



Issues & Answers



February 2025

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Persistence Is Paying Off



*By Glen Simecek,
President & CEO,
Washington Bankers
Association*

The great Will Rogers once quipped, “If you don’t like the weather, stick around a bit, and it will change.”

While Rogers first made this comment about weather patterns in Oklahoma, his joke has been appropriated by residents of almost every state in the country. The same can be said about the political climate in Washington, D.C., where the winds only blow in one direction for a limited time before shifting.

We see evidence of that in Travis Hill’s January 20 appointment as Acting Chairman of the FDIC Board of Governors. From 2018 to 2022, he was a senior staffer under then-Chair Jelena McWilliams. He has served as Vice Chairman of the FDIC since 2023. Bankers are encouraged by Hill’s appoint-

ment because, throughout his career, he has been open to input from and engagement with the industry and has adopted a moderate and balanced approach to regulation.

Based on the statement he released upon his appointment, he plans to continue that style. It’s relatively short and worth reading, but I will paraphrase some highlights.

Hill sees his agency’s mandate promoting a “safe, sound, and resilient banking system.”

To accomplish this, he identifies several priority issues and initiatives, including:

- Conducting a wholesale review of regulations, guidance, and manuals to ensure that they contribute to a healthy and resilient financial sector
- Withdrawing some recent FDIC proposals, such as on brokered deposits, and ensuring that the FDIC remains within its statutory guidelines
- Improving the bank merger approval process and encouraging de novo activity to ensure healthy competition in the

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2024-2026 Board of Directors

Chair: Brent Beardall, President &
CEO, WaFd Bank

Immediate Past Chair: Mark
Mason, Chairman, President &
CEO, HomeStreet Bank

Secretary/Treasurer: Bryan
McDonald, President, Heritage Bank

GR Committee Chair: Clayton
DeHaan, Director, PNW Region
Executive, Bank of America

Education Committee Chair: Matt
Deines, President & CEO, First Fed
Bank

WBA PROS Chair: Cindy Purcell,
EVP/Chief Strategy &
Administration Officer, Banner
Bank

Directors

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Credit Officer, KeyBank

Jack Heath, President & COO,
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Peoples Bank

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Cashmere Valley Bank

Eric Pearson,
CEO, Community First Bank

Kerri Schroeder, Manging Director,
PNW Region Chairwoman &
Region Manager, JPMorgan Chase

Don Stafford, Market Executive,
Wells Fargo

Laurie Stewart, President & CEO,
Sound Community Bank

Dave Swartley, SVP/Managing
Director State Government
Relations, U.S. Bank

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marketplace

- Becoming more supportive of technical innovation in financial services while addressing growing technology costs for community banks
- Focusing the supervisory process more on core financial risks and less on process
- Incorporating lessons learned in 2023 to improve the bidding process for resolving problems at large institutions
- Adjusting capital and liquidity rules to appropriately balance economic growth with safety, soundness, and resilience to shocks
- Developing a more sophisticated understanding of the relative stability of different types of deposits and depositors
- Reevaluating disclosure requirements
- Making the FDIC more efficient, transparent, and accountable.

If these priorities sound familiar, they have been consistent with WBA members' messages during our annual D.C. visits for years. We recognize the need for effective regulatory oversight to ensure safety and soundness, but we have also seen the agency initiate actions that have placed unreasonable or counterproductive burdens on banks while providing limited benefits to consumers.

Understandably, bankers sometimes find the process of talking to regulators frustrating. When your message doesn't appear to have any effect in the short term, it can feel like we are just throwing oatmeal at a brick wall. But the reality is that we need to keep delivering a consistent message on behalf of our banks and our customers – both in DC and closer to home in Olympia. Because you never know when those political winds will shift. A new administration or a change in agency leadership can present significant new opportunities for your message to have real impact.

That's what our D.C. trips, Bankers Day on the Hill event, legislative briefings, and other advocacy efforts are based upon: the notion that relevant factual information consistently delivered over time presents the best prospects for success.

Let's hope we see our persistence paying off in Travis Hill's leadership of the FDIC. The early signs are very encouraging.

Contact Us

Contact the Washington Bankers Association at 601 Union
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Call us at (206) 447-1700 and visit us on the
web at wabankers.com.

Connect With Us

Connect with the WBA online by following us on our social
media accounts.

