



Commercial/Multifamily Mortgages Best Performing Loans at Banks & Thrifts in 2008

Fourth quarter 2008 data from the FDIC shows commercial and multifamily mortgages are the best performing loans held by FDIC-insured commercial banks and thrifts. These loans rank lowest in terms of charge-off rates, second and third lowest in terms of 30+ day delinquency rates and second and third lowest in terms of increases in delinquency rates between the third and fourth quarter.

Background

Commercial banks and thrifts invest in and hold a variety of assets to earn income on the money raised through checking accounts, savings accounts, certificates of deposits, bank debt and other liabilities they hold. A key component of these assets, 57 percent at the end of 2008, is loans and leases – including 1-4 family residential mortgages, home equity loans, credit cards, non credit card consumer loans, commercial mortgages, multifamily mortgages, construction loans and commercial and industrial loans.

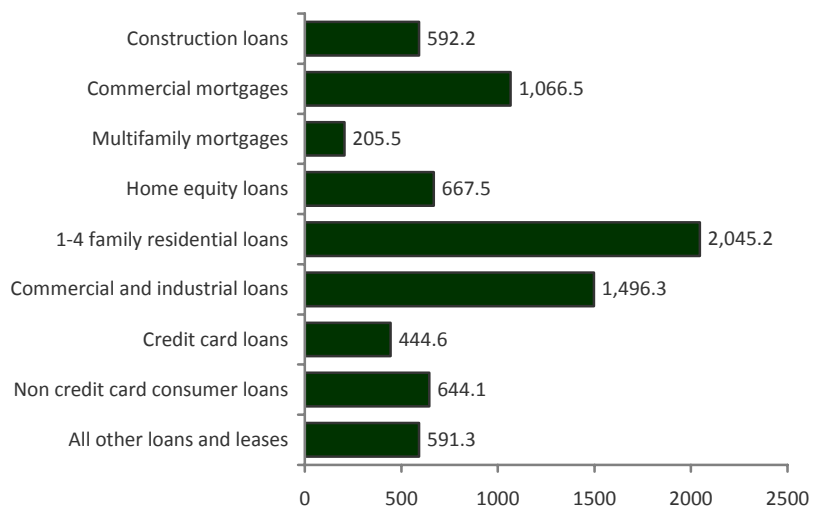
Of the various types of loans and leases, 1-4 family residential loans make up the largest share of banks’ loan holdings (\$2 trillion or 26 percent of the total), followed by commercial and industrial loans (\$1.5 trillion or 19 percent of the total) and commercial mortgages (\$1 trillion or 14 percent of the total). At \$205 billion, multifamily mortgages account for three percent of bank held loans and leases.

Loan Performance

Looking across the various loans and leases held by banks and thrifts, commercial mortgages and multifamily mortgages finished 2008 with the second and third lowest 30+ day delinquency rates of the various loan

types, respectively. Commercial and industrial loans had the lowest delinquency rates, with just 2.7 percent of the outstanding balance of such loans 30 or more days past due. Commercial mortgages had the second lowest delinquency rate, at just 2.7 percent. Multifamily mortgages recorded the third lowest rate, a 2.9 percent delinquency rate. Among other types of loans, 3.4 percent of the balance of home equity loans was delinquent at the end of 2008, as was 3.5 percent of non credit card consumer loans, 5.6 percent of credit card loans, 7.9 percent of 1-4 family residential loans and 11.4 percent of construction loans.

Balance of Loans and Leases Held at FDIC-insured Commercial Banks and Thrifts, December 31, 2008 \$Billions



Not only are commercial and multifamily mortgages performing better than nearly every other type of loan held by banks and thrifts, but in the face of the current recession, they have also seen less deterioration than nearly every other type of loan.

