Risk Review

2026

FDIC FEDERAL DEPOSIT INSURANCE CORPORATION

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TABLE OF CONTENTS

INTRODUCTION **1**

SECTION 1: Executive Summary **3**

SECTION 2: Overview of Market Conditions and Banking Performance **5**

2.1 Economic and Financial Market Conditions 5

2.2 Banking Performance Overview 7

SECTION 3: Funding and Interest Rate Risk **11**

SECTION 4: Credit Risks **15**

4.1 Commercial Real Estate 15

4.2 Nondepository Financial Institution Lending 18

4.3 Business Lending 21

4.4 Consumer Lending 25

4.5 Residential Real Estate 27

4.6 Agriculture 30

ACRONYMS AND ABBREVIATIONS **33**

GLOSSARY OF TERMS **35**

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INTRODUCTION

The FDIC was created in 1933 to maintain stability and public confidence in the nation's financial system. A key part of accomplishing this mission is the FDIC's work to identify and analyze risks that could affect the safety and soundness of banks. The *Risk Review* summarizes the FDIC's assessment of economic and market conditions affecting the banking industry. The analysis pays particular attention to risks that may affect community banks, as the FDIC is the primary federal regulator for most community banks.

The 2026 *Risk Review* provides an overview of funding, interest rate, and credit risks banks faced in 2025. Changes in interest rates can present risks for banks stemming from changes in securities values, declines in profitability, and funding challenges. The discussion of funding and interest rate risk covers net interest margins, unrealized losses on securities, liquidity, deposit growth, and wholesale funding. Credit risks are inherent in lending exposures and represent potential for losses from loans, particularly as borrower financial conditions deteriorate. The report covers credit risks and trends in commercial real estate, nondepository financial institution lending, business lending, consumer lending, residential real estate, and agriculture.

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SECTION 1
Executive Summary

Market Conditions and Banking Performance Overview

Economic conditions slowed in 2025, and financial market conditions improved during the second half of the year. Economic growth slowed in 2025, but consumer spending supported economic growth overall. The labor market moderated as job gains slowed and inflation remained elevated. Interest rates fell during the year, with shorter-term rates declining more than longer-term rates. Equity and fixed income markets had strong gains, and corporate bond spreads edged lower.

The banking industry's performance was steady. Net income remained strong, supported by both higher net interest income and noninterest income in 2025. Loan growth increased but was well below pre-pandemic levels.[1] Asset quality metrics remained generally favorable, despite weakness in certain portfolios. The number of problem banks remained within the normal range for non-crisis periods.

Key Risks to Banks

Interest rate risks remained elevated with modestly improving net interest margins (NIMs) and elevated unrealized securities losses; liquidity remained stable. Lower interest rates in 2025, particularly on the short end of the yield curve, helped reduce funding costs, and a steeper yield curve helped improve NIMs. Unrealized losses on securities eased but remained elevated. On-balance-sheet liquidity remained stable in 2025, and banks continued to build borrowing capacity. Deposits continued to grow at a steady pace, led by uninsured deposits. Wholesale funding declined as institutions reduced Federal Home Loan Bank (FHLB) borrowings and brokered deposits.

Credit risks were generally contained in 2025, with continued weakness in commercial real estate (CRE) and some consumer loan types.

- **Commercial Real Estate:** CRE loan portfolios at banks grew modestly and reached a new peak in 2025, while CRE loan delinquency rates and net charge-off ratios remained low. However, CRE loan concentration and delinquency rates were uneven across bank groups. Mounting operating costs, elevated interest rates, and vacancy rates challenged some borrowers' ability to refinance and repay CRE debt. Banks used loan modifications to provide relief, more often at larger banks. Conditions in some property markets stabilized.

- **Nondepository Financial Institution (NDFI) Lending:** Bank loans to NDFIs was among the fastest-growing segments in recent years and was heavily concentrated at the largest banks. In 2025, reporting changes resulted in banks reclassifying loans across categories, driving some of the growth in this lending category. These reporting changes provided more granular data on bank exposures to NDFIs, showing that more than half of NDFI loans were to credit intermediaries for mortgages, business loans, and consumer loans. Credit quality measures for NDFI loans remained favorable.

- **Business Lending:** Business conditions were tepid, with tighter bank underwriting and weaker demand for business loans. Small business loan growth was weak amid higher financing costs and weaker business conditions. Bank exposures to larger businesses through corporate bond

[1] The pre-pandemic period is the period starting first quarter 2015 through fourth quarter 2019, unless otherwise noted.

holdings increased in 2025, while collateralized loan obligations (CLOs) declined. Corporate default rates edged down but remained elevated, and signs of stress in leveraged lending continued.

- **Consumer Lending:** Household finances weakened in 2025, but debt burdens remained low and real incomes and net worth continued to increase. Consumer loan growth at banks was mixed in 2025 as households reduced demand for some loans and banks continued to tighten lending standards. Consumer loan asset quality held steady in 2025, but delinquency rates were elevated, particularly for autos and credit cards. Consumer loan performance at community banks was generally unchanged from the previous year.

- **Residential Real Estate:** Elevated mortgage rates continued to weigh on the housing market in 2025. Home price growth moderated, but high prices and elevated housing costs persisted in many markets. Banks reported higher 1–4 family residential loan balances and concentrations in 2025. Credit quality for 1–4 family residential loan portfolios remained generally sound, but some banks reported elevated past-due and nonaccrual (PDNA) rates. Sound underwriting standards and higher home equity helped mitigate potential credit risks in bank residential mortgage loan portfolios.

- **Agriculture:** Agriculture lending conditions weakened in 2025. Grain and oilseed farmers reported operating losses as crop receipts declined for the third consecutive year, while production expenses remained elevated. Operating losses eroded working capital positions for many row crop farmers, leading to strong loan demand. Farm bank agricultural loan delinquency rates increased in 2025. Despite these weaker conditions, ample farmland equity supported loan restructuring.

SECTION 2
Overview of Market Conditions and Banking Performance

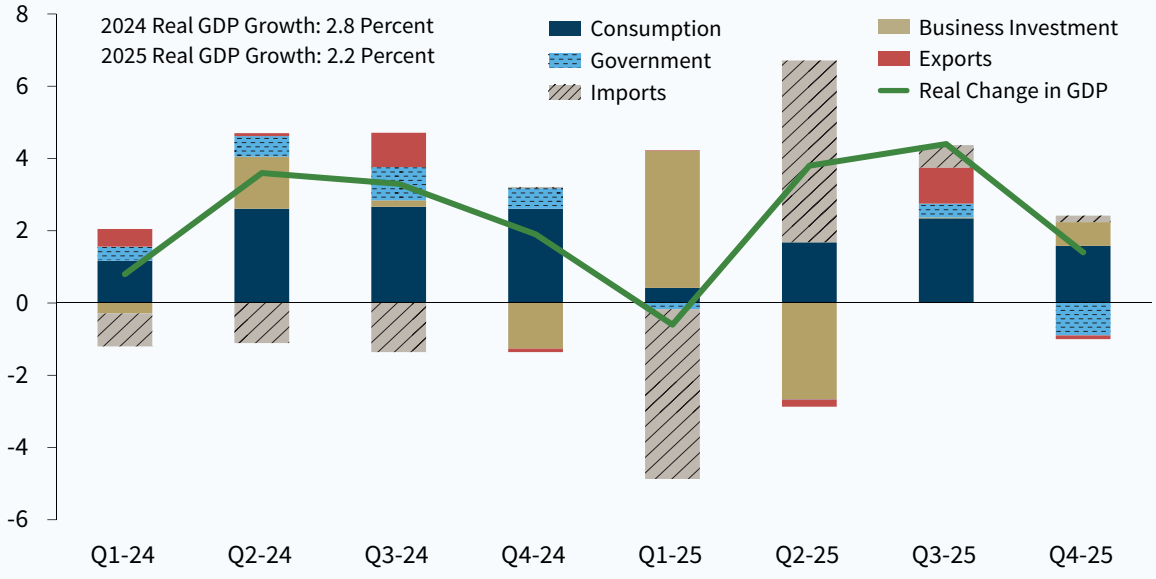
2.1 Economic and Financial Market Conditions

- **Economic growth slowed in 2025, with some components of the economy experiencing major swings in the first half of the year.**
- **The labor market cooled as job gains slowed and the unemployment rate edged up.**
- **Inflation remained above the Federal Reserve's 2 percent target, though interest rates declined across most tenors.**
- **Equity and fixed income markets had strong gains despite volatility. Private credit continued to expand, and leveraged loan issuance rose.**

U.S. economic growth slowed in 2025, but economic activity was supported by consumer spending and business fixed investment. Real GDP grew 2.2 percent in 2025, compared to 2.8 percent in 2024. Real GDP growth contracted in first quarter 2025 due to a large increase in imports, which reduced GDP growth as businesses increased imports before tariffs were expected to take effect (Chart 2.1.1). Growth rebounded in the middle of the year, as the drag from imports reversed, and exceeded expectations in third quarter. Business investment fluctuated, driven by swings in inventories, but fixed investment remained steady. Growth in consumer spending continued to be a primary component of growth.

CHART 2.1.1

The Economy Continued to Expand in 2025



Source: Bureau of Economic Analysis (Haver Analytics).
Note: Data are quarterly through fourth quarter 2025.

Labor markets moderated with slowing job gains and wage growth and a slight increase in the unemployment rate. A slowdown in hiring and a narrower set of industries with job gains in the second half of the year brought average monthly job gains lower. Wage growth slowed but remained higher than inflation. The unemployment rate increased slightly, partially due to an increase in the labor force participation rate.[2] Both quits and layoffs remained low. After tightness in recent years, the ratio of job openings per unemployed person fell below 1.0, suggesting there are slightly more unemployed people than open positions (Chart 2.1.2).

Inflation fluctuated during the year but continued to cool. Annual inflation measures, including the Consumer Price Index (CPI) and Personal Consumption Expenditures (PCE), fell in the first part of the year but accelerated in the summer months as food and energy prices increased. Inflation continued to cool in the final months of 2025. Core inflation, which excludes more volatile components of food and energy, began to abate as pressure from key components such as shelter eased. Inflation remained above the Federal Reserve's longer-run target of 2 percent.

Interest rates fell in 2025 as monetary policy eased. The Federal Reserve Federal Open Market Committee reduced the target federal funds rate 25 basis points at each of its September, October, and December meetings. The Federal Reserve ended its balance sheet runoff policy in December. Total securities held by the Federal Reserve fell 2 percent during the year and were down 27 percent since the peak in 2022.

Yields on short-term and medium-term U.S. Treasury securities declined despite periods of volatility. Yields fell across almost all tenors in 2025, with shorter-term interest rates declining more than longer-term rates. The greater decrease in short-term interest rates helped steepen the yield curve, which had been inverted in recent years.

Corporate funding conditions improved in the second half of 2025. Bond issuances continued to increase in 2025; high-yield issuances were almost 17 percent higher than in 2024 and investment grade issuances were more than 10 percent higher. Spreads on both high-yield and investment-grade bonds were flat despite a temporary widening in April. Total returns of U.S. high-yield corporate bonds continued

CHART 2.1.2

Job Openings per Unemployed Person Fell as the Unemployment Rate Increased

Sources: Bureau of Labor Statistics and Federal Reserve Bank of St. Louis (Haver Analytics).
Note: Values are above 1.0 when the number of job openings is greater than the number of unemployed persons. Data are monthly through January 2026.

[2] There is no October 2025 unemployment rate due to a lapse in federal government funding that precluded data collection.

to increase in 2025. Leveraged loan prices were relatively stable in 2025 and ended the year a little lower than at the start. Short-term funding market conditions remained generally stable apart from repurchase agreement market tightness in October.

Equities performed well across most sectors. The S&P 500 index, which contains both large financial and nonfinancial companies, gained more than 17 percent in 2025 driven in part by larger gains in the stock prices of some companies that are investing heavily in artificial intelligence. Bank stock indices were also up in 2025.

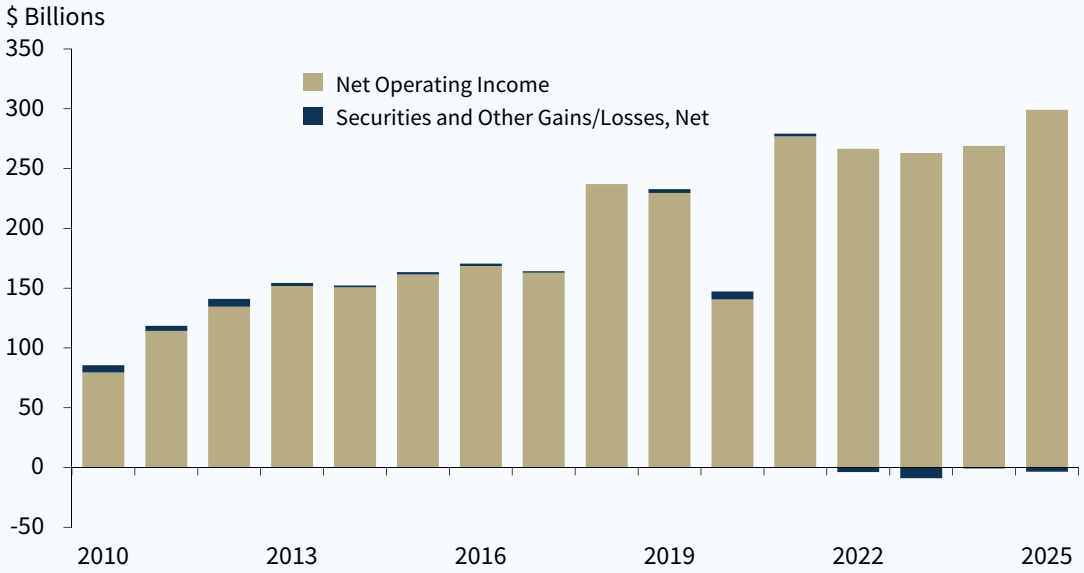
2.2 Banking Performance Overview

- **The banking industry reported strong earnings in 2025, supported by both higher net interest income and noninterest income.**
- **Community banks reported strong earnings gains in 2025.**
- **Loan growth accelerated from 2024. Asset quality metrics remained generally favorable, despite weakness in certain portfolios.**
- **The number of problem banks remained within the normal range for non-crisis periods.**

The banking industry's net income improved in 2025. Net income rose in 2025 due to strong growth in net interest and noninterest income but was partially offset by higher noninterest expense (Chart 2.2.1). Improvement in net interest income was driven by a larger decline in interest expense relative to interest income, which was reflected in improved NIM (see Section 3). Noninterest expense increased due to higher salaries and employee benefits. The banking industry's aggregate return on assets (ROA) of 1.20 percent increased 8 basis points from 2024, reaching its highest level since 2021.

