

Credit Trends
Loan Review & Credit Risk Services

Brad Snider & Doug Wagler

2026 Financial Institutions Virtual Symposium

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Agenda

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5. Emerging Threats and Strategic Responses
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Introductions



Presenters



Brad Snider

Managing Director, Nashville, TN

Brad Snider is a Managing Director with Forvis Mazars and brings more than 15 years of experience in commercial banking, credit risk management, and financial institution advisory services. His background spans the full credit lifecycle, including business development, credit underwriting and analysis, loan structuring, portfolio management, and special asset resolution.

Working with financial institutions of varying size and complexity, Brad advises executive management teams, boards of directors, and lending organizations on strategies to strengthen credit risk governance, improve portfolio performance, and enhance risk management practices. He has extensive experience evaluating commercial lending portfolios and helping institutions navigate evolving regulatory expectations, economic cycles, and portfolio concentrations.

Brad specializes in a broad range of credit risk and portfolio management engagements, including independent loan review, stress testing, concentration risk analysis, credit process assessments, and lending operations reviews. He also works closely with institutions to enhance credit administration frameworks, refine underwriting and approval processes, and develop scalable risk management solutions that support growth objectives while maintaining sound credit discipline.

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Presenters



Doug Wagler

Managing Director, Houston, TX

Doug leads Forvis Mazars' Loan Review service line in Houston. He has worked in the financial services industry since 1992. His credit experience encompasses new loan underwriting and portfolio management for commercial and consumer lending. He assists clients with understanding potential risk in their loan portfolios. He also works with troubled institutions to help resolve credit issues.

Before joining Forvis Mazars in 2001, he worked for a regional bank where he received his credit training. He served in various positions related to commercial lending, portfolio management, and consumer lending. Prior to that, he was a branch manager for a leading consumer finance company where he originated, underwrote, and collected subprime consumer loans.

Doug is a 1992 graduate of University of Southern Indiana, Evansville, with a B.S. degree in business administration with concentrations in finance and marketing, and a 2001 graduate of Indiana Wesleyan University, Marion, with an M.B.A. degree.

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Set the Stage

To “set the stage”, we'll first examine emerging delinquency trends across key loan segments and then compare those trends to what we're seeing firsthand in our loan review practice. Together, these perspectives provide a useful view of how credit risk is evolving within loan portfolios.



Headlines Related to Credit Risk

“Fed projects near-record CRE losses for US banks”

RISK.NET | JUL 1, 2026

“CMBS Delinquency Rate Hits 8.02%, Highest Since 2020”

CRE DAILY / YAHOO FINANCE | OCT 5, 2026

“Huntington real estate delinquent loans hit record high”

RISK.NET | SEP 11, 2026

“Big Banks Take Bigger CRE Losses As They Clear Out Problem Loans”

BISNOW | OCT 19, 2026

“Delinquency Rates for Commercial Properties Increased in the Third Quarter of 2026”

MORTGAGE BANKERS ASSOCIATION | OCT 27, 2026

“Commercial mortgage delinquencies climb in Q3, led by CMBS loans”

MORTGAGE PROFESSIONAL | OCT 28, 2026

“The Bridge-To-Bridge Bet Is Holding Off CRE’s ‘Day Of Reckoning’ — For Now”

