

THE FUTURE OF BANKING

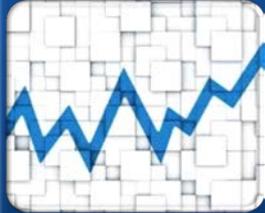
Porcia Block, Assistant Vice President
Supervision and Risk Management

September 29, 2016



FEDERAL RESERVE BANK *of* KANSAS CITY

TOPICS OF DISCUSSION



Recent Financial Industry
Trends



Issues Present or on the
Horizon



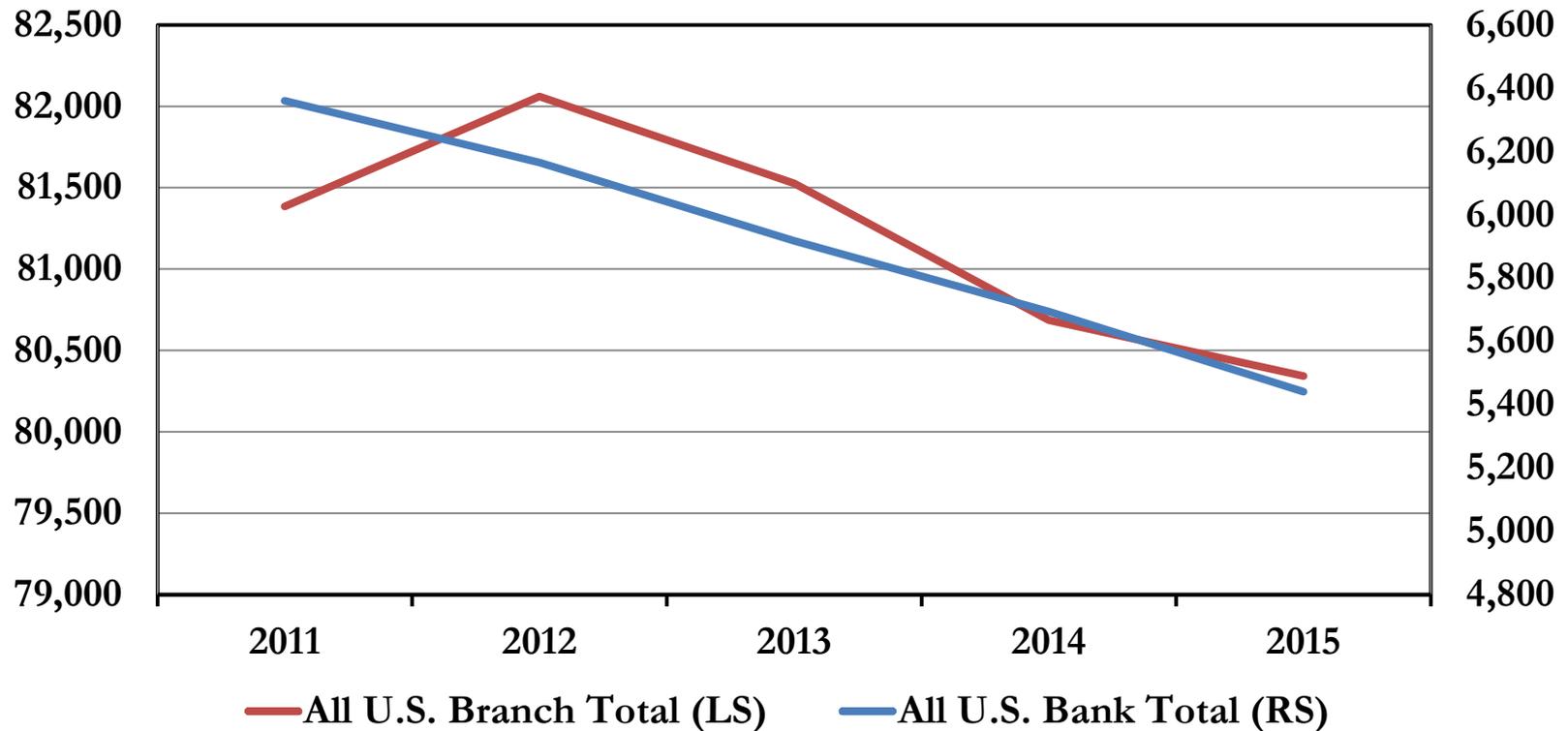
Take-Aways



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

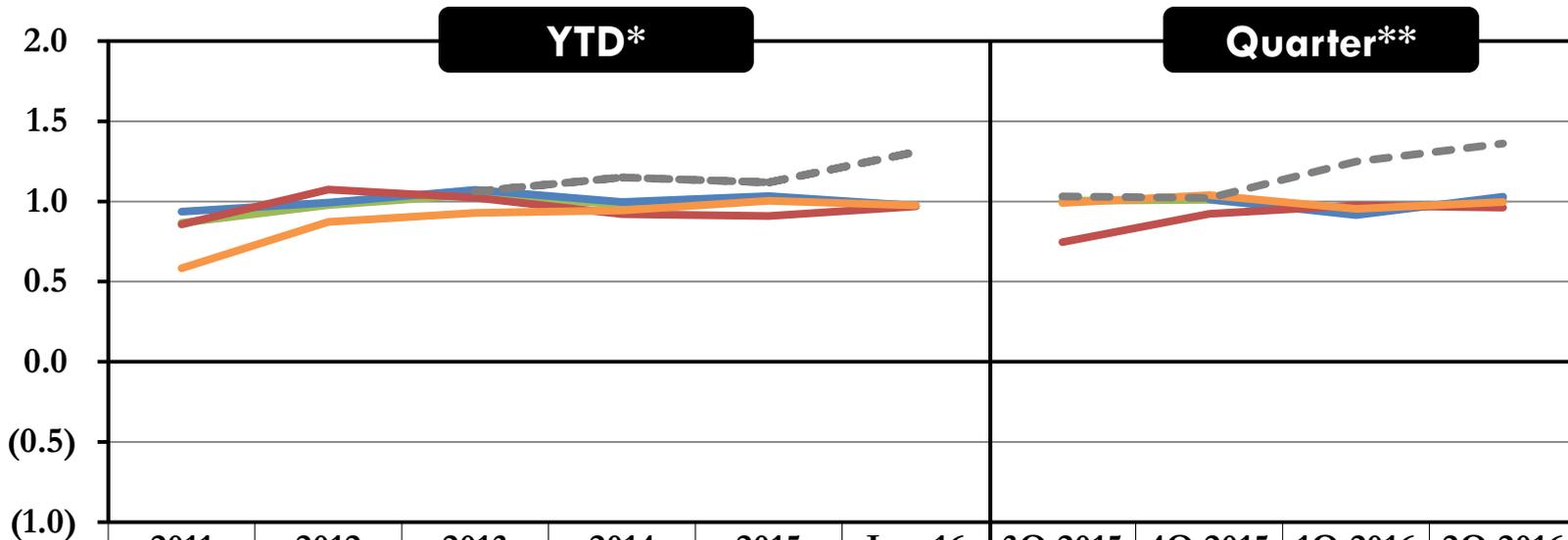


RETURN ON AVERAGE ASSETS

SUB S ADJUSTED

% of Avg. Assets

(All US Institutions)



	2011	2012	2013	2014	2015	Jun-16	3Q 2015	4Q 2015	1Q 2016	2Q 2016
All Banks	0.87	0.98	1.04	0.98	1.02	0.97	1.00	1.01	0.93	1.02
Banks Over \$50B	0.94	0.99	1.07	1.00	1.03	0.97	1.03	1.01	0.92	1.03
Banks \$10 - \$50B	0.86	1.07	1.02	0.92	0.91	0.97	0.75	0.92	0.98	0.96
Banks Under \$10B	0.58	0.87	0.93	0.94	1.00	0.98	0.99	1.04	0.95	1.00
All S&Ls	0.00	1.04	1.06	1.15	1.12	1.31	1.03	1.02	1.25	1.36

