DATA DISPATCH

US banks' CRE loan delinquencies climb to new peak

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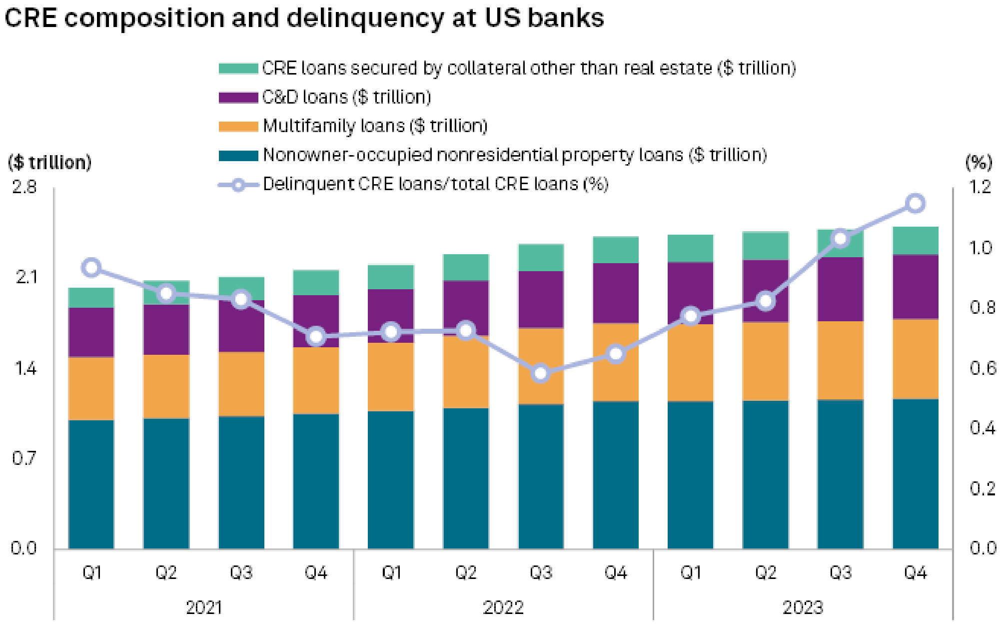
Market Intelligence

Overdue commercial real estate loans at US banks increased to another cycle peak as lenders absorb charge-offs in the troubled office sector and pushed-out expectations for rate cuts keep the pressure on borrowers facing maturities.

The commercial real estate (CRE) loan delinquency rate across the industry increased another 12 basis points sequentially to 1.15% in the fourth quarter of 2023, according to data from S&P Global Market Intelligence. That compares with quarterly delinquency rates of 50 basis points to 68 basis points in 2018 and 2019, and an early-pandemic high of 1.02% in the fourth quarter of 2020, when stress centered on sectors like hotels.

Banks including Wells Fargo & Co. and PNC Financial Services Group Inc. have said that strains are largely confined to the office sector, however, and expressed confidence that they have already set aside sufficient reserves to absorb charge-offs after large builds.

Meanwhile, some analysts believe that a buoyant economy could enable CRE to power through. "The sturdy pace of recent economic growth appears to be bolstering commercial real estate (CRE) demand. Outside of the office market, net absorption continues to be positive," Wells Fargo economists said in a Feb. 26 note, referring to the pace at which tenants occupy new space. "In short, dark clouds continue to loom, however the potential for a soft landing and lower interest rates are promising green shoots for 2024."



Data compiled Feb. 21, 2024.
CRE = commercial real estate; C&D = construction and development.
Delinquent loans consist of loans 30 or more days past due and loans in nonaccrual status.
Analysis based on aggregates for operating and historical US commercial banks, savings banks, and savings and loan associations. Nondepository trusts and companies with a foreign banking organization charter are excluded.
Data based on regulatory filings.
Source: S&P Global Market Intelligence.

