THE FUTURE OF BANKING

Porcia Block, Assistant Vice President
Supervision and Risk Management

September 29, 2016
TOPICS OF DISCUSSION

Recent Financial Industry Trends

Issues Present or on the Horizon

Take-Aways
Recent Financial Industry Trends

Bank Structure and Performance
NUMBER OF U.S. BANKS AND BRANCH OFFICES

Source: Reports of Condition and Income,
Federal Deposit Insurance Corporation - Summary of Deposits
## Return on Average Assets

### S&L Adjusted

### Percentage of Average Assets

(All US Institutions)

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</thead>
<tbody>
<tr>
<td>All Banks</td>
<td>0.87</td>
<td>0.98</td>
<td>1.04</td>
<td>0.98</td>
<td>1.02</td>
<td>0.97</td>
<td>1.00</td>
<td>1.01</td>
<td>0.93</td>
<td>1.02</td>
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<tr>
<td>Banks Over $50B</td>
<td>0.94</td>
<td>0.99</td>
<td>1.07</td>
<td>1.00</td>
<td>1.03</td>
<td>0.97</td>
<td>1.03</td>
<td>1.01</td>
<td>0.92</td>
<td>1.03</td>
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<tr>
<td>Banks $10 - $50B</td>
<td>0.86</td>
<td>1.07</td>
<td>1.02</td>
<td>0.92</td>
<td>0.91</td>
<td>0.97</td>
<td>0.75</td>
<td>0.92</td>
<td>0.98</td>
<td>0.96</td>
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<tr>
<td>Banks Under $10B</td>
<td>0.58</td>
<td>0.87</td>
<td>0.93</td>
<td>0.94</td>
<td>1.00</td>
<td>0.98</td>
<td>0.99</td>
<td>1.04</td>
<td>0.95</td>
<td>1.00</td>
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<tr>
<td>All S&amp;Ls</td>
<td>0.00</td>
<td>1.04</td>
<td>1.06</td>
<td>1.15</td>
<td>1.12</td>
<td>1.31</td>
<td>1.03</td>
<td>1.02</td>
<td>1.25</td>
<td>1.36</td>
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</table>

*YTD = Net Income (YTD), as a percentage of average assets - Annualized

**Quarter = Net Income (Quarter), as a percentage of average assets (Quarter) - Annualized

Note: S&L Adjusted Net Income

Source: Reports of Condition and Income (S&Ls began reporting the Reports of Condition and Income in 2012)
## Net Interest Margin

### % of Avg. Earning Assets

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<tbody>
<tr>
<td>Banks Over $50B</td>
<td>3.71</td>
<td>3.48</td>
<td>3.25</td>
<td>3.08</td>
<td>2.95</td>
<td>2.93</td>
<td>2.93</td>
<td>3.03</td>
<td>2.95</td>
<td>2.91</td>
</tr>
<tr>
<td>Banks $10 - $50B</td>
<td>3.83</td>
<td>3.77</td>
<td>3.65</td>
<td>3.61</td>
<td>3.64</td>
<td>3.68</td>
<td>3.39</td>
<td>3.67</td>
<td>3.69</td>
<td>3.68</td>
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<tr>
<td>Banks Under $10B</td>
<td>3.87</td>
<td>3.79</td>
<td>3.75</td>
<td>3.75</td>
<td>3.64</td>
<td>3.64</td>
<td>3.78</td>
<td>3.62</td>
<td>3.63</td>
<td>3.64</td>
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<tr>
<td>All S&amp;Ls</td>
<td>0.00</td>
<td>3.49</td>
<td>3.39</td>
<td>3.46</td>
<td>3.51</td>
<td>3.69</td>
<td>3.48</td>
<td>3.36</td>
<td>3.71</td>
<td>3.66</td>
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</table>

* YTD = Interest Income Net of Interest Expense (YTD), as a percentage of average earning assets - Annualized

**Quarter = Interest Income Net of Interest Expense (Quarter), as a percentage of average earning assets (Quarter) - Annualized

Source: Reports of Condition and Income (S&Ls began reporting the Reports of Condition and Income in 2012)
## Noninterest Income

### % of Avg. Assets

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<tbody>
<tr>
<td>All Banks</td>
<td>1.73</td>
<td>1.75</td>
<td>1.72</td>
<td>1.61</td>
<td>1.57</td>
<td>1.50</td>
<td>1.58</td>
<td>1.53</td>
<td>1.46</td>
<td>1.54</td>
</tr>
<tr>
<td>Banks Over $50B</td>
<td>1.95</td>
<td>1.94</td>
<td>1.92</td>
<td>1.80</td>
<td>1.73</td>
<td>1.65</td>
<td>1.73</td>
<td>1.68</td>
<td>1.60</td>
<td>1.69</td>
</tr>
<tr>
<td>Banks $10 - $50B</td>
<td>1.11</td>
<td>1.06</td>
<td>1.03</td>
<td>1.01</td>
<td>1.06</td>
<td>1.03</td>
<td>1.13</td>
<td>1.03</td>
<td>1.00</td>
<td>1.05</td>
</tr>
<tr>
<td>Banks Under $10B</td>
<td>1.06</td>
<td>1.21</td>
<td>1.11</td>
<td>1.05</td>
<td>1.09</td>
<td>1.07</td>
<td>1.08</td>
<td>1.08</td>
<td>1.03</td>
<td>1.11</td>
</tr>
<tr>
<td>All S&amp;Ls</td>
<td>0.00</td>
<td>2.08</td>
<td>2.03</td>
<td>1.96</td>
<td>1.98</td>
<td>2.07</td>
<td>1.78</td>
<td>2.12</td>
<td>1.90</td>
<td>2.24</td>
</tr>
</tbody>
</table>