BISNOW | OCT 7, 2026

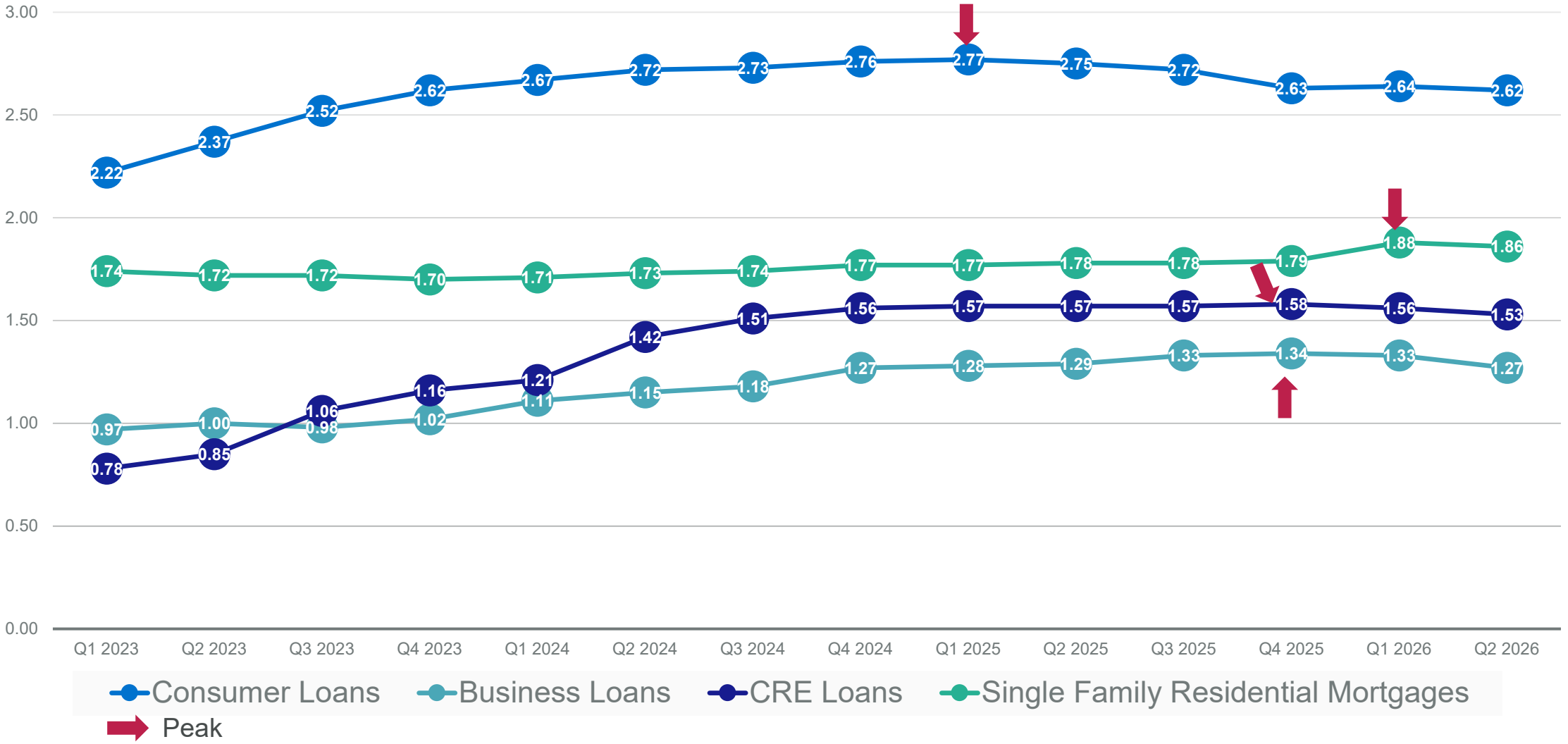
“US banks add $75 billion of CRE as concentration risks recede”

RISK.NET | JUL 21, 2026

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Delinquency Rates by Loan Type



Source: Board of Governors of the Federal Reserve System (US) via FRED

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Delinquency Rates

Key Trends

While consumer loans continue to report the highest delinquency levels, commercial real estate loans have experienced the most pronounced increase, with business and residential mortgage loans showing more moderate movement.

Consumer Loans

- Increased steadily from about 2.2% in 2023 to roughly 2.7% in 2025.
- Remains the highest delinquency category throughout the latter part of the period.
- Appears to have peaked around early 2025 before flattening and declining slightly during 2026.

Business Loans

- Relatively stable through 2023, generally around 1.0%.
- Gradually increased during 2024 and 2025.
- Peaked at 1.34% in Q4 2025 before a slight decline in 2026.

Commercial Real Estate Loans

- Started as the lowest delinquency category, near 0.8%.
- Rose sharply beginning in 2023.
- Reached approximately 1.5% by late 2024/early 2025 and remains elevated through 2026.
- This is one of the most pronounced increases on the chart.

Single-Family Residential Mortgage Loans

- Began as the 2nd highest delinquency category in 2023 at about 1.7%.
- Remained steady through 2024.
- Peaked in Q1 2026 at 1.88% before a slight decrease in Q2

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From a Credit Risk Perspective

- Continued pressure on consumer borrowers, likely reflecting broader affordability and household cash flow challenges.
- Growing stress within commercial real estate portfolios, consistent with concerns around refinancing risk, elevated interest rates, and property-specific cash flow pressures.
- Financial institutions may experience increasing asset quality challenges in income-producing CRE portfolios, particularly where debt service capacity is sensitive to higher borrowing costs.
- Residential mortgage performance remains relatively resilient compared with other major loan segments.



