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Business

# TD Sees US Commercial Loan Growth Even as Rates at 14-Year High

- Commercial lending chief sees not-for-profits pausing projects
- Business loan arrears are at around 1%, according to Fed data

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*Photographer: Cole Burston/Bloomberg*

Toronto-Dominion Bank's US commercial lending chief sees loan demand growing even as the Federal Reserve aggressively hikes rates that are already at the highest since 2008.

"Depending on where rates end up leveling off, in certain sectors, you may see flat to low growth, but in others you'll still see growth," said Chris Giamo, in an interview Tuesday. "So I would say it'd be moderate growth."

The business-loan book at Toronto-Dominion's US business grew about 2% in the three months through July when compared with a year earlier and excluding the effect of the government's forgiveness of Paycheck Protection Program loans.

The businesses that the bank lends to are holding up well, Giamo said, in part because they're still holding some of the cash that they piled up during the early part of the pandemic. The tight labor market remains a hurdle for companies, though that situation seems to be improving, he said.

"If you look at inflation, a tighter labor market and a rising-rate environment, that's a lot for a small business to adjust to," Giamo said. "Still, we have not seen any real negative trends in the portfolio. It's been holding up nicely. There is still some liquidity there."

The business-loans delinquency rate across the US was at 1.02% at the end of June, down from 1.13% at the end of last year, according to data compiled by the Federal Reserve. The metric reached 4.47% in 2009, the highest so far this century.

While business loan arrears are far from the levels seen in the last credit crisis, the risk spreads investors demand to hold financial sector bonds instead of Treasuries grew about 2% in the quarter through July , according to a Bloomberg index. That's the widest since May 2020 amid concerns about a looming global recession.

The future of the real estate market is more of a question for lenders, Giamo said. While industrial space is in high demand, office and retail space may be more affected by the current environment, he said.

"With return to office and folks not knowing exactly what the demand for office space will be, I think that'll be an asset class that'll be closely monitored," he said. "And if we're going to head into a recession, retail space is always a sector that you watch closely."