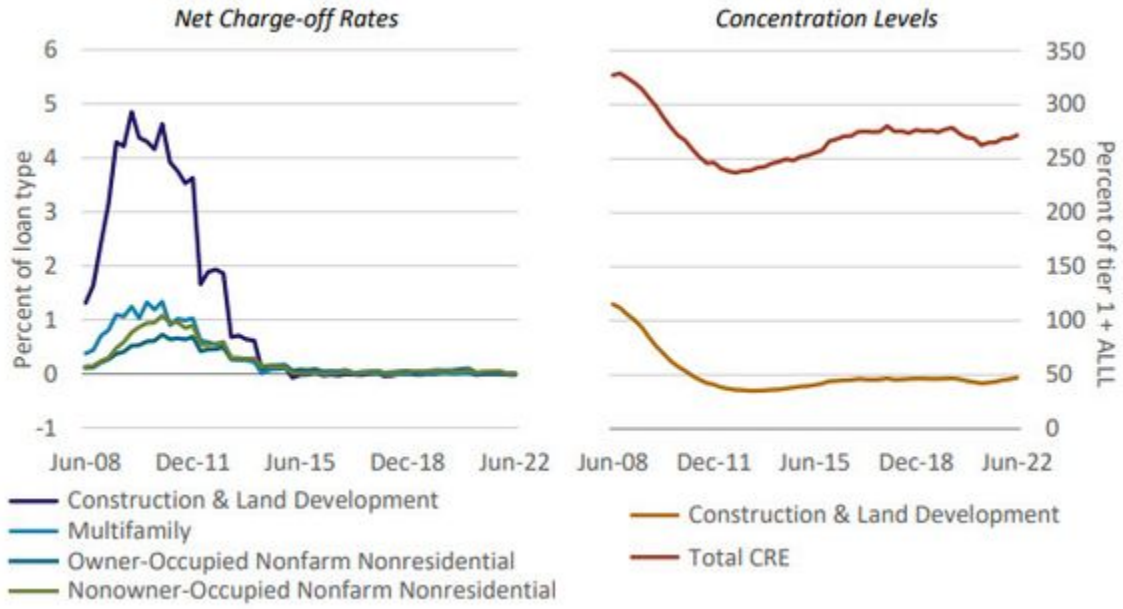
Community Banking Bulletin

Highlight: Commercial real estate loan losses remain muted despite significant recent loan growth

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Commercial real estate (CRE) loss rates remain low despite rapid growth in CRE loan volume at community banks over the past year, particularly in construction and land development and multifamily loans.

Commercial Real Estate Losses and Concentration Levels



Note: Net charge-offs are calculated as year-to-date gross charge-offs less recoveries, annualized.
Source: Reports of Condition and Income.

- As of 2Q 2022, losses on commercial real estate (CRE) loans at community banking organizations (CBOs) remained at historical lows, with net charge-off rates of less than 0.02 percent across all CRE loan types. [1] While credit performance has been strong in recent years, construction and land development (CLD) lending has historically been an area of elevated credit risk. During the last significant real estate downturn, CLD loans experienced the highest loss rates of all CRE loan types, peaking at 4.85 percent in 4Q 2009.
- As of 2Q 2022, CBO CLD and multifamily loan balances increased by 21 percent and 18 percent year-over-year, respectively, the highest growth rates for these loan types since the run-up to the 2008 financial crisis. [2]

- After declining significantly following the 2008 financial crisis, CBO CLD and overall CRE exposures relative to capital have remained in relatively stable ranges. However, while still significantly below 2007-2009 levels, the recent growth in CLD lending has driven aggregate CBO CLD exposure relative to capital to its highest level in over a decade.

Questions or comments? Please contact KC.SRM.SRA.CommunityBankingBulletin@kc.frb.org

Endnotes

[1] Community banking organizations are defined as having less than $10 billion in total assets.

[2] Adjusted for changes to the CBO population due to mergers and acquisitions.