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
Demographics
# Bank Size Comparisons

<table>
<thead>
<tr>
<th>Asset Size as of Dec. 31, 2014</th>
<th>Banks in Survey</th>
<th>All State-Chartered Community Banks</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
<td>Percent</td>
</tr>
<tr>
<td>Up to $50 Million</td>
<td>54</td>
<td>6.19%</td>
</tr>
<tr>
<td>$50 Million to $100 Million</td>
<td>136</td>
<td>15.58%</td>
</tr>
<tr>
<td>$100 Million to $300 Million</td>
<td>340</td>
<td>38.95%</td>
</tr>
<tr>
<td>$300 Million to $1 Billion</td>
<td>260</td>
<td>29.78%</td>
</tr>
<tr>
<td>$1 Billion to $2 Billion</td>
<td>43</td>
<td>4.93%</td>
</tr>
<tr>
<td>$2 Billion to $10 Billion</td>
<td>35</td>
<td>4.01%</td>
</tr>
<tr>
<td>Greater than $10 Billion</td>
<td>5</td>
<td>0.57%</td>
</tr>
</tbody>
</table>
Figure 15: Competitive Pressure

- 0.22: We will face significantly less competition
- 0.77: We will face somewhat less competition
- 16.15: The level of competition will be about the same
- 37.69: We will face somewhat more competition
- 45.16: We will face significantly more competition
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
More on Mortgage Lending
Figure 7: Percentage of Mortgages Held

- Greater than 90 to 100 percent: 44.79%
- Greater than 80 to 90 percent: 5.28%
- Greater than 70 to 80 percent: 5.41%
- Greater than 60 to 70 percent: 4.87%
- Greater than 50 to 60 percent: 3.79%
- Greater than 40 to 50 percent: 3.79%
- Greater than 30 to 40 percent: 5.68%
- Greater than 20 to 30 percent: 6.5%
- Greater than 10 to 20 percent: 7.71%
- Greater than 0 to 10 percent: 10.28%
- Zero: 1.89%
Figure 9: Non-QM Loans as a Percentage of Mortgage Loans

- N/A - No mortgages in portfolio: 8.00%
- Greater than 90 to 100 percent: 5.53%
- Greater than 80 to 90 percent: 1.53%
- Greater than 70 to 80 percent: 1.06%
- Greater than 60 to 70 percent: 1.18%
- Greater than 50 to 60 percent: 1.41%
- Greater than 40 to 50 percent: 3.18%
- Greater than 30 to 40 percent: 3.29%
- Greater than 20 to 30 percent: 6.24%
- Greater than 10 to 20 percent: 10.47%
- Greater than 0 to 10 percent: 34.35%
- Zero: 23.76%
Figure 10: Non-QM Lending Plans

- Yes: 32.75%
- Yes, but only on an exception basis: 23.71%
- No: 34.74%
- Undecided: 8.8%
Figure 11: Mortgage Denials

- N/A - No mortgage applications: 12.6%
- More than 20 percent: 15.81%
- Greater than 10 to 20 percent: 19.26%
- Greater than 5 to 10 percent: 22.12%
- Greater than 0 to 5 percent: 25.8%
- 0 percent: 4.4%
Figure 12: Mortgage Denials Based on “Ability to Repay”

- Greater than 90 to 100 percent: 1.03
- Greater than 80 to 90 percent: 1.62
- Greater than 70 to 80 percent: 1.62
- Greater than 60 to 70 percent: 2.06
- Greater than 50 to 60 percent: 1.92
- Greater than 40 to 50 percent: 5.16
- Greater than 30 to 40 percent: 4.57
- Greater than 20 to 30 percent: 8.7
- Greater than 10 to 20 percent: 12.39
- Greater than 0 to 10 percent: 31.56
- Zero: 29.35
Financial Services Needs
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
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
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
Figure 3: Products and Services Offered

- Automobile loans: 87.89%
- Electronic bill presentment and/or payment: 75.9%
- Unsecured consumer credit loans: 75.79%
- Mobile banking: 71.25%
- Remote deposit capture: 68.22%
- 2nd mortgages other than HELOCs: 64.61%
- Home equity lines of credit: 59.84%
- Cash management services: 59.02%
- Adjustable rate mortgages: 54.71%
- Credit cards: 41.68%
- Health Savings Accounts (HSAs): 40.75%
- Personal financial management tools: 32.13%
- Online loan applications: 32.01%
- Wealth management services: 29.22%
- Insurance (life, accident, health): 28.64%
- Stored value / prepaid cards: 26.66%
- Money remittance services: 16.76%
- Payroll cards: 7.92%
- Student Loans: 5.7%
- Reverse mortgages: 3.84%
Figure 5: Products and Services to Be Discontinued

- Personal financial management tools: 0.23
- Wealth management services: 0.23
- Electronic bill presentment and/or payment: 0.23
- Money remittance services: 0.35
- Mobile banking: 0.35
- Insurance (life, accident, health): 0.47
- Payroll cards: 0.47
- Remote deposit capture: 0.47
- Cash management services: 0.47
- Online loan applications: 0.58
- Reverse mortgages: 0.7
- Student Loans: 0.81
- Health Savings Accounts (HSAs): 1.16
- Credit cards: 1.16
- Stored value / prepaid cards: 1.28
- Automobile loans: 1.51
- Unsecured consumer credit loans: 2.21
- Adjustable rate mortgages: 3.61
- Home equity lines of credit: 4.07
- 2nd mortgages other than HELOCs: 6.05