On the Cover

Fog blankets the skyline and trees on the road near Hurricane Ridge
on the Olympia Peninsula,

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Association

Connect, Learn and Lead: Virtual Peer Groups For Bank Executives Launch in February

The Society of Bank Executives is a premier organization that fosters leadership excellence in the banking industry.

The Society equips executives with the tools and knowledge they need to navigate an ever-changing financial landscape through professional development programs, peer-to-peer collaboration, and access to industry thought leaders. By creating opportunities for meaningful engagement, the Society helps banking leaders thrive in their roles and drive their organizations forward.

The Society is kicking off the new year with a unique opportunity for banking leaders nationwide. Starting in February 2025, the Society will host a series of National Virtual Peer Groups, offering a platform for professional growth, collaboration, and problem-solving tailored to the challenges and opportunities facing today's banking executives.

Open to all executives, these professionally facilitated and highly interactive sessions provide a space for meaningful dialogue. Participants can delve into pressing topics, share insights, and gain valuable perspectives from their peers. Whether you're tackling emerging industry trends, navigating complex challenges, or seeking inspiration for innovative strategies, these peer groups are designed to empower you and your executive team.

Here's a breakdown of the sessions:

Chief Human Resources Officer Peer Group

February 6, 2025 • 10:30 AM – 12:30 PM PT

Facilitator: Greg Beckwith, Founder & CEO, AI Mastery

This session will focus on strategies for harnessing AI and other technologies to enhance human resource functions and address workforce challenges.

Chief Financial Officer Peer Group

February 13, 2025 • 10:30 AM – 12:30 PM PT

Facilitator: Dale Sheller, Associate Partner, Director of Financial Strategies Group, The Baker Group

Engage in discussions on financial strategies, market trends, and managing economic uncertainty.

Chief Operations Officer Peer Group

February 20, 2025 • 10:30 AM – 12:30 PM PT



Attention Bank Chief Operations Officers!

Virtual National Peer Group
Thursday, February 20, 2025
1:30 - 3:30 p.m. ET



This complimentary virtual peer group offers the opportunity to connect with banking peers outside of your competitive market. This highly interactive, virtual sessions will allow you to focus on the the most important topics, learn and share with other bankers, and expand your network!

Session Facilitator:
Tom McGill
Director of Customer Experience
Profit Resources, Inc.

Learn more and RSVP online at
Executives.Bank

Facilitator: Tom McGill, Director of Customer Experience, Profit Resources, Inc.

Explore operational efficiencies, customer experience innovations, and leadership techniques tailored for COOs.

Chief Executive Officer Peer Group

February 27, 2025 • 10:30 AM – 12:30 PM PT

Facilitator: Sean Payant, Ph.D., Chief Strategy Officer and Sr. EVP, Habersfeld

CEOs will dive into strategic decision-making, leadership challenges, and growth opportunities for banks of all sizes.

These virtual peer groups are more than meetings—they're a chance to connect with like-minded professionals, gain fresh insights, and leave with actionable takeaways to enhance your bank's success.

Whether you're a CEO, CFO, COO, or CHRO, there's a peer group designed to meet your unique needs.

Don't miss this opportunity to lead confidently in 2025!

Events Calendar

Feb. 12 – 2025 Bankers Day on the Hill

Feb. 26 – WBA Night at Spokane Chiefs

March – RMA Women in Banking Luncheon

April 3 – Understanding Bank Performance

April 7-9 – 2025 ABA Washington Summit, D.C.

April 14 – Credit Analyst Development Program

April 16 – Management Development

April 29 – Virtual Engage Conference

May 7-9 – Agricultural Bankers Conference, ID

May 13 – CBA Annual Conference, La Quinta, CA

May 22 – OBA Women in Banking Luncheon, OR

May 30 – PSBJ Women Who Lead

June 5 – WBA Night at Spokane Indians

July 10 – Understanding Bank Performance

July 28-30 – 2025 Annual Convention; Coeur d'Alene, ID

Aug. 14-16 – KBA Fraud Academy

Aug. 21 – Commercial Lending Development Program

Sept. 16 – Understanding Bank Performance

To register or to learn more about any of the listed events, please visit www.wabankers.com/calendar.

WBA Attends ABA Freshman Fly-In

In late January, WBA and two bankers attended the ABA's Freshman Fly-In. The event, which is held every two years when there are new members in the House and Senate, is designed to help build relationships between members of the banking industry and new members of Congress.