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

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

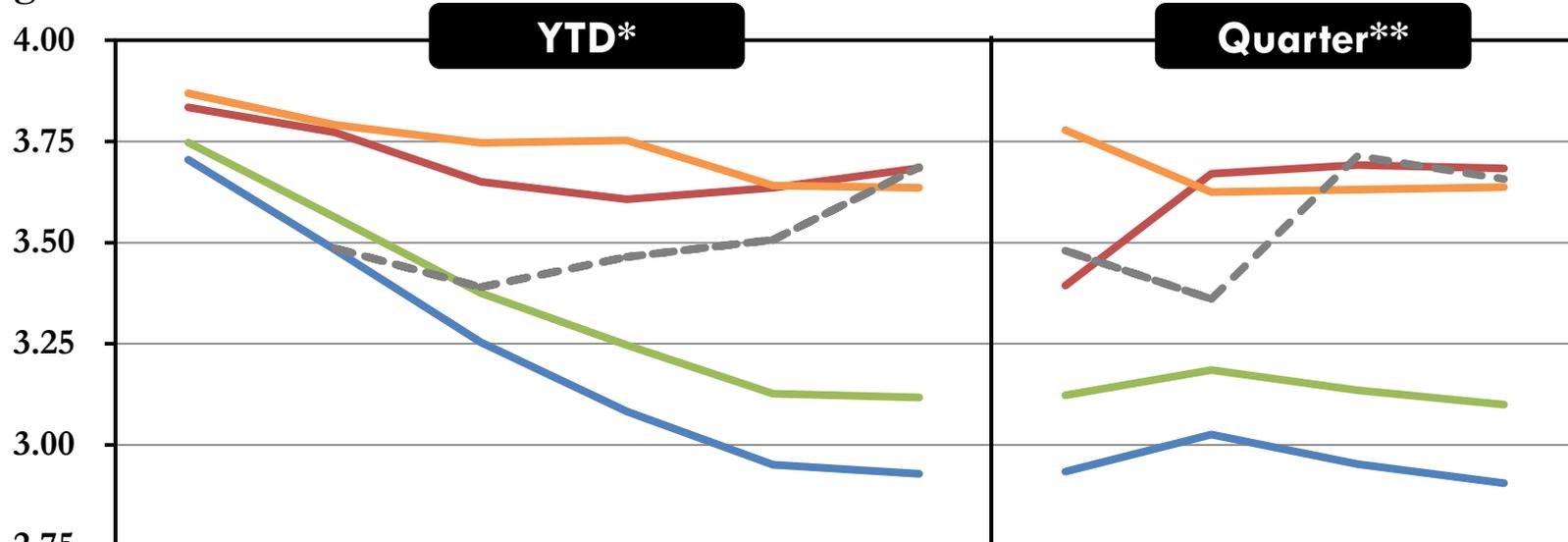
Note: Sub S adjusted Net Income

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



	2011	2012	2013	2014	2015	Jun-16	3Q 2015	4Q 2015	1Q 2016	2Q 2016
All Banks	3.75	3.56	3.37	3.25	3.13	3.12	3.12	3.19	3.14	3.10
Banks Over \$50B	3.71	3.48	3.25	3.08	2.95	2.93	2.93	3.03	2.95	2.91
Banks \$10 - \$50B	3.83	3.77	3.65	3.61	3.64	3.68	3.39	3.67	3.69	3.68
Banks Under \$10B	3.87	3.79	3.75	3.75	3.64	3.64	3.78	3.62	3.63	3.64
All S&Ls	0.00	3.49	3.39	3.46	3.51	3.69	3.48	3.36	3.71	3.66

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

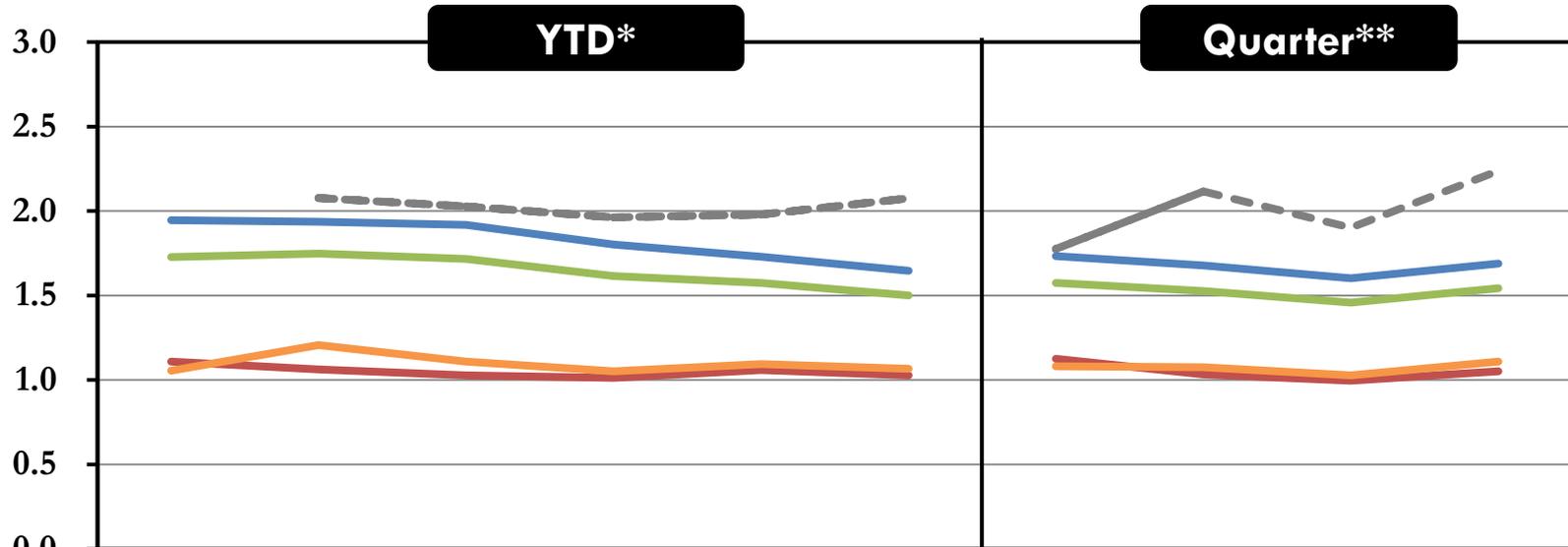
** Quarter = Interest Income Net of Interest Expense (Quarter), as a percentage of average earning assets (Quarter) - Annualized

