

**STATE OF THE INDUSTRY: MASSACHUSETTS Q4 2023**

Performance  
Measurement



Strategic  
Management



Profit & Process  
Improvement



Management  
Advisory



Financial  
Advisory



# DISCLOSURE STATEMENT

---

## FORWARD LOOKING STATEMENTS

This presentation has been developed by TKG for the Massachusetts Bankers Association. The information contained in this presentation and attached exhibits, if any, have been obtained from sources that are believed to be reliable and is presented “as is”. TKG makes no representations or warranties as to the accuracy or completeness of the information and disclaims any and all liabilities from the use of this presentation. TKG does not have any obligation to update any component of this presentation as the data are only current as of the date of this presentation. The recipient of this presentation should not construe this information as advice relating to regulatory matters, accounting and tax practices, legal matters or as a recommendation to invest in or purchase any form of investment security.

Source: The Kafafian Group, Inc.

# MASSACHUSETTS BANKERS ASSOCIATION QUARTERLY UPDATE

## SUMMARY OF KEY THEMES

1

Market conditions remain stable, however, the consumer price index increased slightly in Q4 2023. The Fed is continuing to combat persistent inflation and may begin quantitative easing in 2024. The price of housing appears to be stagnant, and the 30-year fixed rate mortgage average decreased in Q4 2023.

2

Despite worsening credit conditions and elevated interest rate environment, net interest margins decreased at a lower rate of 11 basis points in Q4 2023 compared to 31 basis points in Q1 2023. Many institutions realized losses from selling low yield bonds in efforts to restructure their portfolios and regain earnings in the future.

3

American Banker gives its 5 top catalysts for improved earnings in 2024. Lowering of rates will result in; improved costs of deposits, increase in loan demand, stabilization of credit quality, tightly controlled expenses, and increased M&A activity.

4

As a result of improving credit quality, the aggregate of charge-offs for Massachusetts institutions continues to decrease. Maintaining strict credit requirements and mitigating risk will continue to be crucial in 2024.

5

New York Community Bancorp, Inc. decreased its dividend payment by \$0.12, causing its share price to plummet. This reinforces the importance for banks to maintain dividend payments to its shareholders.

Source: The Kafafian Group, Inc.

# ECONOMIC SNAPSHOT

## EMPLOYMENT & HOUSING

EMPLOYMENT		Measure	Dec-23	Nov-23	Oct-23	Change from Prior Month (%) or actual change	Change from Prior Year (%) or actual change
1	Unemployment Rate (National Seasonally Adj)	%	3.7	3.7	3.8	0.0	0.20
2	Unemployment Rate in Massachusetts (Not Seasonally Adj)	%	3.2	2.9	2.8	0.3	(0.5)
3	All Employees, Total Nonfarm	000's	157,347	157,014	156,832	0.21%	3,056
4	Labor Force Participation Rate	%	62.5	62.8	62.7	0.00	0.2
			<b>12/30/2023</b>	<b>11/25/2023</b>	<b>10/28/2023</b>		
5	Initial Claims (Weekly)		203,000	219,000	220,000	-7.31%	(3,000)

HOUSING		Measure	Dec-23	Nov-23	Oct-23	Change from Prior Month (%) or actual change	Change from Prior Year (%) or actual change
6	S&P/Case-Shiller U.S. National Home Price Index		NA	312.1	312.7	-0.18%	0.06
7	S&P/Case-Shiller MA-Boston Home Price Index		NA	324.9	324.4	0.14%	0.07
8	Housing Affordability Index		101.9	94.2	91.4	8.17%	(0.07)
9	New Privately-Owned Housing Units Started: Single-Family Units	000's	1,054	1,126	974	-6.39%	0.19
10	New Privately-Owned Housing Units Started: Single-Family Units in the Northeast Census Region	000's	60.0	72.0	60.0	-16.67%	(0.52)
11	30-Year Fixed Rate Mortgage Average in the United States	%	6.82	7.44	7.62	-8.33%	0.28
			<b>3Q2023</b>	<b>2Q2023</b>	<b>1Q2023</b>		
12	Delinquency Rate on Single-Family Residential Mortgages	%	1.72	1.73	1.74	-0.57%	(0.11)

Source: The Kafarian Group, Inc. analysis of data provided by the Federal Reserve Bank of St. Louis, data where available as of 12/31/2023

# ECONOMIC SNAPSHOT

## MARKET/RATES, CONSUMER, & PRODUCTION/PRICES

MARKET/RATES		Measure	Dec-23	Nov-23	Oct-23	Change from Prior Month (%) or actual change	Change from Prior Year (%) or actual change
(End of Period)							
1	S&P 500		4,685.1	4,460.1	4,269.4	5.04%	0.20
2	Market Yield on U.S. Treasury Securities at 10-Year Constant Maturity, Quoted on an Investment Basis	%	4.02	4.50	4.80	(0.11)	0.40
3	Bank Prime Loan Rate	%	8.50	8.50	8.50	-	1.24
4	Federal Funds Effective Rate	%	5.33	5.33	5.33	-	1.23

CONSUMER		Measure	Dec-23	Nov-23	Oct-23	Change from Prior Month (%) or actual change	Change from Prior Year (%) or actual change
5	Personal Consumption Expenditures: Chain-type Price Index						
6	Retail Sales: Excluding Motor Vehicle and Parts	\$mil	552,709	550,781	555,387	0.35%	-2.02%
7	University of Michigan: Consumer Sentiment		69.70	61.30	63.80	13.70%	0.03
8	Personal Saving Rate	%	3.7	4.10	4.10	-9.76%	0.21

PRODUCTION/PRICES		Measure	Dec-23	Nov-23	Oct-23	Change from Prior Month (%) or actual change	Change from Prior Year (%) or actual change
9	Consumer Price Index						
10	ISM Manufacturing: PMI		47.10	46.70	46.70	0.01	(1.30)
11	ISM Services: PMI		50.50	52.70	51.80	(0.04)	1.30
			<b>3Q2023</b>	<b>2Q2023</b>	<b>1Q2023</b>		
12	Gross Domestic Product (Change from Prior, annualized rate)	%	4.90	2.10	2.20	1.33	(0.19)

Source: The Kafarian Group, Inc. analysis of data provided by the Federal Reserve Bank of St. Louis, data where available as of 12/31/2023

## STATE ECONOMIC TRENDS

### NEW ENGLAND REGIONAL ECONOMIC TRENDS

The below highlights unemployment rate and salary trends in New England from July 2023 through December 2023. Massachusetts also had the highest 12 month percentage change in Finance Activities and Nonfarm Wage and Salary Employment in the New England region.

Unemployment Rate %						
State	Jul2023	Aug2023	Sep2023	Oct2023	Nov2023	Dec2023
1 Massachusetts	2.50	2.60	2.60	2.80	2.90	3.20
2 Connecticut	3.60	3.50	3.50	3.50	3.60	3.80
3 Rhode Island	2.80	2.70	2.60	2.70	2.90	3.20
4 New Hampshire	1.70	1.80	2.00	2.10	2.30	2.50
5 Vermont	1.80	1.80	1.90	2.00	2.10	2.20
Nonfarm Wage and Salary Employment 12 Month % Change						
State	Jul2023	Aug2023	Sep2023	Oct2023	Nov2023	Dec2023
6 Massachusetts	2.40	2.50	2.10	2.10	1.90	1.90
7 Connecticut	1.10	1.30	1.80	1.70	1.40	1.40
8 Rhode Island	(1.20)	(0.70)	(0.50)	(0.50)	(0.10)	0.40
9 New Hampshire	1.40	1.70	1.90	1.80	1.30	1.70
10 Vermont	0.50	0.90	1.10	1.00	1.30	0.50
Finance Activities Wage and Salary Employment 12 Month % Change						
State	Jul2023	Aug2023	Sep2023	Oct2023	Nov2023	Dec2023
11 Massachusetts	2.70	2.20	0.80	0.90	1.60	0.50
12 Connecticut	(2.80)	(3.00)	(3.10)	(3.20)	(2.80)	(2.60)
13 Rhode Island	-	(0.30)	(0.80)	0.00	-0.80	(0.30)
14 New Hampshire	(1.20)	(0.60)	(0.30)	(0.60)	(0.60)	0.30
15 Vermont	0.80	0.80	(0.80)	-0.80	0.80	-