Washington welcomed Emily Randall (D-6th) and Michael Baumgartner (R-5th) to the U.S. House. Both previously served in the Washington State Legislature, where WBA has previously established relationships with them.

It was also an opportunity to introduce them to a few banking issues, such as ACRE and the Credit Card Competition Act, and answer any questions the representatives or their staffs had related to banking policy.

Thank you to Sound Community Bank's Dave Raney and Washington Trust Bank's Andy Hasting for attending the event and sharing information about the industry and their banks with lawmakers.



WASHINGTON SUMMIT

April 7-9, 2025
Washington, DC

Join the biggest annual gathering of bank leaders in Washington to push for a bank policy framework that lets your bank stay focused on serving your customers, clients and communities.

Hear directly from the key players in the 119th Congress and the new administration on what the future holds for banks of all sizes.

Registration is free for all bankers –
Don't miss your chance to connect!

aba.com/SummitSBA



New infographics provide advice for identifying money mules, check fraud

The American Bankers Association Foundation and the U.S. Postal Inspection Service released three new infographics on money mule scams and check fraud as part of their shared ongoing initiatives to protect consumers from scams.

The first infographic teaches consumers how to detect and avoid falling victim to a money mule scam. The second infographic provides advice for bank staff on how to spot money mules. The third infographic teaches small business owners how to protect themselves from check fraud.

“These two types of fraud have been on the rise in recent years,” ABA Foundation Executive Director Lindsay Torrico said. “Raising awareness of what people should be looking for is more important now than ever.”

The infographics are part of an ongoing collaboration between the U.S. Postal Inspection Service and the ABA Foundation announced in 2024.

“The mission of the U.S. Postal Inspection Service is to safeguard our community from criminals who look to exploit them said, Gary Barksdale, chief postal inspector for the U.S. Postal Inspection Service. “That’s why the partnership between the Postal Inspection Service and the ABA Foundation is critical to ensuring consumers and businesses are aware of these scams – so they can prevent the losses that follow these attacks.”

Money mule scams

In a typical money mule scam, criminals use another person’s bank account to transfer and launder illegally acquired money. The person whose bank account is used may be a victim, unaware of the crime entirely, or they may be complicit in the fraud. Criminals often recruit through online job ads, social media, enticing — though fake — investment opportunities, prize offers or dating websites.

To avoid becoming a victim of a money mule scam, the U.S. Postal Inspection Service and ABA Foundation recommend that consumers:

- Do not use your own bank account, or open one in your name, to receive or transfer money for an employer or anyone else.
- Do not accept or endorse a check that is not in your name, even if a friend or employer asks you to do it.
- Do not incorporate a fictitious business to deposit a check corresponding to a similarly named business.
- Never pay to collect a prize or transfer money from your prize “winnings.”
- Never send money to online love interests, even if they appear to send you money first.
- Do not listen to anyone offering you a great cryptocurrency investment or asking you to deposit money into a Bitcoin ATM.
- Never purchase cryptocurrency or gift cards on behalf of, or for, someone you met online or over the phone.
- Never share your bank passcodes, including one-time verification codes, or provide anyone with access to your bank account, online credentials, debit card number or PIN.
- Always monitor your accounts and report suspicious activity to your bank.



Check fraud

To commit check fraud, criminals may steal and alter an existing check, or they may produce counterfeit checks to allow for unauthorized withdrawals. Bad actors often target business accounts over personal accounts because of large transaction volumes, more funds and higher liquidity, making it easier to cash higher dollar counterfeit or altered checks — and more difficult to detect fraudulent transactions and overdraft issues.

Small businesses should take the following steps to protect against check fraud:

- Adopt an employee need-to-know policy to limit access to sensitive information and business checks.
- Talk to your bank about services to monitor business account activity, such as fraud prevention programs (FPPs). FPPs can require and request verification for all checks drawn against specific accounts to detect and prevent fraudulent activity.
- Explore the use of a positive pay product with your bank to add another layer of validation protection to the check process.
- Confirm that all financial instruments drawn from your business accounts are received by the intended recipients. Any outstanding items should be flagged.
- Use the letter slots inside your local Post Office for your outgoing mail or hand it directly to a letter carrier.
- Pick up your mail promptly after delivery. Don’t leave it in your mailbox overnight. If you do not have weekend hours, coordinate with your local Post Office to hold any weekend mail until the following business day.

