Bank Credit Quality Trends

This report looks at credit quality trends in bank loan portfolios as a whole and in several segments of the loan portfolio: 1-4 family residential loans, commercial real estate, construction and land development and agriculture. The text on each page discusses all commercial banks nationwide and all commercial banks in the Tenth District of the Federal Reserve System.

The maps on each page include all commercial banks with assets up to $10 billion. This limitation on asset size is to provide a clearer picture of regional trends.
Maps show the ratio of non-currents, net charge-offs, and OREO to loan balances for metropolitan and micropolitan statistical areas. Only banks up to $10 billion were included in order to see regional trends more clearly.

Nationwide (all commercial banks)
- Asset quality has worsened over the past 12 months, but indicators are not as bad as during the economic downturn early in this decade. In this report we explore asset quality in specific sectors of loan portfolios, where deterioration is more evident.
- Non-current loans/total loans increased 18 basis points, from 0.69% at mid-year 2006 to 0.87% at mid-year 2007. During the past 10 years this ratio had a high of 1.45% at year-end 2002. The cushion of loan loss reserves to non-current loans fell year-over-year (YOY) from 173.7% to 135.0%. This ratio has been declining since year-end 2004.
- The ratio of net charge-offs to average loans is not yet showing signs of asset quality deterioration, and is not indicating a consistent trend.

10th District (all commercial banks)
- In the 10th District, the quality of aggregate loan portfolios looks like the national trend. Non-current loans/total loans rose 15 basis points YOY, from 0.72% to 0.87%.
- The cushion of loan loss reserves to non-current loans fell YOY from 177.4% to 144.7%. This ratio has been declining since year-end 2005.
Maps show the ratio of non-currents, net charge-offs, and OREO to loan balances for metropolitan and micropolitan statistical areas. Only banks up to $10 billion were included in order to see regional trends more clearly.

Nationwide

- Asset quality nationwide has worsened noticeably over the past year in all components of 1-4 family. Banks hold approximately 18% of their assets in 1-4 family mortgages; 13.8% are closed-end mortgages loans, and 4.5% are revolving home equity lines of credit (HELOCs).
- There was 31% growth in OREO during the first half of 2007, and a 63% increase YOY. Delinquencies for 1-4 family closed-end in the 30-89-day bucket increased from 0.95% to 1.32% YOY; HELOCs increased from 0.48% to 0.68% YOY. Non-currents grew from 0.91% to 1.26% YOY for closed-end, and from 0.27% to 0.46% YOY for HELOCs.

10th District

- Residential mortgage asset quality in the 10th District is better than the national picture. Banks in the 10th District hold a smaller portion of the balance sheet in residential mortgages; 1-4 family closed-end are 10% of total assets, and HELOCs are 1.5%.
- OREO increased 17% YOY – much less than the 63% increase nationwide.
- Closed-end loans in the 30-89 day bucket increased from 1.02% to 1.16% YOY. Closed-end loans in the non-currents category went from 0.66% to 0.71% YOY.
Maps show the ratio of non-currents, net charge-offs, and OREO to loan balances for metropolitan and micropolitan statistical areas. Only banks up to $10 billion were included in order to see regional trends more clearly.

**Nationwide**
- Nationwide CRE loans (including owner-occupied) comprise 14.2% of bank assets. Problems are increasing more rapidly in construction and land development loans (C&LD) than in other CRE sectors. C&LD lending is covered in more detail on the next page.
- Non-current CRE loans grew from 0.51% to 0.87% YOY. There was a large increase in non-currents in C&LD (from 0.42% to 1.25%), and in multi-family (from 0.41% to 0.94%). Non-farm, non-residential (NFNR) was relatively stable, with a slight increase from 0.58% to 0.63%.
- Total CRE OREO grew 27% YOY. Over half the balance of OREO is in NFNR OREO, but the OREO growth was predominantly in C&LD.

**10th District**
- Asset quality is worse than the national trend, and CRE loans comprise a much higher percentage of bank assets than the national average – 25.8% versus 14.2%. CRE loan balances at 10th District banks grew 10% YOY.
- Non-current CRE loans increased from 0.69% to 1.06% YOY, primarily due to the large increase in C&LD.
- CRE OREO grew 13% YOY. NFNR OREO decreased, while C&LD increased 73%.
Maps show the ratio of non-currents, net charge-offs, and OREO to loan balances for metropolitan and micropolitan statistical areas. Only banks up to $10 billion were included in order to see regional trends more clearly.

**Nationwide**
- C&LD is 33% 1-4 family residential construction and 66.9% commercial construction. C&LD OREO more than doubled YOY, from $340 to $750 billion.

**10th District**
- The percentage of C&LD in 1-4 family construction is slightly higher than nationwide at 37%, with 63% in commercial construction.
- There was a large jump in C&LD non-currents YOY, from 0.67% to 1.43%. This is a 10-year high for District banks. C&LD loans 30-89 days past due increased from 0.73% to 1.05% YOY.
- For all banks in the state of Colorado, aggregate past-dues (30+ days) for C&LD loans grew from 1.81% at mid-year 2006 to 2.98% as of March 31, 2007, then fell to 2.38% at mid-year 2007.
- For all banks in the state of Missouri, aggregate past-dues for C&LD loans grew from 1.18% at mid-year 2006 to 2.35% at mid-year 2007.
- For all banks in Nebraska, aggregate past-dues for C&LD loans grew from 1.82% at mid-year 2006 to 2.97% as of March 31, 2007, then fell to 2.31% at mid-year 2007.
Agriculture Non-Currents, Net Charge-offs plus OREO [MSAs]  
Banks up to $10B in Assets - June 2007

Nationwide
- Agricultural lending is split almost evenly between loans secured by farmland and agricultural production loans. Asset quality remains good in comparison to historical levels, and fairly stable.
- Non-current loans secured by farmland fell YOY from 0.83% to 0.80%. Non-current agricultural production loans increased slightly YOY from 0.55% to 0.72%. There was almost no increase in OREO, which was $67 million at mid-year 2007.

10th District
- Agricultural lending in the 10th District is composed of 43% loans secured by farmland and 57% agricultural production loans. Asset quality mirrors the national trend. Increases in non-currents are from historically-low levels.
- Non-current loans secured by farmland increased from 0.94% to 1.02% YOY. Non-current agricultural production loans increased slightly YOY, from 0.63% to 0.70%. Agricultural OREO was unchanged YOY at $13 million.
- Increases in the 30-89 day past due category are not large. At mid-year 2007, past-due farmland loans were at 0.81%, and production loans were at 0.59%.
- The maps above draw attention to Colorado and the KC MSA. The non-currents in these two areas are predominantly loans secured by farmland.

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