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



NONINTEREST INCOME

% of Avg. Assets



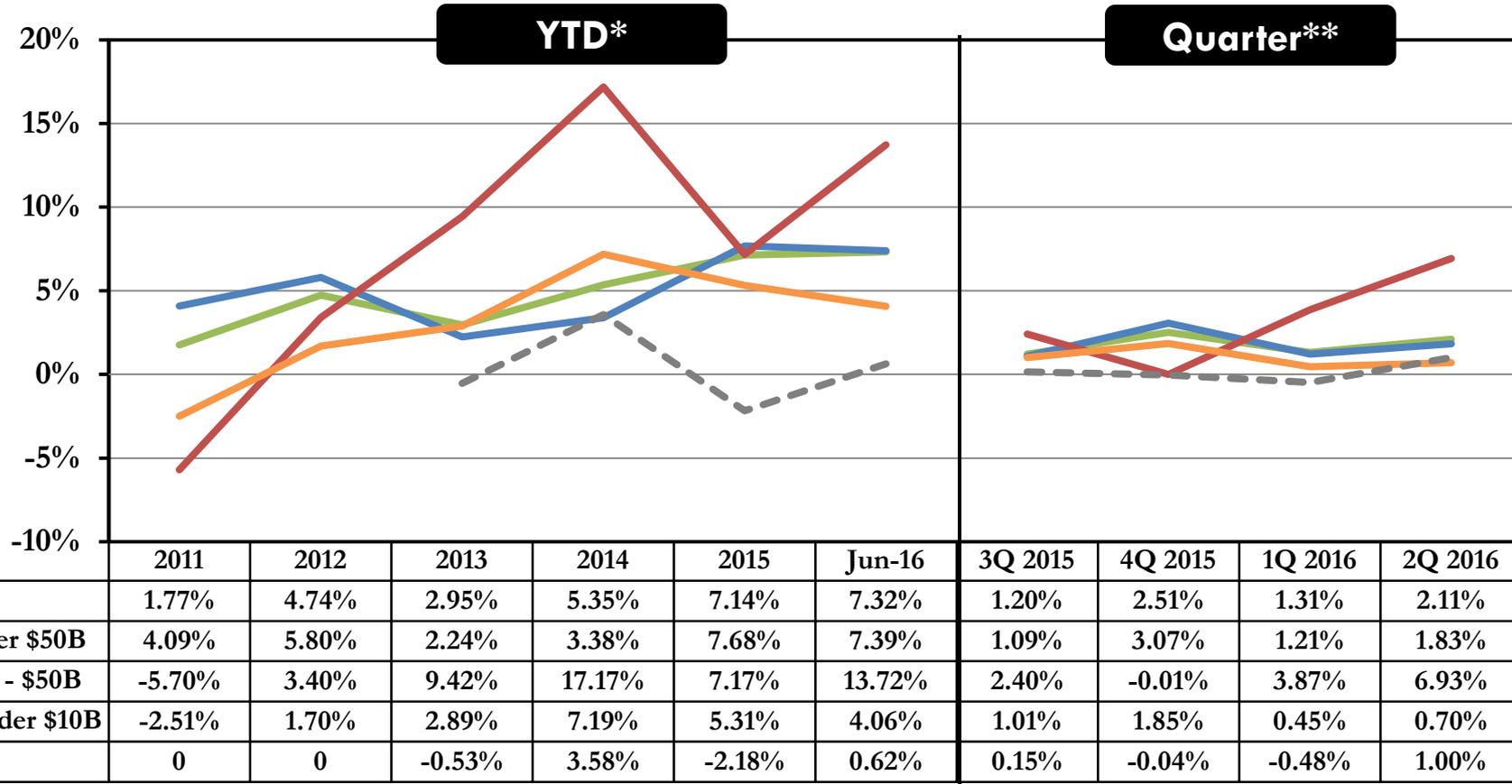
	2011	2012	2013	2014	2015	Jun-16	3Q 2015	4Q 2015	1Q 2016	2Q 2016
All Banks	1.73	1.75	1.72	1.61	1.57	1.50	1.58	1.53	1.46	1.54
Banks Over \$50B	1.95	1.94	1.92	1.80	1.73	1.65	1.73	1.68	1.60	1.69
Banks \$10 - \$50B	1.11	1.06	1.03	1.01	1.06	1.03	1.13	1.03	1.00	1.05
Banks Under \$10B	1.06	1.21	1.11	1.05	1.09	1.07	1.08	1.08	1.03	1.11
All S&Ls	0.00	2.08	2.03	1.96	1.98	2.07	1.78	2.12	1.90	2.24