CHART 2.2.1

Full-Year 2025 Net Income Was Strong



Source: FDIC.
Note: Data are annual from 2010 through 2025.

Community banks reported strong full-year 2025 net income, which increased 22.5 percent from 2024 due primarily to higher net interest income.[3] However, growth in earnings was partially offset by higher noninterest expense and provision expense. The pretax ROA for community banks rose 18 basis points from 2024 to 1.32 percent.

Loan growth accelerated from 2024. Loan growth was 5.9 percent in 2025, higher than growth in 2024 and the fastest annual growth rate in 11 quarters (Chart 2.2.2). Loan growth was led by loans to NDFIs and loans to purchase or carry securities including margin loans. Growth in these categories partly reflects reclassifications from other categories. Growth was more modest across other major loan categories.

Total loans and leases at community banks rose 5.4 percent in 2025, with a 6.9 percent increase in nonfarm nonresidential CRE and a 3.4 percent increase in 1–4 family residential mortgages.

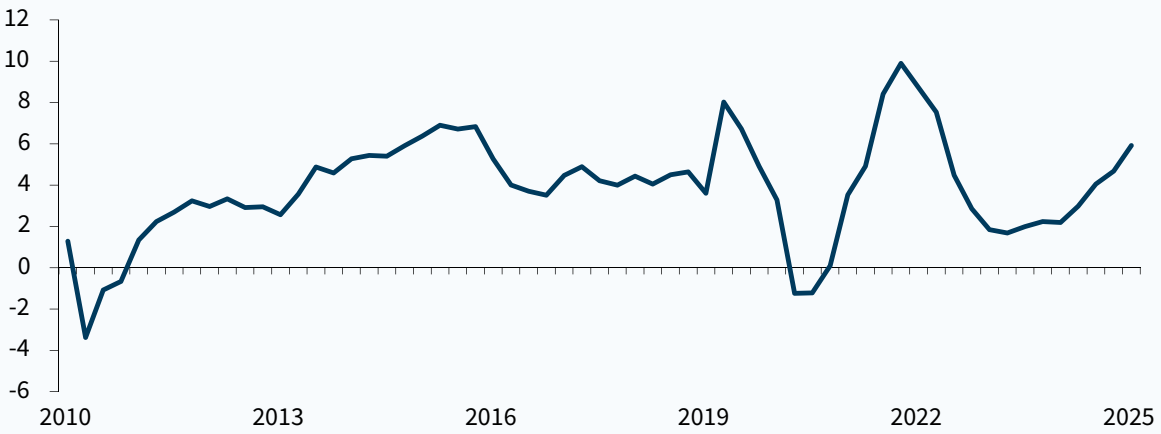
Loan performance was favorable in 2025, but PDNA rates for certain loan categories remained elevated. The PDNA rate for the banking industry declined 4 basis points from 2024 to 1.56 percent and remained well below the pre-pandemic average rate.[4] But PDNA rates for non-owner-occupied CRE, multifamily CRE, auto loans, and credit card portfolios were above their pre-pandemic averages (Chart 2.2.3).

The aggregate net charge-off rate declined during the year to 0.63 percent but remained above the pre-pandemic average rate of 0.48 percent. Credit cards, non-owner-occupied CRE, and auto loans drove the annual decrease. Net charge-off rates for most portfolios were above their pre-pandemic averages.

Community bank asset quality metrics deteriorated slightly from 2024 but were still favorable. The PDNA rate at community banks increased to 1.36 percent, below the pre-pandemic average rate of 1.50 percent.

CHART 2.2.2

Loan Growth Accelerated from 2024



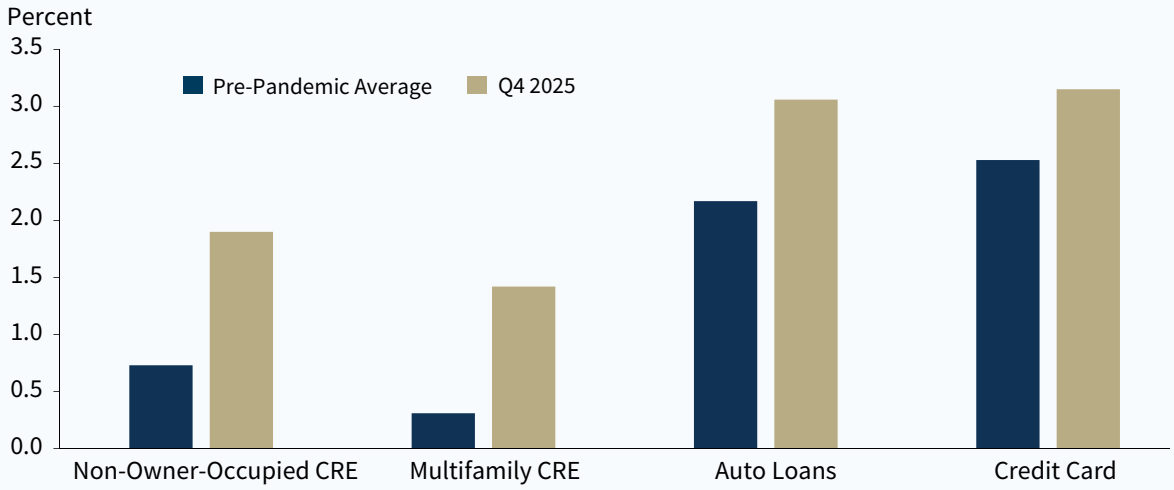
Source: FDIC.
Note: Data are quarterly through fourth quarter 2025.

[3] Community banks are defined for research purposes according to criteria described in the 2012 FDIC Community Banking Study. When comparing community bank performance across years, previous year dollar amounts are based on community banks designated as such in the current year, adjusted for mergers. In contrast, previous year ratios are based on community banks designated during the previous year.

[4] The terms "past-due and nonaccrual" or "PDNA" are used to describe loans that are 30 or more days past due or in nonaccrual status.

CHART 2.2.3

PDNA Rates in Several Loan Categories Were Above Pre-Pandemic Averages



Source: FDIC.
Note: PDNA is past-due and nonaccrual. Pre-pandemic average is the average from first quarter 2015 through fourth quarter 2019. CRE is commercial real estate.

The net charge-off rate at community banks rose 4 basis points from 2024 to 0.29 percent, above the pre-pandemic average rate of 0.15 percent.

The banking industry's aggregate leverage capital ratio declined slightly in 2025. Strong earnings and lower unrealized losses helped boost equity capital levels during the year. However, the industry's leverage capital ratio declined slightly from 2024 to 9.26 percent, as asset growth slightly outpaced the increase in capital. Growth in risk-weighted assets throughout the year also lowered risk-based capital ratios slightly.

The number of problem banks at year-end 2025 remained within the normal range for non-crisis periods. The number of banks on the FDIC's "Problem Bank List" decreased by a net of six to 60 at year-end 2025 from 66 banks at year-end 2024.[5] The number of problem banks represented 1.4 percent of total banks at year-end 2025, within the normal range of 1 to 2 percent for non-crisis periods.

[5] Banks on the FDIC's "Problem Bank List" have a CAMELS composite rating of "4" or "5."

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SECTION 3
Funding and Interest Rate Risk

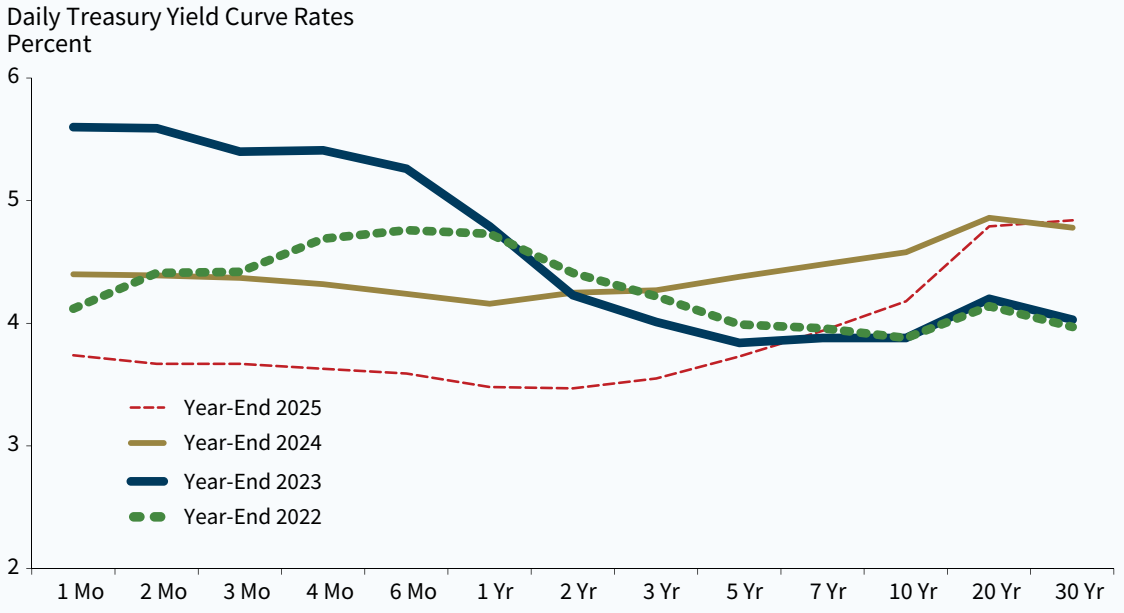
- **NIMs remained modest but improved in 2025 as the yield curve steepened.**
- **Unrealized losses on securities improved but remained elevated.**
- **On-balance-sheet liquidity remained stable in 2025, and banks continued to build borrowing capacity.**
- **Deposits increased, led by growth in uninsured deposits.**
- **Wholesale funding reliance eased as banks reduced FHLB borrowings and brokered deposits.**

The banking industry's NIM increased in 2025. The yield curve steepened in 2025 after being flat and often inverted the previous two years. Reduction in short-term interest rates in the second half of 2024 and throughout 2025 contributed to the steepening yield curve that supported a more favorable NIM environment (Chart 3.1).

Short-term U.S. Treasury rates declined 70 basis points on average in 2025.[6] Bank funding costs, which generally reflect short-term market rates, declined from 2.61 percent in 2024 to 2.26 percent in 2025, much of which occurred in the first half of 2025. Most of the reduction in bank funding costs was driven by a 33-basis point decline in the cost of deposits. Borrowing costs declined 64 basis points as costs for term debt and other wholesale funding declined.

CHART 3.1

The Yield Curve Steepened in 2025



Source: U.S. Department of the Treasury - Daily Treasury Yield Curve Rates.

[6] Short-term Treasuries are those with maturities of two years or less.

Bank asset yields also declined but more modestly than funding costs. Asset yields declined from 5.83 percent in 2024 to 5.56 percent in 2025, largely reflecting lower loan yields. The yield on securities portfolios rose slightly, likely reflecting older, lower-yielding securities maturing and an increase in the share of bank securities portfolios invested at the longer-term, higher-rate part of the yield curve.

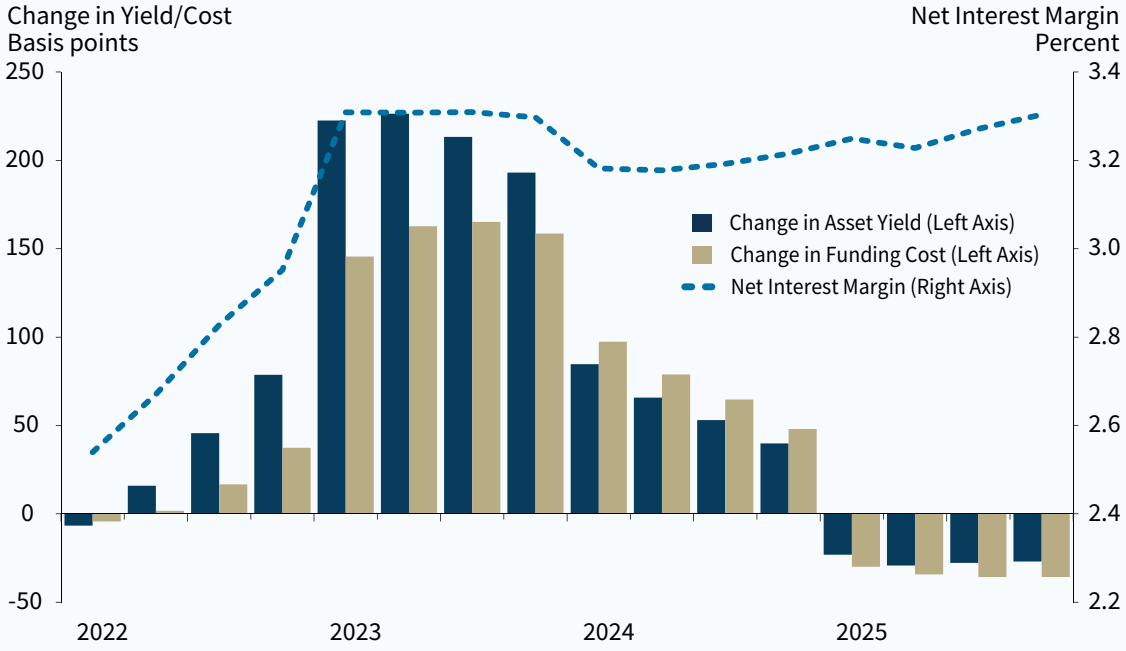
NIMs widened as the decline in cost of funds outpaced the drop in asset yields. The NIM increased 8 basis points in 2025 to 3.30 percent (Chart 3.2). Improvement in NIMs was widespread; 91 percent of banks reported a higher NIM in 2025. The steeper yield curve at the end of 2025 may support a favorable environment for NIMs in 2026.

Unrealized losses on securities improved but remained elevated. In 2025, unrealized losses across the industry fell 36 percent to $306 billion, a notable improvement from the third quarter 2022 peak of $688 billion. Similarly, the number of institutions with unrealized loss positions exceeding 25 percent of Tier 1 capital fell from the third quarter 2022 peak of 2,259 to 472 institutions in fourth quarter 2025. Improvements in loss exposure reflect bond sales and the natural runoff of maturing securities, further aided by falling interest rates in the intermediate segment of the yield curve. Collectively, these factors led to steady improvement in unrealized loss positions, even as long-term interest rates remained relatively unchanged (Chart 3.3). Despite these improvements, unrealized securities losses remained elevated.

