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Looking at Banking in 2015, Ahead to 2016 in "ViewPoint"

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Here we are at the end of another year—77 months into the economic expansion, the fourth-longest expansion since 1945. Will this expansion continue into 2016? What's ahead for the banking industry? See the "Upcoming Events" section below for a forum we're sponsoring in February that will hopefully provide some insights into these and similar questions.

In this edition of "ViewPoint," we take a look at two topics, both of which could have an impact on banks: financial technology innovations, which may provide growth opportunities for banks, and the new Truth in Lending-Real Estate Settlement Procedures Act Integrated Disclosure Rule (TRID), which will entail additional attention to compliance. First, however, we review recent banking trends in our recurring [State of the District](#) section.

State of the District

At the end of the third quarter, the median return on average assets (ROAA) was 0.89 percent, a 3 basis point improvement from the prior year. Noninterest income, in part the result of fees generated by an increase in mortgage production, continues to represent a significant component in the improvement of ROAA. Although loan growth slowed nationally, the Sixth District reported strong results in the third quarter, with year-over-year growth of roughly 10 percent. Even as credit quality has improved, nonperforming assets and other real estate owned remain elevated. Deposit balances are stable. However, it is unclear what impact an increase in rates may have on the balance of nonmaturity deposits currently on hand. On an aggregate basis, capital increased at community banks during the prior period due to earnings and business combinations. In sum, the challenging but steady earnings environment continues.

Financial technology (FinTech)

As we all know, an explosion of new technology driving banking innovations has taken place, many coming from financial technology (FinTech) firms. Industry observers are watching closely to see how the relationship between such firms and bank develops: will they be fierce competitors or collaborate in a manner advantageous to both? Our first Spotlight article, which will be published soon, considers this question.

Truth in Lending-Real Estate Settlement Procedures Act Integrated Disclosure Rule

After several delays, the Consumer Financial Protection Bureau's TRID was implemented on October 3, 2015. As required by

Dodd-Frank, the rule consolidates Regulation Z's truth-in-lending disclosures with the Real Estate Settlement Procedures Act's statement. Our second Spotlight article, coming in early 2016, discusses the requirements of the rule, the Fed's supervisory expectations, and industry feedback.

Regulatory update

On the regulatory front, the Board in November approved changes to its capital plan and stress-testing rules regarding the timing for several regulatory requirements that have yet to be integrated into the capital plan and stress-testing framework. The changes take effect for the 2016 cycle.

Looking ahead to 2016, the Board will remain focused on tailoring supervision according to the size, scope, and risk of an institution's activities and is considering additional scaling of supervisory expectations and regulatory requirements to reduce the regulatory burden. The Financial Accounting Standards Board is expected to adopt the Current Expected Credit Loss model in the first quarter, which will have significant implications for the industry. The Board and other regulators have been working together to anticipate the effects of the new approach and prepare to offer guidance. Also on the agenda for 2016 is a renewed proposal of the incentive compensation rule, which was originally released in March 2011.

Upcoming events

As I mentioned above, mark your calendars for our annual Banking Outlook Conference, which will be held on Thursday, February 25, 2016. The agenda includes discussion of the banking outlook, Basel III and its impact on commercial real estate, evolving risk management practices, and a view from the regulators, featuring a panel of financial regulators from various agencies in the Sixth District. I encourage you to email BankingOutlookConference@atl.frb.org for more information about registration.

As always, I welcome your comments or questions. Please share your feedback with me at ViewPoint@atl.frb.org.



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