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U.S. Banks Expect Rise in Energy-Sector Loan Defaults

Loan delinquency and charge-off rates seen deteriorating over 2015, Fed survey shows

A pumpjack stands near storage containers on the site of an oil well outside Williston, N.D., in February. *PHOTO: BLOOMBERG NEWS*

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Banks in the U.S. are cutting credit lines to energy companies and forcing firms to cough up more collateral to guard against fallout from the past year's plunge in oil prices, a Federal Reserve survey found.

Banks expect more delinquencies and charge-offs from the sector over the course of this year, "but they indicated that their exposures were small, and that they were undertaking a number of actions to mitigate the risk of loan losses," senior loan officers at commercial banks told the Fed in a survey tracking changes in loan terms and standards in the first quarter of the year.

U.S. oil and gas companies went deep into debt during the energy boom as they looked to cash in on new technologies that allowed sizable increases in domestic energy production.

Those loans looked like a good bet while U.S. oil prices were around $100 a barrel. But after peaking in June, oil prices tumbled, dropping below $50 earlier this year. Prices have rebounded in recent weeks, but remain below $60. The sharp reversal on prices has rattled the energy sector, forcing firms to cut spending, shed workers and conserve cash.

Of banks making loans to such firms, most said they accounted for less than 10% of outstanding commercial and industrial loans.

Still, the financial sector is taking steps to protect itself, “including restructuring outstanding loans, reducing the size of existing credit lines, requiring additional collateral, tightening underwriting policies on new loans or lines of credit, and enforcing material adverse change clauses or other covenants,” the Fed survey said.

Beyond energy, commercial and industrial loan standards were little changed.

In the real-estate sector, though, standards appear to be easing slightly, potentially aiding home builders and would-be homeowners.

“Banks reported having eased lending standards for a number of categories of residential mortgage loans over the past three months on net,” the survey said. Demand for mortgages and home-equity lines of credit rose in the first three months of the year, suggesting more activity among homeowners and home buyers.

Sales of previously owned homes rose to the highest level in 18 months in March, the National Association of Realtors said last month, a sign the housing market is gaining strength. But U.S. home building has gotten off to a slow start this year. Government data show that in the first quarter of the year,housing starts are averaging only 969,000 a month, compared with just over 1 million last year.
Commercial-real-estate lending standards also have eased, and, in addition, a few large banks indicated they had relaxed standards on construction and land development loans. Among the reasons for softening standards were more-aggressive competition from other lenders and an improving outlook for commercial property vacancy rates, the survey said.

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