

Bank Lending Trends - 1Q 2010 Estimates

Final figures for the first quarter 2010 are not due out for another month (late May), but based on earnings reports and call report filings from many smaller banks, Foresight Analytics offers its advance estimates of what final 1Q 2010 real estate and business loan delinquency results will be. **Note: these are preliminary estimates, not the final results.**

Residential Mortgages (First-Lien Single Family Mortgages)

- Total delinquencies rose to a preliminary estimate of 14.0% during the first quarter, up from 13.2% in the fourth quarter 2009 and from 9.4% a year ago.
- Nonaccrual rates rose by 0.5%, from 5.0% to an estimated 5.5% during the fourth quarter. This is another new high for the nonaccrual rate since at least 1992, the beginning point for our data.
- A peak in the delinquency rate has proven elusive, as the severe price declines in many markets and the depth of the recession have led to increased distress. Nevertheless, with the beginnings of economic recovery and what appears to be a bottom in home prices, we expect the peak in delinquencies to occur during 2010.

Construction Lending

- Total delinquencies rose to an estimated 19.0%, up from 18.6% in Q4. This rate is very close to the 19.2% peak in Q1 1992.
- Nonaccruals are driving the increase, rising to an estimated 14.6% in Q1, up from 14.3% in Q4 and 9.8% in Q1 2009.
- While for-sale residential construction loans (single family and condo) are by far the main source of problems, our estimates indicate that delinquency rates for other construction sectors, including apartments and commercial properties, are on the rise, too.

Commercial Mortgages

- The total delinquency rate rose to an estimated 5.5%, up from 5.1% in Q4, and double the 2.7% rate in Q4 2008.
- The 5.4% delinquency rate is still well below the 8% delinquency rate in Q3 1991, but it is worrisome in light of weak fundamentals, constrained credit availability and a high volume of commercial mortgages coming due during the next several years.

Commercial & Industrial Loans

- The total delinquency rate rose to an estimated 4.5%, up from 4.4% in Q4. Despite the estimated increase, delinquency rates for some larger lenders have de-

Total Delinquency and Nonaccrual Rates U.S. Banks and Thrifts										
	Actual									Estimate
	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10
Residential Mortgages*										
Total Delinquency**	4.2%	4.7%	5.5%	6.4%	8.3%	9.4%	10.2%	11.8%	13.2%	14.0%
Nonaccrual	1.5%	2.0%	2.6%	2.9%	2.7%	3.5%	3.8%	4.6%	5.0%	5.5%
Construction Loans										
Total Delinquency**	5.0%	7.2%	8.1%	9.6%	11.4%	14.5%	16.3%	17.9%	18.6%	19.0%
Nonaccrual	2.9%	4.3%	5.7%	6.9%	7.7%	9.8%	12.1%	13.1%	14.3%	14.6%
Commercial Mortgages										
Total Delinquency**	1.6%	1.8%	1.9%	2.1%	2.7%	3.6%	4.1%	4.6%	5.1%	5.5%
Nonaccrual	0.7%	0.9%	1.1%	1.2%	1.4%	2.0%	2.6%	3.0%	3.5%	3.8%
Commercial & Industrial Loans (C&I)										
Total Delinquency**	1.4%	1.5%	1.6%	1.7%	2.6%	3.2%	3.7%	4.5%	4.4%	4.5%
Nonaccrual	0.5%	0.6%	0.7%	0.8%	1.4%	1.9%	2.5%	3.2%	3.1%	3.2%

* First-Lien Mortgages.
** Includes 30+ Days Past Due and Nonaccruals

Sources: FDIC, Foresight Analytics

creased slightly, possibly indicating that C&I delinquencies are peaking.

- The lack of credit is most apparent in the C&I loan category. Loans outstanding declined by 18% during 2009, compared to a 4% increase during 2008. Although it is too early to declare a turnaround, very recent data indicates that credit may be expanding. An improvement in business lending is a major component of our expectation for more rapid economic growth in the second half of 2010.

See the following page for a discussion of our previous estimates' accuracy.

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	Accuracy of Previous Estimates								
	Actual			Estimate			Difference		
	Q2 09	Q3 09	Q4 09	Q2 09	Q3 09	Q4 09	Q2 09	Q3 09	Q4 09
Residential Mortgages*									
Total Delinquency**	10.2%	11.8%	13.2%	10.2%	11.0%	12.4%	0.0%	-0.8%	-0.8%
Non-Accrual	3.8%	4.6%	5.0%	4.3%	4.7%	5.2%	0.5%	0.1%	0.2%
Construction Loans									
Total Delinquency**	16.3%	17.9%	18.6%	17.1%	18.2%	18.7%	0.8%	0.3%	0.1%
Non-Accrual	12.1%	13.1%	14.3%	12.4%	14.1%	13.9%	0.3%	1.0%	-0.4%
Commercial Mortgages									
Total Delinquency**	4.1%	4.6%	5.1%	4.5%	4.7%	4.9%	0.4%	0.1%	-0.2%
Non-Accrual	2.6%	3.0%	3.5%	2.6%	3.2%	3.3%	0.0%	0.2%	-0.2%
C & I Loans									
Total Delinquency**	3.7%	4.5%	4.4%	---	4.2%	4.8%	---	-0.3%	0.4%
Non-Accrual	2.5%	3.2%	3.1%	---	2.9%	3.4%	---	-0.3%	0.3%

* First-Lien Mortgages.
 ** Includes 30+ Days Past Due and Nonaccruals.

Sources: FDIC, Foresight Analytics

Accuracy of Previous Estimates

Residential Mortgages

- Our preliminary estimates of total delinquencies have generally trailed behind the actual rate, including an 80 basis point gap in Q3 2009 and Q4 2009. A rise in 90+ day delinquencies has contributed to the estimation error.
- The error on nonaccrual rate estimates was only +20 basis points in Q4.

Construction Loans

- Our estimates have been accurate, especially given the volatility in the figures.
- We overestimated the total delinquency rate in Q4 2009 by 10 basis points.
- We underestimated nonaccrual loans in Q4 2009, by 40 basis points.

Commercial Mortgages

- We slightly underestimated the total delinquency rate in Q4 2009, by 20 basis points.

C & I Loans

- We overestimated the total delinquency rate in Q4 2009, by 40 basis points.

Terms

Loan Types

Residential Mortgages: the data shown here is for first-lien mortgages only, i.e., excluding second mortgages and home equity loans.

Construction Loans: loans for the construction of any structure (residential or commercial), including loans for land acquisition.

Commercial Mortgages: loans secured by non-residential commercial properties, including both owner-occupied and income-producing properties.

Commercial & Industrial: loans to businesses, typically unsecured and separate from commercial mortgage lending.

Delinquencies

30-89 Days Past Due: loans that are at least 30 days but less than 89 days past due, and still accruing interest.

90+ Days Past Due: loans that are 90 or more days past due and still accruing interest.

Nonaccrual: past due loans on which the lender has stopped accruing interest because full repayment is doubtful.

Total: all of the above categories combined.