

# Banking Conditions Update

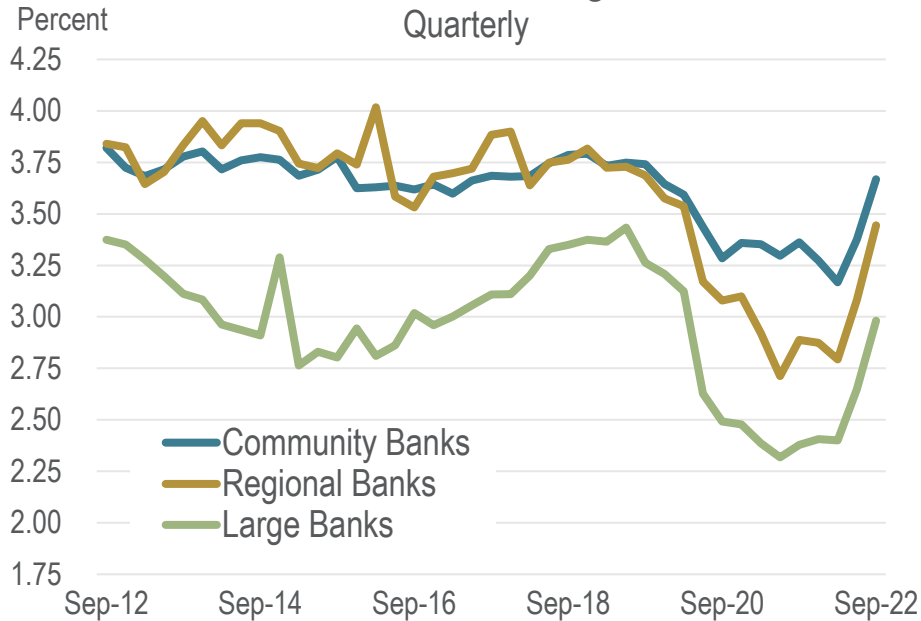
*Joint Boards of Directors  
January 12, 2023*