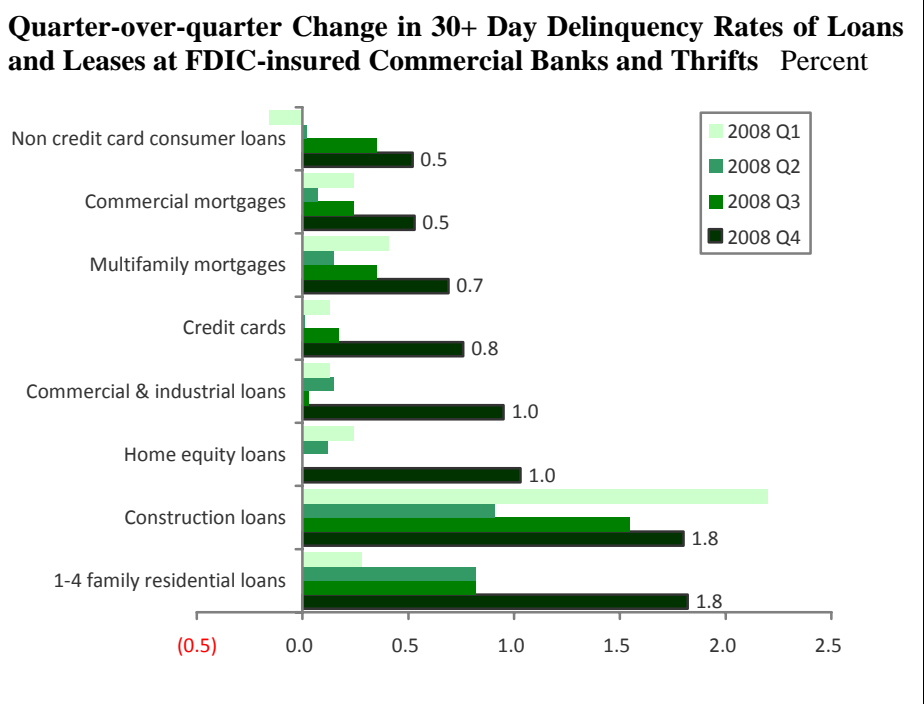
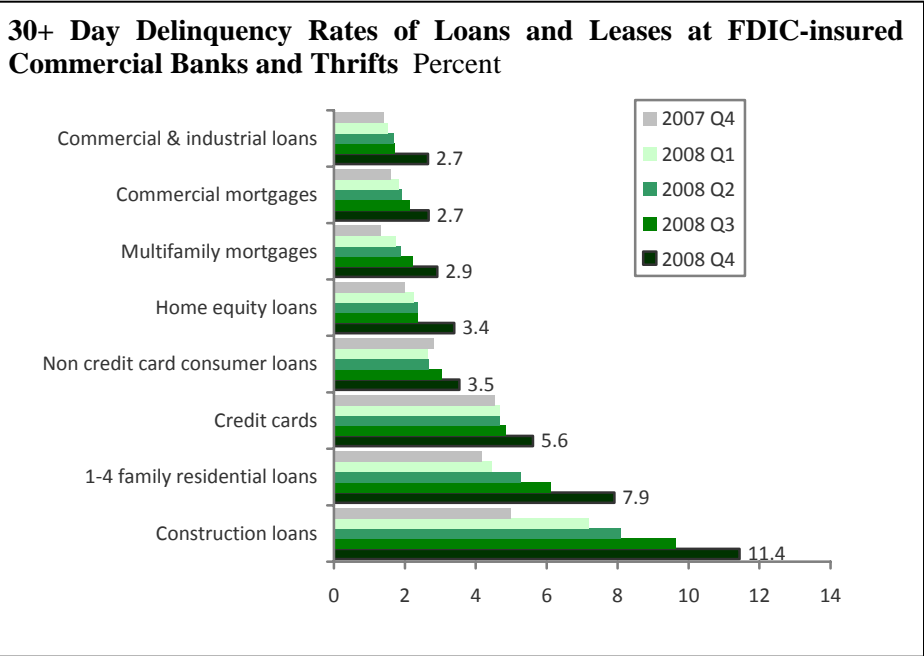
At the end of 2008, delinquency rates on commercial mortgages and multifamily mortgages were 0.5 and 0.7 percentage points higher than they had been at the end of the third quarter, respectively. Only non credit card consumer loans had a lower increase in delinquency rates – 0.5 percentage points. Among other types of loans, 30+ day delinquency rates on credit cards increased by 0.8 percentage points, delinquencies on commercial and industrial loans increased by 1.0 percentage point, home equity loans increased by 1.0 percentage point, construction loans by 1.8 percentage points and 1-4 family residential loans by 1.8 percentage points.

Charge-offs

As banks and thrifts recognize troubled loans as uncollectible, they charge them off – removing the uncollectible loan balances from their balance sheets and recognizing the losses in their income statements. While delinquency rates represent the share of loans that are not paying on time, charge-off rates represent a bank’s assessment of the share of the outstanding loan balance they are unlikely to get back.

