

**FEATURED IN THIS ISSUE:** Real Estate Loans Remain a Critical Part of Bank Portfolios | The View from Memphis

## Most Community Banks Will Pay Lower Premiums under FDIC Assessment Rules

*By Andy Meyer and Jim Fuchs*

Before the passage of the Dodd-Frank Act, FDIC insurance premiums were assessed as a percentage of insured deposits in each banking institution. Under Section 331 of the act, the assessment base is now defined as average total assets minus tangible equity. Thus, the new base contains liabilities that did not previously enter into the calculation. Although the new base is larger, the lower assessment rates are more than enough to offset this effect for more than 99 percent of community banks with less than \$10 billion in total assets.

FDIC assessments will be lower for banks under \$10 billion in all seven states in the Eighth District. Community banks will experience a 4.5-basis-point average decrease in assessment fees, which totals approximately \$237 million: an \$18 million decrease in Arkansas, \$76 million in Illinois, \$26 million in Indiana, \$22 million in Kentucky, \$20 million in Mississippi, \$46 million in Missouri and \$29 million in Tennessee.

Nationally, community banks will experience a more than \$1 billion decrease in assessment fees with the FDIC's new assessment methodology. In general, the smallest community banks, those with less than \$100 million in total assets, will experience the biggest decline (a 5.1-basis-point decrease on average). The largest

**TABLE 1**

### Determination of Risk Category

Capital Category	Supervisory Group		
	A	B	C
Well-Capitalized	I	II	III
Adequately Capitalized	II		III
Undercapitalized	III		IV

SOURCE: *Federal Register*, Vol. 74, No. 41 / Wednesday, March 4, 2009

community banks, those with between \$1 billion and \$10 billion in total assets, will experience, on average, a 4-basis-point decline.

Assessment rates before and after passage of the Dodd-Frank Act depend on exam ratings and other risk measures. Table 1 shows how banks are assigned to one of four risk categories (I, II, III or IV). The four categories are based on two criteria: capital adequacy and supervisory ratings. The three capital groups are 1) well-capitalized, 2) adequately capitalized and 3) undercapitalized, consistent with prompt corrective action (PCA) designations. The three supervisory groups (A, B and C) are based primarily on CAMELS ratings, although the FDIC has the ability to consider other factors as well. In general, banks with CAMELS ratings of 1 or 2 are assigned to the A category, banks with a CAMELS rating of 3 are assigned to the B category, and banks with a CAMELS rating of 4 or 5

*continued on Page 6*

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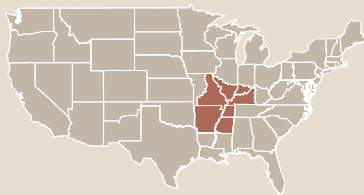
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The Eighth Federal Reserve District includes all of Arkansas, eastern Missouri, southern Illinois and Indiana, western Kentucky and Tennessee, and northern Mississippi. The Eighth District offices are in Little Rock, Louisville, Memphis and St. Louis.



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# Recent Monetary Policy and Inflation Expectations

By James Bullard

In terms of monetary policy, attention often focuses on inflation and inflation expectations. Although both have been increasing in the U.S. in recent months, the opposite was true a year ago. Throughout the first half of 2010, various inflation measures experienced a disinflationary trend, meaning that the rate of inflation was decreasing but was still positive.

Amid concerns about inflation possibly falling below zero and with the federal funds target rate already near zero, Fed Chairman Ben Bernanke first discussed the possibility of additional quantitative easing in an August 2010 speech in Jackson Hole, Wyo. The formal decision came in November 2010, when the Federal Open Market Committee (FOMC) announced it would purchase about \$75 billion per month in Treasury securities through the second quarter of 2011.

Given their forward-looking nature, financial markets had largely priced in the policy action following Bernanke's August speech and before the November FOMC meeting. Consequently, during that period, real interest rates declined, inflation expectations rose, the dollar depreciated and equity prices increased. These financial markets effects of quantitative easing looked the same as if the FOMC had reduced the policy rate substantially in ordinary times, which shows that monetary policy can still be eased aggressively even when the policy rate is near zero.

Financial conditions have continued to ease since the November decision. In particular, the policy rate has remained near zero while expected inflation has continued to increase, meaning that real interest rates have continued to decline. To the extent that expected inflation continues to rise, financial conditions continue to ease.