See the infographics online at www.aba.com/news-research/analysis-guides/money-mules-protect-yourself.

Olympia Federal Savings Donates to BankWork\$

Olympia Federal Savings donated to BankWork\$ in December as part of the bank's Two Cent program.

The bank donated \$2,815 thanks to automatic donations thanks to customers using their debit cards throughout December.

The bank chooses a local nonprofit partner to recognize and receive that month's gift each month.



Sound Community Bank Volunteers at Port Angeles Winter Ice Village

The Sound Community Bank Port Angeles team recently volunteered at the Port Angeles Winter Ice Village.

The team operated the ticket sales booth, skate rental area, and snack shack, helping to make the event successful.



Liberty Bank Partners with FHLBDM For Donation to Fishline

Liberty Bank donated to the North Kitsap Fishline in December thanks to a matching Member Impact Fund grant from the Federal Home Loan Bank of Des Moines.

The \$10,000 grant will help the food bank purchase a van, allowing the organization to continue meeting the needs of its growing community.

KeyBank Collects, Donates Winter Essentials

The KeyBank Hispanic Latinx, Pride, Women's, and Asia Key Business Impact Networking Groups recently collected and donated winter essentials for needy neighbors.



The groups donated items to World Relief Western Washington in Whatcom, King Counties, and Rod's Place in Yakima. They donated hundreds of winter essentials that will help keep vulnerable people warm this winter.



Cashmere Valley Bank's Denim Funds Support Local Organizations

Every Friday, employees at Cashmere Valley Bank can choose to donate to their team's nonprofit for the opportunity to wear jeans.

Once the fund has grown, the bank will match the amount, doubling the amount for the nonprofit.

Recently, the bank's finance department donated to the Wenatchee Valley Humane Society to help ensure the shelter can continue caring for homeless animals.

The bank's Yakima Avenue branch supported La Casa Hogar and the YWCA in Yakima.

La Casa Hogar connects and educates Latina families in the area, while the YWCA provides domestic violence services for women and families.

The bank's Cashmere branch donated to the Cashmere Library to help with the upcoming Teen Poetry Slam event hosted by Cashmere High School. The event provides teens a chance to read the poetry they've written and the opportunity to win prizes.

The Ellensburg branch donated to Caring Cupboard through

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the Ellensburg Education Foundation. The organization helps poverty-stricken children by ensuring they have everything necessary to be successful.



Bank of America Awards Three Neighborhood Builders Grants

In early 2025, Bank of America announced that three local Western Washington organizations would receive \$200,000 in Neighborhood Builder grants.

The program provides multiyear flexible funding and leadership training to high-impact nonprofits driving economic mobility throughout the country.

Locally, The Coffee Oasis, which operates four locations and is dedicated to providing young people with community support and job training, received a grant.

“Bank of America’s grant enables us to strengthen our community-driven approach, helping more youth have hope and access to opportunity through our programs,” Daniel Frederick, executive director emeritus of The Coffee Oasis, said in a bank news release. “We are grateful for this support and excited to continue our work on a larger scale.”

HomeSight in Seattle and Rise Above also earned grants. HomeSight helps people become homebuyers through education, counseling, and lending and works to develop new affordable housing projects. Rise Above uses sports to educate and

empower Native American youth to overcome their obstacles and serve as mentors.

Since the Neighborhood Builders program began in 2004, Bank of America has awarded 41 Puget Sound nonprofits with \$200,000 grants for over \$8.2 million in capital.



Liberty Bank Hosts Family Through YWCA

During the holiday season, Liberty Bank hosted a family through the YWCA.

As part of the program, the bank supported the single mother and her four children by providing what the family needed and ensuring they had fantastic holidays.

“Along with the gifts, we send the family our heartfelt wishes for a joyful and fulfilling 2025,” said Rhonda Morris, the bank’s executive vice president and chief risk officer.



Riverview Bank Helps Collect Food During 40th Annual Walk & Knock

Riverview Bank recently participated in the 40th Annual Walk & Knock in Clark County, which donates items to the Clark County Food Bank.

The annual event collected over 250,000 pounds of food during the hallmark anniversary.

