

## Bank Lending Trends - 3Q 2009 Estimates

Final figures for the third quarter 2009 are not due out for another month (late November), but based on earnings reports and call report filings from many smaller banks, Foresight Analytics offers its advance estimates of what the final 3Q 2009 real estate 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 an estimated 11.0% during the third quarter, up from 10.2% in the second quarter 2009 and from 6.4% a year ago. Aside from a nearly 2 percentage point jump in 4Q 2008, the delinquency rate has been rising by approximately 1% per quarter since 1Q 2008. We have been expecting the rate of increase to slow, but clearly this has not yet occurred.
- Nonaccrual rates jumped by 0.9%, from 3.8% to an estimated 4.7% during the second quarter. This is another new high for the nonaccrual rate since at least 1992, the beginning point for our data.
- The jump in nonaccruals represents a shift back to classifying serious delinquencies as nonaccrual. There had previously been a surge in the 90+ day past due category in 4Q 2008 and 1Q 2009, when lenders delayed the nonaccrual categorization in favor of work-

ing with borrowers on loan modifications and other remedies.

### Construction Lending

- Total delinquencies jumped to an estimated 18.2%, up from 16.3% in Q2. This rate is nearing the 19.2% peak we calculate for Q1 1992.
- Nonaccruals are driving the increase, rising to an estimated 14.1% in Q3, up from 12.1% in Q2 and 9.8% in Q1.
- 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. Worsening fundamentals and reduced liquidity in the commercial real estate sector will likely contribute to further rises in the delinquency rate.

### Commercial Mortgages

- The total delinquency rate rose to an estimated 4.7%, up from 4.1% in Q2, and more than double the 2.1% in Q3 2008.
- The delinquency rate has been increasing at an accelerated rate since Lehman Brothers' collapse in September 2008 and the ensuing severe credit crunch and economic downturn.

Total Delinquency and Nonaccrual Rates U.S. Banks and Thrifts										
	Actual									Estimate
	Q2 07	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09
<b>Residential Mortgages*</b>										
Total Delinquency**	2.7%	3.4%	4.2%	4.7%	5.5%	6.4%	8.3%	9.4%	10.2%	11.0%
Nonaccrual	0.8%	1.1%	1.5%	2.0%	2.6%	2.9%	2.7%	3.5%	3.8%	4.7%
<b>Construction Loans</b>										
Total Delinquency**	2.3%	3.2%	5.0%	7.2%	8.1%	9.6%	11.4%	14.5%	16.3%	18.2%
Nonaccrual	1.2%	1.7%	2.9%	4.3%	5.7%	6.9%	7.7%	9.8%	12.1%	14.1%
<b>Commercial Mortgages</b>										
Total Delinquency**	1.2%	1.4%	1.6%	1.8%	1.9%	2.1%	2.7%	3.6%	4.1%	4.7%
Nonaccrual	0.6%	0.6%	0.7%	0.9%	1.1%	1.2%	1.4%	2.0%	2.6%	3.2%
<b>Commercial &amp; Industrial Loans (C&amp;I)</b>										
Total Delinquency**	1.2%	1.3%	1.4%	1.5%	1.6%	1.7%	2.6%	3.2%	3.7%	4.2%
Nonaccrual	0.5%	0.5%	0.5%	0.6%	0.7%	0.8%	1.4%	1.9%	2.5%	2.9%

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

Sources: FDIC, Foresight Analytics

- The 4.7% delinquency rate is still well below the 8% delinquency rate in Q3 1991, but it is worrisome in light of a weak economy, severely 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 4.2%, up from 3.7% in Q2. The delinquency rate has been trending up by approximately 0.5% per quarter, as the weak economy and reduced credit availability have put pressure on borrowers' finances.
- The lack of credit is most apparent in the C&I loan category. We estimate a 6% decline in the volume of loans outstanding during 3Q, following several quarters of contraction. The volume of loans outstanding has contracted by approximately 15% since peaking in 3Q 2008.

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

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	Accuracy of Previous Estimates								
	Actual			Estimate			Difference		
	Q4 08	Q1 09	Q2 09	Q4 08	Q1 09	Q2 09	Q4 08	Q1 09	Q2 09
<b>Residential Mortgages*</b>									
Total Delinquency**	8.3%	9.4%	10.2%	6.8%	8.6%	10.2%	-1.5%	-0.8%	0.0%
Non-Accrual	2.7%	3.5%	3.8%	3.2%	3.1%	4.3%	0.5%	-0.4%	0.5%
<b>Construction Loans</b>									
Total Delinquency**	11.4%	14.5%	16.3%	11.2%	13.5%	17.1%	-0.2%	-1.0%	0.8%
Non-Accrual	7.7%	9.8%	12.1%	8.2%	9.8%	12.4%	0.5%	0.0%	0.3%
<b>Commercial Mortgages</b>									
Total Delinquency**	2.7%	3.6%	4.1%	2.6%	3.2%	4.5%	-0.1%	-0.4%	0.4%
Non-Accrual	1.4%	2.0%	2.6%	1.6%	1.8%	2.6%	0.2%	-0.2%	0.0%
* 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, although we were spot-on in 2Q.
- The error on nonaccrual rate estimates was +50 basis points, partly reflecting swings in estimates caused by the issues in classifying 90+ day delinquencies as nonaccrual.

### Construction Loans

- Our estimates have been accurate, especially given the volatility in the figures.
- We overestimated the total delinquency rate in Q2 2009 by 80 basis points, after trailing the actual total in previous quarters.
- We slightly overestimated nonaccrual loans in Q2 2009, by 30 basis points.

### Commercial Mortgages

- We overestimated the total delinquency rate in Q2 2009, overshooting by 40 basis points.
- In Q2, we accurately estimated the nonaccrual rate.

## 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.