Banking industry liquidity continued to improve after the volatility of 2022 and 2023. Overall levels of liquid assets improved in 2025, prompted by growth in interest-bearing balances held by community banks and increases in securities portfolio balances at noncommunity banks. Industry wide, banks held a higher proportion of unpledged securities and reduced portfolio durations, a reflection of experience with interest rate sensitivity and associated unrealized losses in 2023. Bank liquidity also benefited from overall gains in bond values. Banks increased pledged collateral to borrowing lines with the FHLB and the

CHART 3.2

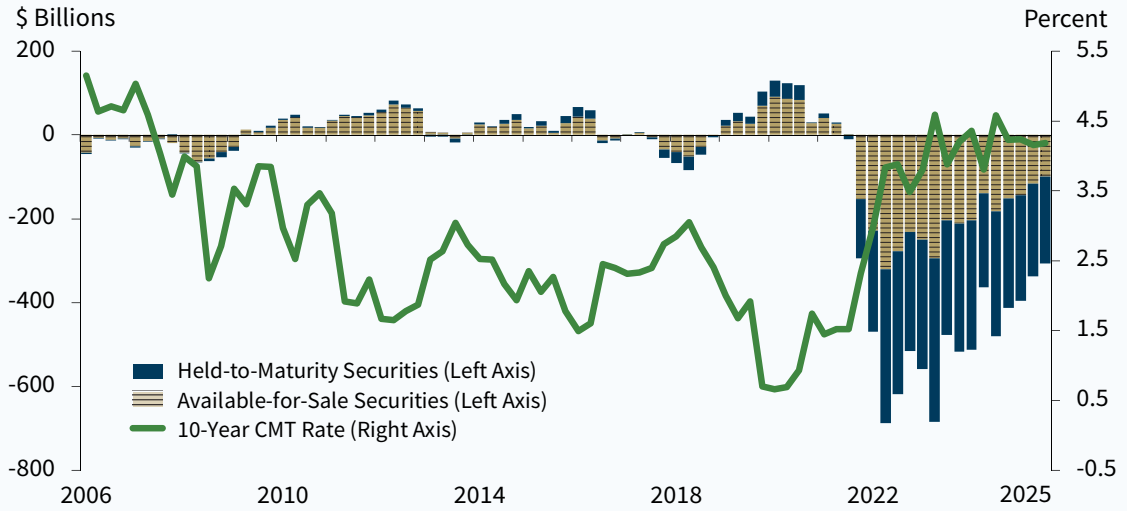
The Net Interest Margin Continued to Trend Higher in 2025



Source: FDIC.
Note: Data are quarterly through fourth quarter 2025. Bars represent year-over-year change. Calculation for NIM, asset yields, and funding costs are based on year-to-date annualized values.

CHART 3.3

Unrealized Losses Fell as Long-Term Rates Were Steady



Sources: FDIC, Federal Reserve Economic Database.
Note: Unrealized losses on securities solely reflect the difference between the market value and book value of non-equity securities as of quarter end. Constant maturity rate (CMT) is the interpolated yield derived daily based on trading of U.S. Treasury securities.

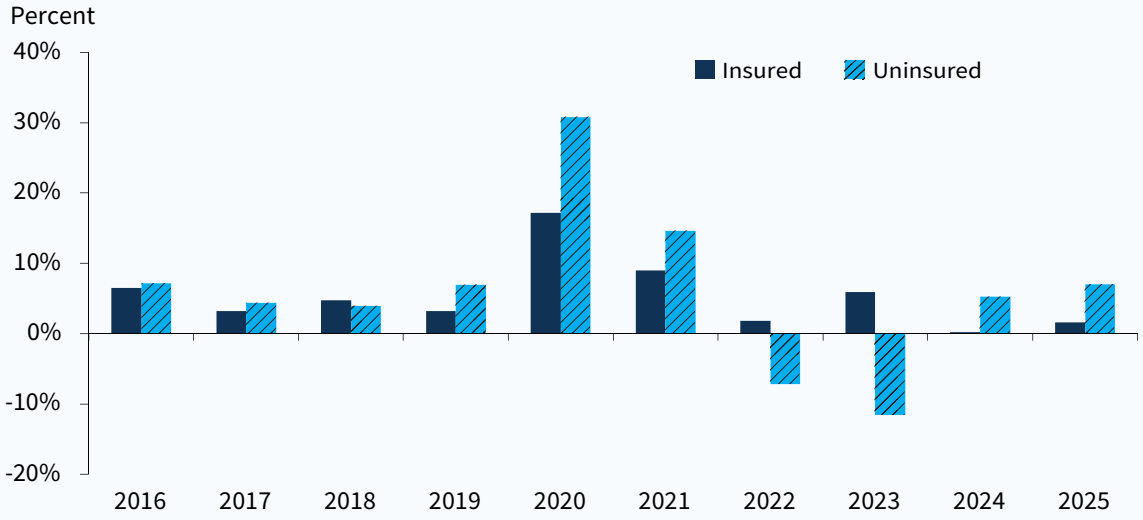
Federal Reserve Discount Window as a precautionary measure under contingency funding plans to improve immediate access during potential market disruptions. In aggregate, pledged collateral grew across the industry, with midsize banks ($10 billion to $100 billion in assets) leading the trend. The median share of assets pledged by midsize banks rose from 36 percent to 53 percent over the past five years, compared to an industry-wide increase from 24 percent to 33 percent.

Deposits continued to increase across the industry in 2025, led by growth in uninsured deposits. Industry deposits increased 3.9 percent, underpinned by growth of 7 percent in uninsured deposits (Chart 3.4). Community banks outpaced the broader industry with deposit growth of 5 percent, with uninsured deposits outpacing insured deposits. The increase in community banks' uninsured deposits represents a rebound after the sharp contraction in 2023. Reciprocal deposits, which are a subset of insured deposits, also grew strongly at community banks in 2025, increasing by 14.6 percent, likely reflecting continued heightened depository sensitivity to insurance coverage.

Wholesale funding was flat and shifted to lower-cost or more stable funding sources. In aggregate, industry wholesale funding as a share of total assets remained effectively unchanged in 2025, despite compositional shifts in funding mix and tenor. Increases in foreign-office deposits and other borrowings offset reductions in brokered deposits and FHLB term paydowns. For community banks, wholesale funding declined slightly during the year, largely driven by reductions in FHLB advances and brokered deposits, suggesting an intentional move to reduce dependence on higher-cost or more volatile funding sources (Chart 3.5). Public deposits, which are state and municipal deposits, increased 1.7 percent and represented almost half of community bank wholesale funding, up from slightly less than 39 percent a decade earlier. This long-term shift reflects a growing strategic reliance on municipal accounts as a relatively stable, lower-cost wholesale funding channel while reducing exposure to market-dependent funding sources.

CHART 3.4

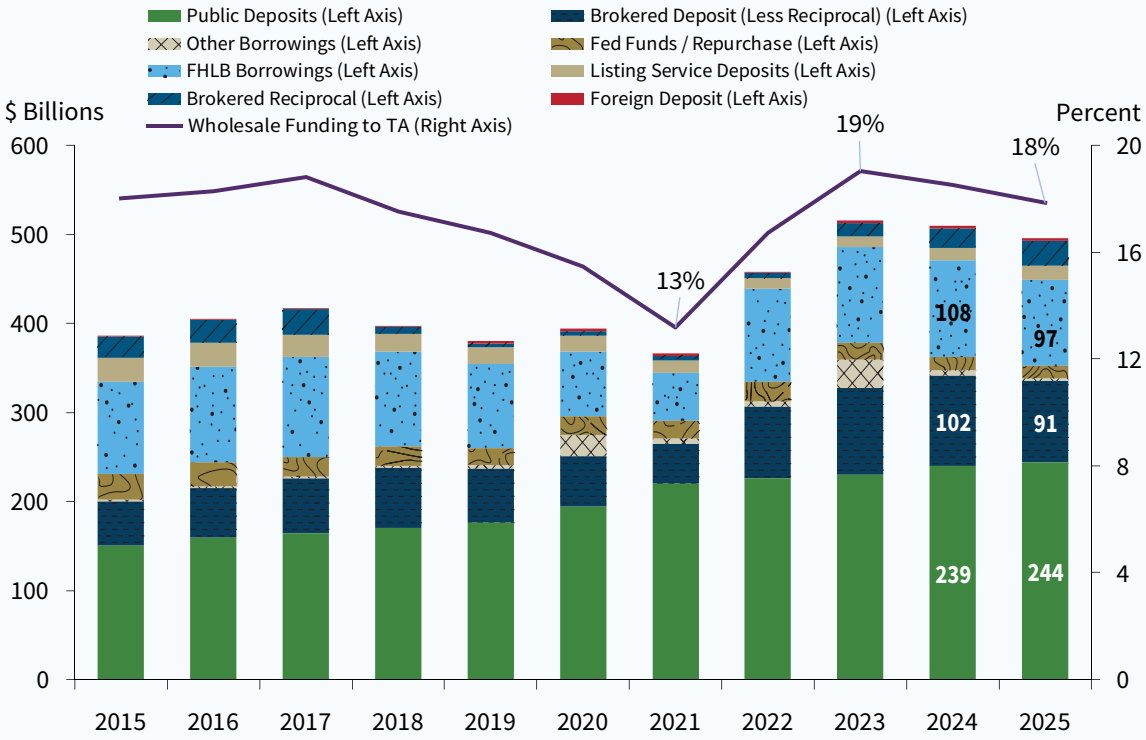
Uninsured Deposits Drove Industry Deposit Growth



Source: FDIC.

CHART 3.5

Community Banks Wholesale Funding Reliance Decreased



Source: FDIC.

Note: FHLB is Federal Home Loan Bank. TA is total assets.

SECTION 4
Credit Risks

4.1 Commercial Real Estate

- **Signs of stabilization emerged in some CRE property types.**
- **Bank CRE loan portfolios grew modestly in 2025.**
- **Bank aggregate CRE loan delinquency and charge-off ratios remained low. However, CRE loan concentration and delinquency levels were uneven across bank groups.**
- **High operating costs, elevated interest rates, and elevated vacancy rates challenged some borrowers' ability to refinance and repay CRE debt. Banks used loan modifications to provide relief to CRE borrowers, often at larger banks.**

CRE conditions remained soft, particularly in the office sector, but stabilized in 2025. Vacancy rates continued to increase but at a slower pace across most major property types. Property values edged up and sales transaction volume increased. Despite these improvements, net operating income growth continued to slow, reflecting elevated vacancy rates, higher property operating costs, and tepid rent growth.

Vacancy rates rose in 2025 but at a slower pace than the year before. Office vacancy rates remained the highest among the four major property types and reached 14.0 percent at year-end 2025, just 4 basis points above the 2024 level. While still rising, the increase was a significant improvement from that experienced in 2024. Multifamily and industrial property vacancy rates also rose but at a slower pace than the year before, while retail vacancy rates increased modestly for the first time since 2020. Despite this increase, retail vacancy rates remained the lowest among the four major property types and below the recent historical average (Chart 4.1.1).

Rents were pressured by elevated vacancy rates. Rent growth remained positive but slowed across all major property types. Net operating income growth also slowed due to higher vacancy and slower rent growth. The net operating income and debt service capacities of some properties may be challenged by the increase in borrowing costs in recent years.

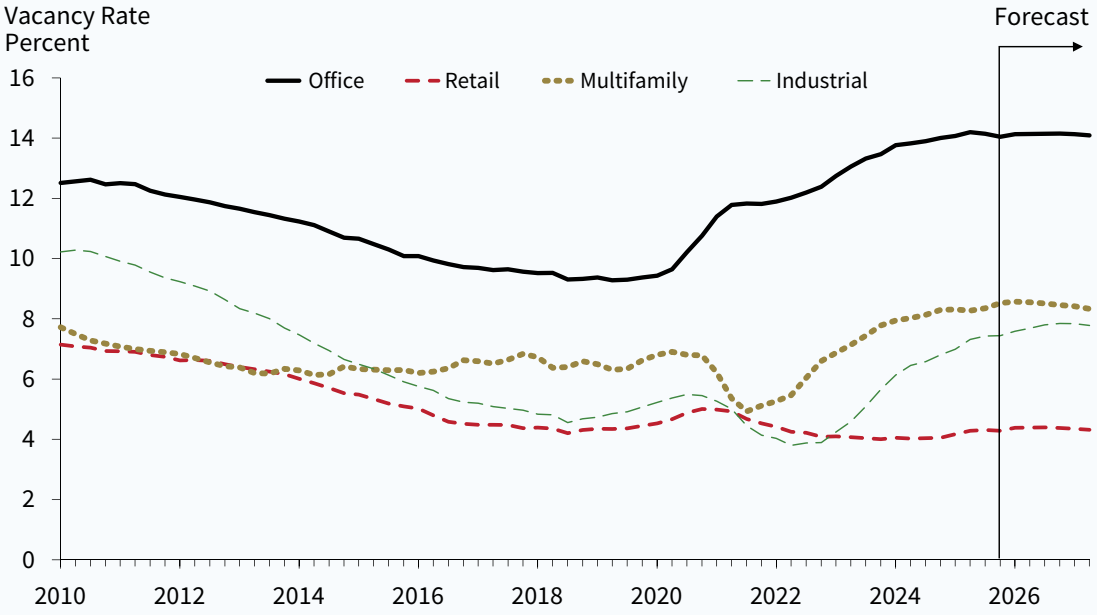
Despite the challenging environment, CRE property values improved slightly in 2025. CRE values ticked up across most sectors in 2025 with retail and industrial posting solid gains, while the improvement in office and multifamily properties was more muted (Chart 4.1.2). In general, CRE properties in smaller markets continued to outperform properties in major markets. Outlying suburbs generally outperformed central business districts, particularly among office properties, which continued to have substantially lower values compared to 2020.

The upward trend in CRE property values accompanied increased financing from banks, commercial mortgage-backed securities (CMBS) origination, and private credit. CRE sales in 2025 increased nearly 20 percent from the same period the year before. Sales volume was up across all major property types including office, for which transactions increased more than 30 percent over the same period.[7] Banks remained the largest source of financing for CRE properties and CRE loans continued to expand across most major lending categories. CMBS activity was slightly below the 2024 level but remained well above the 2022 and 2023 levels. Private credit, still small

[7] MSCI Real Capital Analytics.