* YTD = Noninterest Income (YTD), as a percentage of average assets - Annualized
** Quarter = Noninterest Income (Quarter), as a percentage of average assets (Quarter) - Annualized

Source: Reports of Condition and Income (S&Ls began reporting the Reports of Condition and Income in 2012)
## Loan Growth

**YTD** = Total Loans minus previous year's total loan, as a percentage of previous year's total loans - Annualized

**Quarter** = Total Loans minus previous quarter's total loan, as a percentage of previous quarter's total - Quarterly

*Source: Reports of Condition and Income (S&Ls began reporting the Reports of Condition and Income in 2012)*

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</thead>
<tbody>
<tr>
<td>All Banks</td>
<td>1.77%</td>
<td>4.74%</td>
<td>2.95%</td>
<td>5.35%</td>
<td>7.14%</td>
<td>7.32%</td>
<td>1.20%</td>
<td>2.51%</td>
<td>1.31%</td>
<td>2.11%</td>
</tr>
<tr>
<td>Banks Over $50B</td>
<td>4.09%</td>
<td>5.80%</td>
<td>2.24%</td>
<td>3.38%</td>
<td>7.68%</td>
<td>7.39%</td>
<td>1.09%</td>
<td>3.07%</td>
<td>1.21%</td>
<td>1.83%</td>
</tr>
<tr>
<td>Banks $10 - $50B</td>
<td>-5.70%</td>
<td>3.40%</td>
<td>9.42%</td>
<td>17.17%</td>
<td>7.17%</td>
<td>13.72%</td>
<td>2.40%</td>
<td>-0.01%</td>
<td>3.87%</td>
<td>6.93%</td>
</tr>
<tr>
<td>Banks Under $10B</td>
<td>-2.51%</td>
<td>1.70%</td>
<td>2.89%</td>
<td>7.19%</td>
<td>5.31%</td>
<td>4.06%</td>
<td>1.01%</td>
<td>1.85%</td>
<td>0.45%</td>
<td>0.70%</td>
</tr>
<tr>
<td>All S&amp;Ls</td>
<td>0</td>
<td>0</td>
<td>-0.53%</td>
<td>3.58%</td>
<td>-2.18%</td>
<td>0.62%</td>
<td>0.15%</td>
<td>-0.04%</td>
<td>-0.48%</td>
<td>1.00%</td>
</tr>
</tbody>
</table>
Issues Present or on the Horizon

Loan Concentrations
Cybersecurity
Regulatory Compliance
Fintech
Loans Concentrations

Number of Concentrated Banks (All U.S. Banks)

* Ag Production and Farmland loans as a percentage of total loans greater than 25 and greater than 300 percent of total risk-based capital
* *Total CLD loans as a percentage of total risk-based capital greater than 300
***Total CRE (Excluding owner occupied properties) loans as a percentage of total risk-based capital greater than 300

Source: Reports of Condition and Income
Cybersecurity A Top Concern For Banks

*Respondents were asked to select up to three risk categories they were most concerned about. Survey includes 149 independent directors and senior executives of U.S. banks with more than $500 million in assets. Eighty percent represent institutions with between $500 million and $5 billion in assets. Source: BankDirector March 2016 Risk Practices Survey
Regulatory Compliance Timeline

Recent

- Flood: Interagency Statement on Biggert-Waters
- Truth In Lending (TIL): Loan Originator Compensation
- TIL: Ability to Repay Requirements
- TIL/Real Estate Settlement Procedures: TRID Implementation
- Home Mortgage Disclosure Act: New Data Reporting Requirements

New Rules

- Community Reinvestment Act: Updated Q&A
Regulatory Compliance Timeline

On The Horizon

New Rules

- Prepaid Cards
- Arbitration Clauses
- Payday and Deposit Advance Products
- Overdraft Protection Products
- Debt Collection Practices
- Business Lending Data Collection (Small and Women/Minority Owned Businesses)

*Per CFPB Rulemaking Agenda*
Fair Lending

- Continued review of fair lending regulatory compliance by consumer advocacy groups, federal banking agency, and other federal government agencies
- Department of Justice referrals based on concerns around...
  - Loan Underwriting
  - Loan Pricing
  - Credit Reporting
  - **Redlining**
Financial technology, aka fintech

- **Wiki Definition:** an economic industry composed of companies that use technology to make financial services more efficient. Financial technology companies...trying to disintermediate incumbent financial systems and challenge traditional corporations that are less reliant on software.
Take-Aways
**ISSUES TO CONSIDER**

- Greater profitability and operational efficiency remain a focus
- Asset concentrations pose a significant risk factor
- Bank leadership must ensure proper underwriting & loan portfolio management
- Aggressive attention to problem assets can mitigate losses
- Exceptional asset growth may signal future problems
- Engagement by board of directors and proactive risk management is critical
- Bank leadership must embrace relationship banking
- The regulatory compliance landscape continues to evolve
- A solid compliance risk management framework is critical
- Bank leadership should be preparing for the next Cybersecurity event
- Cybersecurity risk assessment tools are available
- Fintech represents important opportunities and threats to the banking industry
The best way to predict your future is to create it.

-Abraham Lincoln
Questions