* 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)

Issues Present or on the Horizon

Loan Concentrations

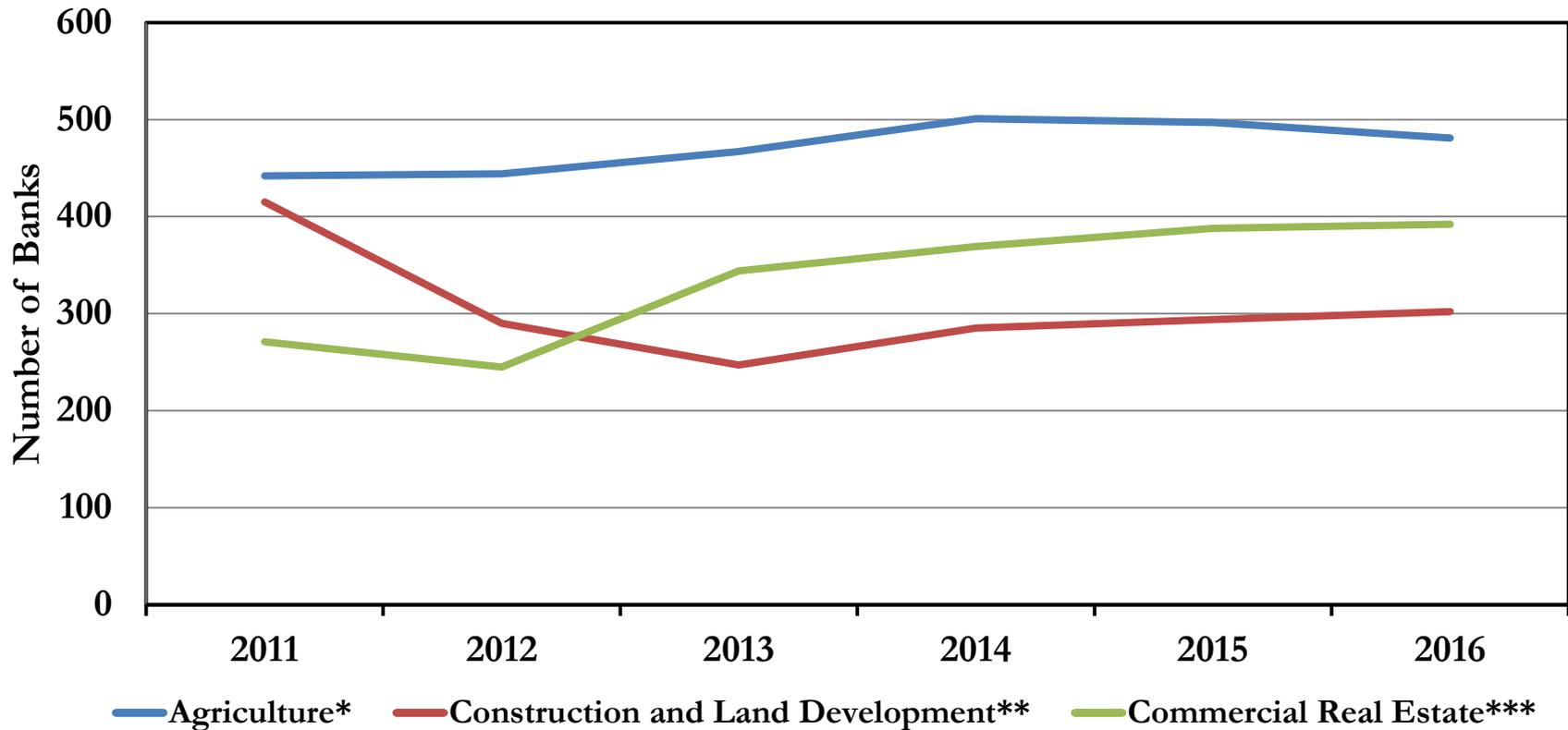
Cybersecurity

Regulatory Compliance

