

PCI Performance Management

2026

CREDIT RISK TRENDS OUTLOOK





INTRODUCTION

As community banks look ahead to 2026, early awareness of emerging credit pressures is essential. Higher interest rates, CRE repricing, borrower liquidity strain, and shifting economic assumptions are creating conditions where risk can surface more quickly and more quietly than in prior cycles.

Boards and regulators are also expecting clearer communication, stronger scenario planning, and tighter integration of CECL, capital, and credit oversight. In this environment, disciplined monitoring and proactive governance become critical tools for resilience.

This outlook highlights the five credit trends most likely to shape 2026 and offers practical insights to help CEOs, credit leaders, and boards strengthen their oversight. Use it to inform discussions, sharpen early-warning practices, and prepare your institution for the year ahead.

The objective is simple: equip your leadership team with clarity and foresight as you navigate a shifting credit landscape.

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ABOUT US



For more than 25 years, PCI Performance Management has helped community banks navigate complexity with insight and purpose.

Through strategic planning, operational improvement, leadership coaching, and risk-focused assessments, PCI works alongside executive teams to build stronger cultures, more effective processes, and long-term organizational success.

EXECUTIVE SUMMARY

The 2026 credit environment will challenge community banks in ways that require sharper governance, clearer capital strategy, and more disciplined portfolio oversight. While the economy continues to shift under higher-for-longer rate pressures, community banks will see increasing signs of credit migration, rising renewal risk, and greater volatility in CECL forecasts.

This outlook highlights the five most critical credit risk trends PCI recommends community bank leaders—CEOs, Boards, Chief Credit Officers, and lending executives—monitor as they enter 2026. Each trend includes early indicators, actionable recommendations, and strategic questions to guide decision-making.

The goal is simple: equip leadership teams with foresight so they can strengthen resilience, enhance credit discipline, and make informed strategic decisions in the year ahead.



01

TREND 1 — CRE REPRICING, RENEWALS & CASH-FLOW COMPRESSION

Commercial real estate (CRE) repricing remains one of the biggest pressure points for community banks entering 2026. As properties refinance or reprice into higher-rate environments, borrower cash flow is tightening, DSCR ratios are weakening, and valuations are adjusting—sometimes significantly.

Key Factors Driving This Trend

- Higher interest rates leading to materially higher renewal payments
- Cap rate expansion negatively affecting valuations
- Lease turnover and vacancy stress for retail, office, and hospitality
- Inflationary pressure on operating expenses for landlords

Early Warning Indicators

- Declining DSCR under renewal scenarios
- Borrowers requesting interest-only extensions
- Rent roll deterioration
- Appraisal gaps widening between book value and market value

Questions for Your Credit Team

- How many 2025–2026 CRE loans are repricing into materially higher rates?
- Do we have stress-tested DSCR scenarios completed for major relationships?
- Where is vacancy or cash-flow pressure emerging?



Proactive monitoring now will prevent reserve volatility later.

02

TREND 2 — MARGIN COMPRESSION & CREDIT MIGRATION

Margin compression continues to influence credit quality in subtle but meaningful ways. As competition intensifies and funding costs remain elevated, banks may feel pressure to loosen pricing or structure, increasing long-term credit risk.

What to Watch

- **Migration from Pass to Watch** in early-stage monitoring
- **Declining financial statement quality** from borrowers
- **Underperforming segments** in C&I and small business portfolios
- **Competitive pricing leading to thinner spreads**

Why It Matters

Migration often begins gradually. By the time it shows up in delinquency data, the risk has already matured.

Recommended Monitoring Actions

- Tighten credit grading calibration
- Reassess renewal pricing strategies
- Strengthen early-warning indicators
- Review Watch list migration trends quarterly

03 TREND 3 — CECL FORECAST VOLATILITY

Economic uncertainty, shifting portfolio dynamics, and model sensitivity will create CECL volatility for many community banks in 2026. Boards are increasingly expecting management to articulate not just what CECL numbers are—but why they are changing.

Drivers of CECL Volatility

- Updated economic factor sensitivity
- Portfolio shifts due to concentration changes
- Increased qualitative factor adjustments
- Stress testing outcomes impacting modeled reserves

Board-Ready Talking Points

- How scenario adjustments affect reserve range
- Which portfolio segments are contributing to variability
- How concentration shifts influence Q-factor methodology
- Integration of CECL projections with capital planning



A strong CECL narrative enhances transparency and board confidence.

04 **TREND 4 — CONCENTRATION SENSITIVITY (CRE, AG, & C&I MIX)**

Regulators continue to emphasize concentration risk, particularly in CRE and agriculture-heavy markets. Concentration sensitivity becomes more pronounced when credit conditions tighten or when economic drivers shift.

Key Considerations

- CRE segments with declining valuations
- Ag producers facing commodity price pressure
- Geographic or borrower-type clusters
- Large single-name exposures

Recommended Controls

- Quarterly concentration reporting
- Segment-level performance dashboards
- Stress testing updates by property type or industry
- Documented concentration limits with governance oversight

Questions for Your Team

- Do our concentration limits still make sense for the 2026 environment?
- Which segments show the earliest signs of performance softening?