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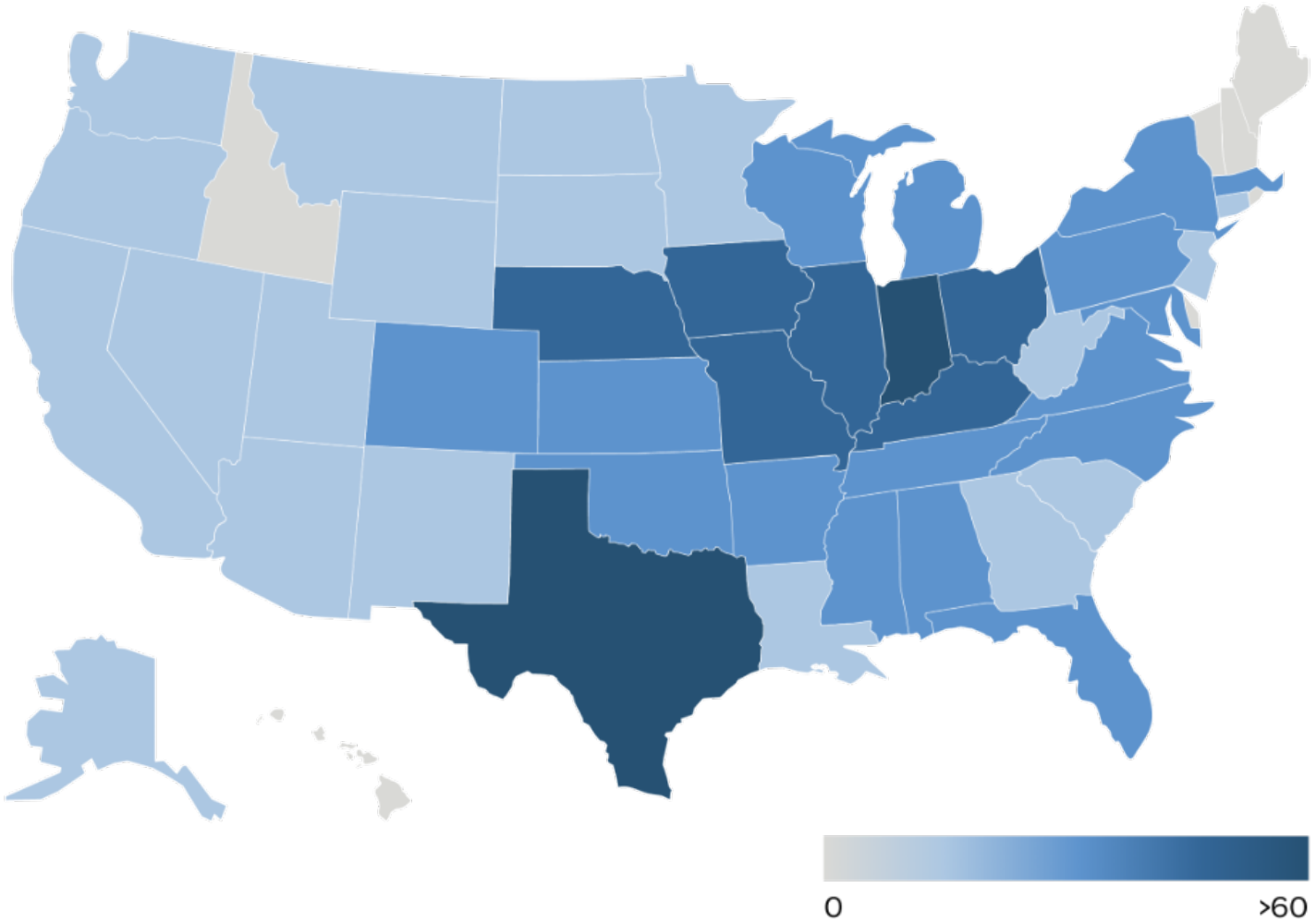
Loan Quality

The percentages of criticized and classified loans are part of several indicators we look at to assist clients in understanding loan quality. Classified loans (Substandard and Doubtful) are the most important measure of loan quality, while Criticized loans (classified plus Special Mention) are also important to consider because Special Mention loans exhibit characteristics that, if uncorrected, could lead to an increase in classified loans.