0 1 2 3 4 5 6 7
Compliance Examinations
Compliance Examinations: Words Matter

- Antagonistic
- Aggressive
- Punitive
- Confrontational
- Pre-determined
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
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
Figure 13: Changes in Compliance Cost

- 96.94% have increased
- 0.47% have remained the same
- 2.59% have decreased
Figure 14: Percentage Change in Compliance Costs (Last Three Years)

- Greater than 90 to 100 percent: 10.59%
- Greater than 80 to 90 percent: 1.48%
- Greater than 70 to 80 percent: 3.69%
- Greater than 60 to 70 percent: 3.2%
- Greater than 50 to 60 percent: 8.25%
- Greater than 40 to 50 percent: 7.02%
- Greater than 30 to 40 percent: 13.18%
- Greater than 20 to 30 percent: 24.26%
- Greater than 10 to 20 percent: 23.52%
- Less than 10 percent: 4.8%
## Compliance Costs as a Percentage of Cost by Category

<table>
<thead>
<tr>
<th>Expense Type</th>
<th>Mean</th>
<th>Median</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personnel (Salary and Benefits)</td>
<td>10.59%</td>
<td>5.82%</td>
</tr>
<tr>
<td>Data Processing</td>
<td>16.20%</td>
<td>10.00%</td>
</tr>
<tr>
<td>Legal Fees and Expenses</td>
<td>20.49%</td>
<td>10.62%</td>
</tr>
<tr>
<td>Accounting and Auditing</td>
<td>38.46%</td>
<td>30.60%</td>
</tr>
<tr>
<td>Consulting and Advisory</td>
<td>47.55%</td>
<td>40.00%</td>
</tr>
</tbody>
</table>
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.
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
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)
Questions?
Appendix
Figure 2: Lines of Business

Commercial real estate (CRE) lending: 73.63%
1-4 family mortgage lending: 68.6%
Commercial and industrial lending: 63.79%
Consumer lending: 49.89%
Agriculture lending: 42.78%
Home Equity Lines of Credit (HELOCs)/2nd...: 32.39%
Small Business Administration (SBA) lending: 24.07%
Wealth Management: 12.91%
Payment system products/services: 6.46%
Credit cards: 5.69%
Sales of insurance products: 4.7%
Energy lending: 3.94%
Other specialty lending: 3.17%
Other: 2.74%
Student loans: 0.33%
Figure 4: Products and Services Not Offered and Not Planned to Be Offered

- Reverse mortgages: 90.1%
- Student Loans: 87.19%
- Money remittance services: 75.44%
- Payroll cards: 73.57%
- Insurance (life, accident, health): 61.82%
- Wealth management services: 57.63%
- Stored value / prepaid cards: 55.88%
- Credit cards: 49.01%
- Personal financial management tools: 48.31%
- Health Savings Accounts (HSAs): 48.2%
- Online loan applications: 38.65%
- Adjustable rate mortgages: 34.34%
- Home equity lines of credit: 32.95%
- Cash management services: 29.45%
- 2nd mortgages other than HELOCs: 26.54%
- Unsecured consumer credit loans: 19.32%
- Remote deposit capture: 15.37%
- Electronic bill presentment and/or payment: 12.57%
- Automobile loans: 8.85%
- Mobile banking: 8.15%
Figure 6: Products and Services to Be Introduced

- Online loan applications: 27.36
- Mobile banking: 19.32
- Personal financial management tools: 15.95
- Remote deposit capture: 15.25
- Payroll cards: 14.44
- Stored value / prepaid cards: 13.39
- Wealth management services: 10.59
- Electronic bill presentment and/or payment: 10.13
- Cash management services: 9.9
- Health Savings Accounts (HSAs): 7.68
- Insurance (life, accident, health): 6.64
- Credit cards: 6.29
- Adjustable rate mortgages: 6.29
- Money remittance services: 3.61
- Home equity lines of credit: 3.61
- Student Loans: 2.68
- Reverse mortgages: 1.98
- Unsecured consumer credit loans: 1.4
- 2nd mortgages other than HELOCs: 1.28
- Automobile loans: 0.47
Figure 8: Anticipated Mortgage Changes in 2015

- 17.05%: It will increase in size relative to 2014
- 34.93%: It will remain about the same size as it was in 2014
- 48.02%: It will decrease in size relative to 2014
Figure 16: Likely Sources of Increased Future Competition

- Community Banks (less than $10 billion): 63.70%
- Credit Unions: 44.74%
- Regional Banks (between $10 and $50 billion): 44.39%
- Large Banks (greater than $50 billion): 23.82%
- Other: 16.76%
Figure 17: Have you received and seriously considered accepting an acquisition offer in the past 12 months?

- Yes: 11.37%
- No: 88.63%

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

- Yes: 21.77%
- No: 78.23%
Figure 19: Have you made an offer to a target institution in the last 12 months?

- Yes: 19.76%
- No: 80.24%

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

- Yes: 22.56%
- No: 77.44%
Figure 21: Was the offer to buy accepted?

- Yes: 54.73%
- No: 45.27%

Figure 22: Were you pleased with the acquisition?

- Yes: 96.88%
- No: 3.13%
Figure 23: Expenses on Technology

- 0 to 5 basis points: 30.13%
- Greater than 5 to 10 basis points: 25.81%
- Greater than 10 to 15 basis points: 29.29%
- Greater than 15 basis points: 14.77%