Highlight: CRE concentration and ACL levels stabilize

July 25, 2024

CRE concentrations and ACL levels at community banks have stabilized in 1Q 2024, both above 10-year averages.

- Commercial real estate (CRE) concentrations at community banking organizations[1](CBOs) stabilized in 1Q 2024 at levels comparable to 2010. In aggregate, CBO concentrations declined 127 basis points from year-end 2023 as growth in tier 1 capital and allowance for credit losses (ACL) exceeded CRE loan growth. As of 1Q 2024, just under 30 percent of CBOs have CRE concentrations exceeding 300 percent of tier 1 capital and ACL, also comparable to 2010.[2]
- After strong growth in 2021 and 2022, CRE loan growth slowed in 2023 and in 1Q 2024 experienced the lowest quarterly growth since 2015. Growth was particularly stagnant in construction and land development (CLD) loans, growing by just 0.16 percent, the lowest quarter-over-quarter growth in over a decade.
- ACL as a percentage of total loans at CBOs has declined since the 2021 peak when banks held higher levels given the uncertainty of the COVID-19 pandemic. ACL levels remain above pre-pandemic levels at 1.3 percent of total loans as of 1Q 2024, near 2015 levels. Nonperforming CRE loans have increased for 5 consecutive quarters, though remain below 10-year averages.[3]

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] See SR 07-1 for guidance on risk management practices for concentrations in CRE

[3] See Highlight: Nonperforming loan levels remain low overall