



IOWA | Division of Banking
Day with the Superintendent

Banking Update

James Johnson
Superintendent of Banking
April 11, 2024



Today's Discussion

- Superintendent Background
- IDOB Realignment Update
- Iowa State-Chartered Banks Data and Observations
- Annual IT Survey

BIOGRAPHY

- **James Johnson** was appointed to serve as the Superintendent of Banking by Gov. Reynolds (effective January 1, 2024).
- President, CEO, and Board Member of PCSB Bank, a \$300 million, family-owned community bank located in Clarinda, Iowa.
- Active in the banking industry, including serving on the Board of the Iowa Bankers Association and as a past member of the Iowa Bankers Association Ag Committee.
- Grew up on a family farm near Gravity, Iowa.
- Graduated magna cum laude from Northwest Missouri State University with a Bachelor of Science.



IDOBanking
Iowa Division of

Iowa Division of Banking

Became part of the
Department of Insurance and
Financial Services (DIFS)
Effective July 1, 2023

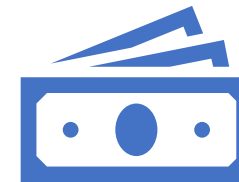
Superintendent of Banking



Banking Council



Banking Bureau



Finance Bureau

Iowa State Chartered Banks Overview

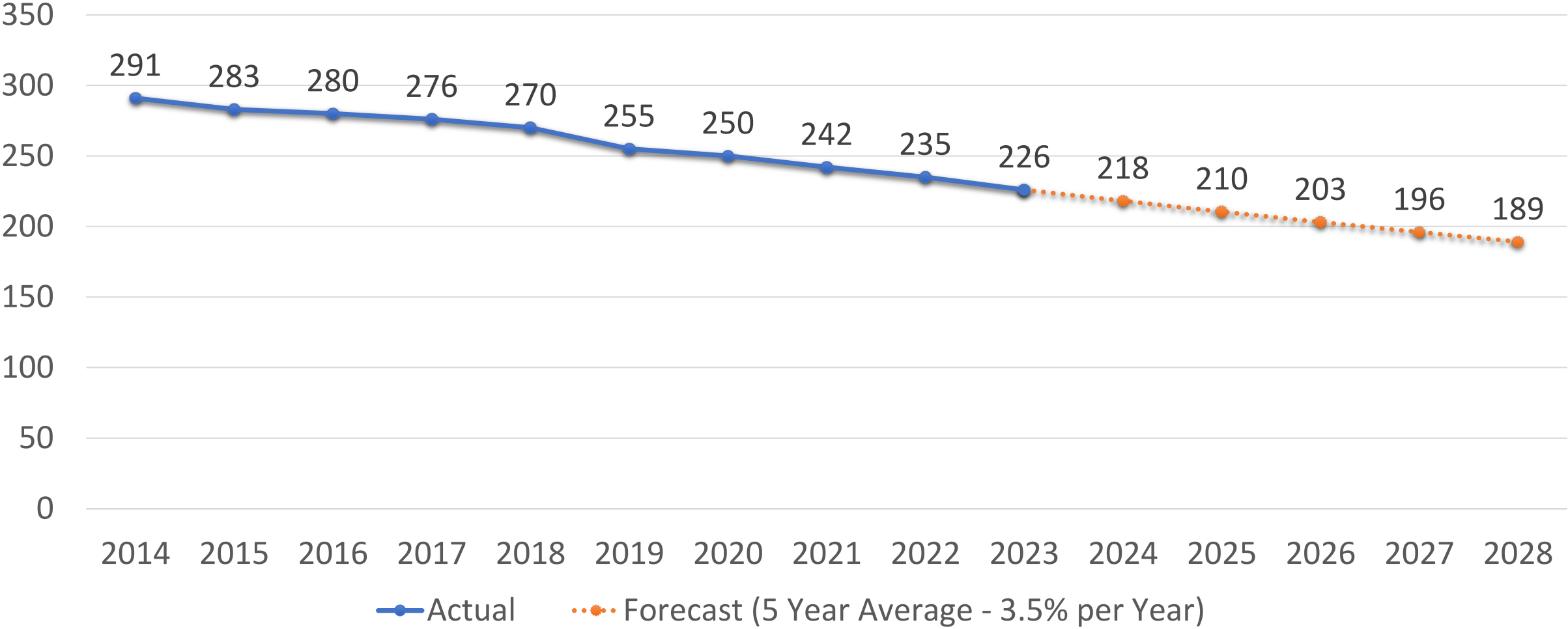
Strengths

- Health of Iowa economy and agriculture industry
- 97% of banks are rated a composite 1 or 2
- Tier One Leverage ratio average is 11.7%
- Loan classification, past due, and charge-offs remains relatively low (**Watching Closely**)

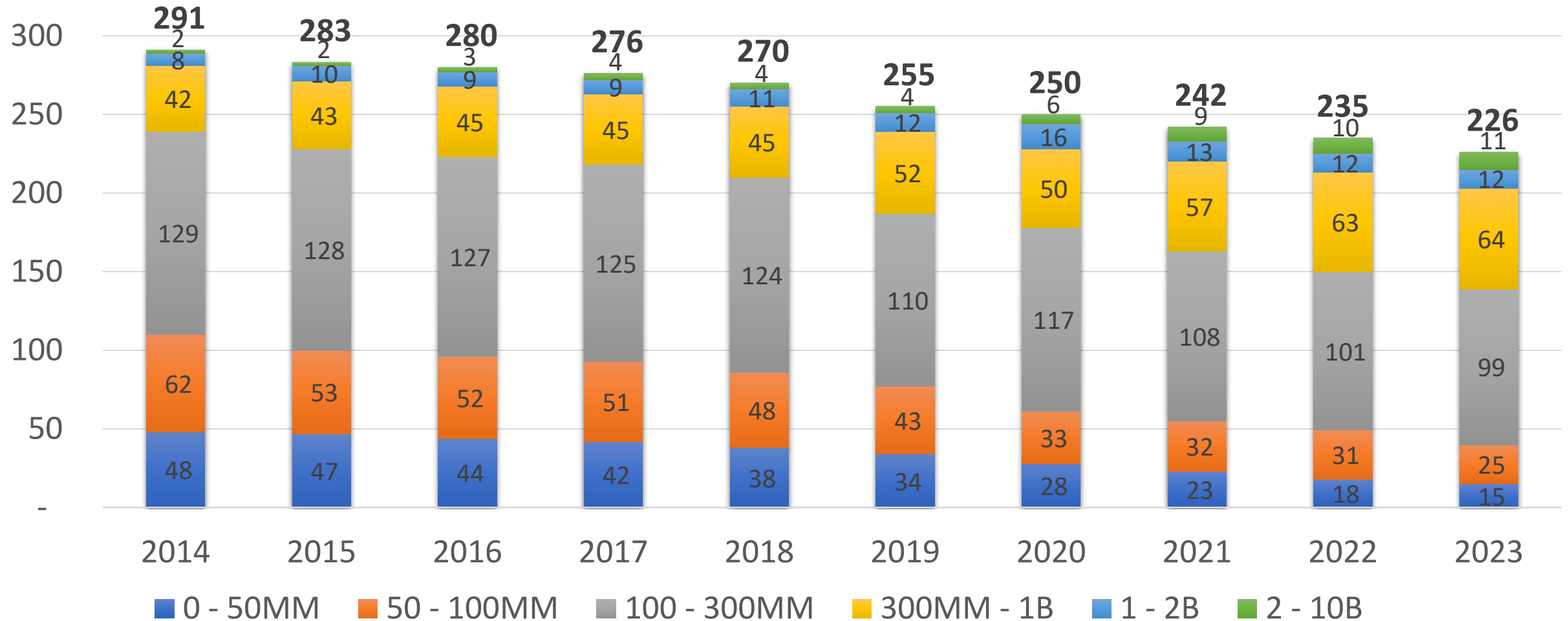
Challenges

- Management/ownership succession
- Staff turnover
- Earnings and net interest margins are stressed
- Tighter balance sheet liquidity and competition for deposits