After the current quantitative easing program ends, it would be natural for the FOMC to put policy on hold. This would mean keeping the policy rate near zero, leaving the "extended period" language in the FOMC statement and maintaining the Fed's balance sheet at the same level it is at when the decision is made. Going on hold would give the FOMC more time to assess the strength of the economy while continuing to monitor inflation and inflation expectations.



*James Bullard is president and CEO of the Federal Reserve Bank of St. Louis.*

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# District Banks' Profits Are Up, Asset Quality Is Not

By Michelle Neely

Bank earnings rose dramatically at District and U.S. peer institutions in the first quarter of 2011, primarily because of a sharp drop in funds set aside to cover future loan losses. Return on average assets (ROA) jumped 30 basis points at District banks to 0.81 percent and is up 24 basis points from its year-ago level. The improvement at U.S. peer banks—those with average assets of less than \$15 billion—was even more pronounced, with ROA increasing 40 basis points to 0.65 percent and up 44 basis points from a year ago.

In the District, the improvement in profitability came from all three primary components of earnings: net interest income, net noninterest expense and loan loss provisions. The net interest margin (NIM) increased 11 basis points to 3.97 percent, the net noninterest expense ratio dropped 4 basis points to 1.85 percent and loan loss provisions as a percent of average assets fell 30 basis points to 0.58 percent. For U.S. peer banks, virtually all the boost in ROA came from a 49-basis-point drop in loan loss provisions as a percent of average assets.

The brighter profit picture contrasts with still stubborn asset quality problems in the District and across the nation. The ratio of nonperforming loans to total loans remains well above the regulatory benchmark of 2 percent; for District banks, 3.27 percent of loans were nonperforming at the end of the first quarter, compared with 3.23 percent at year-end 2010 and 3.09 percent at the same time one year ago. Real estate loans—especially those related to commercial properties—continue to be the primary source of problem assets. Nonperforming rates in the consumer, and commercial and industrial portfolios are also up from a year ago, albeit at much lower levels than in real estate.

The nonperforming loan ratio declined 3 basis points at U.S. peer banks in the first quarter to 3.87 percent. Though the

## First Quarter a Mixed Bag<sup>1</sup>

	2010: 1Q	2010: 4Q	2011: 1Q
<b>RETURN ON AVERAGE ASSETS<sup>2</sup></b>			
District Banks	0.57%	0.51%	0.81%
U.S. Peer Banks	0.21	0.25	0.65
<b>NET INTEREST MARGIN</b>			
District Banks	3.77	3.86	3.97
U.S. Peer Banks	3.77	3.90	3.88
<b>LOAN LOSS PROVISION RATIO</b>			
District Banks	0.77	0.88	0.58
U.S. Peer Banks	1.15	1.08	0.59
<b>NONPERFORMING LOAN RATIO<sup>3</sup></b>			
District Banks	3.09	3.23	3.27
U.S. Peer Banks	4.25	3.90	3.87

SOURCE: Reports of Condition and Income for Insured Commercial Banks

NOTES: <sup>1</sup> Because all District banks but one have assets of less than \$15 billion, banks larger than \$15 billion have been excluded from the analysis.

<sup>2</sup> All earnings ratios are annualized and use year-to-date average assets or average earning assets in the denominator.

<sup>3</sup> Nonperforming loans are those 90 days or more past due or in nonaccrual status.

peer ratio is still substantially above the District's average, the gap between the two ratios has narrowed over the past year as they've gone in opposite directions. Within the three major portfolios (real estate, consumer, and commercial and industrial), nonperforming loan rates remain higher at U.S. peers than at their District counterparts.

The average loan loss coverage ratio increased slightly at both sets of banks in the first quarter. District banks now have about 63 cents reserved for every dollar of nonperforming loans, while peer banks have about 58 cents. Banking regulators like to see coverage ratios at 80 cents or above.

Capital ratios have risen along with earnings over the past year. The average tier 1 leverage ratio was 9.11 percent at District banks at the end of the first quarter and 9.64 percent at U.S. peers.

