C A D W A L A D E R

U.S. BANKS

QUARTERLY SURVEY

Chris van Heerden
(704) 348-5232
chris.vanheerden@cadwalader.com

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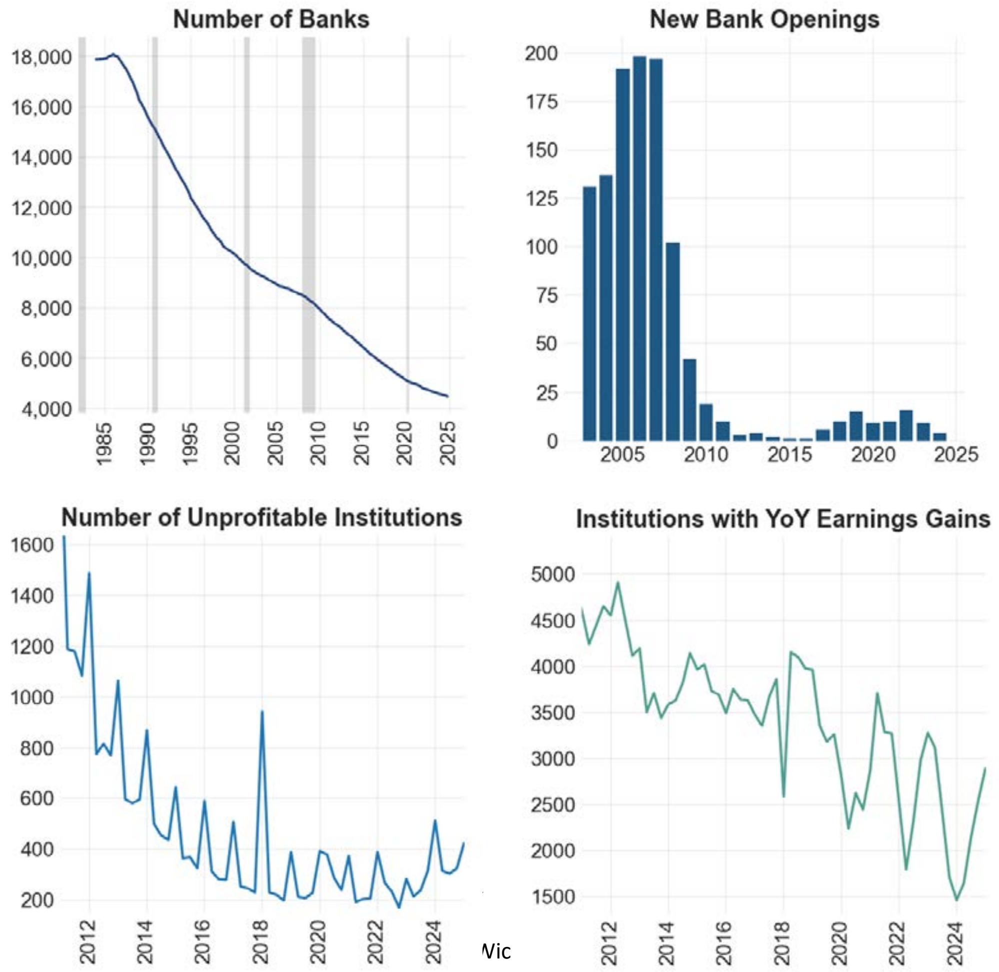
Cadwalader, Wickersham & Taft LLP
www.cadwalader.com

Executive Summary

LEVEL-SETTING

- The banking industry finds itself in the early stages of a transformation. Existing balance sheets have been shaped by more than a decade of low interest rates that fueled asset appreciation, muted volatility, and aided credit performance. A glut of deposit inflows due to covid-driven stimulus payments further influenced balance sheet composition. These trends supported growth, but also led to decisions that are now difficult to reverse.
- Some challenges are well understood. Deposit concentrations, uninsured deposit levels, and mark-to-market losses on securities portfolios that grew rapidly during 2020-2022 have received widespread publicity, as has the proposed heightening of risk-based capital standards.
- Other challenges are less obvious—for example, the challenge for some smaller institutions to grow capital given geographic and product-line limitations and outsized CRE concentrations.
- Other forces reshaping the industry include competitive pressure from non-bank lenders and deposit alternatives, and the imperative to integrate technology throughout business processes. Thus far in 2025, outside help from pro-growth policies and lower interest rates have fallen short of expectations.

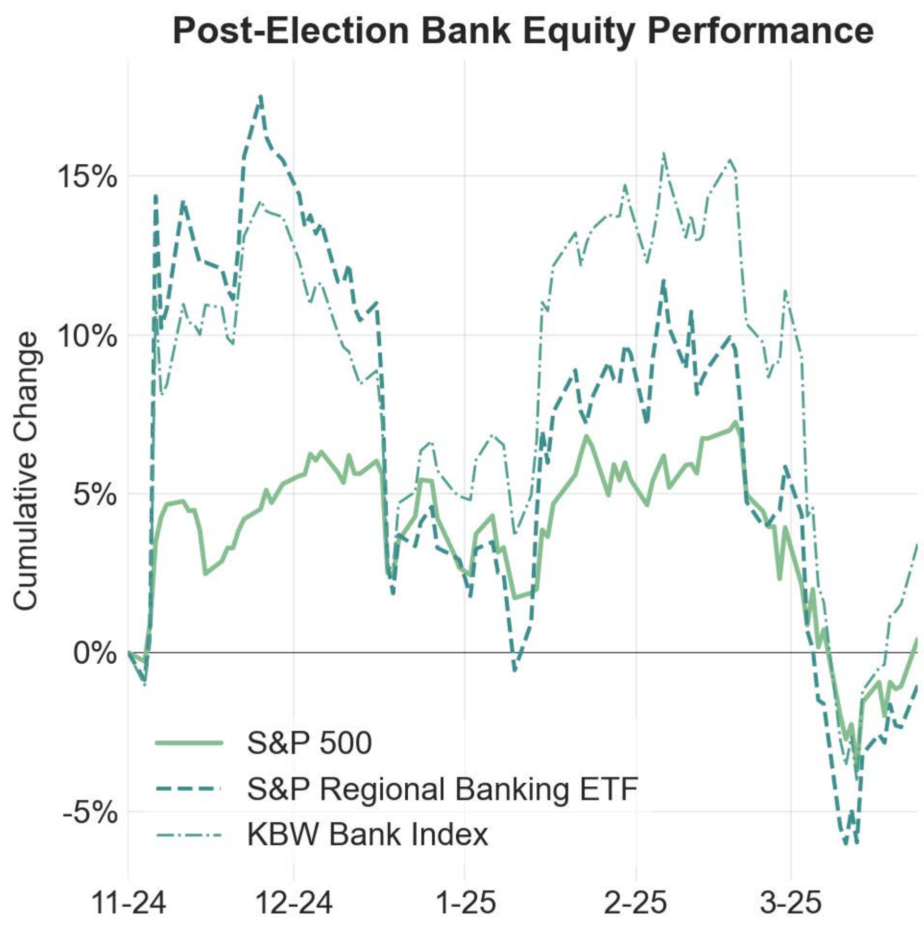


Source: FDIC and Cadwalader, Wickersham & Taft LLP.

Executive Summary

LEVEL-SETTING

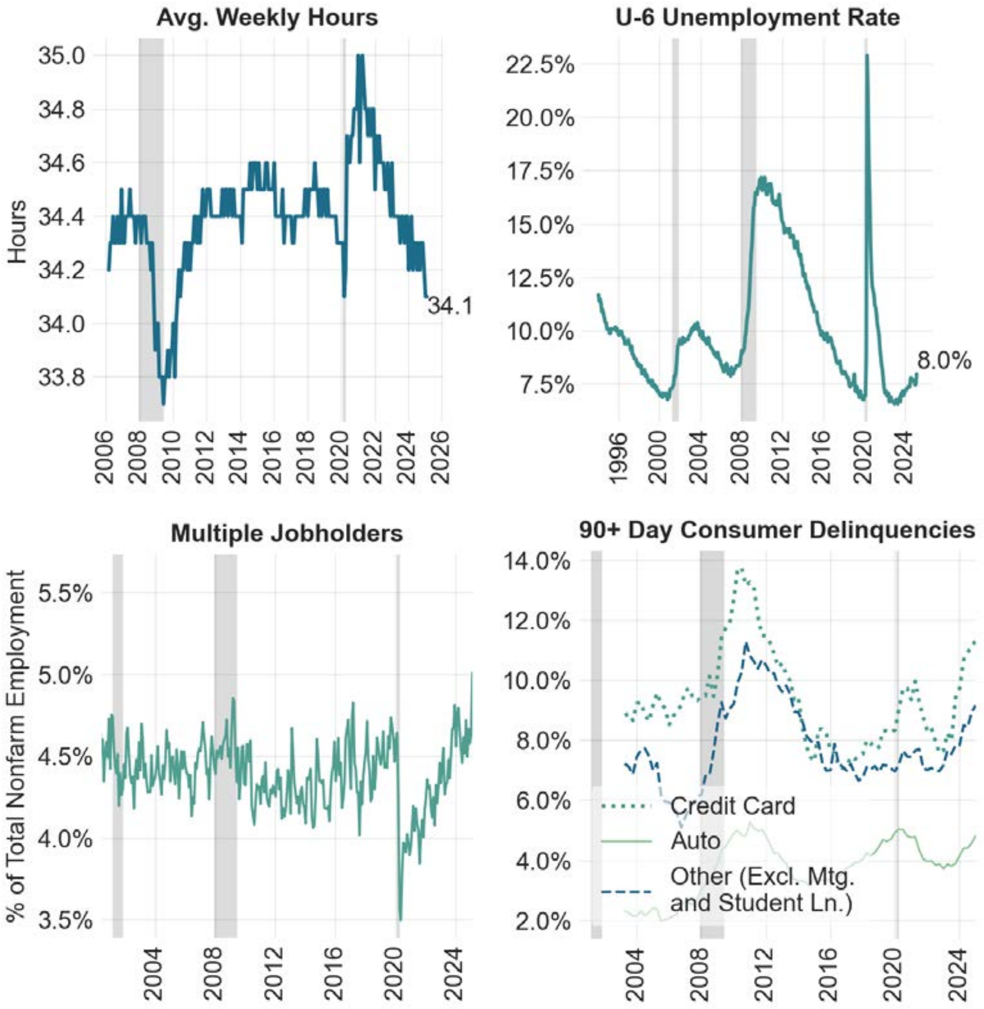
- Post-election expectations for accelerating growth, lower rates, and a fresh approach to bank regulation, supervision, and consolidation were tempered as the first quarter progressed. A few qualifiers to the optimistic outlook have emerged.
- On the economic front, entrenched inflation levels reined in rate-cut and curve steepening expectations. Tariffs further complicate the growth-inflation-rates equation. Comments from the new administration suggested a willingness to accept a market correction in the process of addressing the federal deficit level and funding.
- On the regulatory and supervision front, a few inflight rule proposals were scuttled, merger guidelines dialed back, and new agency appointments advanced. Basel III Endgame (B3E) appears to be heading toward a capital neutral re-proposal. While directionally helpful, developments to date have been incremental rather than advancing a holistic framework that operates beyond election cycles.
- The net result is an operating environment that is proving more challenging than anticipated. Policy volatility clouds business decisions, and sentiment data suggests capital investment will slow further from 2024. More fundamentally, policymaking by executive order forms a poor foundation for multi-year business decisions.



Source: Bloomberg and Cadwalader, Wickersham & Taft LLP.

LEVEL-SETTING

- Labor market conditions are weakening across a number of indicators, shaping the outlook for bank consumer loan growth and credit performance in 2025.
- Survey data, which is often subject to sentiment-outcome gaps, has been confirmed by hard data, including declines in job openings and the quit rate.
- Millions of student loan borrowers face declines in credit scores as the covid-era relief measures roll off and delinquencies incurred as early as October 2024 are phased into credit reports through May 2025.
- Tariffs may further challenge the consumer outlook. Tariffs involve an immediate cost – higher prices – in exchange for uncertain longer-term payoffs.
- Many institutions leaned into credit card, auto, and home equity lending to support loan growth over the past two years. Credit performance in these sectors is weakening with higher interest rates and a slowing labor market.



Source: U.S. Bureau of Labor Statistics, New York Fed Consumer Credit Panel, and Cadwalader, Wickersham & Taft LLP.

Contents

U.S. BANK Q4 2024 SURVEY

Q4 Recap

NET INCOME

- *Interest expense moved lower in Q4 in step with rates.*
- *Provision held flat.*
- *Non-interest income maintained YoY gains.*
- *Pre –tax net operating income edged marginally lower QoQ.*

$billion	Q4 2022	Q4 2023	Q3 2024	Q4 2024	QoQ Change	QoQ Growth	YoY Growth	2-Yr. Growth
+ Interest Income	227.93	291.81	305.47	296.72	-8.75	-2.9%	1.7%	30.2%
- Interest Expense	58.73	130.10	142.83	**130.39**	-12.44	-8.7%	0.2%	122.0%
- Provision	17.17	19.55	18.64	18.11	-0.53	-2.9%	-7.4%	5.5%
+ Non-Interest Income	54.99	59.59	68.93	**68.29**	-0.64	-0.9%	14.6%	24.2%
- Securities Gain	-2.20	-4.18	-2.94	-3.38	-0.44	14.9%	-19.3%	53.3%
- Non-Interest Expense	123.02	158.61	133.00	136.74	3.74	2.8%	-13.8%	11.2%
- Unrealized Equity Gains	-1.06	0.31	0.51	0.05	-0.46	-90.9%	-85.3%	-104.3%
Pre-Tax NOI	**79.99**	**39.29**	**77.50**	**76.43**	**-1.06**	**-1.4%**	**94.5%**	**-4.4%**
- Income Tax	15.33	7.44	15.92	14.15	-1.77	-11.1%	90.2%	-7.7%
- Discont. Ops.	-30.71	-14.14	-31.92	-28.36	3.56	-11.1%	100.6%	-7.6%
Net Income	**64.61**	**32.58**	**61.49**	**62.21**	**0.73**	**1.2%**	**90.9%**	**-3.7%**

Excludes specialty lenders like Synchrony, Discover, AmEx, and Sallie Mae Bank, throughout. GSIBs includes U.S. domestic only. Subsidiaries of foreign GSIBs grouped according to total assets. Non-GSIB category based on total assets only. Only includes U.S. banking entities for foreign banks throughout.
Source: BankRegData and Cadwalader, Wickersham & Taft LLP.

Q4 Recap

BALANCE SHEET

- *The bulk of the $110 billion Q4 drop in assets came from a single GSIB's reducing trading assets.*
- *Net loans moved higher by 83 bps during the quarter to end up 2.1% YoY.*
- *Total deposits held steady and core share improved to 81.9%.*

$trillion	Q4 2022	Q4 2023	Q3 2024	Q4 2024	QoQ Change	QoQ Growth	YoY Growth	2-Yr. Growth
Assets	23.11	23.11	23.63	23.52	-0.11	-0.5%	1.8%	1.8%
Net Loans	11.66	11.81	11.96	12.06	0.10	0.8%	2.1%	3.4%
Securities (Cost)	5.85	5.41	5.53	5.55	0.02	0.3%	2.6%	-5.2%
Cash	2.52	2.77	2.61	2.61	0.00	0.0%	-5.5%	3.8%
Trading Assets	0.73	0.76	1.00	0.89	-0.11	-11.3%	17.1%	21.7%
Deposits	18.83	18.38	18.61	18.75	0.14	0.8%	2.1%	-0.4%
Core Deposits	16.10	14.94	15.09	15.36	0.27	1.8%	2.8%	-4.6%
Pledged Loans	4.68	5.61	5.91	5.99	0.09	1.5%	6.8%	28.2%
Pledged Securities	1.69	2.43	2.46	2.38	-0.08	-3.3%	-2.2%	40.9%
FHLB Advances	0.58	0.58	0.51	0.48	-0.02	-4.9%	-17.0%	-16.9%

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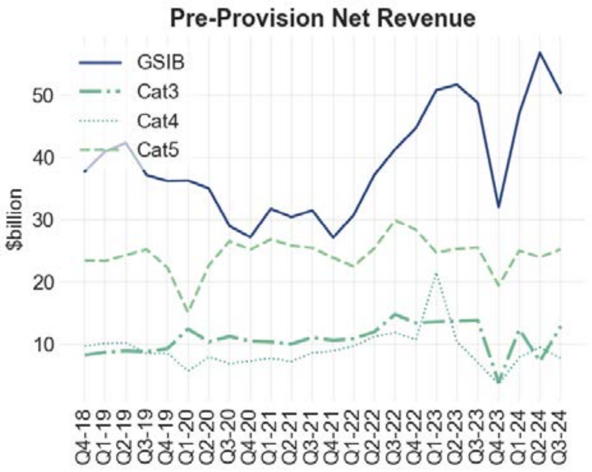
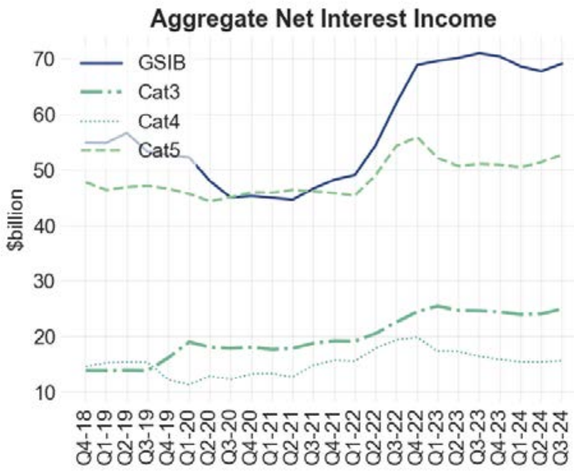
Source: BankRegData and Cadwalader, Wickersham & Taft LLP.

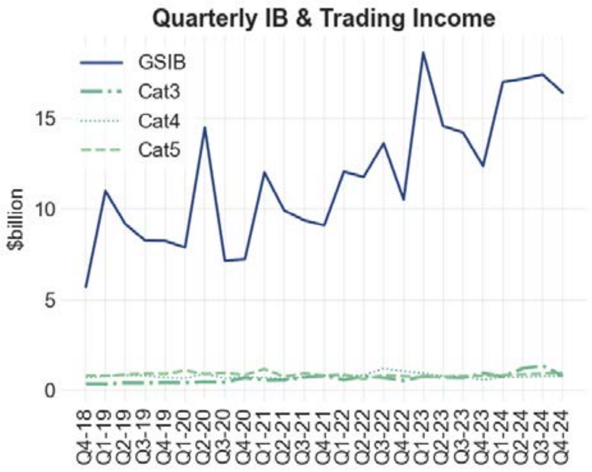
Q4 Recap

TOP LINE

- *PPNR decelerated on a chained-quarter basis into Q4.*
- *NII improved but lagged optimistic assumptions for yield curve re-steepening.*
- *Non-interest improved on IB, trading, and fee income growth.*







Pre-Provision Net Revenue

	GSIB	Cat3	Cat4	Cat5	Total
PPNR ($bn)	$48.5	$12.7	$ 7.9	$25.4	$94.5
Chained Quarter Growth					
Q4-23	-34.4%	-72.2%	-49.1%	-24.0%	-38.2%
Q1-24	47.1%	221.5%	119.1%	28.9%	56.9%
Q2-24	20.7%	-41.7%	21.1%	-4.3%	5.6%
Q3-24	-11.4%	78.2%	-18.5%	5.3%	-1.4%
Q4-24	-3.7%	-0.9%	2.6%	0.8%	-1.7%
YoY Growth					
2020	-24.9%	13.4%	-14.5%	13.1%	-8.0%
2021	-0.2%	1.0%	22.5%	-5.3%	0.5%
2022	64.9%	26.5%	20.0%	19.0%	37.9%
2023	-28.4%	-71.3%	-66.6%	-31.6%	-39.4%
2024	51.5%	230.6%	121.8%	30.9%	60.7%

Source: BankRegData and Cadwalader, Wickersham & Taft LLP.

Net Interest Income

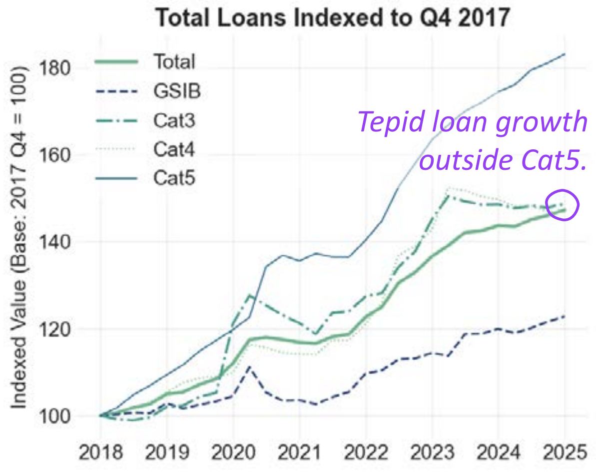
	GSIB	Cat3	Cat4	Cat5	Total
NII ($bn)	$70.9	$25.4	$15.8	$54.2	$166.3
Chained Quarter Growth					
Q4-23	-0.8%	-0.8%	-3.4%	-0.3%	-0.9%
Q1-24	-2.5%	-1.9%	-2.5%	-0.9%	-1.9%
Q2-24	-1.3%	0.4%	-0.2%	1.9%	0.1%
Q3-24	2.0%	3.8%	1.5%	2.6%	2.4%
Q4-24	2.4%	1.7%	0.9%	2.7%	2.3%
YoY Growth					
2020	-14.0%	11.6%	8.6%	-1.3%	-4.0%
2021	6.4%	6.3%	18.7%	-0.3%	5.2%
2022	42.8%	27.2%	26.1%	22.0%	31.1%
2023	2.2%	-0.2%	-20.0%	-8.9%	-4.4%
2024	0.6%	4.0%	-0.3%	6.4%	2.9%

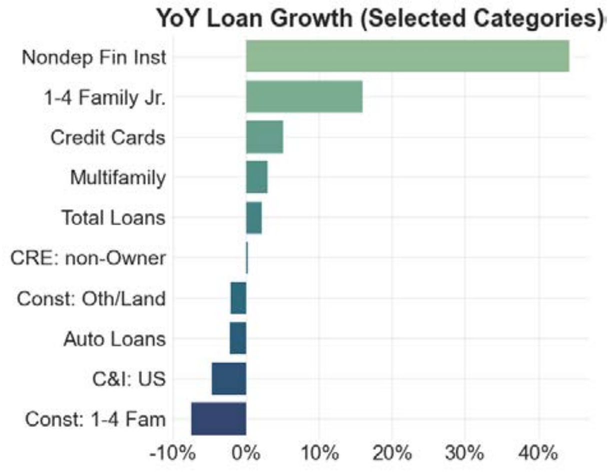
Non-Interest Income

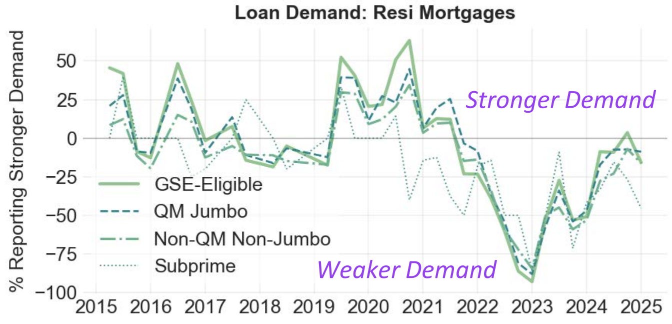
	GSIB	Cat3	Cat4	Cat5	Total
Fee Income	$38.1	$ 7.8	$ 7.8	$14.6	$68.3
Chained Quarter Growth					
Q4-23	-13.6%	-1.4%	-2.9%	-12.0%	-10.5%
Q1-24	28.6%	-10.2%	3.9%	17.5%	17.6%
Q2-24	1.2%	13.4%	-4.3%	-4.0%	0.9%
Q3-24	-3.2%	-7.4%	2.0%	0.1%	-2.5%
Q4-24	-3.0%	-6.6%	8.8%	3.3%	-0.9%
YoY Growth					
2020	1.1%	8.2%	14.2%	16.6%	7.3%
2021	1.7%	10.0%	12.9%	-8.1%	1.5%
2022	3.3%	-89.0%	-7.4%	-21.6%	-17.8%
2023	-4.7%	719.7%	-11.0%	0.6%	9.9%
2024	22.2%	-12.0%	10.3%	16.6%	14.6%

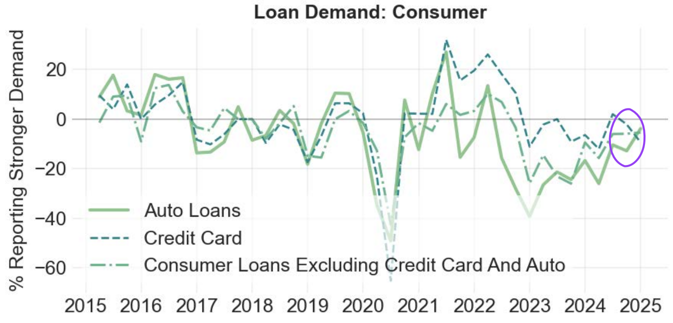
LOANS

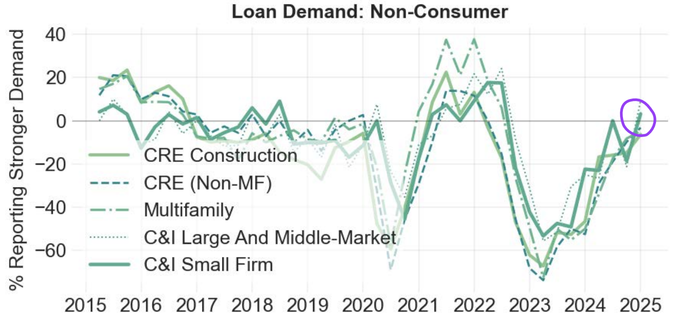
- *Loan growth has underperformed relative to a buoyant stock market, unemployment, and GDP.*
- *Higher rates weighed on demand in 2024 while lending standards tended tighter.*











	GSIB	Cat3	Cat4	Cat5	Total
Loans ($tn)	$ 4.5	$ 1.7	$ 1.4	$ 4.6	$12.3
Chained Quarter Growth					
Q4-23	0.9%	0.1%	-1.1%	1.6%	0.8%
Q1-24	-0.8%	-0.6%	-1.0%	0.6%	-0.3%
Q2-24	1.0%	0.4%	0.0%	1.5%	1.0%
Q3-24	1.2%	-0.2%	-0.8%	0.7%	0.6%
Q4-24	1.0%	0.7%	-0.1%	0.9%	0.8%
YoY Growth					
2020	-0.9%	2.0%	16.2%	5.2%	3.7%
2021	5.9%	6.3%	21.4%	-5.4%	3.4%
2022	4.3%	13.8%	9.1%	10.5%	8.4%
2023	4.8%	8.8%	-17.4%	2.8%	1.5%
2024	2.4%	0.4%	-1.9%	3.8%	2.1%

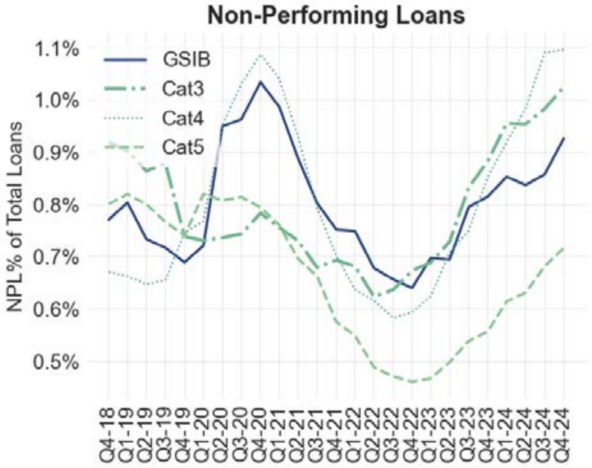
Cumulative Loan Growth Rates

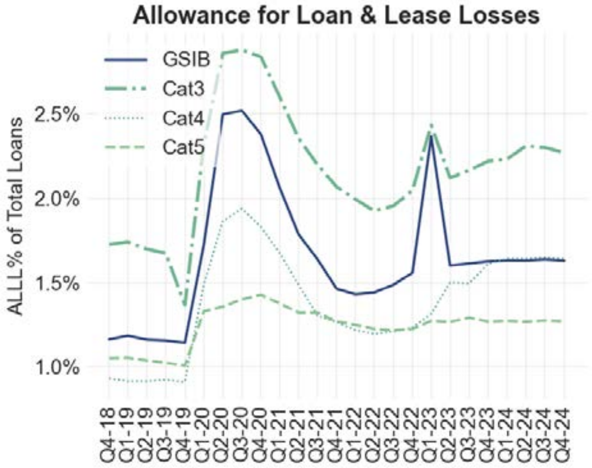
	Loans ($tn)	1-Yr.	2-Yr.	3-Yr.
Total Loans	$12.3	2.1%	3.6%	12.3%
CRE	1.2	0.2%	1.9%	11.4%
Multifamily	0.6	2.9%	5.4%	23.0%
C&I	2.3	-4.7%	-6.7%	2.0%
Resi RE	2.9	1.6%	4.7%	14.2%
Consumer	1.6	-5.9%	-5.2%	2.7%
Construction	0.5	-3.2%	3.6%	20.8%
Nondep Fin Inst	1.2	44.2%	55.7%	64.3%

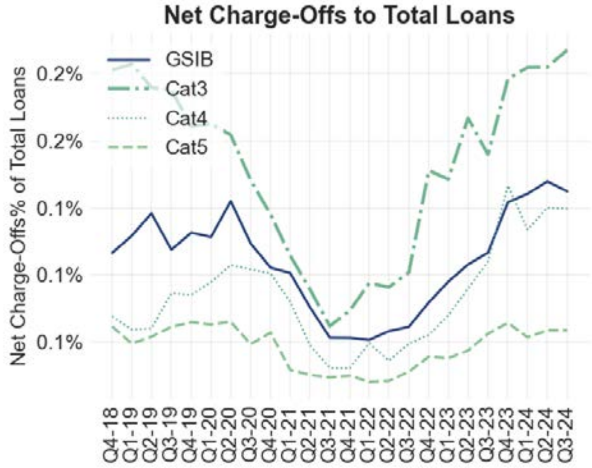
Source: BankRegData, Federal Reserve, and Cadwalader, Wickersham & Taft LLP.