CHART 4.1.1

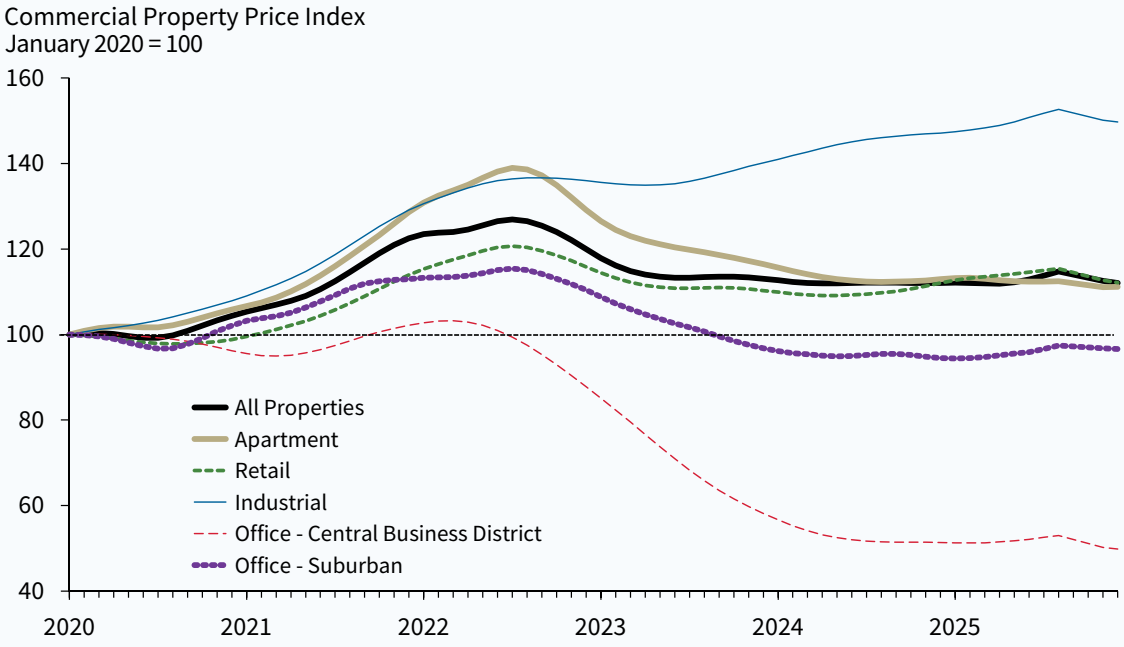
CRE Vacancy Rates Are Still Rising but the Pace Is Slowing



Source: CoStar.
Note: Data are quarterly through fourth quarter 2025, with forecast data through second quarter 2027.

CHART 4.1.2

CRE Property Values Increased in 2025



Source: MSCI Real Capital Analytics.
Note: Data are monthly from January 2020 through December 2025. CRE is commercial real estate.

relative to bank and CMBS financing activity in CRE markets, reached an estimated $300 billion through first half 2025.[8]

CRE loan growth was modest in 2025. CRE loans held by banks grew 3.1 percent in 2025 but were a lower portion of bank loans compared to 2024.[9] Nonfarm nonresidential loans and multifamily loans increased and remained the largest CRE portfolio components at banks. Acquisition, development, and construction (ADC) loans, historically a riskier CRE loan segment, were 5.8 percent lower than in 2024 and were down 8.8 percent since their recent peak at year-end 2023.

CRE loan concentrations remained high but were uneven across bank groups. The banking industry's median CRE loan concentration ratio was 200 percent, with most of the 2025 growth occurring in the fourth quarter.[10] The concentration remained lower than the Great Recession peak (214 percent at year-end 2008) but higher than the pre-pandemic average. Some bank groups are more concentrated in CRE lending. For instance, banks with total assets between $10 billion to $100 billion had a median CRE loan concentration of 289 percent, similar to year-end 2024. The median was 311 percent for banks with total assets between $1 billion and $10 billion. Comparatively, the largest and smallest banks were much less concentrated in CRE loans.

In 2025, CRE loan delinquency and charge-off ratios were higher than in recent years but remained low. After ten consecutive quarters of slowly rising delinquencies, the banking industry's total CRE PDNA ratio eased in the second and third quarters of 2025. As of the fourth quarter 2025, the ratio ticked up to 1.45 percent, which was slightly higher than a year earlier. The net charge-off ratio for CRE loans was nominal at a median 0.07 percent.

CRE loan performance also was uneven across bank groups. The median CRE loan PDNA ratio at banks with more than $100 billion in assets was 1.67 percent, down 25 basis points from the most recent peak of 1.92 percent at year-end 2024. This level was well above the PDNA ratios of smaller banks (Chart 4.1.3). Nonfarm nonresidential loans, predominantly financing office properties, and multifamily loans largely drove CRE delinquencies at banks with more than $100 billion in assets.

Reflecting challenges such as lower property values in certain areas, elevated operating expenses, and higher interest rates, many banks modified loans, which contributed to lower CRE loan PDNA ratios.[11] Modified CRE loans totaled $11.6 billion (0.38 percent of the CRE secured portfolio), of which 82 percent was performing.[12] Noncommunity banks with more than $100 billion in assets accounted for an outsized share of loan modifications. This group of banks held only 29 percent of CRE-secured loans but accounted for more than half of the modification volume in 2025.

CMBS delinquencies increased, reflecting weakness in office and multifamily properties. The overall delinquency rate for CMBS loans increased to 7.30 percent in December 2025, up from 6.57 percent at year-end 2024. CMBS loans for multifamily properties experienced the largest increase in delinquency rates among property types and reached 6.64 percent in December 2025, up from 4.58 percent the year before. CMBS office loan delinquency rates rose to 11.31 percent, up from 11.01 percent the year before, and remained above the prior cycle peak reached in 2012. Despite the uptick in delinquencies, credit exposure via CMBS portfolios remained limited as most of the CMBS held by banks were agency and government-sponsored entity issuances.

CRE borrowers and lenders faced continued challenges as 2025 came to a close. Lower interest rates in 2025 provided some relief to borrowers, but operating expenses for CRE properties remained high. Soft market conditions, such as in the office and multifamily sectors, continued to challenge the credit landscape.

[8] Moody's, "U.S. Banks' Private Credit Loan Exposure Nears $300 Billion," October 21, 2025.

[9] CRE loans include construction, land development, and other land loans (commonly referred to as ADC loans and includes 1–4 family residential construction loans), loans secured by multifamily properties, loans secured by nonfarm nonresidential properties, and loans to finance CRE, construction, and land development activities not secured by real estate.

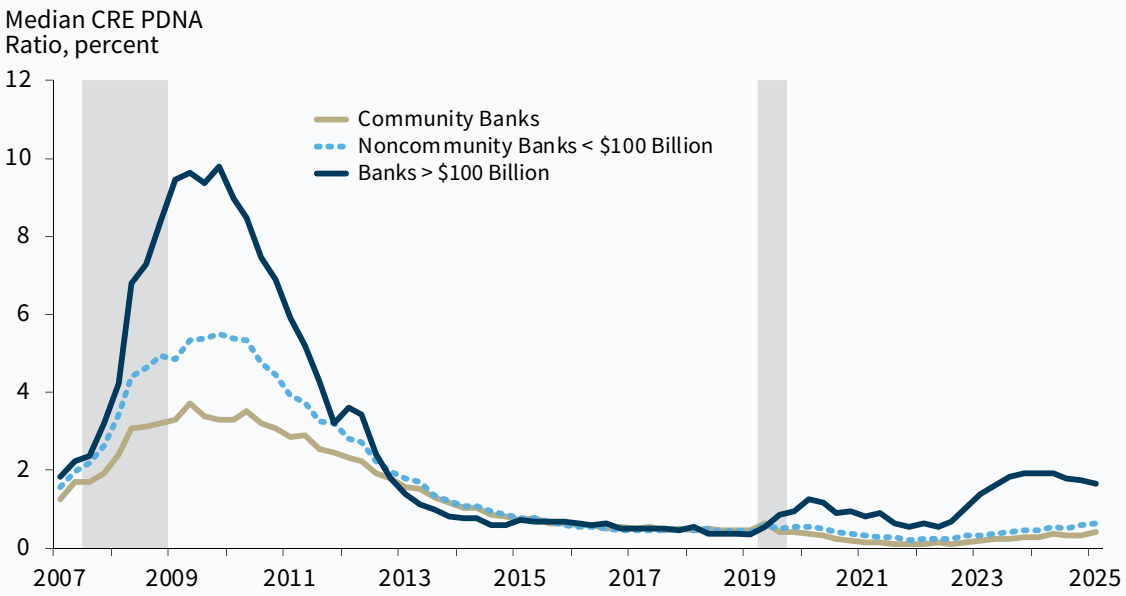
[10] CRE loan concentration is CRE loans measured as a share of tier 1 capital and the allowance for credit losses.

[11] The FDIC supports prudent CRE loan modification efforts. See Policy Statement on Prudent Commercial Real Estate Loan Accommodations and Workouts.

[12] Banks report modifications to borrowers experiencing financial difficulty if such modifications include principal forgiveness, an interest rate reduction, an other-than-insignificant payment delay, a term extension, or a combination thereof.

CHART 4.1.3

The CRE PDNA Ratio Rose More at the Largest Banks than at Other Banks



Source: FDIC.

Note: CRE is commercial real estate. PDNA is past-due and nonaccrual loans. Data are quarterly from fourth quarter 2007 through fourth quarter 2025. Shaded areas indicate recessions.

4.2 Nondepository Financial Institution Lending

- **Bank lending to NDFIs has been a fast-growing loan segment, though growth is concentrated at the largest banks.**
- **New data on disaggregated bank exposures to NDFIs show that more than half of NDFI loans are to credit intermediaries for mortgages, business loans, and consumer loans.**
- **Credit quality measures for NDFI loans remained favorable in 2025, but potential risks to banks from NDFI lending come from various transmission channels.**

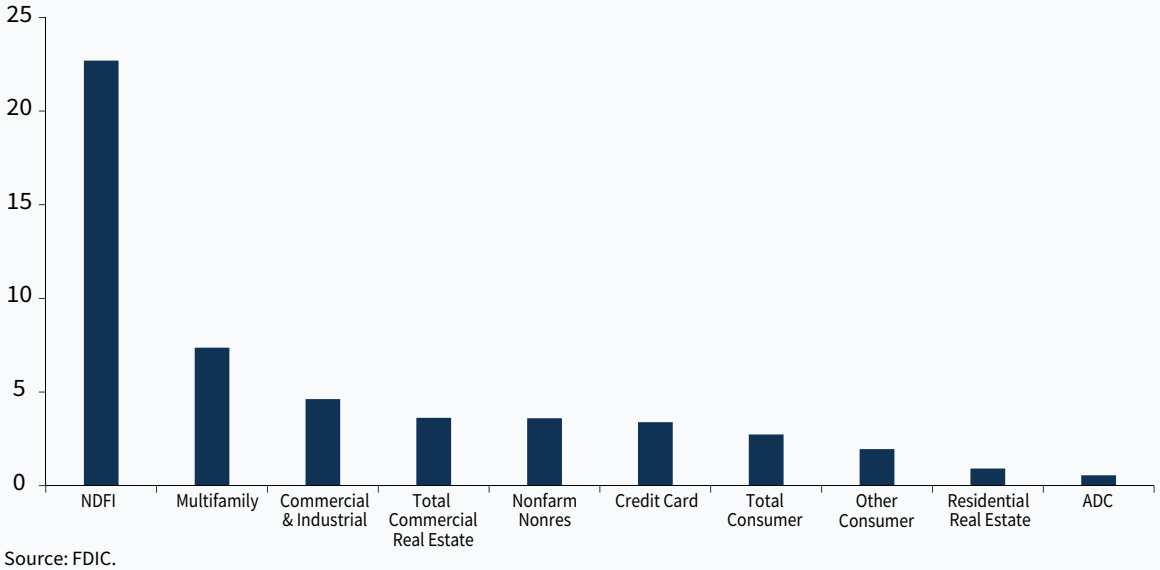
Bank lending to NDFIs has been the fastest growing loan segment since the 2008–2009 Global Financial Crisis, and the banking industry continues to increase its exposure to nonbanks. Banks provide vital liquidity and leverage to nonbanks in support of their daily operations or investment strategies, which may include intermediating credit for consumers and nonfinancial companies, or deploying investor capital across various asset classes. NDFIs include a wide range of entities, including private equity funds, mortgage lenders, private credit funds, insurers, Real Estate Investment Trusts, Business Development Companies, securitization vehicles, and other special purpose entities.

From 2010 through fourth quarter 2025, outstanding balances of bank loans to NDFIs had a compound annual growth rate (CAGR) of 22.7 percent, more than triple the next-highest sector, multifamily lending, which grew at a 7.4 percent CAGR (Chart 4.2.1). In 2025, NDFI loans grew 35.2 percent year over year; however, some of this growth is attributed to banks reclassifying loans due to revised Consolidated Report of Condition and Income (Call Report) instructions on NDFI loans. As of December 31, 2025, bank loans outstanding to NDFIs totaled $1.4 trillion, which represented 5.6 percent of total industry assets.

CHART 4.2.1

Growth in Bank Loans to NDFIs Outpaced Other Major Loan Categories

Compound Annual Growth Rate from 2010–2025
Percent



Source: FDIC.
Note: Data are annual through 2025 and include only funded commitments. ADC stands for acquisition, development, and construction loans. NDFI stands for nondepository financial institution.

Bank loans to NDFIs are heavily concentrated in the largest banks. At year-end 2025, 86 percent of the NDFI loan balance was held by banks with more than $100 billion in assets, and ten of those banks held about 66 percent of total loans to NDFIs (98 percent was held by banks with more than $10 billion in assets). NDFI loans now make up a material portion of total loans outstanding at the largest banks (Chart 4.2.2). Since 2010, for banks with more than $250 billion in assets, loans to NDFIs grew from 1.2 percent of total loans to 15.6 percent, and NDFI loans as a percentage of capital increased from 6.3 percent to 76.4 percent. In contrast, for banks with less than $10 billion in assets, loans to NDFIs increased from 0.2 percent of total loans to 1.2 percent, and NDFI loans grew from 1.0 percent to 6.8 percent as a share of capital.