*Tara Humston  
Senior Vice President, Supervision & Risk Management*

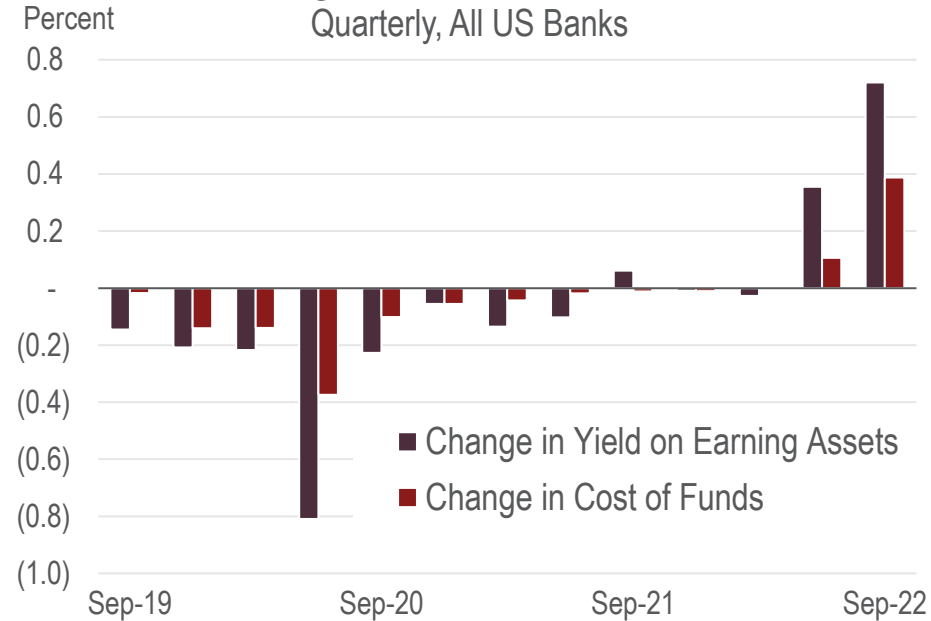


# Net interest margins continue to rebound

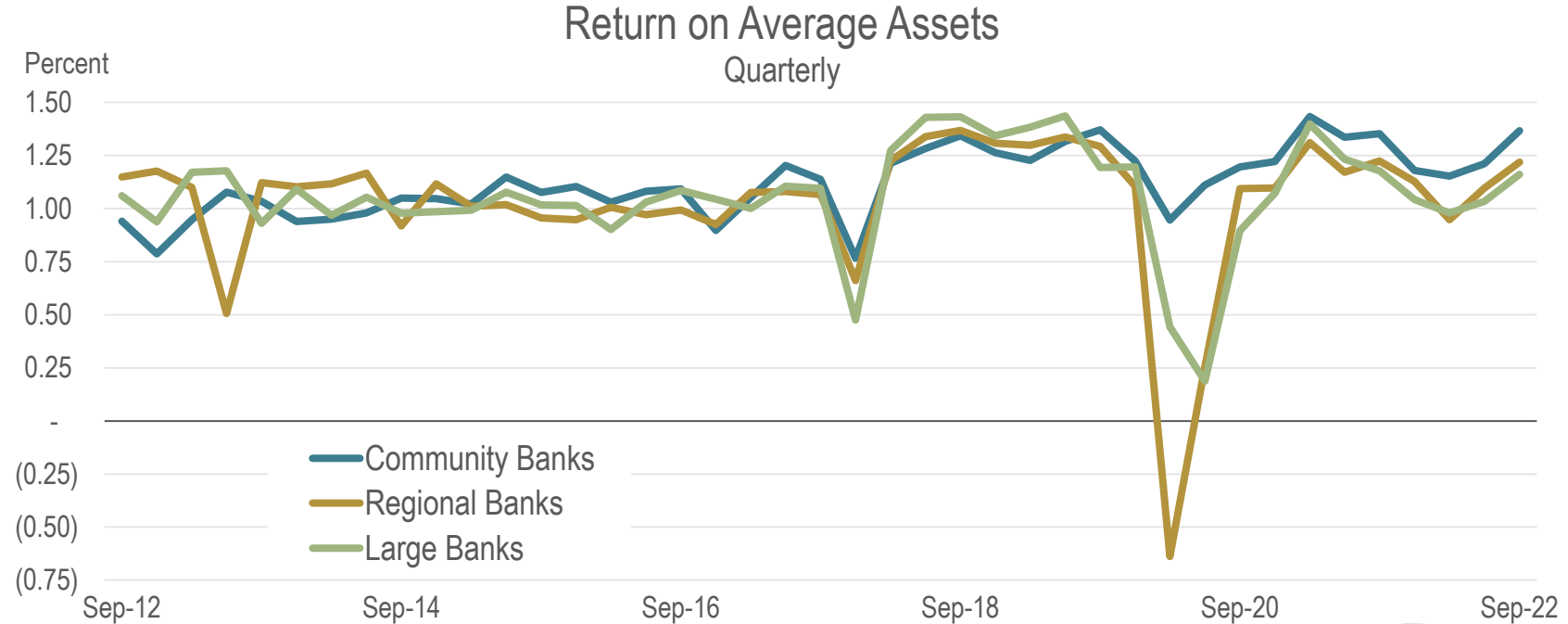
