Highlight: Net interest margins improve but remain below historic levels

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Community banks' net interest margins rose during the recent period of monetary policy tightening but remain below historic averages due to significantly elevated funding costs.

- Community banking organizations' (CBOs) interest income and expense generally rise and fall with broader market interest rates, such as the federal funds rate. During the most recent period of monetary policy tightening, aggregate CBO interest income and expense as a percentage of assets increased by 214 basis points and 189 basis points, respectively, resulting in a 25 basis point increase in median net interest margin.[1]
- The aggregate CBO net interest margin has benefitted from higher interest rates, rising to 3.42percent in 3Q 2024; however, it remains well below its historic average of 3.69 percent due largely to elevated deposit-related interest expense relative to historic levels.
- While the aggregate CBO net interest margin is below its historic average, overall earnings have been supported by healthy credit performance and below-average overhead expenses.

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

Endnotes

[1] Community banks are defined as having less than $10 billion in total assets.