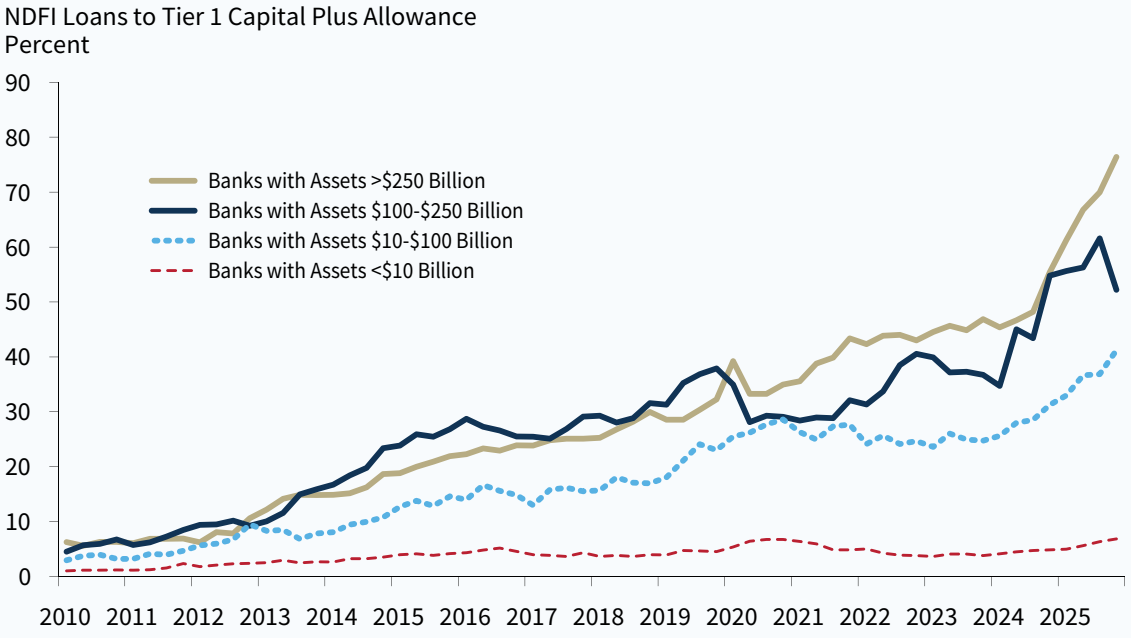
New data provide greater visibility on NDFI subsegments and show that more than half of NDFI lending in 2025 was to credit intermediaries. Before 2024, banks had been required to report only their aggregate exposure to NDFIs. To improve transparency, the Federal Financial Institutions Examination Council issued regulatory reporting changes in 2024 that required banks with more than $10 billion in assets to segment loans to NDFIs into five subcategories: loans to mortgage credit intermediaries, business credit intermediaries, consumer credit intermediaries, private equity funds, and all other loans to NDFIs.[13] Banks were also required to begin reporting NDFI data on past-due loans, nonaccrual loans, and unfunded commitment balances. In addition, the reporting instructions were revised to improve clarity and consistency among banks. These revisions resulted in some banks reclassifying lending from other categories into NDFI lending starting in fourth quarter 2024.[14]

[13] Definitions for the five NDFI lending subcategories can be found here.

[14] Supervisory observations suggest that banks primarily reclassified loans from C&I and "all other" segments into the five NDFI subcategories. According to the Federal Reserve's weekly survey of commercial banks, revisions related to the changes in the Call Report resulted in $193.2 billion in C&I loans and $140.6 billion in consumer loans being reclassified into loans to NDFIs and all loans not elsewhere classified at domestically chartered commercial banks through September 2025.

CHART 4.2.2

Larger Banks Have the Highest Concentration of Loans to NDFIs



Source: FDIC.
Note: Data are quarterly through fourth quarter 2025. NDFI stands for nondepository financial institution.

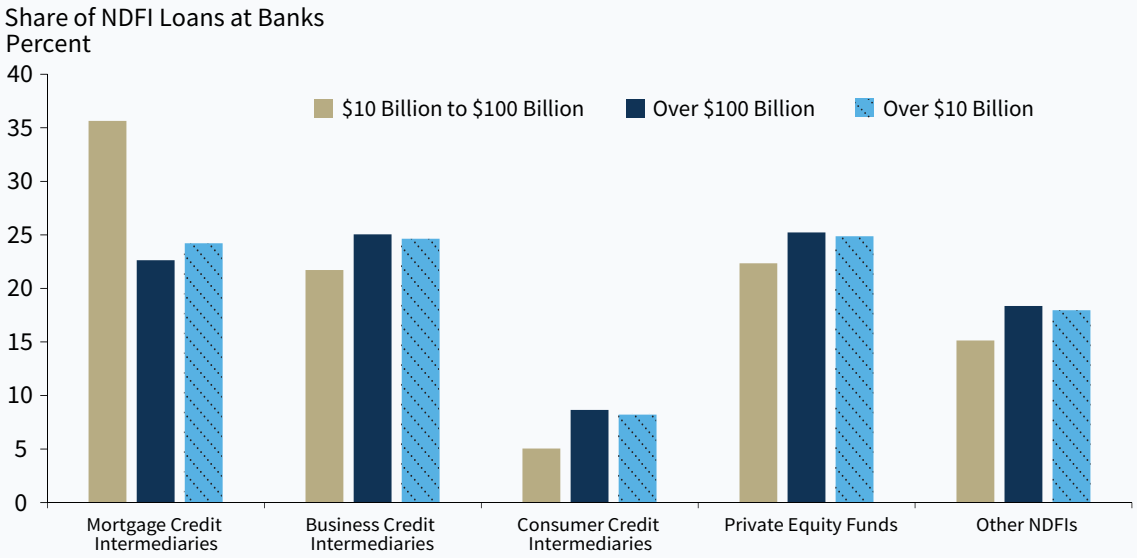
For banks with assets greater than $10 billion, about 57 percent of NDFI lending was to credit intermediaries in the fourth quarter 2025 (Chart 4.2.3). Mortgage credit and business credit intermediaries each made up about 25 percent of NDFI loans, while consumer credit intermediaries made up about 8 percent. Loans to private equity funds were about 25 percent of total NDFI loans, most of which were loans secured by a fund's capital call commitments, and other loans to NDFIs accounted for about 18 percent of total NDFI loans. NDFI lending composition differs depending on a bank's asset size. Banks with assets between $10 billion and $100 billion have a higher proportion of loans to mortgage credit intermediaries, while banks with assets greater than $100 billion have a more even distribution across private equity, business credit, and mortgage credit NDFI subcategories.

Bank lending to NDFIs have low direct credit risk but banks can be exposed to potential losses on loans pledged as collateral to a bank, and liquidity pressures from credit line drawdowns from NDFIs in times of stress. NDFI vulnerabilities have the potential to pose direct credit risks to banks as well as indirect risks to asset values. In an economic downturn, NDFIs may need to sell assets, causing downward pressure on asset values that can affect valuations for assets pledged for collateral or held by other NDFIs and banks. NDFIs that rely on less stable funding sources could also face significant liquidity stress due to margin calls on collateral pledged under their bank facilities. This could increase liquidity demands at banks as NDFIs collectively draw on bank-funded borrowing lines to safeguard operations, and individual NDFI borrowers may find themselves without access to funding.

The composition and structure of bank loans to NDFIs generally exhibit a lower degree of credit risk. Most of the credit facilities to NDFIs are short-term revolving credit lines that are typically collateralized with conservative advance rates against the collateral pledged, providing a layer of loss protection. Supervisory observations reflect strong historical performance and more favorable credit ratings for bank loans to NDFIs compared to traditional commercial loans. In fourth quarter 2025, the PDNA rate for loans to NDFIs was 0.15 percent.

CHART 4.2.3

Smaller Banks Have a Higher Concentration of Loans to Mortgage Credit Intermediaries



Source: FDIC.
Note: Data are for fourth quarter 2025 for banks with assets greater than $10 billion and include only funded commitments. NDFI stands for nondepository financial institution.

In comparison, the PDNA rate for commercial and industrial (C&I) loans was 1.39 percent.

Asset quality of loans to NDFIs was stronger at larger banks, but PDNA rates were low for all size categories. In fourth quarter 2025, the PDNA rate for loans to NDFIs was 0.80 percent for banks with assets less than $10 billion, 0.36 percent for banks with assets between $10 billion and $100 billion, and 0.11 percent for banks with assets greater than $100 billion. The NDFI PDNA rates remained well below C&I PDNA rates across asset size groups.

4.3 Business Lending

- **Business conditions were tepid in 2025 with relatively tight bank underwriting and weak business demand for loans.**
- **Small business loan growth was stagnant amid higher financing costs and weaker business conditions.**
- **Bank exposures to larger businesses through corporate bond holdings increased in 2025, while collateralized lending obligations (CLOs) declined. Corporate default rates edged down but remained elevated, and signs of stress in leveraged lending continued.**

Business conditions were tepid in 2025, as bank lending standards remained tight and business loan demand slowed. Bank lending to businesses (other than CRE, NDFI, and agriculture lending) comprises C&I loans to small and large businesses, which includes leveraged lending, and other syndicated loans to larger businesses. In 2025, fewer banks reported tightening lending conditions for C&I loans than in 2024, but, on net, they continued to tighten standards for C&I loans to businesses. The banks that tightened lending standards reported a reduced tolerance for risk and a less favorable economic outlook, according to the January 2026 release of the Senior Loan Officer Opinion Survey on Bank Lending

Practices (Chart 4.3.1).[15] C&I loan demand improved but was generally weak overall in 2025. Business bankruptcy filings edged up slightly in 2025.[16]

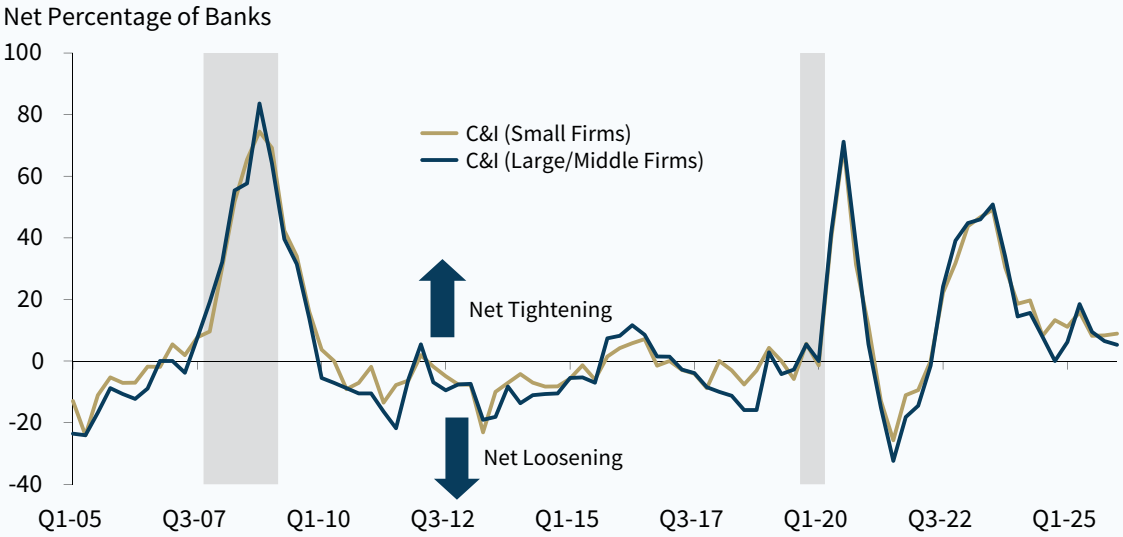
C&I loans at community banks grew in 2025, while C&I loan quality at these institutions deteriorated slightly. Total C&I lending at community banks, which made up 12.1 percent of their loan book, grew 4.9 percent in 2025 (slightly more than in 2024). The C&I PDNA rate continued to rise at community banks to 1.81 percent as of fourth quarter and was above the pre-pandemic average of 1.62 percent (Chart 4.3.2). The PDNA rate for the industry was also slightly above its pre-pandemic average.

Small business conditions remained weak in 2025 as uncertainty increased and business financing costs remain elevated. Small business uncertainty increased during the year, according to the National Federation of Independent Business. Small businesses cited higher input costs and supply chain interruptions and indicated that they intend to raise prices.[17] As of third quarter 2025, median interest rates on new small business loans decreased on average 63 basis points from a year earlier but remained elevated compared to pre-pandemic median levels from fourth quarter 2017 to fourth quarter 2019.[18]

Community banks remained an important source of small business lending in 2025. As of December 31, 2025, the banking industry held $717 billion in small business loans, as measured by small-dollar C&I, nonfarm nonresidential CRE, farmland, and ag production loans.[19] Community banks maintained an outsized share—37 percent—of the industry's total small business loans despite holding only 14 percent of total industry loans. Small business loans represented 81 percent of tier 1 capital and allowance

CHART 4.3.1

Lending Standards to Businesses Continued to Tighten in 2025



Source: Federal Reserve Board (Haver Analytics).
Note: Data are quarterly through fourth quarter 2025. Shaded areas indicate recession. Large and middle-market firms are defined as firms with annual sales of $50 million or more, and small firms are those with annual sales of less than $50 million. C&I is commercial and industrial.

[15] The January 2026 Senior Loan Officer Opinion Survey on Bank Lending Practices reflects responses collected in fourth quarter 2025.

[16] U.S. Courts, "Bankruptcy Filings Increase 10.6 Percent," November 24, 2025.

