# Commercial Loan Portfolio Trends 4Q23
# March 13, 2024

CEIS REVIEW INC.
*Commercial Portfolio Advisors EST 1989*

CEIS Review evaluates and assesses commercial loan portfolios to assist Senior Management & The Board in objectively assessing the Credit Risk Quality & Administration of their Institutions portfolios.

Source: CEIS Data, Call & UPBR Report Data

# Notable Concerns

Certain business sectors continue to be impacted by the pandemic. Further, borrowers are exposed to the increases in interest rates and cap rates, trade tensions, issues in supply chains, and various other related economic conditions.

Continuous monitoring of sectors under pressure in the portfolio from current conditions is naturally important. Amongst the broadly defined community banks, commercial real estate to varying degrees is an area identified as a significant risk concentration.

Timely and ongoing loan reviews are an important part of monitoring trends. Exposures in the more severe risk grade levels, to stressed industry sectors, or to concentrations are candidates for increased frequency of review.

Over the last year, lenders have continued to show a willingness to waive credit policy guidelines beyond the "normal". Tracking credit policy and documenting the mitigating factors are important actions in keeping such actions in perspective.

# Notable Concerns

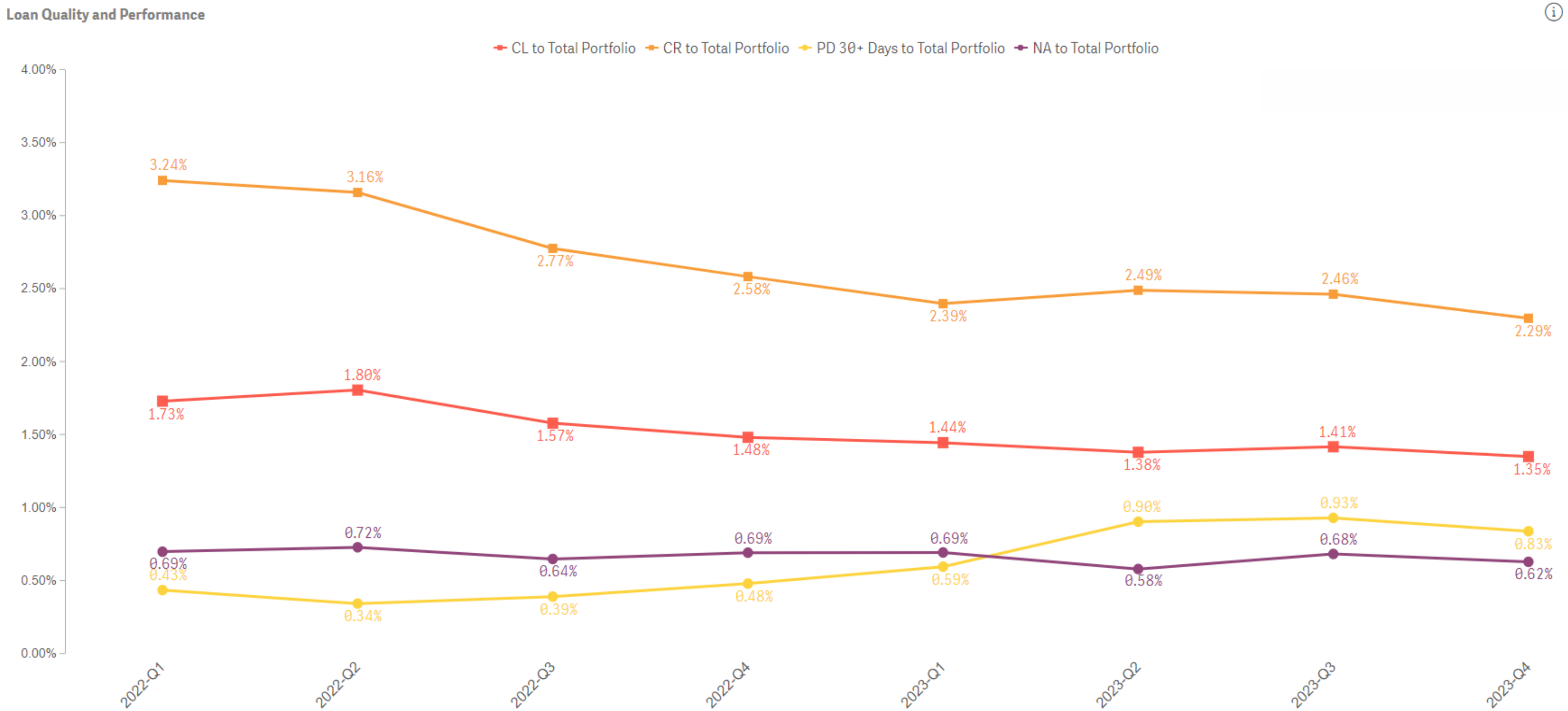
Risk Ratings – The period of “tolerance” in assigned risk ratings has passed. Assigned grades must reflect strengths and weaknesses as represented in reasonably current financial information. Entering a record of analysis in the credit file outlining the key risks as well as reporting the periodic contact with borrowers is important.