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Pulling back

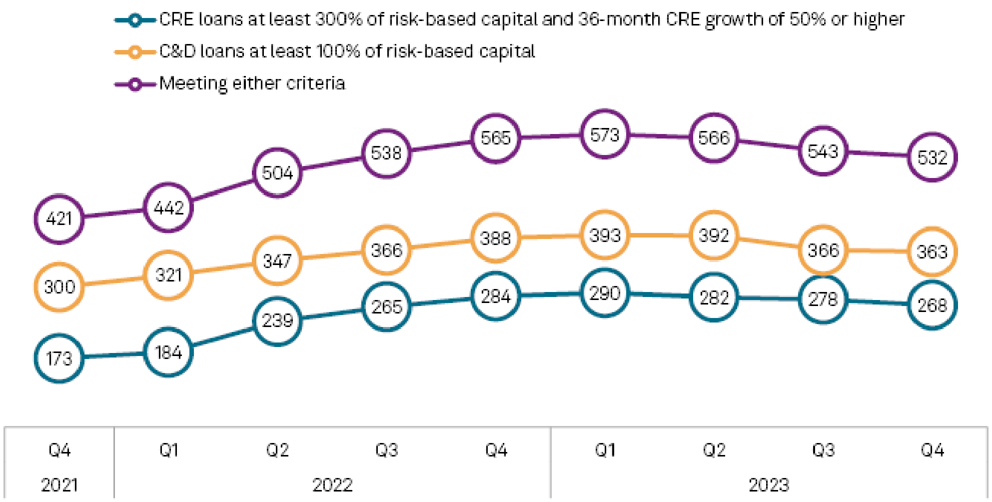
CRE loan growth has continued to drop as the delinquencies have mounted.

Year-over-year growth across US banks was 2.9% in the fourth quarter of 2023, the lowest level in a decade except for 1.8% in the first quarter of 2021.

In the Federal Reserve's most recent survey of senior loan officers, banks said they continued to tighten CRE standards, though the net percentage reporting sequential tightening declined compared with the previous four quarters for loans in each of the multifamily, nonfarm and nonresidential, and construction and land development sectors.

On balance, banks also reported that they expect to further tighten standards in each sector in 2024, though most respondents said they expect to keep standards about the same: 61.5% in multifamily, 72.7% in nonfarm and nonresidential, and 63.6% in construction and land development.

Number of US banks exceeding 2006 CRE loan concentration guidance (actual)



Data compiled Feb. 21, 2024.

CRE = commercial real estate; C&D = construction and development; ALLL = allowance for loan and lease losses.

Analysis includes operating and historical US commercial banks, savings banks, and savings and loan associations. Nondepository trusts and companies with a foreign banking organization charter are excluded.

Since the first quarter of 2020, regulators have recommended using Tier 1 capital plus the entire ALLL as the denominator in credit concentration calculations because of many banks qualifying for and opting into the community bank leverage ratio framework. Banks adopting the current expected credit loss model should use the portion of the credit losses attributed to loans and leases plus Tier 1 capital.

Companies that met both criteria are included in the totals for each criterion, causing overlap between the totals of each criterion.

Data based on regulatory filings.

Source: S&P Global Market Intelligence.

Concentrated in CRE

The number of banks exceeding regulatory guidance for CRE concentration fell for the third consecutive quarter, dropping by 11 sequentially to 532 in the fourth quarter.

Heavy concentrations have hurt some banks, with a tumble in shares at New York Community Bancorp Inc. reflecting concerns about its large exposure to rent-regulated multifamily buildings. The bank has said it is working to reduce its CRE concentration as quickly as it can.

The composition of CRE exposure can matter greatly, however. For example, regulators' Feb. 16 report on their review of shared national credits found that while commitments flagged for weaknesses or actually generating losses in the office sector have climbed sharply compared to 2021, they have fallen for the retail sector and plummeted for hotels.

