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Market Intelligence

Outlook for community banks as the Fed tries to stick the landing

Nathan Stovall

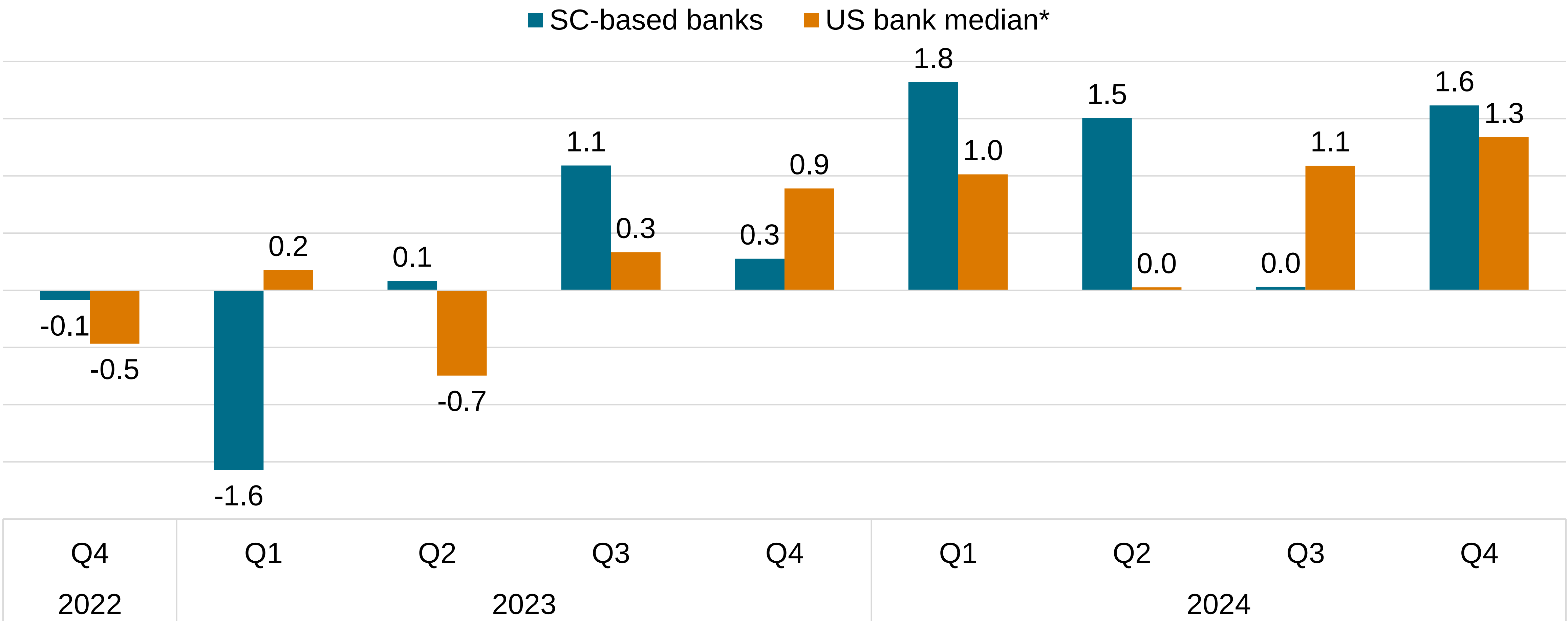
Director, Financial Institutions Research

March 14, 2025

Earnings look stronger in 2025, even in the face of higher credit costs

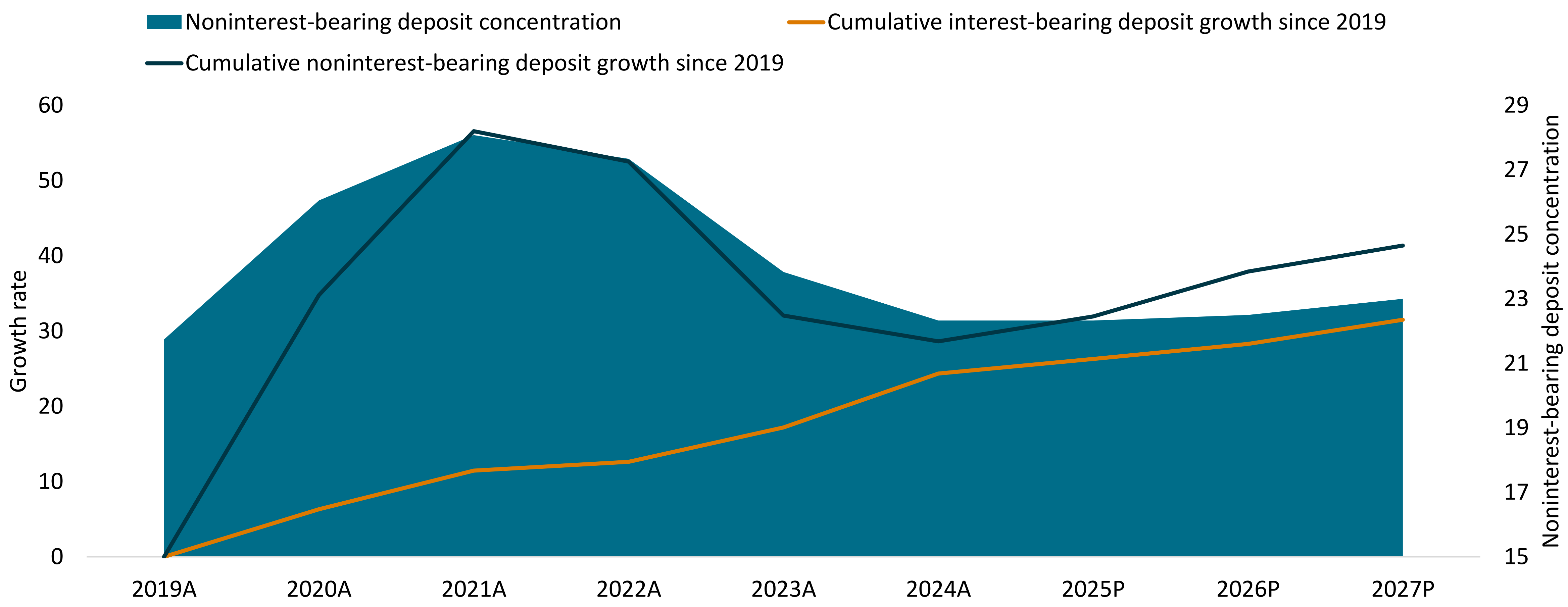
- **Depositories easing deposit rates, treading lightly with new loans:** Banks have lowered deposit rates since mid-September 2024 but the pace of future cuts in question. Loan growth remains slow despite greater optimism.
- **Higher credit losses:** Credit costs are rising, driven by higher rates and credit normalization, creating a modest headwind to earnings.
- **Signs of stronger capital raising, M&A:** Valuations have recovered as worst credit fears move off the table. Investors are more supportive of capital raises and there are green shoots of M&A activity.

Banks grow deposits even as they cut rates (%)



Data compiled Feb. 12, 2025.
Analysis includes US commercial banks, savings banks, and savings and loan associations. Nondepository trusts and companies with a foreign banking organization charter are excluded.
* Represents the median change, not the change in the median, for each respective period.
Data based on regulatory filings as of Dec. 31, 2024.
Source: S&P Global Market Intelligence.

Noninterest-bearing deposits stabilizing after declining in recent years (%)



March 5, 2025
Community banks defined as institutions with less than $10 billion in assets in a given period.
Source: S&P Global Market Intelligence.

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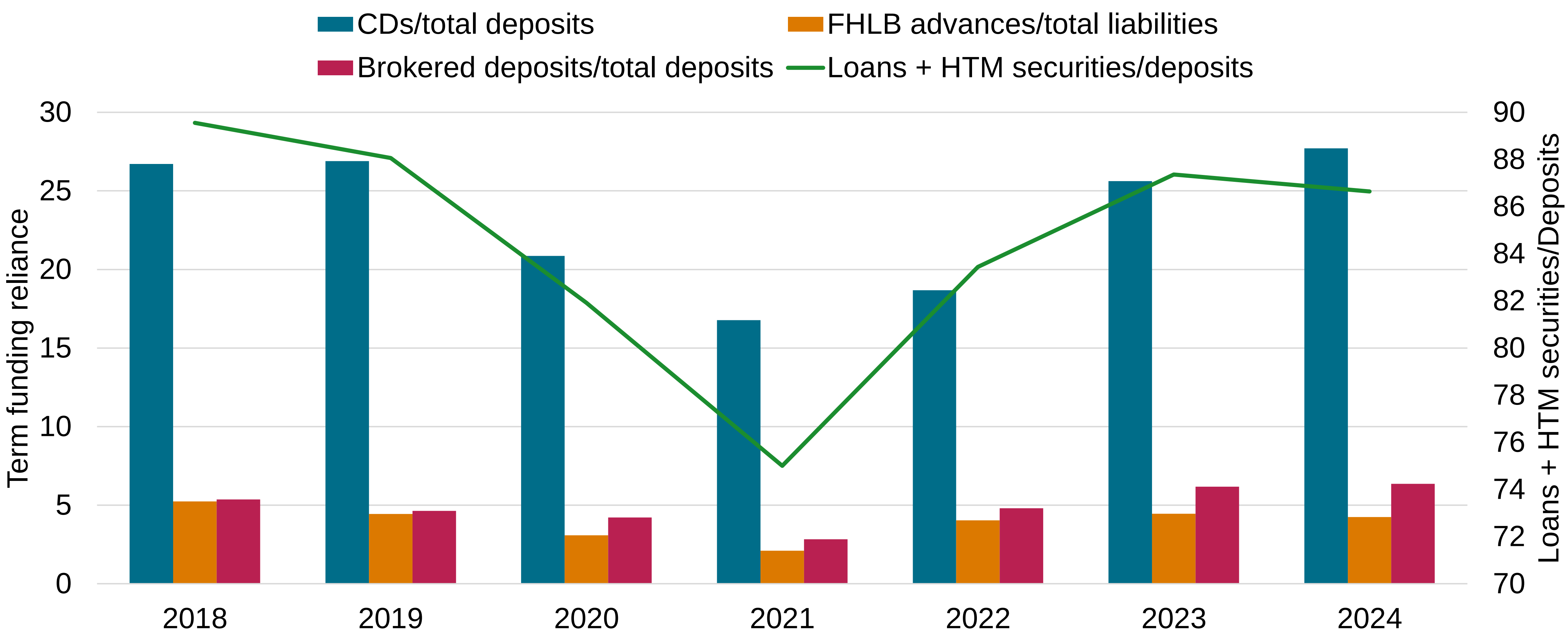
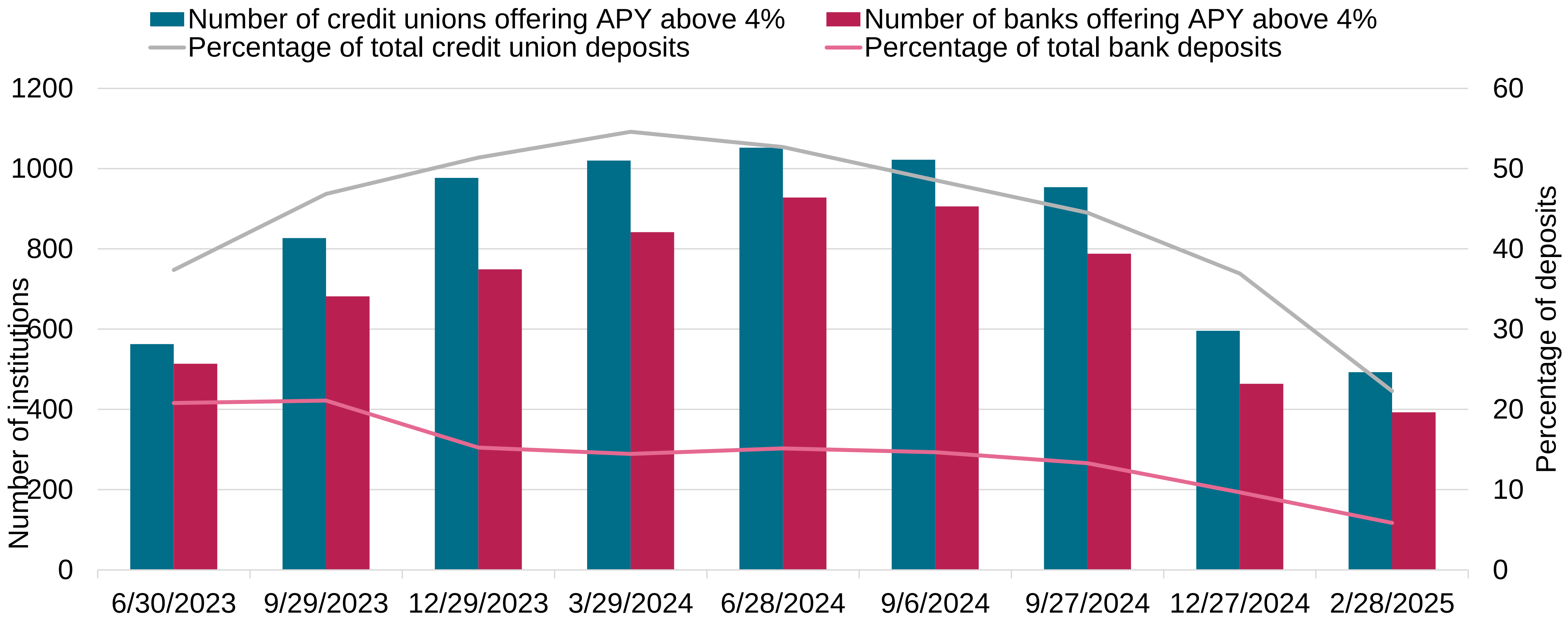
Community banks' reliance on CDs has grown in recent years (%)