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Industry News

New Hires

Angie Martin
Branch Manager at Heritage Bank

Mike Higgins
Senior Vice President and Treasury Services
Department Lead at Mountain Pacific Bank

MJ Corona
Assistant Branch Manager at WaFd Bank

Shannon Bell
Director of Treasury at First Fed Bank

Dijesh Kuttichi
Branch Manager at KeyBank

Angelina Contreras-Duran
Assistant Branch Manager at Olympia
Federal Savings

Mason Azose
Vice President and Banker at JPMorgan Chase
Private Bank

Candice Cotterill
Vice President and Branch Manager II at First Fed
Bank

Luxmi Love
Vice President, Branch and Sales Manager, 1st
Security Bank of Washington

Angie Martin
Branch Manager at Heritage Bank

Rhyann Campos
Customer Service Representative at First Fed
Bank

Shannon Anderson
Vice President and Business Banking at U.S. Bank

Promotions

Austin Patjens
Senior Vice President and Senior SBA Business
Development Officer at Heritage Bank

Jeff Sterken
Senior Vice President and Capital Markets Officer
at Heritage Bank

Yusuf Hansia
Assistant Vice President and Treasury
Management Officer at Mountain Pacific Bank

April Moore
Treasury Management Officer at Mountain
Pacific Bank

Elizabeth Cooper
Vice President and Senior Branch Manager at
HomeStreet Bank

Charmaine Lightheart
Executive Vice President and Chief Retail and
Digital Engagement Officer at Riverview Bank

John Adams
Vice President and Trust Advisor at Baker Boyer
Bank

Becky Kettner
Vice President and Investment Advisor at Baker
Boyer Bank

Matt Payne
Assistant Vice President and Investment Advisor
at Baker Boyer Bank

Have Industry News to share with WBA? Email megan@wabankers.com or call (206) 344-3472.

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“It’s not easy canvassing door-to-door in the cold wetness, but hunger knows no weather,” said Justin Wood, Walk & Knock president.”



U.S. Bank Volunteers at Green Lake Park

The U.S. Bank Seattle team braved cold and wet weather early in 2025 for another Green Lake Park clean-up event.

The crew picked up litter and did other work around the park.



Chase Volunteers at Habitat for Humanity Event

The JPMorgan Chase team in Seattle recently attended a Habitat for Humanity Seattle-King County event in early January.

The bank not only hosted a financial health workshop for future Habitat homeowners but also attended a celebration of the completion of the Yarrow Cottages Community.

The site, where members of the Chase team volunteered on the build the year before, is ready for families to move in soon.



Commencement Bank Participates in Relay for Life

In early 2025, members of the Commencement Bank team participated in the annual Relay for Life at the University of Puget Sound.

Sandy, Ember, and Kimmy from the bank spent the first weekend of the year walking laps at the university’s track, honoring friends and family in their fight against cancer.



Washington Trust Bank Hands Out Gift Cards

Knowing that the holiday season is an essential time for local businesses, the Washington Trust Bank DEI Committee, an employee-run group within the bank, wanted to do something to help drive foot traffic and boost business.

So they handed out gift cards to local businesses across the Northwest to lucky people on the street and

throughout the region.



Sound Community Bank Participates in Chamber Young Professional Event

Sound Community Bank team members recently participated in the Seattle Chamber’s Young Professionals Networking event.

They met with other professionals from throughout the area and discussed their work as bankers and the community as a whole.



First Fed Bank Welcomes Member to Club 100

First Fed Bank recently welcomed Angela Saffery to Club 100.

Saffery volunteered more than 100 hours with Make-A-Wish, where she serves as a wish grantor and member of the gratitude group. She helps kids and families bring their wishes to life.

The work holds special meaning to her and her family, as the organization granted her son’s wish in 2018.

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1st Security Bank of Washington Donates to Leadership Kitsap

1st Security Bank of Washington recently announced a \$1,000 donation to Leadership Kitsap.

The organization began in 1993 and has had 716 graduates go into the community. It has also helped develop 125 community service projects throughout Kitsap County.



Chase Volunteers at Wing Luke Museum

Members of the Chase Seattle team volunteered at Wing Luke Museum in South Seattle in honor of the Chinese New Year.

The bank's AsPIRE BRG helped make the event possible and celebrated the holiday at the end of January.



WaFd Preps Hygiene Kits for United Way

The WaFd Bank branch in University Place recently partnered with United Way during Dr. Martin Luther King Jr.'s Month of Service. The branch prepped 100 hygiene kits for Pierce County to distribute in honor of MLK Day and his legacy.