Fintech

LOAN 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

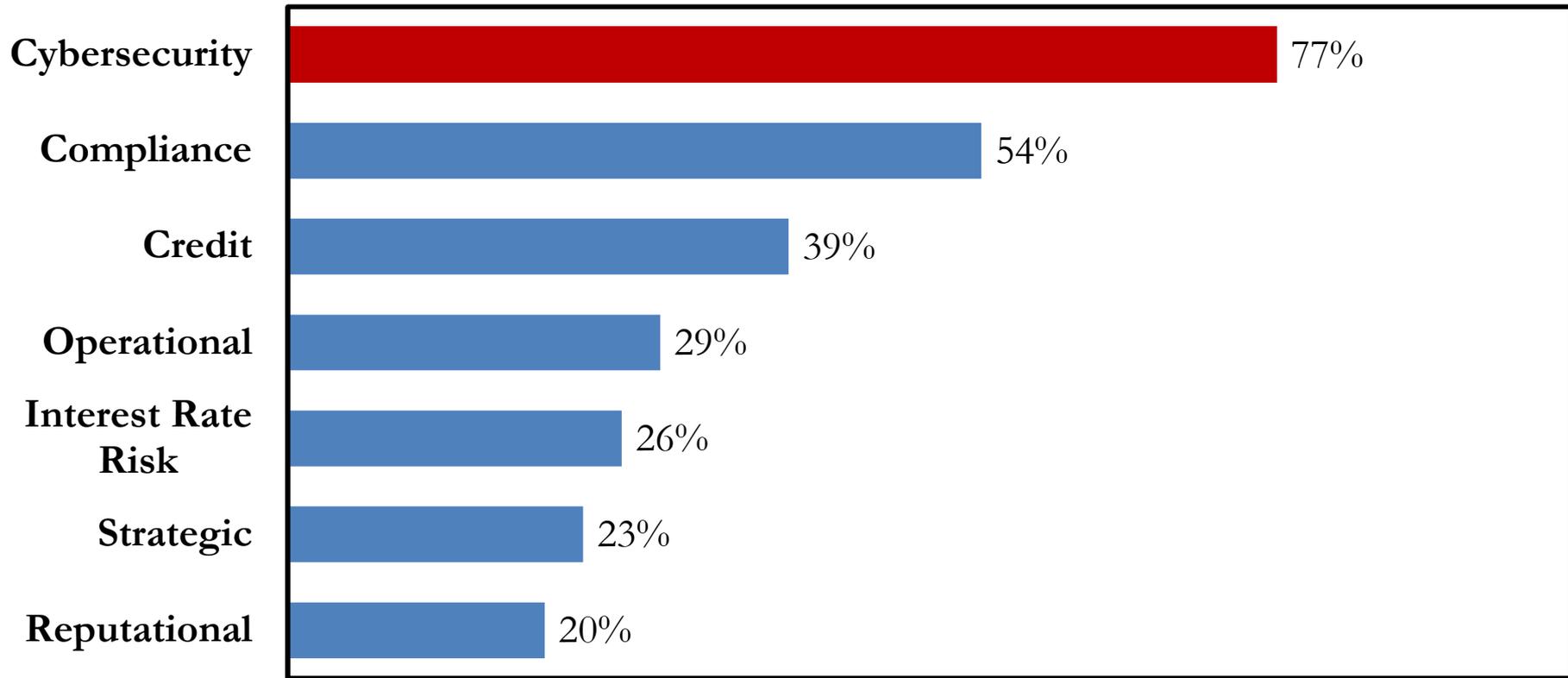
** Total CLD loans as a percentage of total risk-based capital greater than 300