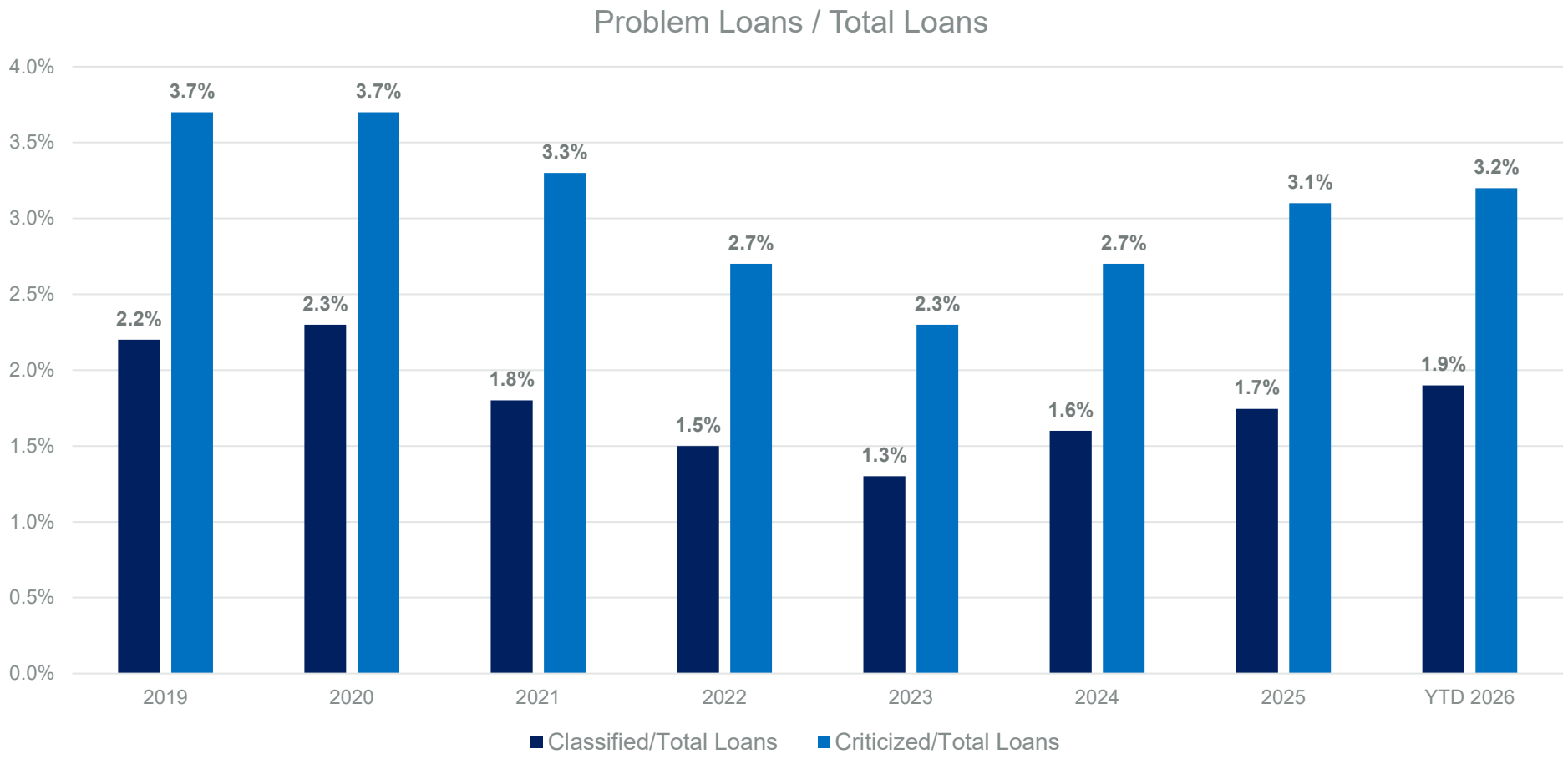
Loan Review

Since 2023, our loan review and credit risk services practice has served over 450 banks and credit unions throughout the country.



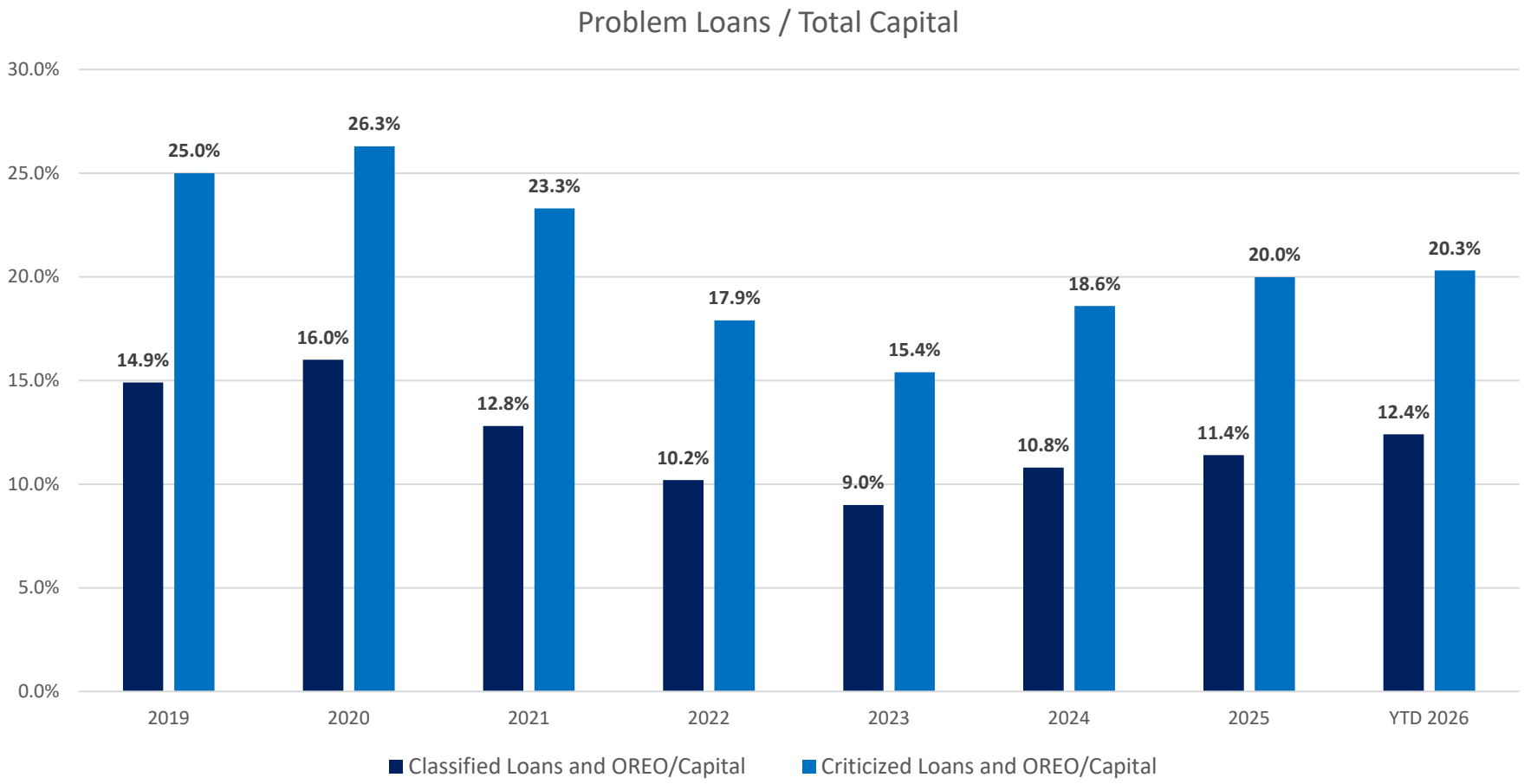
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Problem Loans to Total Loans



