



# National Survey and Town Hall Results

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# Industry Engagement Key to Success

- **Nationwide Survey**
  - 39 States
  - 974 Banks
- **Town Hall Meetings & Roundtable Discussions**
  - 26 States



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# Demographics



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# Bank Size Comparisons

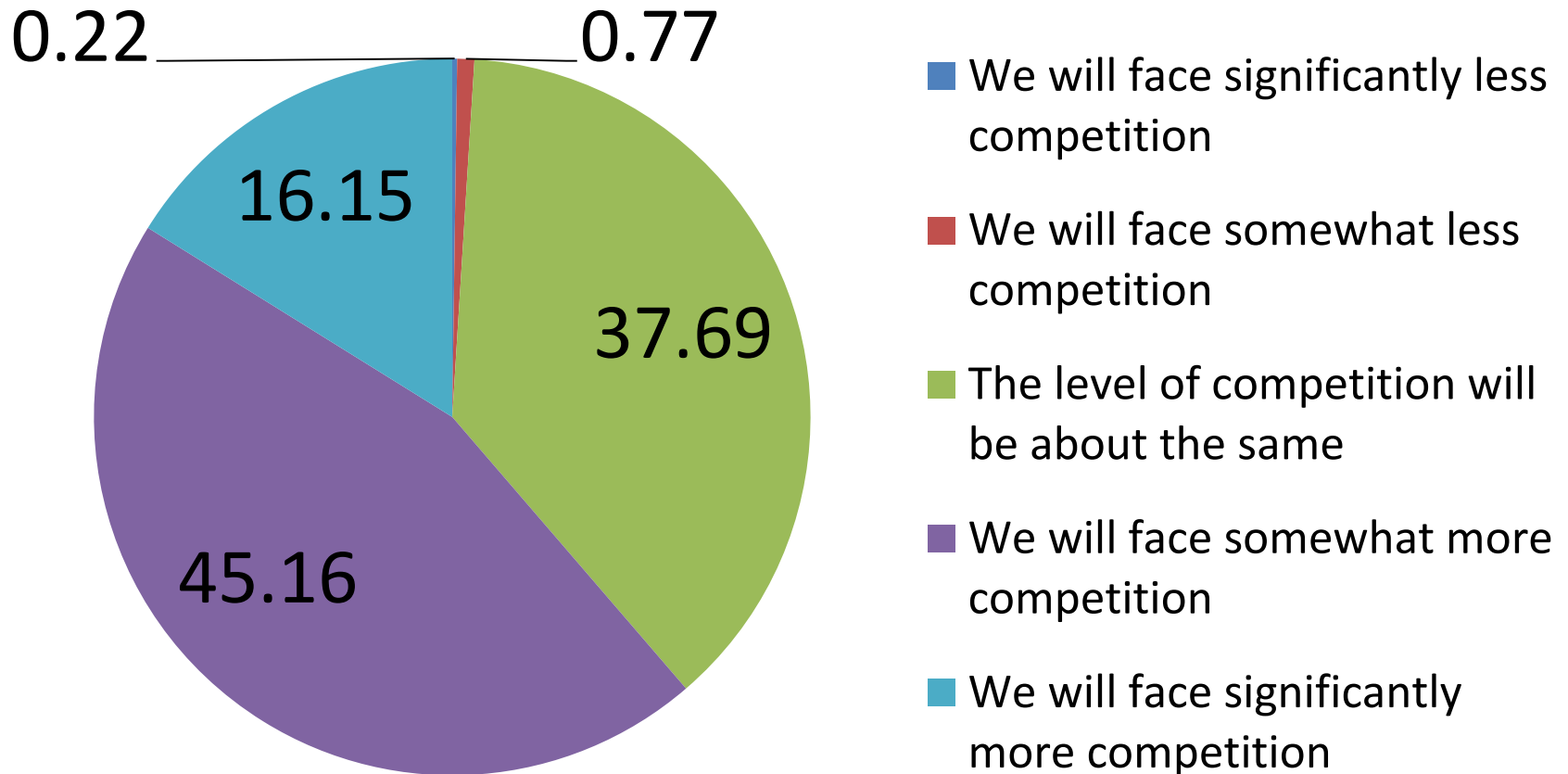
Asset Size as of Dec. 31, 2014	Banks in Survey		All State-Chartered Community Banks	
	Number	Percent	Number	Percent
Up to \$50 Million	54	6.19%	579	11.92%
\$50 Million to \$100 Million	136	15.58%	870	17.91%
\$100 Million to \$300 Million	340	38.95%	1,883	38.77%
\$300 Million to \$1 Billion	260	29.78%	1,117	23.00%
\$1 Billion to \$2 Billion	43	4.93%	221	4.55%
\$2 Billion to \$10 Billion	35	4.01%	187	3.85%
Greater than \$10 Billion	5	0.57%	0	0.00%



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Figure 15: Competitive Pressure





# Town Hall Topics

1. New business formation
2. Borrower attitudes
3. Financial services needs
4. Attracting human capital
5. Improving value of compliance examinations
6. Emerging issues



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# More on Mortgage Lending

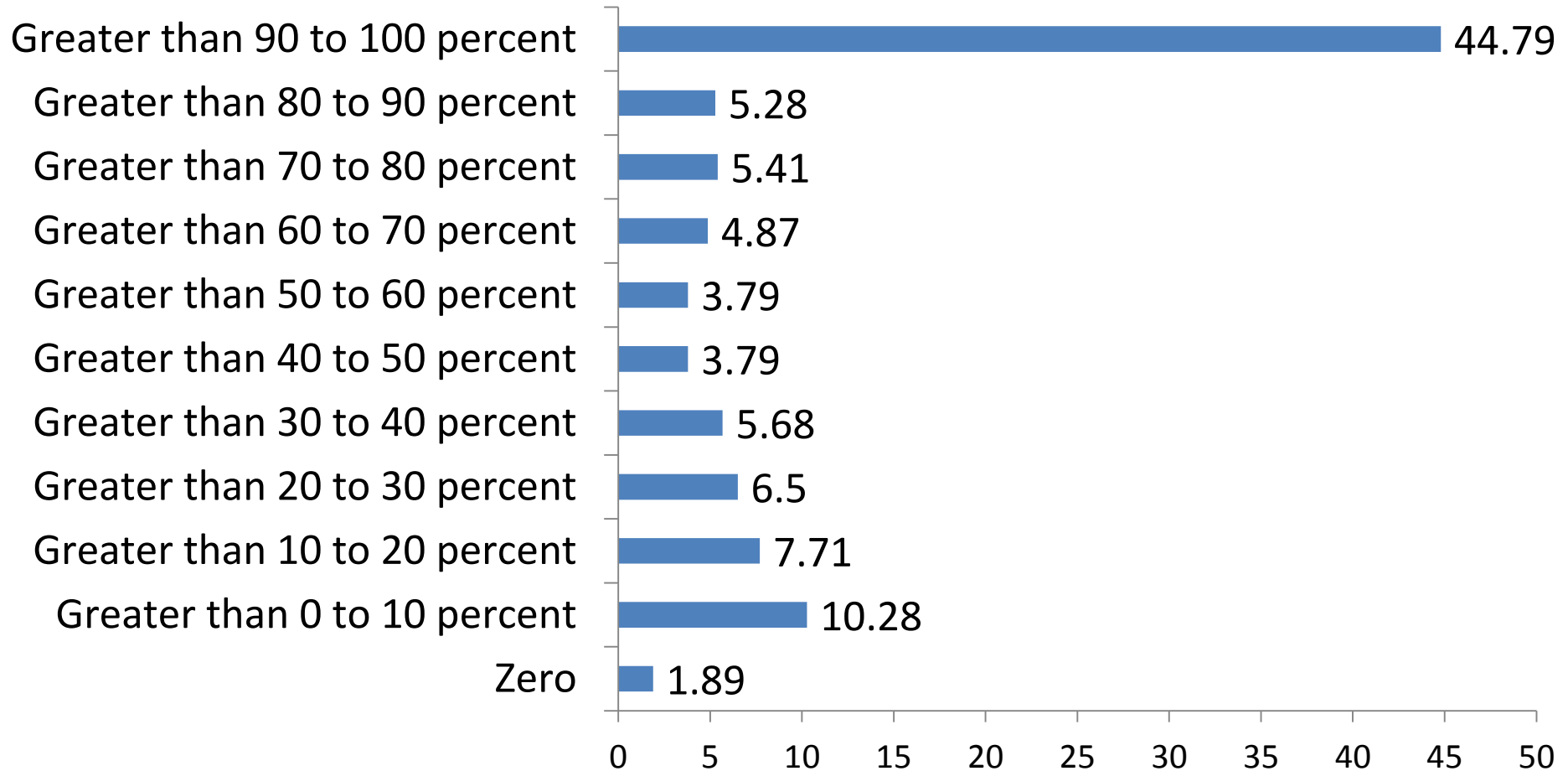


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### Figure 7: Percentage of Mortgages Held







