BANKING & FINANCE

Bank Regulation Updates, Upcoming Events Discussed in New "ViewPoint"

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Change is inevitable—and can be interesting. And I have no doubt that 2017 will be no exception. As we all know, the landscape in Washington DC is changing significantly. Closer to home, the Atlanta Fed is also undergoing change. At the end of February, Dennis Lockhart, our president, will step down. Dennis joined the Fed in 2007 and has seen us through the downturn and recovery and all of the resulting changes in supervision and regulation. In February, he will reflect on his time at the Fed and provide his unique perspective at our annual Banking Outlook Conference. Information on the agenda and registration for this special event is included below. This edition of *Economy Matters*' "ViewPoint" also features two Spotlight articles. The first article covers sound risk management practices for commercial real estate (CRE) lenders. The second article takes a look at current conditions in auto lending. First, as always, we review recent banking trends in the State of the District.

State of the District
In the third quarter of 2016, earnings continued to improve even as the net interest margin (NIM) remained flat. On a median basis, return on average assets (ROAA) for Sixth District community banks increased, improving by 4 basis points from the prior year to 0.93 percent, its highest level in nine years. Asset quality remains steady at most banks. Net charge-offs, as a percentage of average loans, was 0.17 percent in the third quarter of 2016, the same as the prior year. The coverage ratio is near 100 percent, the highest level in nine years. The commercial and industrial (C&I) and CRE portfolios are the only portfolios in which nonperforming loans increased year over year. Conditions in these segments continue to warrant attention. Capital levels are stable and liquidity at community banks in the Sixth District is little changed from the prior year as well. However, institutions should be mindful of any effects on liquidity, asset quality, and NIM from the recent increase in interest rates.

Sound risk management and CRE lending
The key to successful CRE lending is the development of a robust risk management framework that includes strong underwriting standards and credit administration practices. In December 2015, the agencies issued a reminder on supervisory expectations for banks with CRE concentrations. Our first Spotlight article takes a deeper look at supervisory guidance on CRE risk management practices, including a review of expectations for banks considering CRE growth strategies.

Auto lending

Vehicle sales and the financing behind those sales have been a positive driver for consumer spending in the last four years. So far, delinquencies on car loans remain historically low, but overall low delinquencies may be masking a troubling trend with subprime borrowers. The value of the collateral supporting auto loans may also be questionable as more consumers roll unpaid balances into new loans. Our second Spotlight article takes a look at conditions in the auto lending market.

Regulatory update

Several regulatory developments occurred in the last few weeks of 2016. Two new rules were adopted that affect large banking organizations: a final rule aimed at improving the resolvability of the largest firms, and a new mandatory liquidity disclosure requirement for firms with over $50 billion in assets. Additionally, the agencies issued frequently asked questions on the new current expected credit losses (CECL) accounting standards, which apply to all banks, savings associations, credit unions, and financial institution holding companies regardless of size that file regulatory reports which conform to U.S. generally accepted accounting principles (GAAP).

Long term debt and total loss absorbency requirements: On December 15, the Fed adopted a final rule requiring domestic firms identified as global systemically important banks (GSIBs) and the U.S. operations of foreign GSIBs to meet a new long-term debt requirement and a new "total loss-absorbing capacity," or TLAC, requirement. Requiring a GSIB to maintain sufficient amounts of long-term debt, which can be converted to equity during resolution, will strengthen the ability of government authorities to resolve the largest firms in an orderly way by providing a source of private capital to support the firm's critical operations during resolution. Firms must comply with these requirements by January 1, 2019.

Liquidity disclosure rule: A rule requiring large banking organizations (those with consolidated assets of $50 billion or more and certain depository institution subsidiaries) to publicly disclose certain quantitative liquidity risk metrics was approved on December 19. The disclosures, which will include information on institutions' liquidity coverage ratios (LCRs), will provide reliable and timely information for evaluating the financial strength and resiliency of the nation's largest banking organizations. Compliance dates range from April 2017 through October 2018.

Current expected credit losses methodology (CECL) FAQs: On December 19, frequently asked questions (FAQs) were issued on the new accounting standard for credit losses recently adopted by the Financial Accounting Standards Board (FASB). Institutions are encouraged to check the Board's public website for new FAQs or revisions to previously issued FAQs.

Upcoming events

Mark your calendars for our annual Banking Outlook Conference, which will be held on February 23, 2017. The theme is "Looking Back and Shifting Forward." In addition to Dennis Lockhart's reflections on his time as Atlanta Reserve Bank president, the conference will include a review of economic conditions and consider regulation in the new political environment. The keynote address is titled "A Generational Shift: Tastes and Expectations for Customer and Employee Engagement." A bankers' panel will also discuss the regional banking outlook. I encourage you to look at the complete agenda and registration information.

Remember to check back here to read the articles scheduled to be published later this quarter. As always, I welcome your comments or questions. Please share your feedback with me at ViewPoint@atl.frb.org.

All the best in 2017!

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