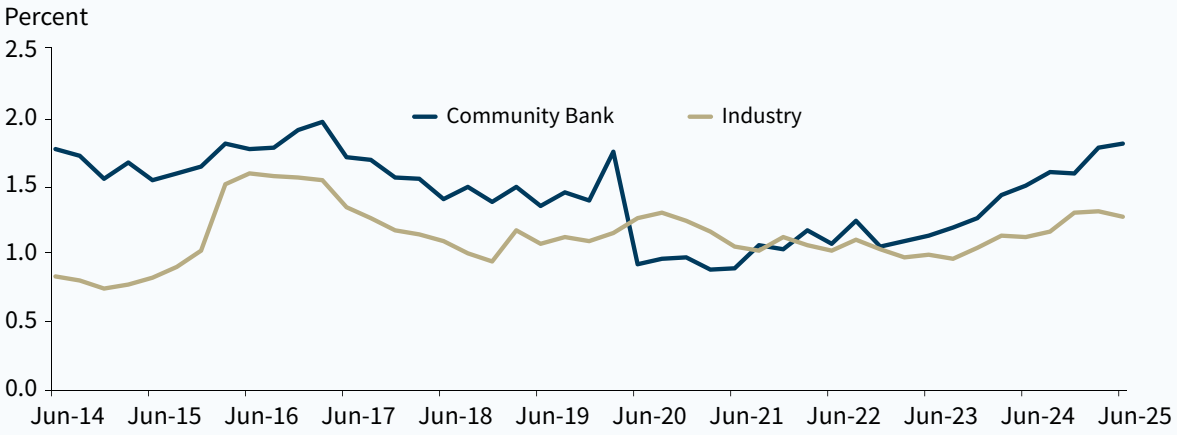
[17] As cited throughout the January to December 2025 Small Business Economic Trends Reports.

[18] Daniel Harbour and Christina Louie, "Small Business Lending Continues to Increase," Small Business Lending Survey, Federal Reserve Bank of Kansas City, December 18, 2025.

[19] The FDIC defines small business loans as C&I, nonfarm nonresidential CRE, farmland, and ag production loans less than $1 million, regardless of the size of the business, and are reported in Call Reports semiannually on June 30 and December 31.

CHART 4.3.2

Community Bank Commercial and Industrial Loan Past-Due and Nonaccrual Rate Continues to Rise



Source: FDIC.
Note: Data are quarterly through fourth quarter 2025.

for credit losses at community banks, well above the 21 percent at noncommunity banks.

C&I lending made up 56 percent of banking industry small-dollar loans. Annual small-dollar C&I loan growth reported by community banks remained slow at 0.1 percent in fourth quarter 2025, down slightly from 0.4 percent in 2024. Industry C&I loan growth increased a little more than 1 percent during the same period. Small-dollar C&I lending by community banks grew at a slower rate than total C&I lending by community banks, which grew 4.9 percent in 2025.

Bank financing to larger businesses through corporate debt was roughly unchanged during the year. The banking industry finances larger businesses through loans and holdings of corporate debt securities, which expose them to both credit risk and interest rate risk. Bank holdings of corporate debt securities represented less than 3 percent of assets in 2025, roughly unchanged from 2024.[20] In addition, larger banks hold corporate debt securities related to their market-making, hedging, and trading activities. While trading assets increased in 2025, the share of other debt securities holdings, including corporate debt as a percentage of trading assets, remained unchanged.

Banks also extend loans to businesses. The highest-risk segment of commercial lending is leveraged loans. Leveraged borrowers typically have higher debt levels relative to their cash flow, which can make them more vulnerable to stressed conditions. Data from the 2025 Shared National Credit (SNC) Program indicate that banks held $1.85 trillion of the total $3.1 trillion of leveraged commitments.[21] Bank commitments remained unchanged during the year, while total SNC leveraged commitments increased $114 billion. Bank holdings of CLOs, which typically contain leveraged loans, edged lower as a share of total banking sector assets from 2024 and remained below 1 percent.

CLO holdings are concentrated in a small number of banks, with the top four banks by assets accounting for 66 percent of estimated bank-held CLOs and the top 20 banks by CLO holdings accounting for 98 percent of total CLO holdings. While banks typically hold the higher-rated tranches of CLOs, they also have a variety

[20] Based on Call Report data on securities holdings. Corporate debt securities are measured as asset-backed securities, structured financial products, and other domestic and foreign debt securities. The measure includes both held-to-maturity and available-for-sale securities holdings.

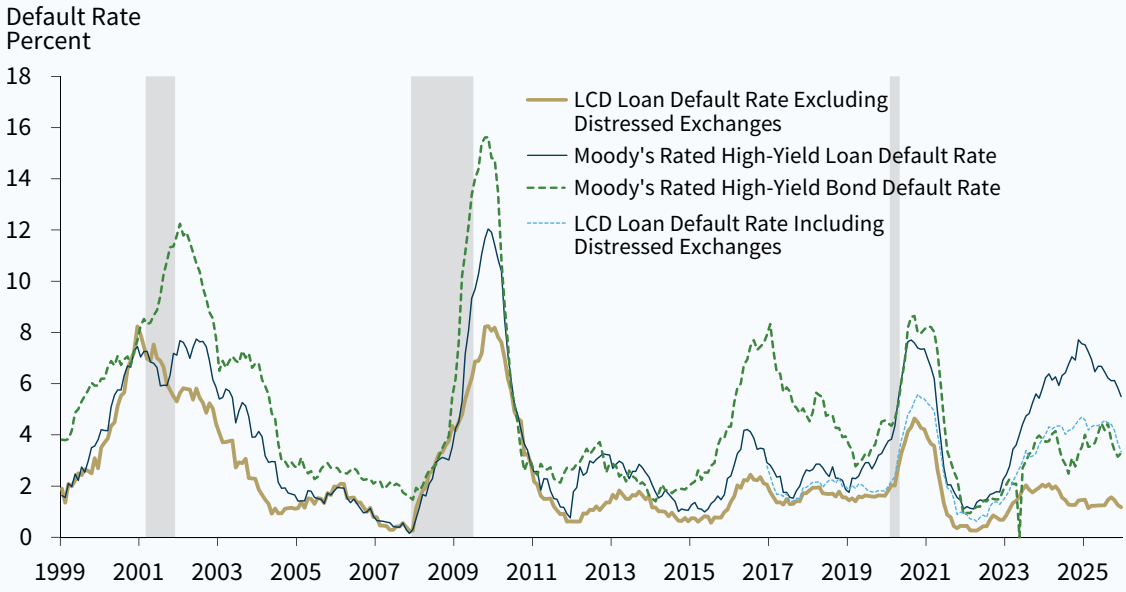
[21] Office of the Comptroller of the Currency, "Shared National Credit Report," January 2026. The Shared National Credit (SNC) Program reviews large syndicated loans held by banks. The SNC Program assesses risk in complex credit loan commitments to borrowers in excess of $100 million that are shared by multiple regulated financial institutions.

of exposures to nonbank financial institutions that hold or arrange CLO securities. These interconnected risks may expose banks to stress in the underlying leveraged loan market in ways that are difficult to measure, as discussed in Section 4.2 on NDFI lending.

Corporate default rates remained elevated, but credit risks were mitigated by relatively supportive corporate debt market conditions, with generally stable corporate debt and leverage loan yields, and narrower corporate bond spreads. Corporate bond and leveraged loan issuance surpassed 2024 levels and leveraged loan borrowers extended maturities into the late 2020s and early 2030s, reducing near-term refinancing risks.[22] Default rates for both bonds and loans drifted lower during 2025 but remained elevated (Chart 4.3.3). Loan distress ratios for leveraged loans—which capture the share of performing loans priced below 80 cents on the dollar—increased in 2025, suggesting signs of potential strain for some companies.[23]

CHART 4.3.3

Corporate Debt Default Rates Have Trended Down



Sources: PitchBook Leveraged Commentary and Data (LCD) and Moody's.
Note: Shaded areas indicate recession. LCD default rate is lagging 12-month rate. Data including distressed exchanges available from December 2016. Moody's data are issuer-weighted U.S. speculative-grade (high-yield) debt default rates. Data are monthly through December 2025.

[22] PitchBook.

[23] Ibid.

4.4 Consumer Lending

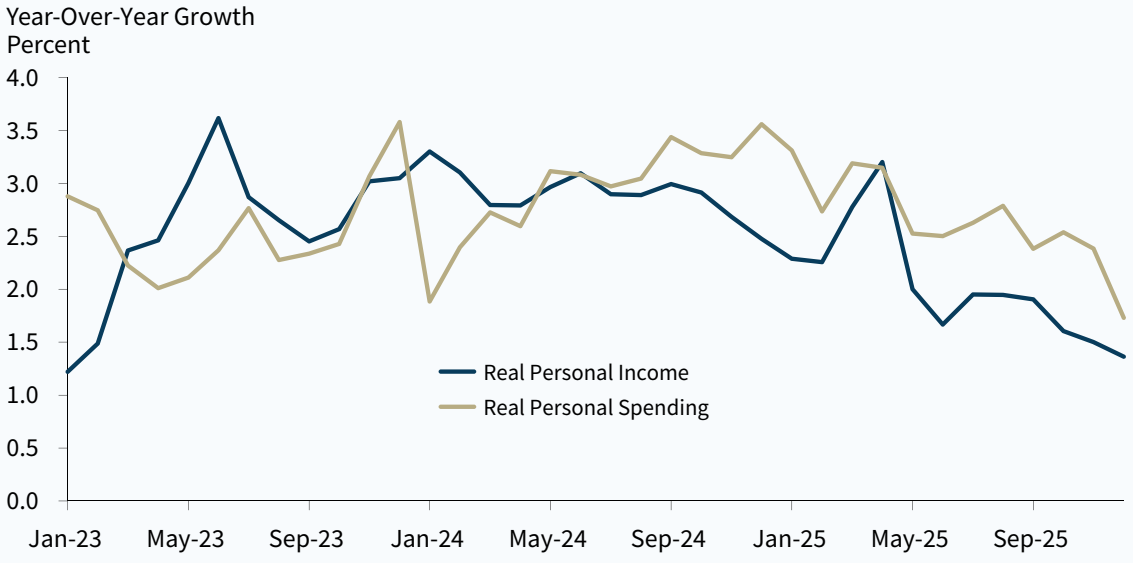
- **Household income growth eased in 2025 but balance sheets improved.**
- **Consumer loan growth at banks was mixed in 2025 as households reduced their demand for some loans and banks continued to tighten lending standards. Consumer loan asset quality improved slightly in 2025, but delinquency rates remained elevated relative to pre-pandemic levels.**
- **Consumer loan asset quality at community banks was flat in 2025. The median PDNA rates for auto and other consumer loans were flat, while the median PDNA rate for credit card loans, which are a small part of community bank loan portfolios, improved.**

Household income growth eased in 2025, but debt burdens remained low and net worth continued to increase. Income growth softened as the labor market slowed but remained stable, with slower job growth in the economy and slowing wage growth. Real income and spending growth both slowed from 2024 but remained positive (Chart 4.4.1).[24] The savings rate declined in 2025 as spending growth outpaced incomes, and was below the 2015 to 2019 average in December. Household wealth increased, and debt burdens generally remained low. Low debt burdens partially reflected lower mortgage payments from households that locked in low mortgage rates in 2020 and 2021. The debt service ratio rose slightly from 2024, and the ratio of debt to GDP ticked down to the lowest level in more than 20 years (Chart 4.4.2). Federal student loan repayments resumed in October 2023, potentially stretching budgets for consumers who have student loans, but total student loans are only about 9 percent of consumer debt.

Consumer loan growth at banks was mixed in 2025 as households reduced their demand for some loans and banks tightened lending standards. Total consumer loans held by the banking industry rose in 2025. Credit card loan growth continued to slow

CHART 4.4.1

Real Income and Spending Growth Slowed in 2025

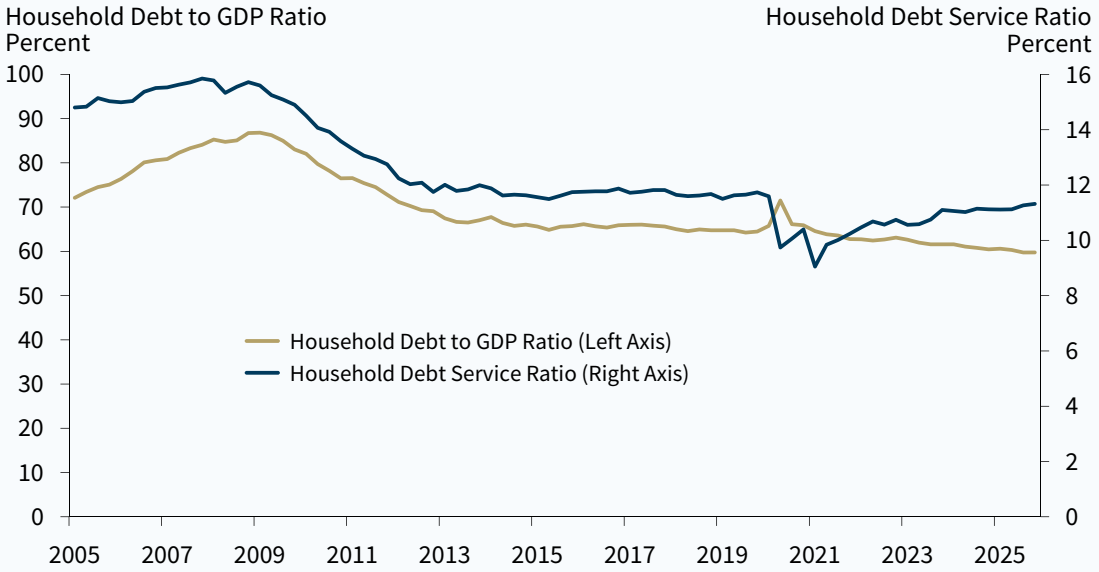


Source: Bureau of Economic Analysis (Haver Analytics).
Note: Data are monthly through December 2025. Real personal income spiked in April 2025 from increases in government social benefits.

[24] Real personal income spiked in April 2025 from increases in government social benefits.

CHART 4.4.2

Debt Burdens Remained Low in 2025



Sources: FRBNY, Federal Reserve Board, and Bureau of Economic Analysis (Haver Analytics).
Note: The household debt service ratio is the ratio of household debt payments to disposable personal income. Data are quarterly through fourth quarter 2025. FRBNY is Federal Reserve Bank of New York.

during the year but remained positive. Total auto loans held by the banking industry fell in first quarter for an eighth straight quarter but grew the rest of the year, while other consumer loans continued to decline.

Consumer loan demand softened during the year and banks tightened lending standards for some consumer loans. According to the Federal Reserve Senior Loan Officer Opinion Survey on Bank Lending Practices, the banking industry, on net, reported lower demand for credit card loans and other consumer loans for most of the year. Auto loan demand declined in each quarter except the second quarter, when consumers borrowed more to "buy ahead" of expected auto tariffs. Banks also reported net tightening of lending standards on credit card and other consumer loans, but they loosened standards on auto loans later in the year.