Data compiled Feb. 24, 2025.
Community banks defined as institutions with less than $10 billion in assets in a given period.
HTM = Held-to-maturity securities.
Source: S&P Global Market Intelligence.

Banks marketing 1-year CDs above 4% has plunged since late September



Data compiled March 7, 2025.
APY = annual percentage yield; CD = certificate of deposit.
Based on 1-year CDs with a $10,000 minimum investment.
Banks comprises US commercial banks, savings banks and savings and loan associations.
Source: S&P Global Market Intelligence.

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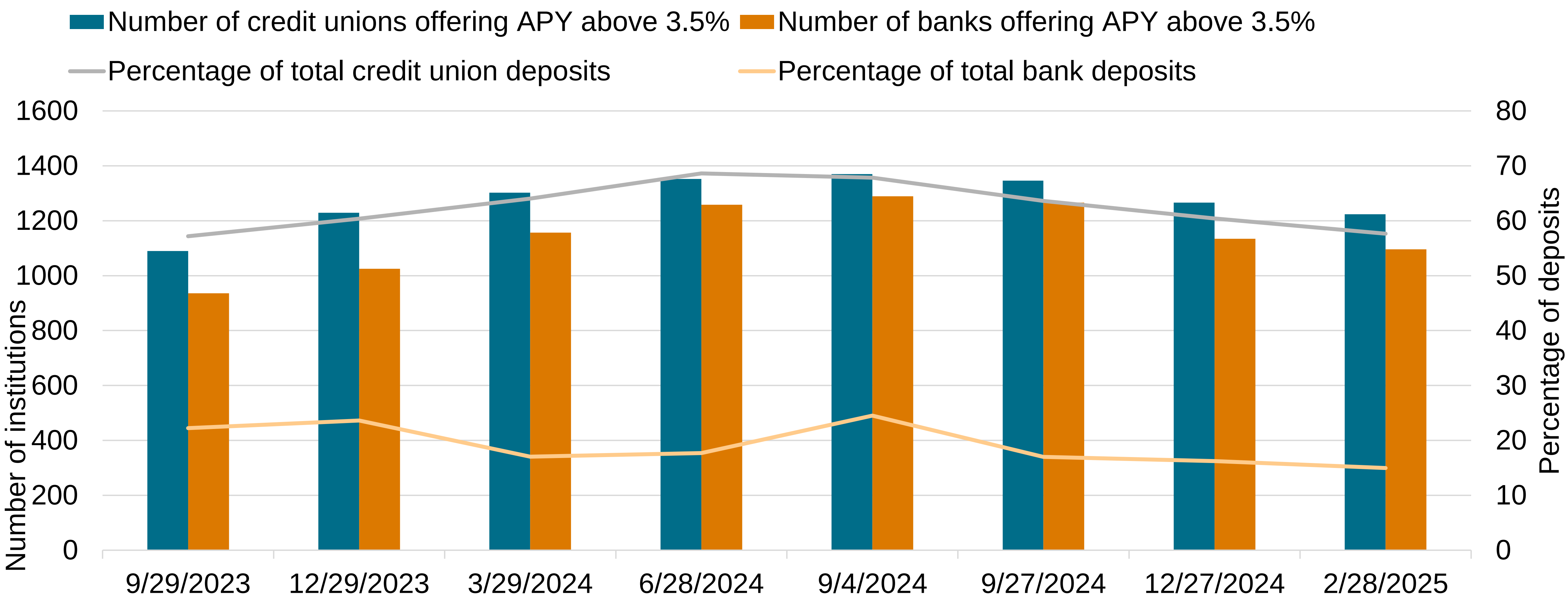
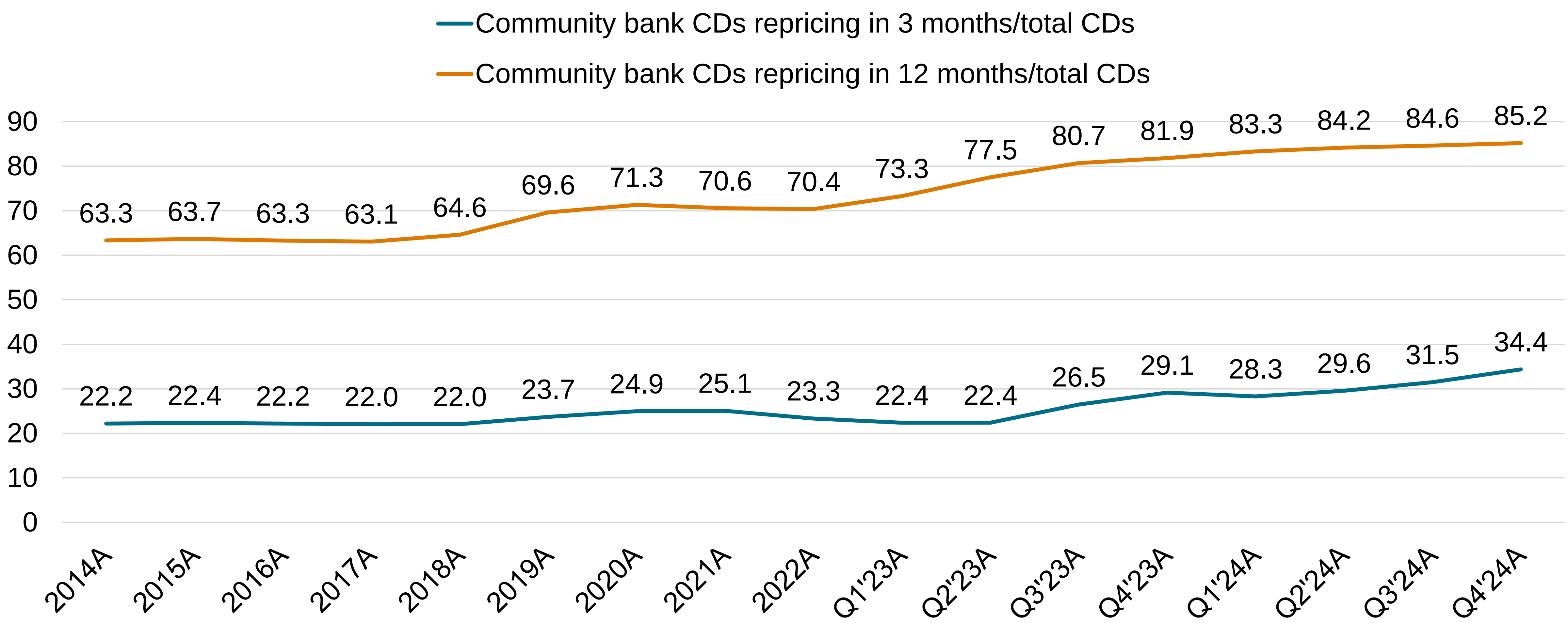
Banks marketing 1-year CDs above 3.5% holding fairly steady



Data compiled March 7, 2025.
APY = annual percentage yield; CD = certificate of deposit.
Based on 1-year CDs with a $10,000 minimum investment.
Banks comprises US commercial banks, savings banks and savings and loan associations.
Source: S&P Global Market Intelligence.

Many CDs maturing in Q3 2025 at US community banks



Data compiled March 7, 2025.
CD = certificate of deposit.
Data based on regulatory filings
Community banks defined as institutions with less than $10 billion in assets in a given period.
Source: S&P Global Market Intelligence.

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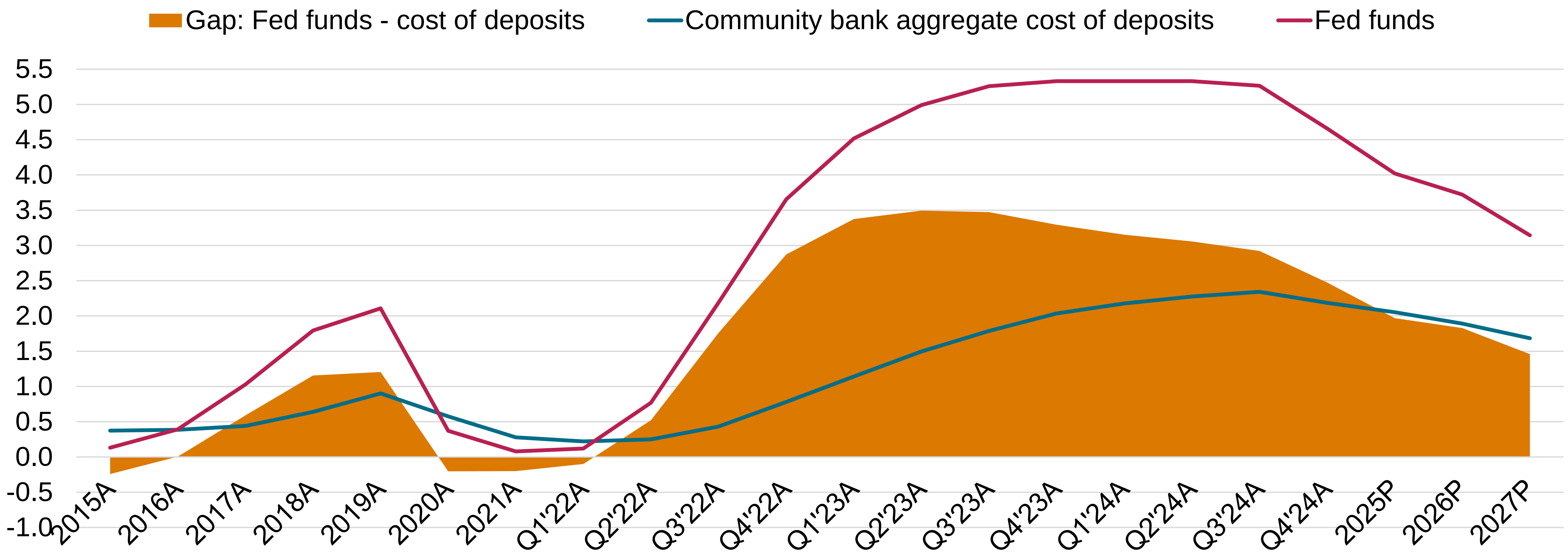
Community bank deposit costs getting more competitive with market rates (%)



Data compiled March 6, 2025.
A = actual; P = projected
Community banks defined as institutions with less than $10 billion in assets in a given period.
Sources: S&P Global Market Intelligence; proprietary estimates

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Deposit rankings methodology through Q3 2024

- 20% — Noninterest-bearing deposit/total deposits
- 15% — Interest-bearing deposit beta
- 10% — Time deposits/total deposits
- 15% — Deposits/liabilities
- 10% — Avg. deposit growth
- 10% — CDs < 1 year/total deposits
- 10% — Deposit efficiency

Data compiled Dec. 31, 2024.
Sources: S&P Global Market Intelligence.