CREDIT

- *NPL and charge-offs show a progressing credit cycle while provisioning has held flat.*







Non-Performing Loan Rate

	GSIB	Cat3	Cat4	Cat5	Total
NPL ($bn)	38.6	16.8	14.8	31.3	101.5
NPL%	0.93%	1.03%	1.10%	0.72%	0.88%
Chained Quarter Change in NPL Rate (bps)					
Q4-23	2.0	5.0	10.3	1.8	3.3
Q1-24	3.8	7.2	6.6	5.8	5.3
Q2-24	-1.6	-0.2	6.5	1.6	0.7
Q3-24	2.1	2.9	10.7	5.1	4.2
Q4-24	6.9	4.2	0.5	3.5	4.5
YoY Change in NPL Rate (bps)					
2020	34.5	4.5	34.1	5.4	19.4
2021	-28.2	-9.0	-38.6	-21.9	-24.1
2022	11.2	2.0	10.8	11.5	10.2
2023	17.5	21.0	26.0	9.6	16.1
2024	11.1	14.2	24.2	16.0	14.7

Allowance for Loan & Lease Losses

	GSIB	Cat3	Cat4	Cat5	Total
ALLL ($bn)	74.0	39.1	22.3	58.8	194.1
ALLL%	1.63%	2.27%	1.64%	1.27%	1.58%
Chained Quarter Change in ALLL Rate (bps)					
Q4-23	1.2	5.5	11.6	-2.5	1.4
Q1-24	0.7	1.1	3.0	0.5	0.8
Q2-24	-0.1	8.0	0.0	-0.6	0.8
Q3-24	0.6	-1.1	0.7	0.8	0.4
Q4-24	-0.7	-3.1	-0.8	-0.6	-1.0
YoY Change in ALLL Rate (bps)					
2020	123.8	147.3	92.0	42.0	90.5
2021	-91.8	-77.2	-56.6	-15.9	-55.6
2022	-9.6	2.1	3.2	4.3	-1.4
2023	6.7	17.5	37.9	4.3	12.0
2024	0.5	4.9	2.9	0.1	0.9

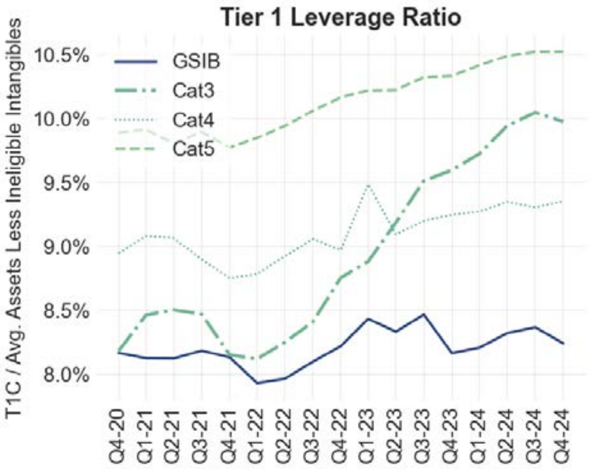
Charge-Offs

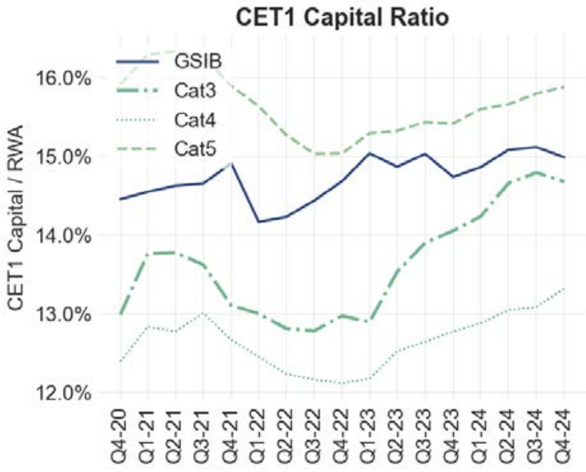
	GSIB	Cat3	Cat4	Cat5	Total
Q3 CO ($bn)	7.6	4.6	2.1	3.5	17.8
Q3 CO%	0.17%	0.27%	0.15%	0.08%	0.15%
Quarterly Charge-Off Rate (bps)					
Q3-23	11.7	19.0	11.0	5.6	10.4
Q4-23	15.4	24.6	16.7	6.4	13.5
Q1-24	16.1	25.5	13.4	5.3	13.1
Q2-24	17.0	25.5	15.0	5.9	13.8
Q4-24	16.7	26.9	15.4	7.5	14.5
YoY Change in Total Charge-Offs					
2020	0%	2%	35%	8%	5%
2021	-45%	-54%	-51%	-56%	-50%
2022	-5%	54%	23%	9%	13%
2023	98%	104%	106%	93%	99%
2024	43%	26%	27%	29%	34%

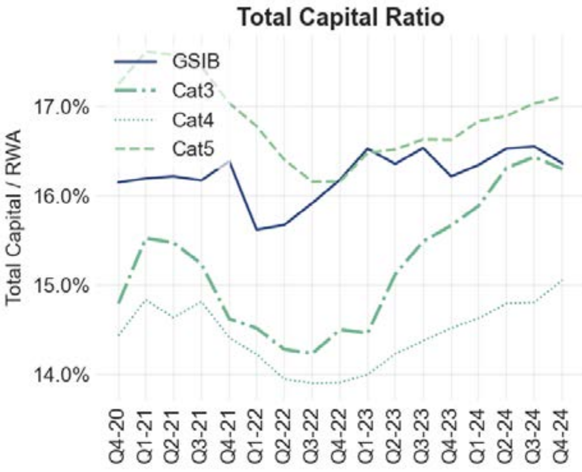
Source: BankRegData and Cadwalader, Wickersham & Taft LLP.

CAPITAL

- *Generally, banks conserved capital into an anticipated B3E update and entered 2025 on a strong capital footing.*







Tier1 Leverage Ratio

	GSIB	Cat3	Cat4	Cat5	Total
T1L Ratio	8.2%	10.0%	9.4%	10.5%	9.2%
Chained Quarter Change T1L Ratio (bps)					
Q4-23	-30.2	8.2	4.7	1.0	-12.8
Q1-24	4.4	13.0	2.6	8.4	6.1
Q2-24	11.3	21.9	7.5	7.1	11.2
Q3-24	4.6	10.3	-4.2	3.2	3.8
Q4-24	-12.7	-7.1	4.7	0.1	-6.5
YoY Change in T1L Ratio (bps)					
2021	-3.4	-2.9	-19.6	-11.6	-9.1
2022	8.7	60.4	21.8	39.2	27.0
2023	-5.5	84.1	27.7	16.9	16.4
2024	7.6	38.0	10.6	18.8	14.6

CET1 Capital Ratio

	GSIB	Cat3	Cat4	Cat5	Total
CET1 Ratio	15.0%	14.7%	13.3%	15.9%	15.0%
Chained Quarter Change CET1 Ratio (bps)					
Q4-23	-29.2	15.3	13.0	-1.9	-8.6
Q1-24	12.4	18.3	10.6	18.4	15.1
Q2-24	22.0	42.1	16.6	6.0	19.7
Q3-24	3.5	13.5	4.0	13.8	8.6
Q4-24	-13.0	-11.4	23.7	8.3	-1.7
YoY Change in CET1 Ratio (bps)					
2021	45.5	11.8	27.5	-1.9	19.3
2022	-22.6	-13.3	-54.8	-85.4	-44.7
2023	5.3	108.1	65.6	38.0	42.6
2024	-4.3	77.8	67.8	44.6	33.1

Total Capital Ratio

	GSIB	Cat3	Cat4	Cat5	Total
TRBC Ratio	16.4%	16.3%	15.1%	17.1%	16.4%
Chained Quarter Change Total Capital Ratio (bps)					
Q4-23	-31.9	17.9	14.1	-0.5	-8.9
Q1-24	12.9	22.1	11.3	21.0	16.8
Q2-24	18.3	42.3	16.2	5.6	18.0
Q3-24	2.2	12.3	1.4	14.3	7.6
Q4-24	-18.8	-13.6	24.6	7.1	-4.8
YoY Change in Total Capital Ratio (bps)					
2021	23.6	-17.2	-2.0	-21.3	-2.8
2022	-20.3	-11.8	-50.3	-87.6	-44.1
2023	3.5	116.4	60.7	46.5	44.3
2024	-17.2	81.0	67.6	47.6	28.7

Source: BankRegData and Cadwalader, Wickersham & Taft LLP.

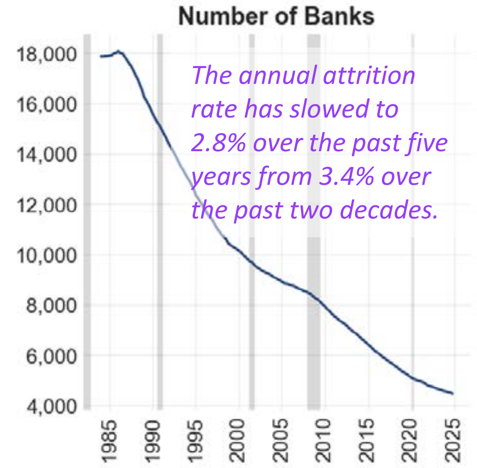
THE LONG GAME

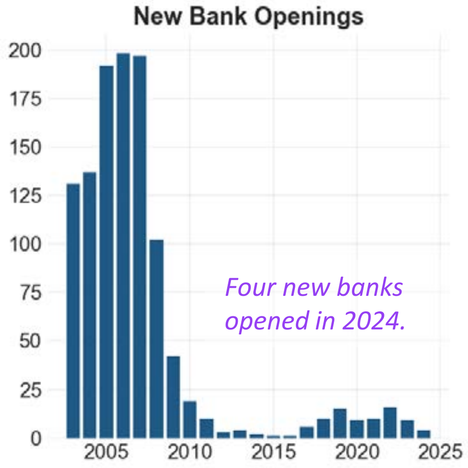
- While the attrition rate in the number of banks has slowed over the past five years, the case for consolidation remains compelling: Client and product diversification, economies of scale on the cost side, the technology investment imperative, and national brand recognition all argue in favor of more bank combinations.
- The economic backdrop has complicated the ability for some banks to grow organically out of capital constraints and loan concentrations. Many institutions leaned into credit card, auto, and home equity lending to support loan growth over the past two years. Credit performance in these sectors is showing strains from higher interest rates and a slowing labor market. Commercial real estate loan performance has been slow to stabilize and large balances mean a few loans can have an outsized impact. Finally, the ramp-up in loan restructurings that are classified as performing loans may be leading to delinquency rates that are understated relative to what non-performing rates would be if newly restructured loans were placed on non-accrual status.
- There are causes for optimism in 2025. Capital conservation in anticipation of B3E has meant many banks entered the year from a strong position. Additional rate cuts look likely (but potentially back-end loaded and prompted by a broader slowdown) and deregulation momentum will likely continue.
- Private credit continues to grow as both a significant competitor and a collaborator. In corporate lending, intense competition from direct lending funds and BDCs has shaped loan terms, pricing, and refinancing volume across institutional loan, middle-market, and asset-backed lending markets. But sponsor partnerships are also increasingly important for banks that seek intermediate growth in private markets. Such collaborative relationships have emerged in loan origination joint ventures, loan and business line sales, and capital relief transactions, in addition to traditional financing and securitization functions.

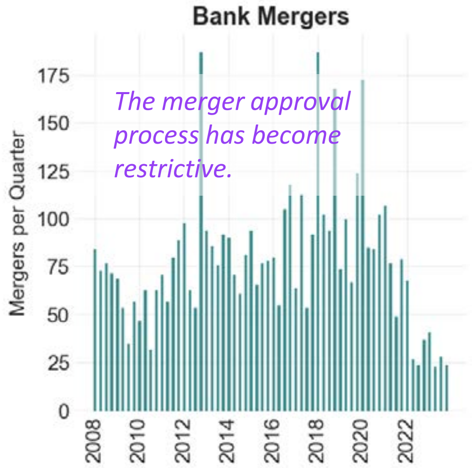
THE LONG GAME

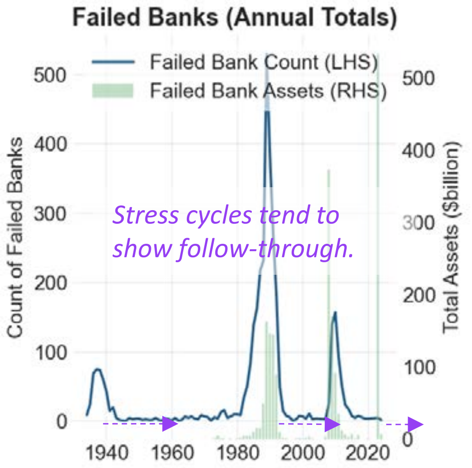
- The outlook has been tempered in recent months. The new administration’s attempted restructuring of international trade balances, supply chains, and manufacturing has been disorderly and will frustrate business investment and capital formation until a more structured approach emerges. Uncertainty may spill over into the labor market, which is already showing signs of deterioration, and by extension impact consumer loan growth and credit performance.
- The regulatory outlook has shifted dramatically in recent months. A one-way-ratchet-tighter approach has been replaced by a reassessment of previously proposed rules, new agency appointments, and an openness to streamlining supervision. While these are welcome developments, so far changes are incremental and fall short of a permanent legislative regulatory restructuring.
- These themes are developed further in this report, relying primarily on call report data to provide an analysis that looks beyond publicly traded names (fewer than 20% of banks by count), and taking into consideration distributions and outliers rather than simple industry averages.

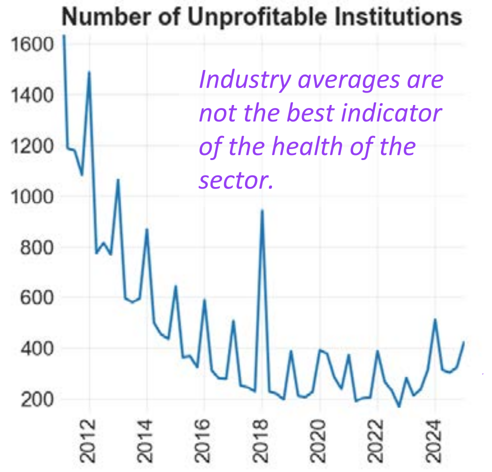
LONG-TERM CONTEXT

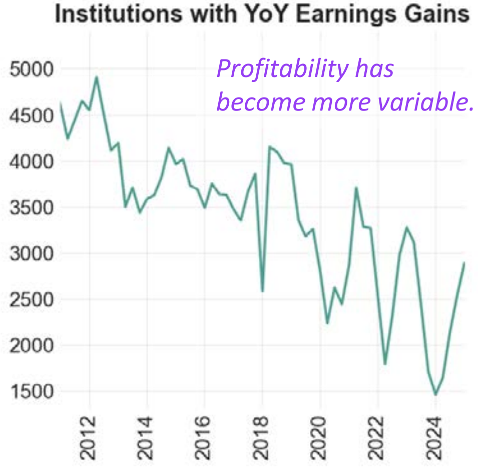


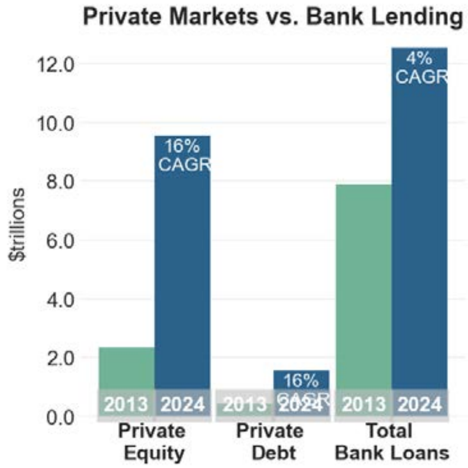


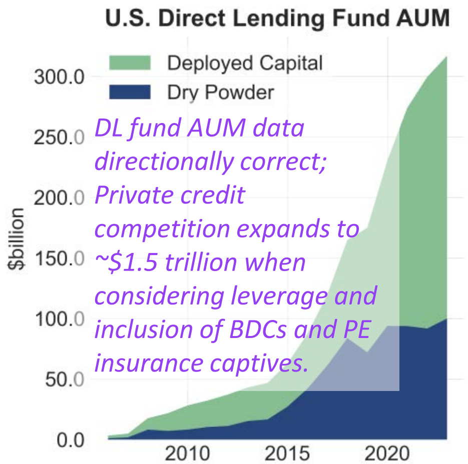






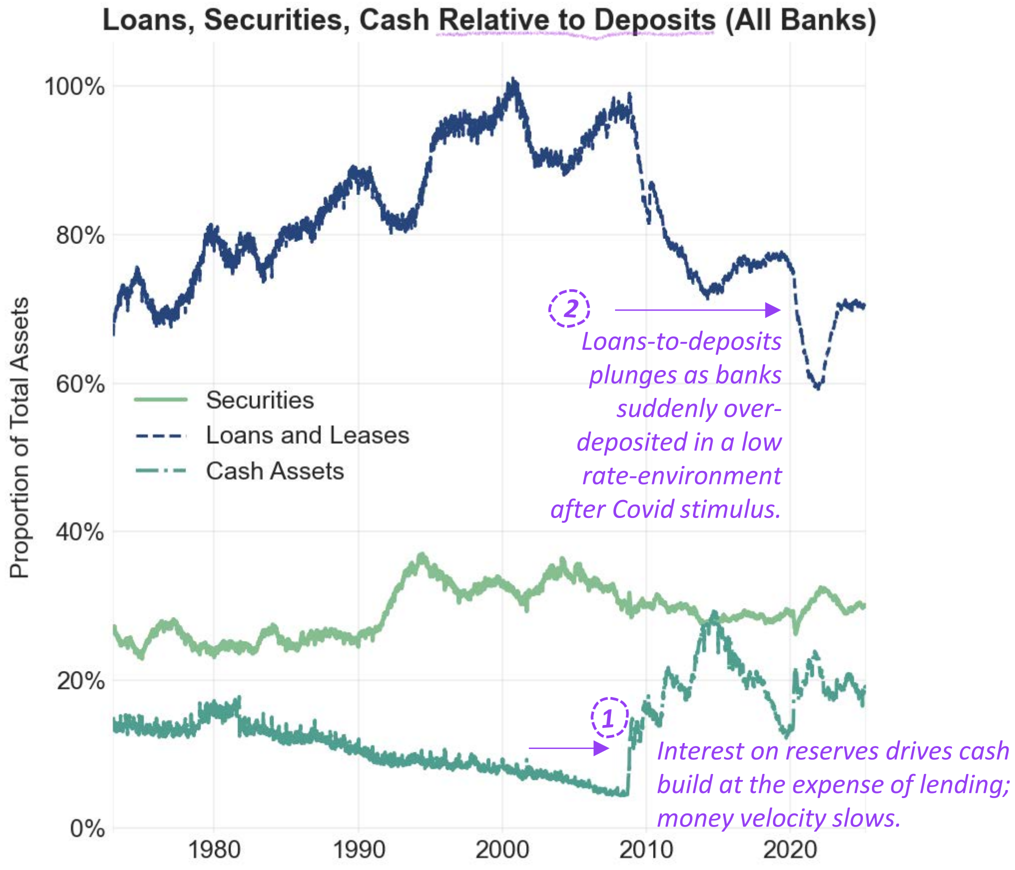


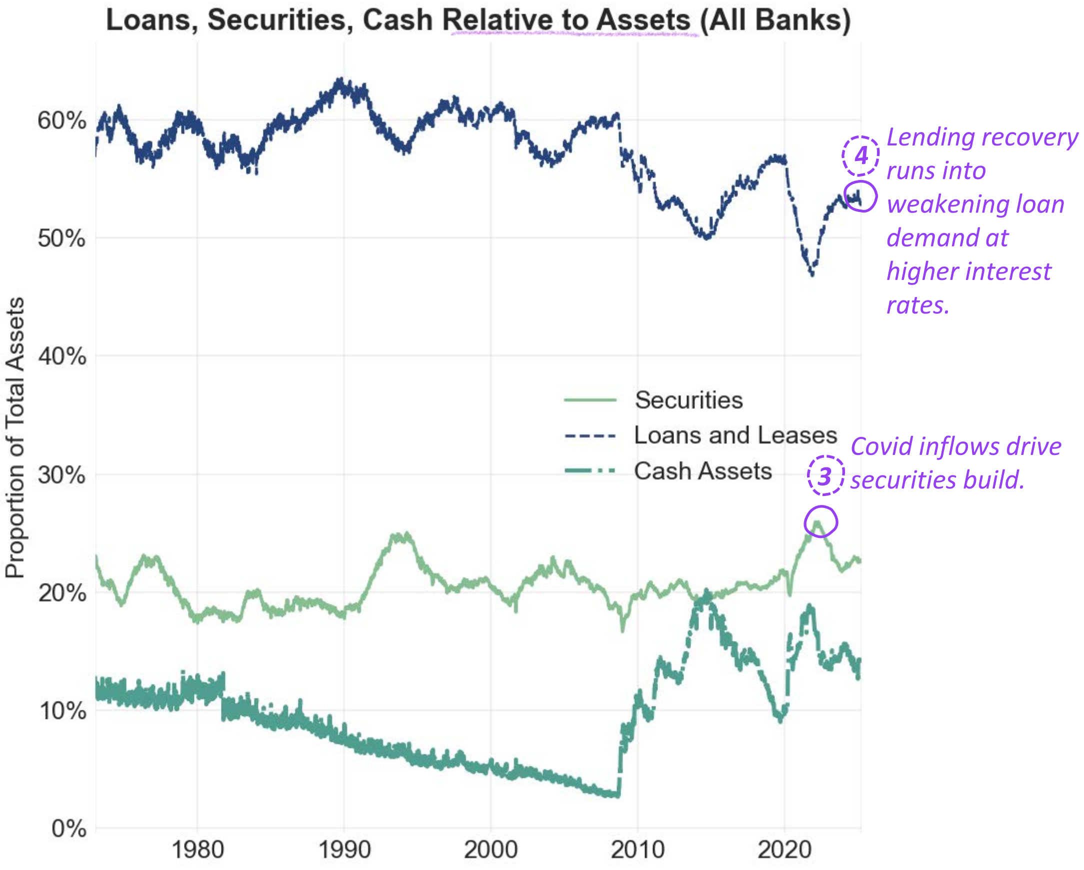




Source: FDIC, NYSEArca, PitchBook, Preqin, and Cadwalader, Wickersham & Taft LLP.

LONG-TERM CONTEXT



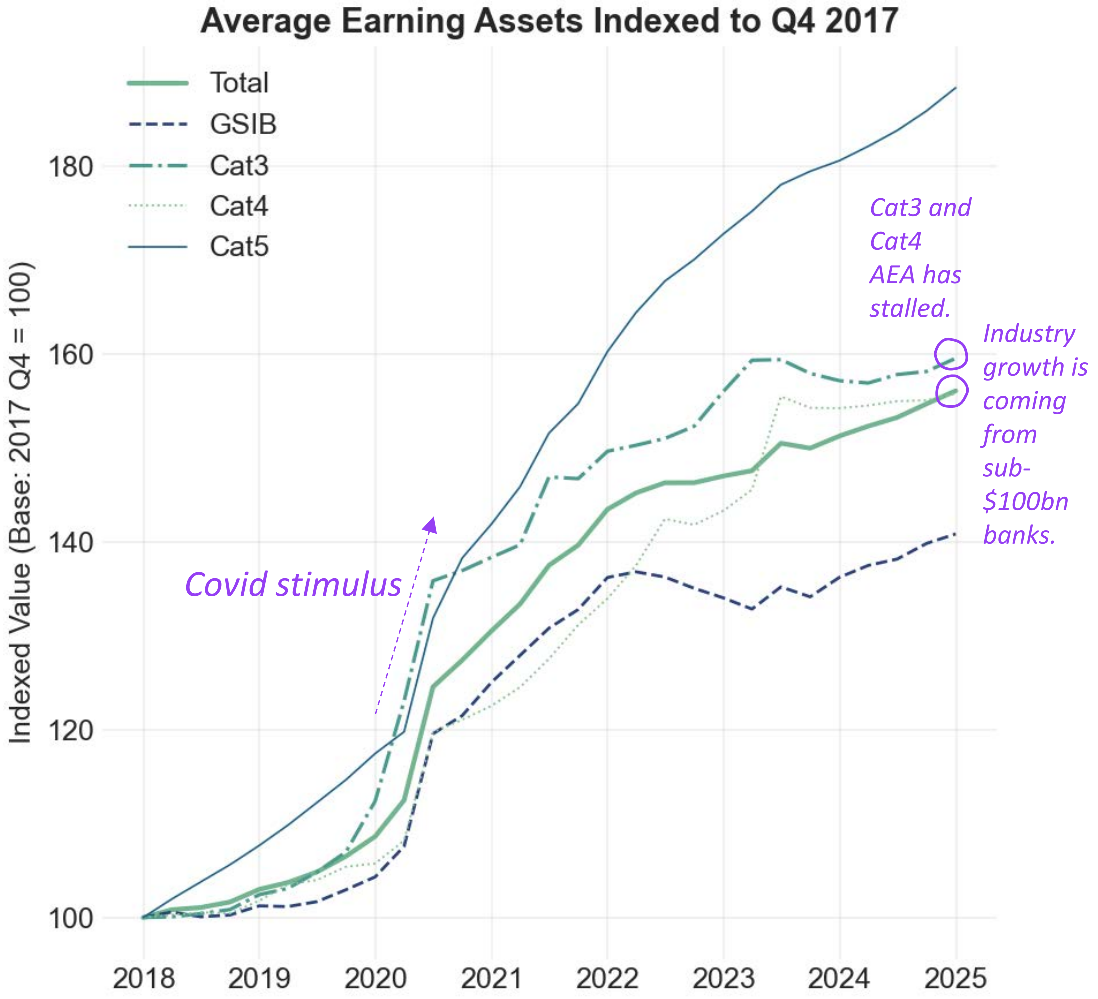


Source: Federal Reserve and Cadwalader, Wickersham & Taft LLP.

ASSETS: MODERATION

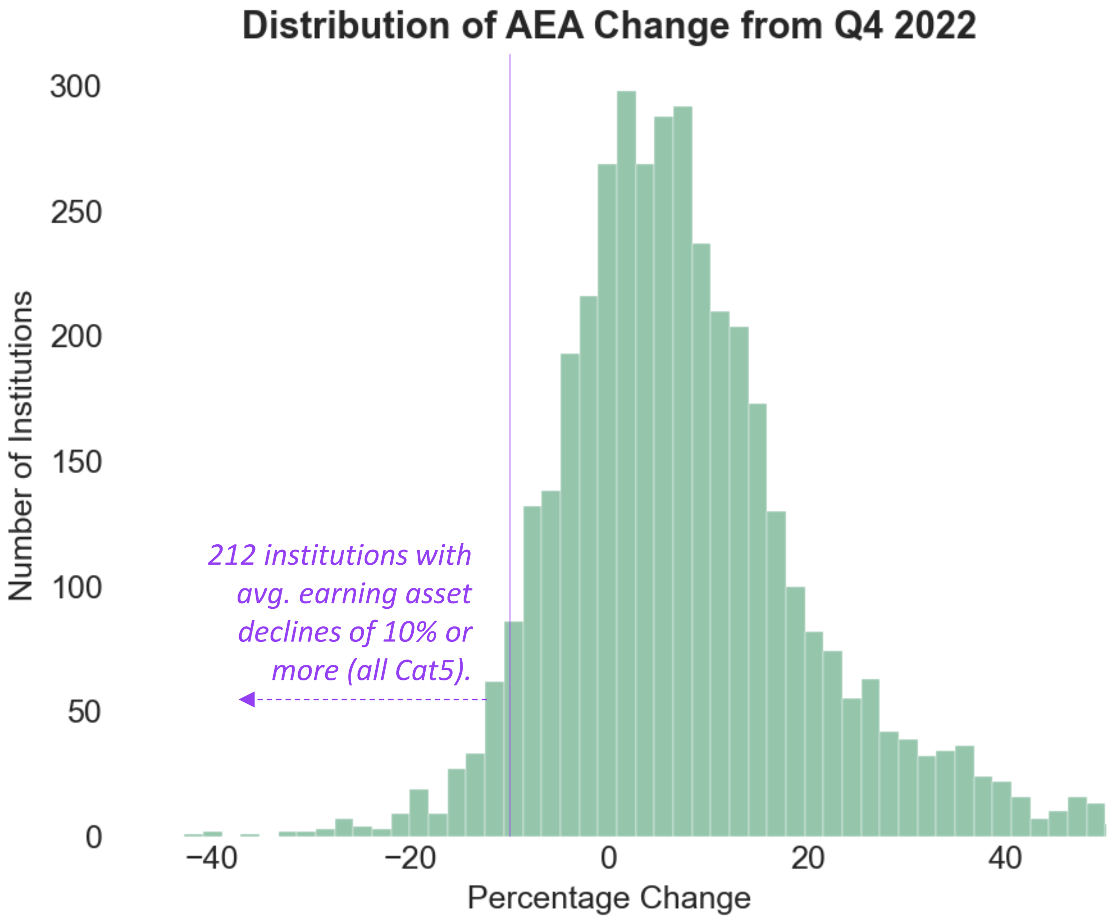
Asset growth challenges are most apparent for Cat3 and Cat4 institutions (the super-regionals). Growth has been particularly anemic when viewed in the context of inflation. A stall in earning assets raises a number of challenges.