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Problem Loans to Total Loans



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Problem Loans

Key Trends

While portfolio quality remains favorable, recent increases from 2023 lows warrant continued monitoring of emerging credit stress.

- Following substantial improvement through 2023, problem asset ratios have generally increased over the past several reporting periods.
- Recent increases in criticized and classified assets may reflect broader industry trends including rising CRE delinquencies and tightening borrower cash flows.
- Continued monitoring of cash flow-dependent CRE credits, refinancing risk, and debt service performance remains warranted.

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From a Credit Risk Perspective

- We are increasingly observing stress in credits where repayment capacity is highly dependent on property-level operating cash flow. Hotels, multifamily projects, office properties, and other income-producing real estate assets are experiencing varying degrees of pressure as debt service costs have increased and cash flow growth has moderated.
- In many cases, these borrowers continue to perform, but margins for error are narrower than they were several years ago.
- As a result, institutions should continue to focus on portfolio segments that may be more vulnerable to cash flow compression, refinancing risk, or weakening debt service coverage metrics.
- While overall asset quality remains favorable by historical standards, the recent plateau in problem asset improvement may represent the early stages of a more normalized credit environment.



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Regulatory Insights on Credit Risk



Regulatory Insights

Despite generally stable asset quality metrics, regulatory agencies continue to emphasize emerging credit risks related to commercial real estate, refinancing pressure, borrower cash flow sustainability, concentration risk, and the timely identification of credit deterioration.

OCC

- Commercial credit risk is increasing.
- Sustained higher interest rates continue to pressure some borrowers.
- Pockets of CRE risk remain and vary by property type and geography.
- Refinancing risk in certain CRE segments warrants ongoing monitoring

Federal Reserve

- Elevated interest rates continue to pressure borrower debt-service capacity.
- Refinancing risk remains a concern for borrowers with loans maturing in the next several years.
- Certain CRE segments remain vulnerable, particularly properties facing valuation or occupancy challenges.
- Financial stability reports continue to monitor CRE as a potential source of stress within the banking system.

FDIC

- CRE concentrations remain a priority
- Refinancing risk is increasing
- Strong risk management is critical
- Capital and liquidity matter in a stress event

NCUA

- Delinquency and loss rates have risen to their highest levels in more than a decade.
- Examiners will increase focus on:
  - Underwriting
  - Credit administration
  - Loss mitigation
  - ACL methodology
  - Charge-off practices

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Emerging Threats & Strategic Responses

Where credit risk is building across the portfolio — and the deliberate actions strong institutions are taking now.



Emerging Threat 1: CRE Refinance Risk

A wave of maturing office, retail, and multifamily loans faces sharply higher debt service at renewal. Extension strategies delay — not eliminate — risk identification and credit loss recognition.

CRE Loan Life-Cycle Risk Stages

1. Origination

Underwritten at stabilized NOI with favorable cap rates and low interest-rate assumptions.

2. Extension

Modified or extended at maturity — deferring recognition of value or coverage deterioration.

3. Stress

Rising vacancy, compressed NOI, and higher rates strain DSCR; criticized/classified migration accelerates.