Largest US banks exceeding 2006 CRE guidance as of Dec. 31, 2023

		CRE guidance criteria			
Company (top-level ticker)	Total assets ($B)	CRE/(Tier 1 capital + ALLL)[1] (%) At least 300%	AND Growth in CRE last 36 months (%)[2] At least 50%	OR C&D/(Tier 1 capital + ALLL)[1] (%) At least 100%	Leverage ratio (%)
Valley National Bank (VLY)	60.94	472.7	81.0	63.7	9.14
Umpqua Bank (COLB)	52.17	317.3	75.5	55.7	8.30
Bank OZK (OZK)	34.24	399.3	41.6	237.4	13.91
Simmons Bank (SFNC)	27.31	282.4	43.5	108.8	10.05
City National Bank of Florida (BCI)	26.14	301.7	86.6	47.7	9.90
Washington Federal Bank (WAFD)	22.64	366.2	64.9	101.3	9.12
Axos Bank (AX)	20.75	364.0	78.8	127.8	10.22
Rockland Trust Co. (INDB)	19.35	318.2	93.8	41.5	11.10
Merchants Bank of Indiana (MBIN)	16.64	454.1	174.4	78.6	10.05
First United Bank and Trust Co.	16.26	318.9	28.2	134.9	8.36
ServisFirst Bank (SFBS)	16.13	309.1	97.3	89.9	9.50
Bell Bank	14.01	307.7	63.4	49.8	9.39
Dime Community Bank (DCOM)	13.62	549.8	263.7	12.0	9.79
OceanFirst Bank NA (OCFC)	13.44	448.1	64.1	60.4	8.90
First Foundation Bank (FFWM)	13.30	538.0	89.2	11.1	8.35
Veritex Community Bank (VBTX)	12.38	318.1	55.4	117.6	11.43
Farmers & Merchants Bank of Long Beach (FMBL)	12.04	336.9	50.1	54.1	11.01
EagleBank (EGBN)	11.61	386.2	18.3	111.9	10.72
Stellar Bank (STEL)	10.64	304.2	136.3	115.2	10.44
HomeStreet Bank (HMST)	9.38	584.3	67.9	66.1	8.50
Industry median[3]		**126.5**	**41.5**	**30.1**	**10.55**

Data compiled Feb. 21, 2024.

CRE = commercial real estate; C&D = construction and development; ALLL = allowance for loan and lease losses.

Analysis represents the 20 largest US banks and thrifts by total assets as of Dec. 31, 2023, that met at least one of the two CRE guidance criteria: A. CRE loans greater than or equal to 300% of Tier 1 capital + ALLL and growth in CRE loans greater than or equal to 50% over the last 36 months; or B. C&D loans greater than or equal to 100% of Tier 1 capital + ALLL.

[1] Under the new community bank leverage ratio framework, qualified community banks that elect to use the framework are not required to report Tier 2 capital; hence, to calculate credit concentration ratios such as CRE, regulators recommend using Tier 1 capital plus the entire ALLL. For banks that have adopted the current expected credit loss model, Tier 1 capital plus the portion of the allowance for credit losses attributed to loans and leases is used.

[2] 36-month CRE loan growth is calculated based on the call report filing as of Dec. 31, 2023, relative to the call report filing as of Dec. 31, 2020.

[3] Includes operating and historical US commercial banks, savings banks, and savings and loan associations. Nondepository trusts and companies with a foreign banking organization charter are excluded.

Tickers based on top-level entities' home-country stock exchanges.

Data based on regulatory filings.

Source: S&P Global Market Intelligence.

Biggest banks

CRE loans increased a median of 5.6% from the year prior across the 20 banks with the largest CRE portfolios, though a number of the increases reflected acquisitions.

Excluding banks with major acquisitions, the median increase was 0.6%, and seven banks posted year-over-year declines.