Deferrals – Regulators will continue to look at all aspects of risk and relevant information on borrowers including the willingness and ability of guarantors and/or sponsors to support the underlying borrowers, with a focus on evidence of sufficient liquidity or alternative cash flow to cover shortfalls.

Stress Testing can be an important measure on both a loan and portfolio basis. A program that provides transactional stress scenarios to identify potential weaknesses that roll up the transactional findings to the portfolio level is a beneficial aid to portfolio management.

# Loan Quality ("LQ") - Metrics

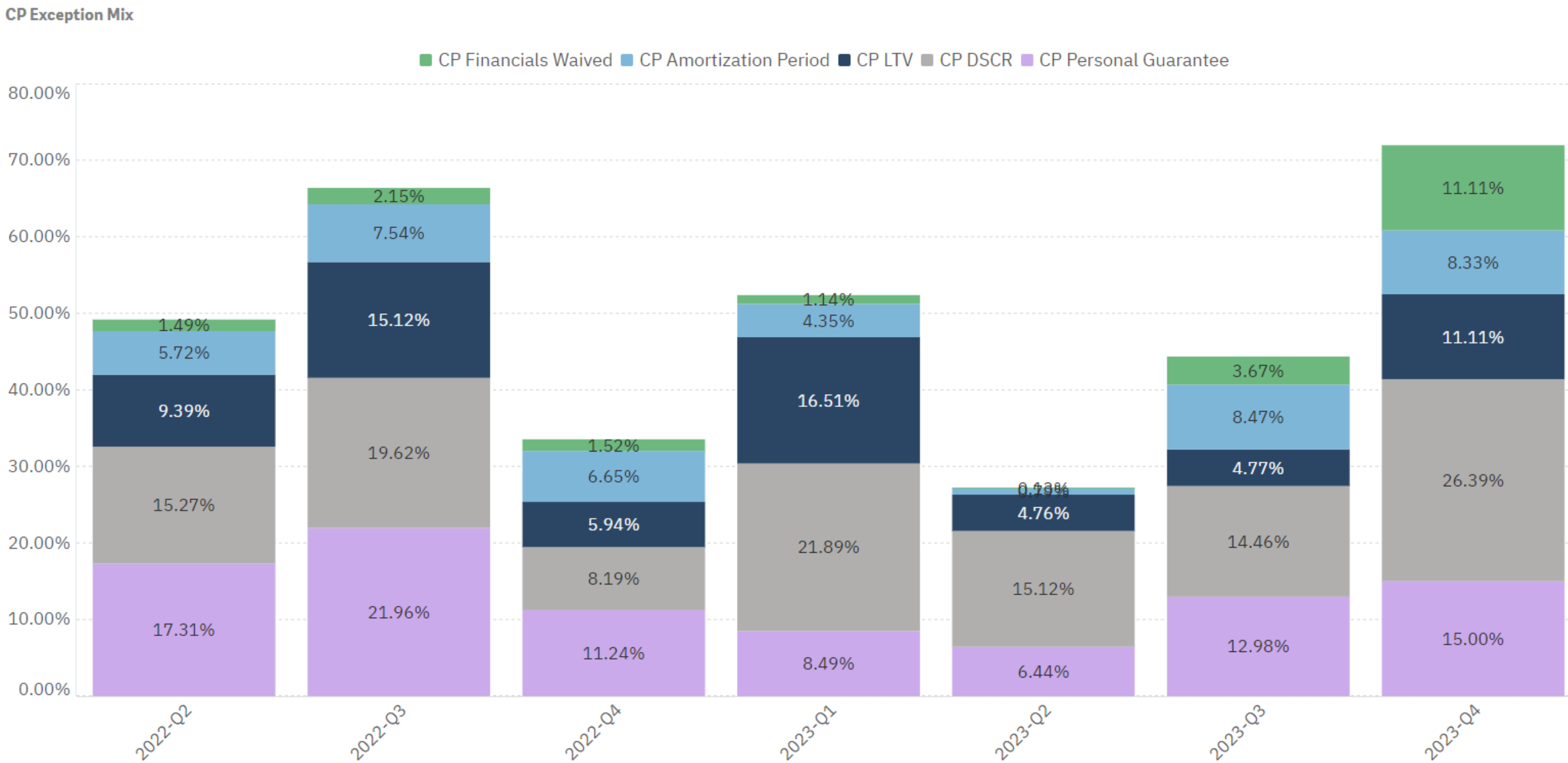
The following presents the trendline on criticized (Special Mention, Substandard, Doubtful), classified (Substandard, Doubtful) loans relative to portfolio and Tier I Capital + LLR alongside past due 30+ days and non-accrual information. Overall portfolio trends suggest an improvement in loan quality, although it is noted that a slight increase in past due 30+ days occurred.  Nonaccruals to portfolio ranged from .69% a.o. 1Q22 and then end at .62% for 4Q23.




Source:  CEIS Client Base Data

# Credit Policy Exceptions

Top five categories




Source: CEIS Client Base Data

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Loan Review, Portfolio Stress Testing, CECL / LLR Methodology and Validation, Portfolio Due Diligence Review, Loan Policy Review, Credit Process Review, and Customized Loan and Credit Seminars.


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