

2026 RISK OUTLOOK FOR FINANCIAL INSTITUTIONS

CREDIT DISCIPLINE, PORTFOLIO VISIBILITY, AND SECTOR-SPECIFIC RISK

The economic environment in 2026 presents financial institutions with a demanding but manageable challenge. Inflation remains elevated, long-term interest rates continue to pressure borrowers, and sector-specific vulnerabilities are emerging across commercial real estate and agriculture. While recession is not the dominant risk scenario, the more realistic threat is stagflation, a period in which inflation outpaces economic growth, placing sustained pressure on credit performance, pricing, and liquidity planning.

In this environment, success will not be driven by loan volume or aggressive growth strategies. Instead, financial institutions will need to emphasize credit discipline, early risk identification, and portfolio visibility, particularly within commercial and agricultural lending portfolios. Institutions that strengthen underwriting standards, improve borrower engagement, and invest in integrated credit intelligence will be best positioned to protect asset quality and sustain long-term performance in 2026.



Brad Stevens

Stevens Risk Management



Kerry Ronquillo

Suntell
Square 1 Credit Suite

Commercial Credit Discipline in a Stagflationary Environment

Stagflation fundamentally changes the credit risk equation. Borrower cash flow becomes less predictable, operating costs rise faster than revenues, and refinancing options narrow as long-term rates remain elevated. These dynamics place increased importance on structural underwriting quality and ongoing credit monitoring, particularly in commercial portfolios.

Rather than pursuing growth for yield, financial institutions should prioritize:

- Conservative structuring
- Clear repayment sources
- Realistic stress assumptions
- Ongoing borrower financial transparency

Credit risk in 2026 is less about sudden shocks and more about slow deterioration. Institutions that maintain discipline at origination and reinforce it through the life of the loan will be better equipped to identify emerging stress before it becomes loss.

Interest Rate Pressure and Commercial Real Estate Exposure

Long-term interest rates remain elevated even as short-term policy rates fluctuate. This has materially altered borrowing behavior and risk exposure across commercial real estate (CRE) and owner-occupied commercial credits.

Key impacts include:

- Slower refinancing activity as borrowers hold legacy low-rate debt
- Increased pressure on debt service coverage as loans reprice
- Reduced transaction volume and valuation uncertainty in select CRE segments
- Growing working capital needs for businesses absorbing higher financing costs

Institutions should closely monitor maturity concentrations, repricing timelines, and borrower sensitivity to rate movements. Stress testing for refinancing risk and cash flow resilience is critical, particularly for credits originated during low-rate environments that may not perform under current conditions.

Agriculture Lending Risk: Collateral, Costs, and Volatility

Agriculture lending presents heightened uncertainty in 2026. Commodity price pressure, volatile export demand, and persistently high input costs have narrowed operating margins for many producers. At the same time, land values remain elevated, raising concerns about potential corrections and collateral sensitivity.

Key risk considerations for agriculture portfolios include:

- Collateral condition and valuation trends
- Input cost volatility (fuel, fertilizer, labor)
- Dependence on government programs and subsidies
- Income diversification, including off-farm revenue
- Borrower liquidity and restructuring capacity

Ag lenders should conduct regular collateral reviews, reassess repayment capacity under stressed price scenarios, and proactively engage borrowers to evaluate operating plans. Early identification of stress allows for thoughtful restructuring and preserves long-term borrower relationships.

Credit and Risk Management Imperatives for 2026

Do Not Overextend for Yield

In a stagflationary environment, growth for growth's sake introduces unnecessary risk. Institutions should avoid long terms, high loan-to-value structures, or pricing concessions that do not adequately compensate for duration and credit exposure.

Strengthen Early Monitoring and Borrower Engagement

Traditional delinquency metrics remain lagging indicators. More effective early-warning signals include:

- Deposit balance volatility
- Changes in payroll activity
- Rising credit utilization
- Declining liquidity reserves
- Increased requests for extensions or modifications

Direct borrower engagement remains one of the most effective risk management tools. Borrowers often experience financial stress before it appears in transactional data. Structured, proactive communication improves outcomes and reduces loss severity.

Maintain Capital and Liquidity Discipline

Capital and liquidity planning should reflect slower growth expectations and higher credit management costs. Scenario-based planning, including CECL modeling, should incorporate inflationary pressure, sector-specific volatility, and the potential for stagflation as a baseline operating condition.

Consumer and Household Signals as Macro Context

While commercial and agricultural credit risk remains the primary focus for many institutions, consumer behavior continues to provide important macroeconomic context.

Revolving credit utilization has increased as households rely more heavily on credit cards and unsecured loans to manage rising living costs. Delinquencies are gradually returning to historical norms following several years of artificially low levels. At the same time, a K-shaped spending pattern has emerged, with higher-income households maintaining discretionary spending while lower-income borrowers concentrate on essential expenses.

These trends are not crisis indicators, but they serve as early signals of broader economic pressure that may influence commercial demand, deposit behavior, and local economic conditions. Institutions should incorporate these signals into broader portfolio assumptions without allowing them to distract from core commercial credit priorities.

Technology and Data Visibility as a Risk Management Enabler

Financial institutions cannot effectively manage credit risk in 2026 using fragmented systems and manual reporting processes.

Modern credit and risk management requires integrated platforms capable of:

- Consolidating borrower financial data
- Performing cash flow and collateral analysis
- Monitoring concentrations and exposure
- Supporting stress testing and scenario modeling
- Producing examiner-ready documentation

Institutions that invest in unified credit intelligence gain earlier insight into borrower performance, improve coordination between lending and credit teams, and reduce operational risk created by inconsistent data.

Supporting Credit Discipline with the Square 1 Credit Suite

Suntell recognizes that financial institutions must balance borrower support with strong credit governance. The Square 1 Credit Suite brings these priorities together by centralizing underwriting, credit analysis, loan administration, and portfolio monitoring in a single platform.

Designed for commercial and agricultural lenders, Square 1 Credit Suite provides:

- Enhanced visibility across complex credit relationships
- Improved data accuracy and consistency
- Early identification of emerging risk
- Stronger collaboration across lending, credit, and risk teams

By delivering transparency across the entire credit life cycle, the Square 1 Credit Suite enables institutions to maintain asset quality, support borrowers proactively, and meet regulatory expectations in a challenging 2026 operating environment.

