

Monetary Trends



Are Banks Making Riskier Loans?

Several bank supervisors have expressed concern during the past year about the risks assumed by banks. Measures of problem loans provide one indication of whether banks are taking increased risks, though the risks assumed by banks during recent years may not be evident in measures of problem loans until some time in the future when the pace of economic activity slows. Still, an increase in problem loan rates during the current period of strong economic growth would suggest that banks generally have tended to make riskier loans during recent years.

One measure of problem loans is the percentage of loans that are nonperforming: loans past due 90 days or more and nonaccrual loans. Another measure is the net charge-off rate: loans charged off as losses, minus recoveries by banks on loans previously charged off, as a percentage of loans. The net charge-off rate reflects more serious problems than the nonperforming rate, since many loans currently reported as nonperforming are not later charged off as losses.

The tables present problem loan rates for banks of various sizes. The relatively high levels of these problem loan rates among banks in each size group during 1991—the most recent recession year—reflect the effects of the business cycle on these measures. Problem loan rates have risen among relatively large banks during recent years, although they remain substantially below the rates of the early 1990s. Nonperforming loan rates (annual means of quarterly rates) have risen since 1997 among the banks with total assets over \$10 billion, especially those with total assets between \$10 billion and \$20 billion. In contrast, nonperforming loan rates during 1999 among the banks with total assets below \$10 billion were either at or below their levels during the mid-1990s.

Net charge-off rates (annual sums of quarterly rates) have risen since the mid-1990s among the banks with total assets greater than \$1 billion. Recoveries on loans previously charged off as losses contributed little to this increase. Net charge-off rates among the banks with total assets less than \$1 billion, in contrast, have remained relatively close to their levels during the mid-1990s. The increases in the problem loan rates at large banks during the recent years of rapid economic growth provide empirical support for the concerns expressed by bank supervisors about the risks assumed by banks.

—R. Alton Gilbert

Percentage of Commercial and Industrial Loans that are Nonperforming

Total assets of banks, millions of dollars					
Period	Up to \$300	\$300 to \$1,000	\$1,000 to \$10,000	\$10,000 to \$20,000	Over \$20,000
1991	4.30%	3.24%	4.06%	5.02%	5.37%
1992	3.99	2.85	3.24	4.01	4.63
1993	3.21	2.13	2.17	2.52	2.89
1994	2.52	1.35	1.27	1.36	1.37
1995	2.18	1.05	0.95	1.15	1.19
1996	2.25	1.16	1.02	0.87	0.97
1997	2.13	1.12	0.92	0.72	0.75
1998	2.13	1.01	0.92	0.78	0.84
1999	2.06	0.99	1.00	1.15	1.05

Percentage of Commercial and Industrial Loans That Are Charged Off as Losses

Total assets of banks, millions of dollars					
Period	Up to \$300	\$300 to \$1,000	\$1,000 to \$10,000	\$10,000 to \$20,000	Over \$20,000
1991	1.87%	1.75%	1.85%	1.71%	1.86%
1992	1.48	1.42	1.37	1.11	1.46
1993	1.01	0.70	0.71	0.72	0.69
1994	0.62	0.31	0.29	0.26	0.15
1995	0.63	0.35	0.14	0.33	0.16
1996	0.64	0.35	0.27	0.20	0.20
1997	0.64	0.35	0.25	0.34	0.22
1998	0.72	0.37	0.36	0.39	0.38
1999	0.67	0.35	0.57	0.50	0.58

