



Community Banking Bulletin

Highlight: Losses in securities portfolios remain historically high

January 12, 2024

Community bank securities portfolio losses generated in the rising interest rate environment remain elevated but unrealized, as institutions are yet to liquidate securities and realize losses.

- Unrealized losses in securities portfolios at community banking organizations^[1] (CBOs) have remained at historic levels since the Federal Open Market Committee began raising rates in 2022. As of 3Q 2023, few CBOs have realized these losses through selling securities. These heightened levels of unrealized losses in the available-for-sale (AFS) securities portfolio, reflected in accumulated other comprehensive income^[2], has caused tangible equity capital to remain at depressed levels compared to historical norms, though improved from the record low in 3Q 2022.^[3]
- Recent filings of large, publicly traded financial institutions have indicated more institutions are beginning to sell securities and realize losses as a strategic move to restructure the balance sheet and improve future earnings by reinvesting in higher yielding assets or paying down more expensive wholesale funding.
- While realized losses at CBOs from the sale of securities remain at historic norms and overwhelmingly within the AFS securities portfolio, more CBOs may begin to consider strategic restructuring, similar to larger banks.

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

Endnotes

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

^[2] HTM securities are carried at amortized cost, thus changes in fair value do not affect accumulated other comprehensive income.

^[3] See [Highlight: FHLB borrowings increase and tangible common equity remains depressed](#)