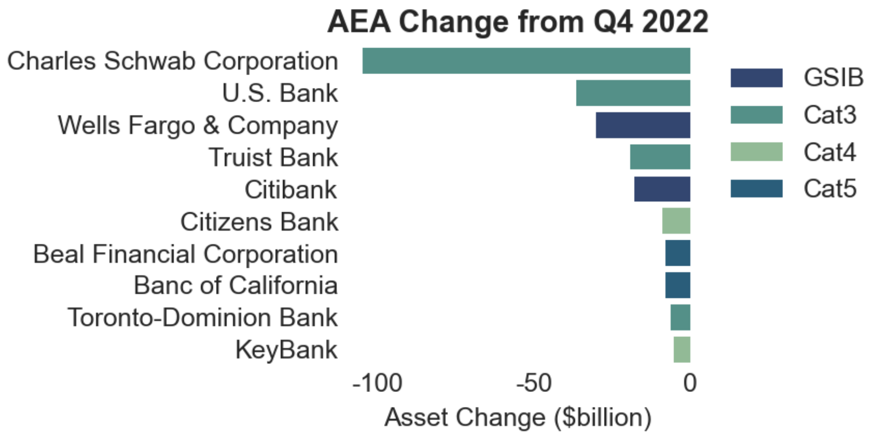
- **Profitability**. A flat or declining trend in earning assets poses a headwind to profitability. A number of institutions have announced plans to shrink. Unlike assets, fixed costs, real estate, and headcount don't scale down on a smooth curve.
- **Adverse selection.** High quality securities and loans to stronger borrowers in better-performing sectors are more difficult to retain, particularly in corporate lending where private credit, BDCs, and capital markets are intensely competitive. Problem loans are more likely to be extended.
- **Downscaling**. Without asset growth, some institutions face multiple potential negative feedback loops: declining revenue, greater reliance on high-cost borrowing, downgraded ratings, and adverse selection in assets showing up in charge-offs.
- **Outsourced balance sheet**. Some banks are scaling down by selling loan portfolios to private credit sponsors. This trend could change the income composition (more revenue from fee income, less from interest) and, therefore, the interest rate sensitivity for those banks.

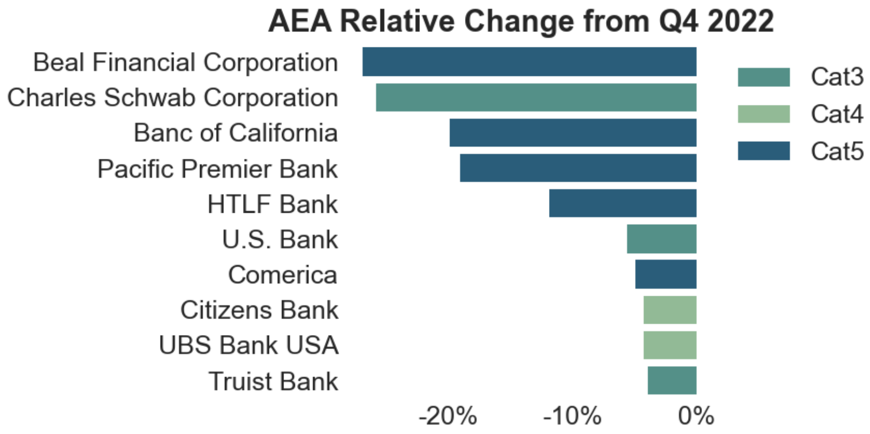


Note: Same-store-sales basis using current category. Category based solely on total assets. Category 5 describes banks with assets under $100 billion. GSIBs limited to the U.S. GSIBs unless otherwise noted. Source: BankRegData and Cadwalader, Wickersham & Taft LLP.

ASSET GROWTH DISTRIBUTION

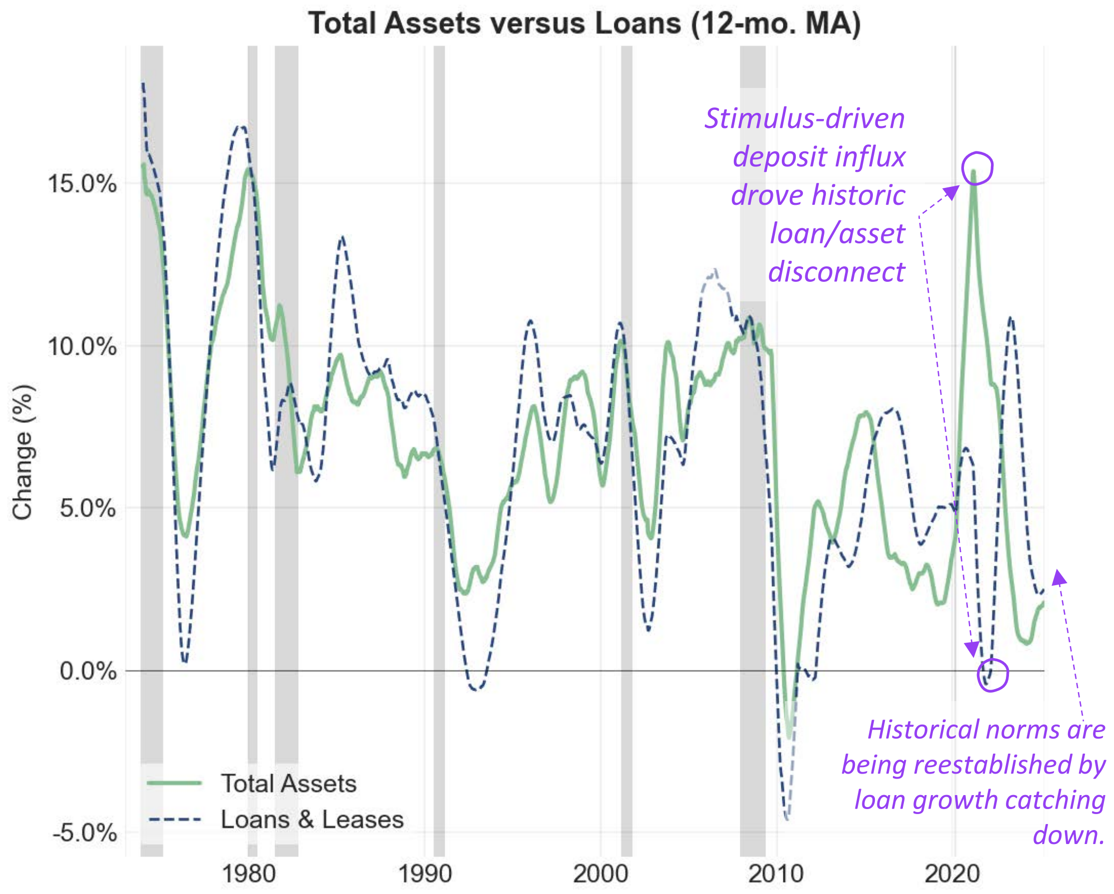


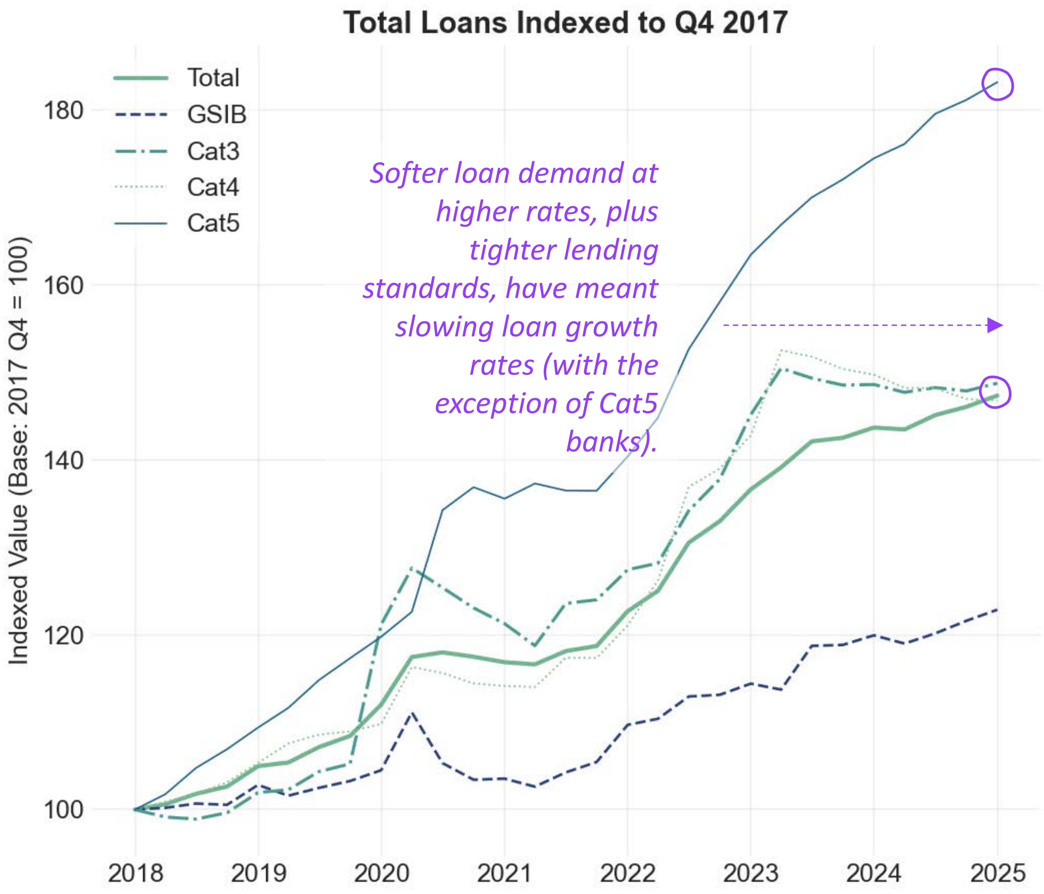




Source: BankRegData and Cadwalader, Wickersham & Taft LLP.

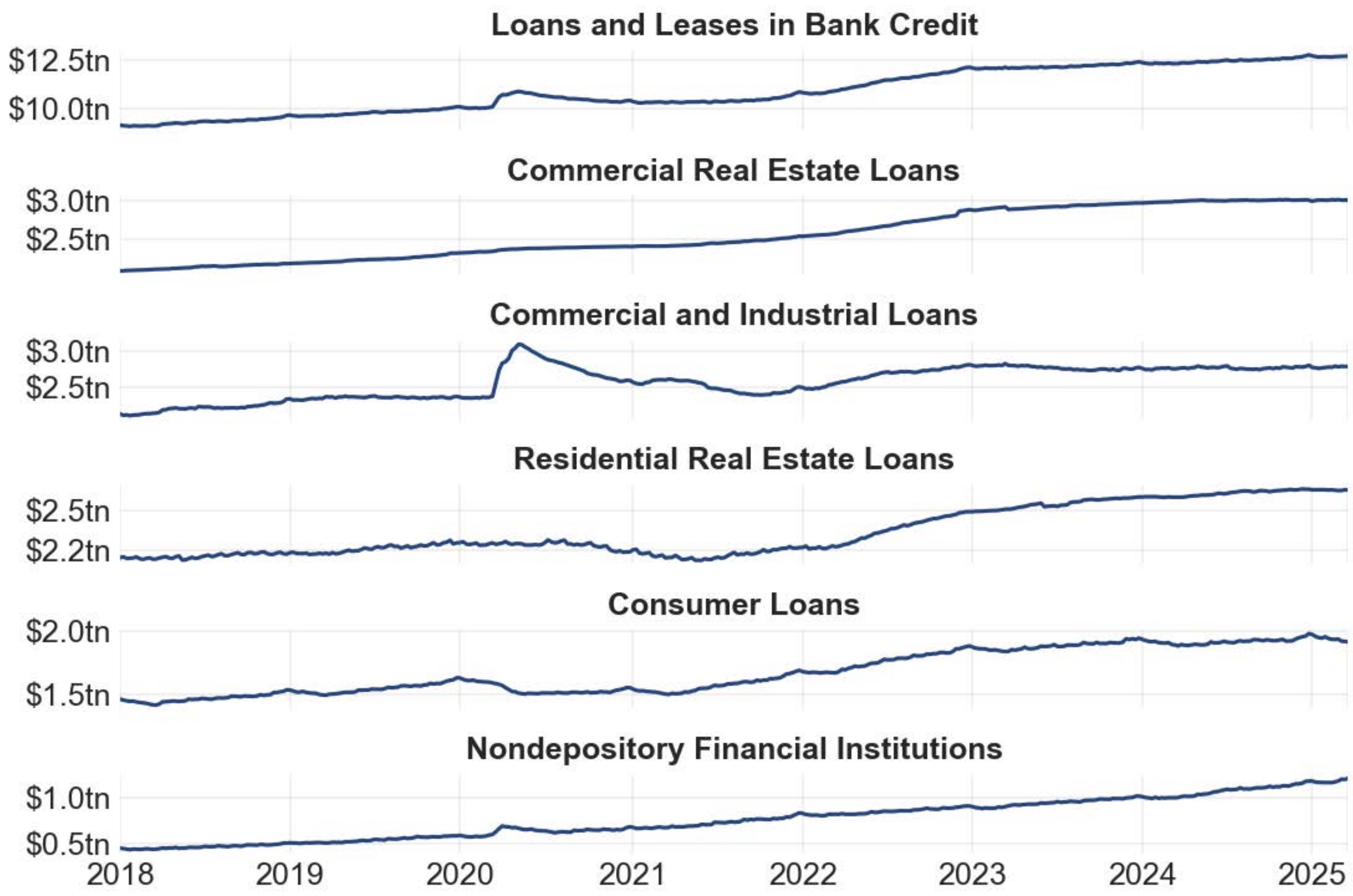
LOAN GROWTH





Note: Same-store-sales basis with Institution category held constant at current level. Non-GSIB category based solely on total assets throughout.
Source: BankRegData, Federal Reserve, and Cadwalader, Wickersham & Taft LLP.

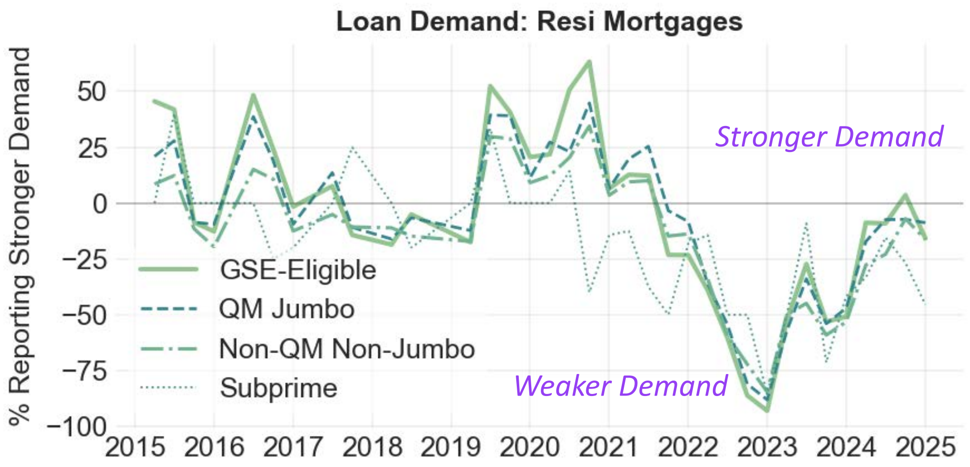
LOAN GROWTH



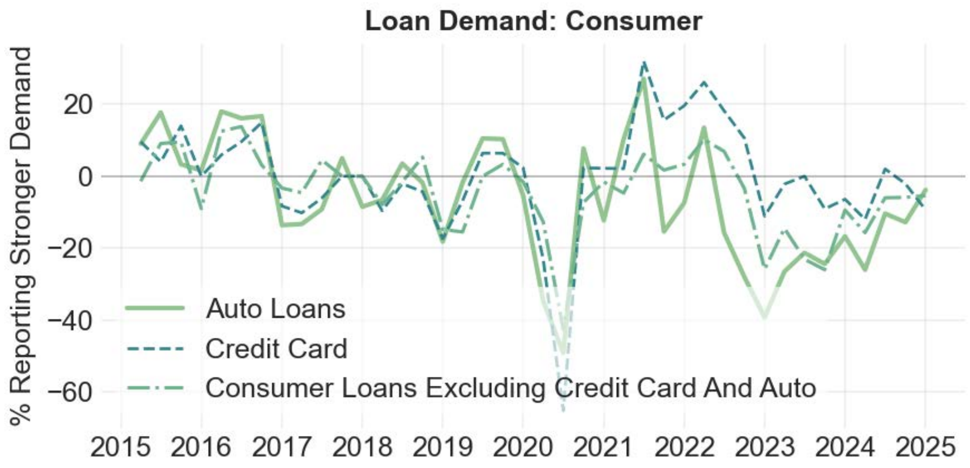
Source: Federal Reserve and Cadwalader, Wickersham & Taft LLP.

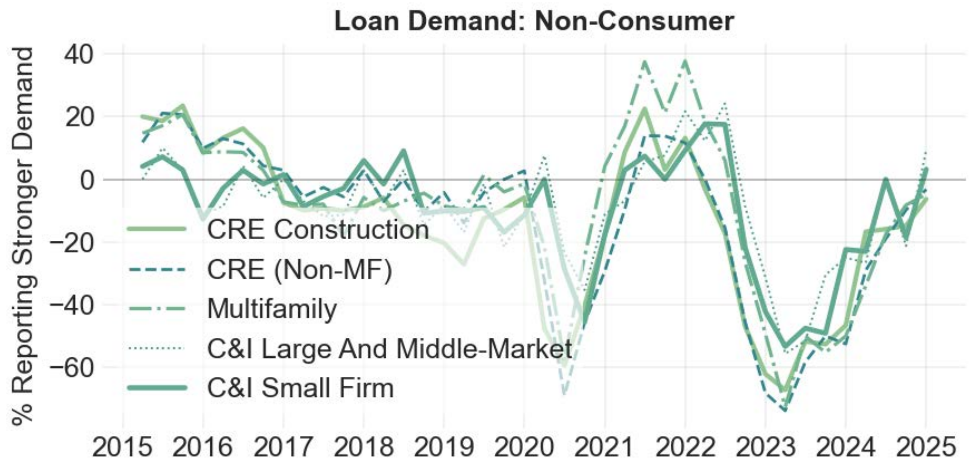
- Loan demand stabilized in 2024 but falls short of expansion territory (particularly when adjusted for inflation). Lending standards, similarly, have moved towards neutral.
- Cat5 banks have leaned into real estate categories over the past three years, posting growth in residential mortgages, CRE, construction, multifamily, and home equity. Real estate lending has continued to be the primary driver of loan growth for the group even in the past year.
- Non-depository financial institution (NDFI) loans have grown materially in recent years. This has been a top growth category for GSIBs.
- The NDFI category includes loans made to REITs, BDCs, SPEs, insurance cos., marketplace lenders, and private funds, and gives some insight into banks financing non-bank lenders. Call reports phased in more NDFI loan detail in call reports starting in 2H 2024.

LOAN DEMAND



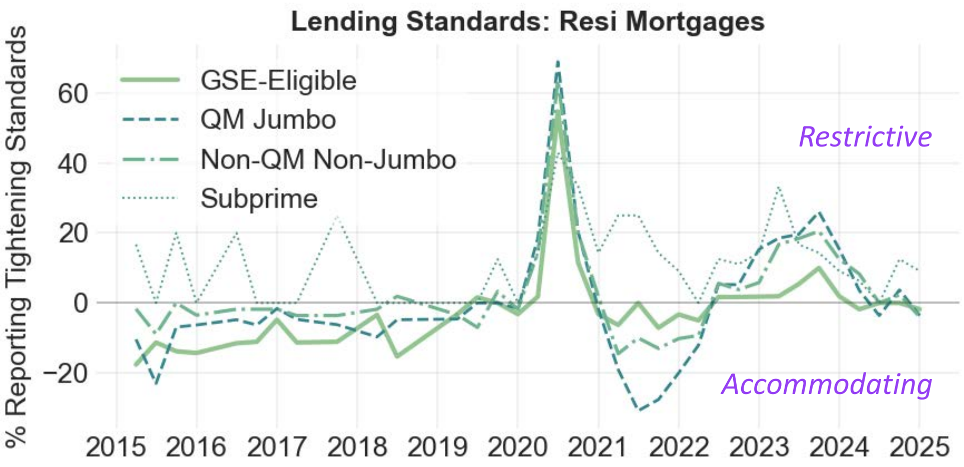
- The recovery in loan demand appeared to lose some momentum in recent quarters as forward inflation expectations ticked higher and labor market indicators came in below expectations.
- Loan growth and GDP are historically positively correlated. The tapering off in loan demand looks out of step with the run-up in equity markets.



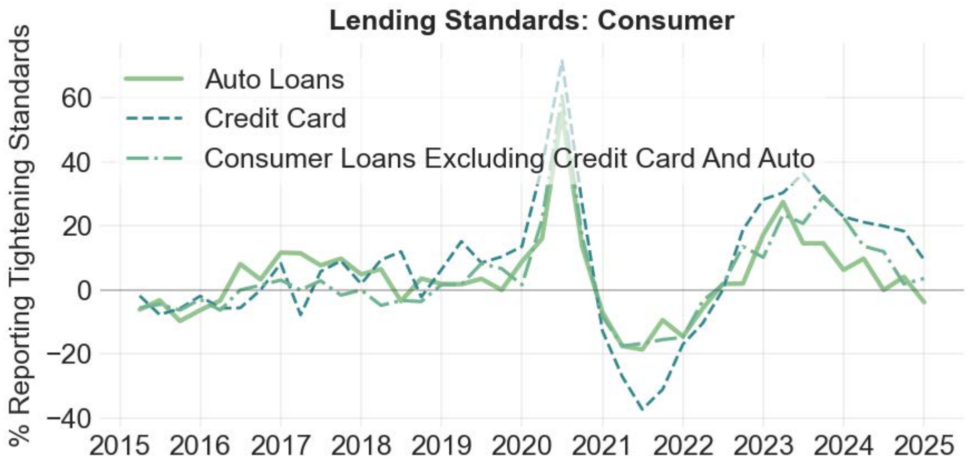


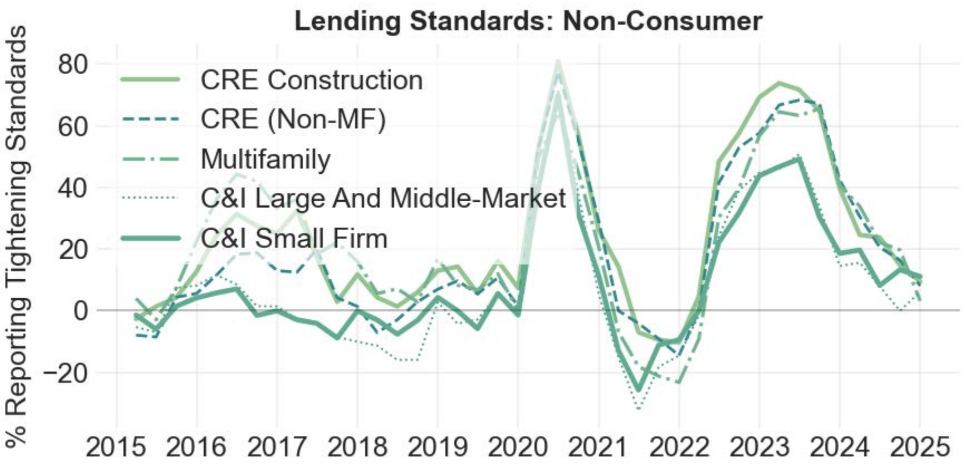
Source: Federal Reserve and Cadwalader, Wickersham & Taft LLP.

LENDING STANDARDS



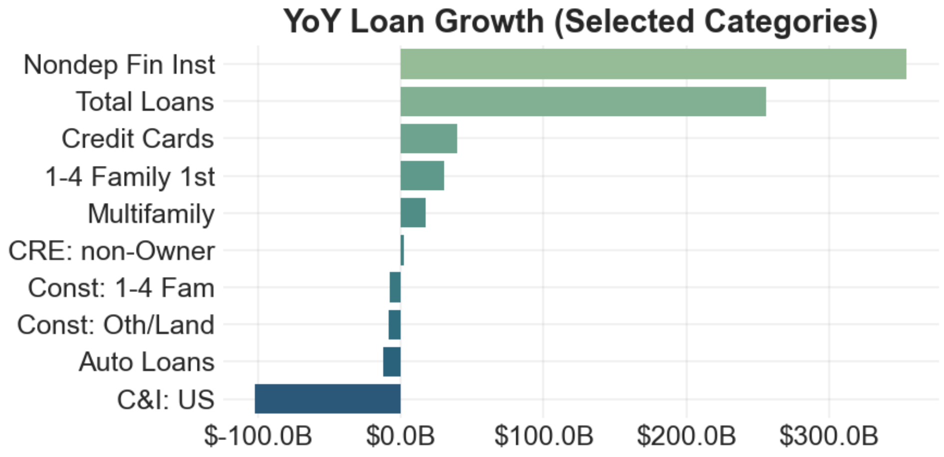
- Lending standards eased gradually as recession fears receded after Q1 2023.
- But similar to the demand picture, the trend slowed in the recent October survey, with banks on net continuing to report tightening standards in most lending categories.
- While consumer, business, and CRE lending standards are moving towards easing, they remain in net restrictive territory.

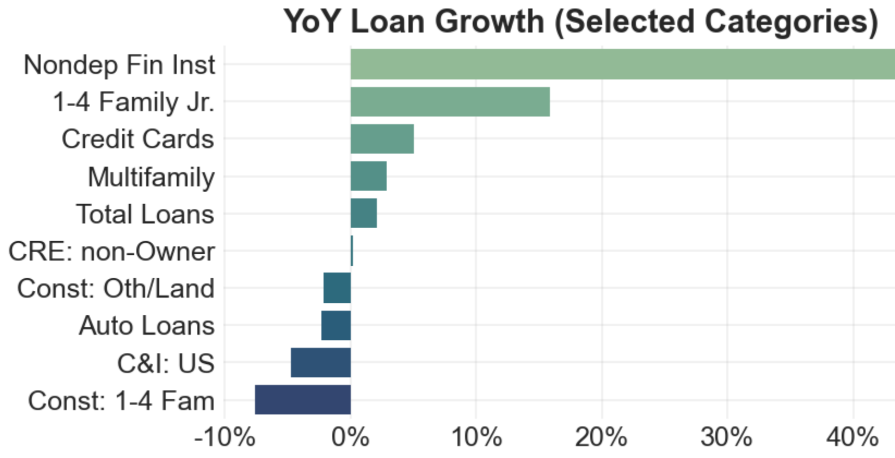




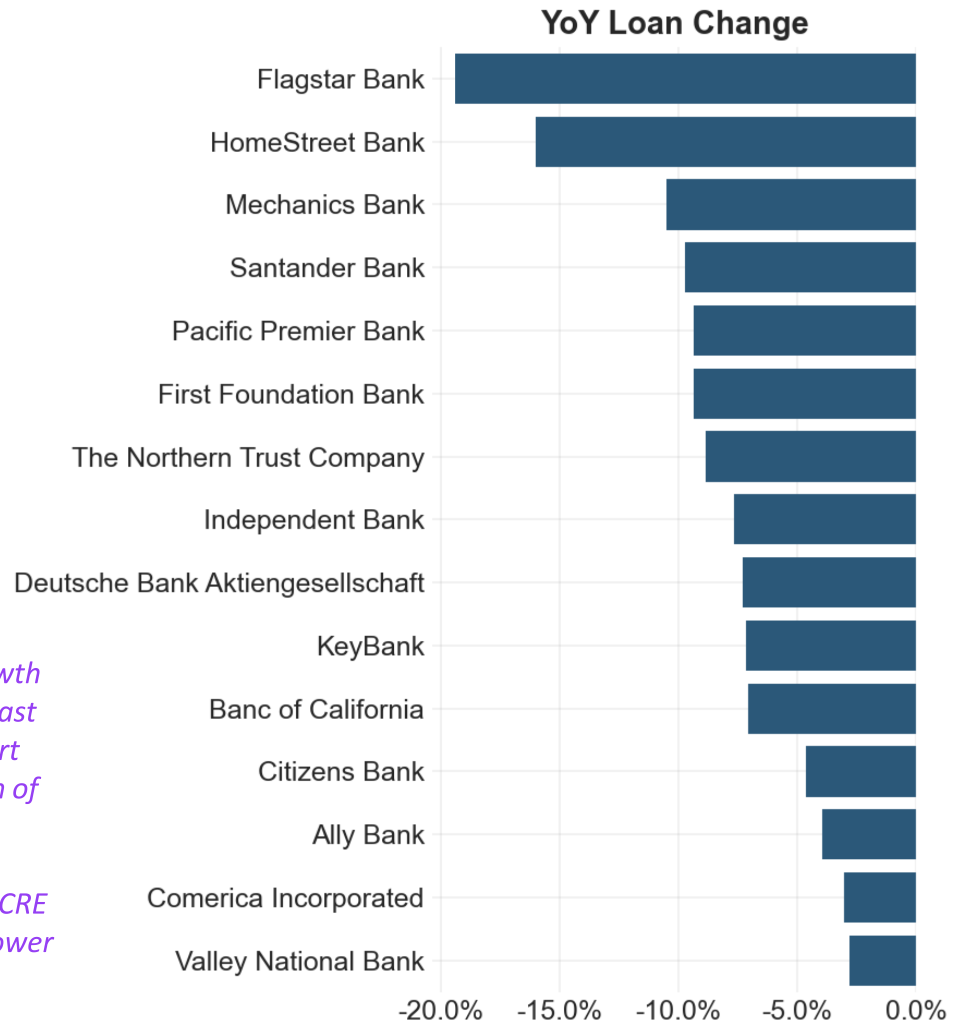
Source: Federal Reserve and Cadwalader, Wickersham & Taft LLP.

LOAN GROWTH





Some of the 44% growth in NDFI loans in the past year looks to be in part due to reclassification of some C&I loans.
Some NDFI loans are ultimately backed by CRE (e.g., where the borrower is a fund or REIT).