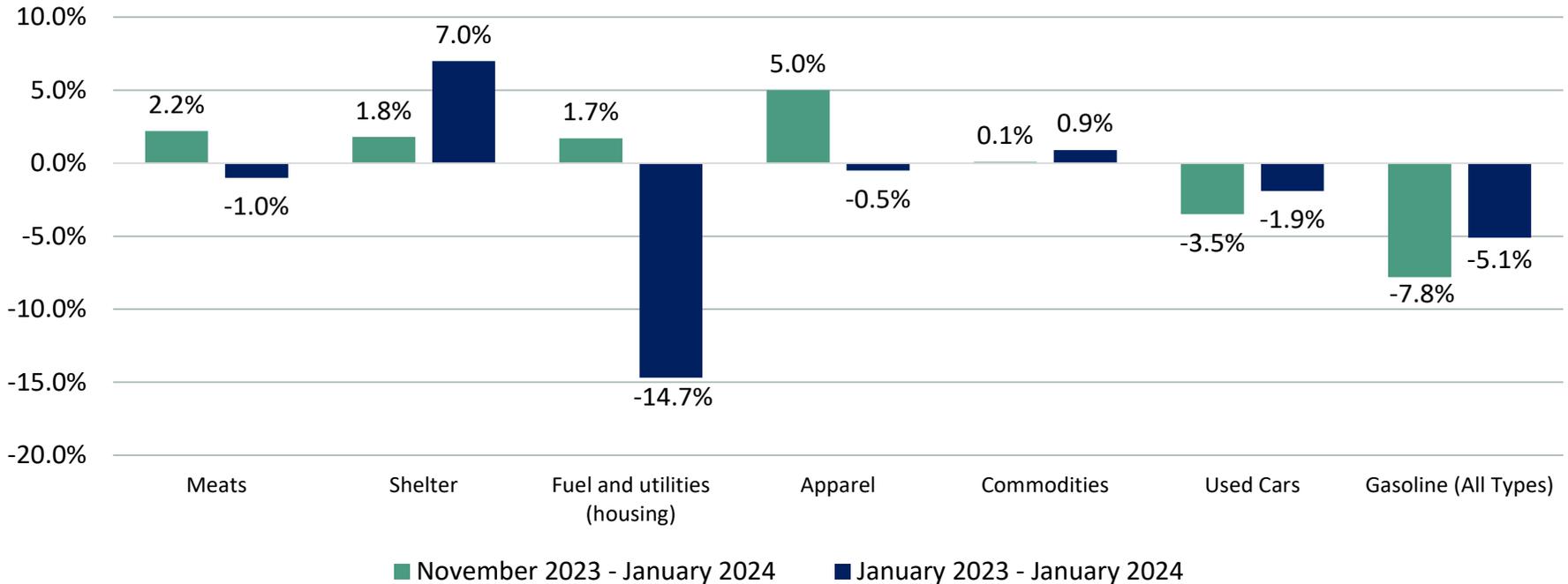
Source: Bureau of Labor Statistics

# INFLATION

## TRENDS IN INFLATION IN THE BOSTON-CAMBRIDGE-NEWTON METROPOLITAN STATISTICAL AREA

The graphic below shows year-over-year increases on everyday necessities between November 2023 and January 2024 as well as January 2023 and January 2024. Inflation has subsided in most categories. The cost of fuel and utilities in the Boston-Cambridge-Newton Metropolitan area are down 14.7% from January 2023 and the price of gasoline has decreased 5.1% from January 2023 to January 2024.

Select Consumer Price Index Metrics:  
Boston-Cambridge-Newton



Source: Bureau of Labor Statistics, eia.gov

# INTEREST RATE ENVIRONMENT

## CHICAGO MERCANTILE EXCHANGE INC. (CME GROUP) FEDWATCH TOOL

In February 2023, there was only a 4.51 % probability of rates being 525-550bps for the March 20, 2024 meeting, by mid-July 2023 that probability increased to 22.94%. As of September 20th, 2023, the probability of a target fed funds rate of 525-550bps was just over 60%% for the March 20th meeting. As of February 16, 2024, the updated probability of a target fed funds rate of 525-550bps for the March 20th, 2024 meeting is 89.5%. The pace of interest rate increases has been stagnant. The probabilities for the June 2024 meeting indicate the probability of a target fed funds rate of 525-550bps is 53.1%. The probabilities for the December 2024 meeting show 30.7% for rates to be 425-250bps, indicating the fed plans to begin quantitative easing in 2024.

MEETING PROBABILITIES(%) 3/20/2024							
MEETING DATE	375-400	400-425	425-450	450-475	475-500	500-525	525-550
3/20/2024	0.0	0.0	0.0	0.0	0.0	10.5	89.5
5/1/2024	0.0	0.0	0.0	0.0	2.7	30.5	66.8
6/12/2024	0.0	0.0	0.0	1.5	17.9	50.4	30.3
7/31/2024	0.0	0.0	0.9	11.3	37.4	38.3	12.1
9/18/2024	0.0	0.6	8.6	30.6	38.1	18.9	3.2

MEETING PROBABILITIES(%) 9/18/2024							
MEETING DATE	375-400	400-425	425-450	450-475	475-500	500-525	525-550
9/18/2024	0.0	0.6	8.6	30.6	38.1	18.9	3.2
11/7/2024	0.4	5.0	20.5	34.7	27.7	10.4	1.4
12/18/2024	3.5	15.6	30.1	29.9	15.9	4.3	0.5
1/29/2025	10.6	24.1	30.0	21.7	9.1	2.0	0.2
3/12/2025	15.4	26.2	27.0	17.2	6.6	1.4	0.1

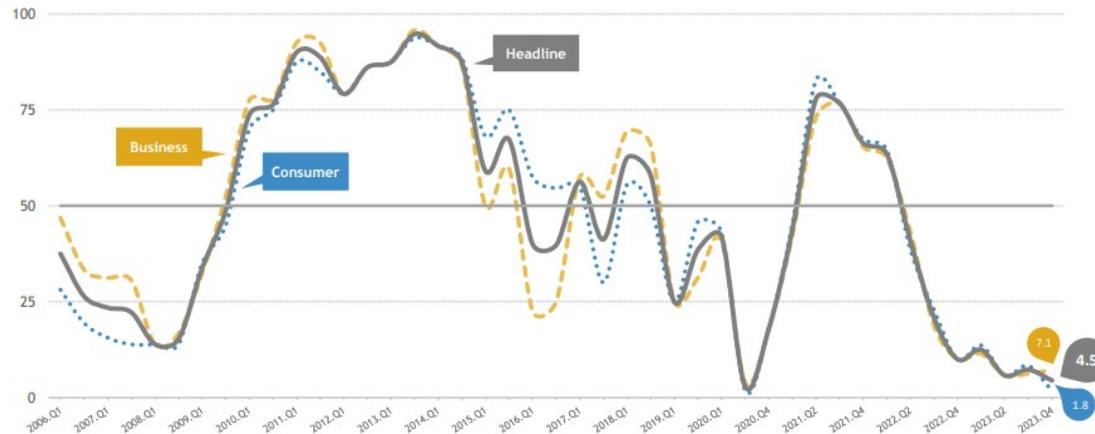
Source: CME Group

# CREDIT CONDITIONS

## EXPECTED DECREASE IN CREDIT MARKET CONDITIONS IN 2024

- In the 4th Quarter of 2023, the headline credit index decreased 2.8 points to 4.5, remaining at its low level. This raises the expectation for credit conditions to worsen in 2024, banks will likely be cautious about credit extensions. The consumer credit index decreased 6.5 points to 1.8 in Q4. Economic advisory committee (EAC) members expect consumer credit availability and quality to regress toward historic norms over the next six months. The business credit index increased 0.9 points to 7.1 in Q4, emphasizing that EAC members expect credit availability and quality to debilitate in the near future.
- Credit quality and conditions worsened in Q4 to its lowest level since mid year of 2020. High interest rates have decreased consumer and business demand for credit, and EAC members predict this trend will continue while the Fed continues to combat inflation. EAC economists anticipate job growth to continue to weaken in the first half of 2024, with consumer credit stress continuing to rise. Small business demand for credit has weakened due to higher borrowing costs. The Fed appears to have paused rate hikes, as interest rates remained unchanged after the January meeting. The expectation is for the Fed to begin to lower rates in the middle of 2024. Despite down trending credit quality and availability, EAC members believe that the risk of recession has decreased over the past six months.

**CREDIT CONDITIONS INDEX: HISTORICAL SERIES\***



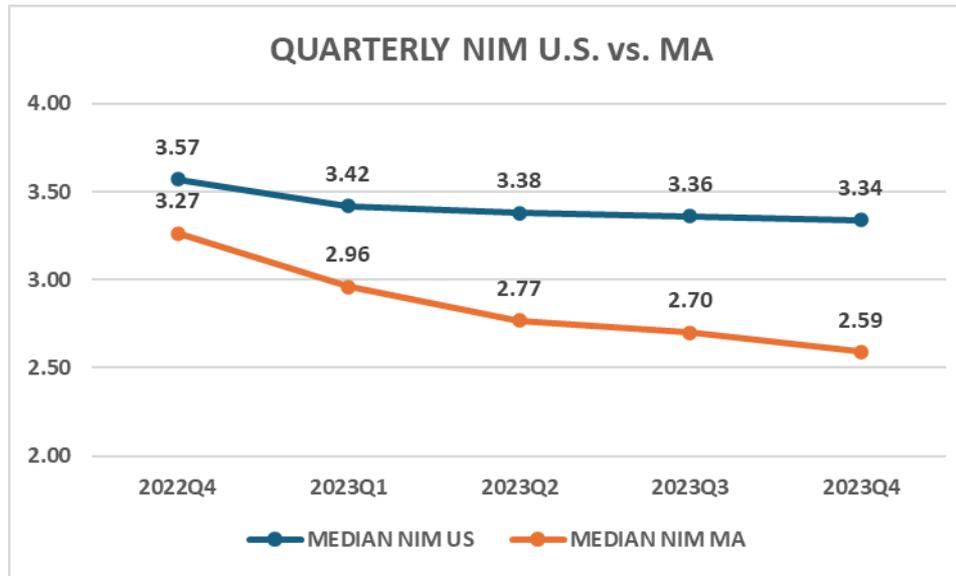
Source: American Bankers Association. \*The EAC credit market outlook was conducted twice a year (Q1 and Q3) until 2020, at which point the frequency was increased to quarterly.