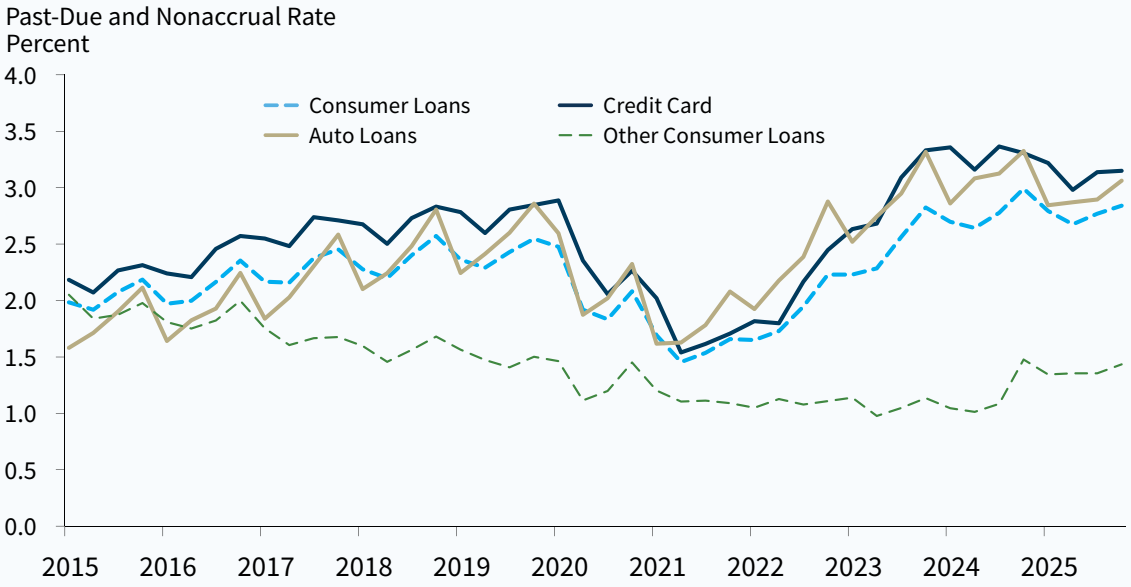
Consumer loan asset quality across the banking industry was fairly steady in 2025. Aggregate PDNA rates for credit card loans and auto loans declined from a year earlier but remained above their pre-pandemic averages (Chart 4.4.3). Delinquency measures for other consumer loans, which were about a quarter of all consumer loans, also fell slightly but remained below pre-pandemic levels. Aggregate net charge-off rates for all consumer loan categories except other consumer loans fell from a year earlier but were higher than average pre-pandemic levels.

At community banks, consumer loans are a relatively small share, less than 4 percent of loan portfolios. Consumer loan performance among community banks was generally unchanged in 2025. The median PDNA rate for consumer loans at community banks was flat from a year earlier. The median PDNA rate for credit card loans at community banks fell, but credit card loans are only 0.2 percent of community bank loan portfolios. The median PDNA rates for auto and other consumer loans at community banks were about flat from a year earlier.[25]

[25] The calculations of medians exclude banks that do not make that type of loan.

CHART 4.4.3

Consumer Loan Delinquency Rates Flattened in 2025



Source: FDIC.
Note: Data are quarterly through fourth quarter 2025.

4.5 Residential Real Estate

- **Elevated mortgage rates continued to weigh on the housing market in 2025.**
- **Home price growth moderated and varied in magnitude across geographies.**
- **Higher property taxes and insurance premiums raised housing costs, further hampering affordability in some areas.**
- **Banks reported higher 1–4 family residential loan balances and concentrations in 2025.**
- **Credit quality in bank 1–4 family residential loan portfolios remained relatively sound, but some banks reported elevated PDNA rate.**
- **Relatively sound underwriting standards and generally higher equity levels will likely offset potential credit quality risks in residential mortgage loan portfolios.**

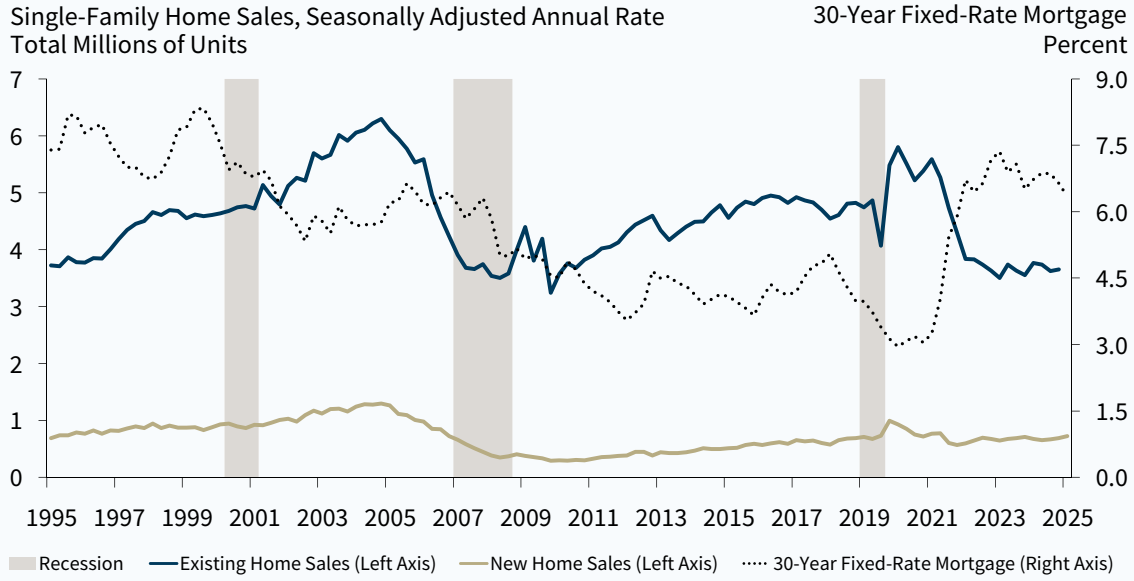
Elevated mortgage rates continued to constrain home sales and housing supply in 2025. After rising sharply in first quarter 2022, the 30-year fixed-rate mortgage averaged 6.35 percent through fourth quarter 2025.[26] Stubbornly high mortgage rates contributed to weak home sales activity during the year. Existing home sales trended persistently lower since fourth quarter 2021 but increased modestly through fourth quarter 2025 from the year before as homebuyers took advantage of mortgage rates that trended slightly lower in late 2025.[27] New home sales rose slightly through fourth quarter 2025 on an annual basis and comprised less than 20 percent of total (existing and new) home sales (Chart 4.5.1). Despite

[26] Mortgage Bankers Association.

[27] National Association of Realtors, existing single-family home sales from 1999 to 2025.

CHART 4.5.1

Elevated Mortgage Rates Continued to Weigh on Home Sales in 2025



Sources: National Association of Realtors, Census Bureau, Mortgage Bankers Association, and National Bureau of Economic Research (Haver Analytics).

Note: Data are quarterly from fourth quarter 1995 to fourth quarter 2025. Existing home sales through third quarter 2025. New home sales through fourth quarter 2025. Shaded areas indicate recessions.

the overall lower annual trend in new home sales by the end of fourth quarter 2025, the volume of quarterly new home sales improved relative to first quarter 2025 due to builder incentives and price cuts.[28]

Higher mortgage rates also weighed on the supply of existing homes on the market, as existing homeowners remained reluctant to sell and lose their ultra-low mortgage rates.[29] In addition, permits and starts continued to decline year over year through fourth quarter 2025 as builders reduced construction activity to move excess supply, which suggests fewer new homes coming to market in 2026.[30]

Home price gains eased in 2025, but prices remained high. The S&P Cotality Case-Shiller Home Price Index increased 1.4 percent year over year as of fourth quarter 2025, the slowest gain in two years. Home price gains remained well below the double-digit levels reached in 2021 and 2022 and continued to slow across the nation through fourth quarter 2025. In some markets, home prices declined following a period of strong growth. Prices declined in eight of the nation's 20 major metro areas tracked through fourth quarter 2025. For example, in Tampa, Denver, and Phoenix, where prices once surged above 20 percent following the pandemic recession, prices were down more than 1 percent.[31] All states experienced an aggregate increase in prices, despite price declines in some major metropolitan areas.[32] Home prices nationally were 54 percent above their 2020 levels.

Housing affordability remained low in 2025. Since 2020, the National Association of Realtors Housing Affordability Index (HAI) had been trending lower for the average homebuyer. In 2025, lower interest rates

[28] Census Bureau, new single-family homes sales from 1963 to 2025.

[29] National Association of Realtors.

[30] Census Bureau, median 1–4 family annualized permit issuance from 1960 to 2025 and starts annualized from 1959 to 2025.

[31] S&P/Cotality Case-Shiller. Home prices declined in the following eight metro areas: Tampa, Phoenix, San Francisco, Miami, Dallas, San Diego, Denver, and Seattle.

[32] Federal Housing Finance Agency.

and slowing home price appreciation led to a slight improvement in affordability. The HAI rose to just above the minimum level of affordability reading of 100 by fourth quarter 2025 but remained well below the long-term average of 125.7.[33] Affordability for first-time home buyers remained well below the minimum level of affordability at 72.3 in fourth quarter 2025.[34]

Weak affordability reflects several years of rapid home price appreciation. Affordability has been further hampered by a rise in housing-related costs, such as property taxes and homeowners insurance. The median property tax bill increased 25 percent from 2019 to 2024.[35] The average homeowner insurance premium rose 29 percent between 2021 and 2024.[36]

The banking industry reported moderate residential mortgage loan growth in 2025. Banks reported a nearly 2 percent increase in mortgage loans in fourth quarter 2025 from the year before to $2.9 trillion, the highest balance on record for the industry.[37] Both community banks (0.8 percent) and noncommunity banks (2.2 percent) reported higher residential mortgage loans from 2024. Since 2019, a higher volume of residential mortgage loans contributed to a generally higher ratio of residential mortgage loans to capital. As of fourth quarter 2025, this ratio had risen to 144 percent, up 115 basis points from one year earlier. Nearly 15 percent of banks reported total residential loans to capital above 300 percent, up moderately from 2025 but below the 17 percent peak reached in 2011.

Residential mortgage PDNA rates weakened but remained historically low. The banking industry reported an aggregate residential mortgage PDNA of 2.04 percent in fourth quarter 2025, up 7 basis points from the prior year but still historically low (Chart 4.5.2). Community banks reported a residential mortgage PDNA rate of 1.41 percent, up 16 basis points from one year earlier. Community banks in the South reported the highest residential mortgage PDNA rate in the nation at 1.74 percent in fourth quarter 2025, up from 1.49 percent in fourth quarter 2024.

Relatively sound underwriting standards and generally higher equity levels will likely offset potential credit quality risks in residential mortgage loan portfolios. On net, banks tightened lending standards on various types of residential mortgage loans in recent years, but fewer banks tightened standards in 2025, according to the Federal Reserve Senior Loan Officer Opinion Survey.[38] In addition, nearly two-thirds (65.3 percent) of mortgage originations in fourth quarter 2025 were to borrowers with credit scores of 760 or higher, according to the Federal Reserve Bank of New York Consumer Credit Panel. Conversely, only 4.9 percent of mortgage originations in fourth quarter 2025 were to borrowers with credit scores of less than 620, well below the 15.2 percent reached in first quarter 2007, just before the Great Recession.[39] Relatively sound underwriting standards and strong homeowner equity levels may help mitigate potential credit risk in bank residential mortgage loan portfolios going forward.

[33] National Association of Realtors Housing Affordability Index is calculated so that a reading above 100 indicates that the median income is more than enough to qualify for a mortgage loan on a median-priced home with a down payment of 20 percent; an index above 100 conveys affordability, while an index below 100 conveys unaffordability.

[34] National Association of Realtors First-Time Homebuyers Affordability Index from 1981 to 2025, adjusted from monthly to quarterly values by Haver.

[35] U.S. Census Bureau, American Community Survey, 2019 1-Year Estimate, Table B25103: Mortgage Status by Median Real Estate Taxes Paid (Dollars); 2024 1-Year Estimate, Table B25103: Mortgage Status by Median Real Estate Taxes Paid (Dollars).

[36] Insurify.

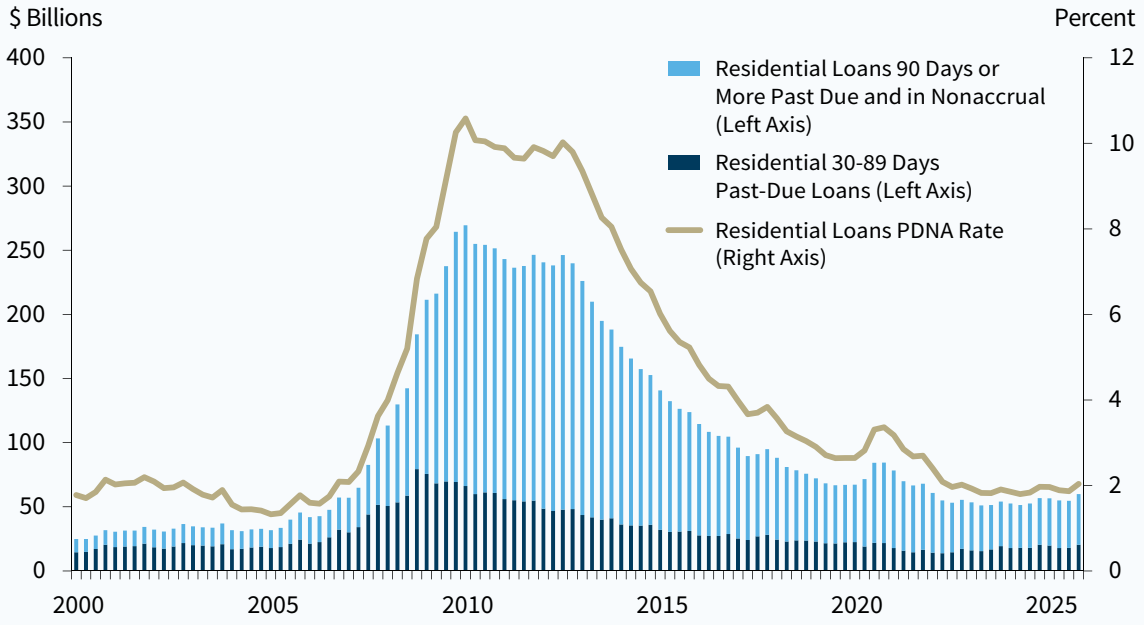
[37] Total residential mortgage loans include real estate loans secured by 1–4 family residential properties (home equity lines of credit plus all other 1–4 family residential real estate loans).

