BANKING & FINANCE

Banking Conditions, Regulatory Updates Discussed in New "ViewPoint"

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It is hard to believe that we are half way through 2017! In my last letter, I mentioned the changing of the guard at the Bank and in Washington DC. Change continues with the departure of several key staff members involved in supervision at the Board of Governors, as well as the planned retirement of general counsel Scott Alvarez. In addition, three Board vacancies remain, and we await the appointment of a vice chairman for supervision. New leaders for the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation have been nominated.

Here at the Bank, our new president, Raphael Bostic, is settling in and I am pleased to report that he will be joining us for an upcoming Viewpoint Live. Additional details will be provided as we get closer to the event.

This quarter, "ViewPoint" features two Spotlight articles. The first article includes a review of developments in the retail sector and their implications for banks. The second Spotlight article takes a look at the new consumer compliance rating system. First, we begin with our recurring feature, State of the District for an overview of community banking conditions.

State of the District
In the first quarter, the return on average assets increased slightly, from 0.87 percent to 0.88 percent, despite a continued decline in the net interest margin. Nationally, community bank loan growth was negative. In the Sixth District, loan growth continued to slow on a quarterly basis and was barely positive.

Asset quality measures remain strong, and nonaccrual loans have fallen to the lowest level in nearly 10 years. As a result, the coverage ratio has risen to more than 100 percent. However, the level of commercial real estate (CRE) lending continues to warrant attention. CRE concentration levels have drifted upward to the point that the median level for all banks in the District is approaching precrisis levels. Energy and healthcare exposures are also being monitored.

Capital is stable. The median tier 1 common capital ratio at community banks in the Sixth District still hovers around 15 percent. Liquidity on hand improved slightly during the quarter. As noted last quarter, adjusting to increasing rates may prove challenging.

A key risk for banks is the uncertainty surrounding deposit mix migration.

The retail sector
E-commerce retailers have made great inroads into disrupting the consumers' purchasing habits at the local neighborhood bricks-and-mortar retailer. Retailers burdened by the high costs of premium locations are struggling to adapt to the changing environment. Some analysts expect that retail will replace energy as the most stressed sector. The first Spotlight article takes a look at the connection between traditional retailers and banks.

Consumer compliance rating system
The second Spotlight article focuses on the new consumer compliance rating system, which is used to evaluate financial institutions' adherence to consumer compliance requirements. The system was changed to better reflect current supervisory approaches and fully align with current risk-based, tailored-examination processes. The revisions were not developed to set new or higher supervisory expectations for financial institutions, and their adoption is not expected to represent additional regulatory burden. Federal Reserve examiners are using the new system on all consumer compliance examinations that began on or after March 31, 2017.

Regulatory update
Given all of the proposals under discussion in Washington, many people are asking what is going to happen with supervision and regulation. Regardless of speculation, we continue to work to ensure the appropriate level of supervision, using a risk-focused approach to target examination resources.

Interagency advisory on appraiser availability
During the agencies' Economic Growth and Regulatory Paperwork Reduction Act review of regulations, concerns were expressed regarding the availability of qualified appraisers, particularly in rural areas. On May 31, in response to these concerns, the agencies issued an advisory that offers alternatives to increase the availability of state-certified or licensed appraisers in areas facing shortages. You can read details about the advisory here.

Upcoming events
Remember to check back here for details on our plans for ViewPoint Live with President Bostic and to read the 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.

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