## Figure 9: Non-QM Loans as a Percentage of Mortgage Loans

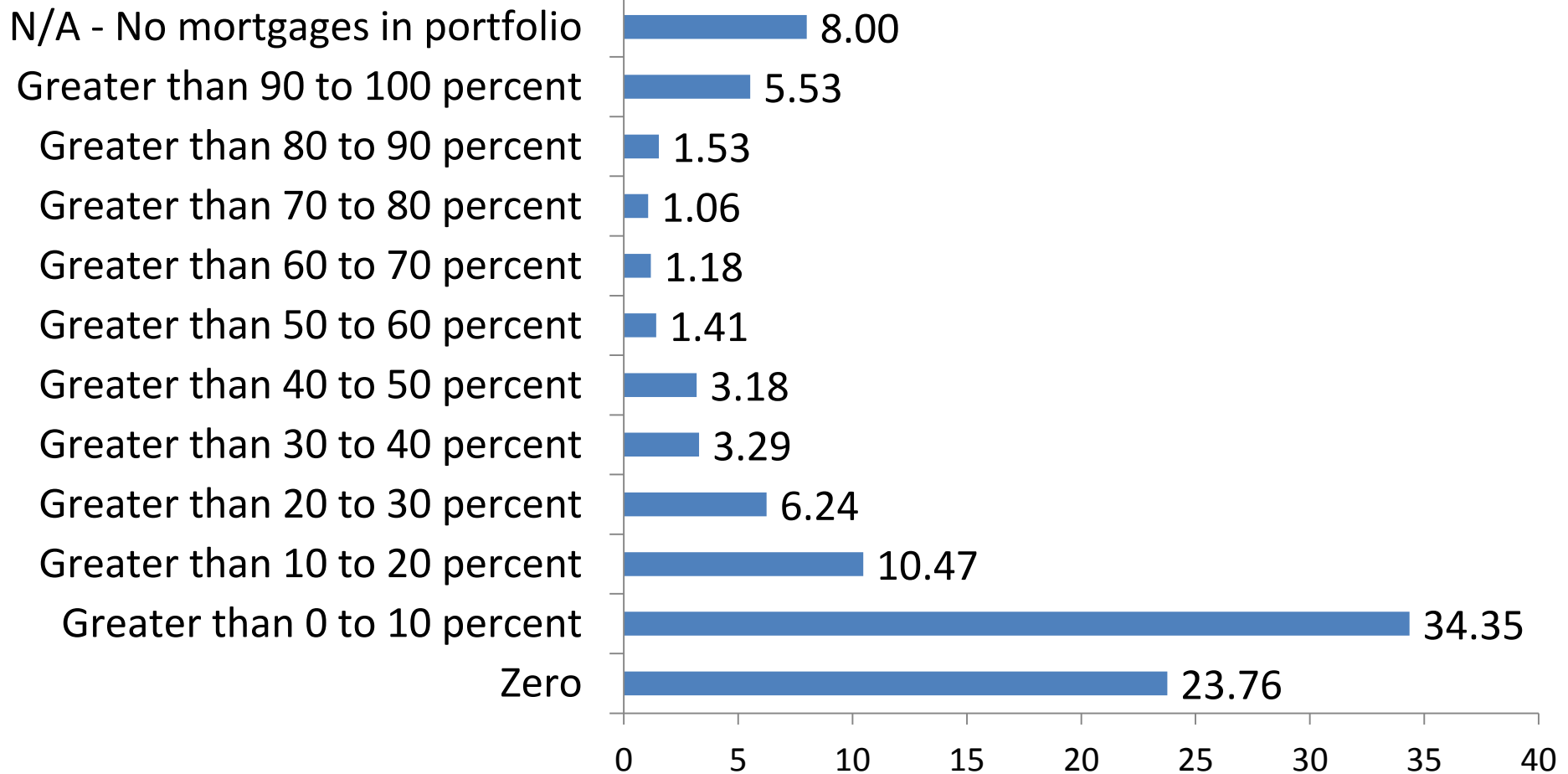
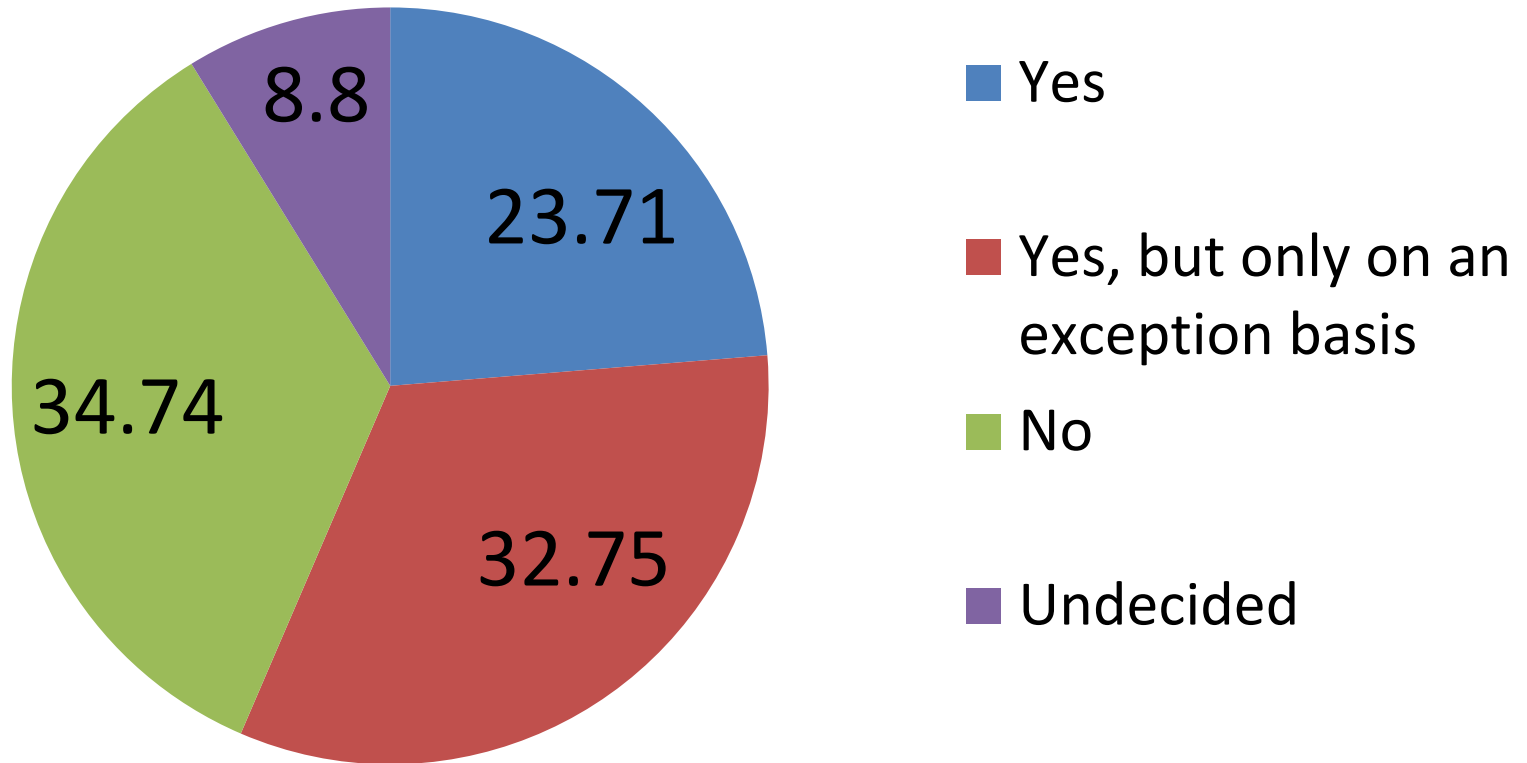
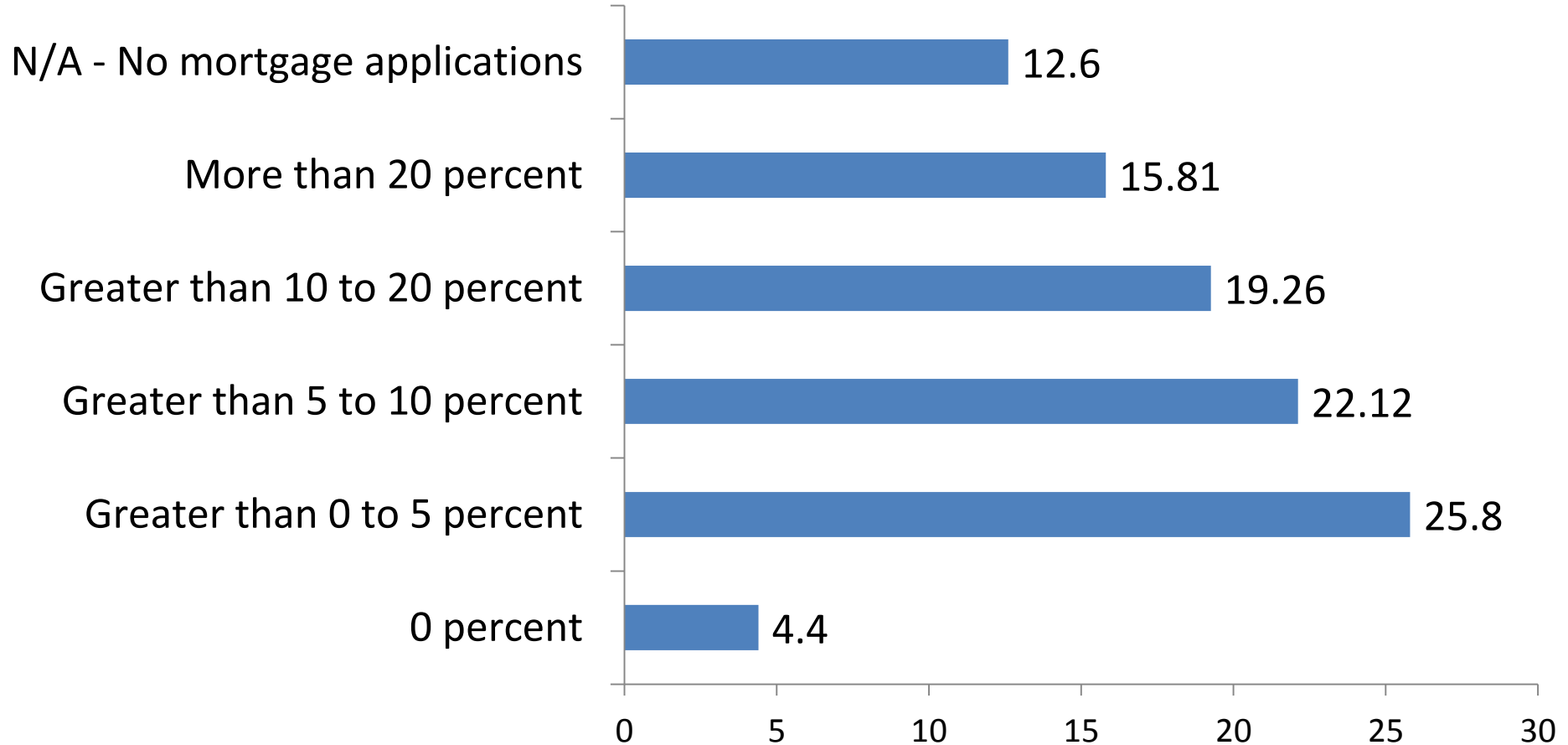