*Michelle Neely is an economist at the Federal Reserve Bank of St. Louis.*

# Real Estate Loans Remain a Critical Part of Eighth District Bank Portfolios

By Bill Emmons

A lot has changed at Eighth District banks during the last three years, but some things remain the same. One thing that endures is the critical importance of real estate loans in bank portfolios.

There were 719 commercial banks headquartered in the District on Dec. 31, 2007, but only 681 three years later. Annualized return on average total assets averaged 0.98 percent during the fourth quarter of 2007 but only 0.53 percent during the fourth quarter of 2010. Loans secured by real estate declined from \$135 billion to \$126 billion, falling from 53 percent of total assets to 49 percent.

Yet some numbers for banks varied little from the end of 2007 to the end of 2010. Total assets at District banks remain almost the same, increasing from \$252 billion to \$256 billion. Perhaps most surprising, the median Eighth District bank's concentration of total real estate loans relative to risk-based capital was almost identical at year-end 2010 to what it was three years ago. (The median bank has a concentration ratio precisely in the middle of the ranking of all banks headquartered in the Eighth District.)

Specifically, the total real estate loan concentration relative to risk-based capital at the median bank was 460 percent on Dec. 31, 2010. The median bank had a total real estate loan concentration level of 458 percent on Dec. 31, 2007. Thus, the median, or typical, real estate loan concentration among Eighth District banks is about what it was before the recession.

This apparent constancy of the overall real estate loan exposure obscures some notable shifts within banks' real estate portfolios. The median bank's CRE-2 concentration ratio—that is, commercial real estate loans excluding those that are owner-occupied relative to risk-based capital—fell from 115 percent to 102 percent. The median bank's total construction and land

development concentration ratio fell from 43 percent to 30 percent. Ratios at many banks that were more highly concentrated in commercial real estate loans in 2007 also fell notably by the end of 2010.

On the other hand, concentration ratios increased across the board in multihousing loans, residential real estate loans and loans secured by farmland, with the exception of those banks that already were highly concentrated in residential loans in 2007. For example, the median Eighth District bank's concentration ratios increased from 4 to 6 percent of risk-based capital for multihousing loans, from 31 to 33 percent for farmland-secured loans and from 172 to 190 percent for residential real estate loans. Increases in concentration levels in these three categories from year-end 2007 to year-end 2010 generally were even larger for more concentrated banks (with the exception noted above for residential real estate).

In summary, loans secured by real estate remained a critical part of Eighth District banks' portfolios at the end of 2010. Commercial real estate exposures have come down at many banks, but these largely have been replaced by increased exposure to residential, farmland and, to a lesser extent, multihousing loans. Eighth District bank performance will continue to depend on conditions in local real estate markets, which, in turn, depend on the strength of the economic recovery.

Note: A table that provides more detail on the distribution of Eighth District banks' real estate concentrations is available online at [www.stlouisfed.org/cb](http://www.stlouisfed.org/cb).

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*Bill Emmons is an economist and assistant vice president at the Federal Reserve Bank of St. Louis.*

# The View from Memphis: Bankers, Business Leaders Cautiously Optimistic

By Martha Perine Beard

Between January and April, we held revealing discussions with banking and business leaders at events and one-on-one meetings throughout the District's Memphis Zone. Before the Mississippi River flooding, leaders told us that they were cautiously optimistic about the economy for the rest of 2011 and that local business conditions and profits were better than they were a year ago.

## Banking Conditions

Business leaders and bankers expect loan demand in urban areas to increase, but the number of strong, creditworthy applicants is not large, and many bankers say they are chasing the same few good applicants. Several bankers report that past dues remained level through the first quarter of 2011 and that losses on other real estate owned (OREOs) are improving. In more rural areas, leaders inform us that loan demand is softer because of competition from farm credit services that can offer more competitive rates. Meanwhile, accounts are that rural land values are rising and farm equipment sales are at an all-time high.

Bankers tell us that they continue to face challenges related to their investments. They say that with the fed funds rate at an all-time low and little loan demand, achieving a decent earnings level is a challenge.

Bankers indicate that a key strength today is enhanced deposit growth: After years of negative savings growth, they are seeing significant increases as consumers learn the importance of saving. Business leaders report that some consumers are being more imaginative on how to improve their financial positions: Because of low CD rates, some consumers with extra cash are choosing to pay down debt when the interest rate exceeds what they would earn on a CD.