Net Interest Margin  
Quarterly



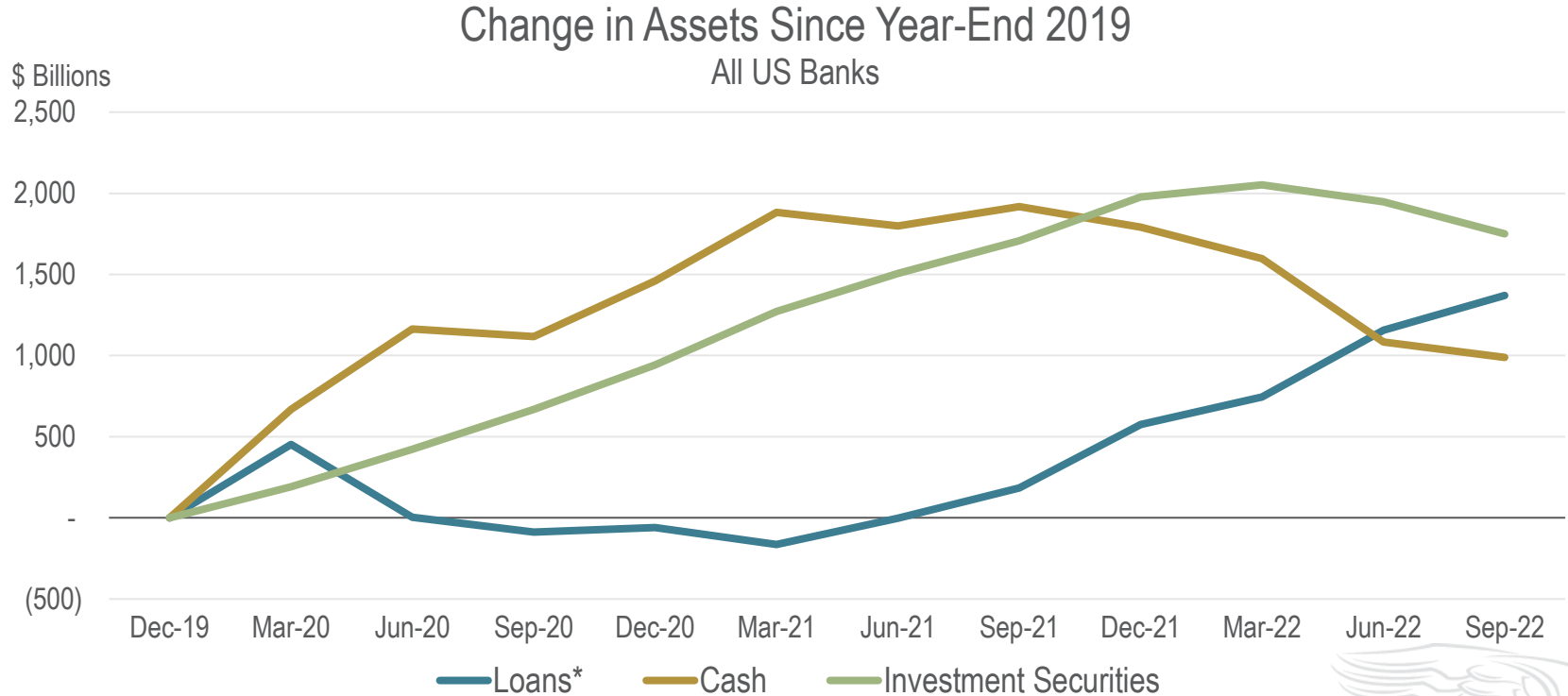
Change Q3 2019 – Q3 2022  
Quarterly, All US Banks