Source: ABA Credit Conditions Index 12/31/2023

# NET INTEREST MARGIN ENVIRONMENT

## U.S. vs. MASSACHUSETTS

Increased borrowing costs due to high rates have resulted in a decreased net interest margin (NIM) for banks across the nation, the graph below illustrates the median NIM by quarter from Q4 2022 to Q4 2023 in both the U.S. and the Commonwealth of Massachusetts. The U.S. NIM compound annual growth rate (CAGR) of -6.44% for the U.S. and -20.67% for the Commonwealth. The quarter over quarter growth rate is -1.61% in the U.S. and -5.17% for Massachusetts. While net interest margins have fallen significantly over the past year, the largest decrease occurred from Q4 2022 to Q1 2023. The Fed has indicated that quantitative easing will begin in 2024, which may result in a reversion to positive NIM growth.



Source: S&P Capital IQ Pro

# NEW YORK COMMUNITY BANCORP, INC.

## THE IMPACT OF CRE CONCENTRATION

*On January 31, 2024 NYCB released earnings for Q4 2023 and 2023; included in the press release was a cash dividend of \$0.05 per share (down from \$0.17 per share in the prior quarter and representing a nearly 70% decrease on an annualized basis), \$185 million in net charge offs in Q4 2023 and the underlying tone of increasing pressure from their bank examiner, the OCC, on CRE concentration (among other things).*

BANKS

### A Big NYCB Shareholder Is Blaming Regulators. ‘What They Did Is Foolish at Best.’

By Bill Alpert [Follow](#)

Updated Feb 09, 2024, 12:01 pm EST / Original Feb 08, 2024, 6:35 pm EST

[Share](#) [Resize](#) [Reprints](#) [🔊](#)

In this article

[↑ NYCB](#)

The dividend slash that’s cut 60% off shares of [New York Community Bancorp](#) [↑ NYCB](#) 16.95%, and shaken regional bank stocks, need not have happened, says investor Thomas Kahn. He blames bank regulators.

THE WALL STREET JOURNAL

### New York Community Bancorp Went From a Crisis Winner to Banking’s Next Worry

Reuters • 6 days ago

#### Moody’s cuts NYCB ratings to junk, warns of more downgrades

The agency also downgraded all long-term and some short-term ratings and assessments of its lead bank, Flagstar Bank. Moody’s downgraded NYCB’s ratings from Baa3 to Ba2, which i...



## New York Community Bancorp provides updates on liquidity, deposit position

Wednesday, February 7, 2024 4:43 AM ET

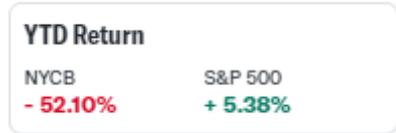
By Arpita Banerjee

Market Intelligence

[Add To](#) [Create Alert](#) [Email](#) [Print](#) [PDF](#) [Feedback](#) [A -](#) [A .](#) [🐦](#) [in](#) [f](#)

[New York Community Bancorp Inc.](#) reported deposit stability on its updated information regarding its deposits and liquidity position as of Feb. 5.

The Hicksville, NY-based lender posted total deposits of about \$83 billion as of Feb. 5, up from year-end 2023. Total insured and collateralized deposits accounted for 72% of total deposits, and total uninsured deposits, excluding collateralized and internal deposits, stood at \$22.9 billion, according to a Feb. 6 news release.

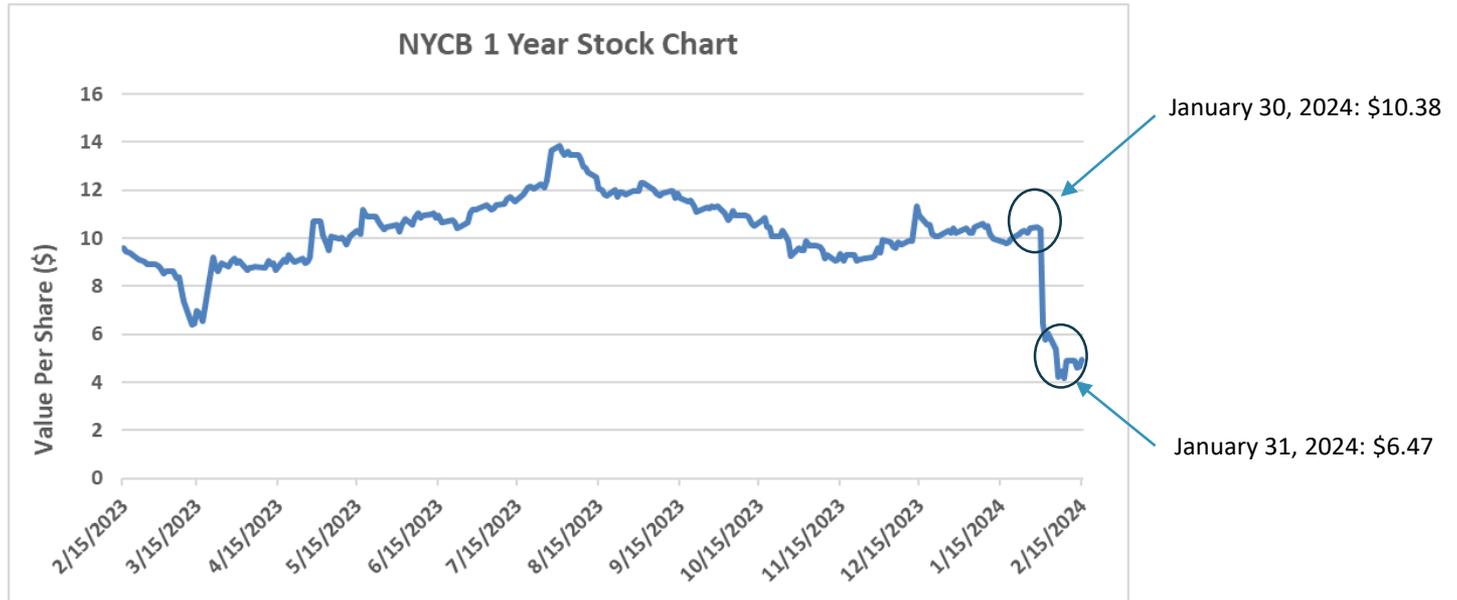


Source: TKG review of S&P Capital IQ Pro and Company reports

# IMPORTANCE OF MAINTAINING DIVIDENDS

## CASE OF NEW YORK COMMUNITY BANCORP, INC.

*New York Community Bancorp, Inc. (NYCB) is a bank holding company for Flagstar Bank, N.A. and other subsidiaries. NYCB is publicly traded on the New York Stock Exchange, typically the traded price remained between \$7 to \$12 per share over the past year, peaking at \$13.87 per share. On January 31, 2024, NYCB announced in its earnings release that their dividend was decreasing from \$0.17 to \$0.05. This resulted in a 37.67% in NYCB's stock price upon market close on January 31<sup>st</sup>. As of February 15<sup>th</sup>, NYCB is trading at 47.5% of its January 30<sup>th</sup> price at \$4.93 per share. Flagstar Bank, bought most of Signature Bank's deposits and some loans. Almost 90% of Signature Bank's \$88.6 billion in deposits were uninsured and it had more than \$110 billion in assets at the end of last year. Of that, Flagstar purchased \$38.4 billion in assets, including \$12.9 billion in loans that were sold at a discount.*