4. Resolution

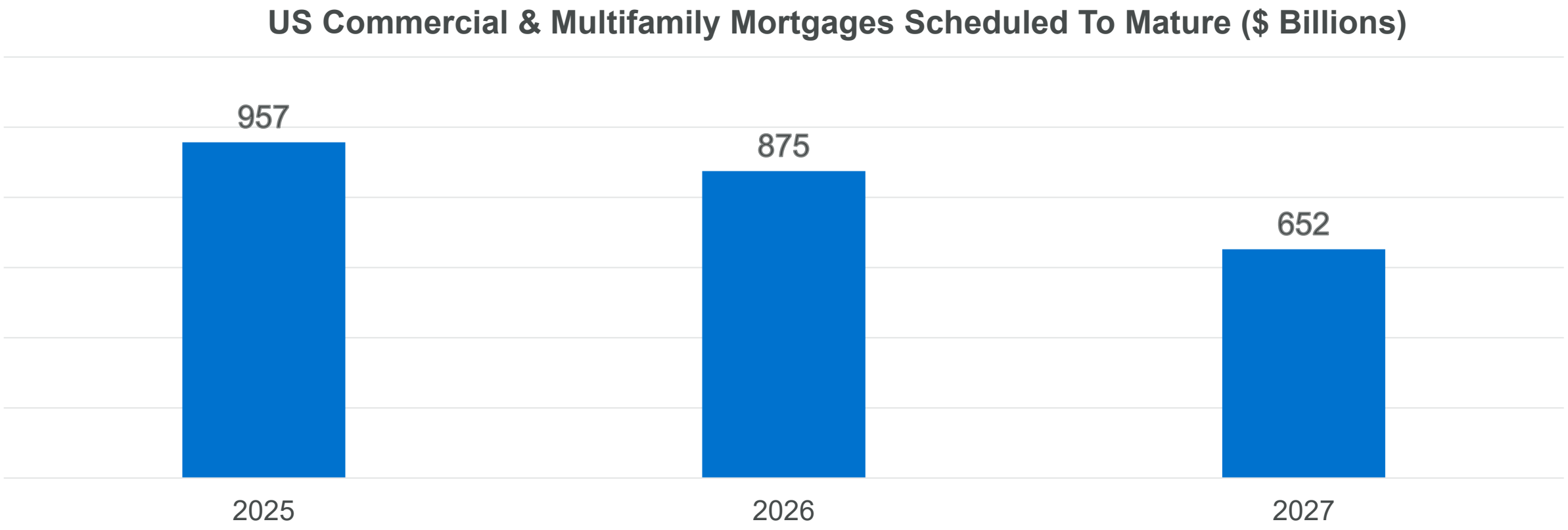
Workout, restructure, or charge-off — early intervention expands options and limits capital impact.



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Commercial Real Estate

Loan Maturities



Source: Mortgage Bankers Association 2025 CRE Survey of Loan Maturity Volumes
Released Feb. 2026; balances as **of Dec. 31, 2025**
Held by lenders and investors; $5.0T total outstanding

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CRE Vacancy Rates

A Bifurcated Market…

Office vacancy up +60% over past 5 years & other sectors up, but within moderate ranges

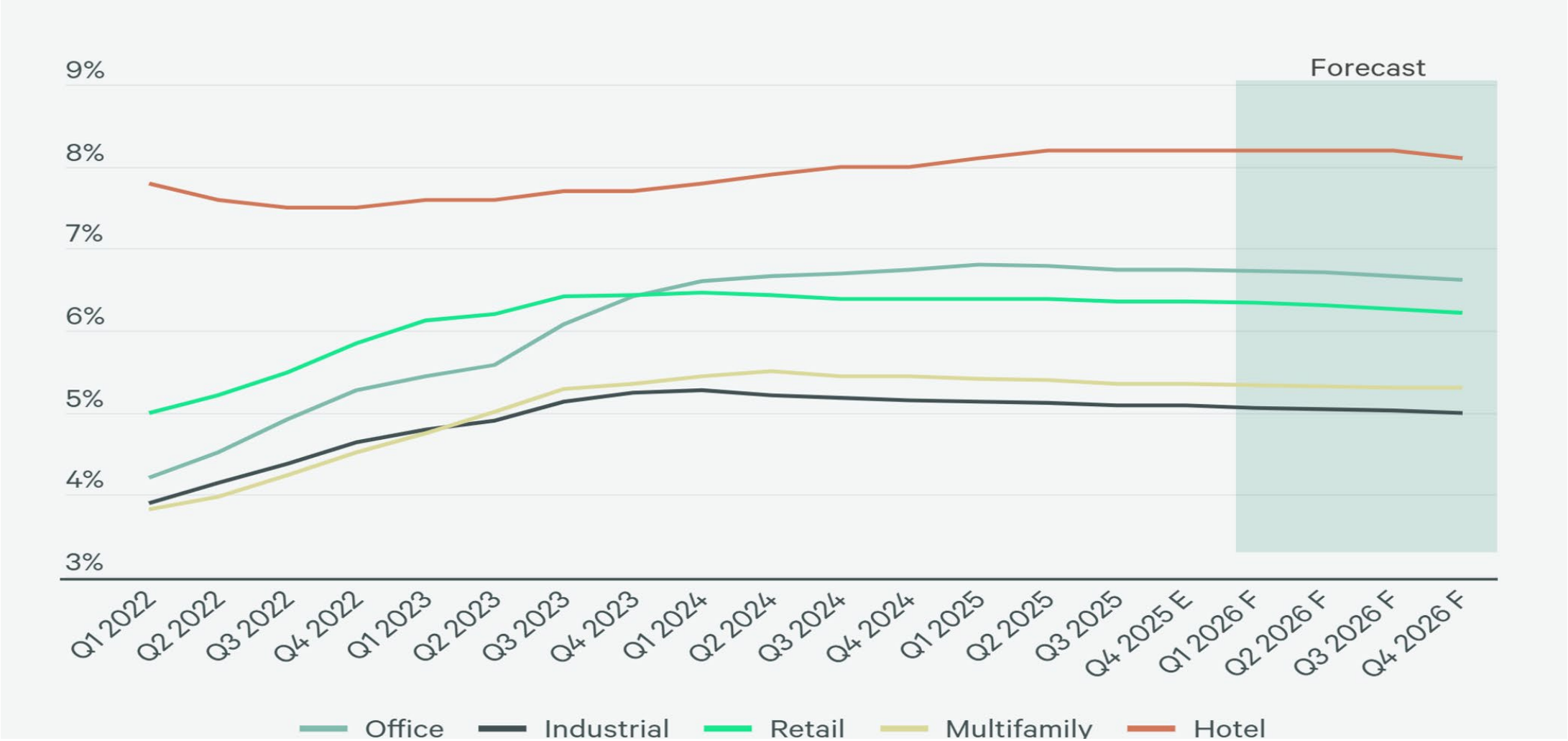
Sector	2020	2021	2022	2023	2024	2025
Office	13.0%	15.5%	17.2%	18.5%	19.8%	20.8%
Industrial	5.0%	5.2%	5.5%	5.7%	5.9%	6.0%
Warehouse	4.5%	3.6%	2.8%	5.2%	6.5%	7.1%
Retail	7.0%	7.2%	7.5%	7.7%	7.9%	8.0%
Multifamily	6.0%	6.1%	6.2%	6.3%	6.4%	6.5%

