

# Monetary Trends



## Problem Business Loans Rise at Large Banks

Measures of problem loans at commercial banks declined over much of the period since the trough of the last recession in 1991. Bank supervisors have expressed concern, however, about increases in problem business loans at large banks in recent quarters. The tables provide perspective on recent trends in problem-loan ratios by presenting measures of problem commercial and industrial loans since 1991.

One measure of problem loans is the percentage of loans that are nonperforming. Nonperforming loans include those that are 90 days or more past due or no longer accruing interest. 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. Net charge-offs tend to reflect more serious loan problems, because only some loans classified as nonperforming are later charged off as losses.

Recent trends in nonperforming loan rates vary by bank size. The large increases in nonperforming loan rates in recent quarters are concentrated among the banks with total assets greater than \$10 billion, which accounted for 77.5 percent of the commercial and industrial loans of all commercial banks in the second quarter of 2000. For instance, the nonperforming loan rate for banks with total assets above \$20 billion has risen progressively from 0.75 percent in 1997 (mean of quarterly ratios) to 1.42 percent in the second quarter of 2000. This rate has also increased substantially since 1997 for banks with total assets between \$10 billion and \$20 billion. The nonperforming loan ratios in

the first two quarters of 2000 for these two groups of large banks are comparable to the nonperforming ratios for banks of similar size in 1994, early in the current expansion. In contrast, the average nonperforming loan rates have not risen in recent quarters among banks with total assets less than \$1 billion, which accounted for 11.2 percent of commercial and industrial loans in the second quarter of 2000.

Net charge-off ratios (at annual rates) have risen since the mid-1990s at banks with total assets over \$1 billion. Among smaller banks, charge-off rates in the first two quarters of 2000 were about the same as the charge-off rates for banks of similar size in the mid-1990s. These patterns support the view that recent adverse trends in problem loan ratios are concentrated among the relatively large banks.

—R. Alton Gilbert

Percentage of Commercial and Industrial Loans That Are Nonperforming

Period	Total assets of banks, millions of dollars				
	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	2.05	0.99	1.00	1.15	1.08
2000 Q1	1.86	0.98	1.04	1.21	1.27
2000 Q2	1.83	0.99	1.15	1.29	1.42

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

Period	Total assets of banks, millions of dollars				
	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	0.35	0.39	0.38
1999	0.68	0.36	0.57	0.50	0.58
2000 Q1	0.28	0.27	0.41	0.40	0.55
2000 Q2	0.62	0.40	0.47	0.60	0.69

Views expressed do not necessarily reflect official positions of the Federal Reserve System.

