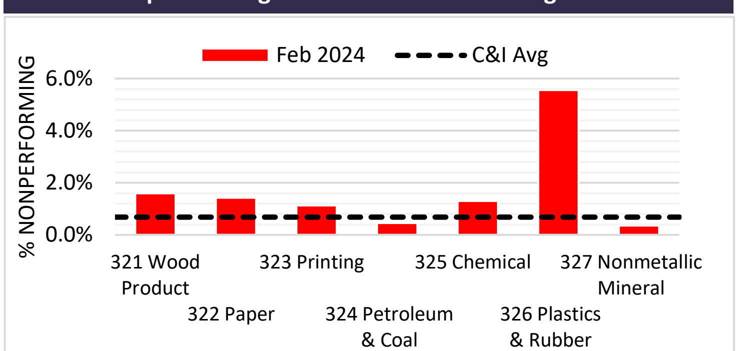

On the left, we are showing three key loan performance metrics for Commercial and Industrial (C&I) loans over the last year. The nonperforming metric combines loans that are 90+ days delinquent with loans that are in a nonaccrual status. Since the spring of 2023, the C&I nonperforming measure has been trending in the wrong direction. C&I nonperformers were 0.54% at the beginning of 2023 and have now climbed to 0.69%. C&I delinquencies past due one payment appear to have recovered – for now – from several months of volatility and at the end of February were only slightly higher than the year ago level.

On the right we are analyzing nonperforming ratios for the Manufacturing (NAICS 31) three-digit subsectors. By dropping down a level, we can get a better understanding of why this Manufacturing sector is not performing as well as other industry sectors. You can clearly see that #312 - Beverage/Tobacco is by far the worst performing subsector of the group. Within Beverage/Tobacco, we are observing problems with breweries in particular. Especially hard hit are the craft breweries and, as we noted in our recent webcast, beer sales are down across the country.

**C&I Nonperforming Ratios: 31 Manufacturing Subsectors**




**C&I Nonperforming Ratios: 32 Manufacturing Subsectors**




The chart on the left examines another set of subsectors, this time for Manufacturing (NAICS 32), which on its own is performing worse than average. Unlike what we saw with NAICS 31, almost all of the subsectors are performing worse than average. The second largest subsector (in terms of exposure), Plastics and Rubber, is one of the worst performing subsectors in the entire database. Plastics manufacturing tends to be a highly leveraged industry and the recent increases in interest rates, coupled with increased costs and environmental pressures, have reduced 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.

Tom Cronin, AFS, tcronin@afsvision.com ● Ann Adams, RMA, aadams@rmahq.org

www.afsvision.com ● www.rmahq.org