Banking and the Economy: A Forum for Women in Banking

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Federal Reserve Bank of Kansas City
AGENDA

• Banking conditions

• Emerging supervisory risks

• Policy and regulatory changes
EARNINGS HAVE PICKED UP

Net Income as Percentage of Avg. Assets

Source: Reports of Condition and Income (YTD)
NIM Improving as Interest Rates Rise

Net Interest Income as Percentage of Avg. Earning Assets

Source: Reports of Condition and Income (YTD)

Federal Reserve Bank of Kansas City
**But funding costs are also rising**

Percentage of average earning assets, Oklahoma banks

Interest income (left scale)

Interest expense (right scale)

FOMC rate increases

Source: Reports of Condition and Income
CAPITAL LEVELS INCREASING

Tier 1 Capital as a Percentage of Average Assets (Tier 1 Leverage ratio)

Source: Reports of Condition and Income
Noncurrent Loan Levels Down

Noncurrent Loans as a Percentage of Total Loans

Source: Reports of Condition and Income
LOAN GROWTH HAS SLOWED

Year-over-Year Loan Growth (Percentage)

Source: Reports of Condition and Income (Year-over-Year)
Conditions are good….so what are the Key Supervisory Risks?

**LIQUIDITY RISK**

Loan growth continues to outpace deposit growth

**COMMERCIAL REAL ESTATE**

Persistent growth coupled with increasing competition may lead banks to assume greater credit risk

**AGRICULTURE**

Declining farm incomes have driven increased demand for agricultural loans

**CYBERSECURITY**

Recent attacks and credit card breaches have identified cybersecurity vulnerabilities in the financial industry
EMERGING RISK: LIQUIDITY

Loans to Deposits

Source: Reports of Condition and Income

District Banks

All U.S. Banks

Oklahoma Banks

Federal Reserve Bank of Kansas City
Loan growth has outpaced deposit growth, fueling a “funding gap”

Cumulative year-over-year percentage change, Oklahoma banks (Q1 2015 = 0)

Source: Reports of Condition and Income
This trend is magnified for concentrated banks

Cumulative year-over-year percentage change, Oklahoma CRE banks (Q1 2015 = 0)

Source: Reports of Condition and Income
EMERGING RISK: LIQUIDITY

Liquid Assets as a Percentage of Total Assets

Source: Reports of Condition and Income
Liquid asset cushions have declined to support loan growth

Percentage of assets, Oklahoma banks

Source: Reports of Condition and Income
EMERGING RISK: CRE LOAN VOLUME

Index 4Q 2009 = 100

Source: Reports of Condition and Income
EMERGING RISK: AGRICULTURAL CONCENTRATIONS ARE INCREASING

Percentage of risk-based capital

Source: Reports of Condition and Income

FEDERAL RESERVE BANK OF KANSAS CITY
EMERGING RISK: AG SECTOR LOAN VOLUME

Volume by Agricultural Loan Type, in $ Billions, Oklahoma Banks

Source: Reports of Condition and Income
EMERGING RISK: AGRICULTURAL DELINQUENCIES

Past Due Loans as a Percentage of Loan Type, Oklahoma Banks

Source: Reports of Condition and Income
Policy and Compliance Changes

• Economic Growth, Regulatory Relief and Consumer Protection Act ("Crapo Act")

• Role of Supervisory Guidance

• Marijuana Banking
OUTREACH RESOURCES

CONCENTRATION LENDING RISK MANAGEMENT

SR 07-1: Interagency Guidance on Concentrations in Commercial Real Estate

SR 11-14: Supervisory Expectations for Risk Management of Agricultural Credit Risk

REGULATORY UPDATES

THE FED TELECONFERENCE PROGRAM

Consumer Compliance Supervision Bulletin - July 2018
Highlights of current issues in Federal Reserve Board consumer compliance supervision
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