Number of Iowa State Chartered Banks



Number of Iowa State Chartered Banks – By Size



Motivations to Buy/Sell Iowa State Chartered Banks

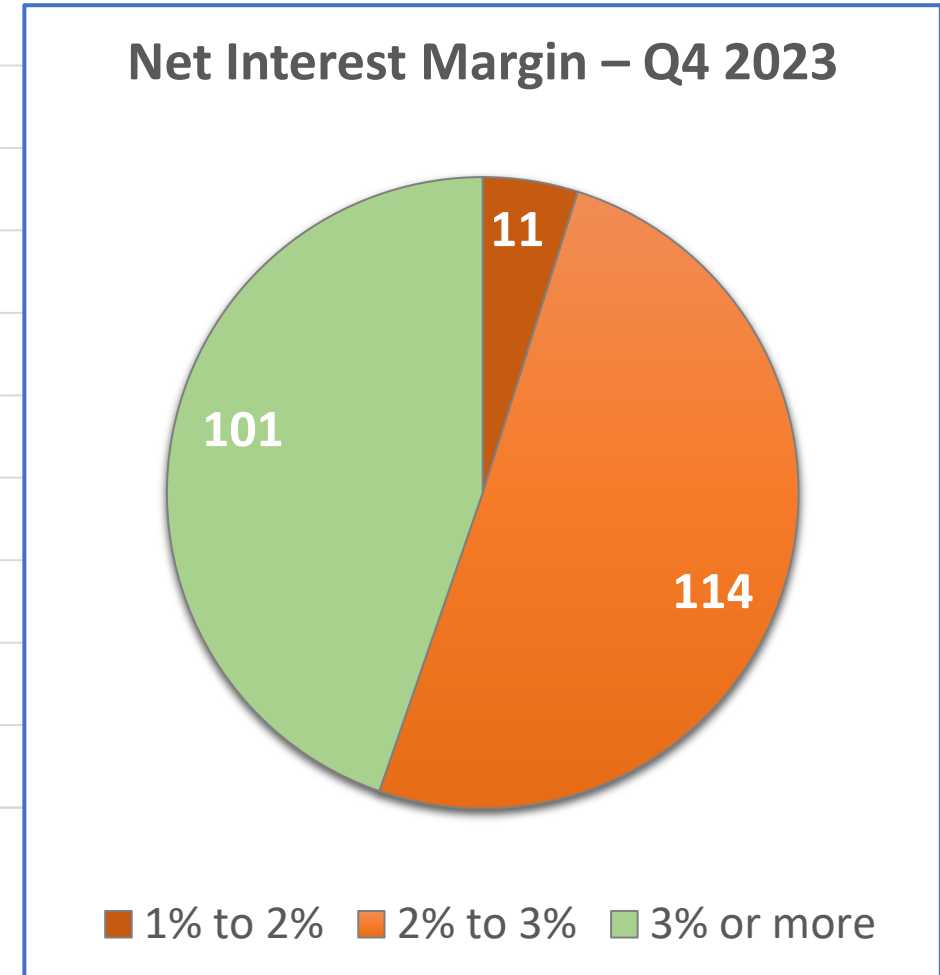
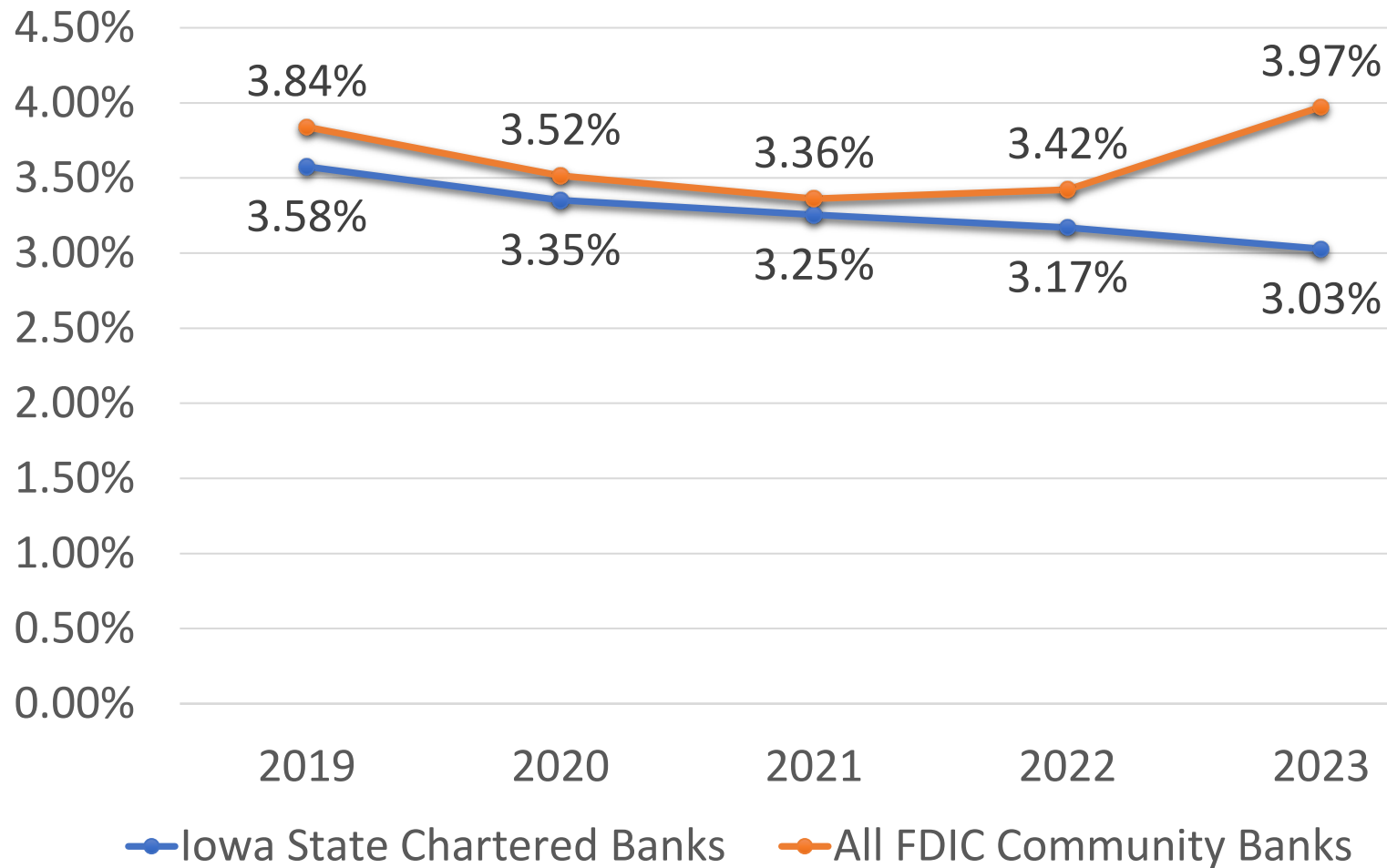
CURRENT