05 **TREND 5 — BORROWER LIQUIDITY STRAIN & SLOWER LOAN DEMAND**

Borrowers across multiple industries are experiencing liquidity tightening due to inflation, higher debt costs, and reduced operating margins. This affects both credit quality and loan demand projections.

Signs of Liquidity Strain

- Increasing line-of-credit usage
- Slower AR turnover or delayed payables
- Declining deposit balances
- More borrower requests for modified terms

Implications for 2026

- Slower organic loan growth
- Higher demand for covenant relief
- Higher ongoing monitoring requirements



Liquidity strain is often the first signal of future downgrades.

06 **PCI RECOMMENDATIONS FOR 2026 PREPAREDNESS**

Below are the strategic actions PCI recommends all community banks take before entering 2026:

A. Strengthen Credit Governance

- Conduct updated stress tests
- Enhance early-warning monitoring
- Refresh credit grading calibration
- Increase frequency of Watch list review

B. Integrate Capital Strategy with CECL Outlook

- Align capital tiers with projected reserve ranges
- Reassess dividend policy in light of 2026 uncertainty
- Prepare board-ready capital scenario outlines

C. Enhance Board-Level Communications

- Implement quarterly credit dashboards
- Present red/yellow/green portfolio segmentation
- Add CECL scenario summaries to board packets



Consistency in board reporting builds trust and clarity.

07 CEO & BOARD DISCUSSION QUESTIONS

Use these questions to guide your next board or credit committee discussion:

1. Where are we seeing the earliest signs of credit migration?
2. Which renewal segments pose the highest risk in 2026?
3. Do our capital assumptions still support our growth trajectory?
4. What changes in CECL methodology or factors should the board expect?
5. Are any concentrations approaching regulatory thresholds?
6. Where might borrower liquidity pressure impact performance?
7. Do we have sufficient early-warning indicators in place?
8. What actions should we take now to strengthen resilience?



CONCLUSION

The 2026 environment will require more intentional oversight, sharper monitoring, and proactive communication between management and the board. By staying ahead of the trends outlined in this report, your bank can navigate uncertainty with clarity and confidence—positioning itself for a strong, resilient year.

08 CREDIT RISK READINESS SCORECARD

Assessing Internal Preparedness for 2026 Credit Conditions

The following readiness assessment is designed to help executive teams and boards evaluate whether internal monitoring, governance, and credit risk management practices are aligned with the trends outlined in this outlook. The questions are not intended to replace loan review or examiner expectations, but to support early awareness and informed discussion.



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Instructions

Rate each statement on a scale of 1 (Not in Place) to 5 (Fully in Place and Effective).



CRE Repricing, Renewals & Cash-Flow Compression

	1	2	3	4	5
Management has timely visibility into upcoming CRE maturities and repricing exposure.					
DSCR sensitivity is monitored using updated rate and expense assumptions.					
Appraisals and valuations reflect current market conditions rather than legacy assumptions.					
High-risk CRE segments are identified and reviewed more frequently.					

Interpretive Note

Lower scores may indicate heightened exposure to repricing risk or delayed recognition of cash-flow stress.

08 CREDIT RISK READINESS SCORECARD

Margin Compression & Credit Migration

Pricing decisions reflect current funding costs and margin pressure.	1	2	3	4	5
Early migration indicators are monitored consistently across portfolios.					
Risk rating changes occur proactively rather than in response to delinquency					
Management reporting highlights margin and credit quality trends together.					

Interpretive Note

Delayed migration recognition often amplifies margin pressure and credit volatility.

08 CREDIT RISK READINESS SCORECARD

CECL Forecast Volatility

	1	2	3	4	5
CECL assumptions are reviewed regularly in light of changing economic conditions.					
Qualitative factor adjustments are clearly documented and supported.					
Management understands the drivers of forecast volatility.					
CECL outputs are communicated clearly to the board.					

Interpretive Note

Volatility without clear explanation can erode board confidence and complicate capital planning.

08

CREDIT RISK READINESS SCORECARD

Borrower Liquidity Strain & Slower Loan Demand

Borrower liquidity metrics are monitored consistently.	1	2	3	4	5
Early warning indicators reflect cash-flow tightening trends.					
Management differentiates between demand slowdown and credit deterioration.					
Relationship managers are equipped to identify borrower stress early.					

Interpretive Note

Liquidity strain often precedes credit deterioration and reduced portfolio growth.



08 CREDIT RISK READINESS SCORECARD

Using the Credit Risk Readiness Assessment to Inform Oversight

The Credit Risk Readiness Assessment is designed to support informed executive and board-level discussion, not to assign grades or replace loan review, stress testing, or regulatory processes. Its value lies in highlighting how effectively internal monitoring, governance, and decision-making practices are aligned with the credit trends outlined in this outlook.

After completing the assessment, leadership teams should review results by trend and consider both overall readiness and areas of divergence among participants. Differences in scoring often reveal gaps in assumptions, timing, or risk tolerance that warrant further discussion.