Chase Volunteers at MLK Day of Giving

United Way of Pierce County hosted its annual MLK Day of Giving on Martin Luther King Jr. Day.

The day included a variety of opportunities for volunteering, which members of the local Chase team took part in by volunteering.



Washington Trust Bank Donates to Operation Healthy Family Spokane

Washington Trust Bank announced a \$20,000 donation to Operation Healthy Family Spokane.

The organization is dedicated to helping everyone needing affordable dental treatment in Spokane County and is expanding its reach and impact.



U.S. Bank Volunteers at Pierce County United Way Event

Members of the U.S. Bank team recently volunteered at a United Way MLK Day event.

The team helped assemble hygiene kits for those in Pierce County who were in need.



1st Security Ends 2024 With Successful Food Drive

At the end of 2024, the 1st Security Bank of Washington hosted its annual holiday food drive.

The bank brought in \$310,000 in donations to help local families suffering from food insecurity. The total includes a \$500 match per location and another \$7,500 per location from the bank's board of directors.

2025 Credit Portfolio Risk & Balance Sheet Management Outlook

By Mary Ellen Biery, Senior Strategist & Content Manager, Abrigo

The top issues facing executives managing credit portfolio risk and the balance sheet at financial institutions are shaped largely by the dynamic rate environment, according to Abrigo's outlook for major trends in the year ahead.

Based on comments from the Abrigo Advisory Services team and our bank and credit union clients, executives will have their work cut out to manage profitability, balance sheet growth, and credit risk. Both groups were recently asked to identify top priorities and trends ahead, and many pointed to efforts to manage the various impacts of still-high interest rates—even before Fed officials indicated they could reduce the number of potential rate cuts in 2025 from previous expectations.

Interest rate uncertainty will mean banks and credit unions focus on understanding and managing interest rate risk, pricing, and customer behavior related to prepayments and deposits, Abrigo's advisors say. Advisors and customers alike say growing deposits will be a primary focus, especially for institutions looking to grow and manage funding costs. Several customers also say that lowering non-interest expenses and optimizing institutional processes are top priorities heading into 2025.

Here's a quick look at some trends and issues likely to affect banks and credit unions in the new year.

Navigate rate environment uncertainty with confidence

Abrigo experts have noticed a growing shift in clients' concern toward interest rate risk, so one focus will be managing that.

Dave Koch, Managing Director of Abrigo Advisory Services and a lead faculty member of the Graduate School of Banking at the University of Wisconsin–Madison, said that with additional rate cuts, financial institutions could face a squeeze on net interest margin spread. “The deposit side may see continued pricing pressures, with CD and savings rates potentially remaining higher than pre-crisis levels,” he said. “On the lending side, loan rates are expected to follow prime rates down, but the spread over prime may remain higher due to lingering credit risk concerns.”

As a result, banks and credit unions will face challenges in managing repricing risk (both for loans and deposits that need to be repriced at lower rates). “Stability of funding will be a critical focus, so institutions need tools to price risks accurately on both loans and deposits,” Koch said.

Neekis Hammond, Abrigo's Vice President of Sales and Professional Services, agreed that rate-related topics will continue to shape the commercial banking landscape. “Managing the profitability of loans and deposits in a volatile interest rate environment will be a key focus” for banks and credit unions, he said.

Focusing on the economy, credit risk, and allowances

Another rate-related issue that managers of credit portfolio risk management will face is economic uncertainty. Still-elevated interest rates are running into declining consumer purchasing power, which stands to add pressure to credit risk.

As a result, Abrigo advisors and customers say managing loan portfolio stress will be a top 2025 issue. Financial institutions with high concentrations in specific segments, such as consumer lending and especially commercial real estate (CRE), will need to proactively manage risks through stress testing, early intervention, and adjustments to loan loss provisioning. Some Abrigo customers named managing watch-list loans and complying with new stress test reporting as among their institutions' top priorities heading into next year.

Expect continued examiner emphasis on concentrations and monitoring. Many examiners' expectations include more sophisticated stress testing and more information on how lenders are complying with policy limits. Monitoring risk effectively and proactively remains an essential function in 2025.