- Merger of affiliates
- Lack of ownership and/or management succession, especially in rural markets
- Acquiring bank looking for growth, deposits, and/or entry into new markets

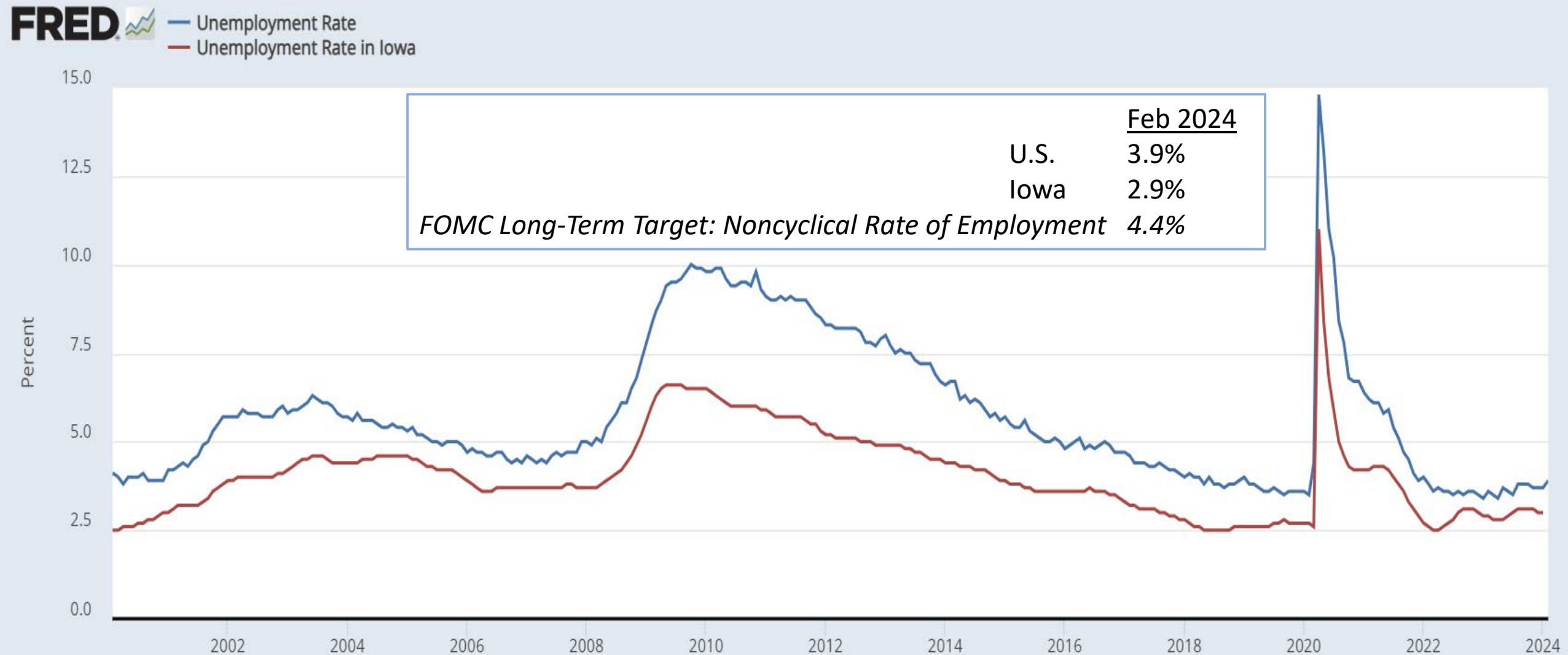
FUTURE

- Acquire technology and or talent
- Opportunities to reduce organizational costs or increase revenue
- Gain scale, market share, or entry into new markets
- Diversification of customer base and/or product and services
- Access to payment network

