BANKING & FINANCE

Banking Conditions, Regulatory Updates Discussed in New "ViewPoint"

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

As is often the case, the first three months of the year have flown by.

A highlight of the first quarter was our annual Banking Outlook Conference. Thanks to all of you who joined us for a very informative day! The conference opened with an interesting discussion of current economic conditions (can this 10-year recovery continue?), followed by an accounting update, including reflections on implementing the Current Expected Credit Loss (CECL) requirements.

Eric Belsky, the director of the Division of Consumer and Community Affairs at the Board of Governors, shared his perspective on consumer compliance and the importance of vendor risk management, reminding the audience that compliance cannot be outsourced and that consumer protections must be in place before firms add new products.

Our own President Raphael Bostic was the luncheon keynote speaker. He offered his views on the current state of supervision and regulation and on the importance of scalable supervision. He also shared his efforts to learn more about the District, with particular emphasis on exploring the needs of rural areas, as well as the Reserve Bank's plans for encouraging economic development. Finally, President Bostic reflected on the meaning and value of diversity at the Fed and encouraged others to consider the role of diversity in their environment.

The afternoon sessions started with a banker's panel organized by the Graduate School of Banking at Louisiana State University. The panel discussed tools that can be used to assist in risk management. Bankers shared their views on the value of stress testing in managing commercial real estate (CRE) concentrations and in scenario analyses of cyberattacks. The conference wrapped up with a look at commercial and residential real estate after the crisis, prepared by our experts, Brian Bailey and Domonic Purviance.

A recap of the conference will be posted on our website. Also, it's not too early to mark your calendars for the next Banking Outlook Conference, to be held on February 28, 2019.

In addition to our regular feature, State of the District, and a recap of the Banking Outlook Conference, we are preparing articles on the value of the bank holding company business model and an update on residential real estate in the Southeast. First, we review the State of the District.

State of the District

The median return on average assets (ROAA) of banks in the Sixth District declined from a postcrisis high of 0.97 percent in the third quarter to 0.70 percent in the fourth quarter, primarily due to nonrecurring write-offs of deferred tax assets precipitated by the recent change in tax laws. Setting aside the impact of deferred tax assets, banks in the District generally benefited from changes in interest rates. The median net interest margin (NIM) in the fourth quarter was 3.99 percent, the highest margin since the beginning of the financial crisis nearly a decade ago. An increase in the volume of interest-bearing assets was the primary driver of the higher NIM. Asset quality also remains stable. Looking at potential emerging risks, in aggregate, for the first time in three years, the level of CRE concentrations at community banks increased notably. In addition, though well below levels seen in the crisis, delinquencies in credit card portfolios are growing.

Although we are closely watching potential changes in deposit mix as interest rates rise, the median loans-to-core deposits ratio is still favorable at 84 percent. Capital levels remain strong; approximately 97 percent of banks in the District are deemed well capitalized. Although conditions remain stable, as always, banks must remain focused on credit fundamentals, interest rate risk, and lessons learned in the crisis.

Regulatory Update

In early January, the Board requested comment on proposed guidance on risk management for firms with $50 billion or more in total consolidated assets. This proposal is intended to be implemented as part of the new rating system for large financial institutions that is also under consideration. The guidance includes principles focused on ensuring firms manage risk prudently, consistent with their business strategy and risk management capacity.

On February 1, 2018, the Board released the scenarios for the 2018 CCAR and DFAST stress tests, and issued instructions to firms participating in CCAR. The Board provides three scenarios: baseline, adverse, and severely adverse. Please note that the scenarios do not represent the forecast of the Federal Reserve.

Firms participating in CCAR are required to submit their capital plans and stress-testing results to the Federal Reserve on or before April 5, 2018. The Federal Reserve will announce the results of its supervisory stress tests by June 30, 2018. Firms with $10 billion to less than $50 billion in assets must report their results to their regulator on or before July 31 and must publish a summary of the results of their annual stress test between October 15 and October 31.

Save the Date—Viewpoint Live

Please mark your calendars for Viewpoint Live on April 26, 2018, from 1:30 to 2:00 p.m. Maria Smith, assistant vice president in our Risk and Resiliency Group, will join us. In addition to our regular review of banking conditions, I will explore the utility of the bank holding company model, and Maria will discuss the importance of S&R outreach efforts.

Remember to check back here for the registration link for this special event and to read the articles that will be published next quarter.

As always, I welcome your comments or questions. Please share your feedback with me at frba@frbatlanta.org.

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