

# Delay and Pray: Strategic Forbearance via Commercial Real Estate Loan Modifications

## Executive Summary

David A. Huberdeau-Reid, Department of Finance, Insurance and Real Estate, University of Memphis  
Rebel A. Cole, Department of Finance, Florida Atlantic University

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**2. Short Overview:** This study examines how U.S. banks have responded to growing commercial real estate (CRE) stress following the sharp monetary tightening cycle that began in 2022. We focus on the prevalence of “delay and pray” strategies, in which lenders extend favorable refinancing terms to existing borrowers to defer the recognition of nonperforming loans and provisions for credit losses. We explore how these strategies vary across banks of different sizes. Using a “difference-in-differences” regression methodology treating the 2022 interest-rate hikes as an exogenous shock, we find that regional banks (\$10 billion to \$100 billion in assets) and national banks (more than \$100 billion in assets) relied far more heavily on modifications to commercial mortgages than did community banks (less than \$10 billion in assets) to address maturing commercial mortgages. The findings aim to advance understanding of risk transmission in CRE credit markets and inform regulatory debates surrounding bank supervision and financial stability.

**3. Research Questions:** What this study asks?

- Did the use of commercial mortgage modifications increase following the 2022 monetary tightening cycle?
- Did regional and national banks rely more heavily upon such modifications than community banks?

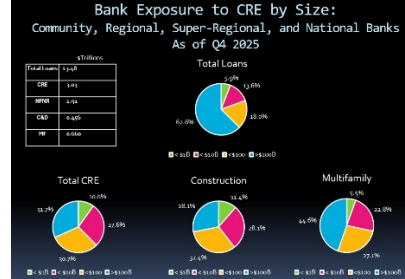
**4. Data and Approach:** We use publicly available semi-annual bank regulatory data from 2019Q4 – 2025Q4 obtained from the U.S. Federal Financial Institutions Examination Council (U.S. FFIEC), which includes information on the incidence and amounts of modifications to commercial mortgages, as well as information on bank size and financial performance/condition. Our unit of observation is the FDIC-insured bank (not the consolidated bank holding company); we do not have granular data on individual mortgages or even property type. We examine four different measures of commercial mortgage modifications:

- (1) Incidence: did the bank report any amount of modifications (1=yes, 0=no) in period  $t$ .
- (2) Amount: What was the (natural logarithm of the) amount of such modifications in period  $t$ ?
- (3) Share: What share of total commercial mortgages that were reported as modified in period  $t$ ?
- (4) NPL Share: What share of commercial mortgage modifications were classified as “non-performing” loans?

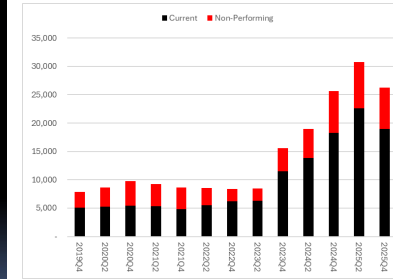
Our empirical approach is to treat the 2022 interest-rate hikes as an exogenous shock that led banks to increase their reliance upon modifications to commercial mortgages as an alternative to foreclosing on delinquent borrowers. We divide banks into three size groups: community/small, regional/medium, and national/large. We then estimate regression models that enable us to test whether regional and national banks increased reliance upon modifications to commercial mortgages more than did community banks following the 2022 financial shock.

**5. Key Findings:** Fig.1 shows CRE loan exposures by bank size. Regional and national banks are disproportionately exposed relative to total loans outstanding. Fig. 2 shows the aggregate amount of CRE modifications semi-annually from 2019Q4 – 2025Q4. Modifications were relatively stable at under \$10B prior to the end of Fed rate hikes in mid-2023 but then spiked upwards, tripling to more than \$30B in Q2 2025. Fig. 3 shows the percentage of each bank size group reporting any CRE modification.

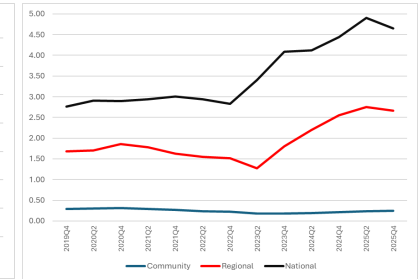
**Fig. 1: Bank Exposure to CRE by Size**



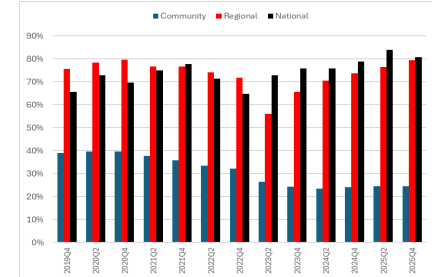
**Fig. 2: Amount of CRE Modification**



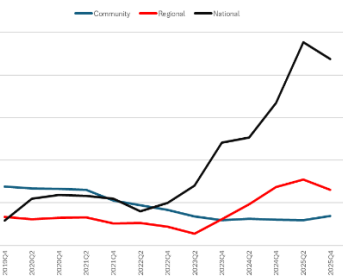
**Fig. 3: % of Banks with CRE Modifications**



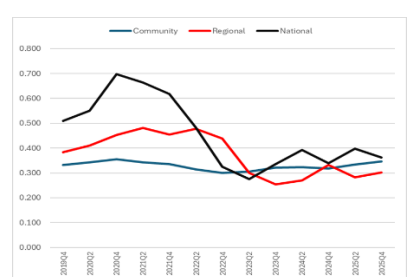
**Fig. 4: Growth in CRE Loan Modification Activity**



**Fig. 5: CRE Modification Ratios**



**Fig. 6: Modified CRE Loan NPL Ratios**



After the Fed rate hikes ended in mid-2023, the use of modifications declined for community banks but rose for both regional and national banks. Fig. 4 shows the growth of amount of CRE modification by bank size. During that period, we see a sharp increase in the amount of modification by both regional and national banks, but not community banks. Fig. 5 shows the share of commercial mortgages that were modified by bank size. Following the Fed rate hikes, the share of commercial mortgages that were modified rose sharply for both national and regional banks, but not for community banks. Fig. 6 shows the share of CRE modifications that were classified as nonperforming. For both regional and national banks, but not for community banks, the NPL ratios declined sharply as the Fed hiked rates during 2022 and 2023. Our regression analysis largely confirms what we observe in Figures 3 – 6. After the Fed began hiking rates in Mar. 2022, regional and national banks relied much more heavily upon CRE modifications than did community banks, allowing them to reduce the share of modifications classified as nonperforming.

**6: Implications for Practice:** Consistent with several related studies that look at “extend and pretend” or “delay and pray” strategies for dealing with commercial borrowers with maturing mortgages that can only be refinanced at much higher rates, we find that banks turned to loan modifications as a method for avoiding classification of maturing commercial mortgages as nonperforming and placing them into foreclosure. This enabled banks to avoid having to increase provisions for credit losses as well as write-offs that would adversely affect banks capital adequacy. This practice was disproportionately used by larger banks (regional and national) relative to smaller community banks. These findings raise important questions for bank supervisors and auditors regarding the recognition of distressed CRE exposures.