# Net income supported by improving margins



# Asset mix is shifting as loan growth increases



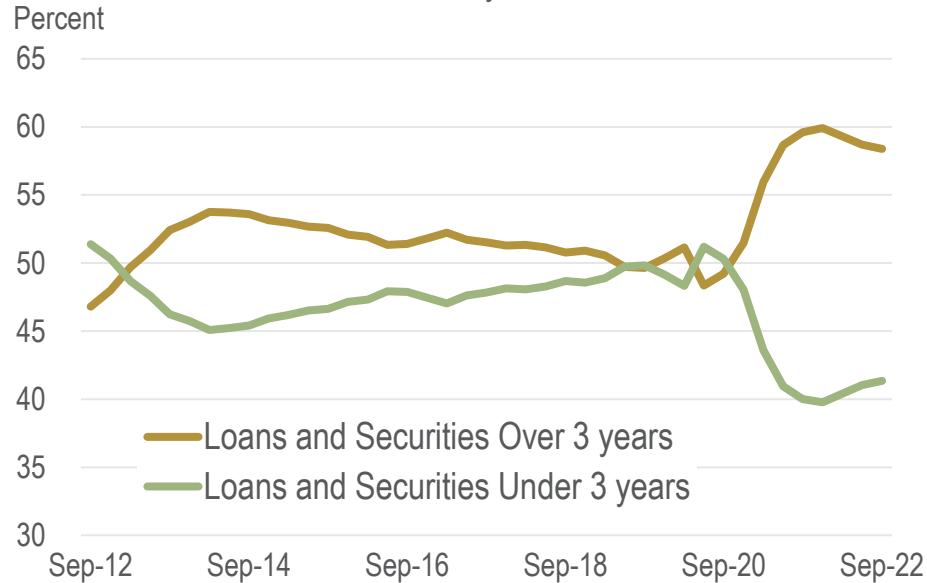
\*Loan growth excludes Paycheck Protection Program (PPP) loans

