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Candid Conversations with Bankers

The Atlanta Fed plays an important part in all three of the Federal Reserve System's three main functions: monetary policymaking, bank supervision and regulation, and the operation of a nationwide payments system. Bankers have insight into all three of these functions, so we reach out to financial institutions to help us assess current economic conditions, issues in the regulatory arena, and developments in the payments system.

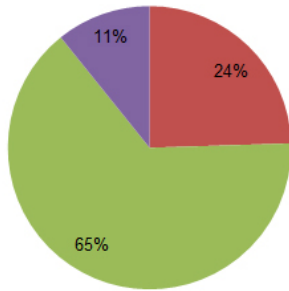
The Atlanta Fed recently hosted two outreach forums to engage bankers in a frank dialogue about issues in all three of these essential areas of focus. On August 28, Atlanta Fed President Dennis Lockhart led a conversation with 67 bankers from Tampa and surrounding areas. Also in attendance was Drew Breakspear from the state's Office of Financial Regulation, and Alex Sanchez, CEO of the Florida Bankers Association. Discussions were facilitated by an objective third party, Alex Hager, shareholder in the Financial Institution Advisory Group of the accounting firm of Saltmarsh, Cleveland, and Gund.

A similar event was held in Birmingham on September 20, with 39 bankers attending. Trabo Reed, Deputy Banking Superintendent, Alabama State Banking Department, also participated. Facilitating that meeting was H. Hampton "Hamp" Boles, partner, Balch & Bingham LLP. (Mr. Boles also serves as general counsel to the Alabama Bankers Association.) Officials from the Atlanta Fed's Research, Supervision and Regulation, and Financial Services departments participated in these outreach events as well.

To help get the conversation started, attendees at each location participated in some real-time, electronic polling that revealed varying opinions about the current state of banking. The charts below, showing the combined poll results of both meetings, offer a sample of the topics discussed.

How would you characterize current banking conditions?

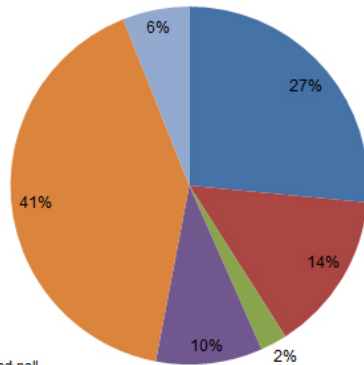
■ Very good ■ Good ■ Fair ■ Poor ■ Extremely poor



Source: Atlanta Fed poll

What is the greatest challenge for the banking industry over the next year?

- Margin pressures/low interest rates
- Loan demand
- Competition
- Revenue streams
- Credit quality
- Regulation and associated compliance costs
- Attracting/retaining qualified staff



Source: Atlanta Fed poll

The majority of bankers present at both meetings characterized banking conditions in their state as "fair" or "good," although the Alabama bankers were somewhat more positive in their responses than the Florida participants. Among the challenges facing the banking industry, participants cited margin pressures and regulatory compliance costs as the most significant. Below is a broad summary of what we heard in our conversations:

Attendees reported that there is ample liquidity, and most institutions are actively looking for C&I and small business lending opportunities.

Growth in its customer base is largely being driven by gains in market share rather than organic growth. The competitive environment was described as "intense."

Margins remain tight and are affected by the low interest rate environment.

Regarding growth of fee income, most banks are trying to grow revenues from existing lines of business.

Higher regulatory burdens are affecting costs and are influential in driving consolidation; there is little confidence among most bankers that there will be any substantial legislative relief from regulations.

Banks are seeing growth in consumer lending, especially in the auto segment. Credit card activity is regaining ground.

Most participants see qualified mortgages (QM) and qualified residential mortgages (QRM) as likely having significant impact on banks making mortgage loans, although admittedly there seem to be more questions than answers on the subject. Bankers also expressed concerns over how QMs and QRMs will affect Community Reinvestment Act loans.

Distributed denial of service attacks was one of many cyber security issues on participants' minds.

By Sarah Arteaga and Teri Gafford, Regional Economic Information Network directors for the Atlanta Fed's Jacksonville and Birmingham branches, respectively

October 3, 2013 in [Banks and banking](#), [Economic Indicators](#) | [Permalink](#)


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