# Episodic Stress Events Continue, Push Nonperforming C&I and CRE Loan Levels Higher

Nonperforming levels for both Commercial and Industrial (C&I) and Commercial Real Estate (CRE) loans continued to rise in September, reflecting episodic stress in both product types. C&I loan performance and credit quality can best be described as normalizing, in which performance and risk indicators continue to revert to long-run averages, although as described below several industries remain under stress. By comparison, we observed a stronger and more general erosion in asset quality for CRE borrowers, led by – though not excluded to – the office property type. Nevertheless, most banks are well prepared and well reserved, and the conversation has shifted to estimating actual loss experience and charge offs. In September slowing payrolls and falling job openings finally prompted the Fed to reverse course and begin an easing cycle designed to prolong the current expansionary period, and the probability of the Fed engineering a soft landing has gained traction of late.

C&I Nonperforming Trend by Industry
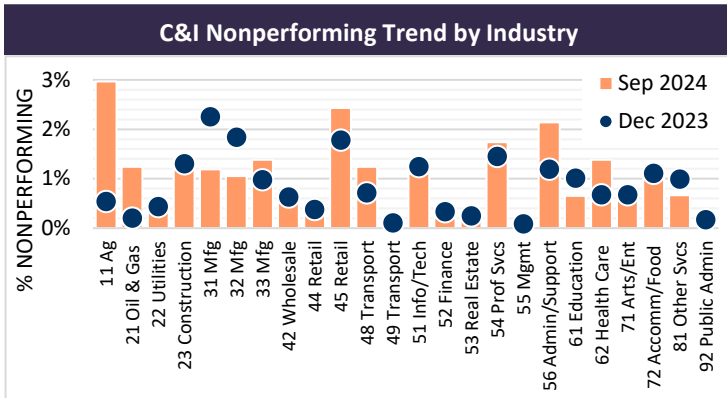
The chart on the left shows the percentage of loans 90+ days past due plus loans on nonaccrual divided by the total loans outstanding for every NAICS sector for December 2023; the marker, compared to September 2024, illustrated by the column. The markers above the column represent improvements over the nine-month period; the markers within the columns represent deterioration over the same period. Of the twenty-four sectors, only seven showed an improvement over the period as lingering inflation, high interest rates, and a slowing economy took a toll on borrower loan performance and credit quality.

The chart on the right shows nonperforming levels for the four subsectors within broader Healthcare sector with the marker representing the ratio for December 2023 and the column representing the ratio for September 2024. Most notable is the deterioration in Nursing and Residential Care, where the % nonperforming has almost tripled in nine months. Nursing homes tend to be highly leveraged, using long term loans to finance the physical plant. The higher interest rate environment has dramatically impacted these elder care facilities.

C&I Nonperforming Trend for Health Care Subsectors

C&I Nonperforming Trend for Manufacturing Subsectors
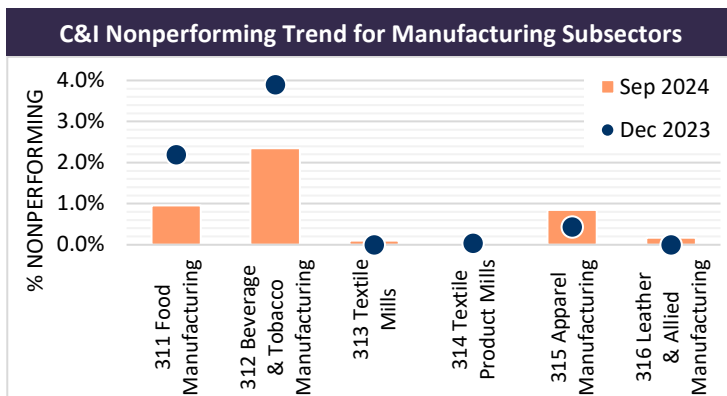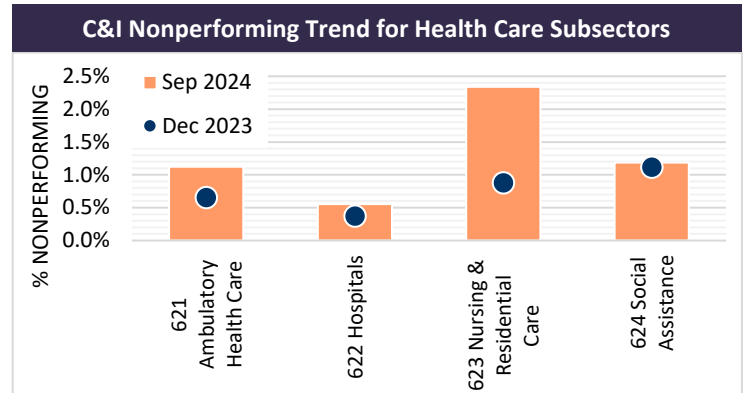
The chart on the left shows the percentage of nonperforming C&I balances for the six subsectors within the broader Manufacturing industry. We see dramatic improvement for Food Manufacturing and Beverage and Tobacco Product Manufacturing. Within Food Manufacturing there was a significant improvement for Snack Foods. Nonperforming levels for Wineries improved within Beverage Manufacturing. The improvement for these subsectors offset the performance decline for Apparel manufacturers.