



## Highlight: Funding profiles benefit from core deposit growth

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Core deposit growth enabled community banks to reduce reliance on wholesale funds in 2024. The shift in funding mix and decreases in market rates contributed to a decline in funding costs late in the year.

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- Following heightened deposit competition and increased reliance on non-core funds across community banking organizations (CBOs)<sup>[1]</sup> in 2023, core deposits<sup>[2]</sup> increased throughout 2024. Core deposit growth was particularly strong in the fourth quarter, and as a result, the core deposit to total asset ratio increased to 72.7 percent from a 10-year low of 71.9 percent in the third quarter. However, this remains below pre-pandemic levels and down from a peak of 80.9 percent at March 2022.
- Reliance on borrowings, including Federal Home Loan Bank (FHLB) advances and other borrowings, decreased during 2024. Bank Term Funding Program loans, a 2023 emergency liquidity facility included in other borrowings, were mostly repaid by year-end 2024.<sup>[3]</sup> The wholesale funding to total asset ratio declined to 14.9 percent, its lowest level since March 2023; however, this remains above the 10-year historical average of 11.5 percent. CBOs continued to utilize and grow non-core deposit sources, including time deposits above the FDIC insurance limit and brokered deposits.
- While costs of funds continued to increase throughout most of 2024, funding costs decreased during the fourth quarter, impacted by the shift to less costly funds, as well as market rate cuts late in the year.

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### Endnotes

- <sup>[1]</sup> Community banking organizations are defined as having less than \$10 billion in total assets.
- <sup>[2]</sup> Core deposits as defined by the FFIEC Uniform Bank Performance Report include transaction accounts, savings accounts, money market deposit accounts, and non-brokered time deposits below \$250,000.
- <sup>[3]</sup> Other borrowings also include federal funds purchased, securities sold under agreement to repurchase, and other borrowings as reported on Call Report Schedule RC-M line 5b, such as Discount Window advances.