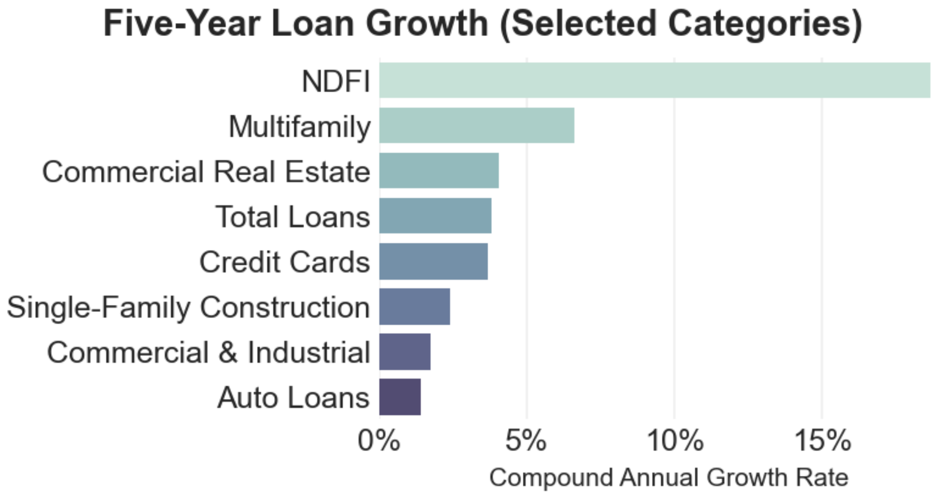


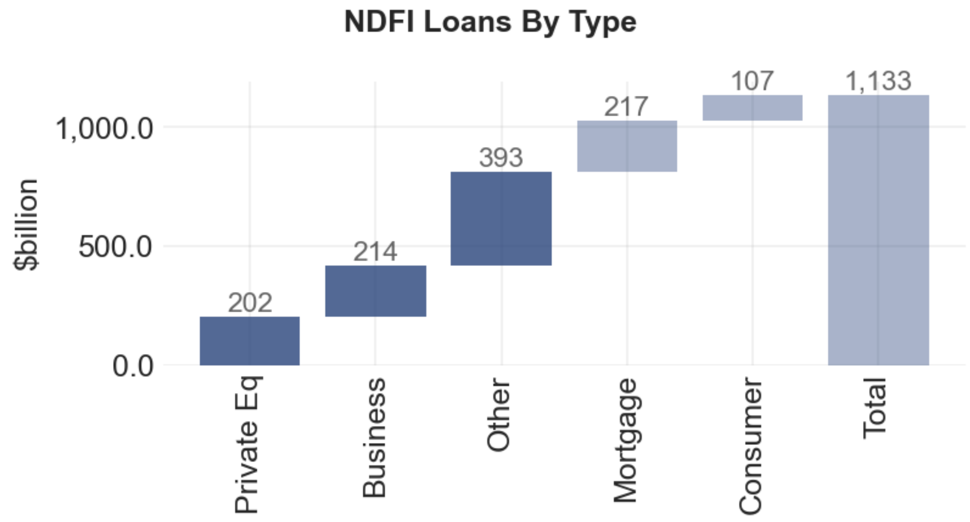
Assets

Note: Same-store-sales basis.
Source: BankRegData and Cadwalader, Wickersham & Taft LLP.

NDFI LOANS

- Disclosure for NDFI loans is a work in progress. Effective Q4 2024, banks with $10 billion or more began disclosing five new NDFI subcategories in call reports: loans to mortgage credit intermediaries, business credit intermediaries, private equity funds, consumer credit intermediaries, and other loans.
- In the first iteration of the new disclosures, some C&I and loans to individuals appear to have been reclassified into NDFI, skewing the growth rate in this category. Additionally, some institutions classified their entire NDFI loan book into the “Other” subcategory.
- Loans to private equity funds appear to consist largely of subscription loans, but subscription loans can also fall into the loans to business credit intermediaries (e.g., private credit funds), or the “Other” subcategory.
- As of 2024, the direction of travel was to implement additional NDFI loan detail in the bank submissions of Capital Assessments and Stress Testing Reports (FR Y-14A/Q/M).
- Rapid NDFI loan growth will continue to meet increased regulatory and supervisory attention, but banks will continue to serve as intermediaries to sponsor clients. Sponsors are a significant source of capital markets business and ancillary fee income, and capital formation in the non-bank sector continues to grow.

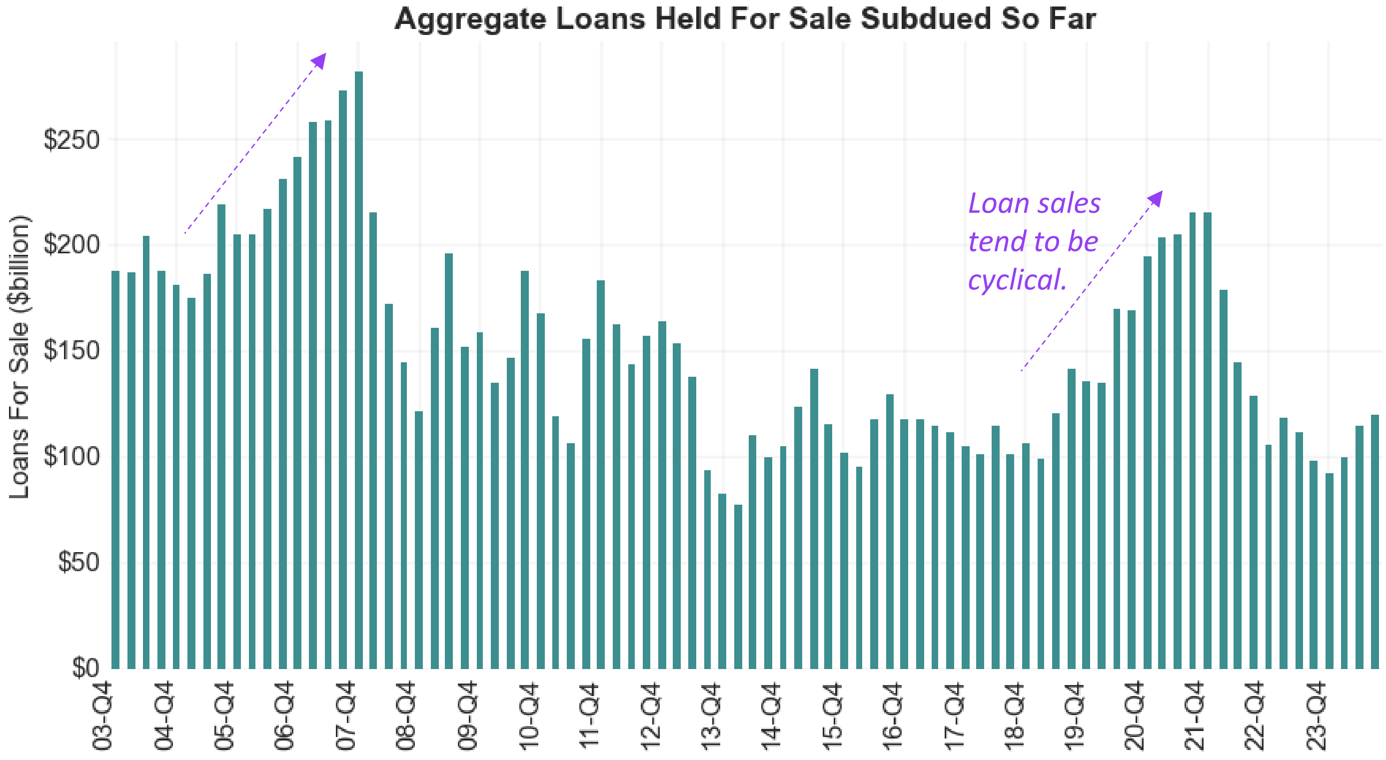




Source: BankRegData and Cadwalader, Wickersham & Taft LLP.

SCALING DOWN: LOANS FOR SALE

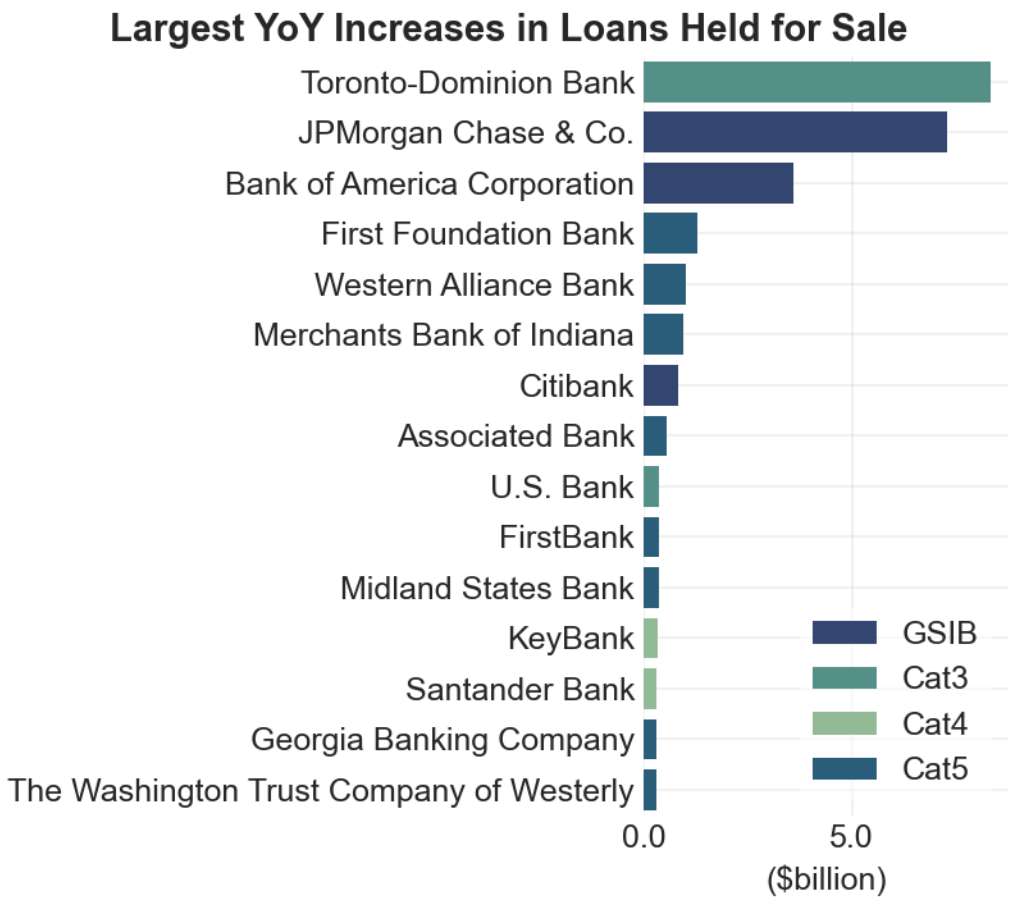
- While a cyclical upturn in loans held for sale has yet to materialize, a few institutions have increased loans held for sale. In the early innings par or near-par sales are more likely. Private credit sponsors are increasingly active loan portfolio purchasers.
- Insurance strategies (capital relief trades) and financing (note-on-note) may be taking some pressure off loan sales. These transactions represent a further migration of risk out of the regulated banking sector to private credit funds. This move that ultimately houses assets with long-term investors is difficult to track system-wide.
- These tools avoid potential capital costs from discounted loan sales, but can come at the expense of future NII.
- The uncertain outlook for bank regulatory capital rulemaking may also be playing a role in limiting loan sales.

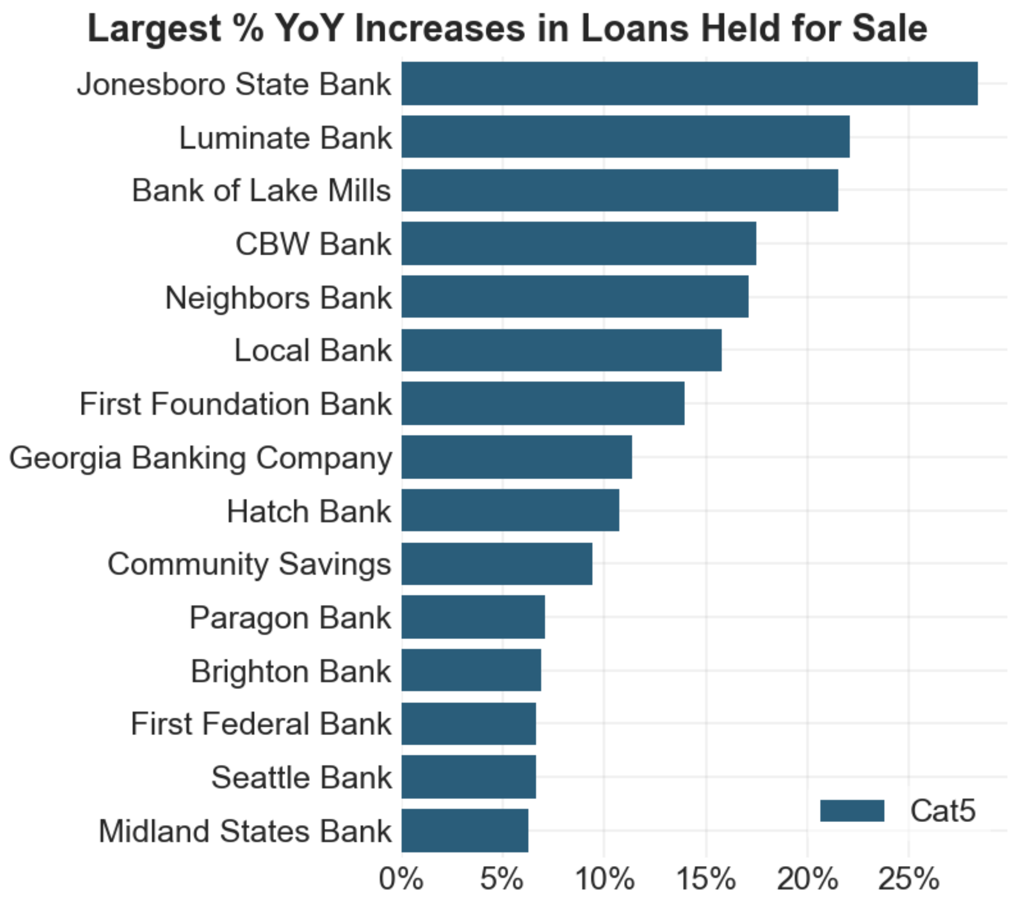


Source: BankRegData and Cadwalader, Wickersham & Taft LLP.

Assets

SCALING DOWN: LOANS FOR SALE





Source: BankRegData and Cadwalader, Wickersham & Taft LLP.

Note: Measures the level change in loans-held-for-sale-as-a-percentage-of-total-loans metric.

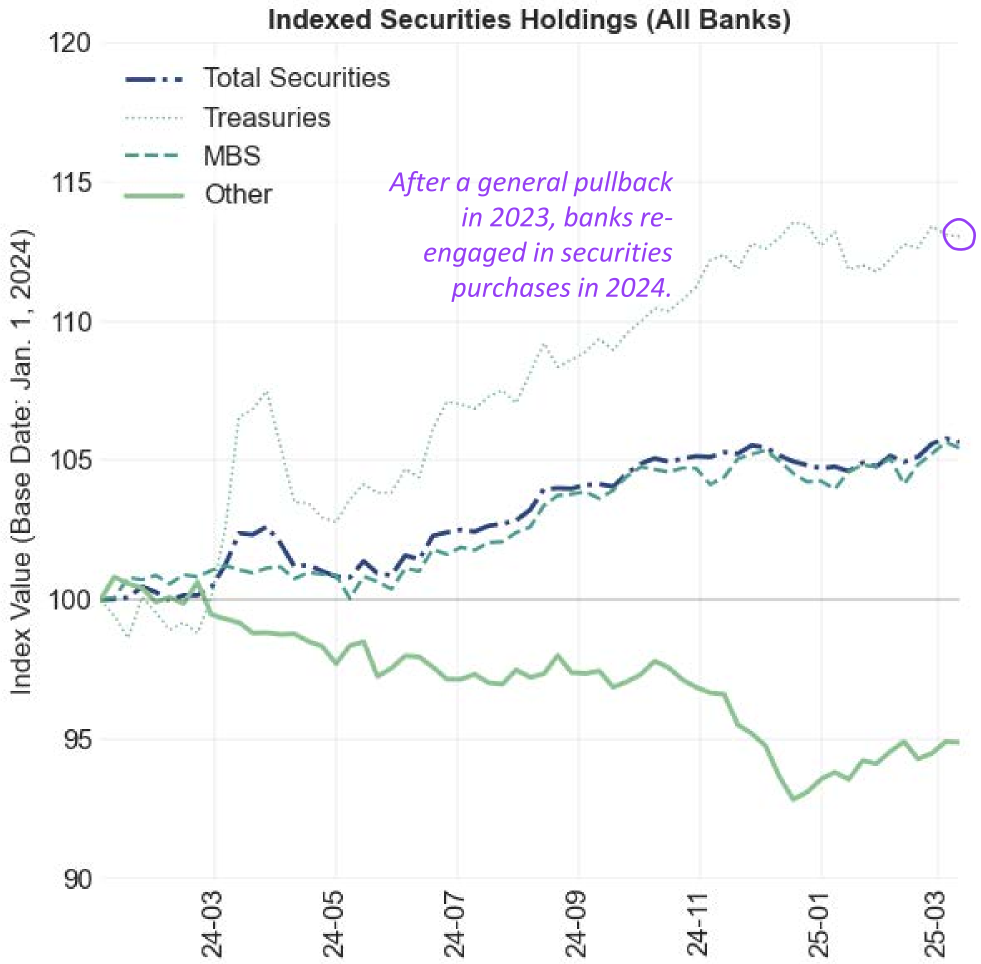
PC PORTFOLIO TRADES

- The choice between raising more costly debt capital or deleveraging through asset sales is being resolved in some cases through loan portfolio sales to private credit sponsors. These sales could accelerate if interest rates hold at or rise from current levels.
- Loan portfolio sale terms are generally limited to a press-release level of detail and can leave open questions, such as: (1) How much credit risk stays with the bank through seller financing? (2) If the sale includes a future flow joint venture, how is decision-making shared and how will the loan profile change (i.e., credit quality and duration)? (3) Are there any contingent outs for the sponsor like putback options or MAC clauses? (4) What are the servicing arrangements and how will the client experience be affected by the sale?
- In addition to loan sales, banks have launched joint ventures with private credit funds. In some configurations, these amount to balance sheet outsourcing. Under these arrangements, the existing bank origination infrastructure and relationships continue, while the assets are ultimately housed on a private credit balance sheet.
- Private credit joint ventures are an analog to securitization as an outlet for bank-originated loans. But a fund/sponsor wrapper in place of tranched securities may mean more income accrues to the sponsor (management fee and carried interest) compared to the bank in securitization (gain on sale, secondary trading, trustee and servicing).

Date	Seller	Buyer	Amount ($bn)	Loan Asset Class
Feb 2025	Flagstar Bank	Lone Star	0.3	NYC CRE
Jan. 2025	Flagstar Bank	Cantor	0.1	Rent-stabilized multifamily
Dec. 2024	Valley National	Brookfield	0.9	CRE loans
Sept. 2024	Cross River Bank	Keystone	0.2	NYC multifamily and office
July 2024	Discover Bank	Carlyle & KKR	10.8	Prime private student loans
March 2024	UBS	Apollo	8.0	Senior secured financing facilities
Feb. 2024	Barclays PLC	Blackstone	1.1	Credit card receivables and forward flow
Jan. 2024	Truist Bank	Carlyle	0.4	Student loans
Dec. 2023	BMO Bank	KKR	7.0	RV loans
Aug. 2023	Synovus Bank	KKR	0.4	Prime auto
July 2023	Synovus Bank	Kayne Anderson	1.3	Medical office
July 2023	Goldman Sachs	Varde Partners	1.0	Unsecured personal loans
June 2023	PacWest Bancorp	Ares Management	3.5	Consumer, single-family mortgage, and timeshare
June 2023	PacWest Bancorp	Kennedy Wilson	5.7	Construction loans

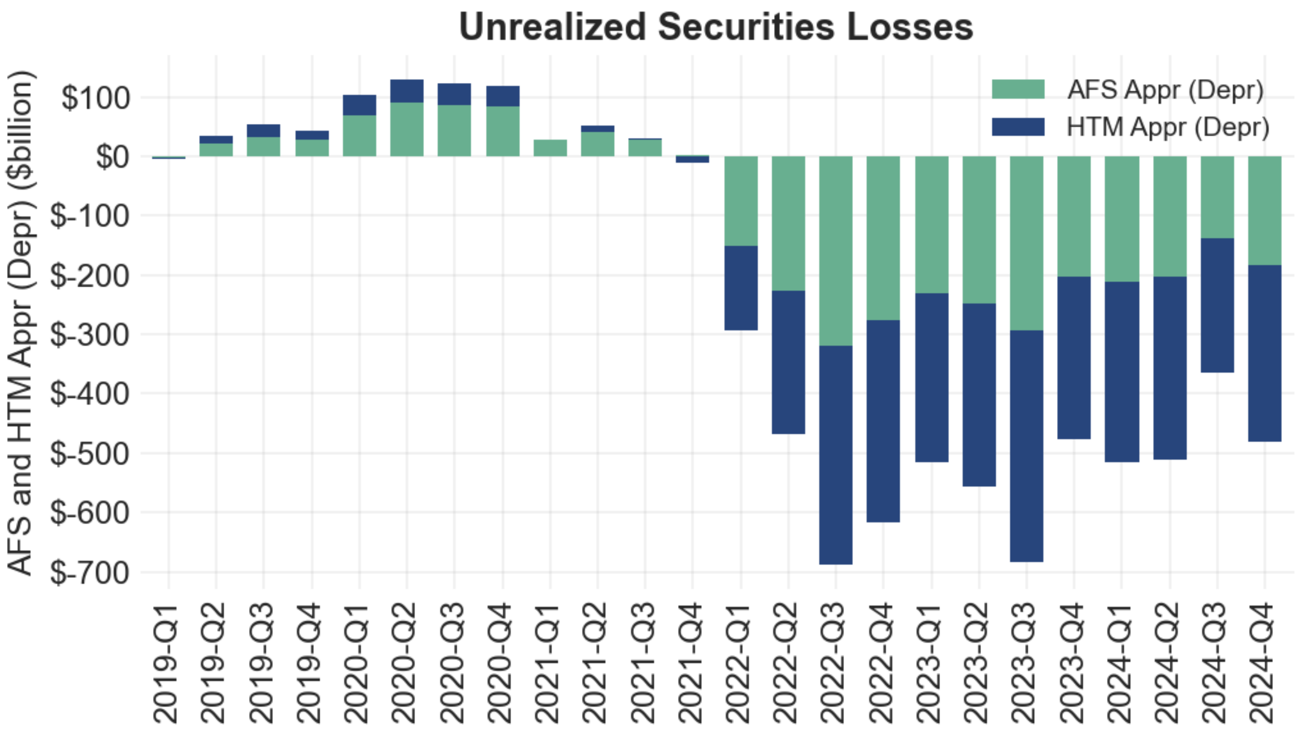
A SECURITIES REBOUND

- Bank securities holdings rebounded in 2024 with Treasury positions industry-wide growing 14% year-over-year. Banks also net added MBS (up 1.5%) and “other securities” (up 3.1%).
- As Fed rate cut expectations were pushed back during the year, SOFR forward curves shifted higher, likely supporting interest in floating-rate securities like CLOs.
- Sluggish loan growth and near-term economic uncertainty may support continued preference for short-duration Treasuries in 2025.
- Tariffs have the potential to chip away at historic capital flows that saw foreign trade surpluses being plowed into U.S. Treasury purchases. Policymakers may goal seek to have the banking system absorb a greater share of the deficit-driven Treasury issuance. A permanent exemption for Treasuries from the SLR denominator is under consideration, and has received some indication of support from Scott Bessent.



Source: Federal Reserve and Cadwalader, Wickersham & Taft LLP.

SECURITIES



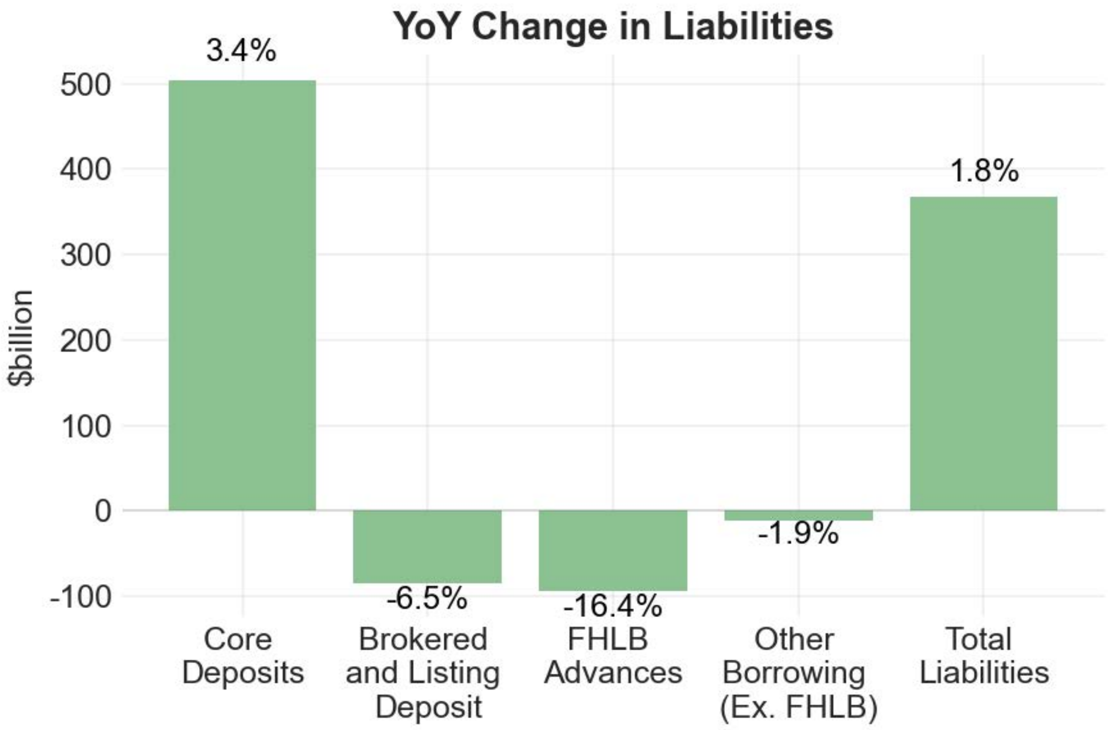
Source: BankRegData and Cadwalader, Wickersham & Taft LLP.

- By the time unrealized securities losses were disclosed in Q4 call reports, Treasury yields had already turned lower, although the rally has since lost momentum.
- While this indicator has lost the significance it carried in early 2023 when unrealized securities losses exacerbated the liquidity stress from deposit outflows, it can be an encumbrance to mergers by reducing the fair value of a target's assets.
- The proposal to remove the AOCI opt-out for Cat3 and Cat4 has not been finalized. Therefore, banks not following the advanced approach and those that fall into Cat3 and below may still elect to opt out of including AOCI in their regulatory capital calculations.

LIABILITY: COSTS EASE

Further improvements in the liability mix and funding costs look likely in 2025 but the pace may slow for a few reasons:

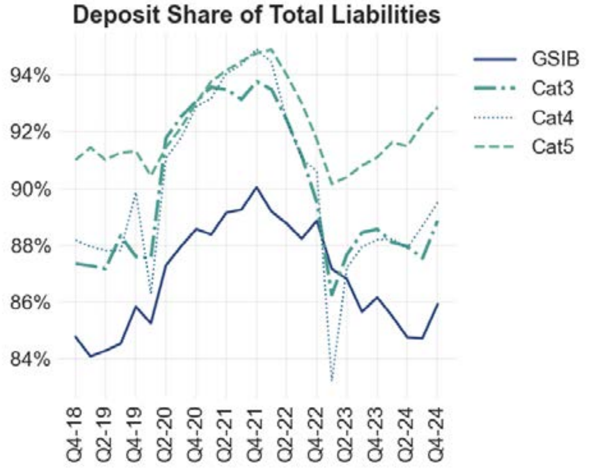
- **Yield curve.** Progress on inflation stalled in 2024 only now to be followed by potential tariff-induced price increases.
- **Structural.** The federal deficit running at 6-7% of GDP—an anomaly outside of global war or a recession—will maintain upward pressure on Treasury supply, independent of the taper in QT. As the buffer of the RRP is drained, Treasury issuance will more directly compete with bank deposits for funding.
- **Forward outlook.** The Fed may have to cut rates because of slow growth in 2025 in the face of above-target inflation, which could short-end funding costs but potentially at lower downward betas because of real return-minded competitive pressure.
- **Conditioning.** Depositors have learned to move quickly between money market funds, short-term fixed income, and fintech alternatives.

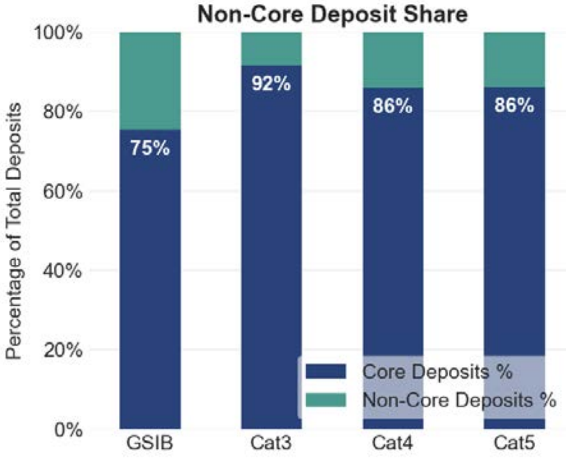


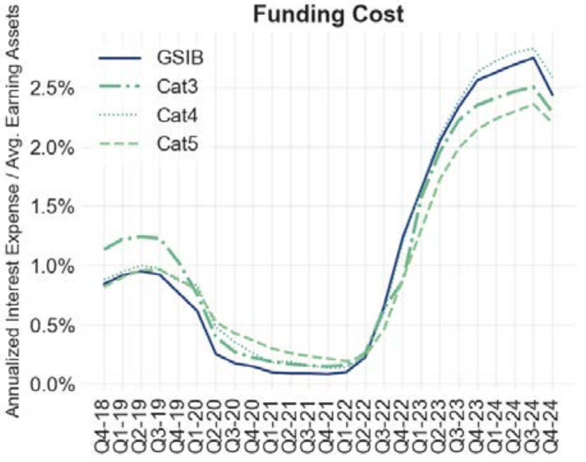
Source: BankRegData and Cadwalader, Wickersham & Taft LLP.