Source: Reports of Condition and Income

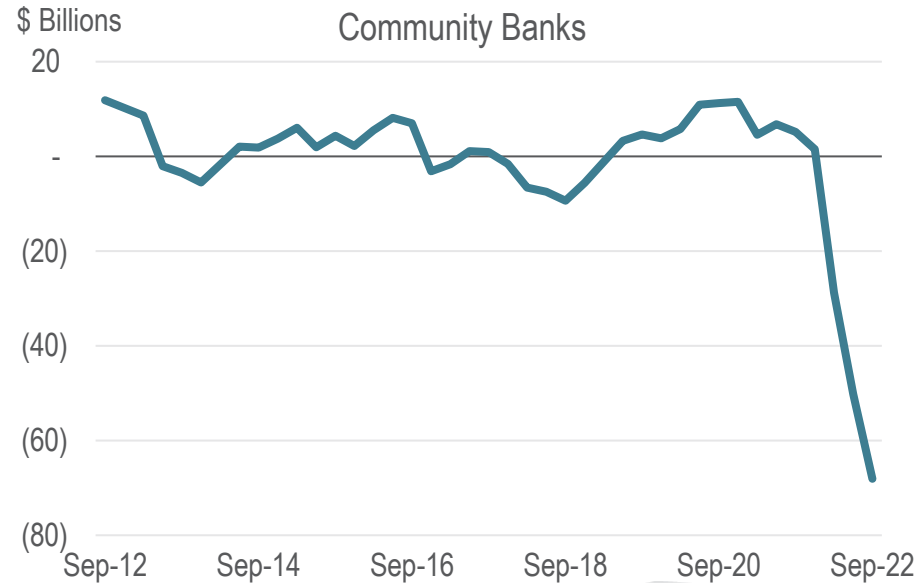


# Though balance sheets are hindered by unrealized losses

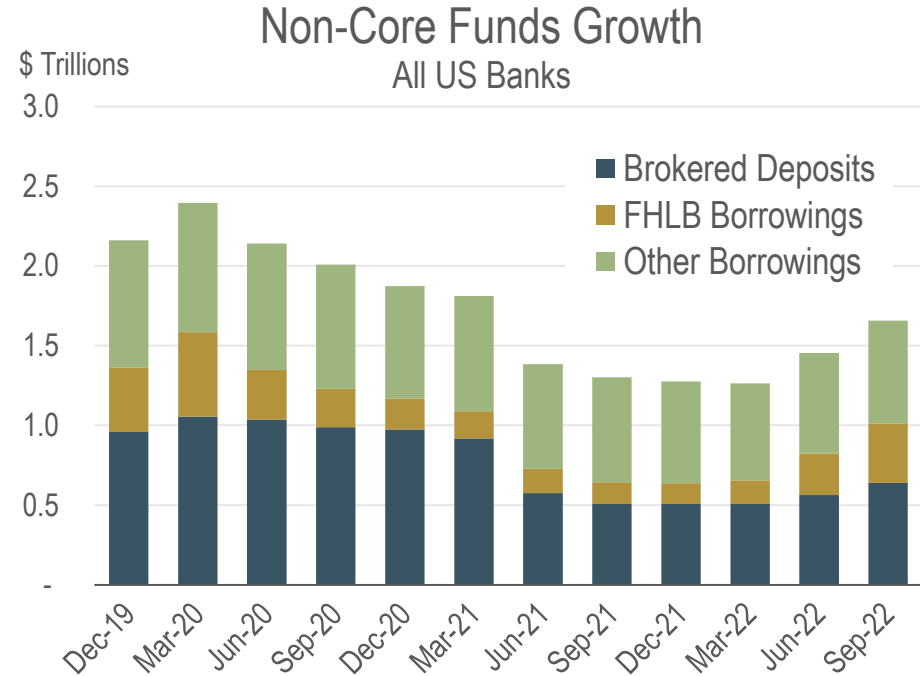
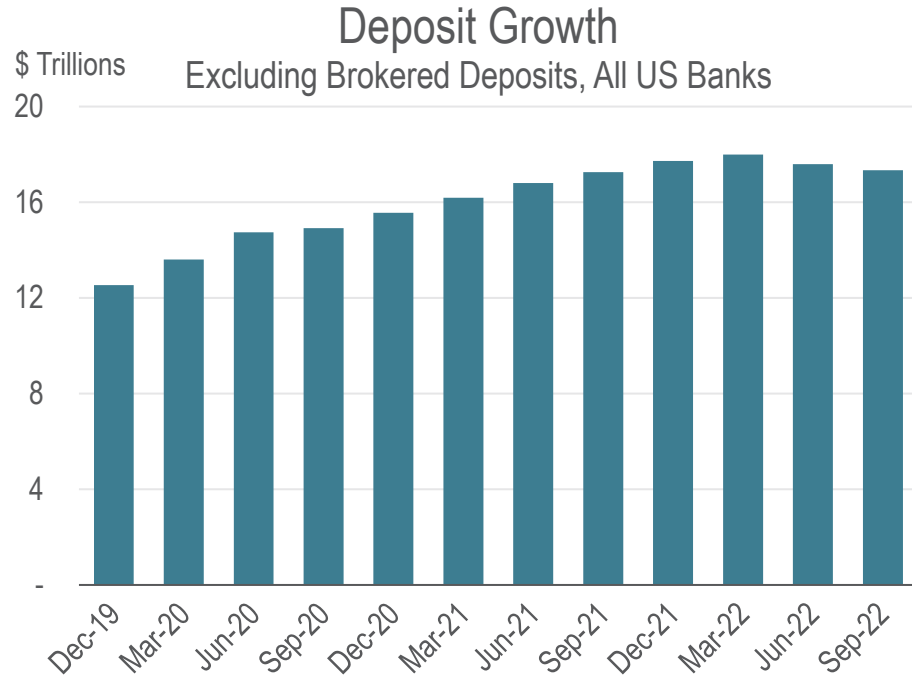