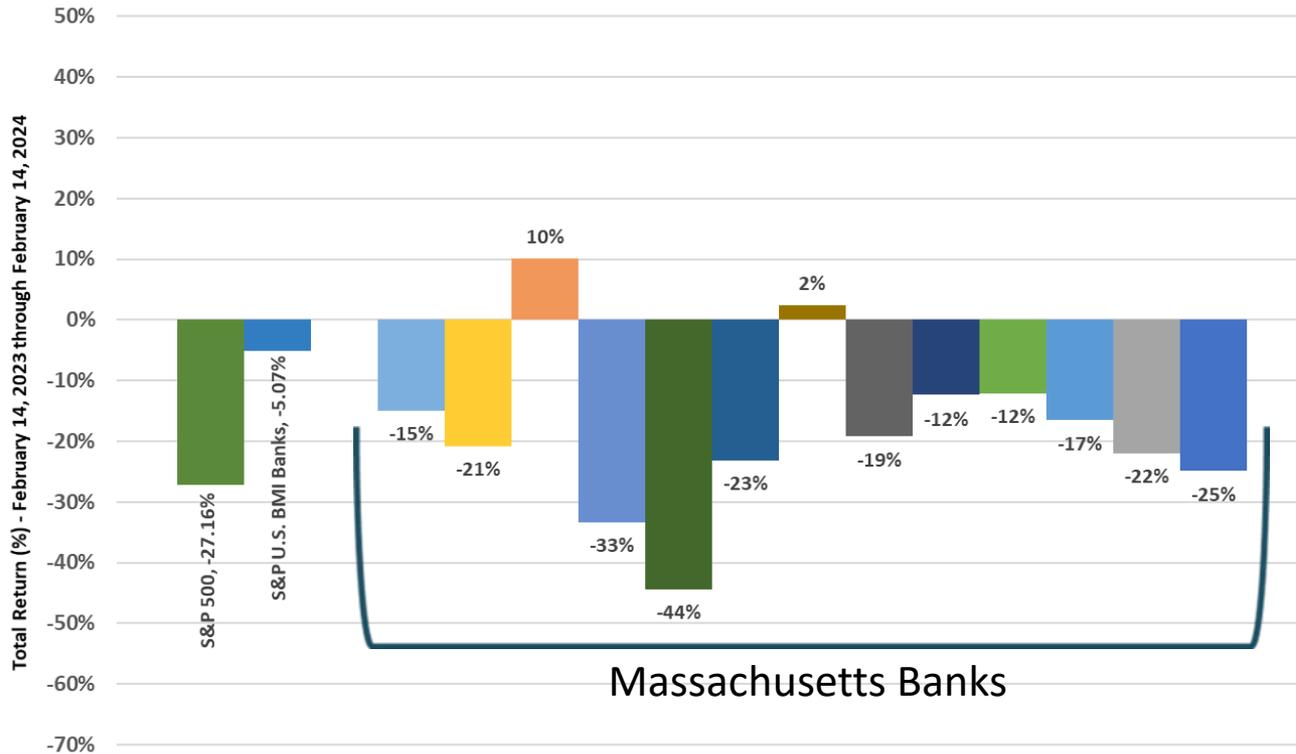


Source: Yahoo Finance 2/16/2024

# TOTAL RETURN

## TOTAL RETURN: FEBRUARY 14, 2023 THROUGH FEBRUARY 14, 2024

Publicly traded Massachusetts headquartered banks were below the S&P U.S. BMI Banks Index and the S&P 500 as of February 14, 2024. The median total return for Massachusetts banks was -19.18%, while the S&P U.S. BMI Banks Index was -27.16% and the S&P 500 was -5.07%.

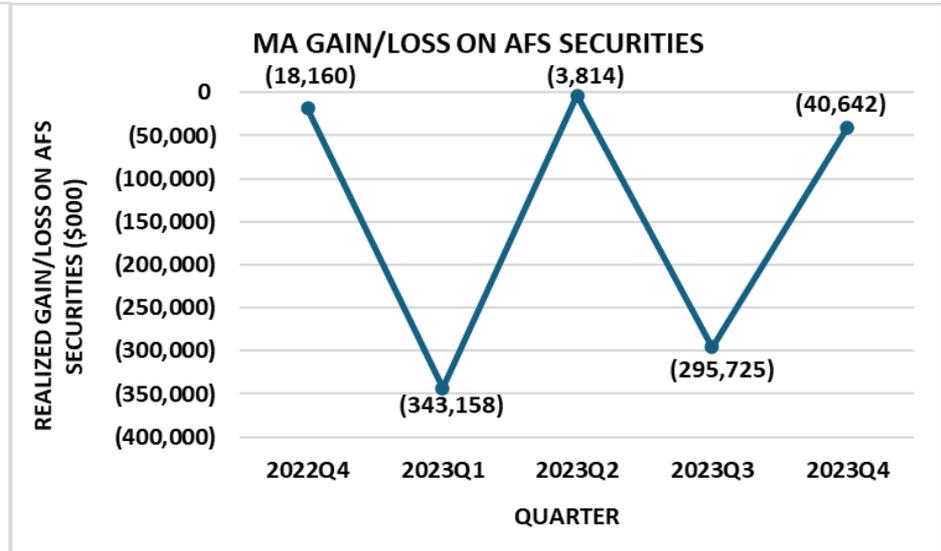
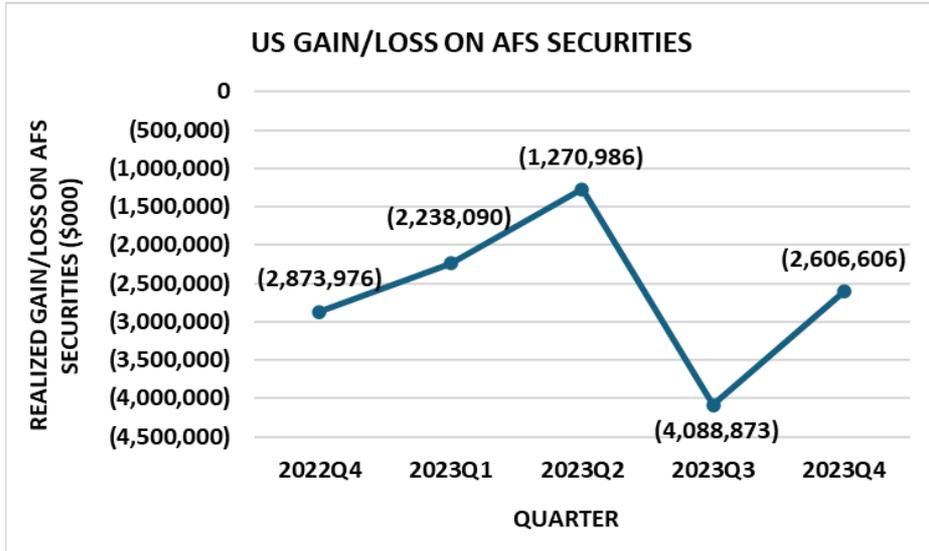


Source: The Kafarian Group, Inc. and S&P Capital IQ Pro data as of 02/14/2024

# CREATING LIQUIDITY ON BALANCE SHEETS

## IMPACT OF REALIZING GAINS/LOSSES ON THE SALE OF AFS SECURITIES

The charts below show the trend in realized gains/losses on available for sale (AFS) securities for both U.S. and Massachusetts banks from Q4 2022 to Q4 2023. Bond values react inversely to movement of interest rates, the rapid increase of rates from March 2022 to July 2023 has resulted in the decrease of securities portfolios for most banks across the nation. The 3<sup>rd</sup> quarter of 2023 shows over a 320% increase in realized losses on AFS securities for banks in the U.S. because banks have been selling low yielding bonds to replace them with higher yielding bonds. Banks have taken a temporary hit from the sale, however, banks are restructuring with their portfolio with higher yielding securities to build future earnings. Massachusetts has seen two major decreases in realized losses on AFS securities, this is largely due to two individual banks realizing losses on AFS securities at one time. One bank realized over \$333 million in losses in Q1 2023 and another bank realized \$294 million in Q3 2023.



Source: S&P Capital IQ Pro, American Banker

## COMMUNITY BANK EARNINGS IN 2024

### AMERICAN BANKER PUBLICATION'S FIVE POTENTIAL CATALYSTS

1. Deposit Costs Improve
2. Loan Demand Picks Up
3. Credit Quality Remains Stable
4. Tightly Controlling Expenses
5. More Mergers and Acquisitions on the Horizon



Deposit costs continue to climb as loan demand eases amid higher interest rates. Net interest margins, by extension, are getting squeezed. Profits are under pressure but community banks have reason for hope as 2023 nears an end. The Federal Reserve, after hiking rates 11 times since March 2022 to cool inflation, has paused on that front for several months. Inflation was down substantially late in 2023, some bankers now are looking for rate cuts next year.

Such a development could ease pressure on deposits, lower borrowing costs and bolster loan demand generating potential earnings growth. Bankers are gearing up for a new wave of mergers and acquisitions, noting consolidation among small banks could create needed scale and geographic diversity to help lenders capitalize on a possibly improved environment in the year ahead.

Source: American Banker, 11/21/2023

# THE U.S. BANKING INDUSTRY VS MASSACHUSETTS BANKS

## FOURTH QUARTER OF 2023 RESULTS (AGGREGATE)

**105** MA Institutions\*  
**4,796** Total U.S. Institutions\*\*

**1.18%** of the U.S. Banking Industry's Total Assets

**1.75%** of the U.S. Banking Industry's Total Loans

### Net Interest Margin

MA: 2.60% down from 2.70% in Q3  
 U.S.: 3.19% down from 3.23% in Q3

### Returns

MA: ROAA of 0.95% up from 0.64% in Q3, ROAE of 8.56% up from 5.92% in Q3  
 U.S.: ROAA of 0.65% down from 1.17% in Q3, ROAE of 6.80% down from 12.16% in Q3

### Capital Levels

MA: Leverage Ratio of 11.27% up from 10.99% in Q3  
 U.S.: Leverage Ratio of 9.20% down from 9.31% in Q3

### Credit Quality

MA: Net charge-offs to average loans of 0.42% up from 0.24% in Q3  
 U.S.: Net charge-offs to average loans of 0.65% up from 0.51% in Q3

### Number of Unprofitable Institutions

MA: 11.43%  
 U.S.: 10.45%

\*Massachusetts FDIC call report filers; removed State Street Bank and Trust Company

\*\*All FDIC call report filers

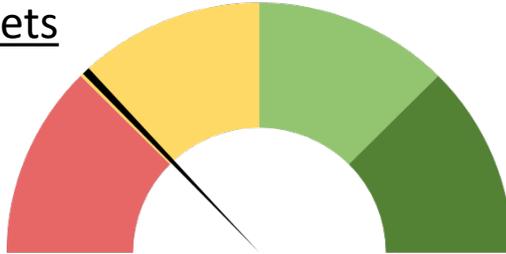
Source: The Kafafian Group, Inc. and S&P Capital IQ Pro. Data for the quarter ended 12/31/2023 and includes both commercial and mutual bank data.