Liabilities

FUNDING OVERVIEW







Deposits

	GSIB	Cat3	Cat4	Cat5	Total
Depos. ($tn)	8.7	2.6	1.9	5.6	18.8
Chained Quarter Change Deposits					
Q4-23	2.2%	0.0%	0.3%	1.8%	1.6%
Q1-24	1.4%	-0.4%	0.8%	0.9%	1.0%
Q2-24	-1.6%	-2.1%	-0.9%	0.3%	-1.0%
Q3-24	1.4%	0.8%	1.1%	1.8%	1.4%
Q4-24	0.3%	1.0%	0.7%	1.1%	0.7%
YoY Change in Deposits					
2020	25%	41%	22%	13%	23%
2021	9%	12%	30%	5%	11%
2022	-3%	-4%	-6%	-1%	-3%
2023	0%	3%	-20%	0%	-2%
2024	2%	-1%	2%	4%	2%

Core Deposit % of Total Liabilities

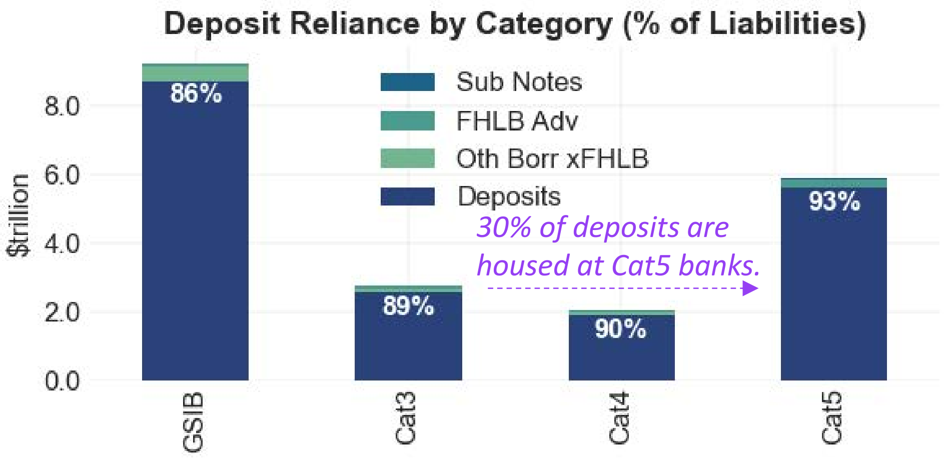
	GSIB	Cat3	Cat4	Cat5	Total
Core Dep.%	65%	82%	77%	80%	73%
Chained Quarter Change in Core Deposits					
Q4-23	0.5%	-0.4%	-0.5%	0.7%	0.3%
Q1-24	1.8%	0.2%	0.2%	0.6%	1.0%
Q2-24	-1.6%	-2.1%	-1.0%	0.1%	-1.1%
Q3-24	1.2%	1.1%	1.3%	1.6%	1.3%
Q4-24	2.3%	1.5%	1.0%	1.5%	1.8%
YoY Change in Core Deposits					
2020	33%	50%	25%	17%	28%
2021	15%	21%	36%	8%	16%
2022	-6%	-3%	-8%	-4%	-5%
2023	-6%	-1%	-23%	-6%	-7%
2024	4%	1%	2%	4%	3%

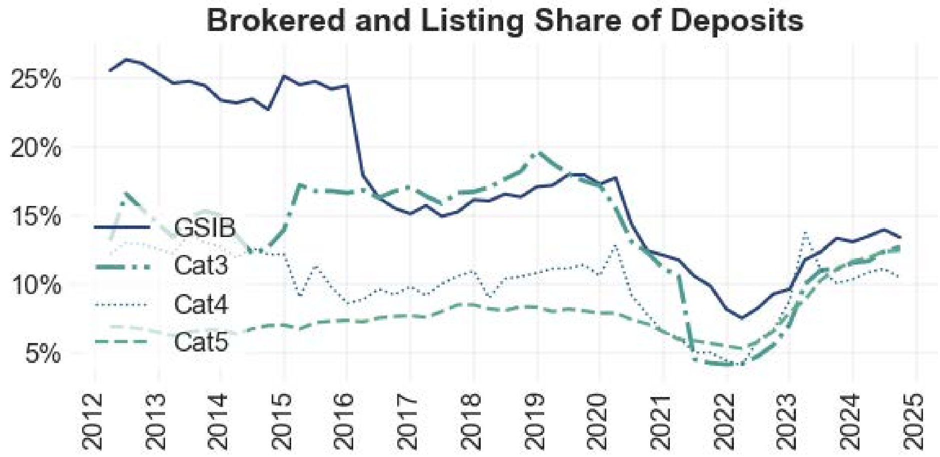
Funding Cost (Int. Ext / Avg Earning Assets)

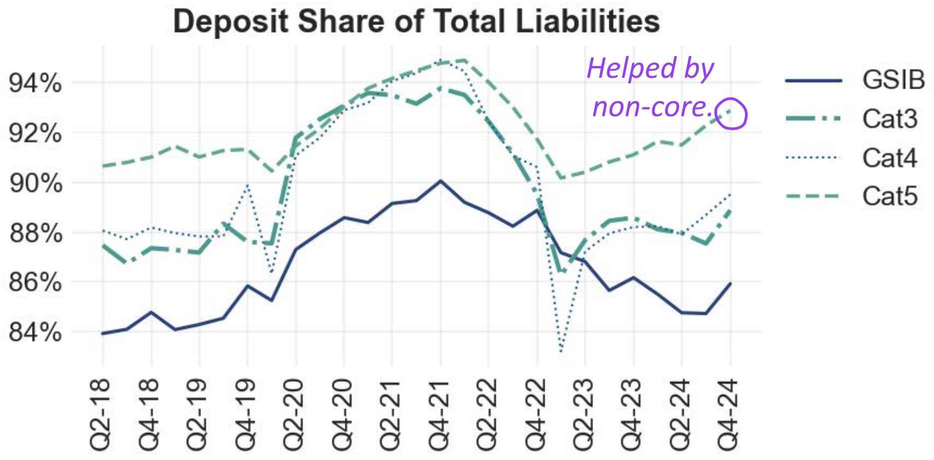
	GSIB	Cat3	Cat4	Cat5	Total
Funding Cost	2.44%	2.29%	2.59%	2.20%	2.37%
Quarterly Change (bps)					
Q4-23	51.3	39.3	53.5	42.3	47.0
Q1-24	29.4	18.7	34.4	24.9	27.2
Q2-24	13.2	11.5	16.4	14.8	13.8
Q3-24	12.2	9.3	10.4	12.1	11.6
Q4-24	-25.5	-17.7	-20.8	-9.6	-19.4
YoY Change (bps)					
2020	-62.0	-80.6	-60.9	-51.4	-60.8
2021	-6.3	-7.3	-11.9	-15.2	-9.8
2022	115.3	71.8	105.7	67.0	94.7
2023	132.3	148.5	143.5	126.3	133.6
2024	10.5	6.7	20.3	21.4	14.1

Source: BankRegData and Cadwalader, Wickersham & Taft LLP.

LIABILITY MIGRATION





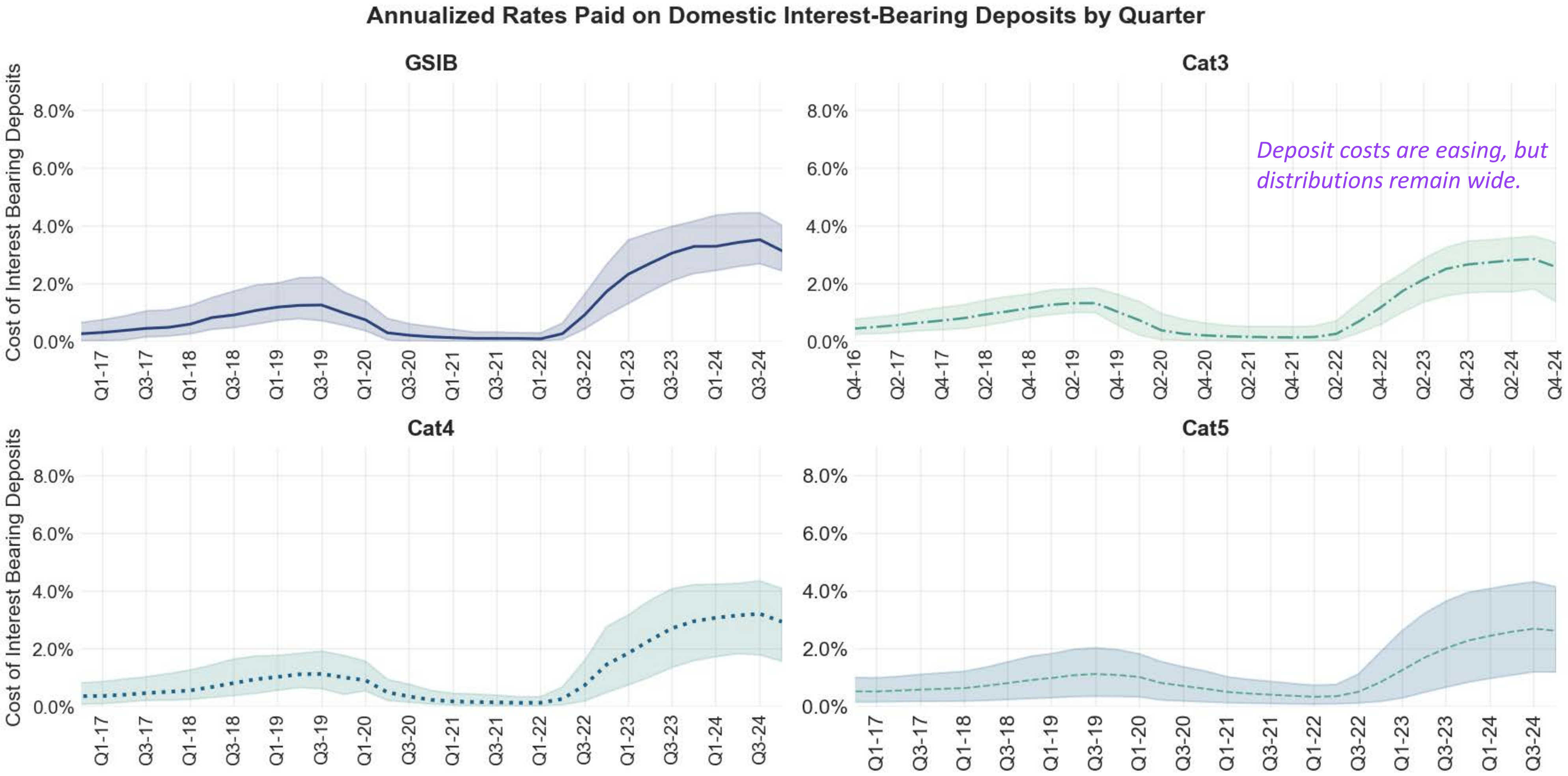


- Deposit levels improved in 2024 and eased reliance on wholesale funding, particularly for community banks.
- The outflow of abundant and cheap core deposits had been a key theme in 2023-2024.
- While the change was abrupt, deposit mix is largely returning to pre-covid norms.

Source: BankRegData and Cadwalader, Wickersham & Taft LLP.

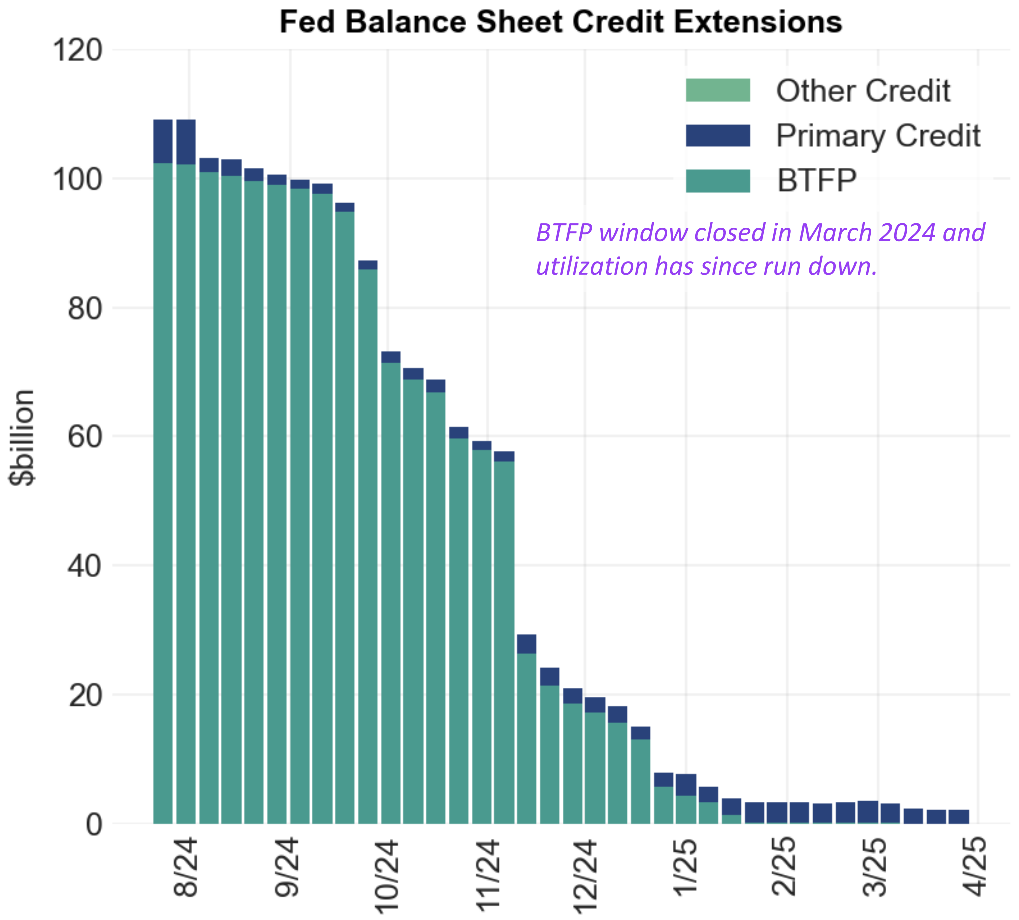
Liabilities

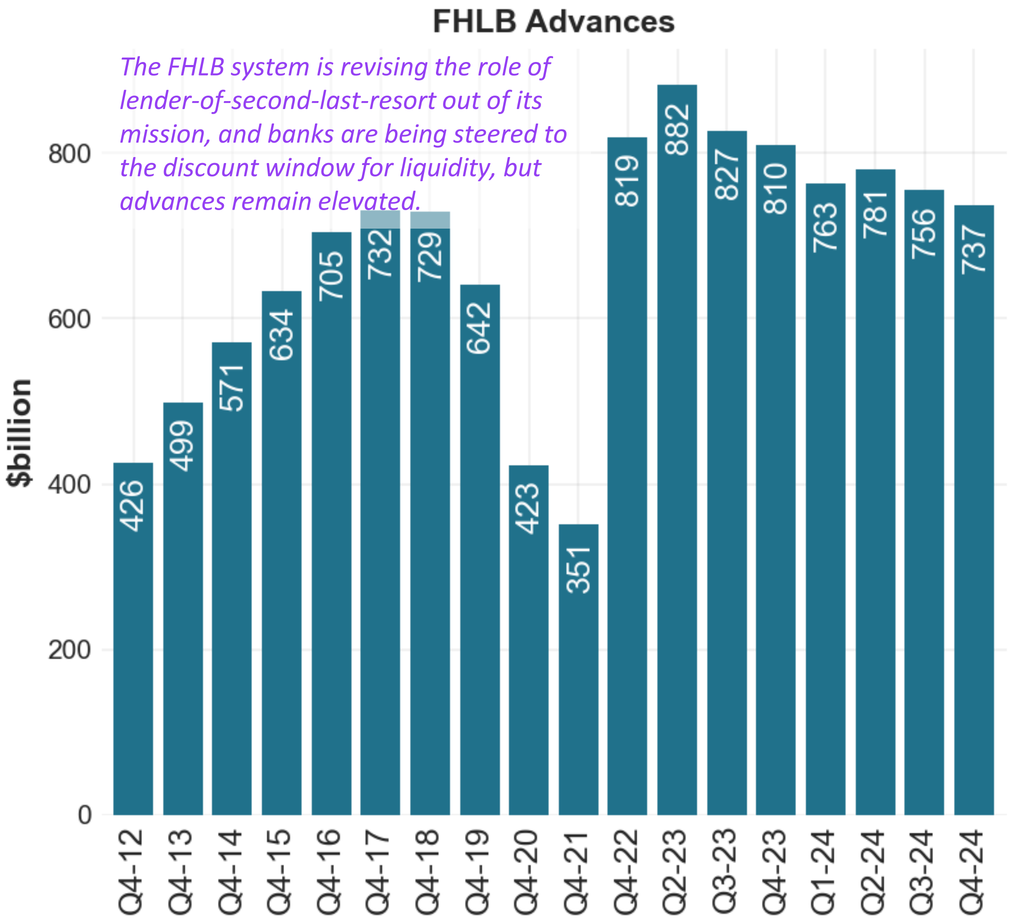
LIABILITY MIGRATION



Shaded area represents 90th percentile.
Source: BankRegData and Cadwalader, Wickersham & Taft LLP.

SECURED BORROWING

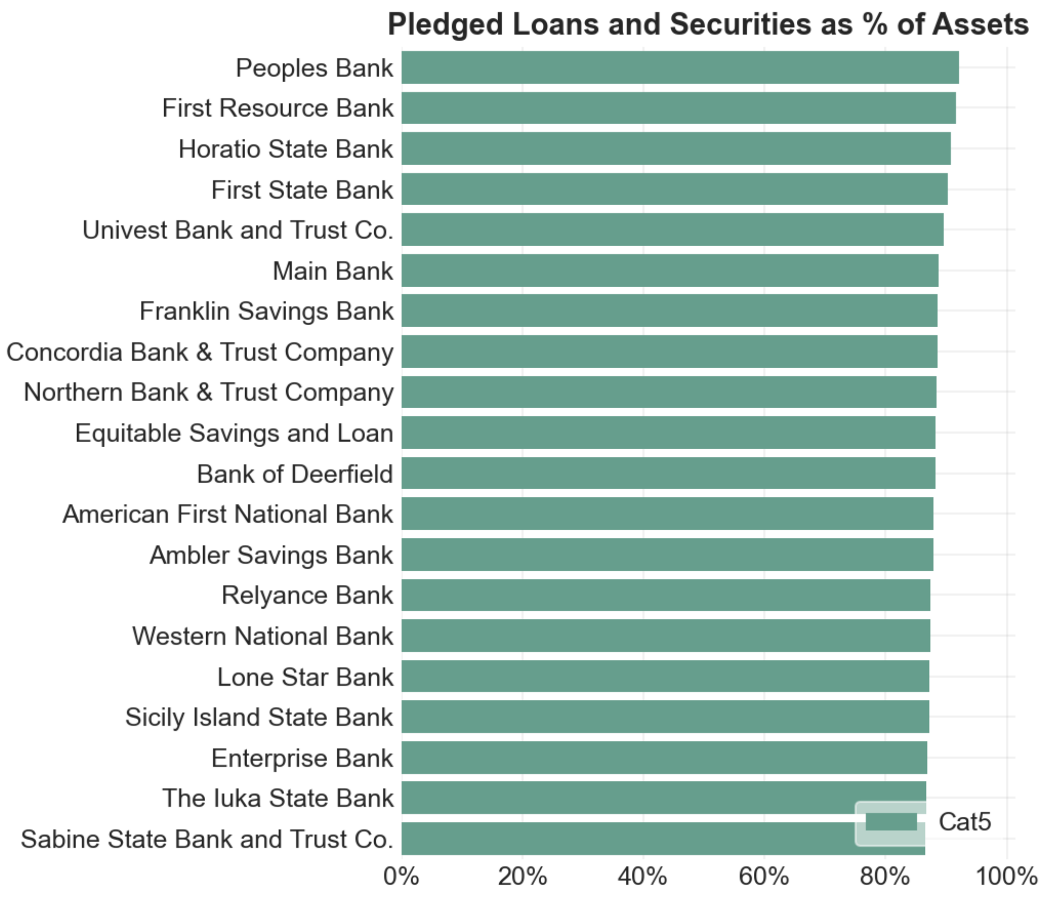




Source: Federal Reserve, FHLBanks Office of Finance and Cadwalader, Wickersham & Taft LLP.

Liabilities

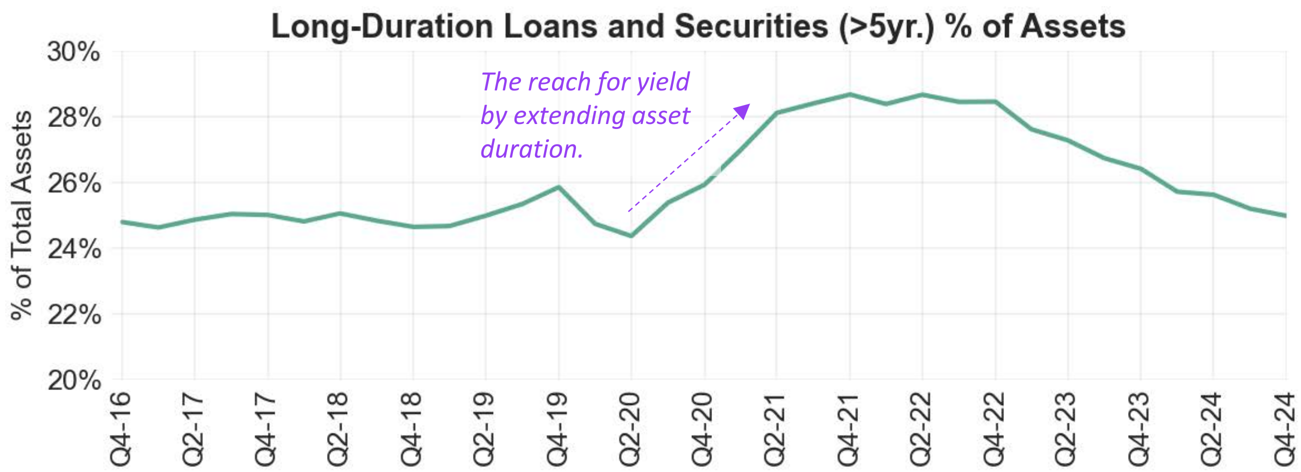
FINITE LIQUIDITY

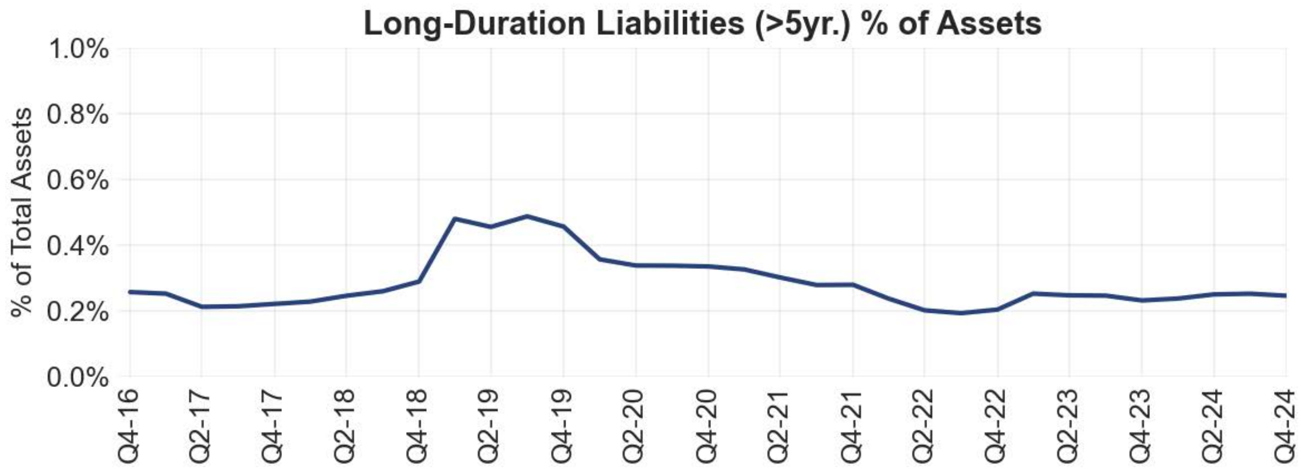


Source: BankRegData and Cadwalader, Wickersham & Taft LLP.

- A number of Category 5 banks have pledged 80% or more of total assets. The credit card is maxed out.
- Financing cost on securities, in many cases, exceeds underlying yields.
- Negative leverage financing provides immediate liquidity at the cost of future NII.

ASSET DURATION



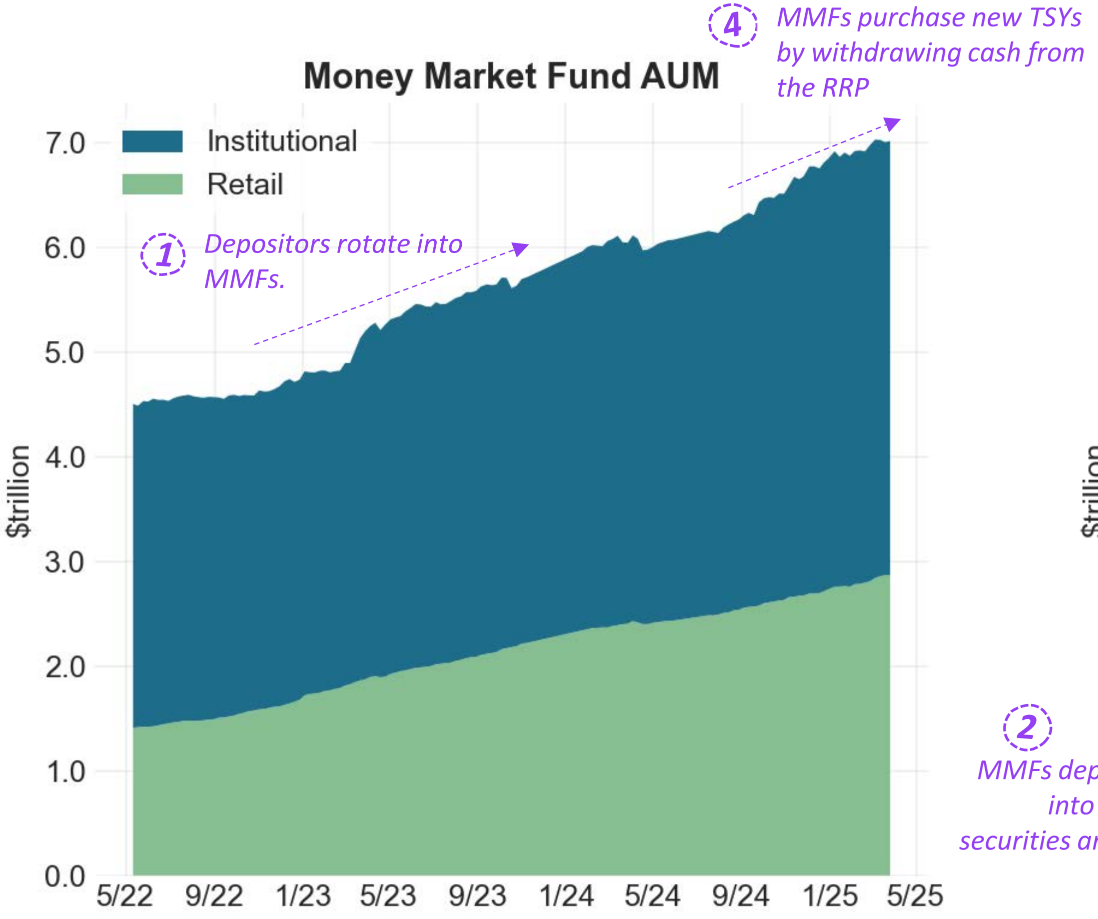


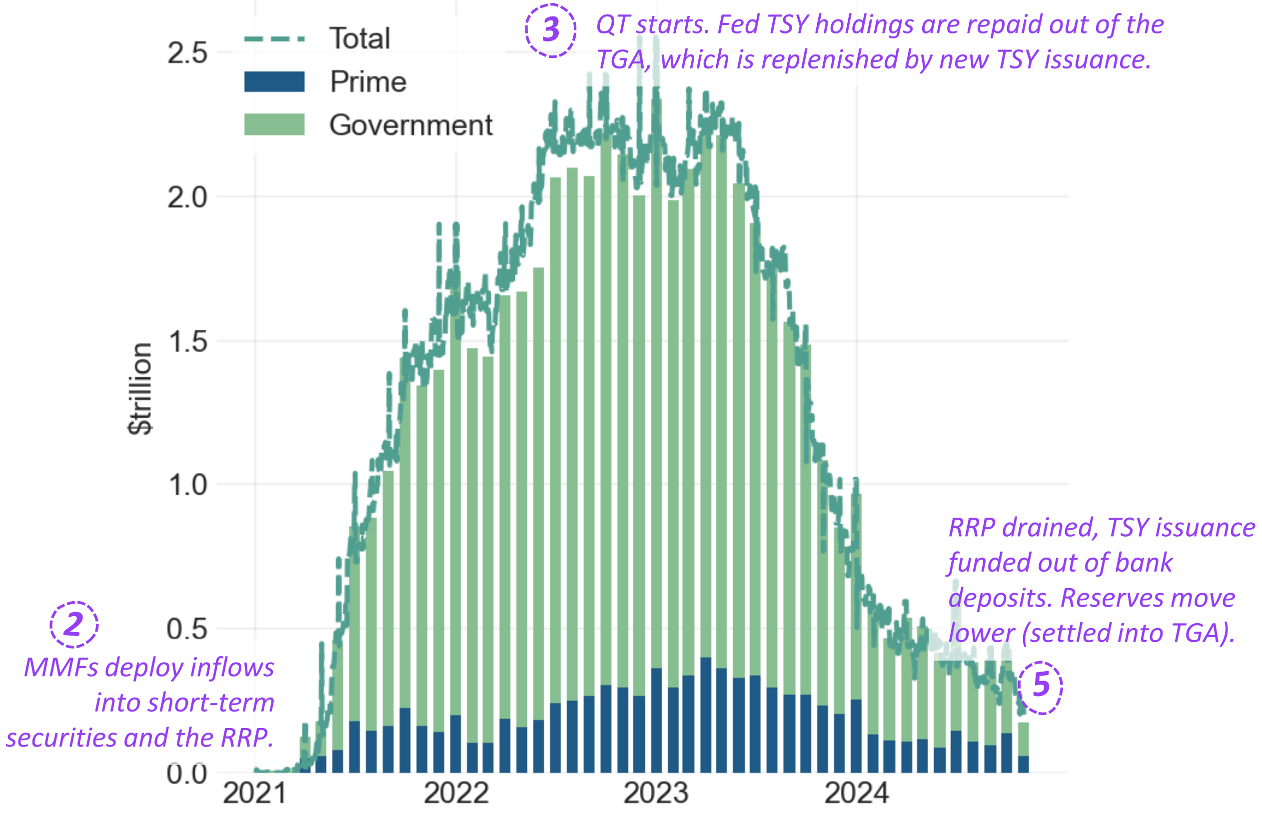
Source: BankRegData and Cadwalader, Wickersham & Taft LLP.