Score Interpretation Guide

High Readiness (80–100%)

Monitoring, governance, and credit risk management practices appear well aligned with emerging conditions. Leadership teams are positioned to respond proactively as conditions evolve.

Moderate Readiness (60–79%)

Foundational practices are in place, but targeted execution or governance gaps may delay recognition or response. Focused enhancements may be needed to strengthen early-warning and oversight.

Lower Readiness (Below 60%)

Readiness gaps may increase the likelihood that credit stress surfaces more quickly or with greater volatility. Leadership teams may benefit from addressing monitoring, assumptions, or governance alignment before conditions tighten further.

08 CREDIT RISK READINESS SCORECARD

CEO & Board Discussion Prompts

- Which credit trends represent the greatest internal readiness gaps?
- Where might execution lag amplify external credit pressure?
- Are risk ratings, stress scenarios, and CECL assumptions adjusting early—or reacting late?
- How confident are we that management reporting highlights emerging risk clearly and consistently?
- Where do governance, staffing, or process limitations constrain early response?
- Which assumptions underlying our credit outlook should be challenged before year-end planning?



NEXT STEPS & SUPPORT

FROM AWARENESS TO PREPAREDNESS



Completing this readiness assessment is an important step toward strengthening credit oversight. The most effective use of these results comes from how they inform governance discussions, planning priorities, and execution discipline.

Leadership teams may consider next steps such as:

- Enhancing early-warning monitoring in higher-risk segments
- Reviewing assumptions embedded in pricing, stress testing, and CECL models
- Aligning board reporting more closely with emerging risk signals
- Clarifying roles and accountability related to credit risk oversight

PCI Performance Management works with community banks to support disciplined credit risk management, governance alignment, and strategic preparedness. Our approach emphasizes clarity, regulatory awareness, and practical execution—particularly in periods of changing economic conditions.

For institutions preparing for the 2026 planning cycle, this assessment can serve as valuable pre-work for strategic planning, capital discussions, and risk oversight conversations.

CONTINUE THE CONVERSATION



SCHEDULE A CONSULTATION

Early recognition enables earlier action—and more controlled outcomes. Let's discuss how PCI can help.

Schedule a complimentary consultation with PCI's Credit Risk Expert, Tod Ellis:

Credit Risk Readiness Consultation (30 minutes):

- todellis@prairiebankconsulting.com
- 402-708-2084



PREPARE YOUR BANK FOR 2026

WITH THE 2026 COMMUNITY BANK EXECUTIVE PLAYBOOK

If this assessment raised questions or highlighted readiness gaps, **PCI's 2026 Community Banking Playbook** and consulting services provide deeper insight into how credit risk, capital, strategy, and execution intersect in today's environment.

A full strategic framework including:

- ✓ Board & ownership alignment tools
- ✓ Capital strategy modeling
- ✓ CECL governance integration
- ✓ Credit & concentration oversight tools
- ✓ Strategic planning templates
- ✓ CEO & board communication guides

Download the Playbook to equip your leadership team with the structure and clarity needed for a high-performing 2026.

HOW PCI CAN SUPPORT YOUR 2026 STRATEGY

STRATEGIC PLANNING & BOARD FACILITATION

Custom-designed planning retreats, executive offsites, and board strategy sessions that create clarity, alignment, and actionable priorities.

LEADERSHIP COACHING & BENCH STRENGTH DEVELOPMENT

Skill-building programs for managers and emerging leaders to strengthen communication, accountability, and execution.

OPERATIONAL EFFICIENCY & PROCESS IMPROVEMENT ASSESSMENTS

Targeted reviews to streamline workflows, reduce cost structure, and improve performance across departments.

RISK, CECL & GOVERNANCE MATURITY SUPPORT

Implementation of dashboards, reporting tools, and governance frameworks that meet examiner expectations and improve transparency.

DIGITAL & CUSTOMER EXPERIENCE READINESS

Assessments and roadmaps to modernize digital banking, payments, and customer experience capabilities.

CITATIONS & RESOURCE LIST

This appendix provides source transparency and strengthens the professional, research-informed tone of the report.

DATA & INDUSTRY REFERENCES

- FDIC Quarterly Banking Profile
- Federal Reserve Beige Book
- OCC Semiannual Risk Perspective
- FFIEC CRE Concentration Guidance
- FOMC Policy Statements and Economic Outlook Projections
- ABA Banking Journal: Credit & Risk Trends
- ICBA Community Bank Briefings
- MBA Commercial Real Estate Outlook Reports

Note: Since no proprietary or specific external statistics were cited directly in the written content, these references serve as context sources typically informing credit trend analysis.

METHODOLOGY NOTES

This outlook synthesizes:

- Industry-wide credit performance trends
- Economic indicators influencing community banks
- Loan portfolio risk factors observed across CRE, C&I, and Ag sectors
- Regulatory focus areas for 2025–2026
- Common CECL modeling considerations

All analysis is intended for strategic and governance-level planning.



THANK YOU