Sources: Cushman & Wakefield
National Association of REALTORS Statista

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Cap Rate Trends



Source: CBRE

Property Expenses

Rising Operating Costs

Property costs are ↑ 20% to 35% over the past 5 years

The Drivers:

- property insurance
- property taxes
- repairs + maintenance
- labor + building services
- utilities

Weakened demand for sectors like office limits ability to recapture expense increases

…but not just office: “operating expense inflation is evident in virtually every CRE asset class since 2020” (AFIRE 2026)

Value impact is direct with reduction in NOI due to uncaptured expense increases



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Emerging Threat 2: Borrower Cash Flow Deterioration

Sectors that thrived under low rates and stimulus now face margin compression — a hidden layer of risk inside portfolios that still look pass-rated.

Credit risk hidden in the pass-rated portfolio – identifying risk before a downgrade is now a strategic imperative



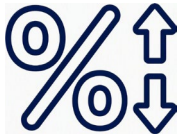
Elevated-stress sectors

Office CRE, healthcare, senior housing, transportation, manufacturing, and franchise lending.



DSCR deterioration is widespread

Debt-service coverage is compressing broadly but often isn't yet reflected in risk ratings.



Variable-rate exposure

Borrowers who benefited from low rates are repricing into painful payment increases at renewal.



Segmentation is critical

Segment by rate sensitivity, maturity, and sector to catch stress before it becomes a classified credit.

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Emerging Threat 3: Geopolitical Fractures & Macro Shocks

Geopolitical instability, inflation re-ignition, and AI-driven disruption are tail risks that could translate quickly into credit stress. Pressure-test assumptions today.

Four scenarios to pressure-test



Geopolitical fractures

Political polarization raises the risk of shock events — higher risk premium and funding stress.



Inflation re-ignition

With a Fed leadership transition, de-anchored expectations could drive yield volatility and distort credit pricing.



AI productivity shock

Rapid efficiency gains could trigger white-collar layoffs, weakening demand and straining public finances.



AI equity correction

A correction would hit tech-hub CRE, startups, semiconductors, and data centers — tightening financing broadly.

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Three Lines of Defense — Are They Actually Working?

Regulatory scrutiny of credit-risk governance has shifted from episodic to structural. Each line must show defensible evidence of judgment — not just process compliance.

Board oversight ties it together – Can each line demonstrate evidence of judgment – not just process compliance?

First line: Business units

Underwriting discipline, risk-rating accuracy at the point of decision, and early identification of deteriorating credits.

Second line: Risk & credit

Portfolio monitoring, concentration oversight, stress testing, and model governance — independent challenge to the first line.

Third line: Audit & loan review

Independent validation of risk ratings, credit-file quality, and regulatory defensibility.

Regulatory expectation

Basel IV is reshaping capital consumption; conservative model overlays are increasingly likely across all lines.



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Early Warning Indicators Every Bank Should Monitor

Credit deterioration is often preceded by observable warning signs. Institutions that catch deterioration early have far more options than those that wait for payment defaults.