- Banks reached for yield by adding asset duration during 2020-2022.
- Lengthening asset duration came mostly from growth in mortgage-backed securities, but also from single-family residential loans, and commercial real estate lending.
- This asset duration extension was not accompanied by a lengthening of liability duration. This became an obvious problem in Q1 2023, but wasn't confined to just a handful of institutions.
- Asset duration has improved over the past four quarters, but there are likely significant variability in balance sheet adjustments below the surface.

Liabilities

COMPETING WITH UNCLE SAM

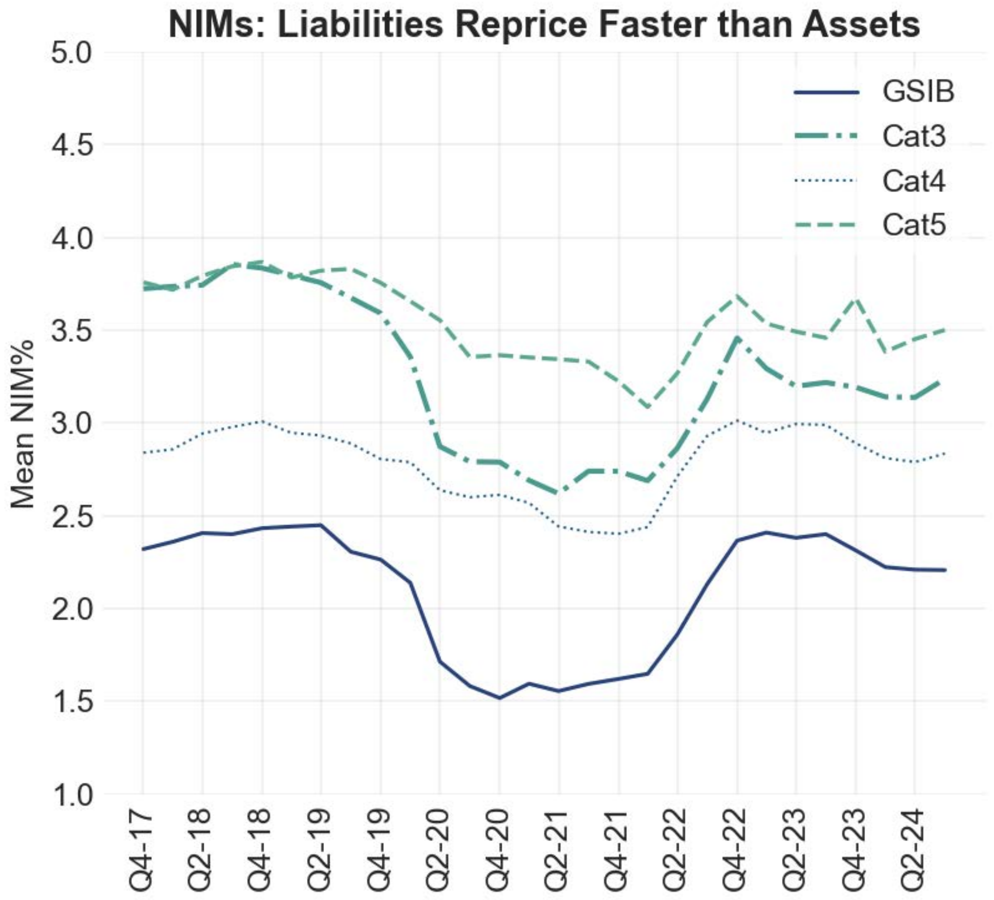




Source: Investment Company Institute, Office of Financial Research, and Cadwalader, Wickersham & Taft LLP.

PROFITABILITY: EXPECT DELAYS

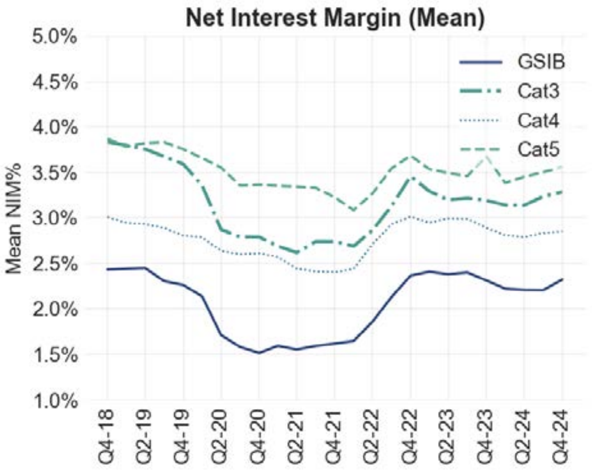
- Asset yields have been slow to catch up to the increase in liability costs over the past 18 months. Tepid loan growth slowed asset redeployment. NIM and profitability measures have lagged expectations.
- Over time, assets will continue to reprice higher, but the impact will depend on institution asset mix, with single-family mortgage loans and mortgage-backed securities slower to turn over.
- Consensus expectation for imminent rate cuts have repeatedly run into the buzzsaw of persistent inflation. A re-steepening in the yield curve, when it arrives, may help probability, but needs to be viewed in context: (1) In a bull-steepener scenario (downgraded growth and inflation expectations prompt rate cuts), credit performance could come under pressure with a rise in charge-offs. (2) In a bear-steepener scenario (fading demand for long-duration bonds possibly due to Treasury coupon issuance), commercial real estate values and loan performance could decline further.
- These challenges to profitability make a strong case for consolidation as an option for putting into play economies of scale across technology, operations, compliance, etc. Bank mergers currently face significant obstacles, but could be an important variable in the future to the profitability outlook.

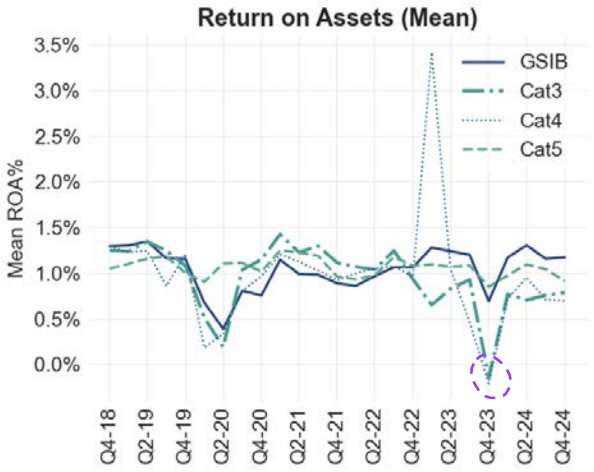


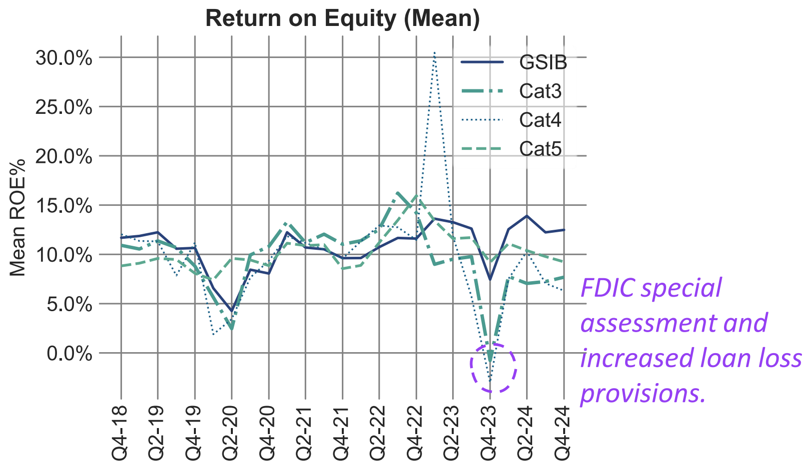
Source: BankRegData and Cadwalader, Wickersham & Taft LLP.

Profitability

PROFITABILITY







Net Interest Margin

	GSIB	Cat3	Cat4	Cat5	Total
NIM	2.32%	3.29%	2.85%	3.56%	3.01%
Chained Quarter Change NIM (bps)					
Q4-23	-8.8	-2.5	-9.9	21.5	0.1
Q1-24	-9.0	-5.2	-8.0	-29.0	-12.8
Q2-24	-1.4	-0.3	-2.2	6.8	0.8
Q3-24	-0.2	9.9	4.6	4.9	4.8
Q4-24	11.6	4.9	1.6	6.0	6.0
YoY Change in NIM (bps)					
2020	-74.6	-80.2	-19.3	-39.0	-53.3
2021	10.3	-4.9	-21.0	-14.0	-7.4
2022	74.6	71.8	61.0	45.8	63.3
2023	-5.3	-26.6	-12.3	-0.9	-11.3
2024	1.1	9.3	-4.0	-11.3	-1.2

Return on Assets

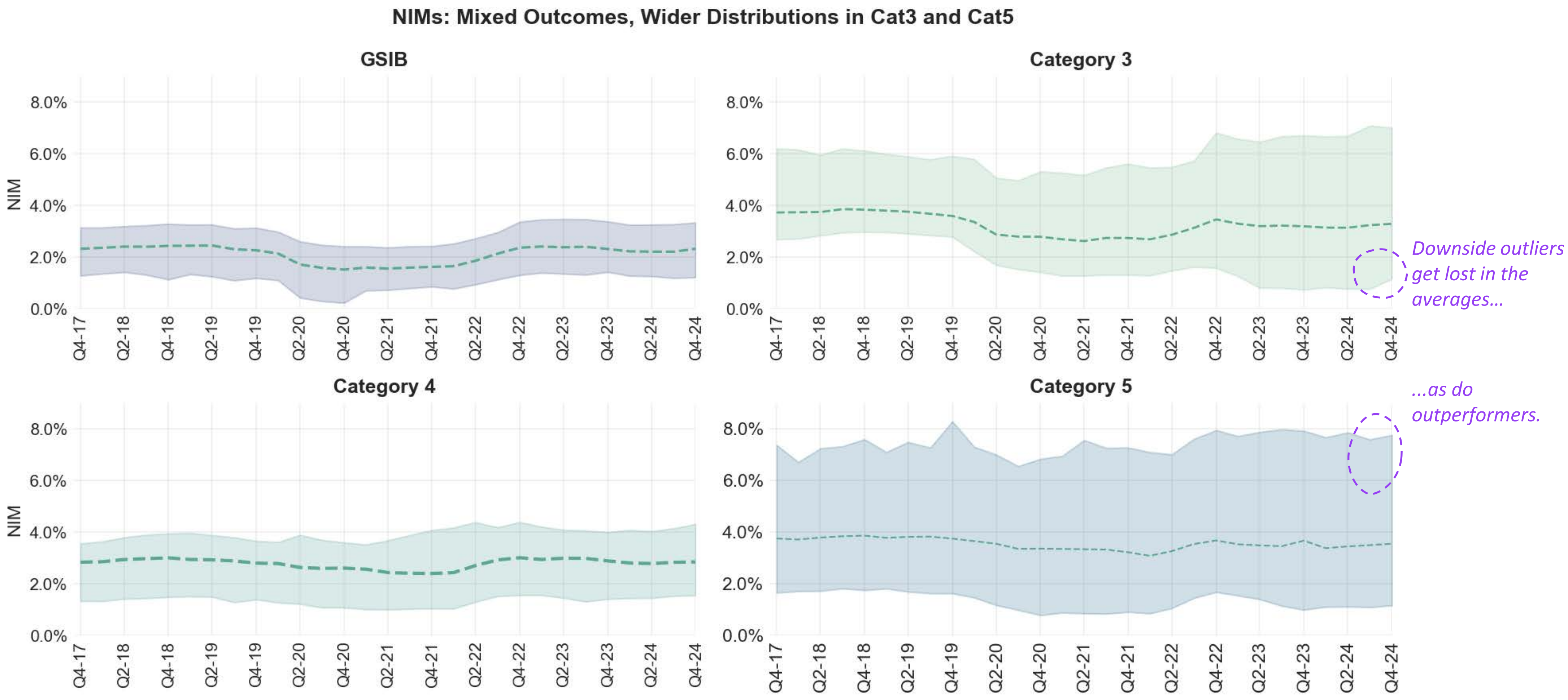
	GSIB	Cat3	Cat4	Cat5	Total
ROA	1.17%	0.79%	0.70%	0.87%	0.88%
Chained Quarter Change ROA (bps)					
Q4-23	-50.6	-106.8	-67.0	-23.3	-61.9
Q1-24	47.6	91.1	92.3	12.6	60.9
Q2-24	13.5	-6.5	23.8	12.0	10.7
Q3-24	-14.9	5.2	-24.3	-5.3	-9.8
Q4-24	1.5	2.8	-0.6	-16.9	-3.3
YoY Change in ROA (bps)					
2020	-40.0	6.7	-24.2	1.6	-14.0
2021	13.2	-3.6	-4.2	-5.6	-0.1
2022	17.5	-18.1	3.4	12.0	3.7
2023	-37.0	-107.2	-116.5	-23.0	-70.9
2024	47.8	92.6	91.2	2.3	58.5

Return on Equty

	GSIB	Cat3	Cat4	Cat5	Total
ROE	12.48%	7.68%	6.31%	9.24%	8.93%
Chained Quarter Change ROE (bps)					
Q4-23	-517	-1,054	-869	-251	-673
Q1-24	510	853	1,051	190	651
Q2-24	136	-71	279	-70	68
Q3-24	-167	19	-323	-61	-133
Q4-24	25	44	-76	-54	-15
YoY Change in ROE (bps)					
2020	-259	200	-185	78	-42
2021	156	22	23	-30	43
2022	198	319	188	740	362
2023	-416	-1,498	-1,446	-677	-1,009
2024	504	845	930	5	571

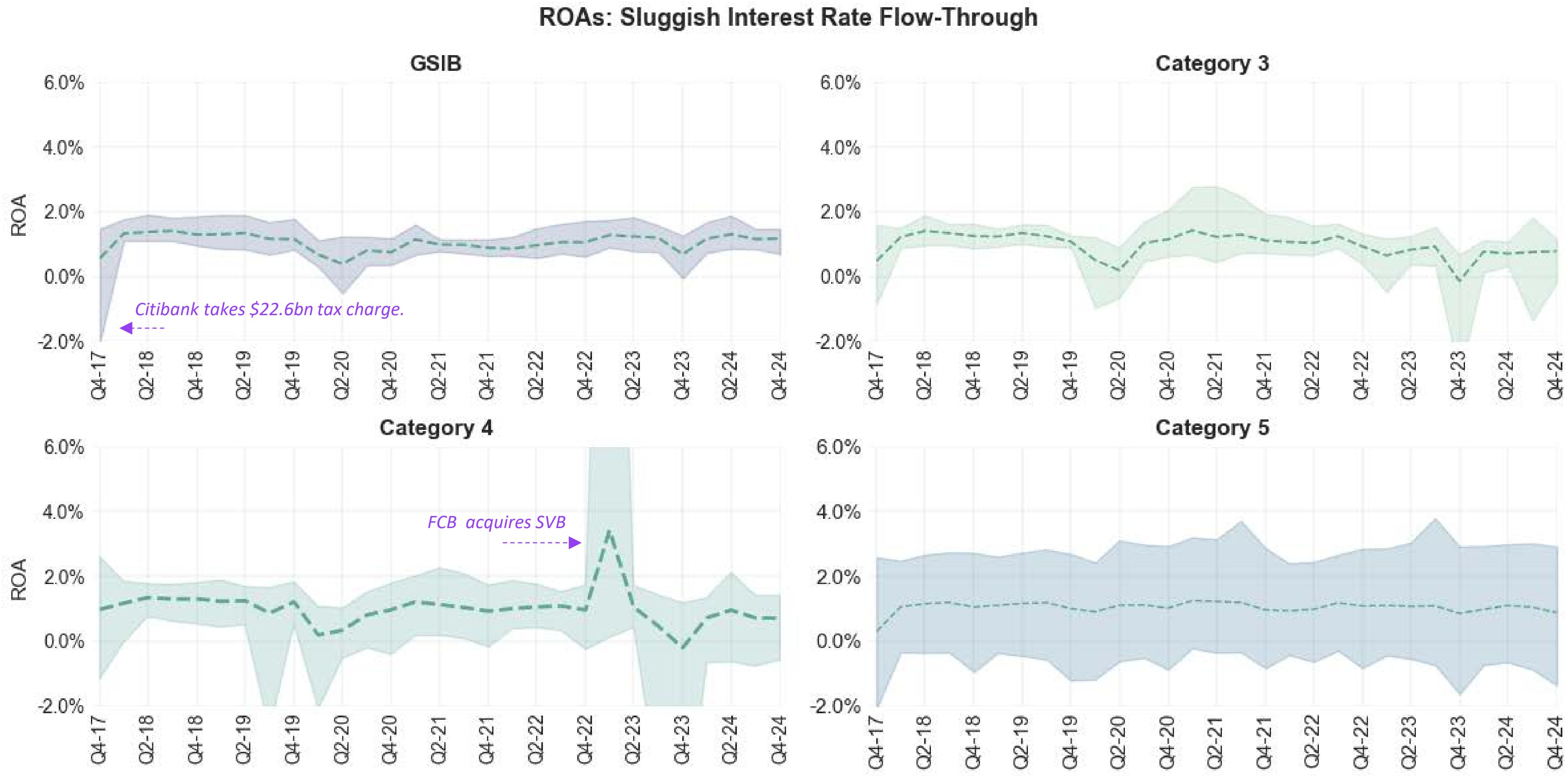
Source: BankRegData and Cadwalader, Wickersham & Taft LLP.

PROFITABILITY



Total interest income less total interest expense (annualized) as a percent of average assets. Shaded area represents 99th percentile.
Source: BankRegData and Cadwalader, Wickersham & Taft LLP.

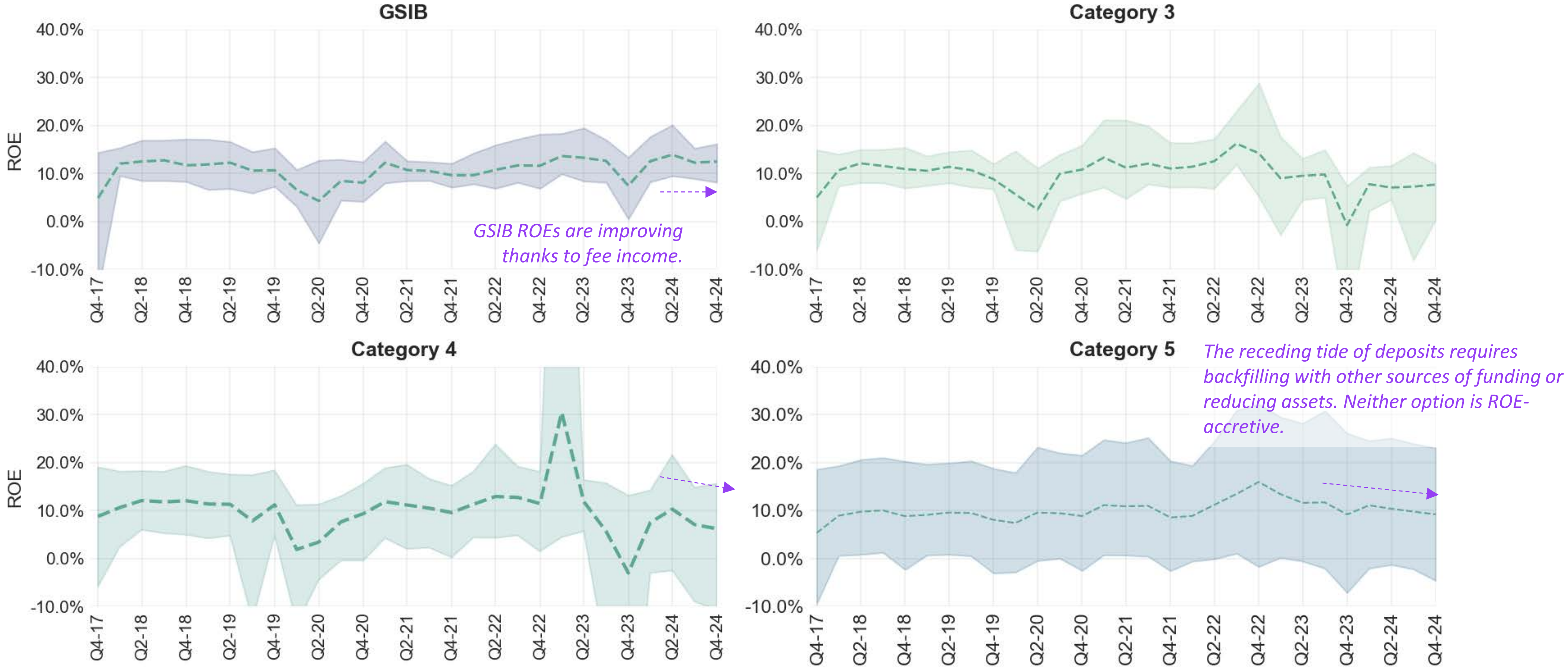
PROFITABILITY



Net income after taxes and extraordinary items (annualized) as a percent of average total assets. Shaded area represents 90th percentile.
Source: BankRegData and Cadwalader, Wickersham & Taft LLP.

PROFITABILITY

Higher Rates Not an Automatic Boost: ROE Mostly Lower



Annualized net income as a percent of average equity on a consolidated basis. Shaded area represents 90th percentile.
Source: BankRegData and Cadwalader, Wickersham & Taft LLP.

Credit

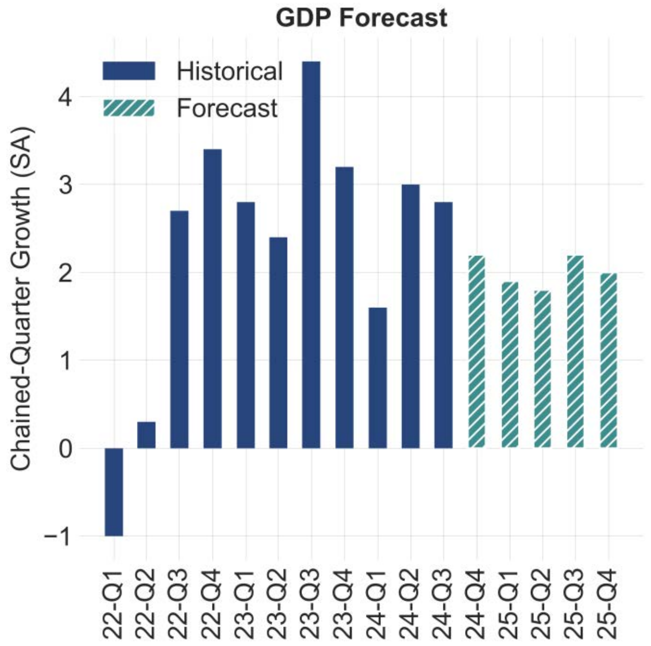
CREDIT: COMPLICATED

Rearview mirror credit trends look benign. The forward outlook, on the other hand, includes:

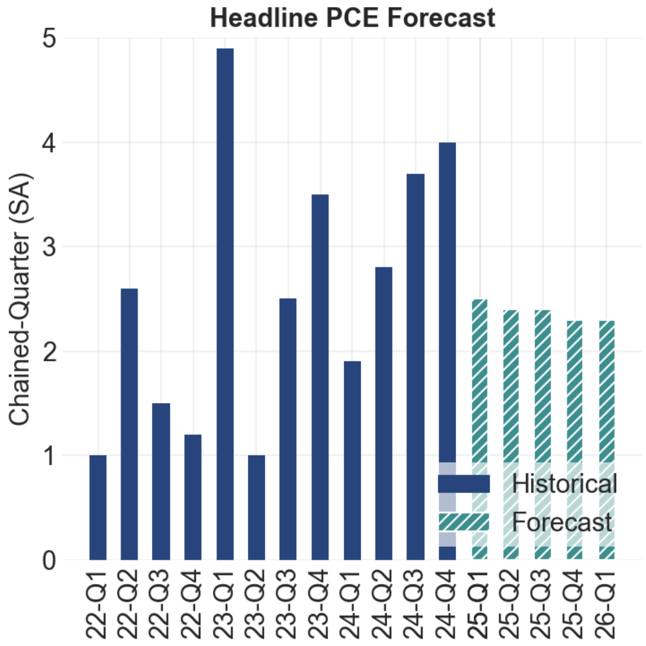
- A sequential fiscal policy approach prioritizing spending reductions and low yields in the near term, not growth.
- A decelerating employment trend that will impact consumer-linked sectors.
- An evolving CRE credit cycle continuing to play out in non-performing loan trends.
- An uptick in corporate bankruptcies consistent with tightening credit availability and rising interest costs.

CONSENSUS FORECAST SUMMARY

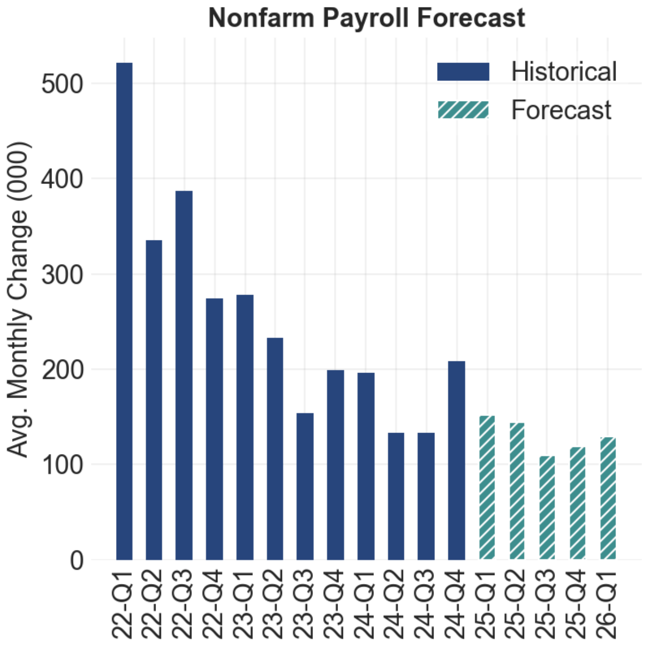
The consensus real GDP forecast of 2.5% for Q1 in the Philly Fed Survey is out of step with decelerating fundamentals. Similar to the stock market action, post-election growth expectations are fading somewhat.



Inflation accelerated throughout 2024. Forecasters look set to, once again, underestimate inflation.



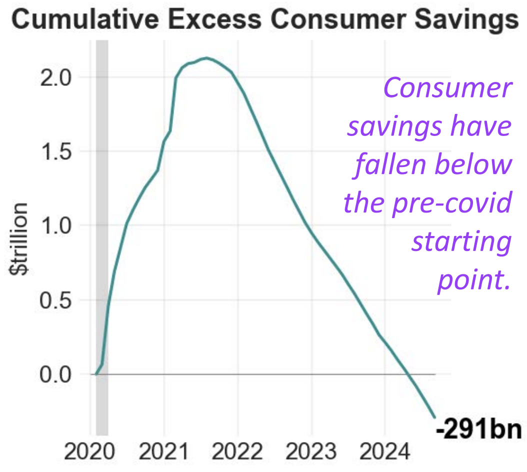
Job growth is expected to slow further.

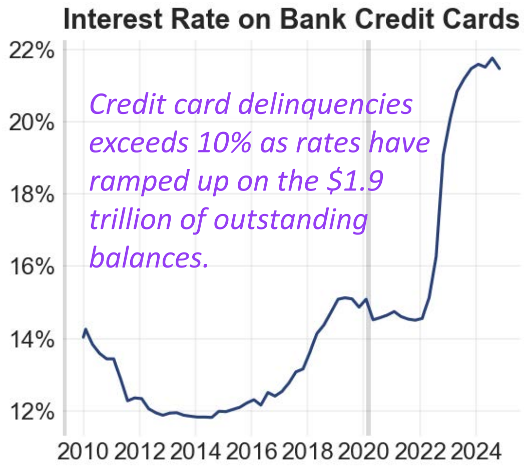


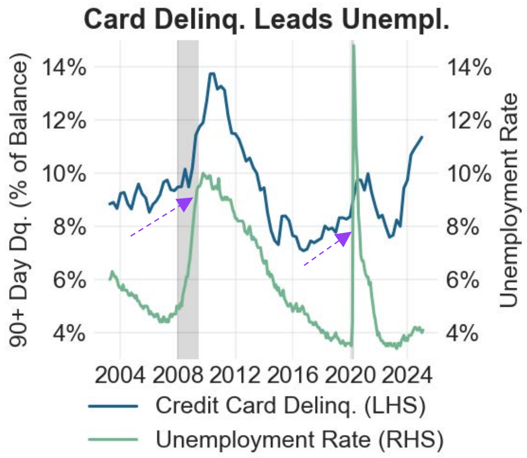
Sources: Bureau of Economic Analysis, Federal Reserve Bank of Philadelphia, National Bureau of Economic Research and Cadwalader, Wickersham & Taft LLP.