## Housing Market Conditions

Business leaders and bankers say that the housing sector has yet to rebound from the recession, and most categorize the state of the housing sector as "fair" at best. Reports are that new building permits are a fraction of their peak during the housing boom. They say that many builders are no longer in business; home values have declined to less than the amount owed for some homeowners; mortgage underwriting has tightened considerably; and the inventory of homes for sale remains high.

Bankers vary on their approach for handling foreclosed homes. Some are implementing lease-to-own arrangements as a means of earning some revenue, while others have expressed concerns about this approach.

The current unemployment rate in the Memphis Zone does not bode well for a large increase in home sales. East Arkansas is performing more positively than other parts of the zone. Sales in the first quarter of 2011 exceeded those in the first quarter of 2010. Although there are buyers, business leaders say that obtaining long-term financing is difficult. Many bankers suggest that they are backing away from residential loans because of more stringent regulatory requirements. Additionally, bankers report that appraisers have become much more conservative on their evaluations.

## Employment and Job Growth

**Memphis:** The greater Memphis area began 2011 with a high level of employment contraction. Both Memphis and Jackson, Miss., registered unemployment rates that were higher than the 9.4 percent rate for the United States. However, bankers and business leaders see the projected job growth in Memphis as very positive. Since the beginning of 2011, several companies, including Electrolux, Mitsubishi and City Brewing, have announced

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## The View from Memphis

*continued from Page 5*

plans to relocate or bring more jobs to Memphis. Many bankers and business leaders say that ongoing cooperation between city and county governments to simplify the solicitation of economic development incentives has contributed to the positive announcements.

**Rural Western Tennessee:** This area reportedly has not fared as well. The unemployment rate is already above 10 percent, and about 1,900 jobs will be lost in Union City at the end of the year with the planned closing of a Goodyear tire plant.

**Northern Mississippi:** Beginning in 2011, the unemployment rate in several rural areas was in double digits. The overall rate for northeast Mississippi was 11.8 percent, more than the state average of 10.4 percent. In northwest Mississippi, which relies heavily on economic growth related to casinos, business leaders say that gaming revenue continues to decline, primarily because of less consumer discretionary income and legalized gaming in neighboring states.

**Eastern Arkansas:** Unemployment remains a strong concern for eastern Arkansas. While most of the coun-

ties in the area showed little or no improvement in the unemployment rate, leaders think that may change in the remaining months of 2011 because of several announcements concerning plant expansions and increases in employment.

Business leaders and bankers think that for the remainder of 2011, employment will remain at the status quo or improve because most companies have already cut the maximum number of positions possible. They expect capital spending to increase in several areas because companies have deferred purchases as long as they can, and there is now a need to purchase new or replace outdated equipment for expansion plans. Overall, banking and business leaders appear to be more optimistic in 2011 than they were a year ago, but some areas will fare better than others will over the next six to 12 months.

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*Martha Perine Beard is the senior branch executive of the Memphis Branch of the Federal Reserve Bank of St. Louis.*

## FDIC Assessment Rules

*continued from Page 1*

are assigned to the C category.

Table 2 (see Page 7) shows the initial and total base assessment rates once banks are assigned to the appropriate risk category under the old system. For example, a bank in Risk Category I would be assigned an initial base assessment rate between 12 and 16 basis points. A bank could be at the high or low end of this range, depending on the values of various financial ratios from its income statement and balance sheet. The weights on these financial ratios were determined using a statistical model of bank risk. Once the initial base rate is set, it can be adjusted upward or downward, depending on the amount of unsecured debt, secured liabilities and brokered deposits, as shown in the next three rows of the table. (The brokered deposit adjustment would be applied only to a limited number of Risk Category I institutions with very high asset growth funded by a large

percentage of brokered deposits.)

The final row of Table 2 shows the basis point range for banks in each given risk category. For all banks and thrifts, the assessment rate varied from 7 to 77.5 basis points (as a percent of total insured deposits).

Table 3 shows the corresponding information for initial and total assessment rates under the new system. In the final row of Table 3, we see that assessment rates vary from 2.5 to 45 basis points. Although the assessment rates are considerably lower, they are calculated on a larger base (assets minus tangible capital as opposed to deposits). Thus, whether an individual bank pays a higher or lower total assessment depends on its risk and liability mix. In general, the more a bank relies on core deposits to fund its operations, the more it will benefit from the new system.

