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

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By Michael Johnson, Executive Vice President
Supervision & Regulation
Federal Reserve Bank of Atlanta

First of all, thanks to everyone who joined us for the 2017 Banking Outlook Conference, which was held on February 23. For those who were unable to attend, I highly recommend taking a look the videos and speaker presentations on the Bank's website and at our first Spotlight article, which provides a recap of the conference. The theme, "Looking Back and Shifting Forward," was particularly appropriate, given the changing of the guard both here at the Bank and in Washington. Speaking of the changing of the guard, we are pleased to welcome Raphael Bostic as the next president of the Atlanta Fed. He brings a wealth of experience in academia and public policy and will be an asset to the District!

This quarter, "ViewPoint "features three Spotlight articles. In addition to the recap of the conference, this edition of "ViewPoint" offers a review of supervisory expectations for institutions with $10 billion or more in total consolidated assets, as well as a look at consumer lending trends. As always, we begin with our recurring feature, State of the District, for an overview of community banking conditions.

State of the District
The median return on average assets (ROAA) for Sixth District Community Banks was flat in 2016 compared to 2015 results. In the fourth quarter, ROAA was 0.87 percent, 6 basis points lower than the prior quarter. The percentage of banks with negative ROAAs continued to increase slightly, the first consecutive quarter increase since 2012, as the net interest margin declined by 3 basis points to 3.84 percent. Despite two rate increases in thirteen months, the median yield on loans in the District generally declined throughout 2016, ending slightly below 2015 levels, and rates on deposits increased slightly, as banks sought to retain funds. Given the increase in interest rates this month, this trend bears watching. Overall asset quality remained stable in the fourth quarter.

On a median basis, less than 1 percent of loans were past due 90 days or more, a trend that has continued for seven quarters. Although the median on hand liquidity ratio fell to its lowest level in five years, it still remains well above precrisis levels. Capital remains strong—the median tier 1 common capital ratio at Sixth District community banks exceeds 15 percent.

Although asset quality appears strong, the impact of the fall in energy prices is still being felt in the western area of the District and, as always, the level of commercial real estate exposure continues to be monitored. As well, analysts believe that banks in faster-growing regions, including the Southeast, may find it difficult to create a lag between increasing loan and deposit rates as normalization continues. The adjustment to increasing rates in 2017 may present challenges to earnings, liquidity and asset quality and will warrant close attention.

Recap of the 2017 Banking Outlook Conference
The 2017 Banking Outlook Conference included former Atlanta Fed President Dennis Lockhart's insider perspective on the Federal Reserve's response to the financial crisis, current conditions in the industry, and the future of central banking and supervision and regulation. Subsequent presentations built on his perspective. Speakers also discussed the economic landscape, including reasons for optimism, with cautionary notes on balancing policy ambition with policy discipline, health care costs, immigration, and trade. The day ended with a discussion of "transformative trends" in the global economic and political environments. The conference was both informative and entertaining, and I am already looking forward to next year! More information on the conference is included in the first Spotlight article.

Supervisory framework for firms with $10 billion or more in assets
As the economy improves, an increasing number of banks are crossing the $10 billion asset threshold, and many more have growth strategies. Consequently, it is important to build awareness of the supervisory expectations and requirements that accompany expansion. This Spotlight article provides an overview of the supervisory framework for institutions with $10 billion or more in total consolidated assets.

Consumer lending trends
According to the latest Federal Reserve Bank of New York reporting, total consumer household debt, excluding that secured by real estate, exceeded $4.1 trillion as of December 31, 2016. Depository institutions hold approximately 40 percent of that debt. Our Spotlight takes a look at trends in consumer lending markets, including growth, credit quality, and the impact of other financial providers.

Regulatory update
On March 21, the bank regulatory agencies issued a joint report to Congress detailing their review of rules affecting financial institutions, as required under the Economic Growth and Regulatory Paperwork Reduction Act of 1996. The review is conducted every ten years. Comments were requested from the industry, and six public outreach meetings were held across the country to solicit input.

The review focused particularly on the effect of regulations on smaller institutions. As a result of this effort, the agencies have taken or plan to take several joint actions, including:

- simplifying regulatory capital rules for community banks and savings associations,
- streamlining reports of condition and income (call reports),
- increasing the appraisal threshold for commercial real estate loans, and
- expanding the number of institutions eligible for less frequent examination cycles.

Stayed tuned for more news on regulatory reduction efforts.

Upcoming events
Remember to check back to read the Spotlight articles that are 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.

Continued success in 2017,

Michael E. Johnson
Executive Vice President, Supervision & Regulation
The Federal Reserve Bank of Atlanta