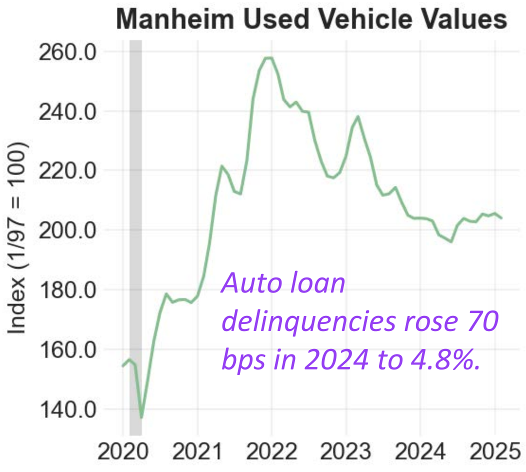
Credit

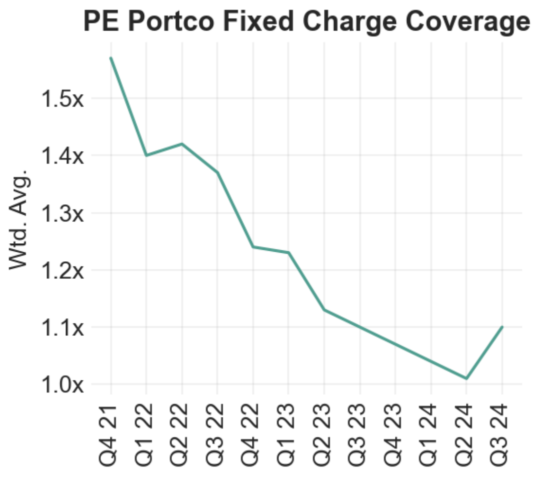
BEYOND THE HEADLINES

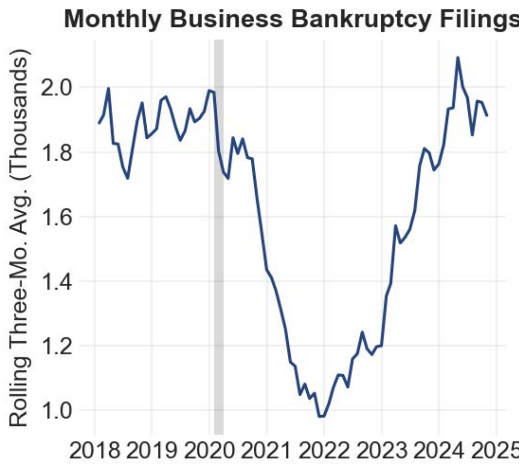


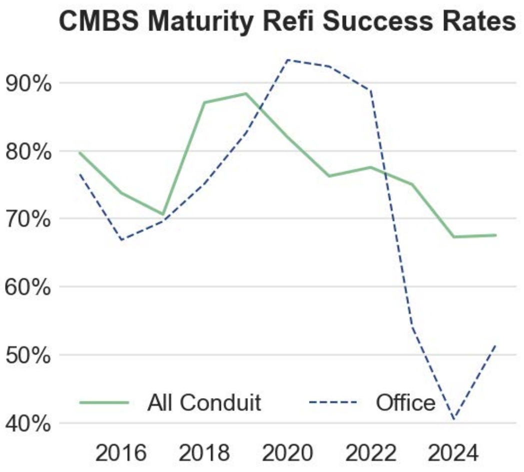






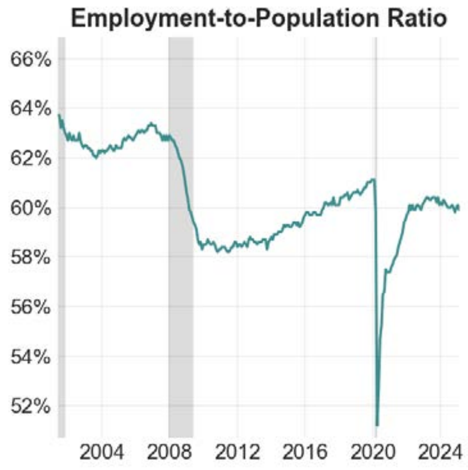


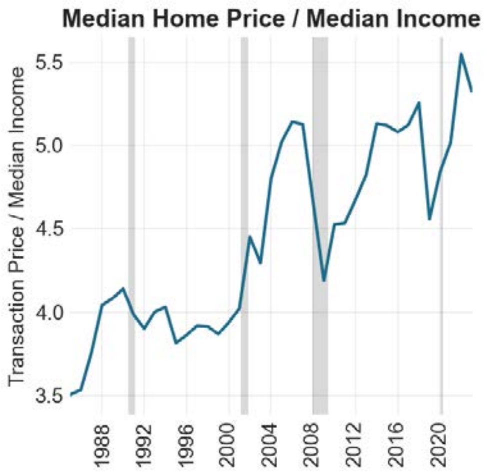




Source: Administrative Office of the U.S. Courts, Board of Governors of the Federal Reserve System, Federal Reserve Bank of San Francisco, JP Morgan CMBS Research, Lincoln International, Manheim and Cadwalader, Wickersham & Taft LLP.

BEYOND THE HEADLINES



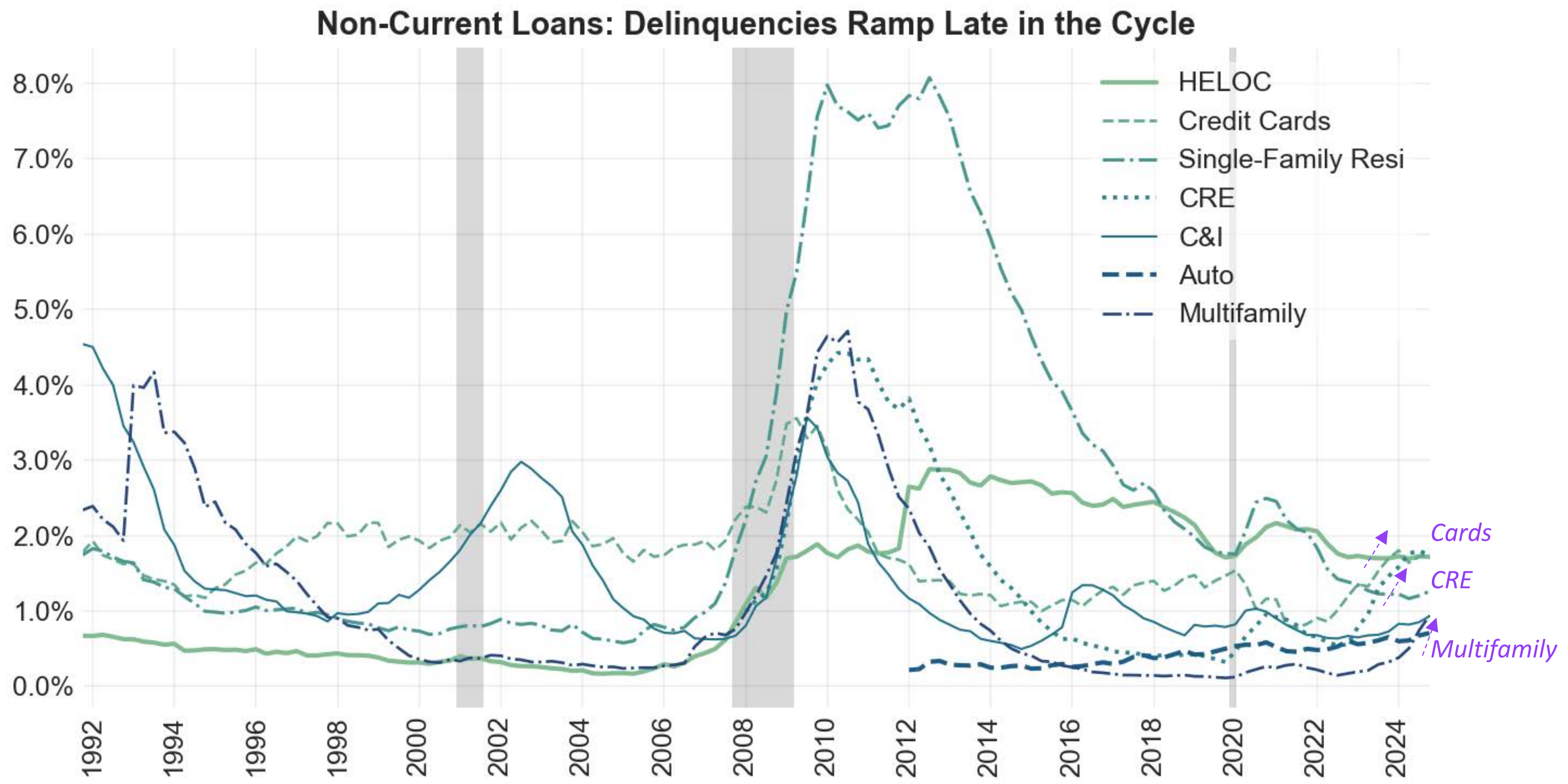


- The less-than-inclusive nature of the post-covid recovery may be material to consumer loan credit performance over time.
- Job market participation has yet to fully recover covid losses and real wage growth (the Employment Cost Index is the best measure) is up only 4% since the GFC.
- The wage share of total personal income has declined. Investment income has increased post-GFC, but this helps a limited segment of the population.
- Homeownership has never been less affordable than in the past two years.
- Net, net, the post-GFC economic experience has differed widely for renters and those without a significant investment portfolio or rental income.
- Put together, this means the consumer credit outlook should be viewed through a distributional lens with limited emphasis on averages.

Sources: Bureau of Labor Statistics, Census Bureau, IRS, and Cadwalader, Wickersham & Taft LLP.

Credit

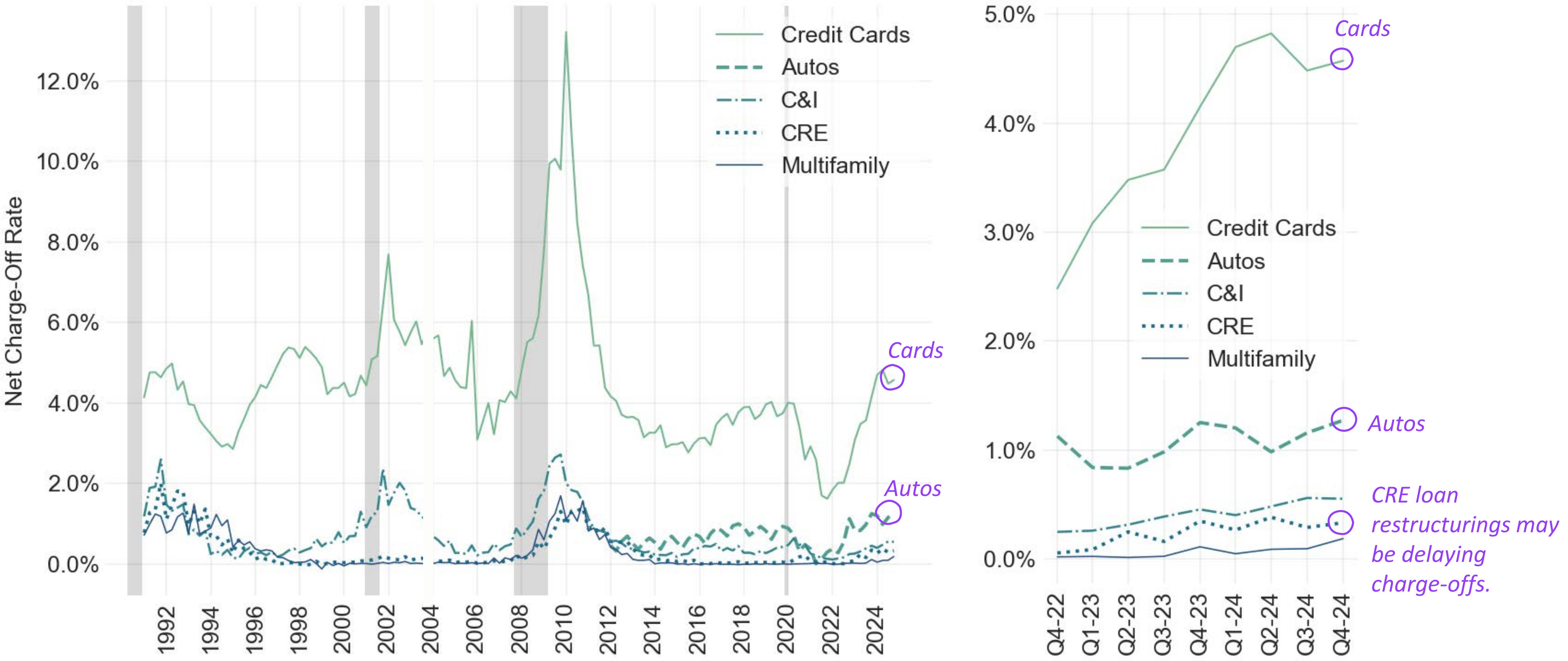
DELINQUENCIES



Source: All banks, Select loan categories, FDIC Quarterly Banking Profile.

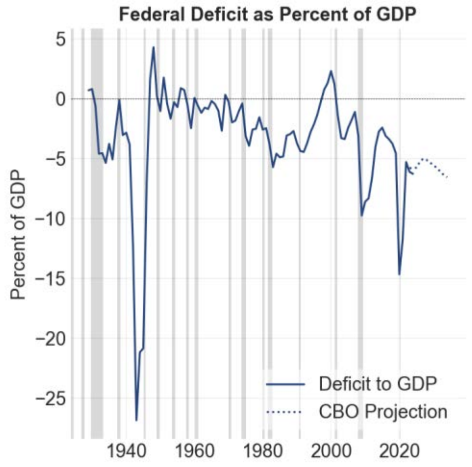
CHARGE-OFFS

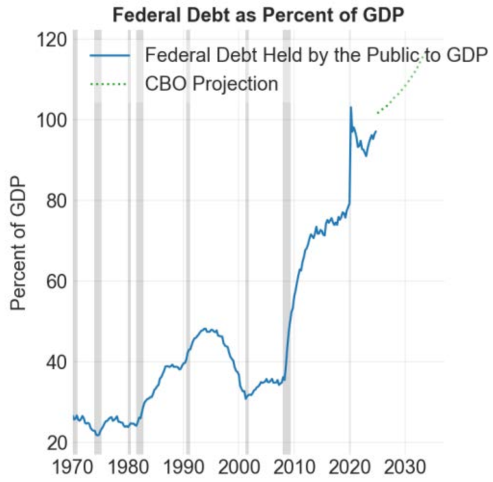
Charge-Offs Ramp Late But Have Already Surpassed Pre-Covid Levels in Some Categories

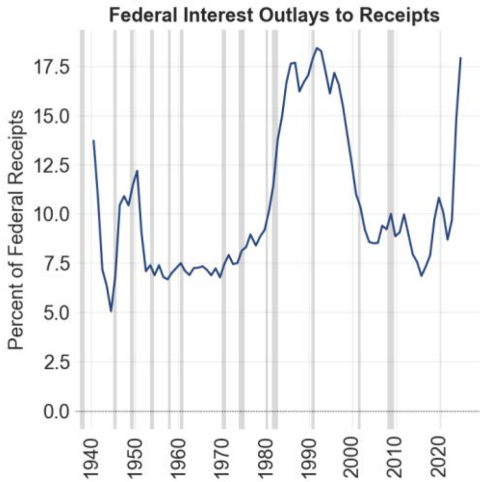


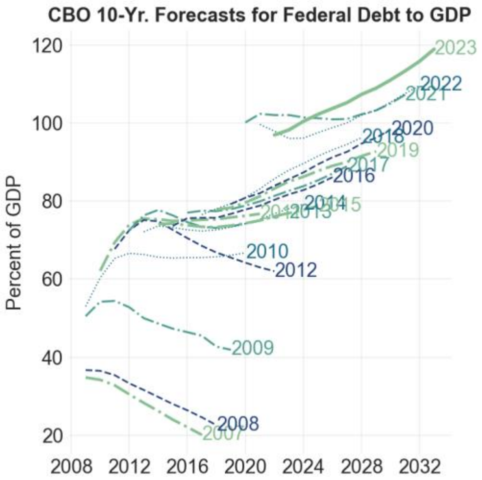
Source: All banks, Select loan categories, FDIC Quarterly Banking Profile.

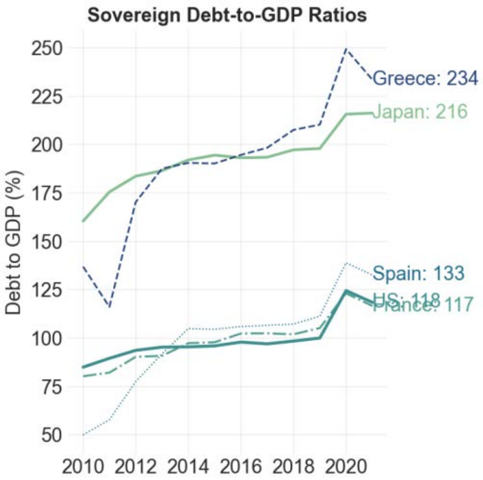
FISCAL STANDSTILL









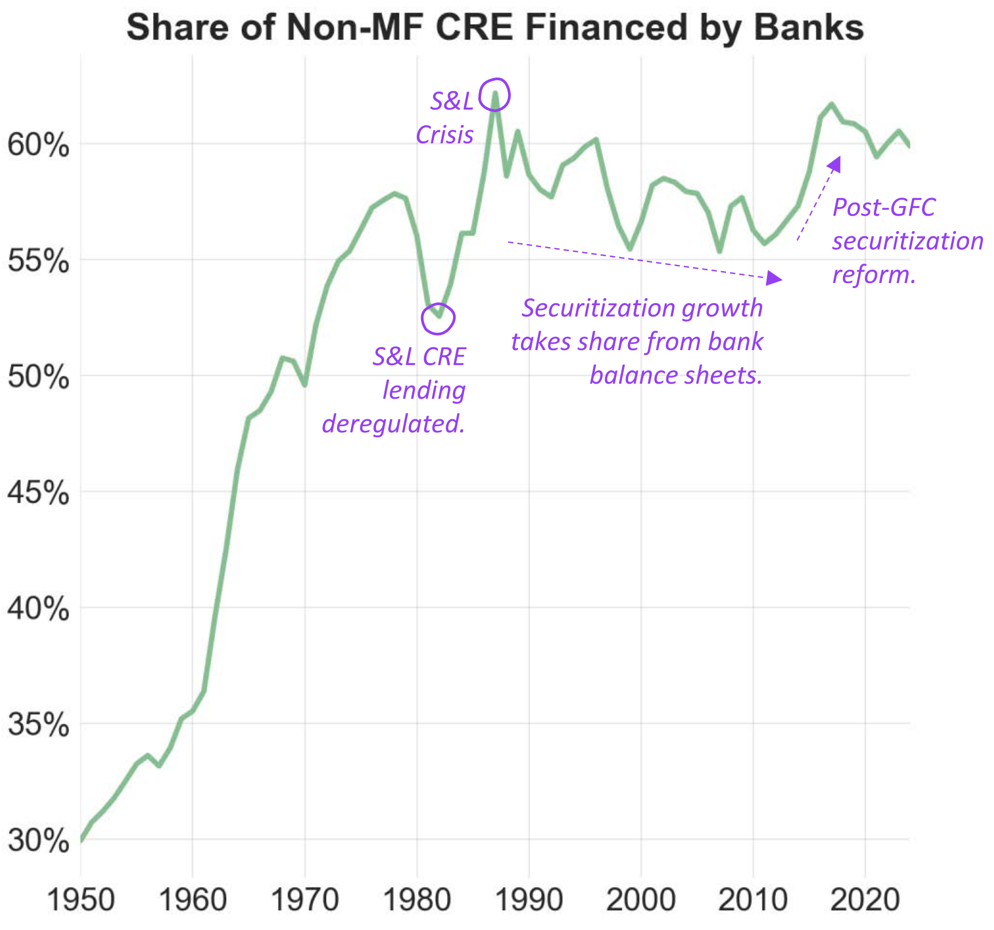


- Compartmentalizing the fiscal backdrop has worked for the past two decades, but today's unprecedented levels lurk in the background of the credit outlook.
- The rising U.S. debt level and Treasury issuance calendar are in tension with market expectations for a near-term return to a lower interest rate regime—the appetite for more Treasury issuance keeps being tested.
- The gaping deficit complicates the Fed's effectiveness in responding to the next downturn, meaning the strong historic positive correlation between short and long-term rates could weaken because of the supply of government debt.
- With the RRP depleted, deficit funding will begin to impact bank reserves more directly.
- Sovereign debt could also move to the fore internationally, particularly for Japan and Italy.

Sources: Congressional Budget Office, Office of Management and Budget, Dept. of the Treasury, World Bank, and Cadwalader, Wickersham & Taft LLP.

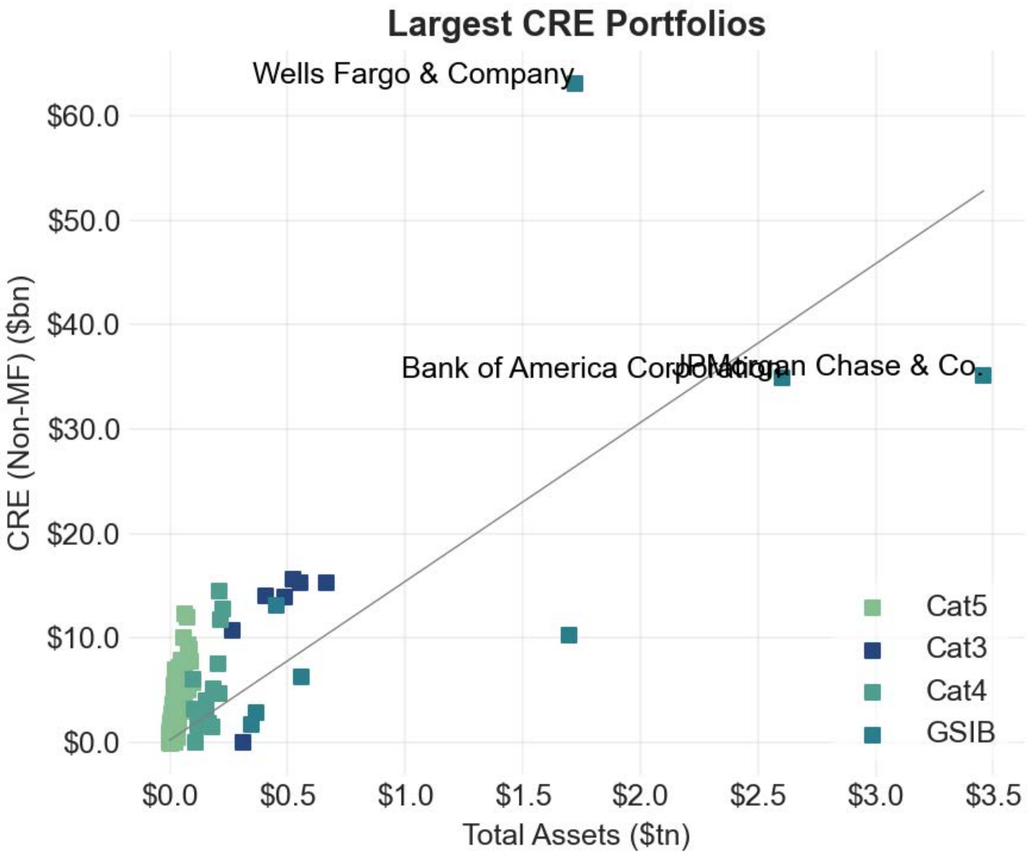
COMMERCIAL REAL ESTATE

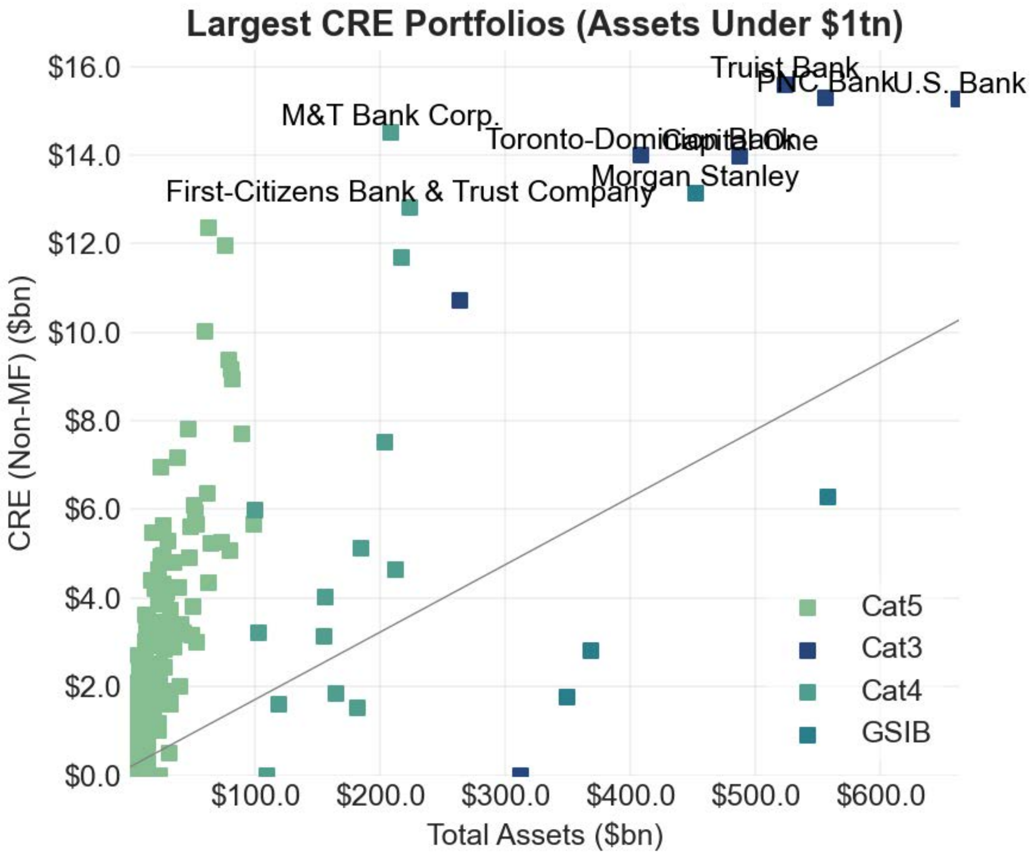
- By clamping down on securitization, post-GFC reform had the effect of bringing a greater share of CRE financing back onto bank balance sheets. In fact, bank balance sheets now provide a near-historically high share of total U.S. CRE debt capital.
- In terms of loan resolutions, a strategy of playing for time and deferring loan resolutions has been reinforced through decades of repeated experience of seeing interest rates decline and easing refinancing hurdles. The recent context has clearly changed.
- It's not clear that a "buying time" approach is the most appropriate in the current cycle. Long-term interest rates are not necessarily headed lower soon, and real estate fundamentals in, for example, the office market may not be on the upswing within the next year or two. Moreover, the cost of capital to a bank to fill the hole from charge-offs may not necessarily be lower in the future than now.
- Delayed resolution entails risks to collateral value as underwater borrowers may avoid capital spending on property maintenance and improvement.



Source: Federal Reserve, BankRegData and Cadwalader, Wickersham & Taft LLP.

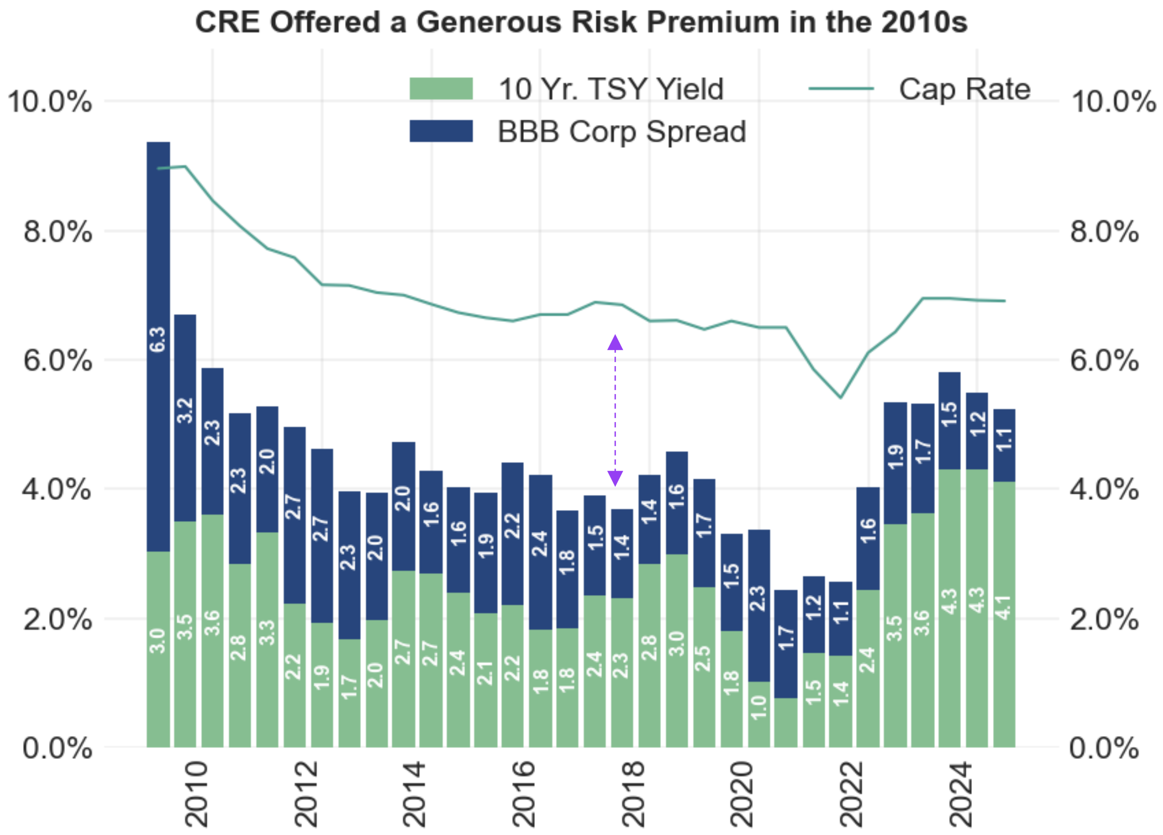
CRE EXPOSURE





Source: BankRegData and Cadwalader, Wickersham & Taft LLP.

