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Takeaways from the 2018 Banking Outlook Conference

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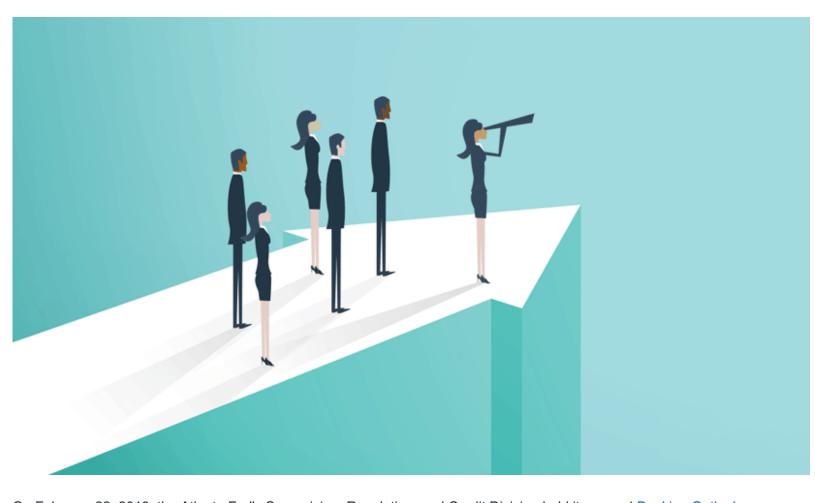












On February 22, 2018, the Atlanta Fed's Supervision, Regulation, and Credit Division held its annual Banking Outlook Conference. The conference, whose theme was "Through the Looking Glass—The Curious Banking Environment," provides a forum for discussion of issues facing the banking industry.

Executive Vice President Mike Johnson set the stage for the day's discussions with an entertaining overview of today's "curious" conditions and what may be on the horizon for the industry. He asked the attendees a series of questions to get them to think about what they know, what they don't know, and what the answers mean for the industry and their institution.

The numerous questions included: Will the unprecedented expansion continue, or are we headed for a reset? How should firms proceed with implementation of the Current Expected Credit Loss (CECL) methodology? What's going on in the world of consumer compliance? How does Atlanta Fed president Raphael Bostic view financial stability, and what are his plans for the Sixth District? How can supervisors use stress testing to manage risk? And finally, where are we in the business cycle for residential and commercial real estate (CRE)?

Speakers addressed wide array of issues, concerns

Diane Swonk, chief economist for Grant Thornton, discussed prospects for continued record-setting expansion. On the positive side, she expects to see an increase in wages in 2018 and believes the return of formerly discouraged workers to the labor market will lead to an increase in productivity. In addition, business investment is increasing, and the current seven-year backlog of truck and aircraft orders also bodes well for expansion.

Swonk mentioned possible headwinds, including financial market volatility, continued negative net immigration, increased tariffs and the disruption of trade agreements, and possible contagion effects from global economic developments, particularly Brexit and a slowdown in China. In addition, she noted that the combined impact of tax cuts and increased spending remains to be seen.

Sal Inserra, a partner with Crowe Horwath, shared his views on accounting issues, including the challenges firms face with the implementation of the CECL methodology. He discussed factors to consider in transitioning to the methodology, including the importance of determining risk drivers and gathering and maintaining relevant data.

Eric Belsky, the director of consumer and community affairs at the Federal Reserve Board, discussed continuing efforts to tailor supervisory expectations to the size and risk profiles of banks, the potential for Community Reinvestment Act modernization, the new consumer compliance rating system, and trends in violations. He encouraged banks to pay close attention to vendor management and noted that compliance cannot be outsourced.

Raphael Bostic, Atlanta Fed president and CEO, gave the keynote address. After offering the caveat that he was speaking only for himself and not for the Federal Open Market Committee or for any other Fed official, he discussed his view on the what he termed the "curious" state of the economy, comparing and contrasting conditions in 2007 with the current environment. He also offered an update on regulation, including the Board's efforts to reduce the regulatory burden on smaller firms. Bostic then shared his plans for engaging with communities and banks in the Sixth District. He said he is particularly interested in exploring ways to encourage economic growth in rural areas. Finally, he shared his views on the value of diversity in the workplace and encouraged others to consider the role of diversity in their environment.

The Graduate School of Banking at Louisiana State University organized a panel that discussed the role of stress testing in managing CRE portfolio risk and the value of supervisory guidance on CRE concentrations. Members of the panel offered an overview of real estate conditions in their target markets. They also discussed the extension of stress testing concepts to cybersecurity efforts, including the development of scenario analyses of potential cyberattacks, contingency planning outcomes, and mitigation efforts. Mark Holladay, executive vice president and chief risk officer of Synovus Financial Corporation, moderated the panel. Participants on the panel included Alan Mims, executive vice president of Reliant Bank, and Jody Hudgins, senior executive vice president and chief credit officer of First Florida Integrity Bank. Hudgins is also president-elect of the Graduate School of Banking at Louisiana State University.

The day wrapped up with presentations by Supervision, Regulation, and Credit's real estate experts. Brian Bailey, subject matter expert in CRE, <u>discussed</u> current market conditions. He shared his views on each market sector in the region, including multifamily, industrial, office, and retail. The presentation also included information on capital market activities. Domonic Purviance, senior residential real estate specialist, <u>noted</u> the effect of low housing inventories on prices, citing affordability as the biggest issue in residential real estate. He discussed the difficulties surrounding bringing starter homes to market, which include an undersupply of lots and labor as well as high development costs.

The Atlanta Fed's next Banking Outlook Conference will be held on February 28, 2019.

By Madeline Marsden

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