## Asset Maturities Community Banks



## Unrealized Gains (Losses) on Available-for-Sale Securities Community Banks



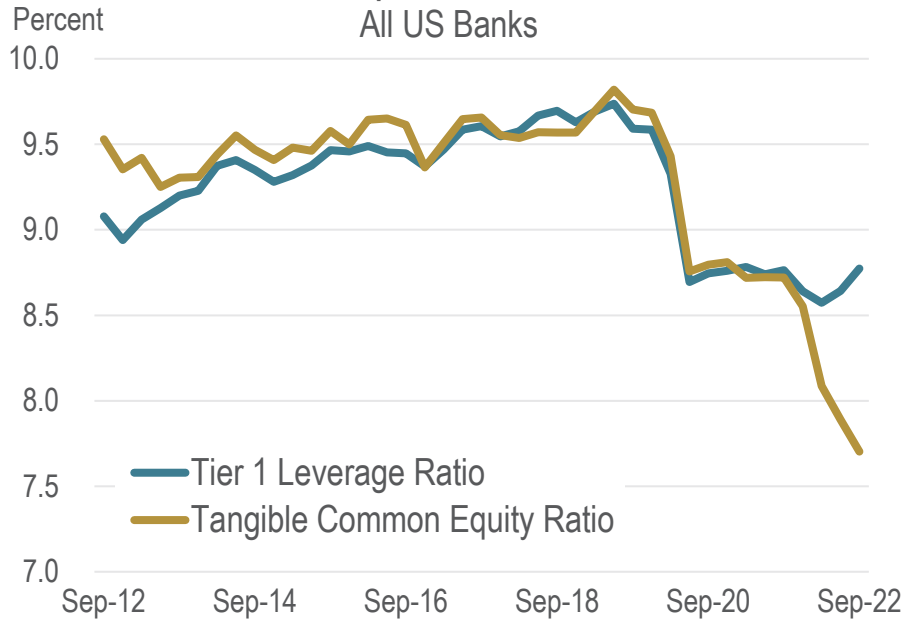
# Funding structure is also shifting as deposit growth slows