Figure 10: Non-QM Lending Plans

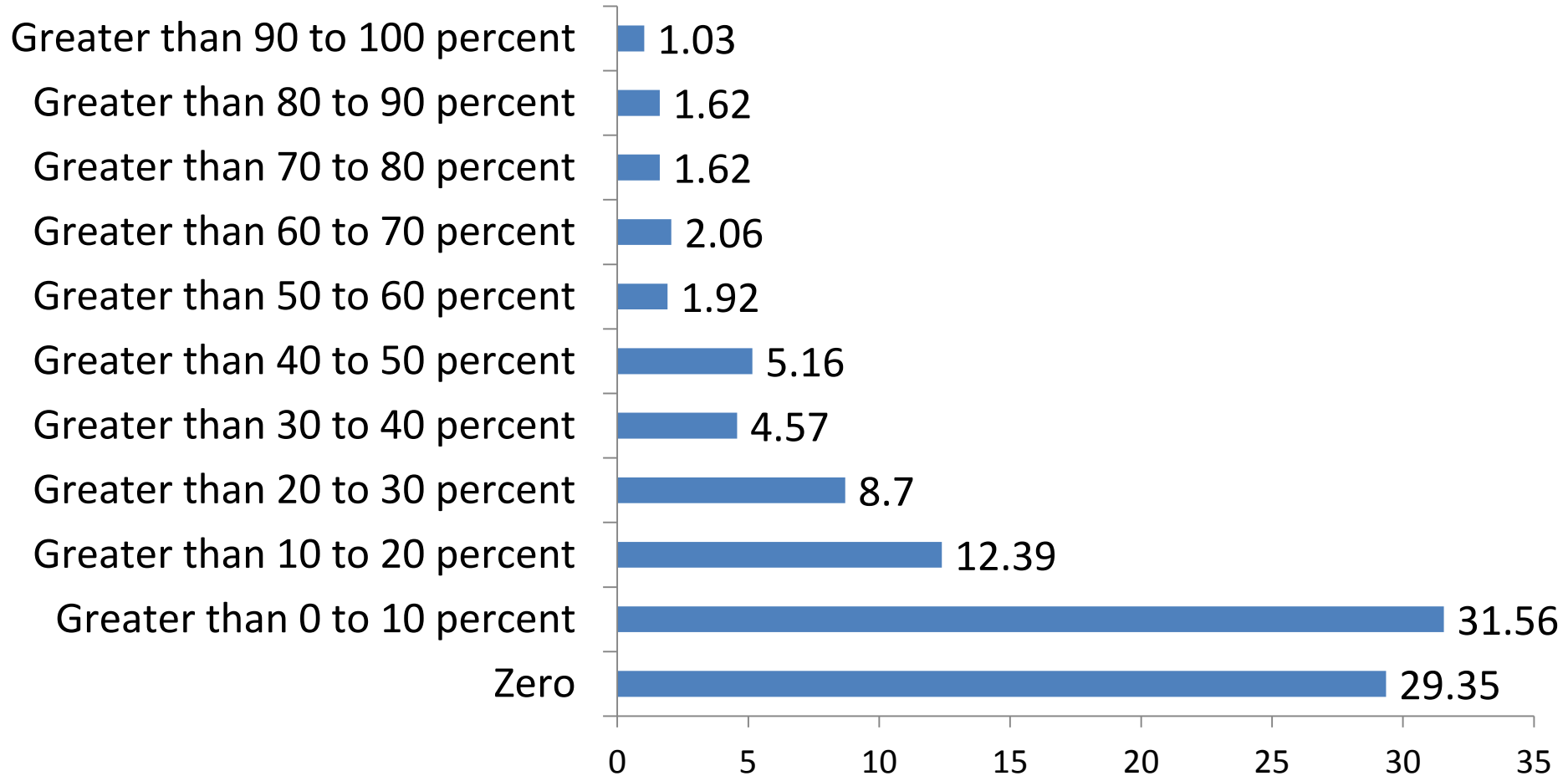




## Figure 11: Mortgage Denials



## Figure 12: Mortgage Denials Based on “Ability to Repay”





# Financial Services Needs



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# Financial Services: The Basics

- Need more flexibility on small dollar loans
- Difficult to extend housing credit to low and moderate income borrowers
- Difficult to lend mortgages to self-employed
- Not willing to do non-QM, leaving customers with few options



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# Financial Services: Broader Impact

- Customers being pushed out of traditional banking services into sectors that are less customer friendly
- Financial literacy is a problem for recent graduates but also the recently retired
- Banks challenged to invest time and money necessary for technology upgrades to meet expectations



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# Financial Services: Shaking it up

- The banking model is aging. New providers offer greater mobility and are more nimble
  - Community banks need to develop a crowd funding model
- Banking marijuana

