First Quarter 2025 Banking Conditions

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Net interest margins remain stable, past due and nonaccrual loans trend higher.

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

Earnings declined slightly across District banks in 1Q 2025 (Q1), as return on average assets (ROAA) fell to 1.13 percent (see Chart A6). Earnings performance varied by bank size, with ROAA at District banks under $1 billion improving, and ROAA at District banks over $1 billion declining. Overall, District bank earnings were driven by higher revenues (a result of interest expense declining more significantly than interest and noninterest income) only partially offset by increased provision expense. Net interest margin (NIM) remained stable, as quarterly District NIM remained at 3.58 percent (see Chart A11). Like earnings, NIMs also varied by bank size. District banks with assets between $1 billion to $10 billion saw NIM compression, as declines in yields exceeded declines in cost of funds, while all other District bank size groups saw NIM expansion.

District bank balance sheets grew modestly over the quarter, as economic uncertainties continue to weigh on the industry. Asset growth was primarily driven by increases in cash and due from balances, as loan growth slowed, and investment securities balances continued to decline (see Chart C3). Loan growth at District banks totaled just 3.10 percent year-over-year, and 0.20 percent quarter-over-quarter (see Chart C9). As of Q1, loans represent 63 percent of total assets, down slightly from the prior year and quarter (see Chart C6). Overall, loans grew across most loan types, apart from construction and land development (CLD) and consumer loans (see Chart C11). District liquid asset ratios also saw modest growth, improving to 15.47 percent of total assets, as interest bearing bank balances and federal funds sold experienced strong quarterly growth (see Chart D9). Unrealized losses continue to hamper available-for-sale securities, though loss positions did improve in Q1 and now total 13.72 percent of Tier 1 capital (see Chart D11).

Balance sheet growth was funded in part by increasing core deposits, which grew 1.77 percent over the quarter. Recent core deposit growth has allowed District banks to reduce wholesale and noncore funding; however (see Chart D14). Overall borrowings, including Federal Home Loan Bank (FHLB) advances, have been declining over the past few quarters, though banks over $10 billion did increase both FHLB and non-FHLB borrowings during Q1. Additionally, capital levels fell marginally, as District leverage ratios declined to 10.09 percent from 10.11 percent at year end (see Chart A2).

Asset quality concerns are growing, as delinquencies have been trending higher since 2023 (see Supplemental Chart). Total past due and nonaccrual loans represent 1.26 percent of total loans, which is just above its 10-year historical average. Over the past year, credit quality deterioration at District banks has primarily been seen in agriculture and commercial real estate (CRE) loans, though delinquencies have risen across most loan types for banks under $1 billion. Allowance for credit losses (ACL) as a percentage of loans remained relatively stable over the quarter (see Chart B5).

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