Top 3 deposit franchises among large community banks with assets $3B-$10B

1st	2nd	3rd
Stride Bank NA	**First Community Bankshares Inc.**	**Amalgamated Financial Corp.**
Enid, OK	Bluefield, VA	New York, NY
Branches: 11	Branches: 58	Branches: 6
Gross loans and leases: $3.17B	Gross loans and leases: $2.44B	Gross loans and leases: $4.59B
Total deposits: $3.43B	Total deposits: $2.66B	Total deposits: $7.60B

Data compiled Jan. 8, 2025.
* US banks and thrifts with total assets between $3 billion and $10 billion as of Sept. 30, 2024.
Source: S&P Global Market Intelligence.

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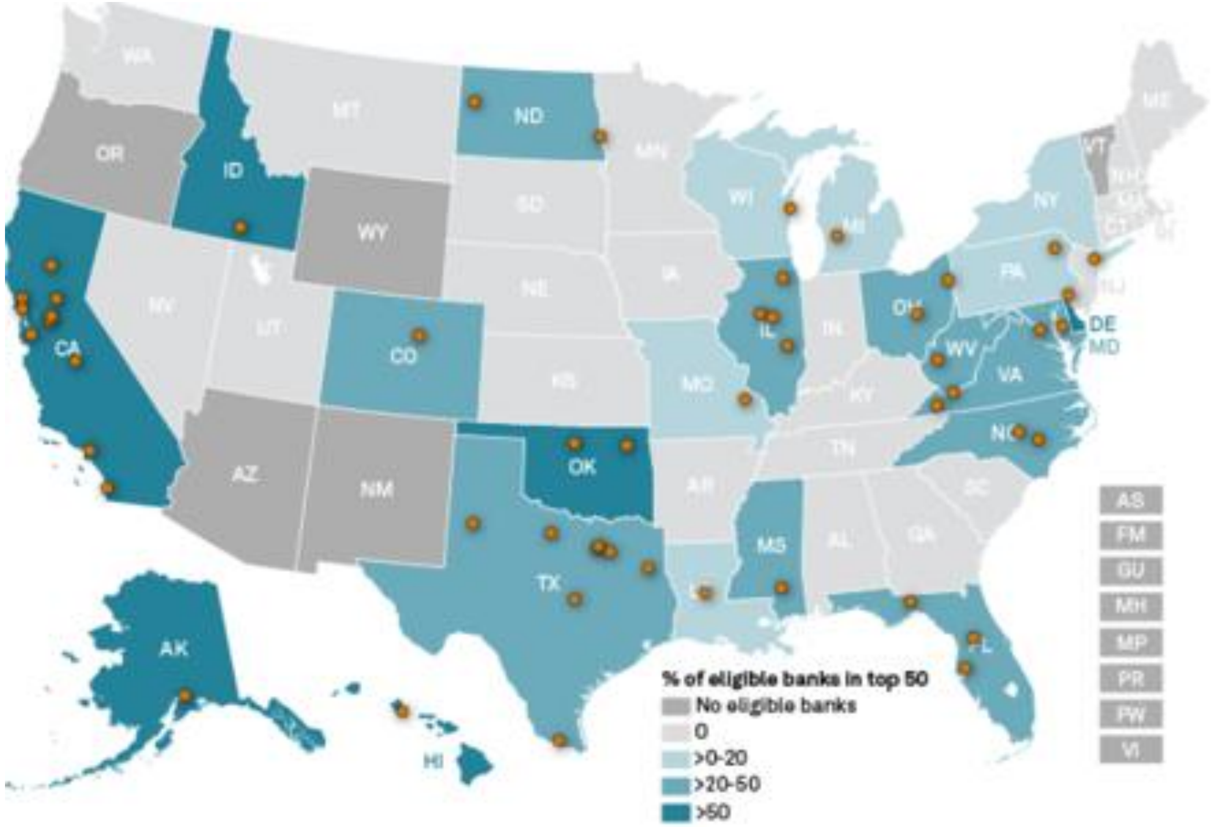
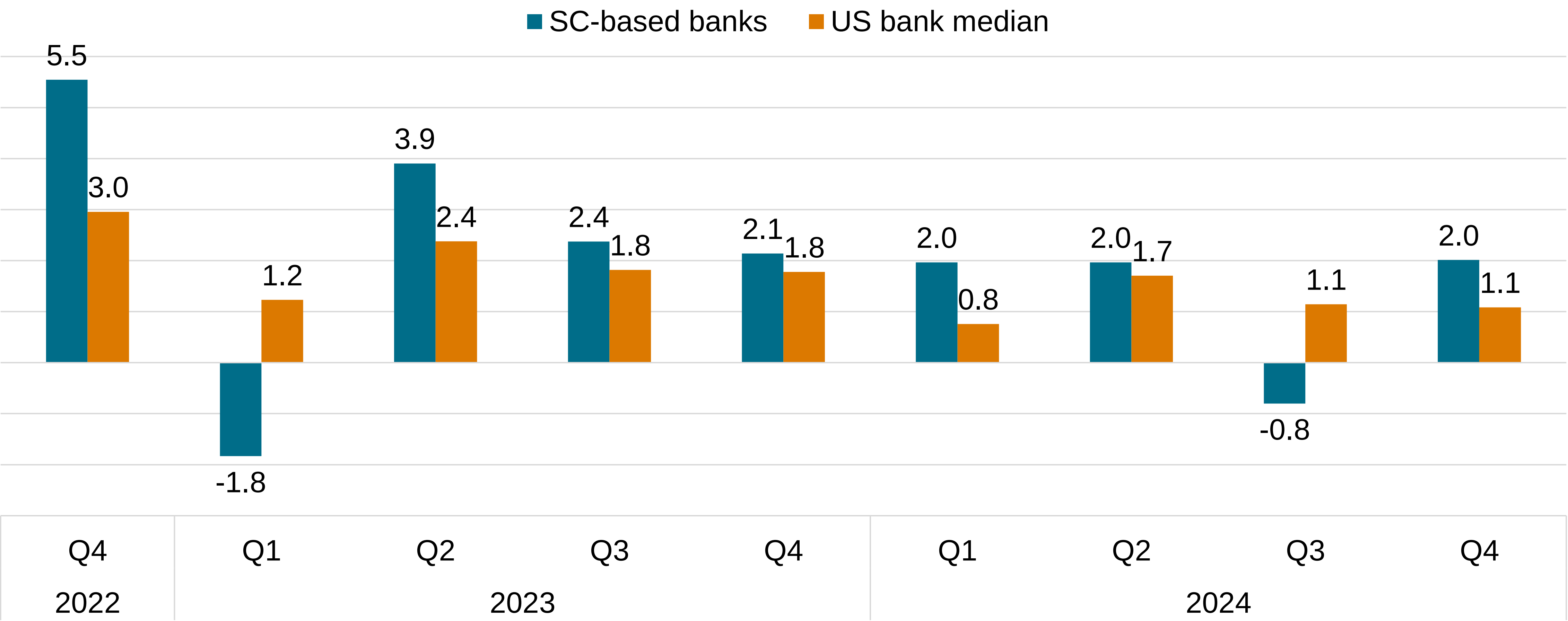
Themes among large community bank rankings

- 10 banks in the top 50 were based in California.
- 8 banks in the top 50 were based in Texas.
- 4 banks in the top 50 were based in Illinois.
- 12 banks in the top 50 completed an acquisition in the last two years.
- 5 banks had a banking-as-a-service business.
- 4 banks had an uninsured deposit concentration over 50%.



Pipelines are reportedly stronger, but loan growth remains fairly slow

QOQ changes in US bank aggregate asset composition (%)



Data compiled Feb. 12, 2025.
Analysis includes US commercial banks, savings banks, and savings and loan associations. Nondepository trusts and companies with a foreign banking organization charter are excluded.
* Represents the median change, not the change in the median, for each respective period.
Data based on regulatory filings as of Dec. 31, 2024.
Source: S&P Global Market Intelligence.

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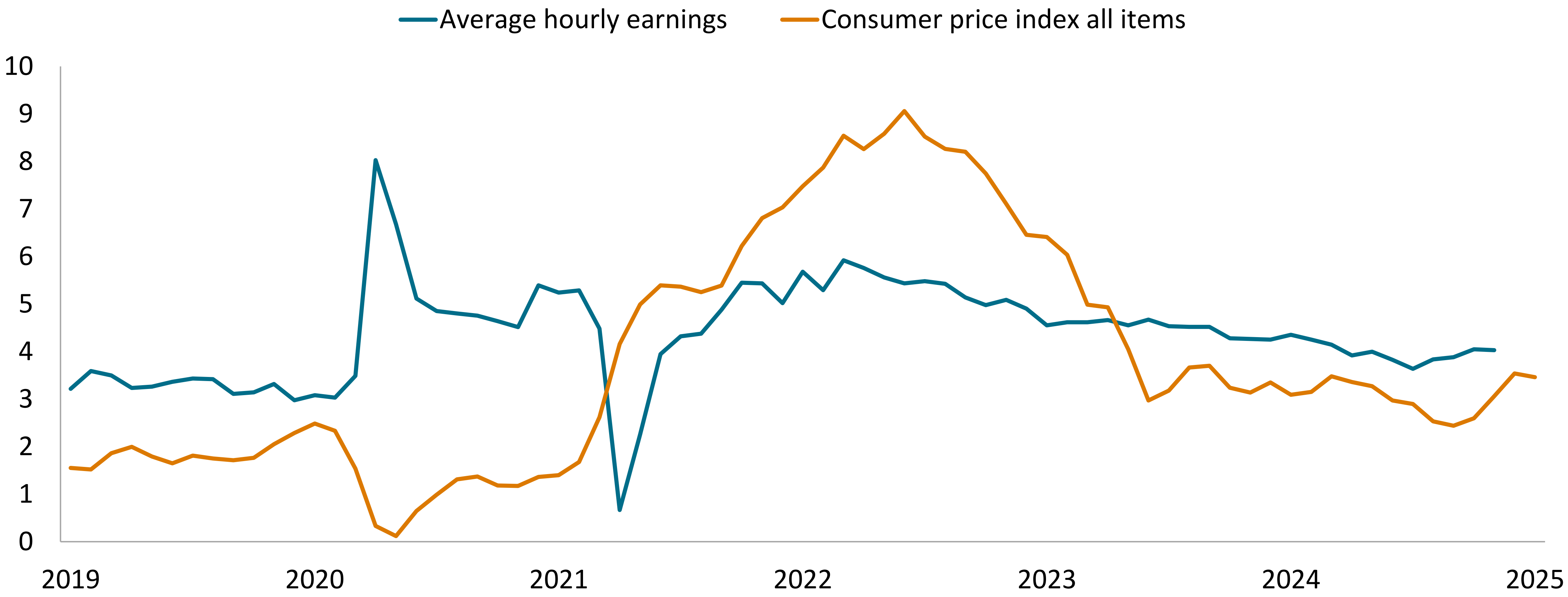
Wages barely grow at a quicker clip than consumer prices since 2020 (%)