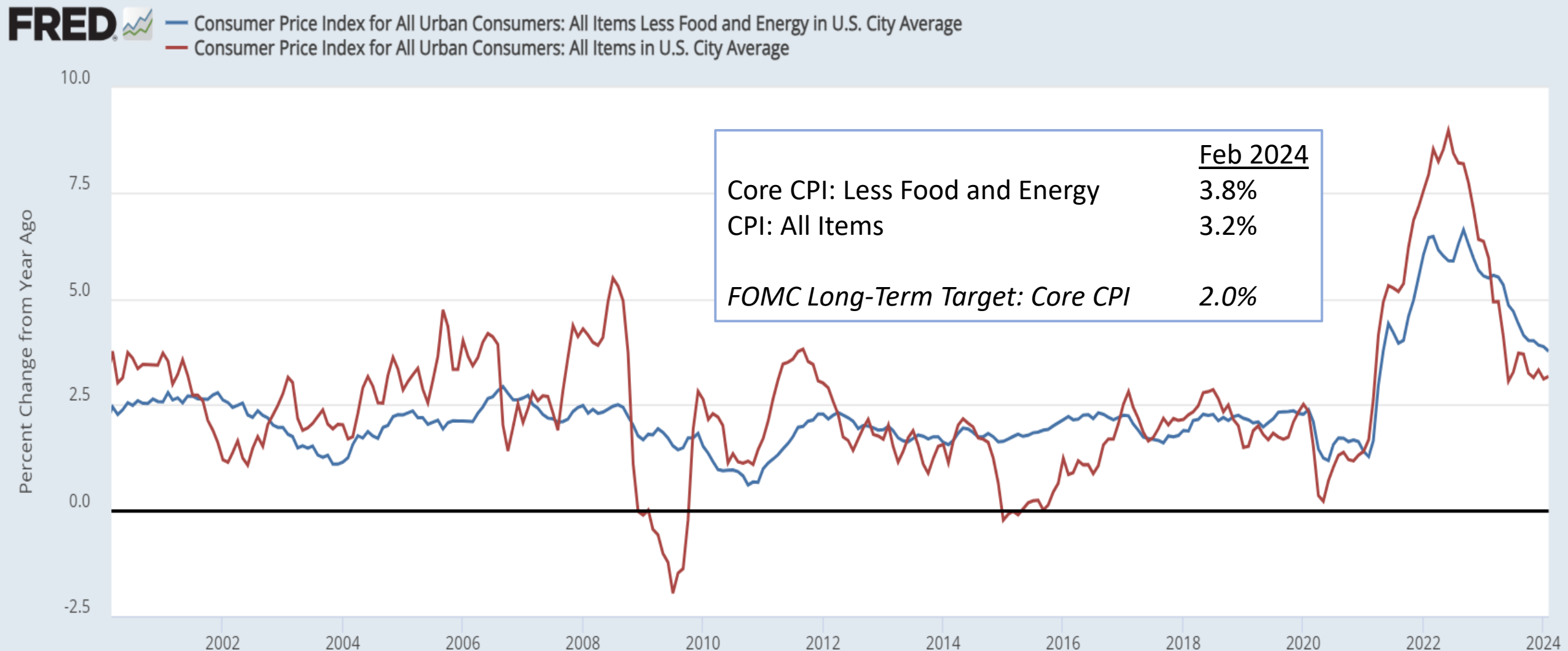
Net interest margins are stressed across the U.S., but more so in Iowa.



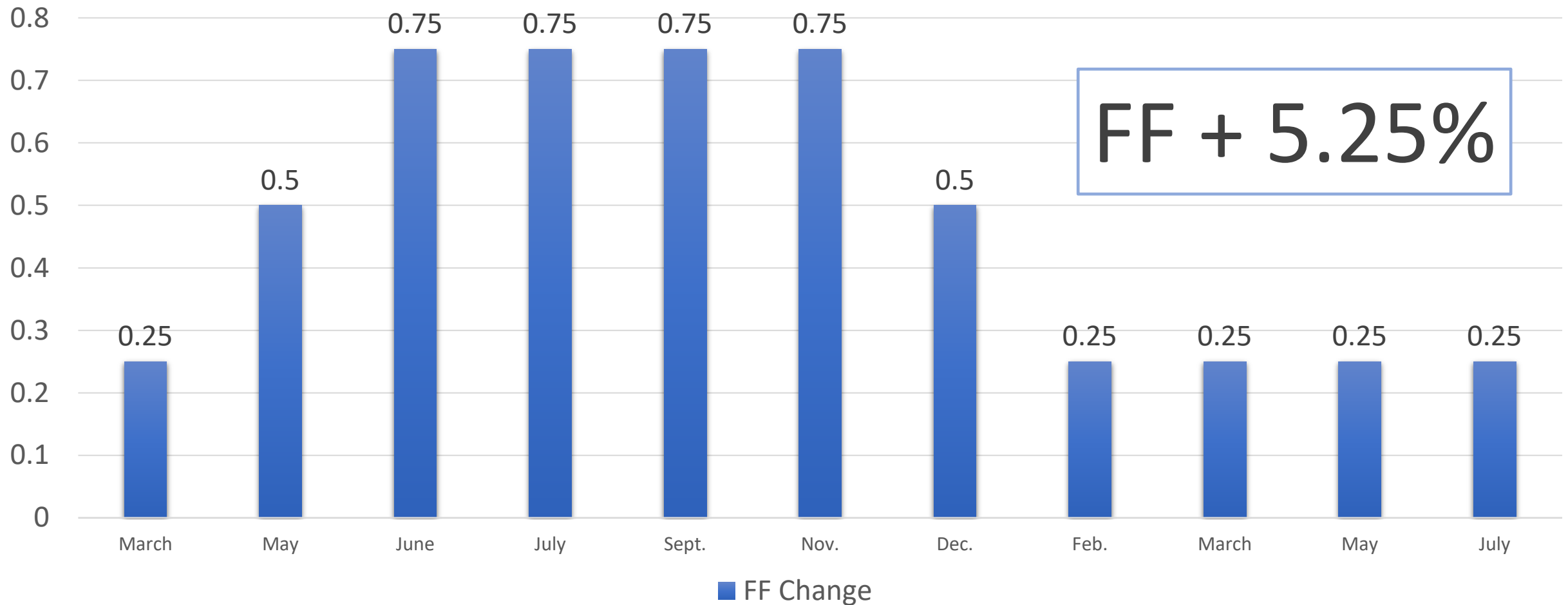
Unemployment rates are below FOMC target.



