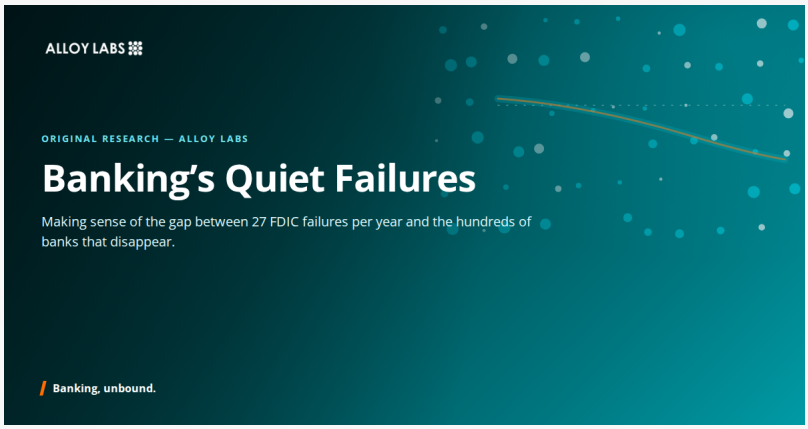
Nearly 1 in 3 US Community Banks Are Operating in Quiet Failure Mode, New Alloy Labs Research Finds

1,415 banks meet the criteria for persistent, unreported value destruction, and data shows they are more likely to disappear and be sold at a discount vs peers



ST PAUL, MN, UNITED STATES, September 8, 2026 /EINPresswire.com/ -- New research from Alloy Labs finds that 1,415 US banks, 31% of the nation's 4,559 FDIC-insured banks, are operating in what the report calls Quiet Failure Mode: a state of persistent, unreported value destruction that leaves a bank technically solvent but structurally behind. The report, “Banking's Quiet Failures,” is available today at Alloy Lab’s website, www.alloylabs.com.

Built from twenty years of Call Report data covering every FDIC-insured bank in the country, the research finds that failure explains only a small share of the consolidation reshaping the industry. Between 2005 and 2025, the number of US banks fell by more than half, from 8,939 to 4,408, while the FDIC resolved only 561 institutions over the same span. Standard mergers and acquisitions outpaced regulatory failures roughly 7 to 1. Most banks that stop operating independently do so through an ordinary sale rather than a regulatory intervention, and the report finds that a bank's operating condition years before that sale predicts both whether it happens and what price it commands.

Defining Quiet Failure Mode
A bank is classified as operating in Quiet Failure Mode if its return on equity has run at least 200 basis points below its cost of equity for five of the trailing seven years, with no sustained recovery in the two most recent years.

A bank in Quiet Failure Mode is still profitable. It is earning positive returns that fall short of what its shareholders require for the risk they bear, a condition the FDIC's binary alive-or-failed classification was never built to detect.

Predicts both Disappearance and a Discounted sale

Tracking the 3,867 banks classified in Quiet Failure Mode at year-end 2014 through the following decade, the research finds that 37.8% disappeared via merger, acquisition, or voluntary closure, against a roughly 22% baseline disappearance rate for banks not in Quiet Failure Mode. The effect strengthens with severity. Banks in the most severe tier, running more than 500 basis points below cost of equity, disappeared at nearly twice the baseline rate. Of the 1,415 banks currently classified as Quiet Failure Mode, 57.9% sit in that most severe tier.

When Quiet Failure Mode banks do sell, they sell for less. Matched against 932 priced US bank M&A transactions closed between 2005 and 2025, targets that sold below 1.5 times tangible book value had been classified in Quiet Failure Mode 57% of the time in the 5 years before the deal, versus 36% for targets that sold at 1.5 times book value or above, a 1.58-times discriminant lift. Overall, 64% of Quiet Failure Mode banks that went through an M&A exit sold at a distressed or discounted multiple, below 1.5 times tangible book.

Classification is Not a Death Sentence

More than half of the banks that exited Quiet Failure Mode between 2012 and 2025 recovered organically, and more than a third of the Quiet Failure Mode banks in the priced M&A sample sold at a fair or premium multiple despite years of weak accrual earnings. Case research on the largest of those premium exits points to six recurring reasons the market paid up: a cheap deposit franchise, a scarce geographic footprint, a specialty business line, excess or under-deployed capital, a fixable structural earnings drag, or growth investment that had not yet matured. One acquired bank sold at 1.54 times book value on the strength of a specialty securities-based lending platform, not its accrual earnings. Another, the only bank of its size headquartered across a five-state region, sold on the strength of that geographic scarcity alone.

“The FDIC's failure list tracks the banks that trip a regulatory wire, and almost none of them do. That's the wrong number for a bank board trying to understand its own condition,” said Samer Saab, SVP of Product at Alloy Labs. “Quiet Failure Mode gives us the vocabulary for the ninety-nine banks that never trip that wire but are running out of runway anyway, and enough lead time to do something about it.”

Availability

The full report, including the state-by-state concentration data and the six value drivers behind premium-priced exits, is available now at alloylabs.com.

About Alloy Labs

Alloy Labs is a consortium of 90+ community and mid-size banks working together to better serve the evolving needs of our customers. Viewed as a single entity, we are a top 10 bank, which gives us the scale to work with large providers and provide a scaling path for startup partners. We use the knowledge of the network to develop insights that drive partnerships, product development, and strategic investments.

Download the Report: https://www.alloylabs.com/bankings-quiet-failures
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