DATA DISPATCH

US banks lower reserves for bad CRE loans

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By Gaby Villaluz and Harry Terris
Market Intelligence

The loss allowance ratio for commercial real estate loans across US banks dipped in the second quarter, mirroring a decline in delinquencies.

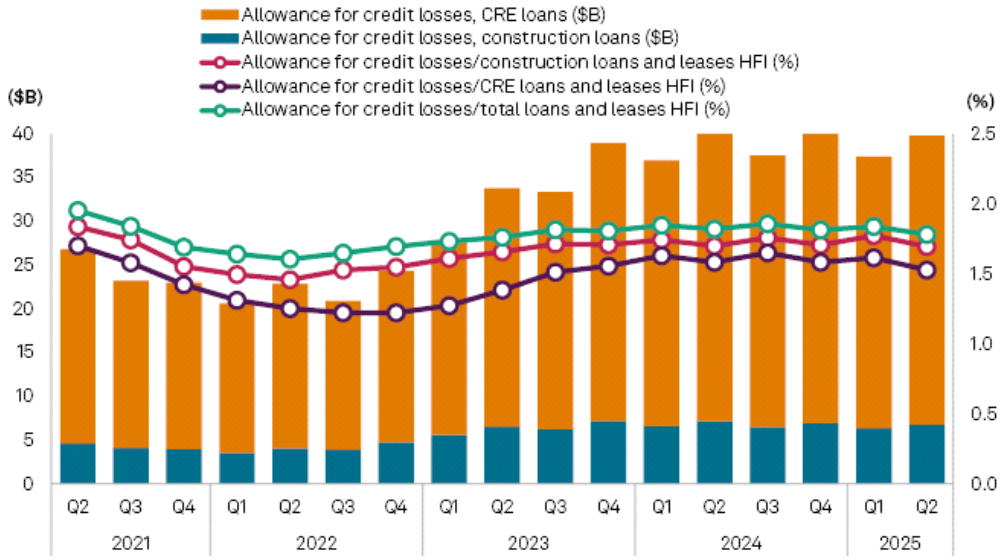
Money set aside to absorb charge-offs fell 8 basis points sequentially to 1.53% of outstanding commercial real estate loans, according to data from S&P Global Market Intelligence. This was the lowest level since third quarter 2023, when allowance ratios jumped in the year following aggressive interest rate hikes by the Federal Reserve and the emergence of strains in the office and multifamily sectors.

The allowance ratio across total loans also declined 6 bps to 1.78%. Analysts do not anticipate substantial credit loss reserve builds in the near term despite signs of economic softness.

"While the economy might be bouncing sideways for now, we believe large banks will emphasize their customers' ability to absorb inflation and survive within it," Piper Sandler analysts said in a Sept. 2 report previewing intraquarter conference presentations.

"We expect reserve ratios to remain relatively stable" in the second half of the year, Stephens analysts said in a Sept. 4 note.

Allowances trend for CRE and construction loans at US banks
CECL adopters



Data compiled Aug. 26, 2025.
CRE = commercial real estate; CECL = Current Expected Credit Losses; HFI = held-for-investment.
Analysis includes US commercial banks, savings banks, and savings and loan associations; excludes nondepository trusts and companies with a foreign banking organization charter.
Loan and lease portfolio categories for which allowance and related recorded investment amounts are reported represent general categories rather than the standardized loan categories as seen in schedule RC-C in bank call reports.
For adopters of CECL methodology, allowance for credit losses is disaggregated on the basis of amortized cost of HFI loans and leases. Loans that banks elect to report at fair value under a fair value option are excluded.
Data based on regulatory filings.
Source: S&P Global Market Intelligence.
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NCOs flat; vulnerabilities remain