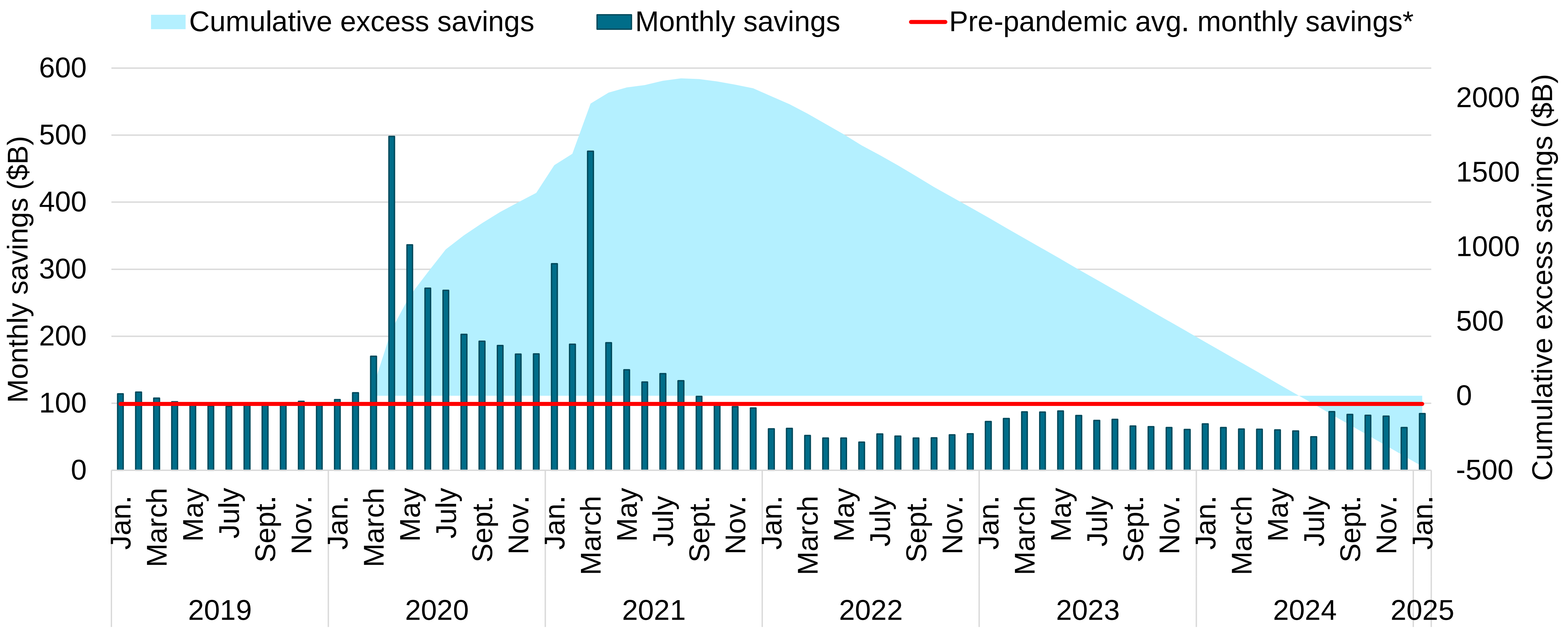
YOY change: January 2019–January 2025



Data accessed March 11, 2025.
Consumer price index includes year over year change in non-seasonally adjusted consumer price index for all items, while average hourly earnings includes seasonally adjusted data.
Source: US Bureau of Labor Statistics.

Consumers have spent excess savings

Cumulative aggregate pandemic-era excess savings



Data compiled Dec. 31, 2024.
*Represents the average monthly savings from Jan. 2019-Feb. 2020.
Source: Source: Bureau of Economic Analysis , San Francisco Federal Reserve

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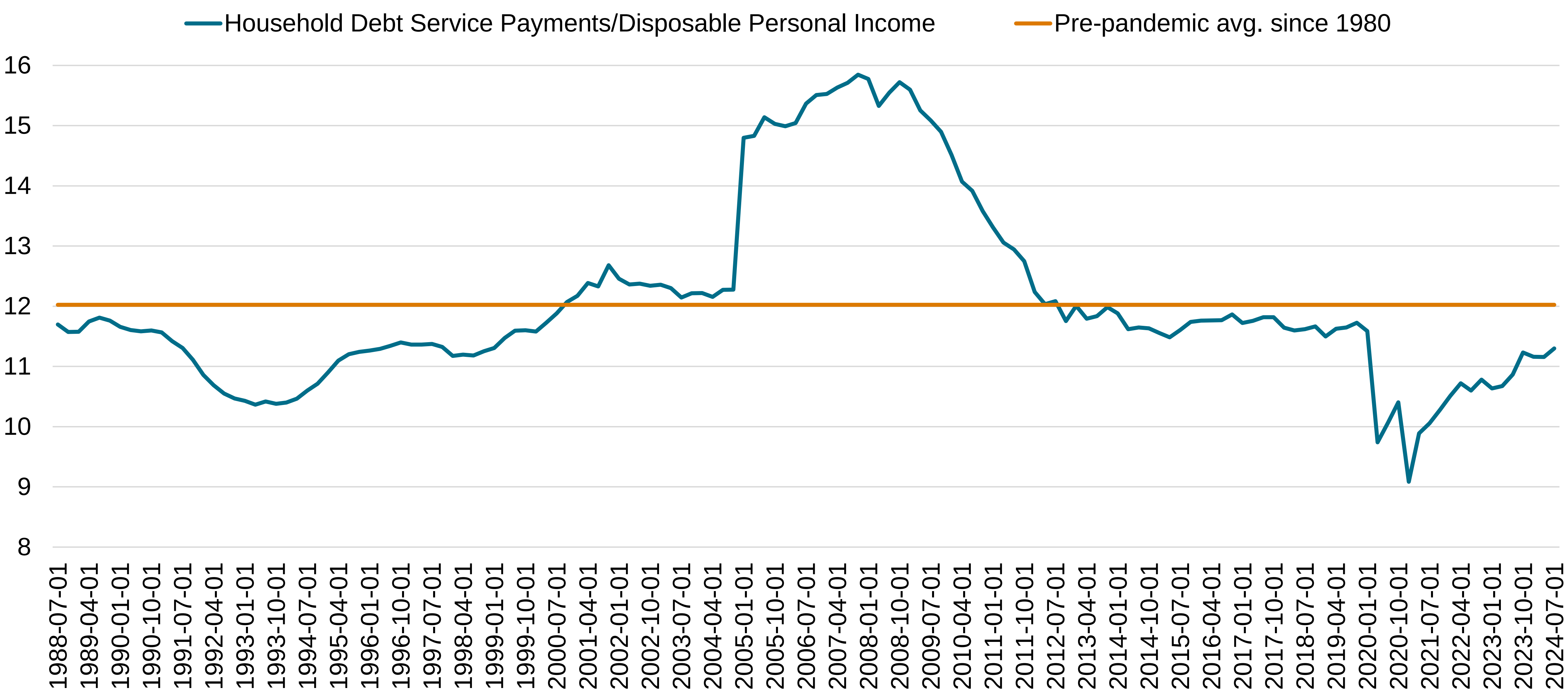
Consumer debt remains below historical levels (%)



Data compiled Dec. 31, 2024.
Source: Federal Reserve

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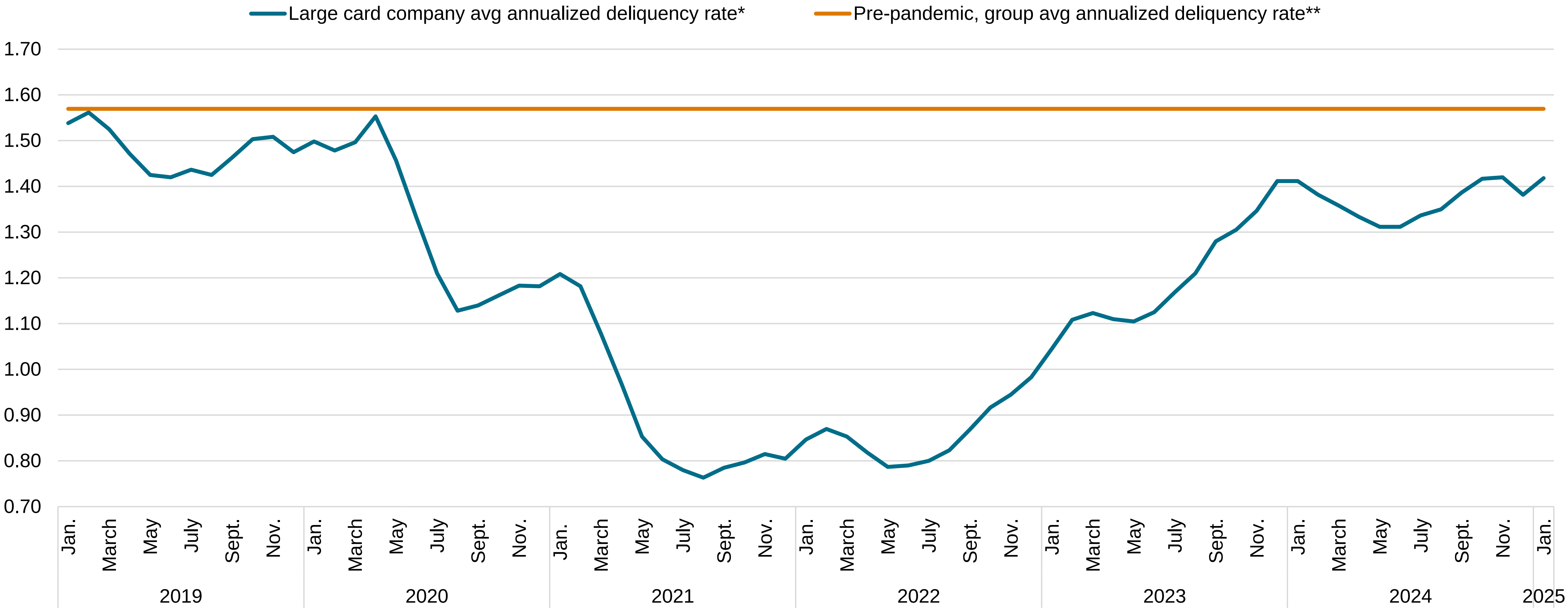
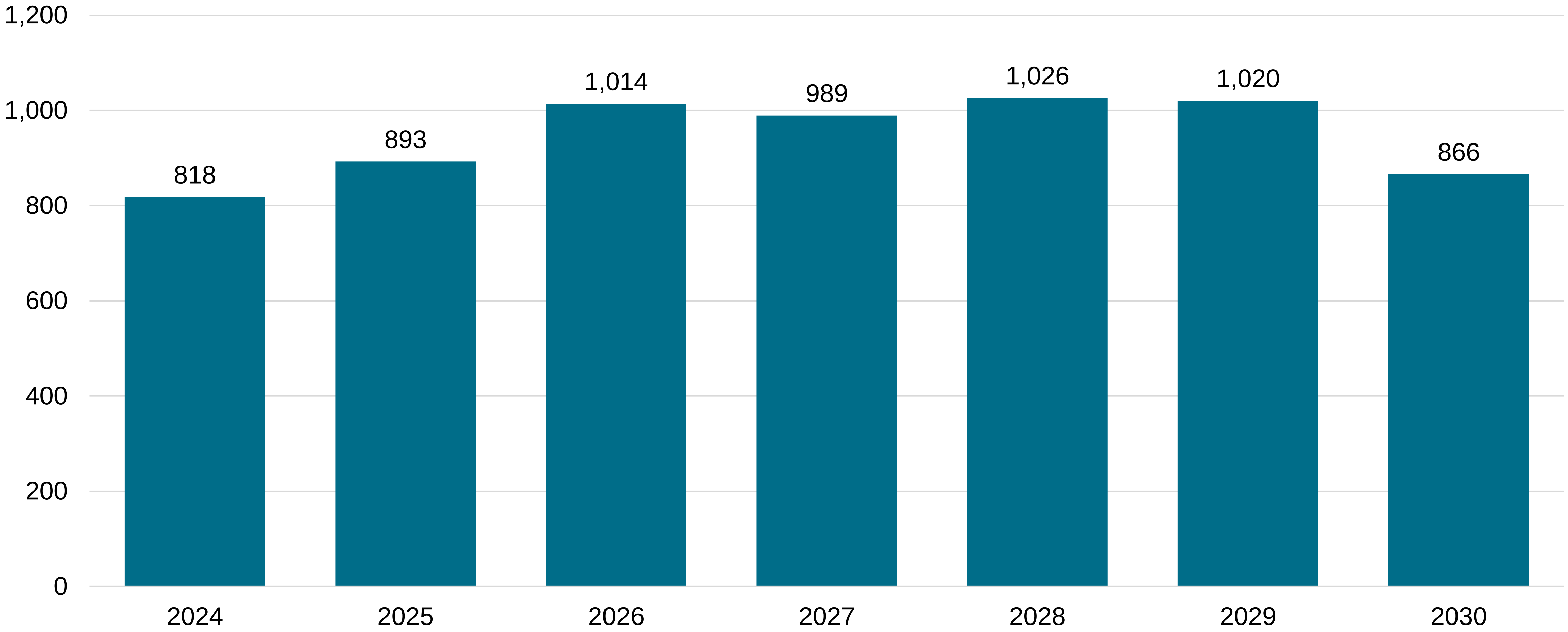
Credit card delinquencies 30+ days (%)