# Impacts to capital, with divergence in tangible equity

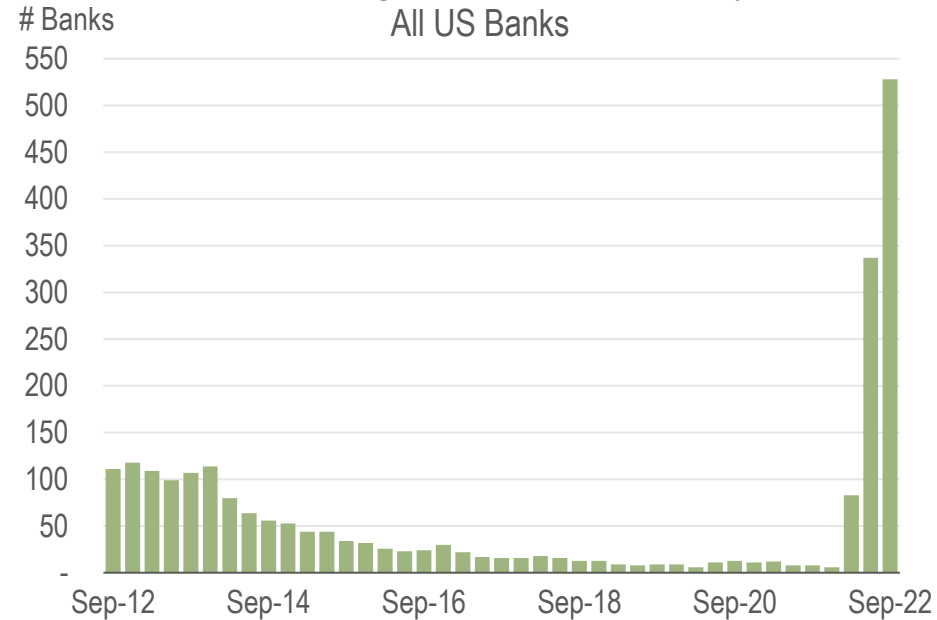
## Capital Ratios

All US Banks

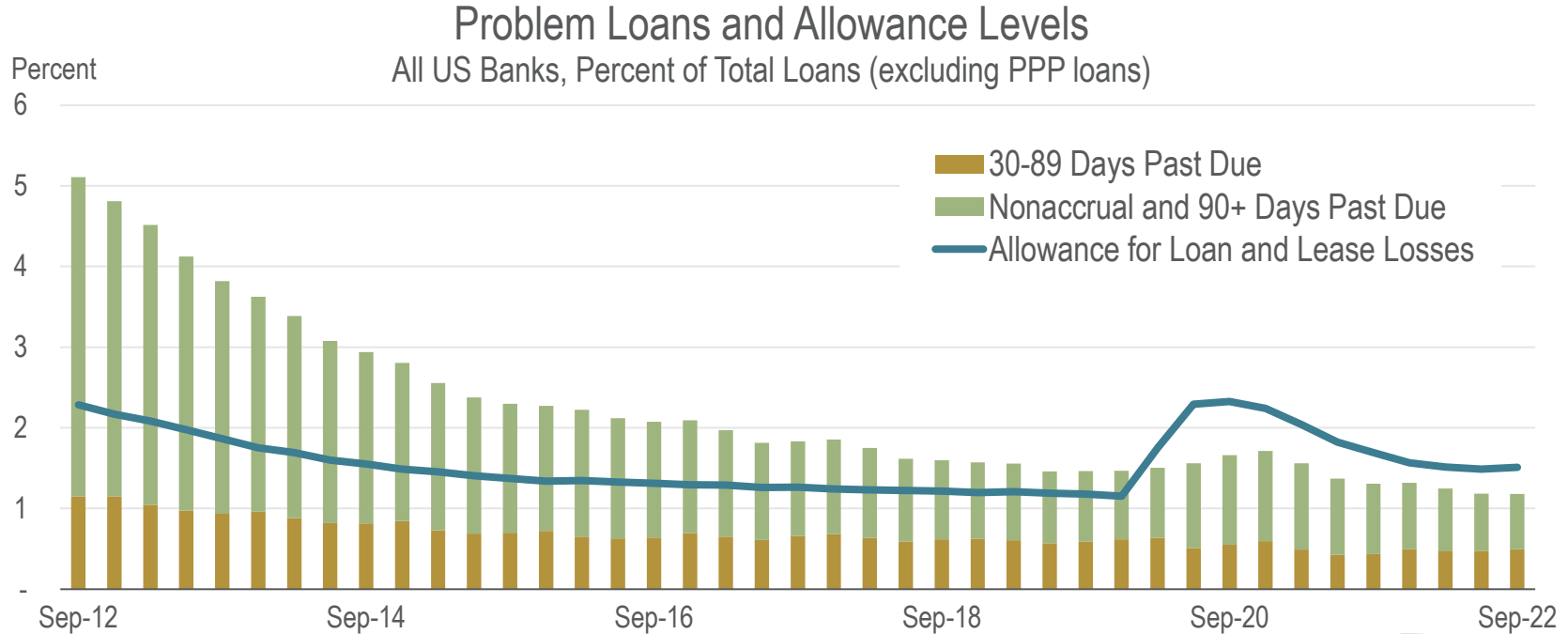


## Banks with Tangible Common Equity < 5%

All US Banks



# Though asset quality remains stable, for now





# Crypto activity gaining interest

## Common activities:

**Crypto-Asset  
Trade Facilitation  
("Finder" Model)**

**Crypto-Asset Custody**

**Crypto-Asset Collateralized  
Lending**

**Traditional Banking Services to  
Crypto-Asset-Related Customers**

**Stablecoin Arrangement  
Participation**

- Offering the ability to buy, hold, and sell crypto-assets, in response to significant customer demand
- Custody services for crypto-assets, a key element of which is safekeeping digital keys
- Lending against crypto-assets as collateral, enabling institutional clients to take leveraged positions in crypto-assets and crypto firms to borrow for working capital
- Deposits, loans, and payment services
- Working with other banks and/or non-banks to issue, distribute, or support a stablecoin



# But regulation still evolving

## 2021

First coordinated messaging by federal regulators:

- Presidential Working Group Report on Stablecoins
- OCC Interpretive Letter #1179
- FBAs' Joint Statement on Crypto Asset Policy Sprint Initiative and Next Steps

Begins to provide clarity on supervisory expectations and legal permissibility

## 2022

Supervisory guidance issued, establishes notification expectations:

- FDIC FIL-16-2022
- SR Letter/CA Letter 22-6

Presidential Executive Order on Ensuring Responsible Development of Digital Assets

## 2023 and beyond

Joint statement on crypto-asset risks to banking organizations

Continued need for clarity on permissibility

Draft bill: Bipartisan Stablecoin legislation?



