Quarterly Banking Profile Highlights – 1Q 2019
Overall, the banking industry remained strong during the 1\textsuperscript{st} Q 2019.

- Net Income improved with reported higher Net Interest Income, which reflected modest growth in interest-earning assets and wider Net Interest Margins (NIM).
  - Industry reported Net Income of $60.7 Billion for the 1\textsuperscript{st} Q, an increase of 8.7\% from a year ago.
  - Return on Assets rose to 1.35\% vs 1.28\% a year ago.
  - Net Interest Income grew by 6\% due to increasing asset yields (Loans) and improving NIMs.
    - NIM for industry average improved to 3.42\% vs 3.32\% a year ago
    - Average Asset Yields increased by 49 basis points, while Average Cost of Funds rose 39 basis points.
Loan Balances Increased 4.1 percent From a Year Ago
  • All major loan categories reported year-over-year increases led by Commercial and Industrial loans, as well as Consumer loans.

Asset Quality Indicators Remain Solid
  • Noncurrent rates remain below 1%.
  • Loan-Loss Reserves Increased from the previous quarter.
    ❖ Reserve growth mostly attributable to C&I and Consumer (excludes Credit Cards) loans.

Other Asset Quality Indicators
  • Net Charge-Offs increased by 5.5% from 12 months ago.
    ❖ Credit Card balances reported the largest year-over-year dollar increase in net charge-offs.
    ❖ For eight out of the past 10 Quarters, the net charge-off rate for credit cards increased, reaching 3.97% from the current quarter.
Problem Banks Continue to Decline

- Number of problem banks declined to 59.
- No banks failed during the 1\textsuperscript{st} Q of 2019.
- One bank failure reported during the 2\textsuperscript{nd} Q.
- One new bank was chartered.
- 24 new banks have opened since January 1, 2017.
Colorado Economy

- Economy – Overall, remains strong
  - Employment grew by 2.1% in the 4Q 2018, making it the ninth fastest-growing state in the nation.
  - Unemployment rate was 3.6%, slightly below the nation.
  - According to the Colorado Legislative Council’s economic outlook, Colorado employment will grow slightly slower in 2019, closer to the national rate.

Colorado Banking Performance (State Chartered Banks)

- 1Q Performance remains strong vs 12 months ago
  - ROA 1.41% vs 1.39%
  - NIM 3.88% vs 3.83%
  - Asset Yield 4.43% vs 4.11%
  - COF 0.55% vs 0.28%
  - ALLL 1.06% vs 1.06%
  - Noncurrent Loans 0.45% vs 0.58%
Common Exam Findings

- **Loan Underwriting**
  - Cash-Flow Analysis
    - Inaccuracies, hard to reconcile from source documents
    - Inconsistent usage among loan officers
    - Global CF analysis not deducting to avoid duplication of income sources


- **Loan Appraisals/Evaluations**
  - Most common type of violation cited
  - Primarily Lacking Evaluations
  - Evaluation content not sufficient

- **Concentration Risk Management**
  - Risk management practices not commensurate with growth in asset concentration levels.
  - Lack of funding concentration awareness, such as increased usage of noncore funding sources (i.e. brokered deposits, listing service CDs, external LOCs).
Common Exam Findings

- **Interest Rate Risk Management**
  - **IRR Model**
    - IRR Model does not capture balance sheet risk or certain repricing dynamics of instruments
    - Non-Maturity Deposit Assumptions – overly optimistic or not bank specific, lack of documentation supporting assumptions, lack of approval of assumptions by ALCO or Board
    - Stress testing of key model assumptions – not conducted, lack of understanding

  **Helpful IRR Management Resource: Winter 2014 Supervisory Insights Journal** -

- **Liquidity & Funds Management**
  - **Contingency Funding Plans (CFP)**
    - usually need enhancement, needs to be an actionable plan (step-by-step actions the bank will take)
  - **Pro-forma cash-flow (Sources and Uses) forecasts**
    - Nonuse or too short term.

Information Technology Functions

- Most departments found satisfactory
- Common Exam Findings:
  - Incomplete/Inaccurate Asset Inventories – outdated, not maintained
  - Incomplete Ongoing Monitoring of Service Providers – needs further expansion
  - Risk Assessments are not Used Appropriately – not identifying depth and frequency of audit cycles
  - Business Continuity Testing is not Completed – lack of testing of staff’s ability to maintain continuity

Cybersecurity threats on the increase

- More than 30 incidents reported annually in the Dallas Region
  - Phishing Attacks
  - Payment Card Skimming
  - Account Compromise
  - Insider privilege misuse or general errors
Common Exam Findings

Bank Secrecy Act (BSA) Program

- Overall, most programs are found to be satisfactory
- Common exam recommendations typically involve the following:
  - Customer Due Diligence (CDD) Rule (05-11-2018)
  - Automated Suspicious Activity Monitoring Software
  - Risk Assessments
  - Cyber Threats
  - Nonresident Alien - W-8BEN forms
  - Information Sharing - 314(b)
  - Cash Intensive/Marijuana Related Businesses (CIB/MRB)

- **BSA/AML Manual – Updates (2018)**
  - Customer Due Diligence (CDD) Procedures.
  - Beneficial Ownership Requirements for Legal Entity Customers Procedures.
  - Appendix 1 – Beneficial Ownership.
  - Online - FFIEC BSA/AML Examination Manual.
  - [https://bsaaml.ffiec.gov/manual](https://bsaaml.ffiec.gov/manual)
  - Further updates are pending.
  - No new hard copy manual at this point, all changes are electronic.
Assessment Changes since 2016