Data compiled Feb.. 19, 2029.
*Average of delinquency rates among American Express Co., Bank of America Corp., Capital One Financial Corp., Citigroup Inc., Discover Financial Services and JPMorgan Chase & Co.
**Average of the group average delinquency rate from 2013-2019
Sources: S&P Global Market Intelligence

Nearly $900B of US commercial real estate mortgages are estimated to mature in 2025

Estimated CRE maturities across property types ($B)

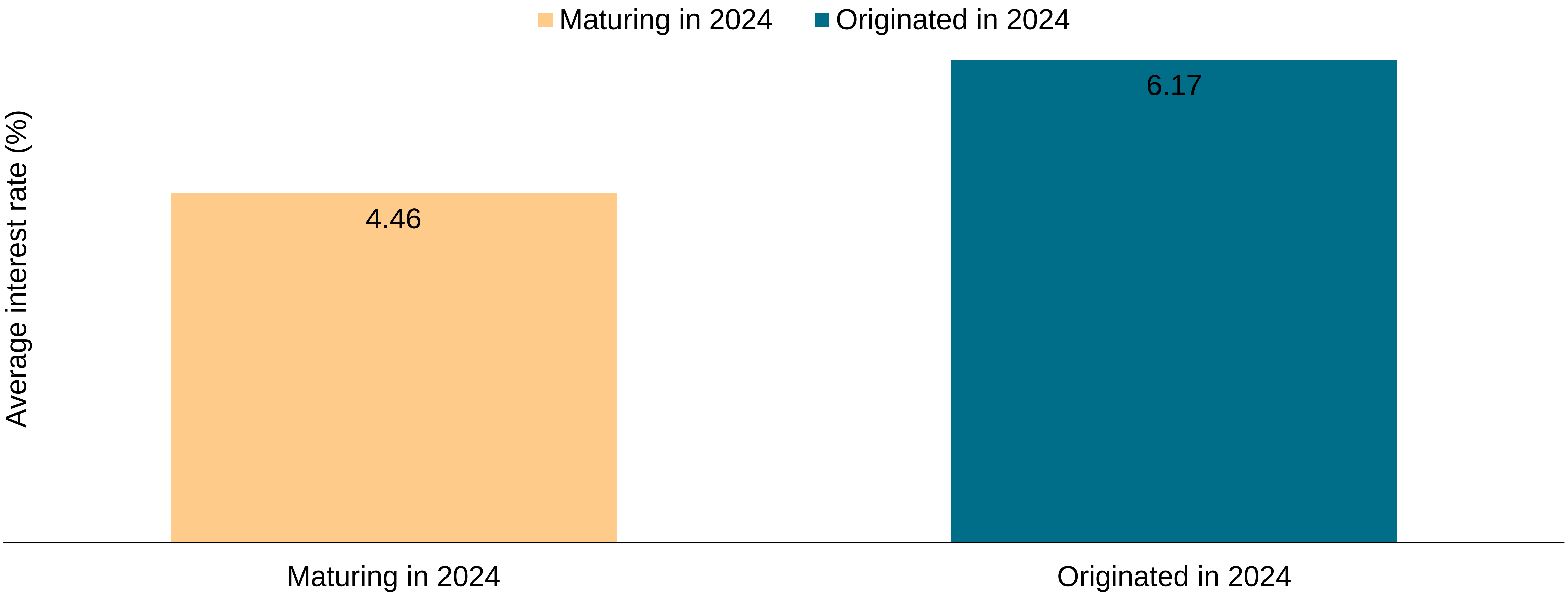


Data compiled Nov. 14, 2024.

Represents the aggregation of 3.6 million commercial real estate property mortgages, sourced from various tax filings from approximately 75% of US counties. While roughly 60% of the loans were originally missing a maturity date, we used a random forest model to impute the missing values. Since the random forest model varies each time it is run, the values shown represent averages across five runs. The raw data does not include roughly 25% of counties, so we created another model using gross county product and the number of properties in the county to estimate the total mortgage amounts in the missing counties. Ultimately, these were relatively minimal amounts compared to the overall market.

Source: S&P Global Market Intelligence.

Average interest rate on commercial real estate mortgages originated in 2024 is nearly 200 basis points higher than mortgages maturing in 2024



Data compiled Nov 14, 2024.

Data represents the aggregation of 3.6 million commercial real estate property mortgages, sourced from various tax filings from approximately 75% of US counties. While roughly 60% of the loans were originally missing a maturity date, analysis uses a random forest model to impute the missing values. Since the random forest model varies each time it is run, the values shown represent averages across five runs.

The raw data does not include roughly 25% of counties, so we created another model using gross county product and the number of properties in the county to estimate the total mortgage amounts in the missing counties. Ultimately, these were relatively minimal amounts compared to the overall market.

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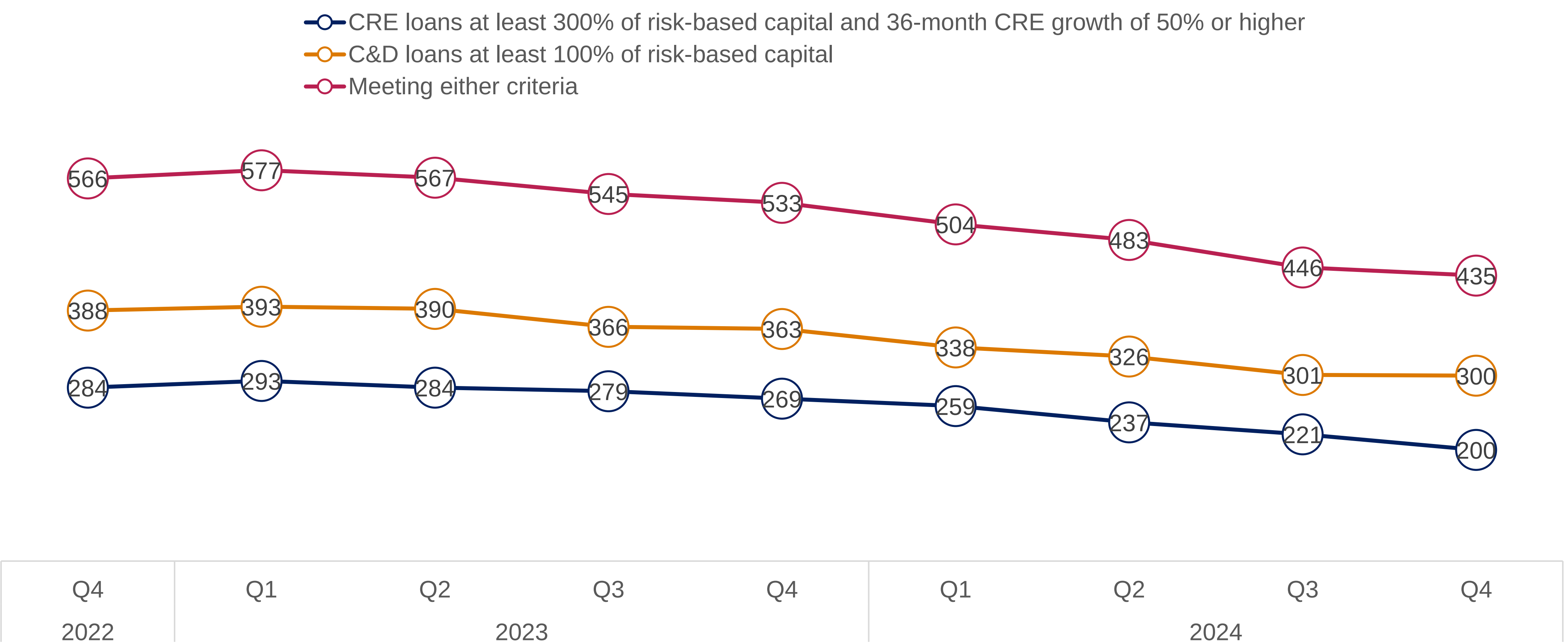
Regulators subjecting banks with elevated CRE exposures to greater scrutiny

Number of US banks exceeding 2006 CRE loan concentration guidance (actual)



Data compiled Nov. 18, 2024.
CRE = commercial real estate; C&D = construction and development; ALLL = allowance for loan and lease losses.
Analysis includes operating and historical US commercial banks, savings banks, and savings and loan associations. Nondepository trusts and companies with a foreign banking organization charter are excluded.
Since the first quarter of 2020, regulators have recommended using Tier 1 capital plus the entire ALLL as the denominator in credit concentration calculations because of many banks qualifying for and opting into the community bank leverage ratio framework. Banks adopting the current expected credit loss model should use the portion of the credit losses attributed to loans and leases plus Tier 1 capital.
Companies that met both criteria are included in the totals for each criterion, causing overlap between the totals of each criterion.
Data based on regulatory filings.
Source: S&P Global Market Intelligence.