“It is important that banks continue to use sound credit risk management practices such as stress testing at both the portfolio and facility levels, timely and accurate risk ratings, and effective concentration risk management,” the OCC said in its Semiannual Risk Perspective released Dec. 16. “The commercial real estate office sector remains stressed. Risks in multifamily CRE lending remain elevated, particularly in the luxury segment.”

Indeed, even with additional interest-rate cuts, challenges in CRE portfolios aren't going away in the near term, based on customer and advisor comments. CRE loans originated five to seven years ago during the low-rate environment that reprice or mature in the coming year pose risks on two fronts.

First, pricing sensitivity among attractive borrowers and heightened loan-pricing competition will increase the risk of losing refinancing deals. Second, lenders have seen an increase in CRE delinquencies, but related charge offs haven't yet followed in many cases. Some CRE loan renewals will force a reckoning of the impacts of higher rates and rising vacancies in hard-hit sectors and areas. Banks and credit unions, some of which are experiencing increased past-due loans, will be managing the troubled financial status of some customers, including, in some cases, foreclosures and higher credit losses. Others will reassess their strategies around CRE exposures.

Speaking of credit losses, expect increased scrutiny in the months ahead of allowances under CECL, particularly related to model validation and sensitivity to changes in economic forecasts (including prepayment and curtailment rates). Additionally, auditors are under more pressure from the Public Company Accounting Oversight

Board (PCAOB) to audit qualitative factors, according to Abrigo's experts. Financial institutions likely have only seen the beginning of this pain point in 2024 with many smaller banks having year-end audit work in early 2025.

Growing deposits

Many of Abrigo's bank and credit union customers who shared top priorities for 2025 reported plans to grow deposits. Financial institutions will need deposit strategies that can be effective in a dynamic rate environment.

Abrigo advisors said institutions especially need to understand the differences in the financial assets and banking habits of their aging deposit base and younger people. Without that understanding, they risk losing out on the generational transfer of wealth between Baby Boomers and later generations.

Competitors are increasing, so knowing which core deposits are sensitive to pricing and having the right products and services will help retain and attract additional depositors. A core deposit study examines the institution's pricing behavior (the beta and the lag in pricing) and the member or customer's behavior (the decay) to inform pricing strategies.

Mergers and acquisition activity, which has slowed in recent years amid the high interest rates, credit quality concerns, and lower bank stock prices, could also be in focus for some financial institutions looking to grow deposits through deals. The recent Fed Funds rate decreases could potentially boost merger activity, according to Abrigo advisors. Abrigo's purchase accounting and valuation services advisors have completed over 30 buy-side fair value projects since 2023, and they produce a quarterly review of loan portfolio fair value analytics.

Efficiently managing portfolio and balance sheet risk

Given the potential for squeezed net interest margins, it's unsurprising that lowering non-interest expenses and optimizing institutional processes are also among financial institutions' top priorities heading into 2025. Nearly half

of customers said their bank or credit union's goals include efficiency-related efforts or leveraging technology to manage risks and improve efficiency.

To be sure, technology plays a vital role in efficiently managing a dynamic interest rate environment. For example, a banking intelligence platform can leverage upcoming loan repricing and maturity information to help understand portfolio trends, risks, and market dynamics. Executives can quickly identify the driving forces impacting portfolio credit quality. They can maximize net interest margins using industry-wide data about interest rates for originated loans by type and geography to ensure competitive pricing. Automating the CECL calculation can mean work that takes weeks using spreadsheets can be completed compliantly in half an hour, providing more time for analytical or revenue-producing activities.

Streamlining investment accounting and management with automated workflows will help institutions manage fixed-income and liability instruments in the portfolio.

A quality asset/liability management model will go beyond regulatory requirements and add strategic value by helping optimize net interest margin, assess risk exposure, and develop contingency funding plans while aligning assumptions and reporting with allowance and stress testing.

Banking executives will face challenges ahead, especially with interest rate trends expected to come down. Consider accessing banking advisory services for decision support, strategic planning, process outsourcing, or guidance on incorporating technology for improved processes.

Mary Ellen Biery is Senior Strategist & Content Manager at Abrigo, where she works with advisors and other experts to develop whitepapers, original research, and other resources that help financial institutions drive growth and manage risk. A former equities reporter for Dow Jones Newswires whose work has been published in The Wall Street Journal, the Washington Post, and on Forbes.com, Mary Ellen is a frequent author in banking, credit union, and accounting publications.

The Ultimate Fraud Prevention Training Program Returns!

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