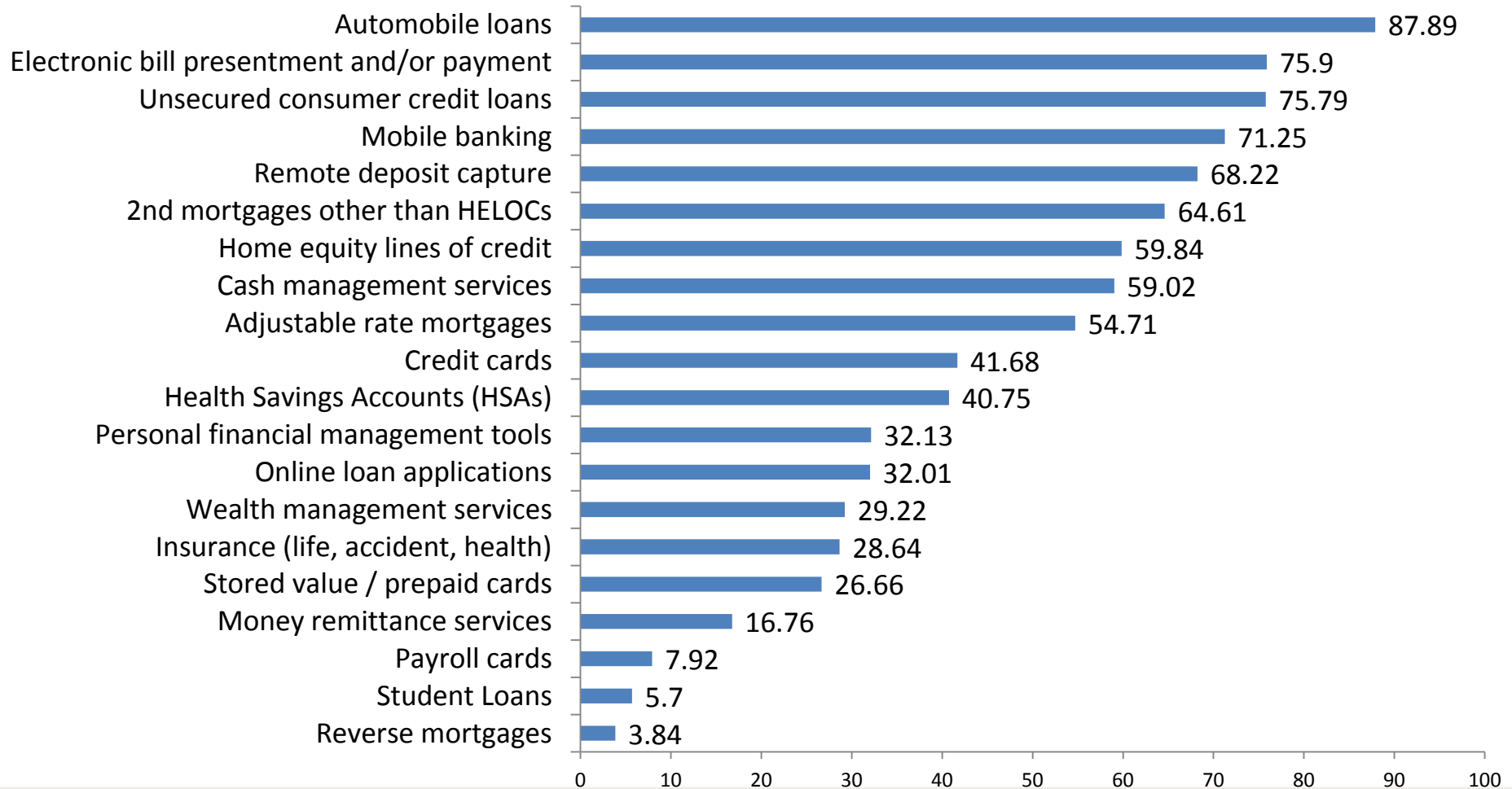


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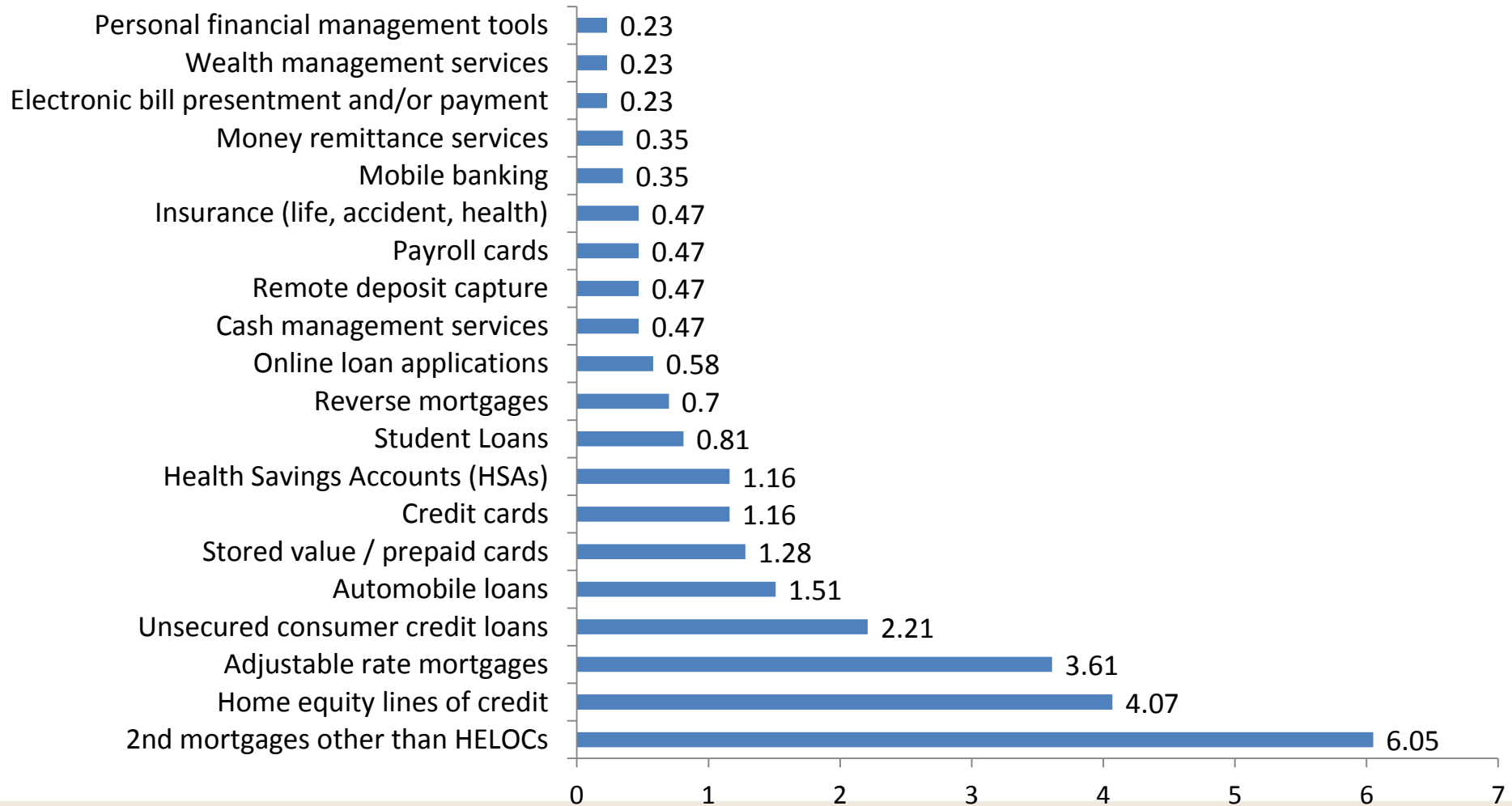


Figure 3: Products and Services Offered





## Figure 5: Products and Services to Be Discontinued





# Compliance Examinations



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# Compliance Examinations: Words Matter

- Antagonistic
- Aggressive
- Punitive
- Confrontational
- Pre-determined



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# Compliance Exams: Environment

- Intent seems to be on punishment regardless of the size and scope of issue
- Stringent BSA regulation limiting ability to operate in consumer space; driving toward less-regulated
- New rules are not always clear to the banker or the regulator



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# Compliance Exams: Environment