*** 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



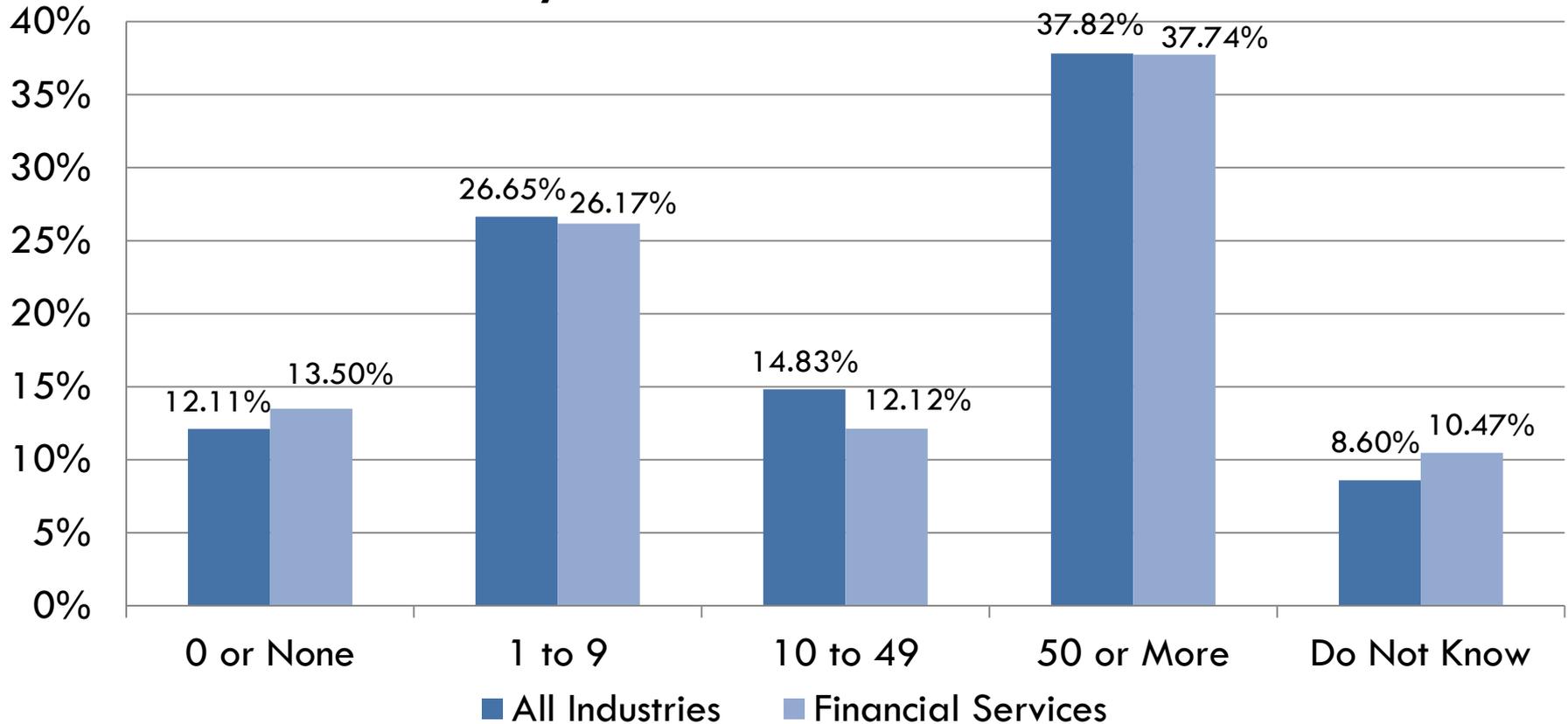
**Respondents were asked to select up to three risk categories they were most concerned about. Survey includes 149 independent directors and senior executives of U.S. banks with more than \$500 million in assets. Eighty percent represent institutions with between \$500 million and \$5 billion in assets.*

Source: BankDirector March 2016 Risk Practices Survey



SECURITY INCIDENTS

Number of Security Incidents Detected in the Past 12 Months



Source: *The Global State of Information Security Survey 2016*



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



Community Reinvestment Act: Updated Q&A

New Rules

Regulatory Compliance Timeline

On The Horizon



New Rules



Prepaid Cards



Arbitration Clauses



Payday and Deposit Advance Products



Overdraft Protection Products



Debt Collection Practices

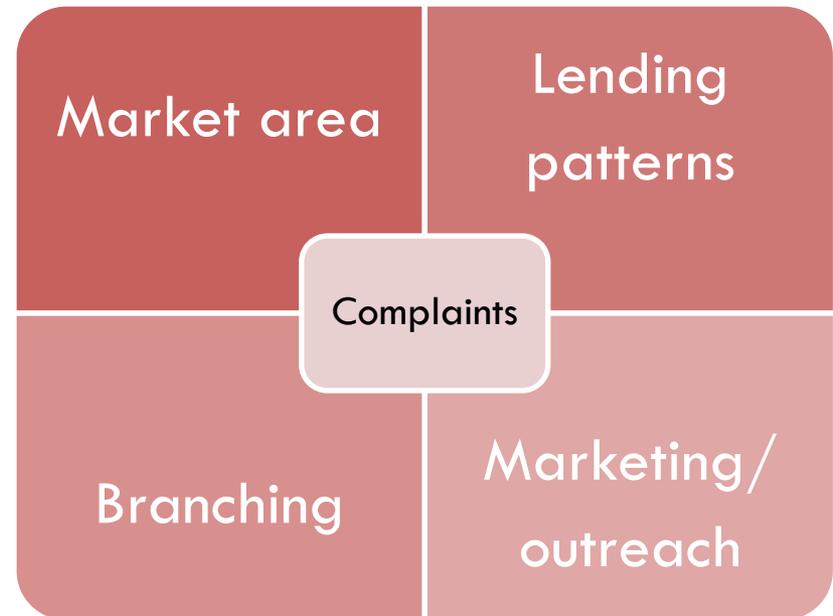


Business Lending Data Collection (Small and Women/Minority Owned Businesses)

