



COMMERCIAL REAL ESTATE LENDING CRE CREDIT RISK IN 2025: TOOLS, TRENDS, AND TACTICS FOR COMMUNITY BANKERS

The commercial real estate (CRE) sector has undergone rapid shifts since 2022, driven by rising interest rates, changing occupancy patterns, and evolving borrower behaviors. For community banks, this has created heightened portfolio risk, examiner scrutiny, and the need for proactive portfolio management.

This white paper distills insights shared by **Brad Stevens** with Stevens Risk Management and **Kerry Ronquillo** with Suntell and the Square 1 Credit Suite. Brad provides an analysis of today's CRE lending environment, outlines examiner expectations, and highlights risk-mitigation strategies. While, Kerry demonstrates how technology platforms such as the Square 1 Credit Suite can standardize processes, strengthen compliance, and support long-term portfolio health.



Brad Stevens

Stevens Risk Management



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The State of Commercial Real Estate Lending

- Deposit trends and loan growth: Since April 2022, bank deposits peaked and declined, yet CRE lending accelerated—particularly at community banks. Larger institutions pulled back, leaving community banks with greater concentration risk.
- Underwriting shifts: In 2021–22, banks loosened standards. By early 2024, underwriting tightened sharply, reflecting interest-rate pressures. Loosening has since resumed slightly, but examiners are monitoring underwriting discipline closely.
- Delinquency rates rising: CRE delinquencies have climbed to 1.57%, above the historical average of 1%.
- Sector-specific dynamics:
 - **Office:** Persistent vacancies in urban cores; oversupply and shrinking tenant footprints.
 - **Multifamily:** Overbuilding, longer stabilization timelines (18–24 months), and rental softening.
 - **Manufacturing:** Ongoing contraction, with facilities repurposed for non-industrial uses.
 - **Residential:** Investor demand inflated prices and rents; as rents soften, investor retreat may destabilize housing valuations

Examiner Priorities and Risk Triggers

Examiners are focusing on:

- Upcoming CRE loan maturities amid higher rates and lower property values.
- Cash-flow adequacy under increased expenses (insurance, utilities, taxes).
- Timely reporting of occupancy levels, rent rolls, and lease data.
- Documentation of property conditions, site visits, and updated risk ratings.
- File comments and evidence of ongoing monitoring.

Proactive Defensive Measures

Brad emphasized that delinquency is not an early warning sign—it is already too late. **Instead, lenders should adopt forward-looking practices:**

- Regular site visits and photos to track occupancy and property condition.
- Quarterly borrower meetings to gather market intelligence and updated rent rolls.
- Cash-flow reruns and stress tests to assess supportable loan amounts.
- Deposit account monitoring to detect liquidity shortfalls early.
- Portfolio-wide assessments including non-financed borrower assets to identify hidden risks.

Technology as a Risk-Management Partner

The Square 1 Credit Suite was highlighted as a platform designed to help community banks manage CRE risk with:

- Automated cash-flow spreading and stress testing.
- Integrated rent-roll tracking and occupancy monitoring.
- Centralized credit files with secure document portals.
- Real-time portfolio dashboards for risk visibility.
- Unlimited licensing for bank-wide adoption at a predictable cost.

By consolidating sales, underwriting, servicing, and risk-management activities in a single platform, Square 1 Credit Suites helps financial institutions strengthen compliance, improve examiner readiness, and proactively manage portfolio health.

Outlook 2025–2026

Looking ahead, the CRE environment is expected to remain challenged:

- Delinquencies likely to exceed 2% in the near term.
- Multifamily softness will persist, with overbuilding and declining rents.
- Office values remain depressed, with limited recovery in sight.
- Manufacturing contraction will continue.
- Residential investor pullback could trigger housing price declines, stressing multifamily further.

The commercial real estate landscape demands vigilance, discipline, and innovation from community banks. Examiners are closely monitoring loan concentrations, cash-flow adequacy, and file documentation. Proactive practices—regular site visits, stress testing, and detailed borrower engagement—can help institutions stay ahead of risk.

Technology solutions like the Square 1 Credit Suite provide the infrastructure to standardize processes, strengthen compliance, and deliver examiner-ready transparency. By leveraging these tools, community banks can transform risk management from a reactive burden into a proactive advantage.