1 **Risk-rating migration**
- Upward drift in special-mention and substandard classifications; watch pace and concentration of downgrades by segment.

2 **Payment performance**
- Past-due trends across consumer and commercial; interest-only and extension requests as stress signals.

3 **Financial Statement Deterioration**
- DSCR compression, declining liquidity, and covenant violations.

4 **Deposit & Liquidity signals**
- Borrower-level deposit outflows — a leading indicator banks often underutilize.

5 **Industry-level stress**
- Sector-wide margin compression and rising vacancy in office, healthcare, and transportation.

6 **Portfolio concentration**
- Track exposure by geography, property type, and sector against limits and board triggers.



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Strategic Responses — What Strong Institutions Are Doing Now

Institutions can strengthen credit risk management by taking deliberate, evidence-based action before losses emerge.

1 **Portfolio triage**

- Segment the pass-rated book by rate exposure, maturity, sector, and cash-flow coverage.

2 **Enhanced monitoring**

- Increase frequency of financial-statement collection and site visits for vulnerable segments.

3 **Risk-rating calibration**

- Ensure ratings reflect current conditions, not origination-era assumptions.

4 **Stress testing**

- Run CRE concentration scenarios tied to realistic rate and vacancy assumptions.

5 **Board governance**

- Present criticized/classified trends quarterly with forward-looking narrative, not just snapshots.

6 **Loan-review investment**

- Independent third-party loan review can help evaluate risk ratings, identify emerging concerns and support regulatory readiness



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06

PROBLEM LOANS

Where credit risk is building across the portfolio — and the deliberate actions strong institutions are taking now.



Potential Indicators of Emerging Problems: CRE



Real Estate

- Actual NOI below appraisal NOI
- Upcoming maturity/ reprice? Can actual NOI support the increased rate?
- Upcoming lease expirations?
- If older appraisal with low cap rate, recalculate value based on current NOI and updated cap rate
- Past due real estate taxes

Multi-Family Real Estate

- Occupancy declining
- Rental rates lower than projections/ appraisal
- Underfunded reserves
- Deferred maintenance

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Potential Indicators of Emerging Problems: Specialty



Hospitality

- Hotel metrics below comp set- STR Reports
  - Occupancy
  - Average Daily Rate
  - Revenue per Available Room
- Inadequate reserve for required property improvement plan (PIP)

Agriculture

- Actual yield & prices below projections
- Weakening working capital
- Leveraged balance sheet
- Increasing input expenses

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Potential Indicators of Emerging Problems: Other CRE



Assisted Living / Skilled Nursing

- Low or declining occupancy
- Higher expenses (specifically labor)
- Delayed/ reducing government insurance reimbursements

Construction

- Depleted interest reserve
- Change orders
- Delays or cost-overruns
- Limited construction tracking
- Interest rate increases since origination
- Updated valuation’s NOI does not cover scheduled P&I payments

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Potential Indicators Of Emerging Problems: Non-CRE

C&I

- Collecting A/R faster
- Stretching A/P
- Increased accrued expenses
- Declining working capital
- Increasing D/NW
- Increasing expenses compared to sales
- Borrowing base is tightening or out of trust
- Makeup of the borrowing base is changing
- Line of credit not resting (when expected)
- Excessive distributions

Collateral Integrity

- Borrowing Base Certificates
- A/R by due date instead of invoice date
- BBC is not calculating ineligible receivables, tainted receivables, etc. correctly or at all
- BBC values do not reconcile with the applicable financial statement
- Floorplan inspections
- Showing vehicles not paid off timely
- Curtailments not being made as required

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Final Thoughts



Problem Loans – if cash flow is short,
How is the borrower paying?



Underlying repayment concerns may remain even when the assigned risk grade has not yet changed.

via refinancings / increased debt	you see owner's injected capital or $ loaned to the company	not paying property taxes or utilities
not submitting payroll taxes withheld from employee comp	relying on non-formula based LOC borrowings	shrinking a company frees up cash, especially if lender's debt is not reduced proportionately

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Final Thoughts - What We are Seeing/Hearing

Examiners are focused on:

- More conservative grading
- Clearly identifying the intended primary source of repayment vs. shifting grade justifications over time
- Well-defined weakness vs. potential weakness
- Applying Special Mention grade more frequently (& using as a transitionary grade)
- The practice of timely risk ratings, annual reviews…ongoing risk measurement / grade adjustment
- Problem loan management…action plans/triggers in PLRs
- Collection of current financial information
- Adequate staffing in the Credit Department…resources commensurate with risk
- Understanding sponsor / guarantor's contingent debt
- Robust global cash flow analysis and verification of liquidity



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Contact

Forvis Mazars

Brad Snider
Managing Director
P: 502.321.2542
brad.snider@us.forvismazars.com

Doug Wagler
Managing Director
P: 713.499.4765
doug.wagler@us.forvismazars.com

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