# THE U.S. BANKING INDUSTRY VS MASSACHUSETTS BANKS

## RECENT PERFORMANCE: SELECT PROFITABILITY RATIOS

### \*Return On Avg. Assets

**MA Median: 0.46%**  
**U.S. Median: 0.82%**

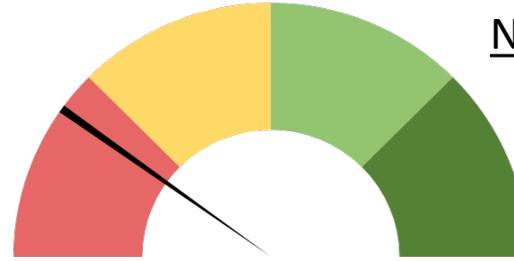


MA's **Median** ROAA ranks among the **25<sup>th</sup>** percentile Nationwide

*\*ROAA utilizes S&P Capital IQ Pro's adjustment for institutions that operate as Sub Chapter S Corporations.*

### Net Interest Margin

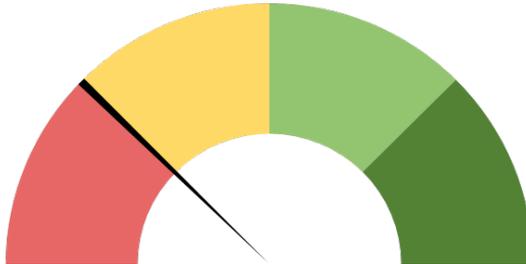
**MA Median: 2.60%**  
**U.S. Median: 3.31%**



MA's **Median** Net Interest Margin ranks among the **19<sup>th</sup>** percentile Nationwide

### Efficiency Ratio

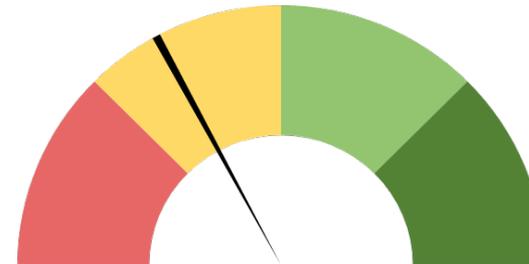
**MA Median: 81.06%**  
**U.S. Median: 68.61%**



MA's **Median** Efficiency Ratio ranks among the **24<sup>th</sup>** percentile Nationwide

### Cost of Funds

**MA Median: 2.14%**  
**U.S. Median: 1.83%**



MA's **Median** Cost of Funds ranks among the **34<sup>th</sup>** percentile Nationwide

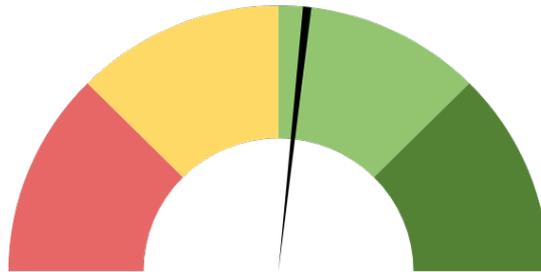
Source: The Kafafian Group, Inc. and S&P Capital IQ Pro. Data for the quarter ended 12/31/2023 and includes both commercial and mutual bank data

# THE U.S. BANKING INDUSTRY VS MASSACHUSETTS BANKS

## RECENT PERFORMANCE: SELECT BALANCE SHEET RATIOS

### NPA/Assets

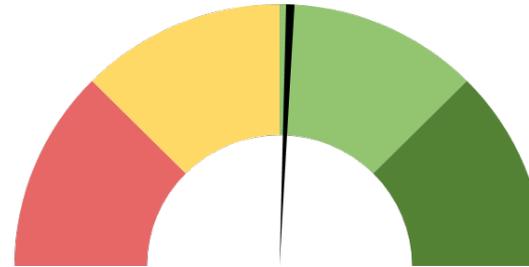
MA Median: 0.20%  
U.S. Median: 0.22%



MA's **Median** NPA/Assets ranks among the **52<sup>nd</sup>** percentile Nationwide

### Tier 1 Leverage

MA Median: 10.63%  
U.S. Median: 10.57%

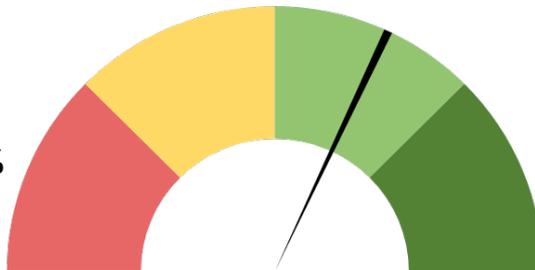


MA's **Median** Tier 1 Leverage Ratio ranks among the **51<sup>st</sup>** percentile Nationwide

### CRE/Loans\*

MA Median: 29.83%  
U.S. Median: 23.70%

*\*non-owner occupied*



MA's **Median** Total CRE/Loans ratio ranks among the **62<sup>nd</sup>** percentile Nationwide

### Loans/Deposits

MA Median: 95.14%  
U.S. Median: 79.01%



MA's **Median** Loan/ Deposit ratio ranks among the **79<sup>th</sup>** percentile Nationwide

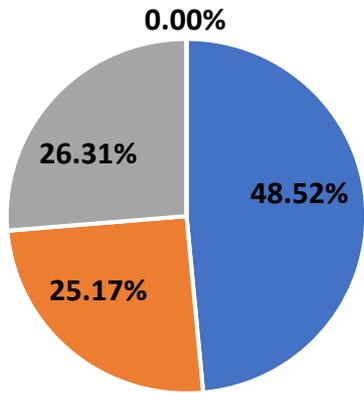
Source: The Kafarian Group, Inc. and S&P Capital IQ Pro. Data for the quarter ended 12/31/2023 and includes both commercial and mutual bank data

# COMMERCIAL REAL ESTATE LOAN BREAKDOWN

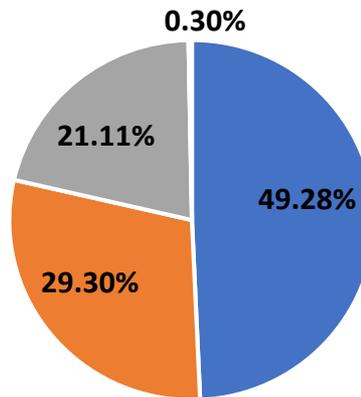
## CRE LOAN CATEGORIES AS A PERCENT OF TOTAL CRE LOANS

The total CRE loans for Massachusetts banks was approximately \$78.6 Billion (excluding State Street Bank and Trust Company) as of Q4 2023. Commercial real estate loans (not secured by RE) make up less than 1.3% of the markets. A total of 105 banks are included and are separated into three tiers of 35 banks each. Low Tier consists of 35 banks ranging in total assets from \$8.88M-\$623M. Middle Tier consists of 35 banks ranging in total assets from \$642M-\$1.59B. Top Tier consists of the 35 banks ranging in total assets from \$1.61B- \$100.5B.

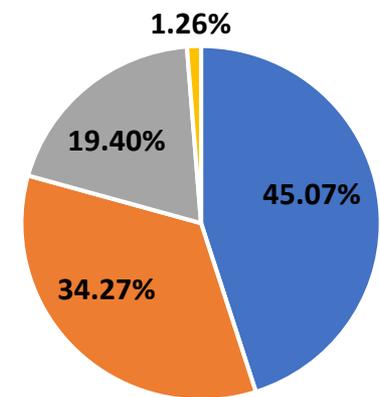
CRE Concentration: Low Tier



CRE Concentration: Middle Tier



CRE Concentration: Top Tier



- Other Property Loans
- Multifamily Loans
- Construction & Land Development Loans
- Comm RE Loans (Not Secured by RE)

**Other Property loans** = Nonfarm, nonresidential property loans where the primary source of repayment is derived from rental income associated with the property.  
**Multifamily Loans** = Nonfarm properties with 5 or more dwelling units in structures used primarily to accommodate households on a more or less permanent basis.  
**Construction & Land Development Loans** = Loans secured by real estate made to finance land development preparatory to erecting new structures or the on-site construction of industrial, commercial, residential, or farm buildings  
**Comm RE Loans (Not Secured by RE)** = Loans to finance commercial and residential real estate activities, e.g., acquiring, developing, and renovating commercial and residential real estate

Source: The Kafafian Group, Inc. and S&P Capital IQ Pro. Data for the quarter ended 12/31/2023 and includes commercial, savings and mutual bank data excluding State Street Bank and Trust Company