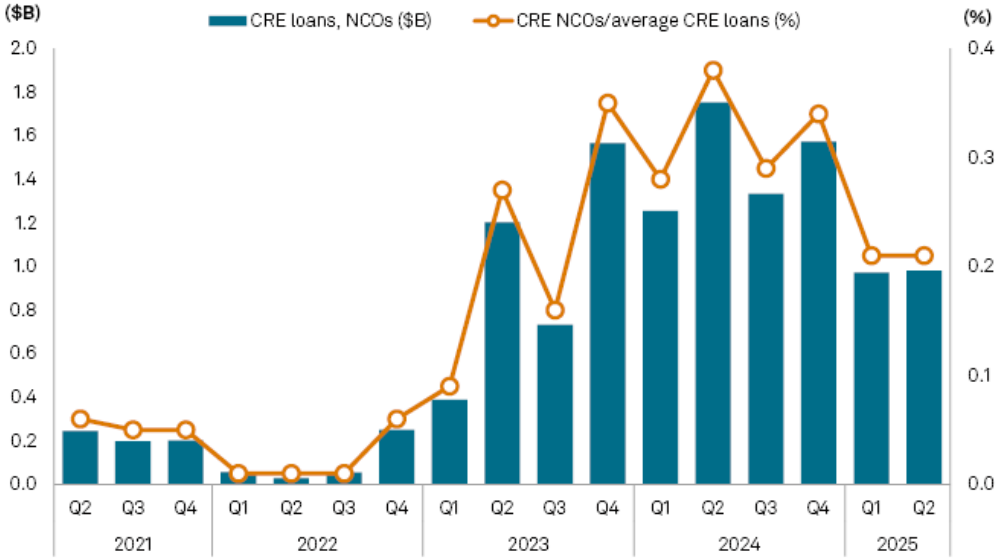
The industrywide net charge-off (NCO) rate for CRE loans was flat sequentially at 0.21%, staying below the range of 0.29% to 0.38% that prevailed from the fourth quarter of 2023 through the fourth quarter of 2024. CRE NCOs remain well above levels that have prevailed for most of the past decade.

Commercial properties are still vulnerable to macroeconomic crosscurrents despite easing in some strains, Wells Fargo economists said in a Sept. 3 report.

"On the one hand, weaker employment growth is weighing on office leasing," they said. "On the other hand, a softer labor market may be convincing workers to head back to the office in greater numbers."

"There is usually a strong correlation between job growth and apartment demand. However, stagnant job growth appears to be reducing turnover rates and keeping renters in place for longer," the economists said about the multifamily market. "Multifamily fundamentals have turned a corner amid a strengthening trend in demand and slowing pace of new deliveries."

CRE net charge-off trend at US banks



Data compiled Aug. 26, 2025.
NCOs = net charge-offs; CRE = commercial real estate.
Analysis includes US commercial banks, savings banks, and savings and loan associations; excludes nondepository trusts and companies with a foreign banking organization charter.
Net charge-offs for CRE loans include net charge-offs for owner-occupied nonfarm and nonresidential loans and other CRE loans.
Data based on regulatory filings and adjusted for major intercompany consolidations.
Source: S&P Global Market Intelligence.
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Some large builds

Some banks have continued to post large increases in CRE reserves.

Among those with substantial builds in the second quarter, Northwest Bancshares Inc. increased its CRE allowance ratio by 42 bps sequentially, and 54 bps from the year prior, to 1.97%.

The bank reported that its classified loans jumped $239.1 million sequentially to $518.2 million. The increase included the return of long-term healthcare loans from held for sale to held for investment. "Given the specific circumstances of these borrowers and the market's currently dampened interest for loans in this sector, we believe managing these loans on our balance sheet will ultimately minimize incurred losses," CFO Douglas Schosser said.

The increase also included multifamily construction projects in Columbus, Ohio, where leasing was slower than expected. "We expect demand to catch up with supply as market absorption rates continue to improve for these projects to exit successfully," Schosser said.

MidWestOne Financial Group Inc.'s CRE allowance ratio increased 56 bps sequentially to 1.57%, driven by a single office credit. The building is in a suburb of Minneapolis, and the bank said it started the receivership process after the borrower stopped making payments.

Cathay General Bancorp's allowance ratio for CRE increased 24 bps sequentially, and 24 bps from the year prior, to 1.04%. However, the bank's overall allowance ratio declined 2 bps sequentially to 0.88%, including a reduction in a specific provision for tariff impacts, executives said during a conference call.