Table 4 shows some total assessment information aggregated by size class for community banks with less than \$10 billion in total assets. Banks with more than \$10 billion in assets are

TABLE 2

## Initial and Total Base Assessment Rates—Old System

	Risk Category I	Risk Category II	Risk Category III	Risk Category IV
Initial Base Assessment Rate	12-16	22	32	45
Unsecured Debt Adjustment	(5)-0	(5)-0	(5)-0	(5)-0
Secured Liability Adjustment	0-8	0-11	0-16	0-22.5
Brokered Deposit Adjustment	...	0-10	0-10	0-10
TOTAL BASE ASSESSMENT RATE	7-24.0	17-43	27-58	40-77.5

SOURCE: *Federal Register*, Vol. 74, No. 41 / Wednesday, March 4, 2009

NOTES: All amounts for all risk categories are in basis points annually. Total base rates that are not the minimum or maximum rate will vary between these rates.

TABLE 3

## Initial and Total Base Assessment Rates—New System

	Risk Category I	Risk Category II	Risk Category III	Risk Category IV	Large and Highly Complex Institutions
Initial Base Assessment Rate	5-9	14	23	35	5-35
Unsecured Debt Adjustment	(4.5)-0	(5)-0	(5)-0	(5)-0	(5)-0
Brokered Deposit Adjustment	...	0-10	0-10	0-10	0-10
TOTAL BASE ASSESSMENT RATE	2.5-9	9-24	18-33	30-45	2.5-45

SOURCE: *Federal Register*, Vol. 76, No. 38 / Friday, Feb. 25, 2011

NOTES: Total base assessment rates do not include the depository institution debt adjustment. The unsecured debt adjustment cannot exceed the lesser of 5 basis points or 50 percent of an insured depository institution's initial base assessment rate; thus, for example, an insured depository institution with an initial base assessment rate of 5 basis points will have a maximum unsecured debt adjustment of 2.5 basis points and cannot have a total base assessment rate lower than 2.5 basis points.

TABLE 4

## Change in Total Assessments for Community Banks

Size Class	Old Assess	New Assess	Change (\$)	Change (bps)
<\$100 M	\$182.7 M	\$116.1 M	-\$66.6 M	-5.1
\$100 M - \$500 M	\$1.1 B	\$704.3 M	-\$342.6 M	-5
\$500 M - \$1 B	\$568.1 M	\$400.8 M	-\$167.4 M	-4.6
\$1 B - \$10 B	\$1.5 B	\$1.1 B	-\$429.6 M	-4
TOTAL	\$3.3 B	\$2.3 B	-\$1 B	-4.4

SOURCE: FDIC and authors' calculations based on the Reports of Condition and Income for U.S. Commercial Banks

subject to a different, more complex calculation and are not considered in this analysis.

For example, the 2,302 community banks with less than \$100 million in assets hold aggregate total assets of \$131.6 billion. Given their current CAMELS ratings, PCA designations and other risk characteristics, their total assessments will decrease from \$182.7 million to \$116.1 million, a savings of \$66.6 million for the group.

As shown in the last row of Table 4, community banks will save approximately \$1 billion in FDIC assessments for 2011. To put this amount in perspective, it represents 4.4 basis

points of total community bank assets nationwide. The benefit measured in basis points is fairly consistent across size classes, ranging from 4 to 5.1, as highlighted in Table 4.

The Dodd-Frank Act could introduce new costs to banks as supporting regulations are implemented. In the case of the FDIC assessment base, however, community banks will benefit.

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### Annual Report Focuses on Labor Markets

The St. Louis Fed's annual report includes an essay on labor markets in the U.S. and abroad. Unemployment and employment data are dissected by sex, level of education, type of work and more. The essay also examines how U.S. workers fared during the Great Recession compared with workers from other major countries. Rounding off the report are financial statements, some special words and photos from our boards of directors and a message from our president on the Fed's dual mandate.

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## **Bernanke: Fed Adopting “Macroprudential” Approach to Supervision and Regulation**

The financial crisis demonstrated clearly that supervisory and regulatory practices must consider overall financial stability as well as the safety and soundness of individual firms, according to Fed Chairman Ben Bernanke.

