Agenda

- Tenth District supervisory snapshot
- Bank earnings & drivers
- Liquidity & deposit competition
- Lending portfolio & concentrations
- Credit conditions & capital
- Examination findings
- Challenges faced by the banking industry
Supervisory Snapshot
Composite Ratings Continue to Improve*

*Most recent CAMELS ratings prior to each as-of date
**Total number of state member banks as of March, 2019 = 179

Source: National Examination Database
Earnings are improving

Return on average assets

Community banks
Colorado community banks

Dec-03 Dec-05 Dec-07 Dec-09 Dec-11 Dec-13 Dec-15 Dec-17 Mar-19

Dec-03 Dec-05 Dec-07 Dec-09 Dec-11 Dec-13 Dec-15 Dec-17 Mar-19

Community banks = assets < $10 billion
Source: Reports of Condition and Income
Banks are benefiting from rising rates, tax reform

Q1 2018-Q1 2019 change in components of income

- Interest income
- Noninterest income
- Interest expense
- Noninterest expense
- Provisions
- Income taxes
- Other
- Net income

Community banks = assets < $10 billion
Source: Reports of Condition and Income
Loan growth has outpaced deposit growth, fueling a “funding gap” in Colorado community banks

Year-over-year percentage change, median

Source: Reports of Condition and Income
Liquid assets have been declining

Percentage of Total Assets*

*Interest bearing bank balances + Federal funds sold + securities purchased under agreement to resell + total investment securities – pledged securities, as a percentage of total assets.

Community banks = assets < $10 billion

Source: Reports of Condition and Income
And more deposits being taken by large banks

Percentage share of core deposits

- = Large banks
- = Regional banks
- = Community banks

Community banks = assets < $10 billion; Regional banks = assets between $10 billion and $100 billion; Large banks = assets > $100 billion
Source: Reports of Condition and Income
Loan Portfolio Breakdown

Colorado Community Banks*

- CRE: 43%
- 1-4 Family: 25%
- Agriculture: 15%
- C&I: 9%
- Consumer: 6%
- Other: 2%

All Community Banks

- CRE: 45%
- 1-4 Family: 23%
- Agriculture: 8%
- C&I: 16%
- Consumer: 4%
- Other: 4%

*Community banks = assets < $10 billion (Colorado community banks excludes FirstBank)
Source: Reports of Condition and Income – March 2019
Note: Tenth District highly concentrated CRE banks are banks with CRE loans (excluding owner occupied CRE) equaling 275 percent or more of total risk based capital. Highly concentrated CLD banks are banks with CLD loans equaling 90 percent or more of total risk based capital.
Source: Reports of Condition and Income
Credit conditions are benign, with low problem assets

![Graph showing credit conditions for different types of banks in Colorado over time.](image)

*Problem assets = loans past due 90+ days and accruing, nonaccrual loans, and other real estate owned
Community banks = assets < $10 billion; Ag banks = banks having total agricultural loans in excess of 25 percent of total loans;
CRE banks = banks having total commercial real estate loans (excluding owner occupied CRE) equaling 300 percent of risk-based capital
Source: Reports of Condition and Income
Capital levels remain strong

*Tier 1 capital as a percentage of assets for leverage capital purposes
Community banks = assets < $10 billion
Source: Reports of Condition and Income
Tenth District Examination Findings Remain Focused on IT and Credit Risk

2018 Findings*

- **Information Technology**, 31%
- **Credit Risk**, 20%
- **Fiduciary**, 10%
- **Bank Secrecy Act**, 7%
- **Corporate Governance**, 6%
- **Liquidity**, 5%
- **Capital**, 4%
- **Interest Rate Risk**, 4%
- **All Other Findings**, 14%

* 2018 Safety and Soundness Examination Findings: Matters Requiring Immediate Attention and Matters Requiring Attention. “All Other Findings” includes Compliance with Existing Actions, Violations of Law, ALLL Adequacy and Methodology, Financial Controls, Capital Planning and Adequacy, Internal and External Audit, Earnings Performance, and Other Miscellaneous Findings.
Total Tenth District Examination Findings by Category


*Includes Joint Examinations with State Agencies and Holding Company Inspections
Examination Findings Related to Consumer Compliance

**2018 Bank Examinations with Identified Violations***

- Content of the Adverse Action Notice, 7%
- Check Holds, 7%
- RESPA, 9%
- Evidence of Applicants' Intent for Joint Credit, 16%
- HMDA Data Inaccuracies, 23%
- Content of Closing Disclosure, 32%
- Other, 7%

* 2018 Consumer Compliance Examination Findings: Number of unique bank examinations with identified Violations of Law.
2018 Consumer Compliance MRA/MRIA Breakdown

**Four Pillars of Risk Mitigation**
- Board and Senior Management: 28%
- Policies, Procedures, and Training: 38%
- Risk Monitoring and MIS: 25%
- Internal Controls: 9%

**MRA/MRIA Focus**
- Fair Lending Risk: 6%
- Compliance Management System Weakness: 45%
- Corrective Action of Violations: 49%
Demographic:
Out-migration, aging population

Technology:
cybersecurity, fintech, payments

Market uncertainty:
“Great Wealth Transfer,” Fed balance sheet unwinding

Competition:
Deposit rate competition, large bank market share

Economic:
Economic diversification, farm consolidation, talent acquisition
Summary

• Supervisory ratings continue to improve
• Rising rates and tax reform have boosted bank earnings
• Controlling interest expense will be a challenge as rates increase, particularly for small banks
• Loan growth has assisted profitability, but funding this growth is increasingly challenging
• Competition is increasing for core deposits
• Credit conditions are benign and capital levels remain strong
• Small, rural banks face unique and increasing challenges
Questions?