# ANNUAL CRE MARKET INSIGHT REPORT

## DOWNTOWN BOSTON, SUBURBAN BOSTON (ROUTE 128) AND SUBURBAN BOSTON (ROUTE 495)

*Cresa is the world's largest commercial real estate advisory firm that exclusively represents occupiers and specializes in the delivery of fully integrated real estate solutions. **Click any of the links to be taken to the Reports.***



### Reports

---

[Downtown Boston Report](#)

[Suburban Boston \(Route 128\)](#)

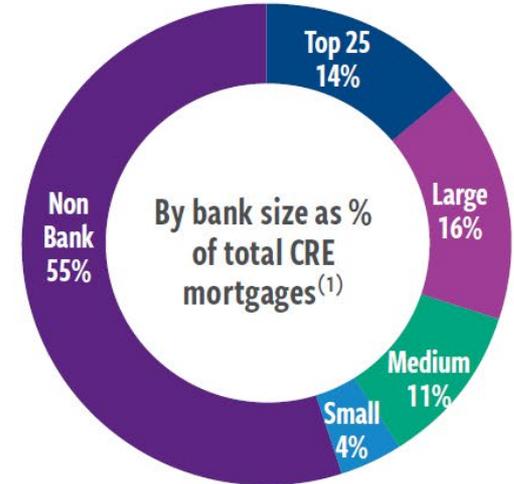
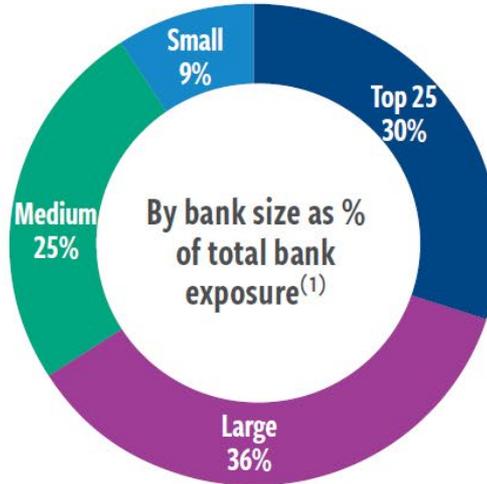
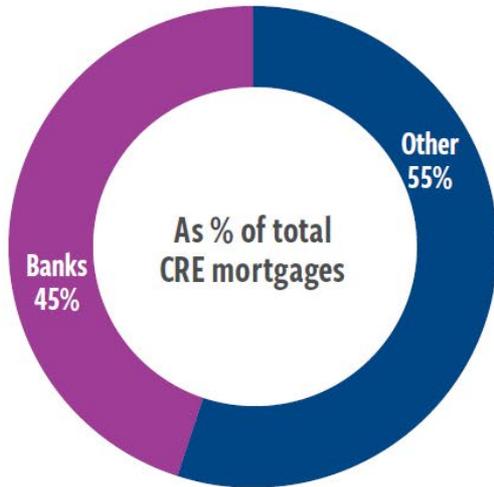
[Suburban Boston \(Route 495\)](#)

Source: Cresa.com (Mass Bankers has retained Cresa as the Association's real estate advisory firm)

# PARSING BANK EXPOSURE

## AS A PERCENTAGE OF TOTAL CRE MORTGAGES AND BY BANK SIZE

Banks also don't hold as large a share of total CRE loans as the headlines would lead people to believe. Specifically, banks hold less than 40% of income-producing CRE loans and around 45% of all CRE mortgages. Exposures vary greatly across the banks, with the largest banks far less exposed to CRE than their smaller peers. The 25 largest banks by total assets hold 14% of all CRE mortgages, and their exposure as a percentage of total assets is small at approximately 4%. Regional and community banks hold 31.5% of all CRE mortgages, and their exposure is much higher at 20% of total assets. Smaller banks have been an important source of lending to the US CRE market, but they are hardly the only lender.



There is no guarantee that any historical trend illustrated above will be repeated in the future, and there is no way to predict precisely when such a trend might begin. (1) The categories are represented as Small bank size ranging from \$100mm to \$1B; Medium bank size ranging from \$1B to \$10B; Large bank size ranging from \$10B to \$160B; and Top 25 bank size greater than \$160B.

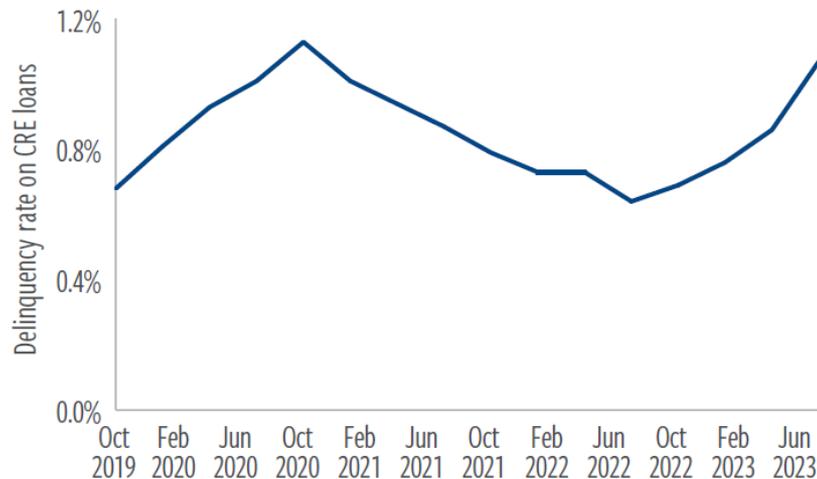
Source: Mortgage Bankers Association, Cohen & Steers. Data as of 3/23/2023

# A HIGH NUMBER OF CRE LOANS ARE SET TO MATURE BY 2026

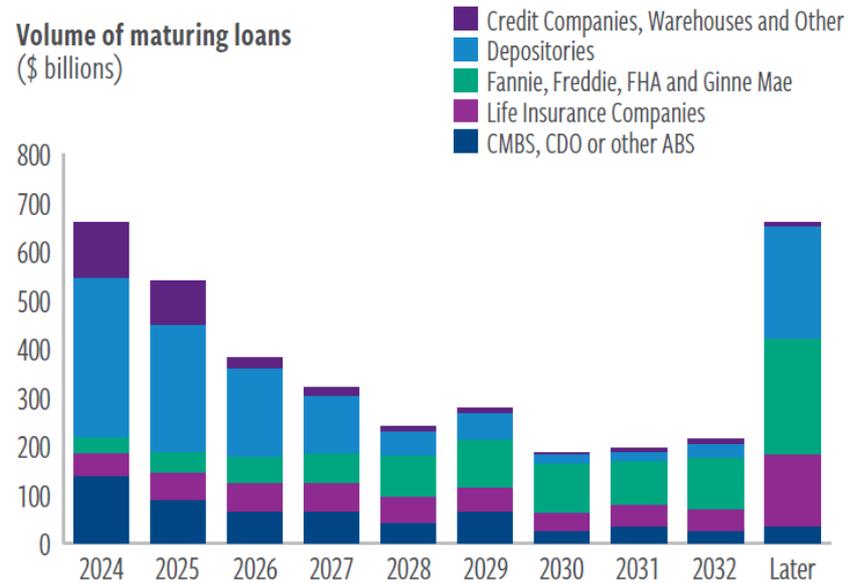
## MATURING LOANS COULD CAUSE DISTRESS

The catalyst for rising distress is the nearly \$1.6 trillion of commercial mortgages that are expected to mature across all lender types over the next three years. This represents more than 40% of total outstanding commercial mortgages. We maintain that CRE mortgages as a group are underleveraged. This is because loan-to-values of 50-60% help mitigate the risk of declining property valuations, especially as property valuations have increased more than 30% since the beginning of 2012 even after considering recent pullbacks from peaks of approximately 20%.

CRE loan delinquency rate – commercial banks



Volume of maturing loans (\$ billions)



Data quoted represents past performance, which is no guarantee of future results. There is no guarantee that any historical trend illustrated above will be repeated in the future, and there is no way to predict precisely when such a trend might begin.