*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

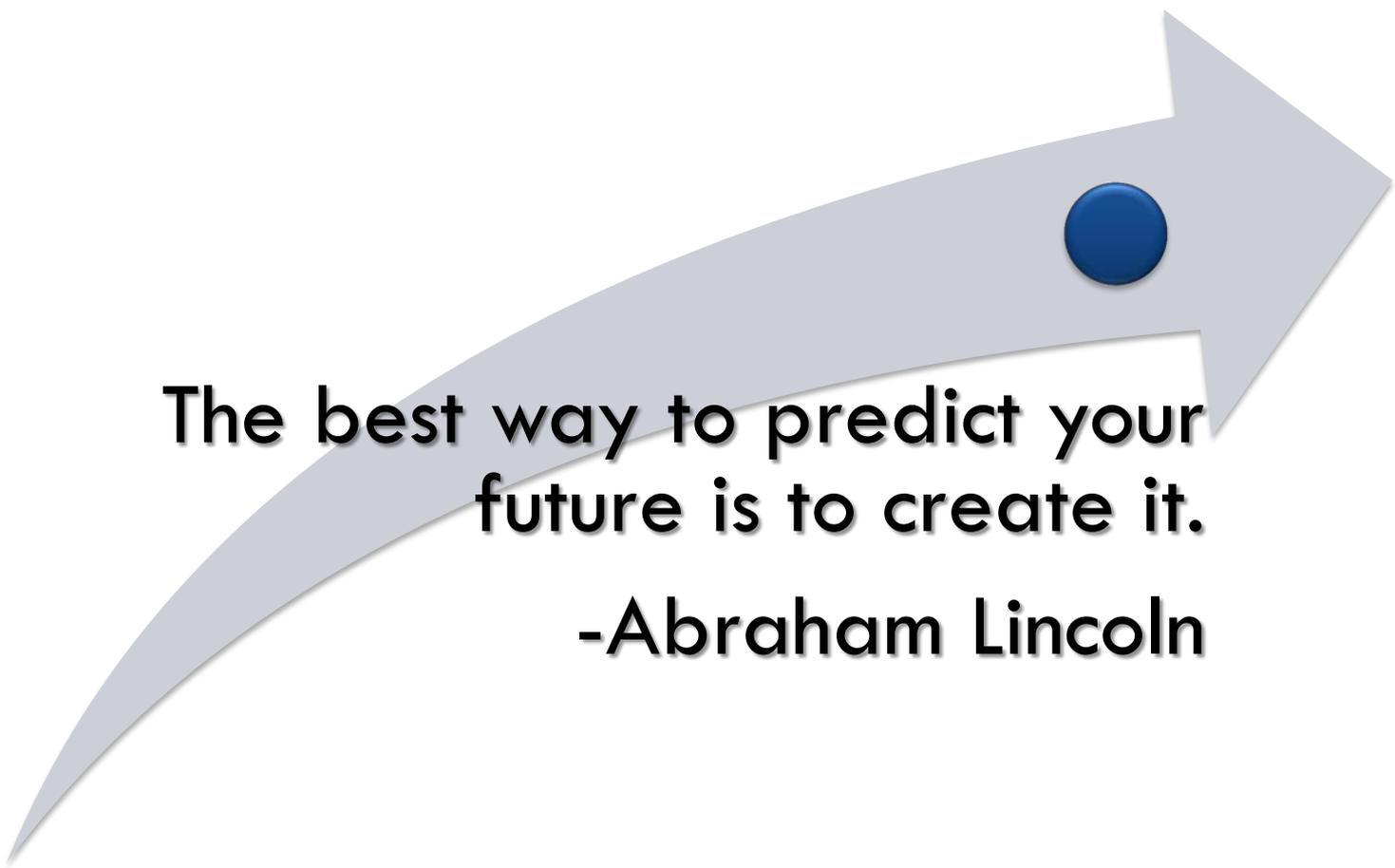
A solid compliance risk management framework is critical

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