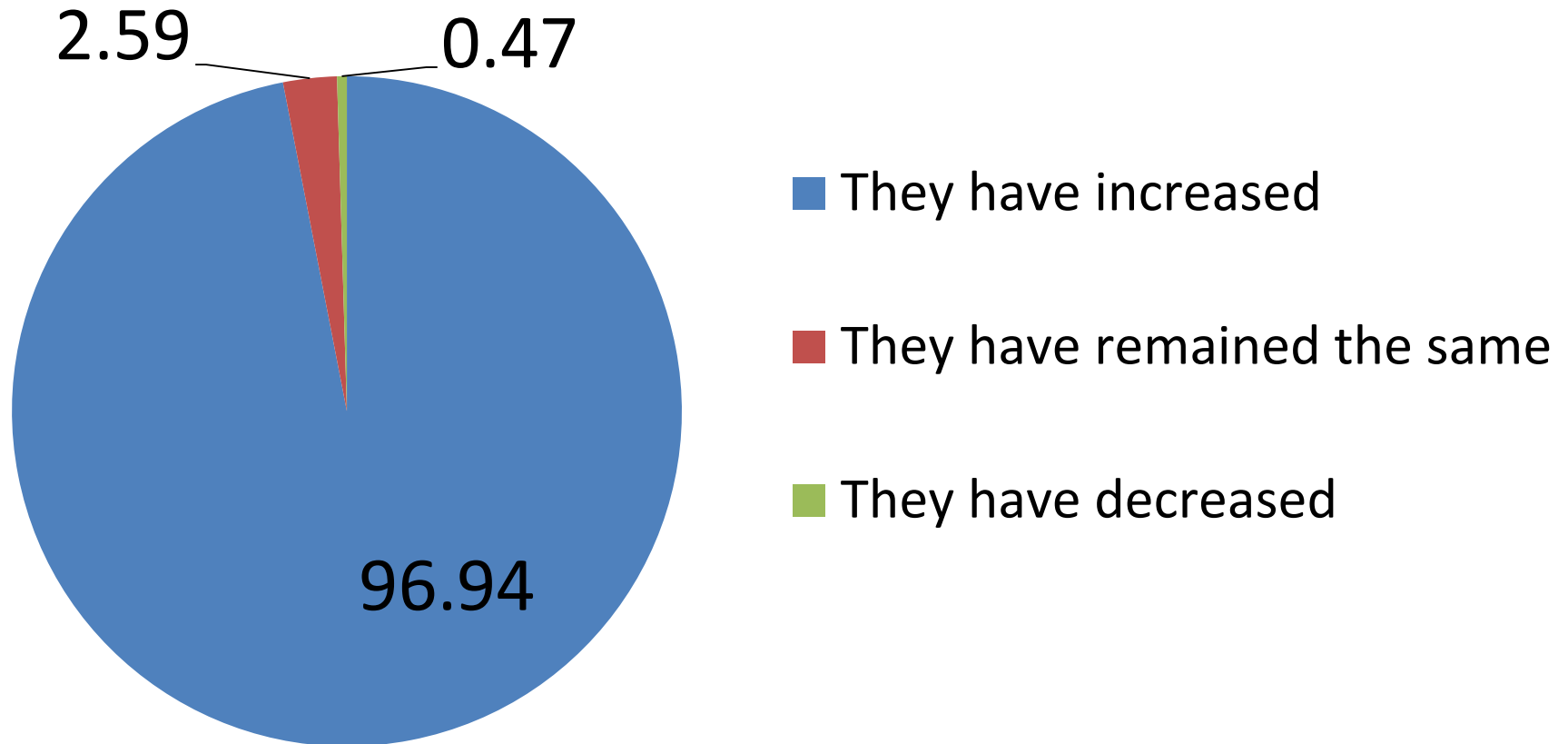
- Slowing the delivery of products and services,
- Drawn-out exam process causes fear and uncertainty
- Compliance examiners are rarely collaborative or responsive to questions
- Lack the valuable discussion and coaching that occurs during and between S&S exams



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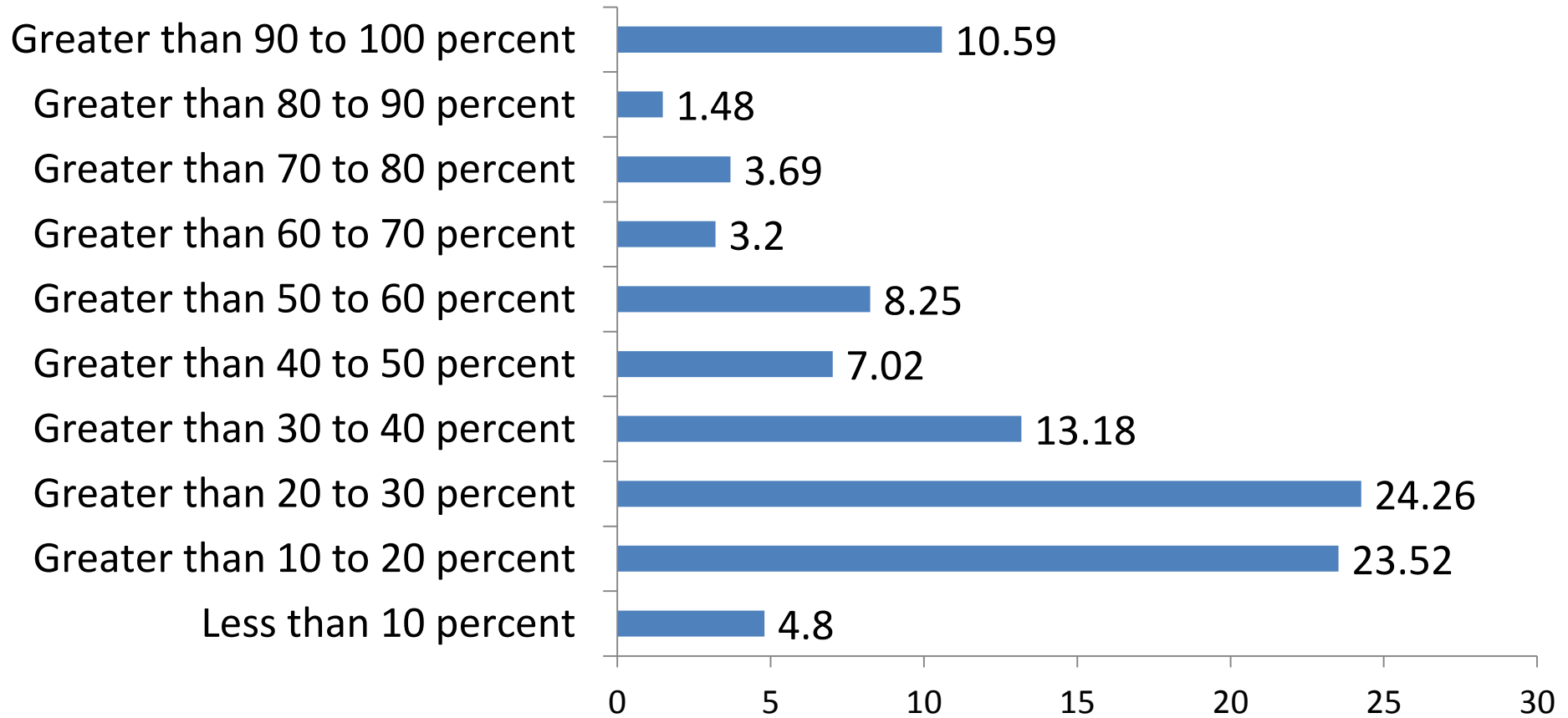
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Figure 13: Changes in Compliance Cost





## Figure 14: Percentage Change in Compliance Costs (Last Three Years)





# Compliance Costs as a Percentage of Cost by Category

Expense Type	Mean	Median
Personnel (Salary and Benefits)	10.59%	5.82%
Data Processing	16.20%	10.00%
Legal Fees and Expenses	20.49%	10.62%
Accounting and Auditing	38.46%	30.60%
Consulting and Advisory	47.55%	40.00%





# Total Estimated Compliance Costs

- If you multiply each of these mean percentages by the corresponding amount of community bank costs from the call report, you get a total of \$4.5 billion.
- This cost would represent approximately 22 percent of community bank income.
- This finding is not dissimilar to the findings of other researchers using a wide variety of techniques.



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# Compliance Exams: Recommendations

- Be more constructive than punitive
- Use more “technical exceptions” like in safety and soundness
- Establish a help desk to answer questions
- More interpretive bulletins (ex. Regression analysis, regional pricing, HMDA)
- Request lists should be reviewed for reasonableness



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# Compliance Exams: Recommendations

- More focus on systemic risks rather than single mistakes
- Consider the size, location, and complexity
- Exams should be on a shorter interval (three years between exams leaves too much time without feedback)



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# Questions?



