

Bank Lending Trends - 4Q 2009 Estimates

Final figures for the fourth quarter 2009 are not due out for another month (late February), but based on earnings reports and call report filings from many smaller banks, Foresight Analytics offers its advance estimates of what final 4Q 2009 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 an estimated 12.4% during the fourth quarter, up from 11.8% in the third quarter 2009 and from 6.4% a year ago. The 0.6% quarterly change is the smallest increase since the pace accelerated in 2008 and might indicate that we are nearing a peak.
- Nonaccrual rates rose by 0.6%, from 4.6% to an estimated 5.2% during the fourth quarter. This is another new high for the nonaccrual rate since at least 1992, the beginning point for our data.

Construction Lending

- Total delinquencies jumped to an estimated 18.7%, up from 17.9% in Q3. This rate is nearing the 19.2% peak we calculate for Q1 1992.
- Nonaccruals are driving the increase, rising to an es-

estimated 13.9% in Q4, up from 13.1% in Q3 and 7.7% in Q4 2008.

- 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 4.9%, up from 4.6% in Q3, and 2.7% in Q4 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.
- The 4.9% 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 4.8%, up from 4.5% in Q3. This 0.3% increase is somewhat below the recent pace of 0.7% during the previous

Total Delinquency and Nonaccrual Rates U.S. Banks and Thrifts										
	Actual									Estimate
	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09
Residential Mortgages*										
Total Delinquency**	3.4%	4.2%	4.7%	5.5%	6.4%	8.3%	9.4%	10.2%	11.8%	12.4%
Nonaccrual	1.1%	1.5%	2.0%	2.6%	2.9%	2.7%	3.5%	3.8%	4.6%	5.2%
Construction Loans										
Total Delinquency**	3.2%	5.0%	7.2%	8.1%	9.6%	11.4%	14.5%	16.3%	17.9%	18.7%
Nonaccrual	1.7%	2.9%	4.3%	5.7%	6.9%	7.7%	9.8%	12.1%	13.1%	13.9%
Commercial Mortgages										
Total Delinquency**	1.4%	1.6%	1.8%	1.9%	2.1%	2.7%	3.6%	4.1%	4.6%	4.9%
Nonaccrual	0.6%	0.7%	0.9%	1.1%	1.2%	1.4%	2.0%	2.6%	3.0%	3.3%
Commercial & Industrial Loans (C&I)										
Total Delinquency**	1.3%	1.4%	1.5%	1.6%	1.7%	2.6%	3.2%	3.7%	4.5%	4.8%
Nonaccrual	0.5%	0.5%	0.6%	0.7%	0.8%	1.4%	1.9%	2.5%	3.2%	3.4%

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

Sources: FDIC, Foresight Analytics

four quarters.

- The lack of credit is most apparent in the C&I loan category. We estimate a 17% decline in the volume of loans outstanding during 2009, in contrast to a 14% increase during 2008.

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

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	Accuracy of Previous Estimates								
	Actual			Estimate			Difference		
	Q1 09	Q2 09	Q3 09	Q1 09	Q2 09	Q3 09	Q1 09	Q2 09	Q3 09
Residential Mortgages*									
Total Delinquency**	9.4%	10.2%	11.8%	8.6%	10.2%	11.0%	-0.8%	0.0%	-0.8%
Non-Accrual	3.5%	3.8%	4.6%	3.1%	4.3%	4.7%	-0.4%	0.5%	0.1%
Construction Loans									
Total Delinquency**	14.5%	16.3%	17.9%	13.5%	17.1%	18.2%	-1.0%	0.8%	0.3%
Non-Accrual	9.8%	12.1%	13.1%	9.8%	12.4%	14.1%	0.0%	0.3%	1.0%
Commercial Mortgages									
Total Delinquency**	3.6%	4.1%	4.6%	3.2%	4.5%	4.7%	-0.4%	0.4%	0.1%
Non-Accrual	2.0%	2.6%	3.0%	1.8%	2.6%	3.2%	-0.2%	0.0%	0.2%
C & I Loans									
Total Delinquency**	3.2%	3.7%	4.5%	---	---	4.2%	---	---	-0.3%
Non-Accrual	1.9%	2.5%	3.2%	---	---	2.9%	---	---	-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.
- The error on nonaccrual rate estimates was +10 basis points.

Construction Loans

- Our estimates have been accurate, especially given the volatility in the figures.
- We overestimated the total delinquency rate in Q3 2009 by 30 basis points, as compared with 80 bp over in Q2.
- We overestimated nonaccrual loans in Q3 2009, by 100 basis points.

Commercial Mortgages

- We slightly overestimated the total delinquency rate in Q3 2009, overshooting by 10 basis points.

C & I Loans

- We underestimated the total delinquency rate in Q3 2009, by -30 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.