Community Banking Bulletin

Highlight: Unrealized losses mount across securities portfolios

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As a result of recent interest rate increases and the lengthening of maturities in securities portfolios during the pandemic, unrealized positions in available-for-sale (AFS) securities have dropped to record lows.

- At March 31, 2022, unrealized losses in AFS securities across community banking organizations[1] (CBOs) totaled $23.4 billion, or 8.4 percent of tier 1 capital, a historic high. Among CBOs, 90 percent of banks reported an unrealized loss position, an increase from only 20 percent one year prior.
- CBOs extended the maturity and repricing dates of asset portfolios to maintain profitability throughout the pandemic. Growth in securities was driven by increases in longer-term securities, and as such, holdings with a maturity or repricing date above 3 years have now reached record highs. Assets with longer dated repricing or maturity lose greater value in a rising rate environment, creating unrealized losses in securities portfolios.
- Unrealized gains or losses in AFS securities affect tangible capital, but for most CBOs, are not reflected in the regulatory calculation of tier 1 capital.[2] However, if all unrealized positions were included in regulatory capital, Tier 1 Leverage Ratios at CBOs would decline by an average of 99 basis points.
- Increases in securities volumes since the onset of the pandemic have supported asset-based liquidity levels, with liquid assets totaling 26 percent of total assets. However, banks may no longer consider the liquidation of securities a preferred funding option as losses would then be recognized in earnings. Even so, when excluding securities from the calculation of liquid assets for this reason, liquid asset levels still represent 11 percent of total assets.

Questions or comments? Please contact KC.SRM.SRA.CommunityBankingBulletin@kc.frb.org.

Endnotes

[1] Community banking organizations are defined as having $10 billion or less in total assets.

[2] CBOs can elect to opt-out of including accumulated other comprehensive income (AOCI) in regulatory capital. For most CBOs, unrealized gains or losses in AFS securities are a large component of AOCI.