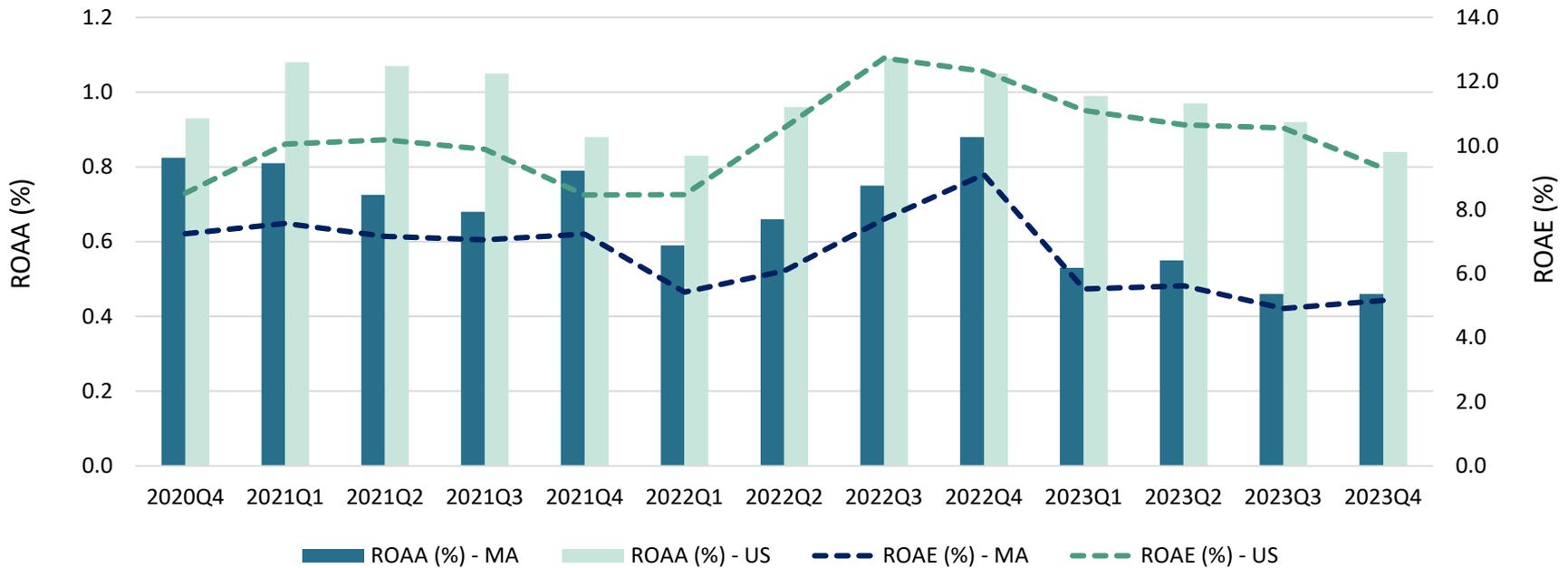
Source: Mortgage Bankers Association, St. Louis Fed, Cohen & Steers. Data for the quarter ended 12/31/2023

# MASSACHUSETTS BANKS PERFORMANCE

## RECENT TRENDS

ROAA and ROAE both decreased for Massachusetts banks and for U.S. banks in Q4 2023 compared to Q3 2023.

Profitability Highlights (Median %)

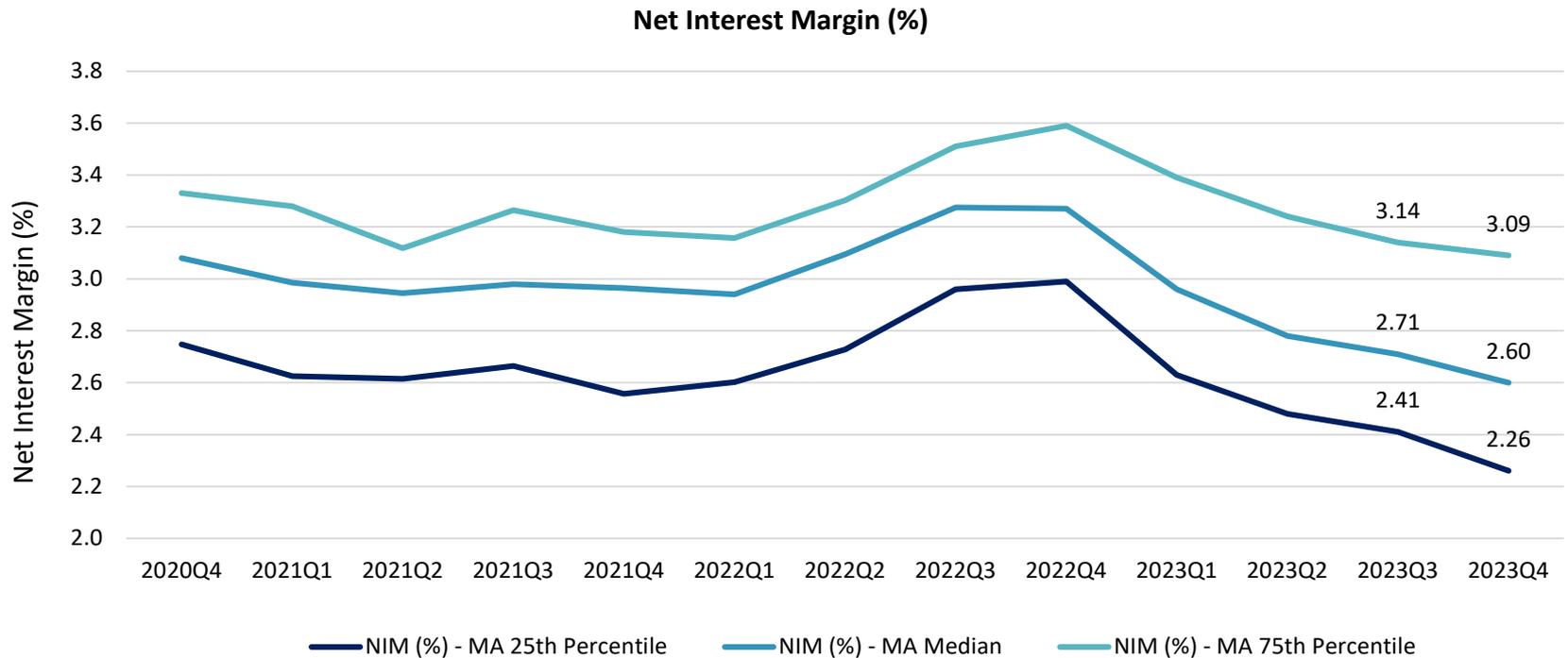


Source: The Kafafian Group, Inc. and S&P Capital IQ Pro. Data for the quarter ended 12/31/2023 and includes both commercial and mutual bank data

# MASSACHUSETTS BANKS PERFORMANCE

## RECENT TRENDS (CONTINUED)

The net interest margin for Massachusetts banks and U.S. banks decreased on an aggregate level in Q4 2023 compared to Q3 2023. Median, 75<sup>th</sup> percentile, and top 25<sup>th</sup> percentile levels of NIM for Massachusetts banks decreased in Q4 2023 by approximately 5 to 15 basis points.



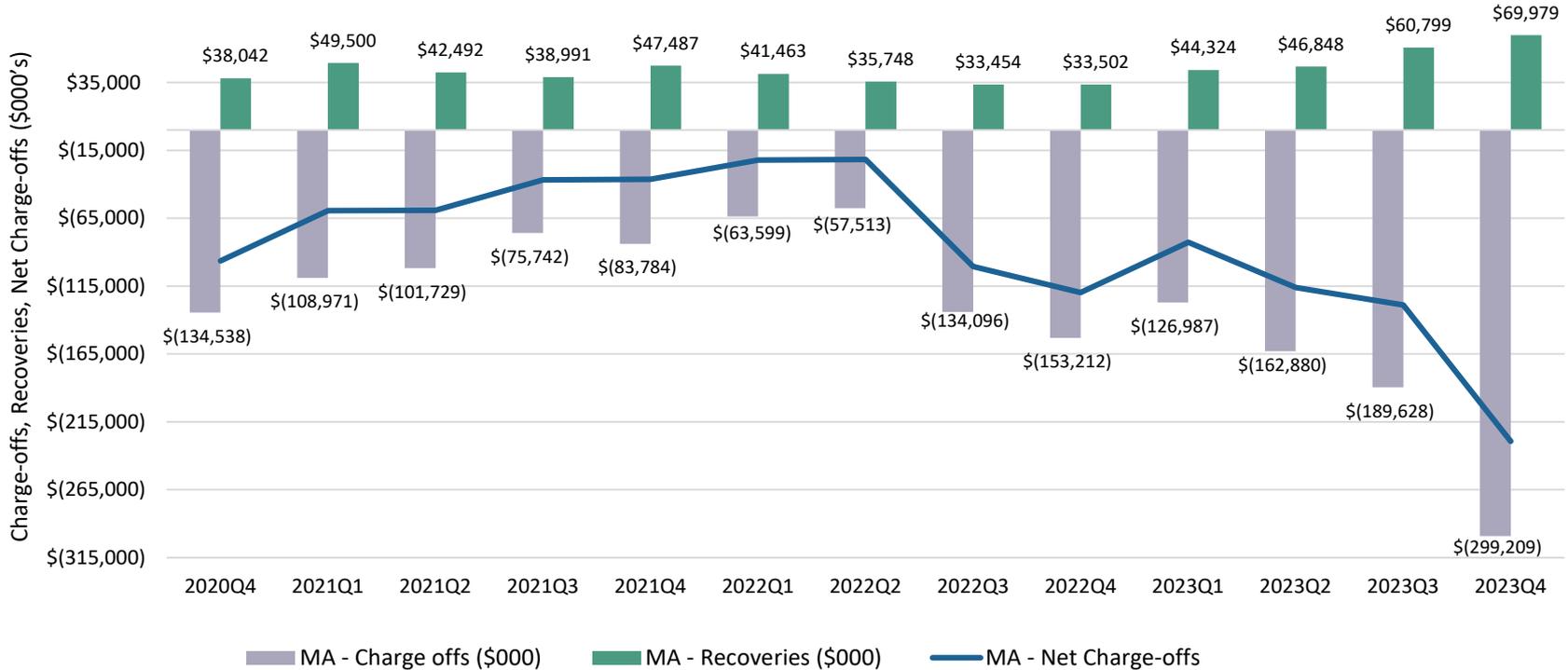
Source: The Kafafian Group, Inc. and S&P Capital IQ Pro. Data for the quarter ended 12/31/2023 and includes both commercial and mutual bank data. Excludes certain institutions

# MASSACHUSETTS BANKS PERFORMANCE

## RECENT TRENDS (CONTINUED)

Net-charge offs in Q4 2023 increased for Massachusetts banks; banks nationwide saw an increase in net-charge offs to total loans.