[38] Board of Governors of the Federal Reserve System, "Senior Loan Officer Opinion Survey on Bank Lending Practices," October 2025.

[39] New York Fed Consumer Credit Panel/Equifax.

CHART 4.5.2

Residential Mortgage Asset Quality Remained Favorable in 2025



Source: FDIC.

Note: Quarterly data through fourth quarter 2025. PDNA is past-due and nonaccrual loans.

4.6 Agriculture

- **Grain and oilseed farmers reported operating losses as crop receipts declined for the third consecutive year, and production expenses remained elevated.**
- **Operating losses eroded working capital positions for many row crop farmers, leading to strong loan demand.**
- **Farm bank agricultural loan delinquency rates increased in 2025.**
- **Ample farmland equity supported loan restructuring.**

FDIC-insured banks held $213 billion in agricultural loans in fourth quarter 2025, up 3.8 percent from one year earlier. Agriculture loans represented only 1.6 percent of loans held by all banks; however, more than one-fifth (945) of all U.S. banks are considered agricultural banks, or "farm banks," because of their sizeable concentration of lending in agriculture. These banks tend to be small community banks located in Midwestern states where agricultural loan portfolios are dominated by cattle, corn, soybeans, and wheat.[40]

Agricultural credit quality concerns center on row crop producers as operating losses continued in 2025. Receipts for corn, soybeans, and wheat are forecast to have declined another 6.5 percent in 2025, which brings the total decline in these row crop receipts to 28.2 percent since their peak in 2022.[41] Meanwhile, production costs remained elevated in 2025, leading to another year of operating losses for many row crop producers (Chart 4.6.1).[42] A recent survey of bankers found that only about half of

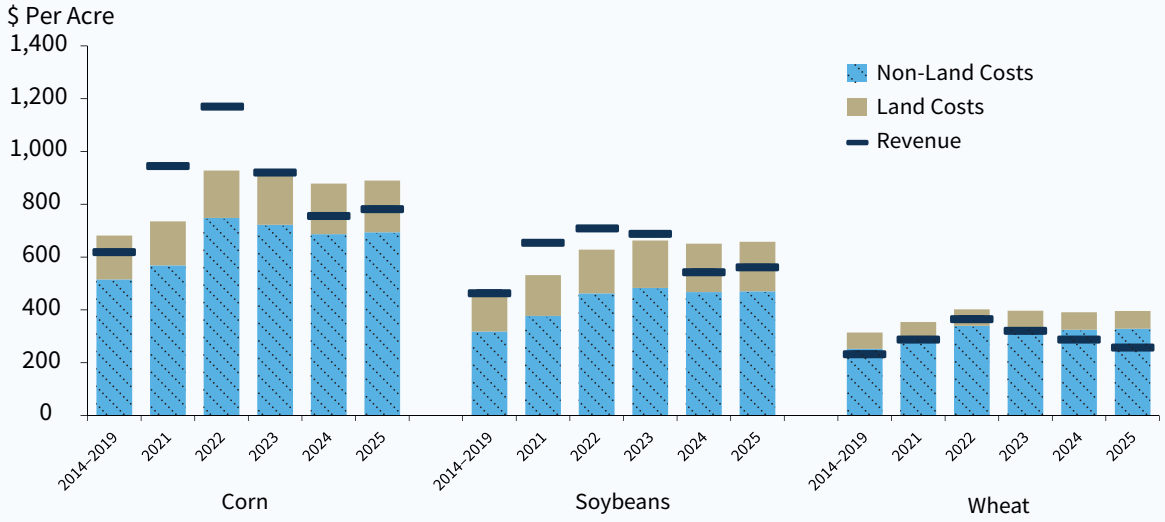
[40] Based on FDIC supervisory data. Cattle production includes cow/calf ranching and feedlot operations.

[41] Cotton receipts are also depressed, down 34.5 percent from their 2022 high. However, cotton is a significant exposure at only a small share of farm banks.

[42] Despite the struggles row crop farmers are facing, the USDA projects that 2025 net farm income increased by 21 percent in 2025, driven by growth in animal and animal product receipts (especially cattle and chicken eggs) and government payments.

CHART 4.6.1

Row Crop Revenue Is Down Significantly from the Recent Peak and Below the Cost of Production for Many Farmers



Source: U.S.Department of Agriculture.

agricultural borrowers were expected to be profitable in 2025 and that lenders expect slight deterioration in profitability in 2026.[43] Credit quality was agricultural bankers' highest concern in 2025, with row crop production being the most concerning portion of lender portfolios.[44]

Weakened cash flows have led to declines in working capital and strong loan demand. Supervisory observations suggest a greater occurrence of declining working capital at agricultural credit reviews, and agricultural lenders cite producer liquidity as their highest concern for their borrowers.[45] Producers' weakened liquidity positions caused them to turn to bank loans for operational financing. The median agricultural production loan growth rate was 6.3 percent at farm banks in 2025, down from 8.9 percent in 2024 but a strong pace relative to recent history. Despite strong loan growth, farm bank agricultural loan concentration ratios remained below their long-term average.[46]

Reflecting growing stress among crop producer borrowers, farm bank agricultural loan delinquencies continued to increase in 2025. Among the 59 percent of farm banks reporting PDNA rates for agricultural loans as of fourth quarter 2025, the median PDNA rate rose 13 basis points to 0.81 percent (Chart 4.6.2). The share of banks reporting delinquencies was the highest since 2020, and the median PDNA rate was the highest since 2021. Net charge-off rates, however, remained negligible at 0.09 percent.

Farmland values remained resilient in 2025, providing ample capacity for many borrowers to restructure unpaid operating loans. Producers have been able to tap into farmland equity to restructure debt, mitigating credit problems. Farmland values increased 4.3 percent year over year through June 2025 according to the latest USDA land value survey, and the aggregate farm debt-to-equity ratio increased

[43] American Bankers Association and Farmer Mac, Agricultural Lender Survey Results, Fall 2025.

[44] Ibid.

[45] Ibid.

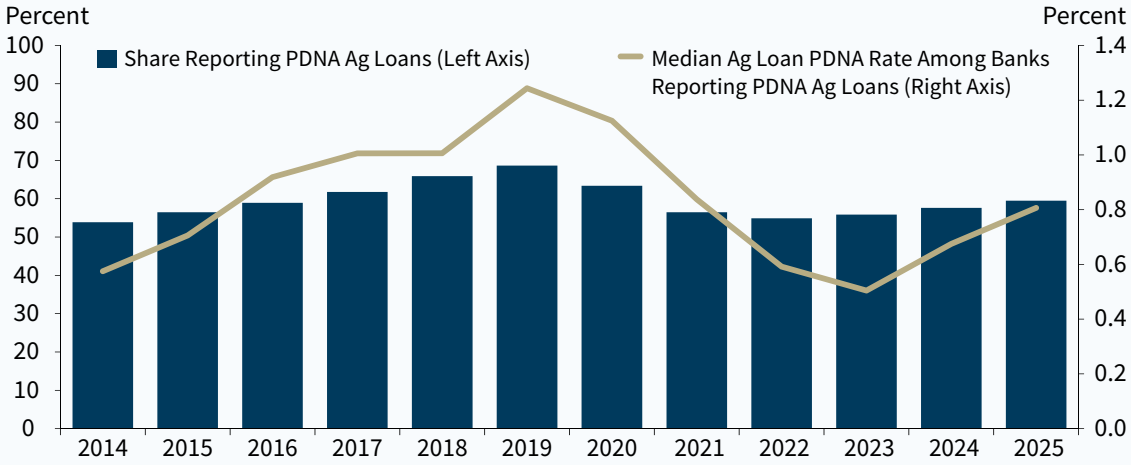
[46] The agricultural loan concentration ratio includes agricultural production loans and farmland loans as a share of tier 1 capital and the allowance for credit losses.

only modestly in 2025 to 15.6 percent. Surveys conducted by Federal Reserve Banks show that Midwestern agricultural land values have remained stable or in some cases declined modestly since the USDA land survey was released.

Producers also benefited from government payments that provided cushion to poor returns in 2025. These factors helped support borrowers and cushion potential losses for banks.

CHART 4.6.2

While the Share of Banks Reporting Agricultural Loan Delinquencies Is Steady, the PDNA Rate Is Rising



Source: FDIC.
Note: Data as of fourth quarter each year for farm banks only. PDNA is past-due and nonaccrual loans.

ACRONYMS AND ABBREVIATIONS

ADC ..... Acquisition, Development, and Construction

C&I ..... Commercial and Industrial

Call Reports ..... Consolidated Reports of Condition and Income

CBLR ..... Community Bank Leverage Ratio

CLO ..... Collateralized Loan Obligation

CMBS ..... Commercial Mortgage-Backed Securities

CRE ..... Commercial Real Estate

FDIC ..... Federal Deposit Insurance Corporation

FHLB ..... Federal Home Loan Bank

FOMC ..... Federal Open Market Committee

GDP ..... Gross Domestic Product

NDFI ..... Nondepository Financial Institution

NIM ..... Net Interest Margin

PDNA ..... Past-Due and Nonaccrual Loans

S&P ..... Standard and Poor's

USDA ..... U.S. Department of Agriculture

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GLOSSARY OF TERMS

Banks.....FDIC-insured depository institutions.

Bond.....A certificate of indebtedness issued by a government or corporation.

Call Report.....A report of a bank's financial condition that is filed quarterly with the FDIC and known officially as the Report of Condition and Income.

Capital.....The net worth or value that remains if an institution paid off all of its liabilities. At its core, bank capital is equity. Bank capital or equity can be expressed by the basic accounting formula: Assets – Liabilities = Equity.

Collateral.....Property required by a lender and offered by a borrower as a guarantee of payment on a loan. Also, a borrower's savings, investments, or the value of the asset purchased that can be seized if the borrower fails to repay a debt.

Collateralized Loan Obligations (CLOs).....Securitization vehicles backed predominantly by commercial loans.

Commercial Real Estate (CRE) Loans.....CRE loans measured in the Call Report include construction, land development, and other land loans (commonly referred to as ADC loans and includes 1–4 family residential construction loans), loans secured by multifamily properties, loans secured by nonfarm nonresidential properties, and loans to finance CRE, construction, and land development activities that are not secured by real estate.

Community Bank.....FDIC-insured institutions meeting the criteria for community banks as defined in the FDIC's 2012 Community Banking Study. Noncommunity banks are banks that do not meet these criteria.

Default.....Failure to promptly pay interest or principal when due.

Farm Bank.....A bank with agricultural production loans plus real estate loans secured by farmland equal to or exceeding 25 percent of total loans and leases.

Federal Funds Rate.....The interest rate at which a depository institution lends funds that are immediately available to another depository institution overnight.

High Yield.....A term that is generally synonymous with noninvestment grade, which refers to the lowest-rated bonds subjected to third-party credit risk assessments by nationally recognized statistical ratings organizations. In the United States, noninvestment grade bonds are typically rated Ba1 or below by Moody's or BB+ or below by Standard & Poor's or Fitch.

Inflation.....The rate of increase in prices over a given period of time.

Investment Grade.....Generally, the highest-rated bonds subjected to third-party credit risk assessments by nationally recognized statistical rating organizations. In the United States, investment-grade bonds are typically rated Baa3 or above by Moody's or BBB- or above by Standard & Poor's or Fitch.

Leveraged Loans.....Numerous definitions of leveraged lending exist throughout the financial services industry and commonly contain some combination of the following:

- Proceeds used for buyouts, acquisitions, or capital distributions.
- Transactions in which the borrower's total debt divided by EBITDA (earnings before interest, taxes, depreciation, and amortization) exceeds 4.0 X EBITDA or senior debt divided by EBITDA exceeds 3.0 X EBITDA, or other defined levels appropriate to the industry or sector.
- A borrower recognized in the debt markets as a highly leveraged firm, which is characterized by a high debt-to-net-worth ratio.
- Transaction in which the borrower's post-financial leverage, as measured by its leverage ratios (for example, debt-to-assets, debt-to- net-worth, debt-to-cash flow, or other similar standards common to particular industries or sectors), significantly exceeds industry norms or historical levels.

Liquid Assets.....Interest-bearing and noninterest-bearing deposits, fed funds sold, reverse repurchase agreements, and the fair value of available-for-sale and held-to-maturity securities less the value of pledged securities.

Long-Term Assets.....Loans and debt securities with remaining maturities or repricing intervals of more than three years.

Net Interest Margin.....The difference between interest and dividends earned on interest-bearing assets and interest paid to depositors and other creditors, expressed as a percentage of average earning assets. No adjustments are made for interest income that is tax exempt.

Nonbank.....Firms that are not part of or affiliated with FDIC-insured depository institutions.

Past-Due and Nonaccrual Loans ..... Loans 30 or more days past due or in nonaccrual status (90 or more days past due and for which payment in full of principal or interest is not expected).

Problem Banks ..... Federal regulators assign a composite rating to each financial institution based upon an evaluation of financial and operational criteria. The rating is based on a scale of 1 to 5 in ascending order of supervisory concern. Depending upon the degree of risk and supervisory concern, problem banks are rated either "4" or "5."

Real Gross Domestic Product ..... The total market value of all final goods and services produced in an economy in a given year calculated by using a base year's price for goods and services; nominal GDP adjusted for inflation.

Recession ..... A period of declining real income and rising unemployment; significant decline in general economic activity over a period.

Treasury Yield ..... The effective interest rate paid by the U.S. government to borrow money for different lengths of time. It is the return on investment on the government's debt obligations.

Wholesale Funding ..... Federal funds purchased and securities sold under agreement to repurchase; borrowings from the Federal Home Loan Bank; brokered and listing service, municipal and state, and foreign deposits; and other borrowings (such as from the Federal Reserve's Payment Protection Program Liquidity Facility). Providers of wholesale funding closely track institutions' financial condition and may cease or curtail funding, increase interest rates, or increase collateral requirements if they determine an institution's financial condition is deteriorating.

Yield Curve ..... The relationship between maturities and interest rates on government bonds. The yield curve captures the cost of borrowing money to finance consumption, investment, or government spending and thus is of central importance to the entire economy. Yield curves generally exhibit three different shapes—normal, flat, and inverted—which are characterized by long-term interest rates being above, similar to, or below short-term interest rates. The shape of the yield curve often is viewed as an indicator of future economic activity.

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