Third Quarter 2024 Banking Conditions

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Margins improve, but funding profiles remain in focus.

District Banking Conditions publications are produced quarterly and provide a comprehensive view of financial performance data across Tenth District commercial banks compared to national trends.

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Executive Summary

District bank earnings rebounded in the third quarter driven by improvement in the net interest margin (NIM) (See Charts A4 and A6). The aggregate quarterly NIM across District banks increased to 3.5 percent, its highest level in 6 quarters (see Chart All). However, while the NIM has recovered from compression seen throughout 2023, margins remain below historical average. Recent NIM improvement has been driven by continued increases in yields on earning assets, which are now at 16-year highs. At the same time, cost of funds, particularly deposits, continues to increase, though at a slowing rate (see Supplemental Chart 1). Noninterest items had a lesser, though negative, impact to earnings performance. Overhead costs increased quarter-over-quarter, while noninterest income remains well below historical levels (see Charts A17 and A19). Additionally, while provisions were held stable, charge-offs increased, particularly among District banks under $250 million, and are now above 10-year averages (see Chart B3).

Assets grew moderately during the third quarter, primarily attributable to increases in cash and reserve holdings, which increased 20 percent quarter-over-quarter (see Chart C3). However, in District banks under $250 million, growth was instead driven by loans (see Chart C6). Securities portfolio balances remained relatively stable, and unrealized losses on securities improved significantly, impacted by market rate decreases and continued shortening of asset maturity/repricing dates (see Charts D11, D2, and D4). As a result of these balance sheet shifts, the District liquid asset ratio increased to 14.6 percent though remains below historical average.

Balance sheet growth during the quarter was funded in large part by increasing core deposits, which grew 1.5 percent quarter-over-quarter, though growth in core deposits was primarily seen across District banks above $1 billion (see Supplemental Chart 2). Brokered deposits and large time certificates of deposit also increased modestly (5 percent), while borrowings declined notably (-13 percent). Overall noncore and wholesale funding levels declined slightly though remain elevated relative to historical norm (see Charts D12 and D14). Additionally, capital levels improved during the quarter; the District Tier 1 Leverage ratio increased to 10.0 percent, which is above the pre-pandemic average (see Chart A2).

Credit quality concerns remain low, though noncurrent loans continue a slow increasing trend among banks under $1 billion, primarily driven by an uptick in nonaccrual loans (see Chart B7). Commercial real estate (CRE) and consumer noncurrent rates have experienced the greatest increase year-over-year, though deterioration has slowed in recent quarters (see Charts B8 and B10). Allowance levels as a percent of total loans declined slightly during the quarter, despite muted loan growth, as charge-offs slightly exceeded provisions across District banks (see Chart B5 and B3).

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