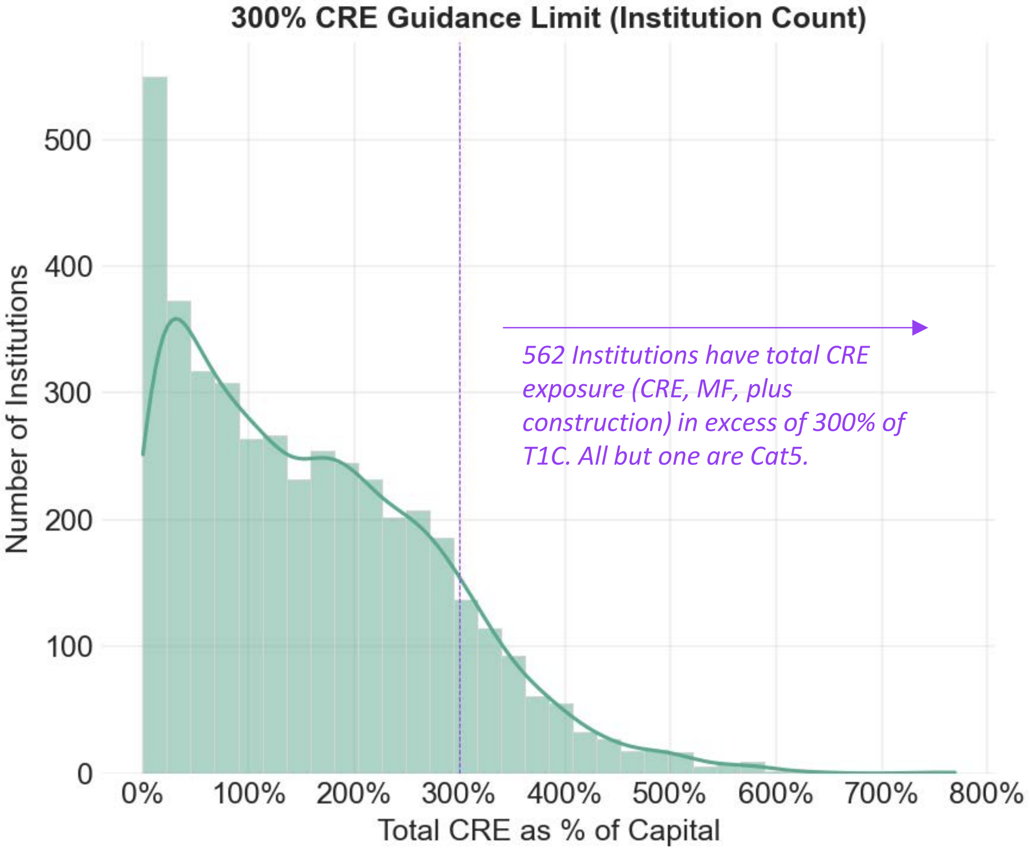
CRE EXPOSURE

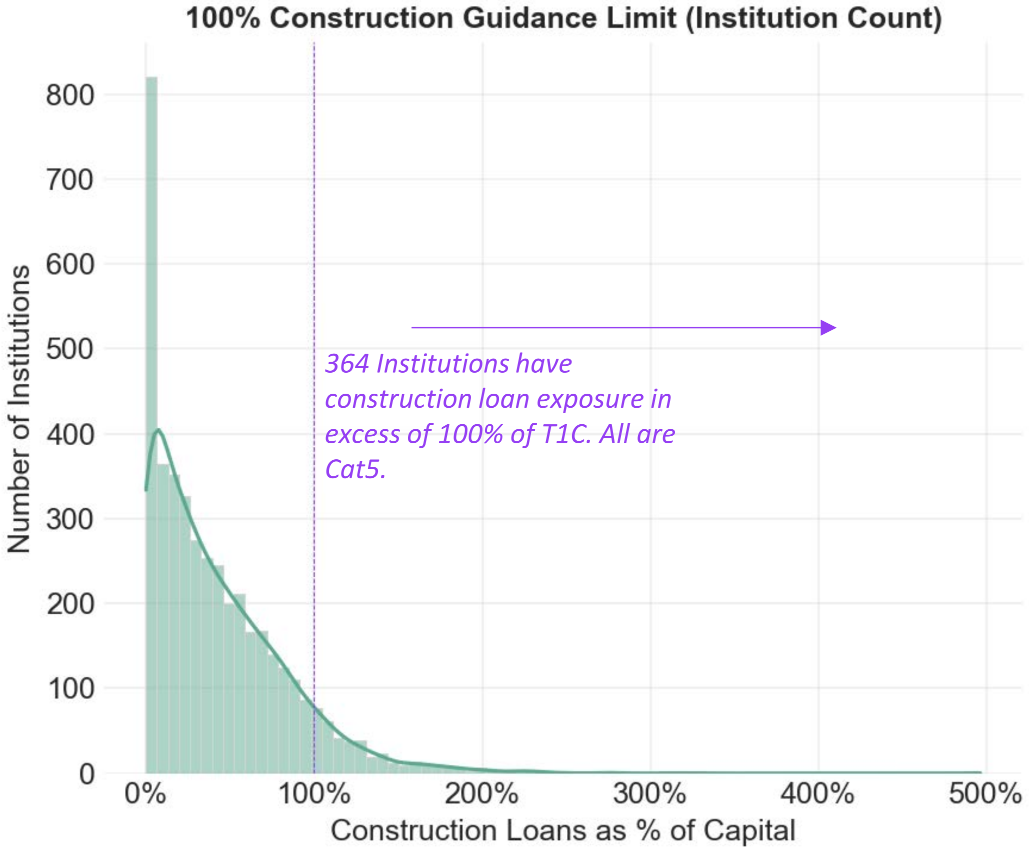


- CRE offered an attractive relative value in the 2010s, significantly out-earning many other asset classes as banks worked to solve for NII in a low-rate environment.
- Bank allocation to CRE lending increased over this period.
- Increased CRE loan exposure coincided with a willingness to take on more asset duration in a low-rate environment.

Source: CBRE, Federal Reserve, and Cadwalader, Wickersham & Taft LLP.

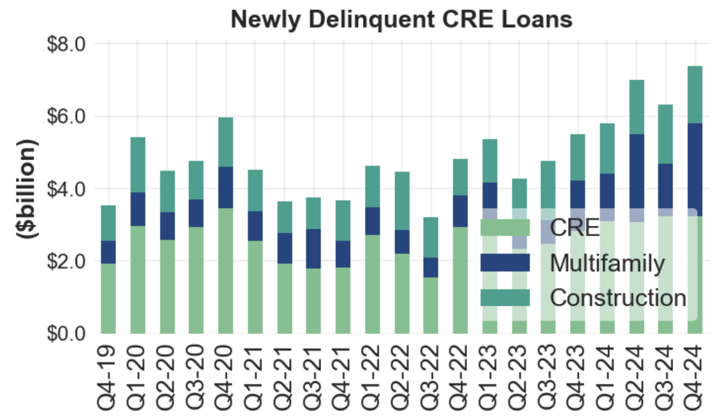
CRE LIMITS

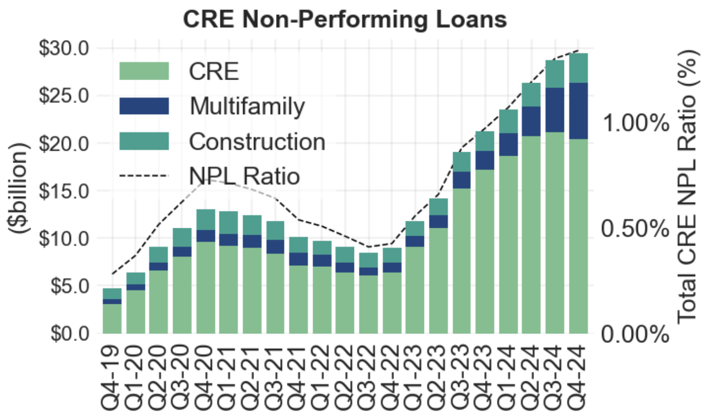


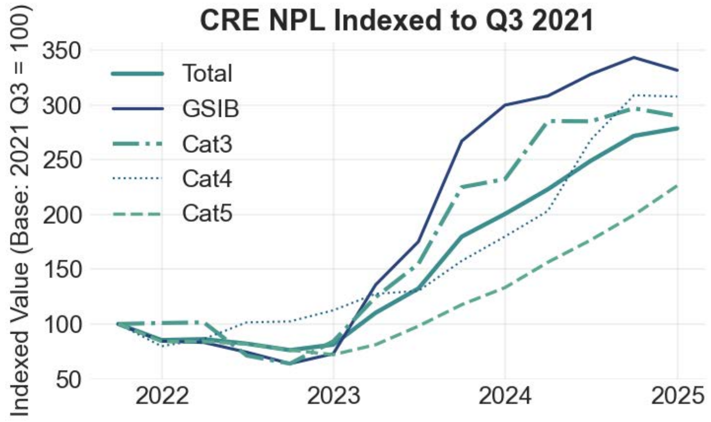


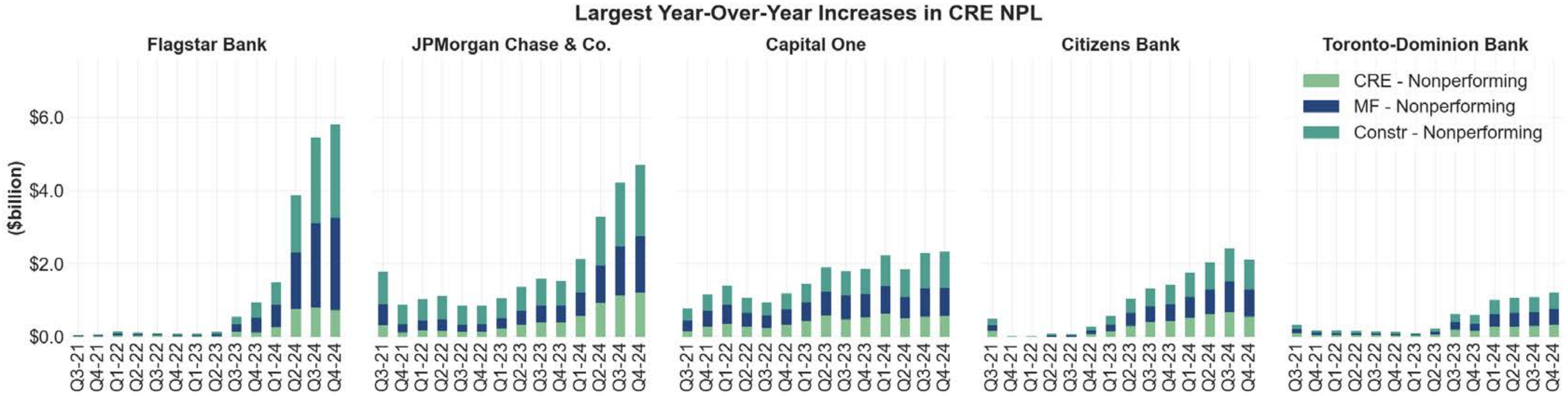
Note: Construction here includes residential.
Source: BankRegData and Cadwalader, Wickersham & Taft LLP.

CRE NPL





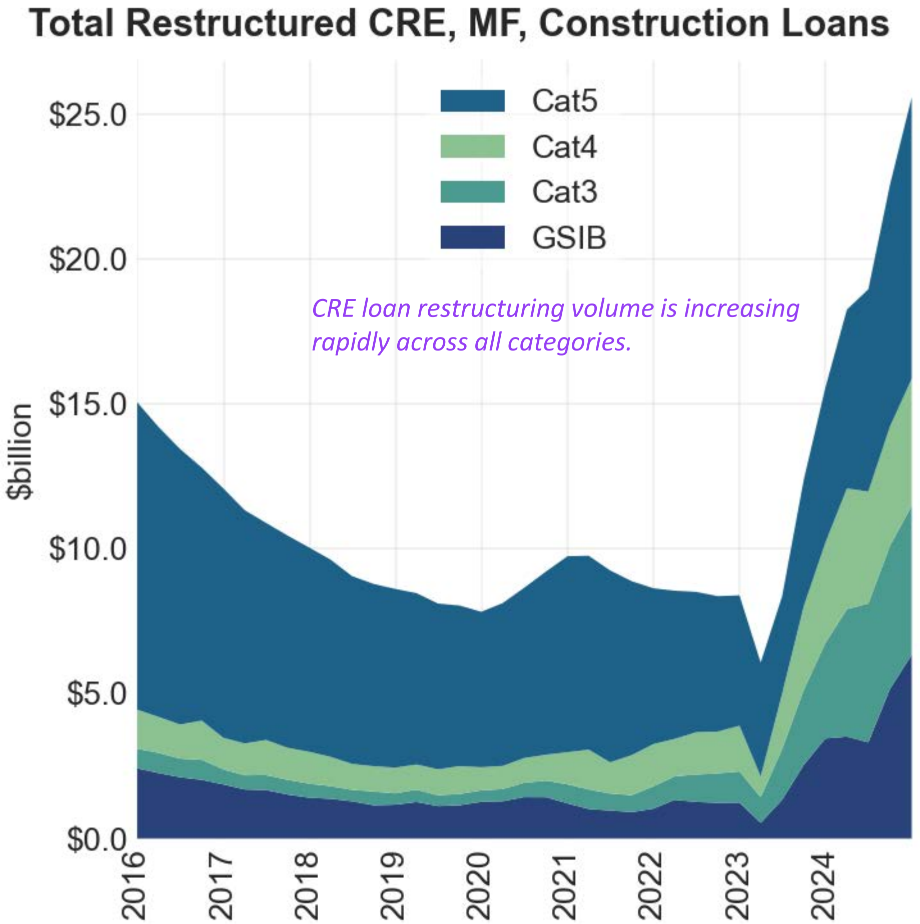


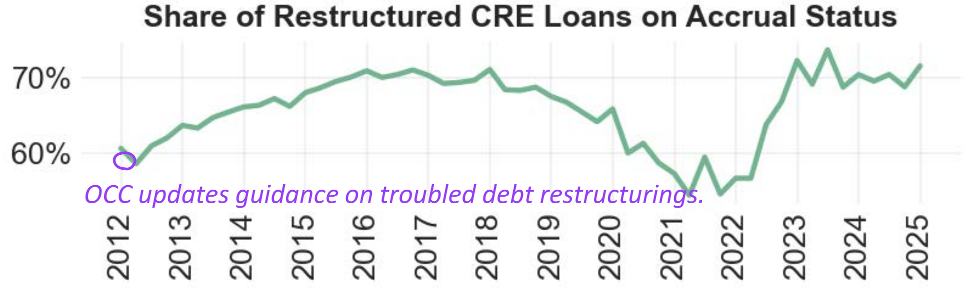


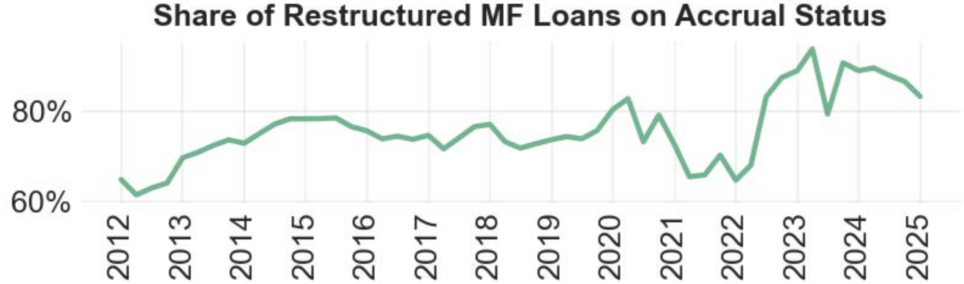
Note: Construction excludes residential, NPL defined as 90+ day past due and non-accrual loans.
Source: BankRegData and Cadwalader, Wickersham & Taft LLP.

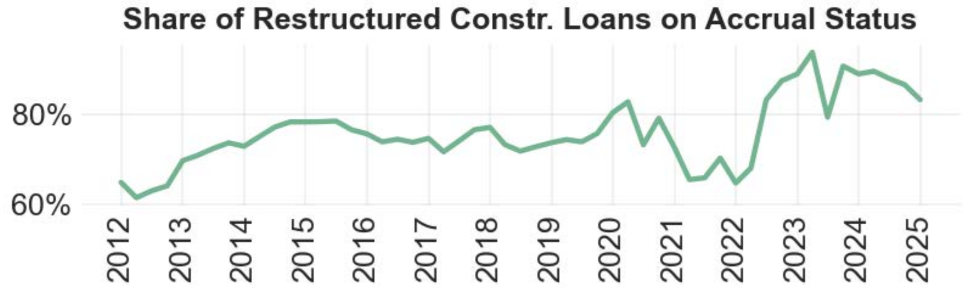
CRE RESTRUCTURING

Banks are keeping restructured loans on accrual status with increasing frequency. This may lead to an understated NPL rate and forfeits the opportunity to amortize interest and fees to lower potential loss severity.









Note: Q1 and Q3 Cat5 Total Restructured based on linear interpolation as some Cat5 report restructured loans only in Q2 and Q4. Category as of reporting period.
Source: BankRegData and Cadwalader, Wickersham & Taft LLP.

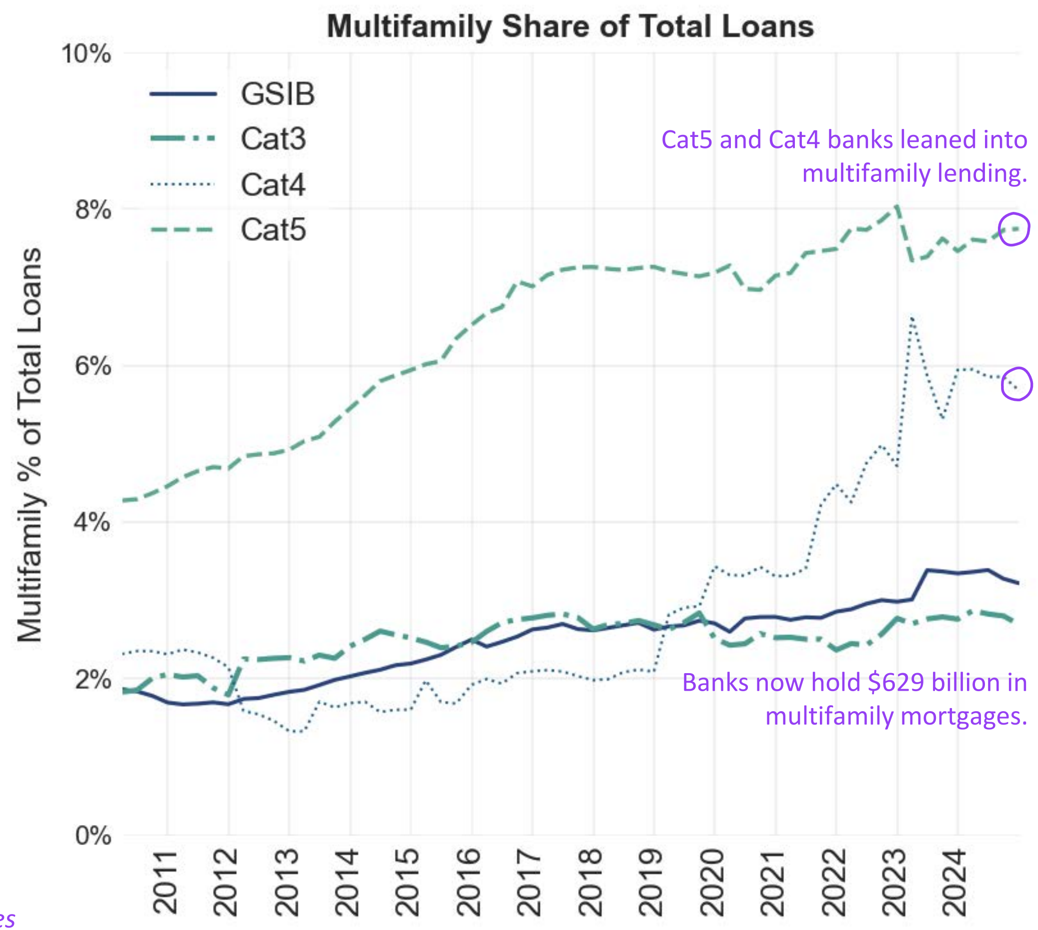
MULTIFAMILY

- Multifaimly's status as a "safe" asset class is less certain as new supply comes online and the impact of interest rates becomes clearer.

Cap Rate Duration... and Convexity		
Property 1	**Original Value**	**New Value**
NOI	300,000	300,000
Cap Rate	5.00%	7.00%
Implied Market Value	6,000,000	4,285,714
Original Debt	3,300,000	3,300,000
LTV	55%	77%
Property 2	**Original Value**	**New Value**
NOI	300,000	300,000
Cap Rate	3.00%	5.00%
Implied Market Value	10,000,000	6,000,000
Original Debt	5,500,000	5,500,000
LTV	55%	92%

Source: Cadwalader, Wickersham & Taft LLP.

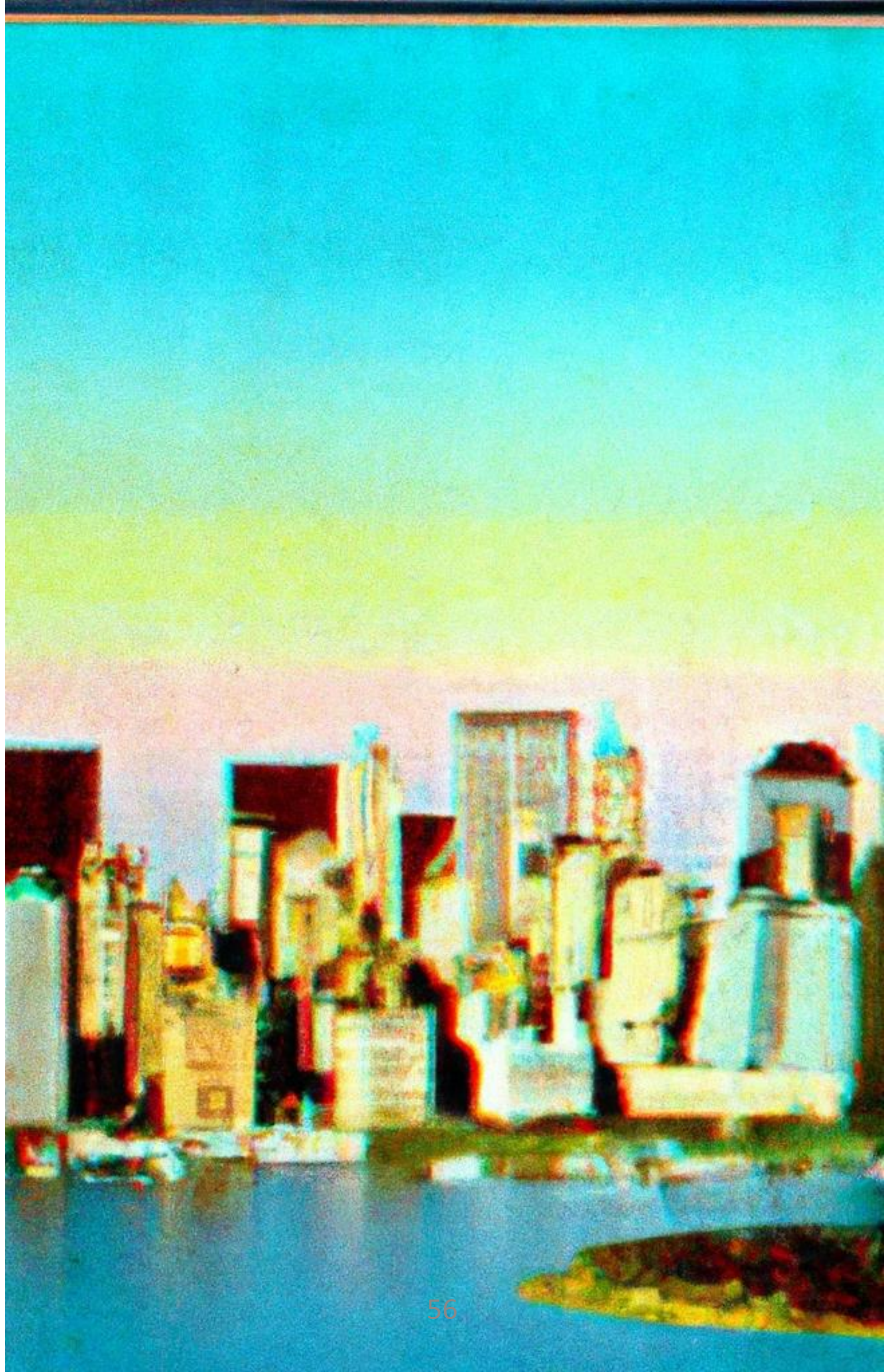
A 200 bps move wider in cap rates due to higher risk-free rates has a greater impact on the low cap rate (higher duration) property.



Source: BankRegData and Cadwalader, Wickersham & Taft LLP.

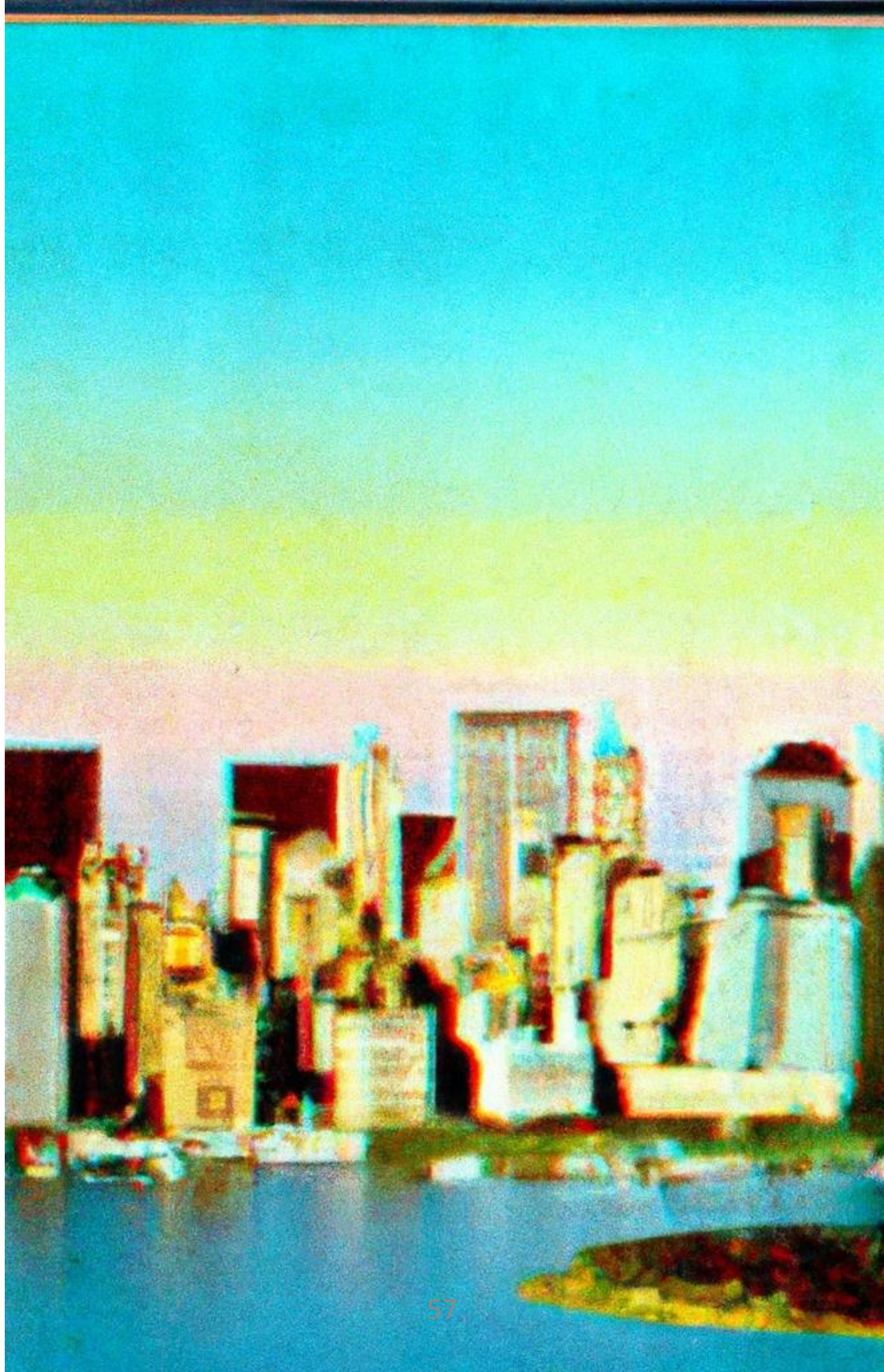
CONCLUSION

- The banking industry is undergoing a historic transformation. Banking business models vary widely, as does the range of available responsive strategies to today's environment. Cost reduction and capital efficiency will continue to be key themes.
- Challenges to profitability and the benefits of scale across the franchise make a strong case for consolidation. Bank mergers currently face significant obstacles, but could be an important variable in the future to the profitability outlook.
- For now, an array of factors hold back M&A: (1) unrealized mark-to-market losses and the capital gap required under purchase accounting, (2) new regulatory guidance requiring post-acquisition day-1 capital position to be the same or better, and (3) widespread supervisory ratings issues.
- Only one third of large banks ($100 billion or more in assets) had satisfactory ratings across the three categories of capital planning and positions; liquidity risk management and positions; and governance and controls, as of mid-2024, according to the Federal Reserve. Banks with less-than-satisfactory ratings are effectively sidelined from acquisitions.



CONCLUSION

- Over the past five years, a regulatory escalator mindset advantaged private funds over banks and facilitated capital formation moving out of the regulated banking system.
- While the dial has been turned back to a deregulation setting, broader market stability and a coherent long-term framework for bank regulation with supporting legislation would create a more lasting long-term foundation.



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