- Assessment collections changed when the Reserve Ratio reached 1.15% effective June 30, 2016. The Reserve Ratio is the total of the Deposit Insurance Fund (DIF) divided by the total estimated insured deposits of the industry. Legislative rulings and corresponding assessment changes included:

  - On March 15, 2016, the FDIC adopted a rule in accordance with provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act that required large institutions to bear the burden of raising the Reserve Ratio from 1.15% to 1.35%. When the Reserve Ratio reached 1.15%, the FDIC began collecting large institution assessment surcharges. Surcharges were collected on invoices dated December 30, 2016 through December 30, 2018.

- The Reserve Ratio reached 1.15% effective as of June 30, 2016, therefore:
  - the lower rates, surcharges, and new pricing became effective July 1, 2016

- The Reserve Ratio reached 1.36% effective as of September 30, 2018, therefore:
  - surcharges ended with the December 30, 2018 invoice collection; and
  - small institution credits were computed and eligible institutions notified in January 2019.
**Future Small Institution Credits**

Since large institution surcharges were collected for nine quarters, the regular quarterly assessments paid by small institutions (institutions with less than $10 billion in total consolidated assets) during that period also contributed to raising the Reserve Ratio from 1.15% to 1.35%. The FDIC will provide future credit offsets to assessments of small institutions for the portion of their assessments that contributed to the Reserve Ratio growth. Key aspects of the future credits include:

- Eligible institutions will receive a portion of the aggregate credit amount as determined by the FDIC.
- The FDIC notified eligible institutions of their credit amount in January 2019.
- The credits will be applied for each quarter the Reserve Ratio is at or above 1.38%.
- The credit amount applied will not exceed the institution’s quarterly assessment due amount.
- Institutions will not be allowed to buy or sell credits.
- Credits will transfer only in a legal merger or consolidation of two insured institutions.

[https://www.fdic.gov/deposit/insurance/assessments/](https://www.fdic.gov/deposit/insurance/assessments/)
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As of 3/31/19 – Total DIF is $104,870 billion
No new updates, continuing with implementation timeline.

- Some movement in congress to delay implementation.
- Recent American Banker Article 6/11/19 - A bipartisan group of House lawmakers have introduced a bill to require the Securities and Exchange Commission and other federal agencies to study a new accounting standard for loans losses before it takes effect. The bill, introduced by Reps. Vicente Gonzalez, D-Texas, and Ted Budd, R-N.C., would delay the Financial Accounting Standards Board’s new Current Expected Credit Loss standard, known as CECL, which smaller banks have warned would be overly burdensome.
- External analysts are skeptical of any bill passage regarding CECL delay. “We are bearish on legislative delay efforts and peg the odds of successful legislation" at roughly 20%, said Isaac Boltansky, director of policy research at Compass Point Research & Trading, in a note Tuesday. "Given the congressional calendar, considering either this bill or its companion bill in the Senate through regular order will be an uphill climb."
### CECL Effective Dates

<table>
<thead>
<tr>
<th>Entity Type</th>
<th>U.S. GAAP Effective Date</th>
<th>Call Report Effective Date*</th>
</tr>
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<tbody>
<tr>
<td>Public Business Entities (PBEs) that are SEC Filers</td>
<td>Fiscal years beginning after December 15, 2019, including interim periods within those fiscal years</td>
<td>March 31, 2020</td>
</tr>
<tr>
<td>Other PBEs** (Non-SEC Filers)</td>
<td>Fiscal years beginning after December 15, 2020, including interim periods for within those fiscal years</td>
<td>March 31, 2021</td>
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<tr>
<td>Non-PBEs</td>
<td>Fiscal years beginning after December 15, 2021, including interim periods beginning within those fiscal years</td>
<td>March 31, 2022</td>
</tr>
<tr>
<td>Early Application</td>
<td>Early application permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years</td>
<td>No earlier than March 31, 2019</td>
</tr>
</tbody>
</table>

*For institutions with calendar year-ends

** A public business entity that is not an SEC filer would include (1) an entity that has issued securities that are traded, listed, or quoted on an over-the-counter market, and (2) an entity that has issued one or more securities that are not subject to contractual restrictions on transfer and is required by law, contract, or regulation to prepare U.S. GAAP financial statements and make them publicly available periodically (e.g., pursuant to Section 36 of the Federal Deposit Insurance Act and Part 363 of the FDIC’s regulations).
CECL Measurement Method Resources

- **FDIC Webinar Series**
  - Implementation Examples for CECL (FIL-8-2018 February 2, 2018)
  - Application of the Weighted Average Remaining Maturity (WARM) method (FIL-17-2019 April 11, 2019)
Other CECL Resources


- **FIL-34-2018** June 26, 2018 -20-2018 – Community Bank Webinar: Current Expected Credit Losses Methodology Q&A Webinar for Community Bankers (Webinar Materials have been archived for viewing and a transcript is available)

- **FIL-2-2018** April 17, 2018 – Implementation and Transition of the Current Expected Credit Losses Methodology for Allowances and Related Adjustments to the Regulatory Capital Rules and Conforming Amendments to Other Regulations