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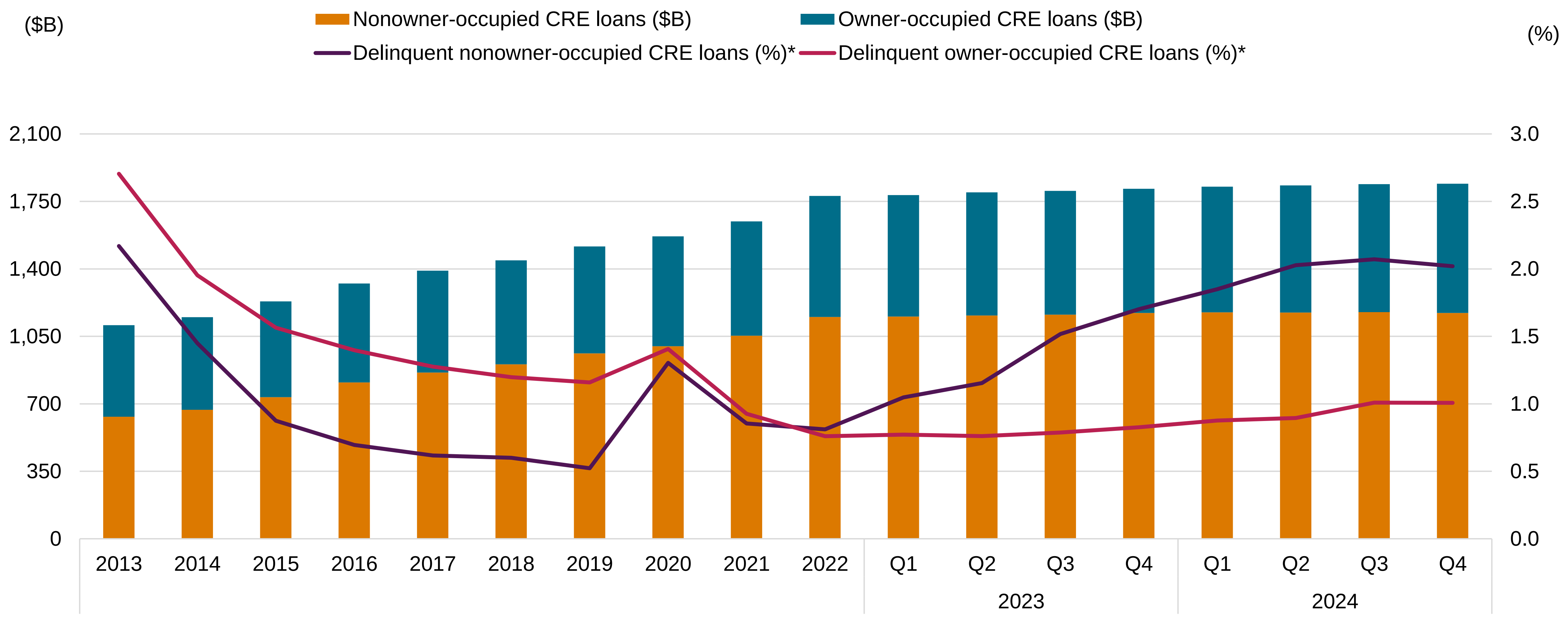
Commercial real estate loan delinquency at US banks



Data compiled Feb. 19, 2025.
CRE = commercial real estate; NCOs = net charge-offs.
Analysis includes US commercial banks, savings banks, and savings and loan associations. Excludes nondepository trusts and companies with a foreign banking charter.
Data based on regulatory filings.
* Delinquent loans include loans 30-plus days past due or in nonaccrual status.
Source: S&P Global Market Intelligence.

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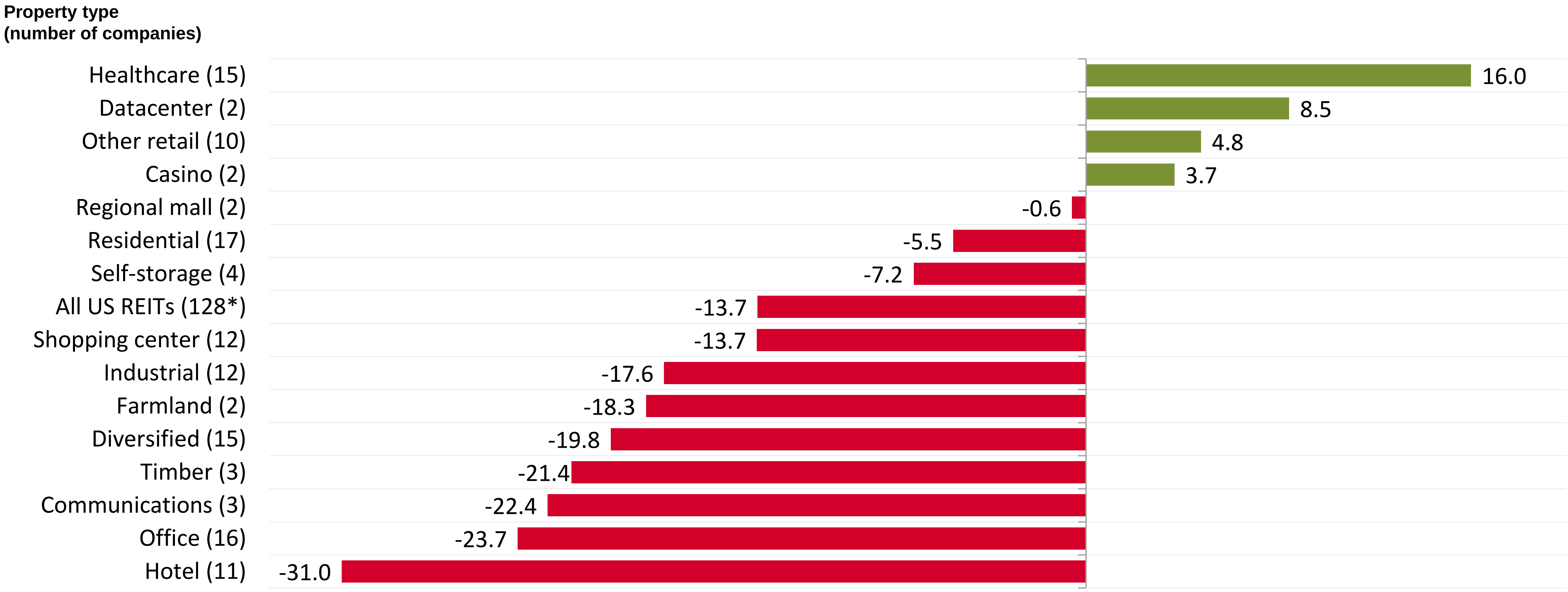
CRE loan breakdown by type, assets and region, Q4 2024

			Delinquent CRE loans*					
	CRE loans		Owner-occupied		Nonowner-occupied		Nonowner-occupied CRE NCOs/avg. nonowner-occupied CRE loans (%)	
By asset size	Total ($B)	Nonowner-occupied (%)	Q4 2024 (%)	QOQ change (bps)	Q4 2024 (%)	QOQ change (bps)	Q4 2024 (%)	QOQ change (bps)
Less than $3B	452.71	58.2	1.11	1	0.99	6	0.02	-4
$3B - $10B	303.66	65.8	0.90	4	0.78	-7	0.07	1
$10B - $100B	570.03	64.9	0.83	-3	1.04	12	0.22	2
Greater than $100B	500.88	65.7	1.19	0	4.72	-25	1.34	17
By region (<$10B in total assets)								
South Central	118.50	60.9	1.11	10	1.15	6	0.07	4
Southeast	134.37	58.5	0.99	4	0.88	3	0.03	4
West	114.26	63.3	1.13	8	0.66	-14	-0.04	-8
Midwest	230.03	58.4	0.94	-7	0.84	2	0.06	-4
Northeast	159.21	66.4	1.09	4	1.00	3	0.05	-3

Data compiled Feb. 19, 2025.
CRE = commercial real estate; NCOs = net charge-offs.
Analysis includes US commercial banks, savings banks, and savings and loan associations. Excludes nondepository trusts and companies with a foreign banking charter.
Data based on regulatory filings.
* Delinquent loans include loans 30-plus days past due or in nonaccrual status.
Source: S&P Global Market Intelligence.

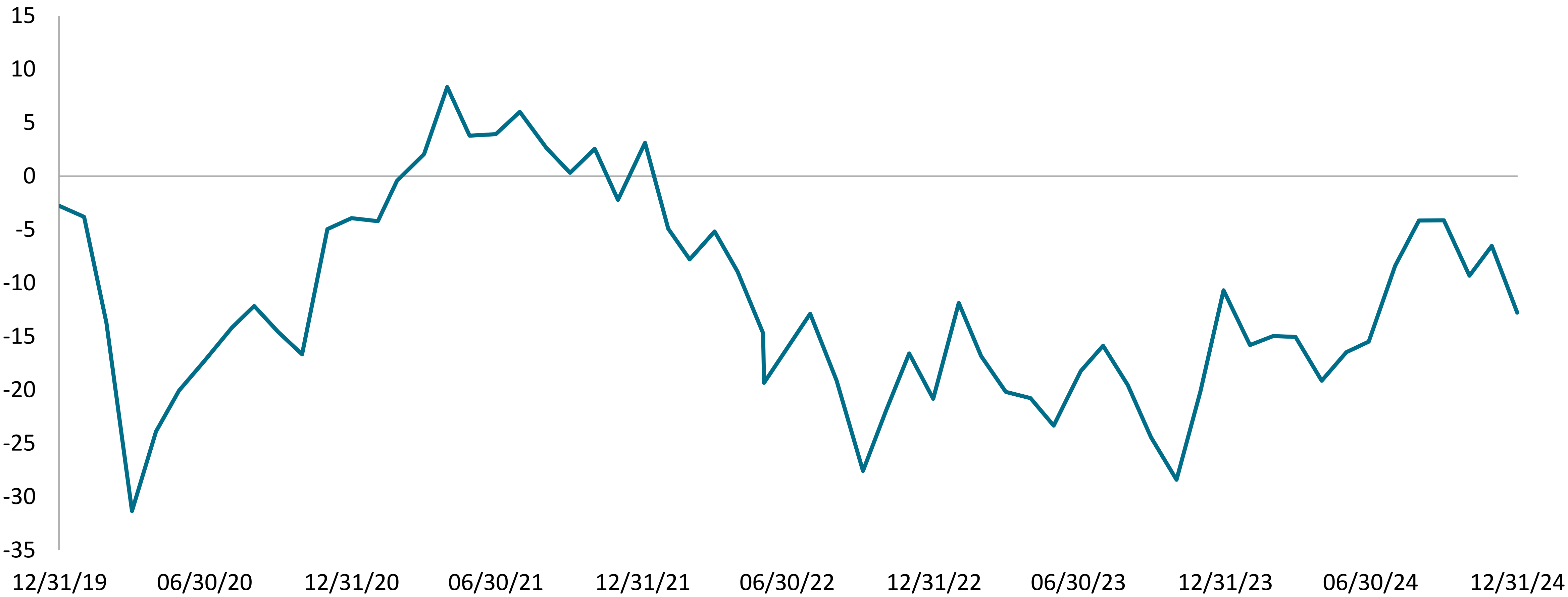
Median premium (discount) to NAV as of Feb. 28, 2025 (%)



Data compiled March 3, 2025.
NAV = net asset value.
Includes equity real estate investment trusts that trade on the Nasdaq, NYSE or NYSE American with market capitalizations of at least $200 million.
Other retail includes outlet centers and single tenant; residential includes multifamily, single family and manufactured homes.
* Includes two additional specialty REITs that are not reflected in a property type category.
Source: S&P Global Market Intelligence.

Median premium (discount) to net asset value (%)

All US REITs



Data compiled Jan. 2, 2025.
Includes equity real estate investment trusts that trade on the Nasdaq, NYSE or NYSE American with market capitalizations of at least $200 million.
Source: S&P Global Market Intelligence.

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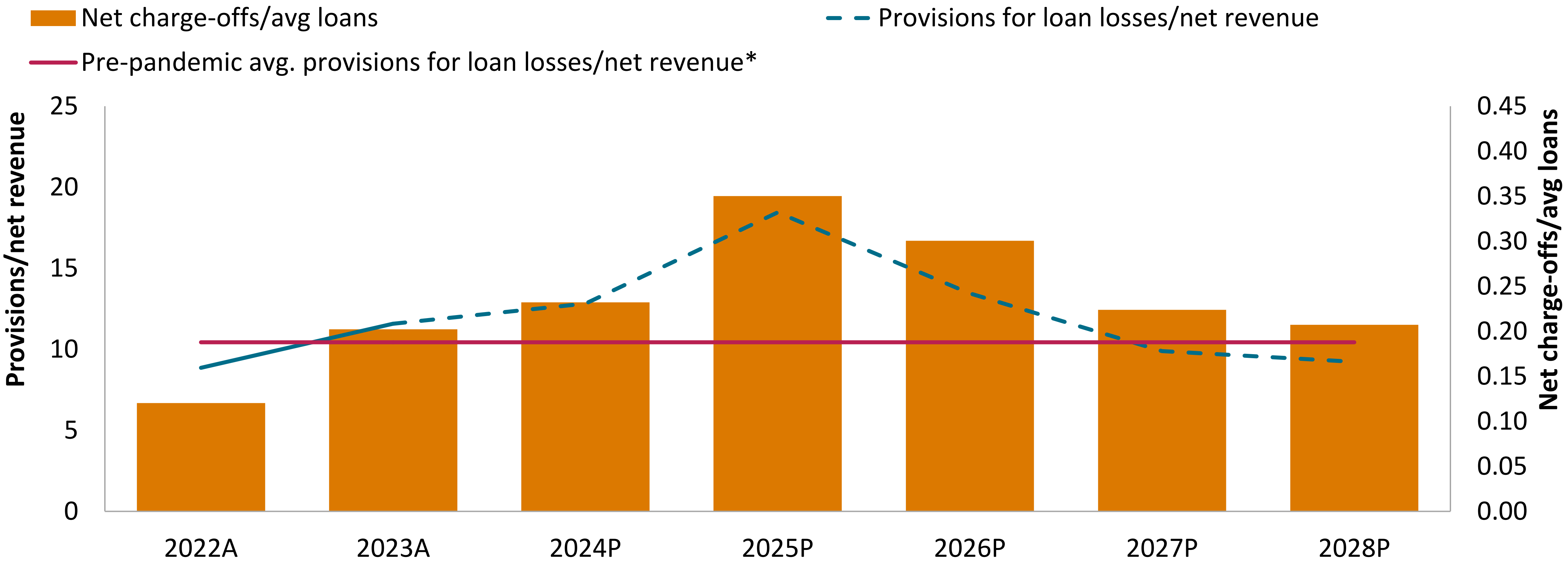
Banks face notably higher credit costs in 2025, but the hit is manageable (%)



Data compiled March 5, 2025.
A = actual; P = projected.
Community banks defined as institutions with less than $10 billion in assets in a given period.
YTD = First nine months of 2024
* Average of provisions for loan losses/net revenue from 2014-2019. Net revenue = net interest income + noninterest income - noninterest expense.
Source: S&P Global Market Intelligence, proprietary estimates.

