

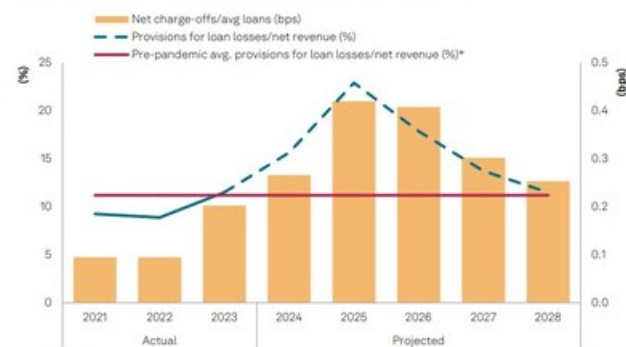
New S&P Global Market Intelligence Report Finds U.S. Community Bank Earnings are Expected to Fall 12% year-over-year in 2024

NEW YORK, June 11, 2024 /PRNewswire/ -- Margin pressure and higher credit costs are expected to weigh on U.S. community bank earnings this year, according to a new report from S&P Global Market Intelligence. The newly released 2024 *U.S. Community Bank Market Report* found U.S. community bank earnings are expected to dip 12 percent year-over-year before rebounding in 2025 and 2026.

Higher for longer interest rates have put pressure on community banks' net interest margins and put deposits in the spotlight while changing the funding profile of community banks. Rate cuts by the Federal Reserve will offer modest relief in community banks' funding costs late in 2024, but more substantial rate cuts will be needed to drive deposits costs notably lower.

"Even as the market waits for the Federal Reserve to pivot to lower rates, most banks remain in a battle for deposits as rates remain higher for longer and regulators encourage banks to maintain liquidity. That continued focus on deposits will lead to additional margin pressure for community banks in 2024," said **Nathan Stovall, director of financial institutions research at S&P Global Market Intelligence**. "When deposit pricing pressures eventually ease, community banks will face a new headwind in the form of higher credit costs, serving as a modest headwind to earnings."

Community banks face notably higher credit costs in 2025, 2026



Data compiled May 2, 2024.
* Average of provisions for loan losses/net revenue from 2014-2019. Net revenue = net interest income + noninterest income - noninterest expense.
Community banks defined as institutions with less than \$10 billion in assets in a given period.
Source: S&P Global Market Intelligence, proprietary estimates.
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Key highlights from the report include:

- Fierce deposit competition should persist amid regulatory pressures and higher-for-longer interest rates as banks place a higher value on deposits than other forms of funding.
- Community bank credit quality will slip in 2024 and weaken further in 2025 and 2026, led by higher delinquencies and losses in commercial real estate portfolios, but the deterioration will serve as a hit to earnings rather than a threat to safety and soundness for most institutions.
- Along with an expected decline in interest rates, U.S. community bank earnings will rebound strongly in 2025 as net interest margins rebound and rise again in 2026 as provisions for loan losses decline.

To request a copy of the 2024 U.S. Community Bank Market Report, please contact press.mi@spglobal.com.

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