



Washington State Department of Financial Institutions

Division of Banks

Winter/Spring 2024 UPDATE

Despite weaker economic conditions, the banking industry displayed resilience throughout 2023. The industry experienced significantly higher interest rates, high inflation, and market stress. In the Spring of 2023, three large regional banks across the nation failed as a result of severe liquidity strains and the impact of higher interest rates. The failures also impacted the public's confidence in the industry.

While remaining largely in sound condition, Washington banks, similar to the rest of the industry were strained by a continuation of rapidly increasing interest rates, tightened liquidity levels and a mounting concern over the stability of the commercial real estate sector. As banks face increased deposit costs, there's a looming concern over liquidity pressures and earnings/margin compression. Concurrently, the higher rates intensified concerns regarding credit risks, necessitating more stringent credit management strategies.

Coming into 2024, bankers still face many uncertainties in the year ahead. Continued inflation, uncertainty about the future direction of market interest rates, mounting repricing risk on commercial real estate markets, tighter and more costly funding levels, increased regulatory scrutiny and geopolitical uncertainty all pose potential threats to the banking industry. Continued emphasis on sound corporate governance, risk management, and flexibility in the face of uncertainty will benefit the industry going forward.

STATE CHARTERED NUMBERS AT A GLANCE AS OF DECEMBER 31, 2023