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Community bank earnings rising in the face of higher credit costs

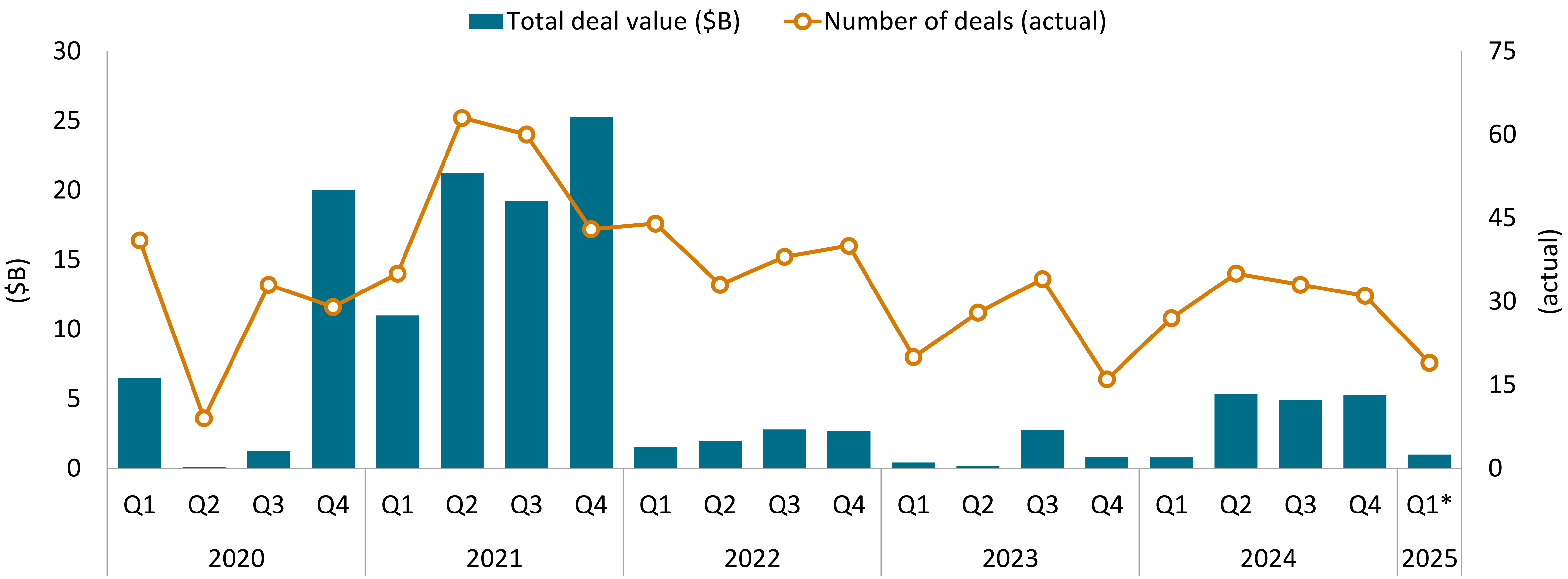
Community bank aggregate profitability metrics (%)

	2024A	2025P	2026P
Efficiency ratio	63.39	61.87	61.33
ROAA	1.07	1.07	1.17
Net interest margin	3.39	3.51	3.54
YOY earnings growth	0.0	5.5	11.7

Data compiled March 5, 2025.
A = actual; P = projected;
Sources: S&P Global Market Intelligence; proprietary estimates

Bank M&A has been slow but shows signs of picking up

Quarterly deal volume for US banks



Data compiled March 3, 2025.
Analysis limited to the US-based whole-company and franchise bank and thrift transactions announced between Jan. 1, 2019, and March 3, 2025. Government-assisted, branch and minority-stake deals, as well as thrift merger conversions and terminated transactions, are excluded from the analysis.
* Quarter to date through Feb. 28, 2025.
Sources: S&P Global Market Intelligence

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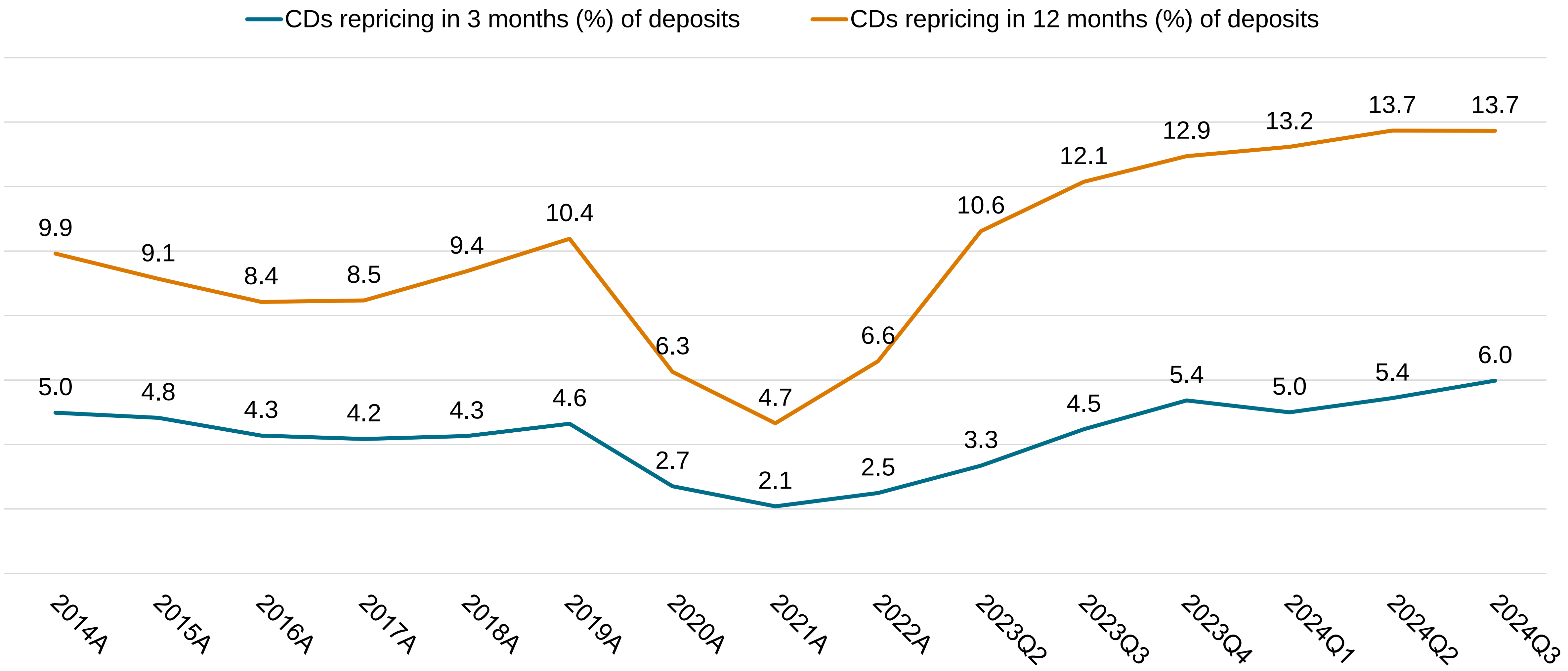
Q&A

Nathan Stovall
Director, Financial Institutions Research
S&P Global Market Intelligence
Nathan.Stovall@spglobal.com

Appendix

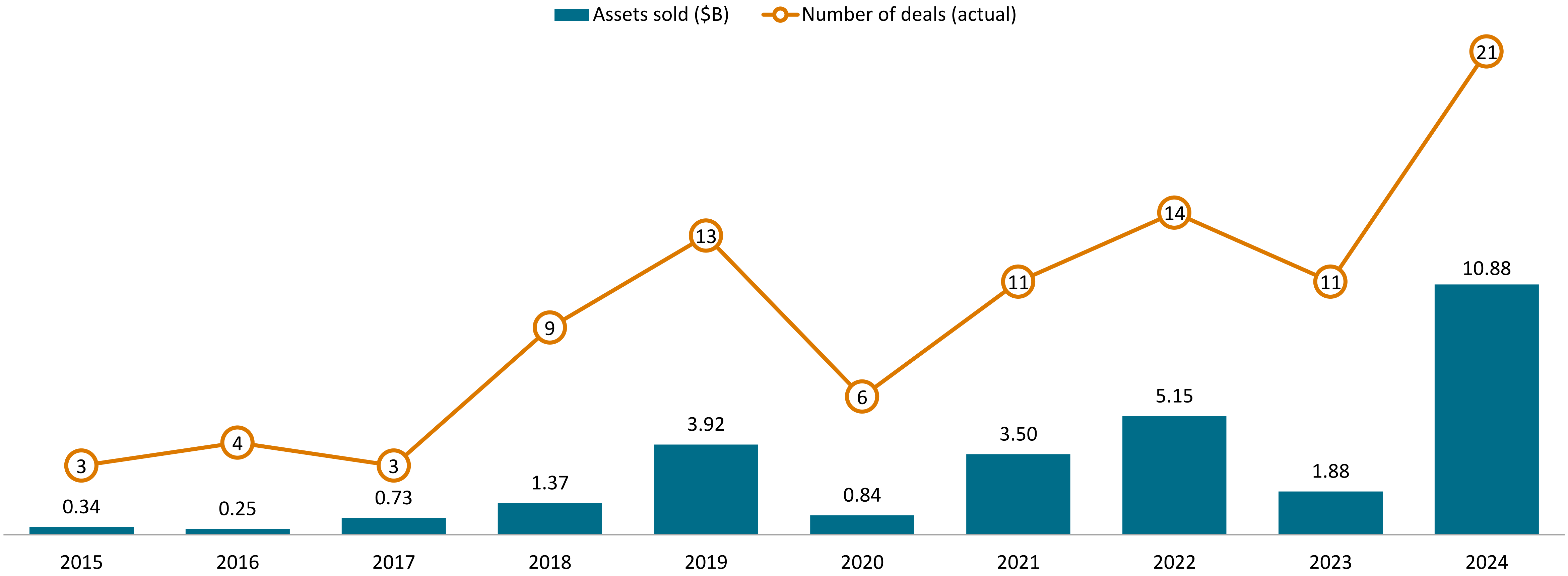
Many CDs maturing in Q3 2025 at US community banks



Data compiled March 7, 2025.
CD = certificate of deposit.
Data based on regulatory filings
Community banks defined as institutions with less than $10 billion in assets in a given period.
Source: S&P Global Market Intelligence.