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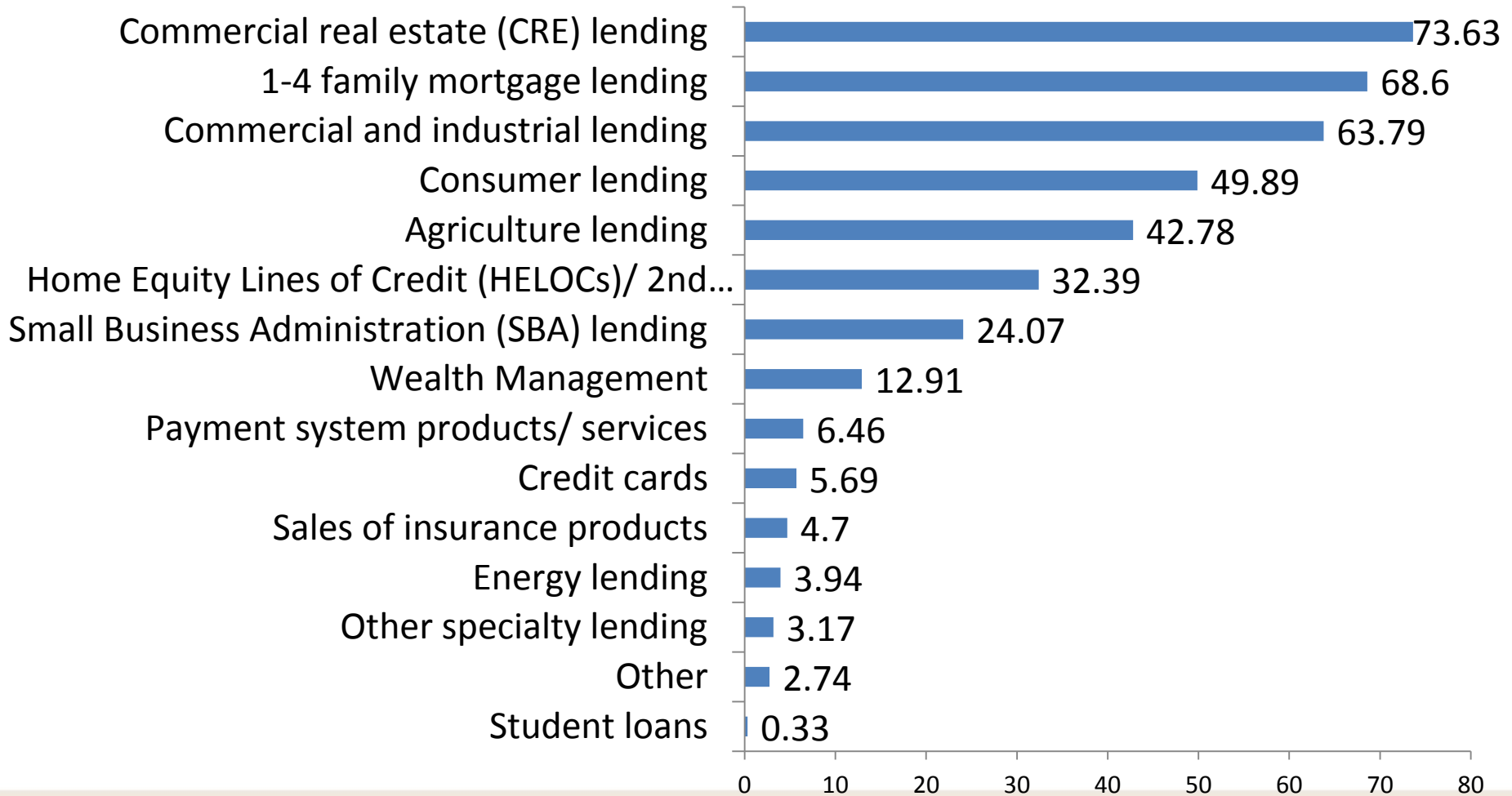
# Appendix



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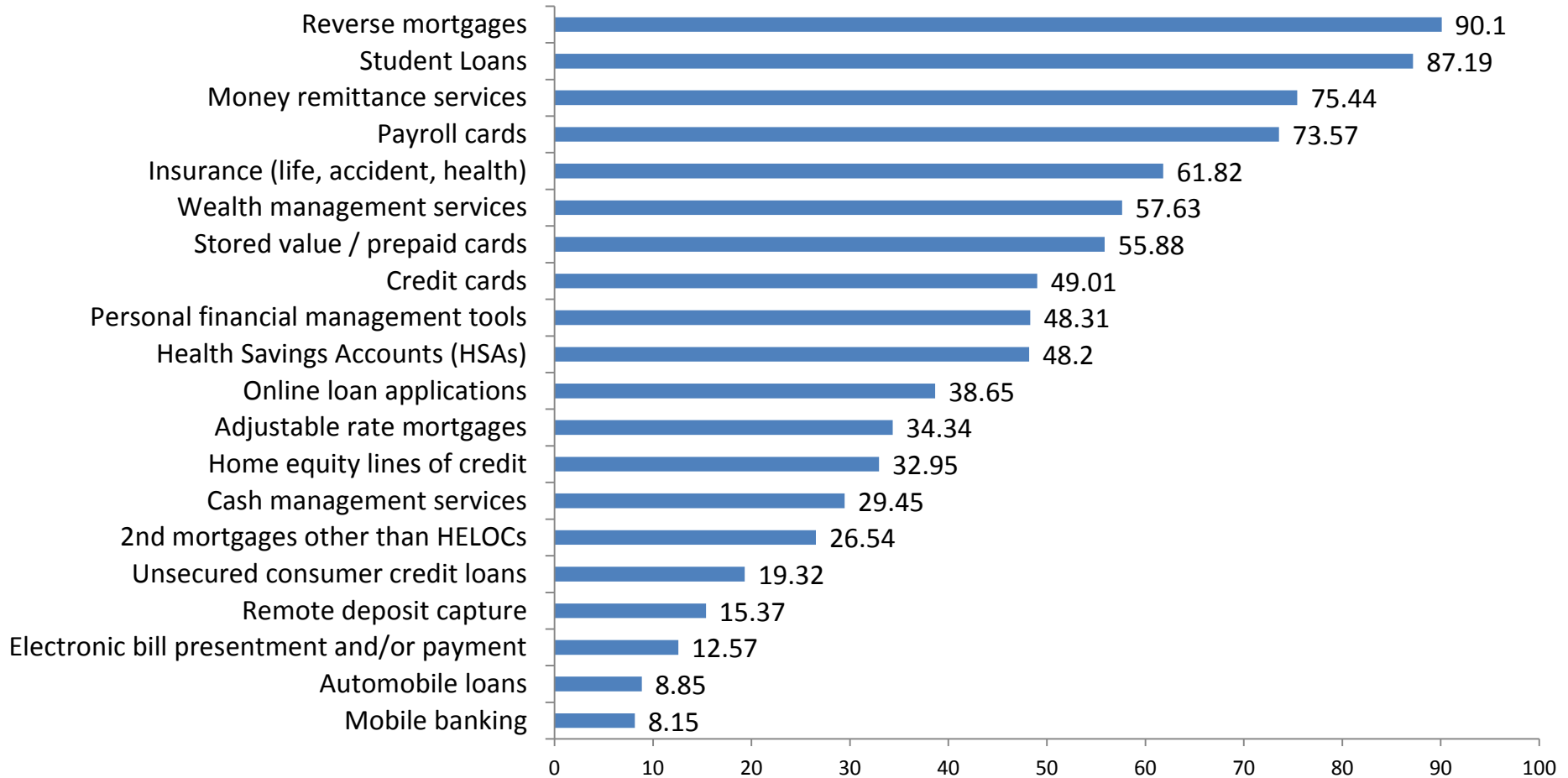
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## Figure 2: Lines of Business





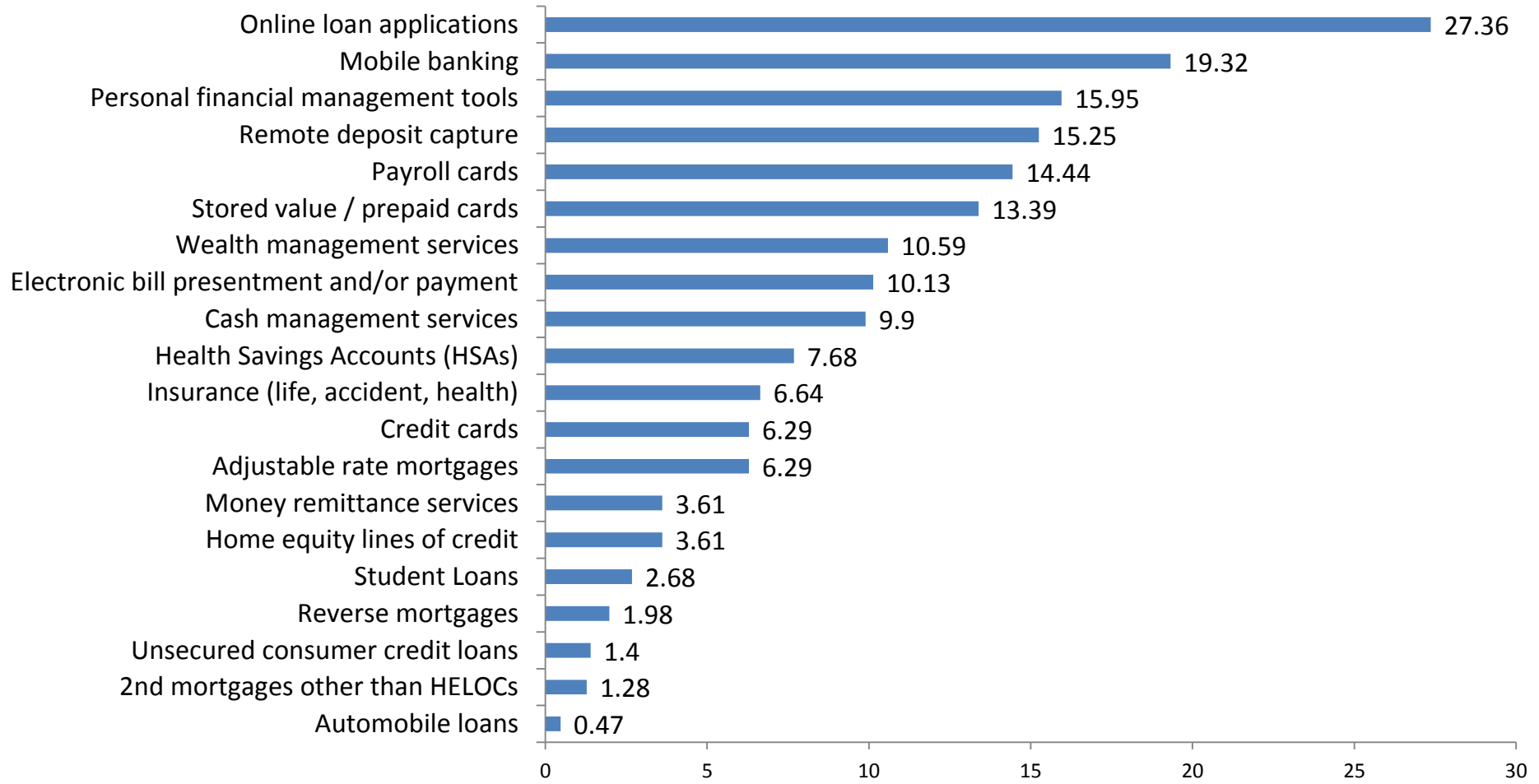
## Figure 4: Products and Services Not Offered and Not Planned to Be Offered