Massachusetts Aggregate Charge-offs and Recoveries



Source: The Kafafian Group, Inc. and S&P Capital IQ Pro. Data for the quarter ended 12/31/2023 and includes both commercial and mutual bank data.

# MBA LEGISLATIVE AGENDA & 2023-2024 LEGISLATIVE SESSION WATCHLIST

## KEEP AN EYE OUT FOR WHAT'S NEXT ON THE AGENDA

The Massachusetts legislature continues its work after convening for its new two-year cycle during the first week of January 2023. To date, more than 8,200 bills have been introduced, with the Massachusetts Bankers Association tracking 432 bills that relate to the banking industry. This year the Association has introduced ten (10) bills on behalf of the industry as part of our Legislative Agenda (details below). The Association's State Legislative Committee meets at least monthly to stay informed of legislative/policy activity and provide input on bill amendments, key testimony points and more. Members with an interest in having a representative on the State Legislative Committee are welcome to reach out to MBA's Brad Papalardo, Senior Vice President, Chief of Government Affairs and Counsel [bpapalardo@massbankers.org](mailto:bpapalardo@massbankers.org). Advocacy is among MBA's top priorities!

### 2023-2024 Legislative Session Filings



### Post Joint Rule 10 Reporting Deadline

**H.1097** - Mandating stronger standards for credit union membership by-law changes and ensuring that state-chartered credit unions are fulfilling their traditional mission, filed by Representative Frank Moran (D-Lawrence); *(Accompanied Study Order - Joint Committee on Financial Services – 2/7/24)*

**H.277** - Protecting Massachusetts banks against patent infringement claims, filed by Representative Edward Coppinger (D- Boston); *(Ordered to a Third Reading by House – 2/15/24)*

**H.955** - Enhancing the state charter by making updates and revisions to several areas of state banking law, via our updated “mini-mod” bill filed by Representative Dan Cahill (D-Lynn); *(Extension Order Filed Until 5/17/24 by the Joint Committee on Financial Services – 2/8/24)*

**H.1078** - Correcting drafting issues contained in Chapter 482 of the Acts of 2014, the bank modernization law, filed by Representative John Lawn (D-Watertown); *(Reported Favorably by the Joint Committee on Financial Services – 2/7/24)*

**H.281** - Imposing strong data security standards on retailers and other merchants, filed by Representative Michael Day (D-Stoneham); *(Extension Order Filed Until 7/31/24 by the Joint Committee on Consumer Protection & Professional Licensure – 2/8/24)*

**H.1419/S.1117** - Increasing the penalties for bank robberies and allowing the check fraud cases to be consolidated into a single county, filed by Representative Tackey Chan (D – Quincy) and Senator Michael Rush (D-West Roxbury); *(Accompanied a Study Order by the Joint Committee on Judiciary– 2/5/24)*

**H.1641 / S.974** - Governing access to a person’s online accounts and assets when the owner passes away or loses the ability to manage the accounts, filed by Representative Jay Livingstone (D-Back Bay) and Senator Barry Finegold (D-Andover); *(Accompanied a Study Order by the Joint Committee on Judiciary– 2/5/24)*

**H.954** - Updating the use of bank name statute to reflect changes in technology and customer communication, filed by Representative Dan Cahill (D-Lynn); *(Accompanied a Study Order by the Joint Committee on Financial Services – 2/7/24)*

**H.1405** - Enacting provisions to help facilitate electronic lending in the Commonwealth filed by Representative Dan Cahill (D-Lynn); *(Accompanied a Study Order by the Joint Committee on Judiciary– 2/5/24)*

**S. 943/H. 1525** – Enabling permanent remote online notarization filed by Senator Brendan Crighton (D-Lynn) and Representative Carmine Gentile (D-Sudbury). *(Signed by Gov. Healey, Chapter 2 of the Acts of 2023).*

Source: Massachusetts Bankers Association

# SUCCESSION PLANNING IN A NEW ERA

## SIX WAYS SUCCESSION PLANNING MUST CHANGE IN 2024

*Succession planning has always been a critical factor contributing to an organization's continuity but you'll see that organization's succession planning hasn't changed very much, if at all. The following may provide a new blue print for succession planning in the future.*

- 1. Before identifying key roles, how about imagining key roles that don't currently exist?:** In an evolving work environment we are faced with new opportunities and challenges everyday. For example the advancement in A.I has opened opportunities that didn't previously exist but unless they're on your org chart or succession planning white board, you're not planning for the future.
- 2. Find and enlist the most fearless-thinking, creative minds:** Ask your employees from within and without the traditional succession planning hierarchy about what roles they see.
- 3. Make sure these players comprise the most diverse thought streams possible:** "Diversity is the art of thinking independently together." - Malcolm Forbes.
- 4. Develop a list of traits, not skills, that your future successors will need:** Skills will fall off faster as the world changes, but traits like creativity, trust, confidence, flexibility, and readiness stay around forever.
- 5. Self-sufficient recruitment:** Unless your current internal and external recruiters can change as fast and as vastly as necessary, build your own recruitment team .
- 6. Build an extensive library of resources documenting great leaders:** They should be from in and out of the organization. Learning from each other is vital for the transfer of knowledge. Group learning exercises and creating simulation group learning scenarios may be beneficial.

Source: Forbes 12/24/2023

# IT'S OFFICIAL!

WE'VE LAUNCHED OUR NEW WEBSITE, MEMBER DATABASE AND BRAND



EDUCATION & TRAINING   ADVOCACY   RESOURCES   MEMBERSHIP   MEMBER BANK DIRECTORY

## New year, new look.

Like our website, our brand is evolving and it starts with our new logo.

[LEARN MORE](#)

[Click Here To Check Out Our New Website](#)

- **Phase I** involved upgrading our internal technology systems in 2021, retaining Iuvo Technologies as our managed IT solution provider and moving the Association technology backbone from in-house servers to the cloud, bringing greater functionality to our 18-member staff team in a highly secure environment.
- **Phase II** involved upgrading our member customer relationship management system, our “database.” This upgrade has been a huge undertaking as we brought the existing, outdated database, which had been in place for 25 years, current while selecting and working with our new provider, Euclid Technologies, to build the new association management database. Given the importance of technology and data analytics, in addition to achieving operational excellence with this change, we need to be where our members are as you focus on the digital transformation in your banks and for your clients.
- **Phase III** involved the launch of our new website, which is fully integrated with our new database. It was essential that the new database and the new website launch together, which happened on January 18, 2024.

Source: Massachusetts Bankers Association

## OTHER INDUSTRY RESOURCES

### INSIGHT AND ANALYSIS FROM INDUSTRY EXPERTS

*Our podcasts and insights focus on different topics throughout our five service lines of business. Below are our most recent Insights. Click any of the topics to be taken to the podcast or Perspective article!*



#### TKG Monthly Podcast

---

[Graduating from Data Analytics to Data Utilization](#)

[2024 Banking Industry Trends](#)

[Managing Through Change \(or in other words, Getting Stuff Done!!\)](#)

[AI in Community Banking – Are YOU Ready?](#)



#### TKG Quarterly Perspectives

---

[Navigating the Shifting Tides: Unraveling the Dynamics of Higher for Longer Rates and Profitability Trends in Community Banks](#)

[Banking On: The Inflection Points](#)

[Update: How has the Fed's battle against inflation impacted bank product profitability?](#)

[Build a Moat Around Your Balance Sheet](#)

# THE KAFAFIAN GROUP, INC.

## FIRM OVERVIEW – LINES OF BUSINESS



### Performance Measurement

- Outsourced profitability reporting
- Funds transfer pricing (FTP)
- Activity-based cost (ABC) assignments
- Capital assignment and risk-adjusted return on capital (RAROC)
- Profitability system audits and implementations
- Peer group reporting



### Strategic Management

- Strategic planning
- Board and management retreat facilitation
- Capital planning
- Stress testing
- Profit planning
- Business planning
- Customer and data analytics
- Feasibility studies



### Profit and Process Improvement

- Profit improvement studies (whole institution or divisions or units)
- Process improvement studies (whole institution or divisions or units)



### Management Advisory

- Board and management studies
- Regulatory distress assistance
- Regulatory applications
- Board and management training
- Model validation and documentation
- Risk management



### Financial Advisory

- Whole institution M&A
- Fee-based lines of businesses
- Branch purchase or sale
- Fairness opinions
- Valuation reports
- Strategic alternatives (TKG's 360 View) and value gap planning
- Capital management strategies
- Expert witness
- Forensic accounting

Source: [www.kafafiangroup.com](http://www.kafafiangroup.com)