Analysts at DBRS Morningstar are relatively sanguine about the ability of large regional banks, or those with between $10 billion and $1 trillion of assets and operations in multiple states, to weather CRE problems.

"We expect troubles in CRE to weigh on U.S. banks' financial performance, but this process will take multiple years with losses spread out, as banks work through maturing loans," they said in a Feb. 15 note. Nevertheless, because of their earnings power, credit loss reserves and capital positions, "they should be able to work through these problems."

US banks with the largest CRE loans, Q4 2023

Company (top-level ticker)	Dec. 31, 2023, total assets ($B)	Total CRE loans[1] ($B)	YOY change (%)	Proportion of total loans (%)	Proportion of total assets (%)	Leverage ratio (%)
JPMorgan Chase Bank NA (JPM)[2]	3,395.13	173.31	29.8	13.0	5.1	7.85
Wells Fargo Bank NA (WFC)	1,733.24	139.65	-2.3	15.4	8.1	8.45
Bank of America NA (BAC)	2,540.12	82.80	13.4	7.9	3.3	7.59
U.S. Bank NA (USB)[3]	650.66	55.66	22.3	14.8	8.6	9.23
PNC Bank NA (PNC)	557.46	48.89	-4.3	15.2	8.8	8.56
Flagstar Bank NA (NYCB)[4]	116.26	48.49	0.2	56.5	41.7	8.50
Capital One NA (COF)	475.63	47.78	-3.2	14.9	10.0	10.30
Truist Bank (TFC)	527.53	41.48	-6.2	13.2	7.9	9.21
Manufacturers and Traders Trust Co. (MTB)	207.77	38.30	-5.0	28.6	18.4	8.83
Citibank NA (C)	1,684.71	36.54	-0.7	5.6	2.2	8.95
Citizens Bank NA (CFG)	221.75	30.35	0.6	20.6	13.7	8.86
Valley National Bank (VLY)	60.94	27.73	9.8	55.2	45.5	9.14
BMO Bank NA (BMO)[5]	265.66	24.39	58.9	16.4	9.2	9.17
TD Bank NA (TD)	367.17	24.10	3.9	13.2	6.6	11.01
First-Citizens Bank & Trust Co. Inc. (FCNC.A)[6]	213.62	20.61	36.0	15.4	9.6	9.88
Webster Bank NA (WBS)	74.88	19.92	8.1	39.3	26.6	9.69
Bank OZK (OZK)	34.24	19.60	28.3	74.1	57.2	13.91
KeyBank NA (KEY)	185.89	18.94	-6.2	16.7	10.2	9.22
East West Bank (EWBC)	69.48	18.39	7.3	35.2	26.5	9.65
Santander Bank NA (SAN)	100.49	18.17	10.6	32.0	18.1	11.55
Group median			**5.6**	**15.9**	**9.8**	**9.19**

Data compiled Feb. 21, 2024.

CRE = commercial real estate.

Analysis limited to operating US commercial banks, savings banks, and savings and loan associations. Nondepository trusts and companies with foreign banking organization are excluded.

[1] Regulators define commercial real estate loans as construction and land development loans + multifamily loans + nonowner-occupied nonresidential property loans + commercial real estate loans secured by collateral other than real estate.

[2] JPMorgan Chase Bank NA assumed substantially all of the deposits and purchased essentially all of the assets of First Republic Bank on May 1, 2023.

[3] U.S. Bancorp acquired MUFG Union Bank NA on Dec. 1, 2022.

[4] Flagstar Bank NA purchased certain assets and liabilities of Signature Bridge Bank NA on March 19, 2023.

[5] BMO Harris Bank NA acquired Bank of the West on Feb. 1, 2023.

[6] First-Citizens Bank & Trust Co. Inc. acquired certain assets and liabilities of Silicon Valley Bridge Bank NA on March 26, 2023.

Data based on regulatory filings.

Tickers based on top-level entities' home country stock exchanges.

Source: S&P Global Market Intelligence.

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