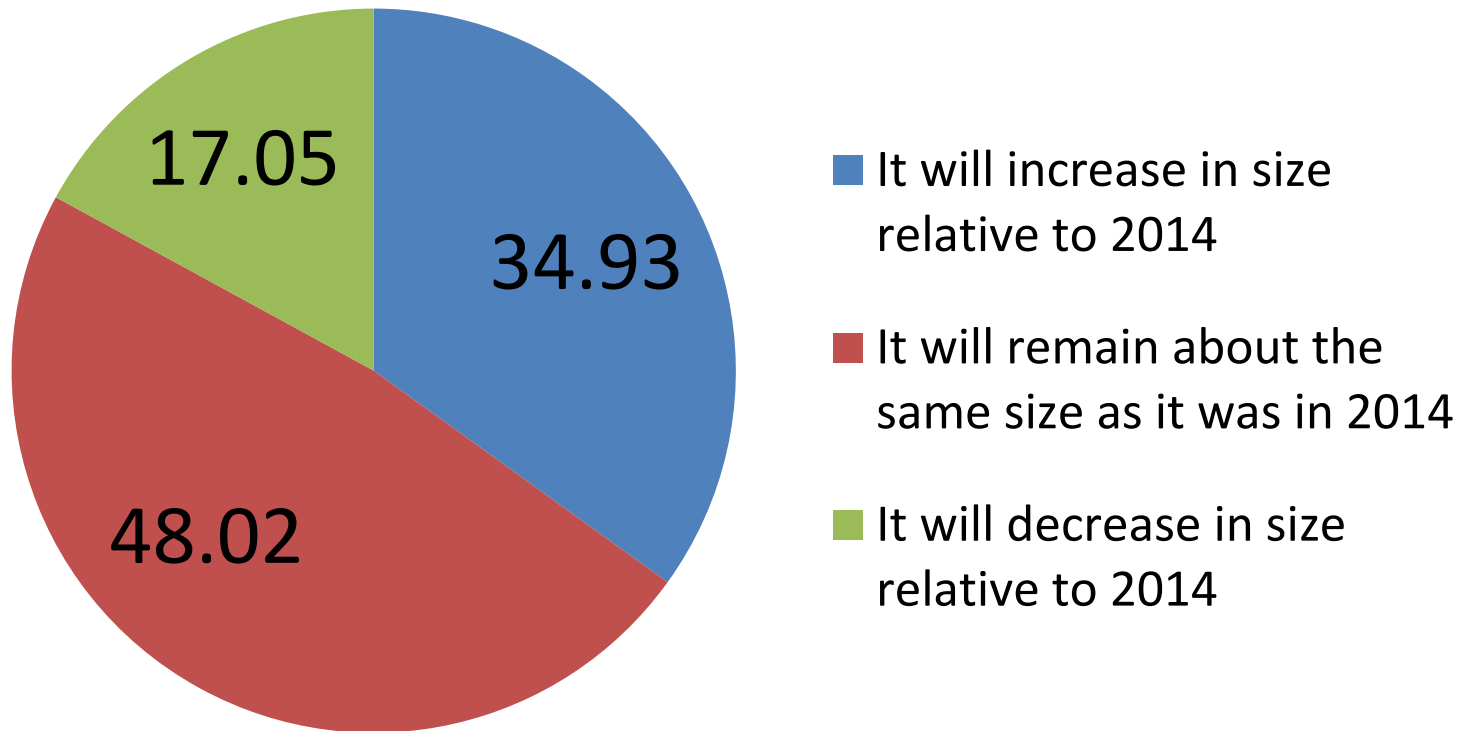




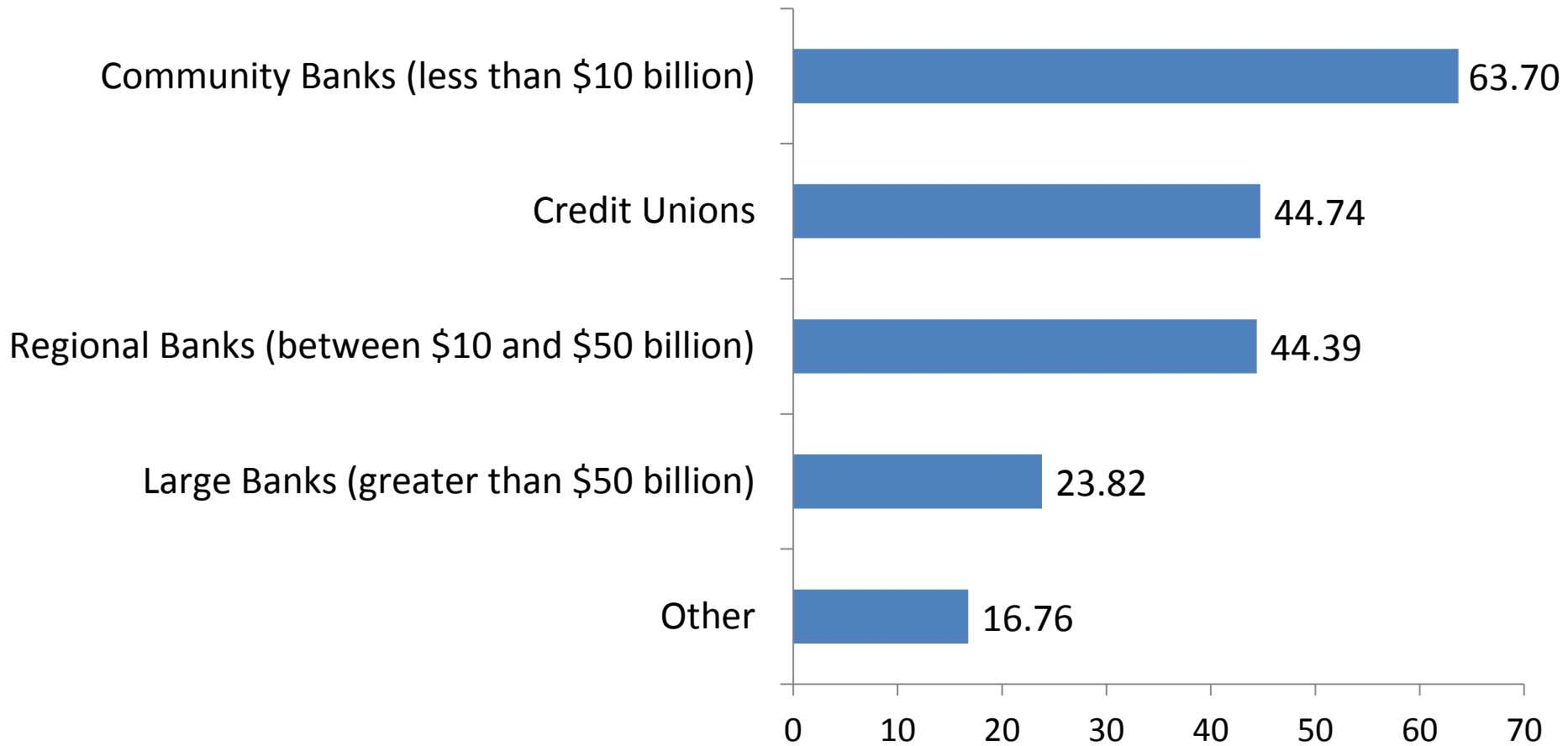
## Figure 6: Products and Services to Be Introduced