Speaking May 5 at the 47th Annual Conference on Bank Structure and Competition in Chicago, Bernanke said that the Dodd-Frank Act requires regulators to mitigate the buildup of financial excesses and reduce vulnerabilities and, through a new interagency council, to monitor financial markets, identify emerging threats and help formulate policies to contain those risks.

“For our part, the Federal Reserve has restructured its internal operations to facilitate a ‘macroprudential’ approach to supervision and regulation and to monitor systemic risks,” Bernanke said. Macroprudential supervision and regulation aims to minimize the risk of financial disruptions that are sufficiently severe to inflict significant damage on the broader economy. The systemic orientation of the macroprudential approach may be contrasted with that of the traditional, or “microprudential,” approach to regulation and supervision, he explained, which is concerned primarily with the safety and soundness of individual institutions, markets or infrastructures.

“The explicit incorporation of macroprudential considerations in the nation's framework for financial oversight represents a major innovation in our thinking about financial regulation, one that is taking hold abroad as well as in the United States,” Bernanke said. “This new direction is constructive and necessary, I believe, but it also poses considerable conceptual and operational challenges in its implementation.”



## Payments Study Explores Details of Check Usage

As Federal Reserve payments studies have chronicled over the past decade, Americans are increasingly turning to electronic alternatives for transactions and paying bills. In a statement issued in April concerning the most recent study, a Fed committee gave a number of details about check usage.

During the 2009 calendar year, remittance checks made up more than half of all checks written. Other findings include:

- Approximately 60 percent of remittance checks were written by consumers to businesses. The remaining 40 percent were business-to-business checks.
- Consumer-to-consumer checks had the highest average value of all consumer check types at \$472, compared with consumer-to-business remittance checks with an average of \$400.
- Nearly 80 percent of checks were written for less than \$500.
- Of the approximately 18 billion checks cleared between banks, over 92 percent were cleared using electronic images in place of paper.

The study also estimated that 4.5 billion account statements were issued annually on checkable deposit accounts. Details regarding various statement types include the following:

- Nearly 50 percent of paper statements, the most common form, contained only itemized listings of transactions, without the enclosure of printed images of checks or the checks themselves.
- Fully electronic statements and image statements each represented nearly 25 percent of all statements.
- Statements with checks enclosed, common in the past, are now incredibly rare, and accounted for less than 1 percent in the study.

The number of automated clearinghouse (ACH) payments increased 9.4 percent annually from 2006 to 2009, or by 4.5 billion payments. However, ACH growth decelerated between 2006 and 2009 with the number of ACH entries growing more rapidly earlier in the three-year period than at the end. While the total value of ACH payments in 2009 exceeded those in 2006 by \$6.2 trillion, the average value of an ACH payment declined from \$2,122 to \$1,946 during the period.

The statement also noted that while growth in all payment types appears to have been slowed by the economic recession—credit cards averaged an annual decline in transaction value of approximately 3 percent from 2006 to 2009—the trend is not expected to continue as the economy recovers.



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# First-Quarter 2011 Bank Conditions District-Wide<sup>1</sup>

	2010: 1Q	2010: 4Q	2011: 1Q
<b>Return on Average Assets<sup>2</sup></b>			
All Eighth District States	0.33%	0.36%	0.66%
Arkansas Banks	0.88	0.78	1.01
Illinois Banks	-0.09	0.09	0.53
Indiana Banks	0.23	0.48	0.41
Kentucky Banks	1.07	0.80	1.31
Mississippi Banks	0.48	0.55	0.55
Missouri Banks	0.37	0.38	0.73
Tennessee Banks	0.36	-0.01	0.39
<b>Net Interest Margin</b>			
All Eighth District States	3.66	3.80	3.84
Arkansas Banks	3.96	4.13	4.21
Illinois Banks	3.48	3.67	3.68
Indiana Banks	3.74	3.78	3.81
Kentucky Banks	4.23	4.00	4.36
Mississippi Banks	3.88	3.92	3.82
Missouri Banks	3.35	3.67	3.64
Tennessee Banks	3.72	3.80	3.83
<b>Loan Loss Provision Ratio</b>			
All Eighth District States	0.93	1.00	0.63
Arkansas Banks	0.64	0.87	0.48
Illinois Banks	1.31	1.32	0.76
Indiana Banks	1.01	0.90	0.82
Kentucky Banks	0.52	0.60	0.49
Mississippi Banks	0.79	0.80	0.67
Missouri Banks	0.74	0.86	0.43
Tennessee Banks	0.72	1.00	0.57
<b>Nonperforming Loans Ratio<sup>3</sup></b>			
All Eighth District States	3.92	3.75	3.81
Arkansas Banks	3.03	3.48	3.45
Illinois Banks	5.35	5.07	5.17
Indiana Banks	3.14	3.10	3.26
Kentucky Banks	2.43	2.38	2.40
Mississippi Banks	2.58	2.97	2.92
Missouri Banks	4.15	3.18	3.19
Tennessee Banks	3.17	3.55	3.73
<b>Nonperforming Loans + OREO Ratio</b>			
All Eighth District States	5.20	5.27	5.43