Over the course of 2008, commercial and multifamily mortgages had the lowest charge-off rates of any loan type at commercial banks and thrifts.

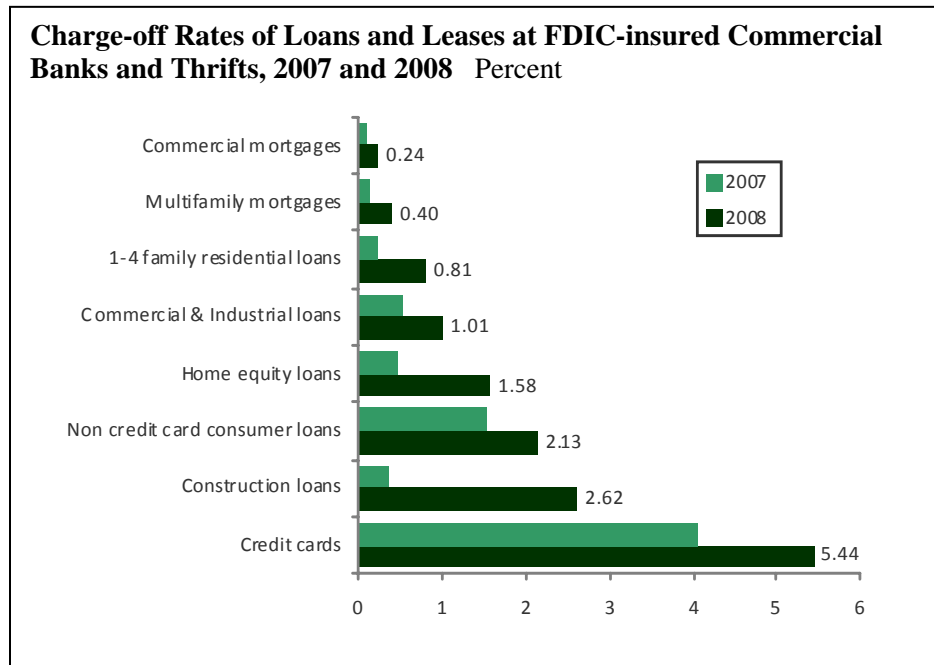
In 2008, banks and thrifts charged off 0.24 percent of their commercial mortgages and 0.40 percent of their multifamily mortgages. By contrast they charged off 0.81 percent of their 1-4 family residential loans, 1.01 percent of the commercial and industrial loans, 1.58 percent of their home equity loans, 2.13 percent of their non credit card consumer loans, 2.62 percent of their construction loans and 5.44 percent of the credit card loans.



The charge-off rate for commercial and multifamily mortgages was less than half of that of single-family mortgages, the next lowest group, and less than one-tenth of the rate for credit cards, the loan type with the highest charge-off rate.

Conclusion

Commercial and multifamily mortgages are an important part of the holdings of commercial banks and thrifts. Like other parts of the economy, the performance of commercial and multifamily mortgages is being negatively impacted by job losses, consumer restraint and manufacturing declines. Counter to the popular urban myth, however, not only have commercial and multifamily mortgages not been “the next shoe to drop”, they are actually the best performing loans held by banks and thrifts.



NOTES:

1. The data in this report is drawn from the FDIC's *Quarterly Banking Profile* reports, which are available at: <http://www2.fdic.gov/qbp/index.asp>
2. The category “commercial mortgages” includes mortgages backed by both income-producing properties and owner-occupied commercial properties. Mortgages on income-producing properties are dependent on rents and leases to pay the debt service of the loan, whereas owner-occupied properties rely on the business income of the owner-occupant.
3. The names of the categories used in this report have been simplified from the names used in the FDIC *Quarterly Banking Profile* (QBP). The following is a map of the names used in this report and the names used in the QBP.
 - a. Construction loans → Construction and development
 - b. Commercial mortgages → Nonfarm nonresidential
 - c. Multifamily mortgages → Multifamily residential real estate
 - d. Home equity loans → Home equity loans
 - e. 1-4 family residential loans → Other 1-4 family residential
 - f. Commercial and industrial loans → Commercial and industrial loans
 - g. Credit card loans → Credit card loans
 - h. Non credit card consumer loans → Other loans to individuals
 - i. All other loans and leases → All other loans and leases (including farm)

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