## Figure 8: Anticipated Mortgage Changes in 2015

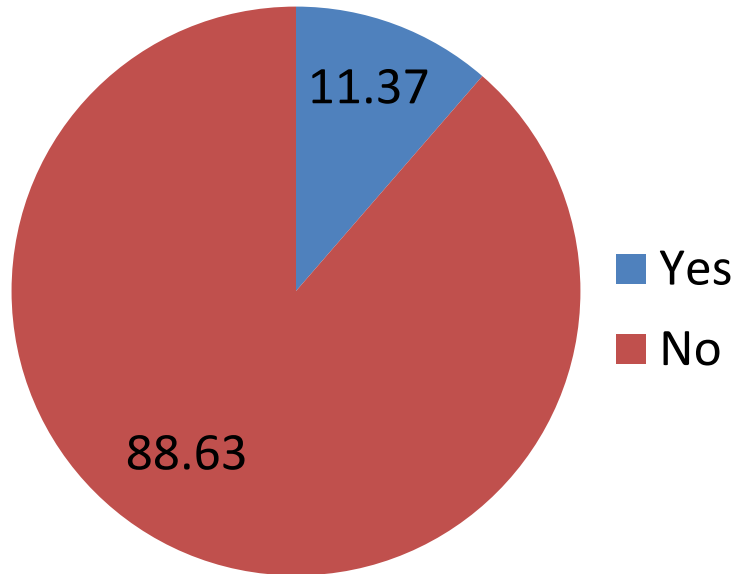


## Figure 16: Likely Sources of Increased Future Competition

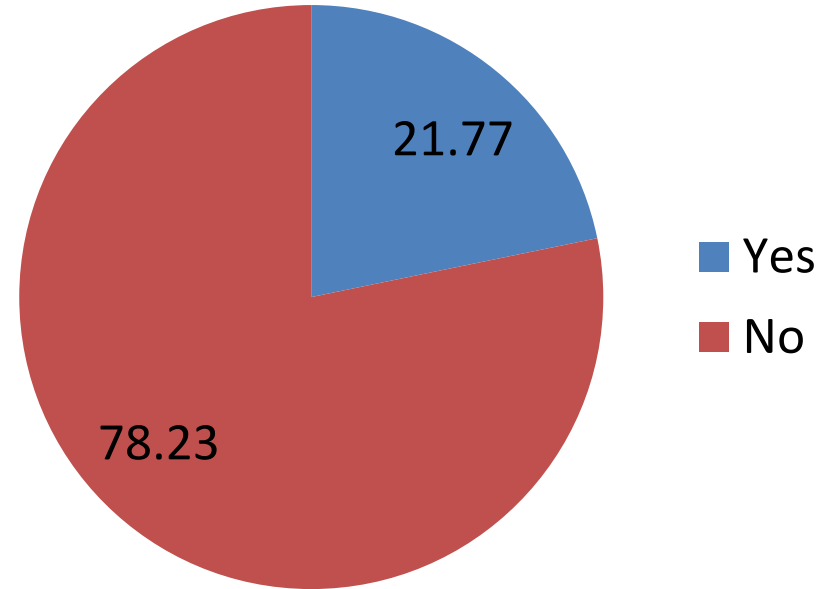




**Figure 17: Have you received and seriously considered accepting an acquisition offer in the past 12 months?**

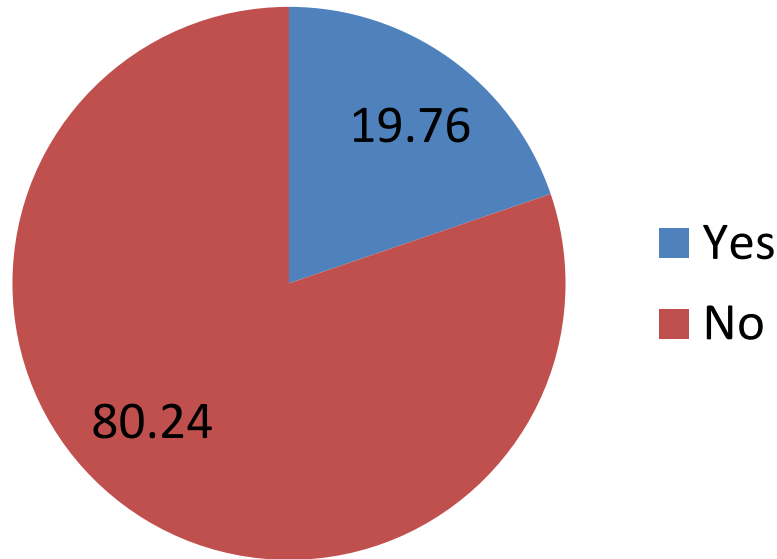


**Figure 18: Do you expect to receive an acquisition offer in the next 12 months?**

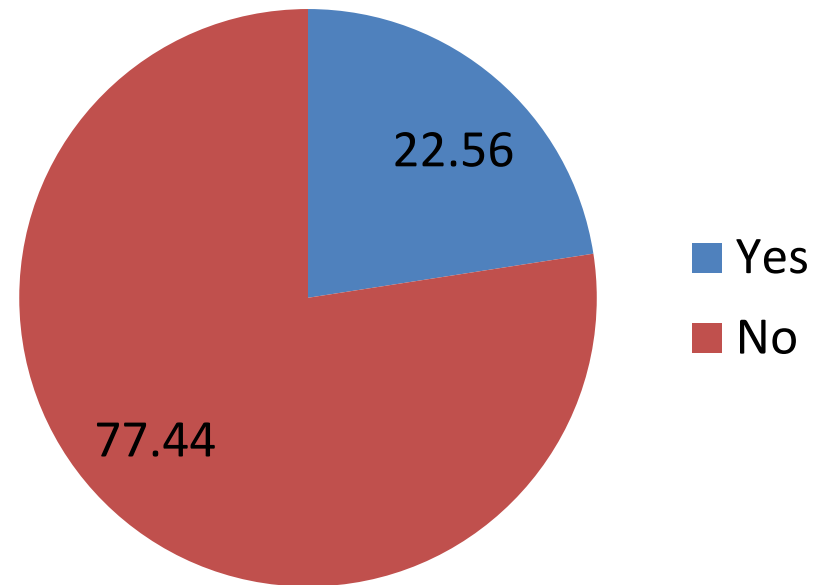




**Figure 19: Have you made an offer to a target institution in the last 12 months?**

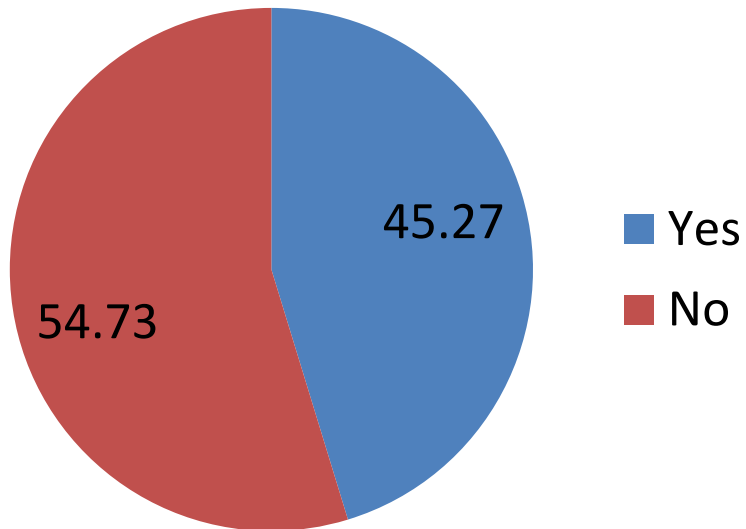


**Figure 20: Do you expect to make an offer to a target institution in the next 12 months?**

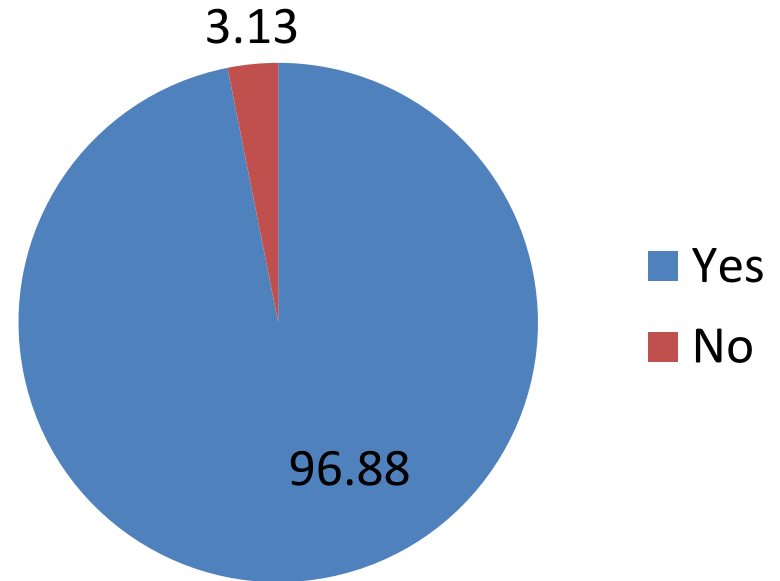




**Figure 21: Was the offer to buy accepted?**



**Figure 22: Were you pleased with the acquisition?**



## Figure 23: Expenses on Technology