Arkansas Banks	4.46	5.45	5.58
Illinois Banks	6.61	6.58	6.78
Indiana Banks	3.71	3.83	4.02
Kentucky Banks	3.36	3.54	3.67
Mississippi Banks	3.78	4.61	4.46
Missouri Banks	5.85	4.73	4.90
Tennessee Banks	4.72	5.52	5.75

SOURCE: Reports of Condition and Income for Insured Commercial Banks

NOTES:

1 Because all District banks but one have assets of less than \$15 billion, banks larger than \$15 billion have been excluded from the analysis.

2 All earnings ratios are annualized and use year-to-date average assets or average earning assets in the denominator.

3 Nonperforming loans are those 90 days or more past due or in nonaccrual status.

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<https://www.stlouisfed.org/publications/central-banker/summer-2011/st-louis-fed-by-the-numbers-in-2010>

## St. Louis Fed by the Numbers in 2010

Did you know? Last year in the Eighth District:

- The St. Louis Fed supervised **104 state member banks**.
- **11,000 people** participated in St. Louis Fed presentations, including the seven late fall public events on the “Implications of Financial Regulatory Reform: A Series of Discussions on the Dodd-Frank Act.”
- Teachers and students in the District and across the nation downloaded economic education materials **360,000 times** from the St. Louis Fed.

See these figures and more in the St. Louis Fed's 2010 annual report.





## New Banking and Economic Research

The following articles and papers represent the latest in St. Louis Fed banking and economic research and briefs.

### **“Quantitative Easing Explained”**

Quantitative easing has been in the headlines a lot from 2009 to 2011. What exactly is quantitative easing and how does it affect the economy? Find out in the April 2011 *Liber8*.

### **“Have Acquisitions of Failed Banks Increased the Concentration of U.S. Banking Markets?”**

During 2007-2010, failures eliminated 318 U.S. commercial banks and savings institutions, about 4 percent of the total number of financial institutions operating at the end of 2006. The assets and deposits of many failed banks were acquired by institutions that already had offices in markets served by the failed banks. This article in the May/June *Review* investigates the impact of in-market acquisitions of failed banks on the concentration of local U.S. banking markets.

### **“Banking Crisis around the World: Different Governments, Different Responses”**

The latest U.S. financial crisis is one of many in the recent economic history of both advanced and emerging economies. Each crisis is somewhat unique and is triggered by different processes and events. However, as explored in the April 2011 *Regional Economist*, some common elements can be identified in the way different governments intervene to help financial sectors return to health and to soften the economy-wide impact of the crisis.

### **“A System Dynamics Approach to Understanding the Use of Banks and Alternative Financial Services in St. Louis”**

This January 2011 report summarizes a project sponsored by the St. Louis Fed to explore the complex social system that influences households' decisions to use banks and other financial institutions. The Social System Design Lab at Washington University in St. Louis developed a grounded theory describing St. Louis households' experience related to financial institutions, and how financial decisions based on that experience impacted household economic security.