Credit union-bank deals reach another record-setting mark in 2024

US credit union-bank M&A deals announced since 2015



Data compiled Dec. 31, 2024.
Analysis limited to whole-bank and franchise deals announced between Jan. 1, 2015, and Dec. 31, 2024, with a US credit union buyer and US bank or thrift target; excludes branch, government-assisted, minority-stake and terminated deals, as well as thrift merger conversions.
Total assets for the targets are as of the most recent quarter before the deals' announcements.
Source: S&P Global Market Intelligence.

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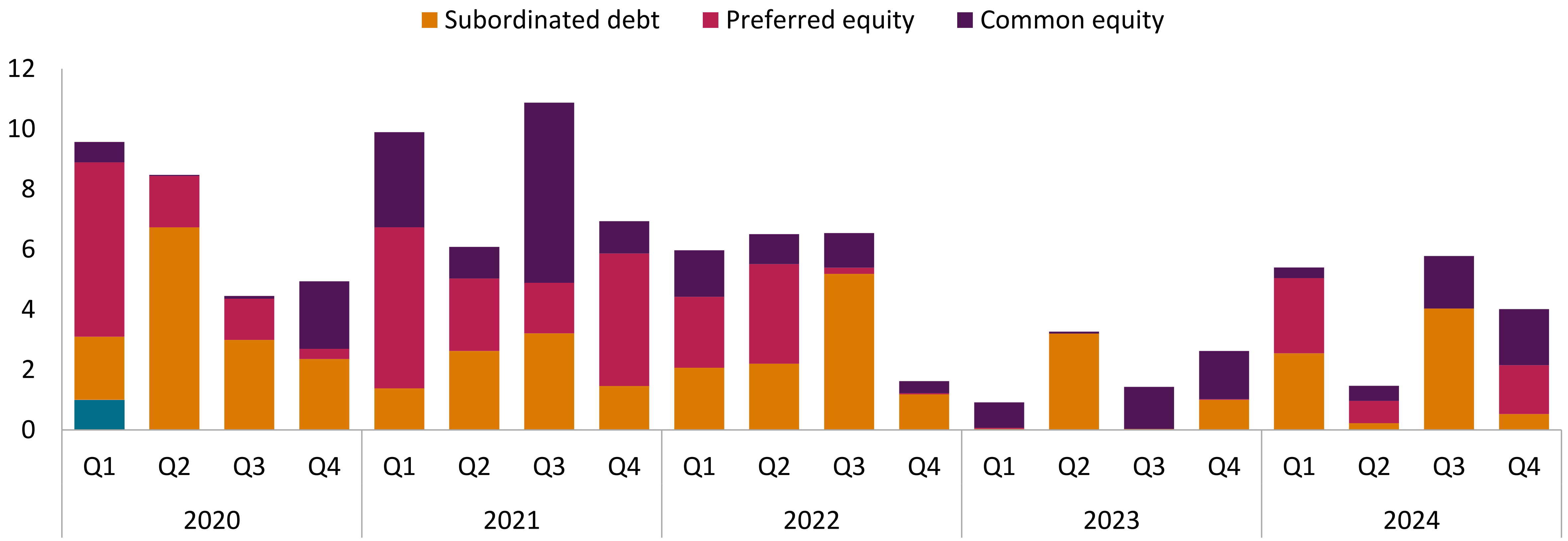
Quarterly comparison of US bank capital raises ($B)



Data compiled Jan. 13, 2025.
Consists of offerings by US banks and thrifts completed between Oct. 1, 2021, and Dec. 31, 2024; excludes exchange offerings.
Offering size reflects gross proceeds raised by the company in instances where offerings had primary and secondary components.
Debt does not include medium-term notes, branded notes or structured-finance issues.
Data compiled on a best-efforts basis.
Source: S&P Global Market Intelligence.

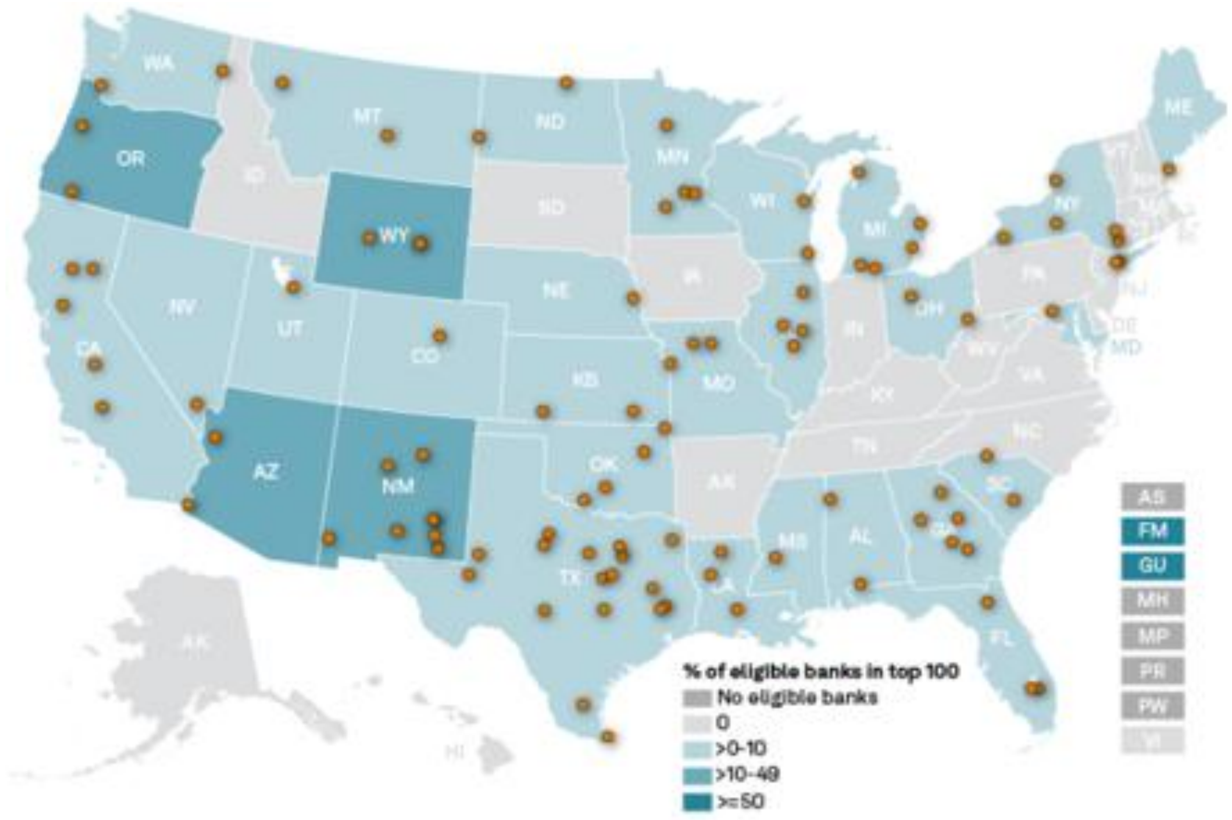
Top 3 deposit franchises among small community banks with assets below $3B

1st	2nd	3rd
Titan Bank NA	**Western Bank, Artesia, New Mexico**	**Tejas Bank**
Dallas, TX	Artesia, NM	Monahans, TX
Branches: 1	Branches: 1	Branches: 1
Gross loans and leases: $296.5M	Gross loans and leases: $146.7M	Gross loans and leases: $123.0M
Total deposits: $615.1M	Total deposits: $340.4M	Total deposits: $209.2M

Data compiled Jan. 8, 2025.
* US banks and thrifts with total assets between $3 billion and $10 billion as of Sept. 30, 2024.
Source: S&P Global Market Intelligence.

Themes among small community bank rankings

- 17 of the top 100 banks were based in Texas
- 8 of the top 100 banks were based in New Mexico
- 7 of the top 100 banks were based in New York
- Just one bank in the top 100 completed an acquisition in the last two years.
- 3 banks had a banking-as-a-service business.



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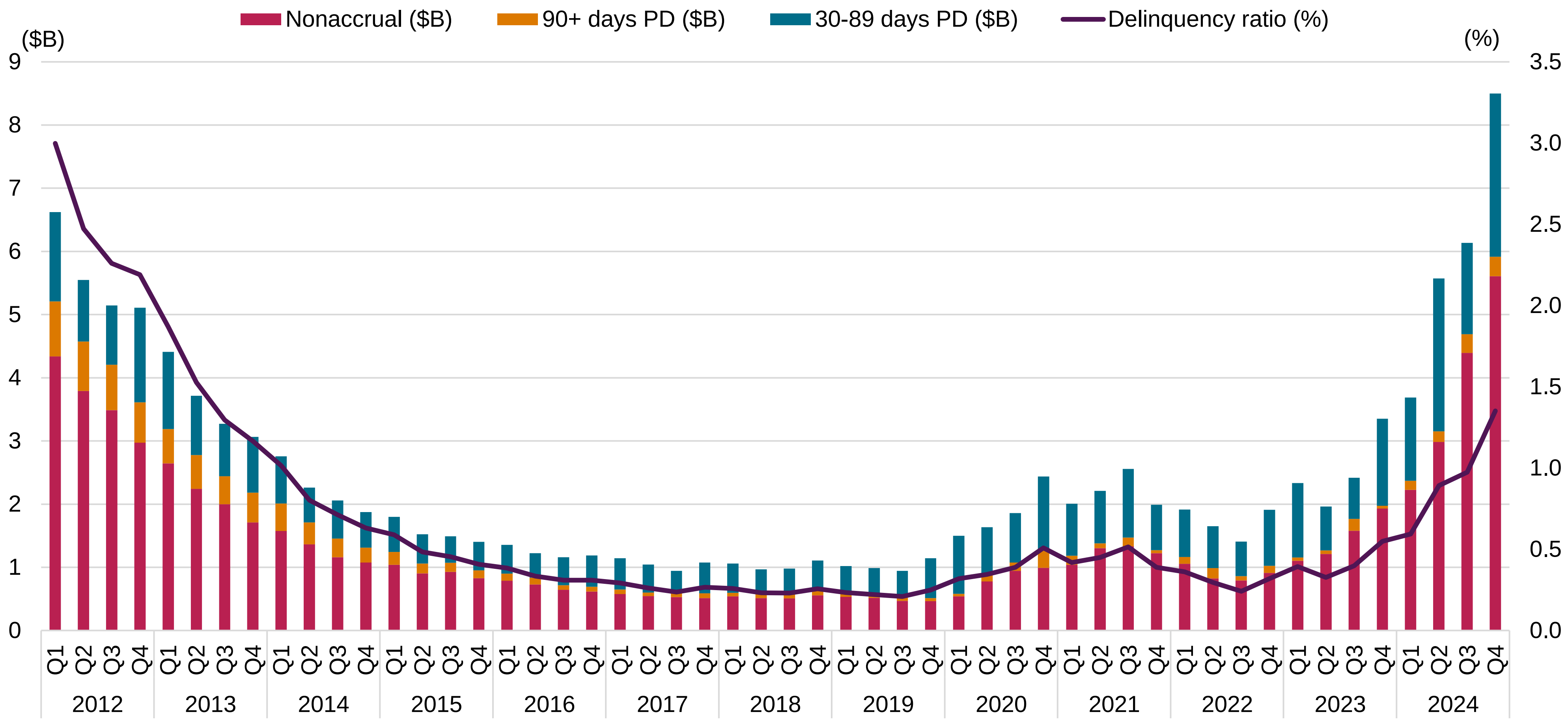
Multi-family delinquencies climbing off the bottom
Past due and nonaccrual multifamily loans



Data compiled Feb. 19, 2025.
PD = past due.
Analysis includes US commercial banks, savings banks, and savings and loan associations. Excludes nondepository trusts and companies with a foreign banking organization charter.
Data based on regulatory filings.
Source: S&P Global Market Intelligence.

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