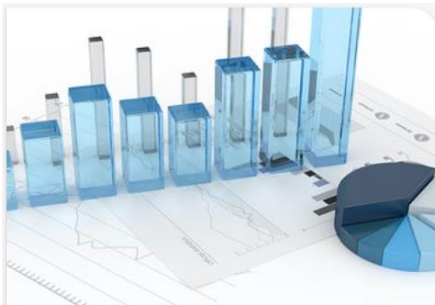
# More resources at [kansascityfed.org](https://kansascityfed.org)



## Community Banking Bulletin

Provides insights on trends or activities of primary interest to the community banking industry.

Community Banking Bulletin



## District Banking Conditions

Provides banking conditions for the nation and District, including data on earnings, expenses, assets, loans, and more.

Banking



## Bank Capital Analysis Report

Provides a horizontal comparison of capital adequacy among banking organizations of different size and complexity.

Banking, Banking and Finance



Innovation

## Financial Technology (Fintech) Innovation

Resources for engaging with the Federal Reserve on innovation-related matters.



# Questions?



# Definitions of Terms and Acronyms

- **Accumulated Other Comprehensive Income (AOCI):** An equity account that includes such items as unrealized gains and losses on certain securities
- **Allowance for Loan and Lease Losses (ALLL):** An estimate of uncollectible amounts used to reduce the book value of loans and leases to the amount that a bank expects to collect.
- **Asset Maturities:** Uses the reported remaining maturity for fixed-rate loans and debt securities and next repricing date for floating-rate loans and debt securities.
- **Brokered Deposits:** A deposit that is obtained from or through the mediation or assistance of a deposit broker.
- **Commercial Banks:** Financial institutions which generally accept deposits from the public and make loans for the purpose of consumption and investment.
- **Community Bank:** A commercial bank with total assets under \$10 billion. Community banks are financial institutions that primarily serve businesses and individuals in a small geographic area.
- **Cost of Funds:** A measure of the cost to acquire funds, calculated as total interest income divided by average earning assets.
- **Crypto-assets:** A digital representation of value that can be transferred, stored, or traded electronically.
- **Custody:** The legal access to or directly holding another's assets.
- **Federal Home Loan Bank (FHLB):** The FHLBs are 11 regionally based, wholesale suppliers of lendable funds to financial institutions.
- **Investment Securities:** Includes held-to-maturity (HTM) and available-for-sale (AFS) securities. HTM securities are debt securities that an institution has the positive intent and ability to hold to maturity. Debt securities not categorized as trading or HTM are reported as AFS at fair value on the balance sheet.



# Definitions of Terms and Acronyms

- **Large Bank:** A commercial bank with total assets greater than or equal to \$100 billion. Large banks are financial institutions that usually have a national or global presence.
- **Net Interest Margin (NIM):** A profitability measure which is calculated as net interest income (interest received less interest paid) divided by average earning assets.
- **Nonaccrual Loan:** A loan that is no longer accruing interest because the bank does not expect to receive principal or interest in full.
- **Other Borrowings:** Liabilities that include federal funds purchased, securities sold under agreements to repurchase, and other borrowed money.
- **Paycheck Protection Program (PPP):** A loan program that originated from the Coronavirus Aid, Relief, and Economic Security (CARES) Act, intended to provide American small businesses with cash-flow assistance through 100 percent federally guaranteed loans.
- **Provisions:** An amount set aside to pay for probable, but uncertain, anticipated future losses.
- **Regional Bank:** A commercial bank with total assets greater than or equal to \$10 billion, but less than \$100 billion. Regional banks are financial institutions that are larger than community banks and typically operate in a specific region of the country.
- **Return on Average Assets (ROAA):** A profitability measure which is calculated as net income divided by average total assets.
- **Stablecoin:** A type of digital asset designed to maintain a stable value relative to a national currency or other reference assets.
- **Tangible Common Equity:** A measure of a bank's equity capital that excludes goodwill and other intangible assets.
- **Tier 1 Leverage Ratio:** Regulatory capital adequacy ratio that measures a bank's core capital to its average tangible assets.
- **Unrealized Gains (Losses) on Available-for-Sale Securities:** The difference in the current market value from the stated book value.
- **Yield on Earning Assets:** A measure of how much income assets are generating, calculated as total interest income divided by average earning assets.