## See Fed Plans for Dodd-Frank Act Rulemaking for July through September

Between August 2010 and June 2011, the Federal Reserve System completed at least 40 initiatives related to compliance with provisions of the Dodd-Frank Act. Some of the initiatives that the Board of Governors will work on between July and September 2011 to meet the deadlines of the act include the following:

### Requests for Comments:

- **Intermediate Holding Company Regulations for Nonbank Financial Companies Designated for Consolidated Supervision** – This concerns when and how a nonbank financial company designated for consolidated supervision must establish an intermediate holding company to separate its financial activities from its commercial activities.
- **Intermediate Holding Company Regulations for Grandfathered Unitary SLHCs** – The proposed rule concerns when and how a grandfathered unitary savings and loan holding company (SLHC) that is engaged in commercial activities must establish an intermediate holding company to conduct its financial activities.
- **Prior Notification by Large Financial Holding Companies for Large Nonbank Acquisitions** – The rule would implement the requirement that nonbank financial companies supervised by the Board and bank holding companies (BHC) with \$50 billion or more in assets provide the Board prior written notice to acquire a nonbanking company with \$10 billion or more in assets.
- **Applications by Nonbank Financial Companies to Acquire Bank Shares** – This pertains to the requirement that a nonbank financial company seek the Board's approval before acquiring more than 5 percent of the voting shares of any bank or bank holding company, thereby aligning this threshold with that currently applied to bank holding company acquisitions of bank shares.
- **Financial Stability Considerations in BHC Act and Bank Merger Act Transactions** – The rule would affect implementing the requirement that the Board consider the impact on financial stability of bank acquisitions or merger proposals under the BHC Act Section 3, the Bank Merger Act and notices to acquire a nonbanking company.
- **Thrift Acquisition National Deposit Cap** – The rule would apply the 10 percent national deposit cap to interstate bank mergers and acquisitions of savings associations or other nonbank insured depository institutions by BHCs, and savings and loan holding companies.
- **Registration of Systemically-Designated Nonbank Financial Companies** – The proposal would prescribe the forms and information requirements for a systemically designated nonbank financial company to register with the Board.
- **Credit Rating Alternatives** – The proposal would change existing rules to implement the requirements of section 939A of the Dodd-Frank Act relating to use of credit ratings in agency rules.
- **Credit Rating Alternatives for Bank Financial Subsidiaries** – The proposal, developed with the U.S. Department of the Treasury, would replace the investment-grade rating requirement for national and

state member banks to invest in or control a financial subsidiary with an alternative standard.

- **Minimum Leverage and Risk-Based Capital Requirements (Collins Amendment)** – Following on a December 2010 proposed rule that would amend the advanced approaches capital adequacy framework consistent with the act, the Board will request comment on a proposed addressing other aspects of the Collins Amendment including minimum leverage requirements and risk considerations to be taken into account.
- **Safe Harbor for Nonbank Financial Companies** – Criteria would be established for exempting certain types or classes of nonbank financial companies from potential designation by the Financial Stability Oversight Council as systemically important.

## Planned Issuance of Final Rules:

- **Financial Market Utilities (FMUs): Risk-Management Standards, Advance Notice Requirements** – The Board plans to issue a final rule to implement two provisions of the act related to supervision of FMUs designated as systemically important by the Financial Stability Oversight Council.
- **Interest on Demand Deposits** – The Board intends to issue a final rule repealing Regulation Q and allowing payment of interest on demand deposits at depository institutions.
- **Swaps Margin Requirements** – The Board and other federal bank regulatory agencies intend to issue a final inter-agency rule implementing the margin requirements for swap dealers, security-based swap dealers, major swap participants and major security-based swap participants under each prudential regulator's jurisdiction.
- **Intermediate Holding Company Regulations for Grandfathered Unitary SLHCs** – The Board plans to issue a final rule governing when and how a grandfathered unitary SLHC that is engaged in commercial activities must establish an intermediate holding company to conduct its financial activities.
- **Truth In Lending Act Escrow Administration** – The Board intends to issue a final rule: expanding the minimum period for mandatory escrow accounts for first-lien, higher-priced mortgages, providing an exemption for certain creditors in “rural or underserved” counties, and implementing new escrow disclosure requirements for all residential mortgages.
- **Credit Risk Retention** – The Board, along with other Federal regulatory agencies, plans to issue a final inter-agency rule to implement the credit risk-retention requirements applicable in connection with the issuance of asset-backed securities.

Stay up to date on the latest in the Dodd-Frank rule-writing process at the St. Louis Fed's Dodd-Frank Regulatory Reform Rules site.