CRE accounts for about 52% of the bank's total loan portfolio, and Cathay said its weighted average loan-to-value ratio remains 49%. The bank also reported that its classified loans jumped $52 million sequentially to $432 million, driven by a large borrower that fell behind on interest payments and is now catching up. "Almost all of it is secured by real estate, but we want to limit our exposure to that borrower given the delinquency," CFO Heng Chen said during the call.

US public banks with the highest increase in CRE allowance ratio, Q2 2025

Listed by YOY increase in CRE allowance ratio and then by total assets

		Allowance for credit losses					
		CRE loans		Total loans and leases		Delinquent CRE loans	
Company (ticker)	Total assets ($B)	Proportion of loans and leases HFI (%)	YOY change (bps)	Proportion of total loans and leases HFI (%)	YOY change (bps)	Proportion of total CRE loans (%)	YOY change (bps)
Pathward Financial Inc. (CASH)	7.23	5.52	234	2.23	50	0.00	0
First Guaranty Bancshares Inc. (FGBI)	3.97	2.03	129	2.44	137	6.07	-1
Eagle Bancorp Inc. (EGBN)	10.60	2.54	127	2.38	105	4.78	227
BCB Bancorp Inc. (BCBP)	3.38	1.57	99	1.74	64	6.10	365
Citigroup Inc. (C)	2,622.77	2.34	91	2.64	0	3.60	182
Primis Financial Corp. (FRST)	3.87	1.72	71	1.47	21	4.67	454
MidWestOne Financial Group Inc. (MOFG)	6.16	1.57	60	1.50	24	2.42	219
ConnectOne Bancorp Inc. (CNOB)[1]	13.92	1.51	59	1.40	39	0.32	0
Northwest Bancshares Inc. (NWBI)[2]	14.49	1.97	54	1.14	4	2.97	158
Merchants Bancorp (MBIN)	19.14	1.46	52	0.87	14	5.04	220
Summit State Bank (SSBI)	1.03	1.59	47	1.53	-1	0.15	-11
Bank OZK (OZK)	41.45	1.44	43	1.57	15	0.16	-23
Arrow Financial Corp. (AROW)	4.41	2.24	38	1.00	6	0.06	-278
Farmers National Banc Corp. (FMNB)	5.18	1.56	33	1.17	12	1.96	156
Northeast Bank (NBN)	4.28	1.31	31	1.28	31	1.03	13
UMB Financial Corp. (UMBF)[3]	71.76	0.96	28	1.06	7	0.67	64
Simmons First National Corp. (SFNC)	26.69	1.50	25	1.48	14	1.01	61
First Busey Corp. (BUSE)[4]	18.92	1.27	25	1.33	26	0.37	-47
Cathay General Bancorp (CATY)	23.72	1.04	24	0.88	9	1.84	75
Midland States Bancorp Inc. (MSBI)	7.11	1.14	22	1.83	25	2.12	17
Industry aggregate[5]		**1.53**	**-6**	**1.78**	**-4**	**1.65**	**3**

Data compiled Aug. 26, 2025.

CRE = commercial real estate; HFI = held-for-investment; CECL = Current Expected Credit Losses.

Analysis limited to US banks trading on the NYSEAM, NYSE or Nasdaq as of Aug. 25, 2025; excludes banks in the mutual holding company ownership structure and other operating subsidiaries.

[1] ConnectOne Bancorp Inc. completed the acquisition of First of Long Island Corp. on June 1, 2025.

[2] Northwest Bancshares Inc. completed the acquisition of Penns Woods Bancorp Inc. on July 25, 2025.

[3] UMB Financial Corp. completed the acquisition of Heartland Financial USA Inc. on Jan. 31, 2025.

[4] First Busey Corp. completed the acquisition of CrossFirst Bankshares Inc. on March 1, 2025.

[5] Includes US commercial banks, savings banks, and savings and loan associations; excludes nondepository trusts and companies with a foreign banking organization charter. Allowance for credit losses represents the data for institutions that have adopted CECL methodology.

Source: S&P Global Market Intelligence.

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