Inflation is improving but remains above FOMC long-term target.

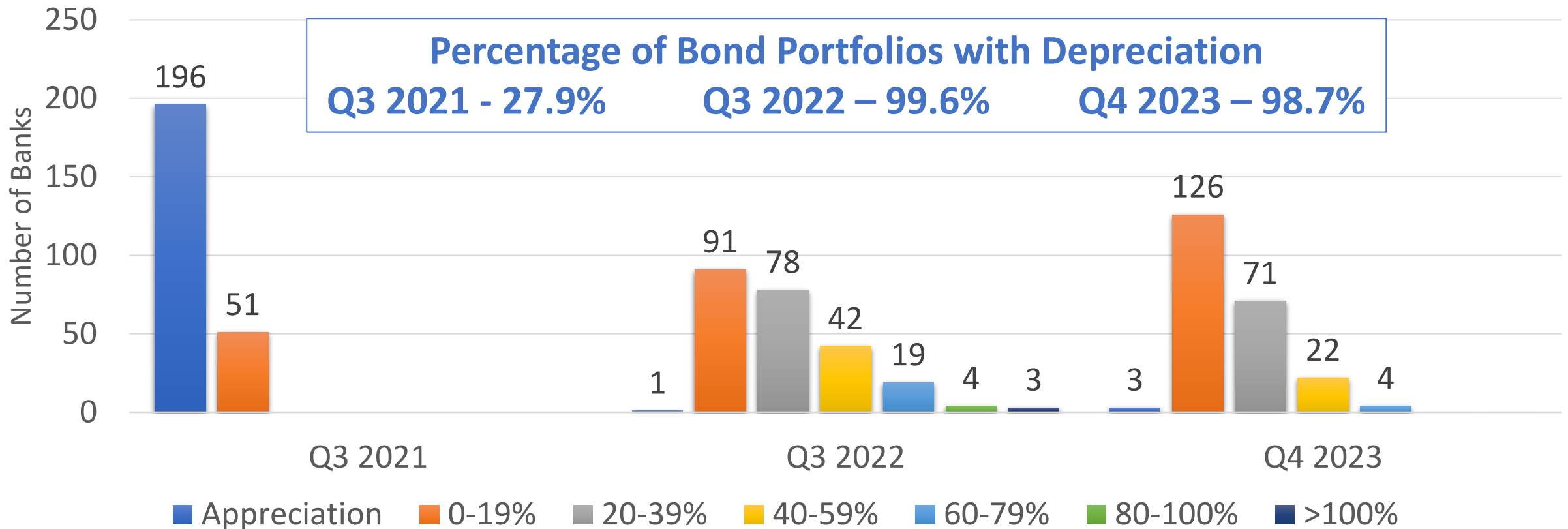


Federal Reserve Interest Rate Hikes (2022-2023)

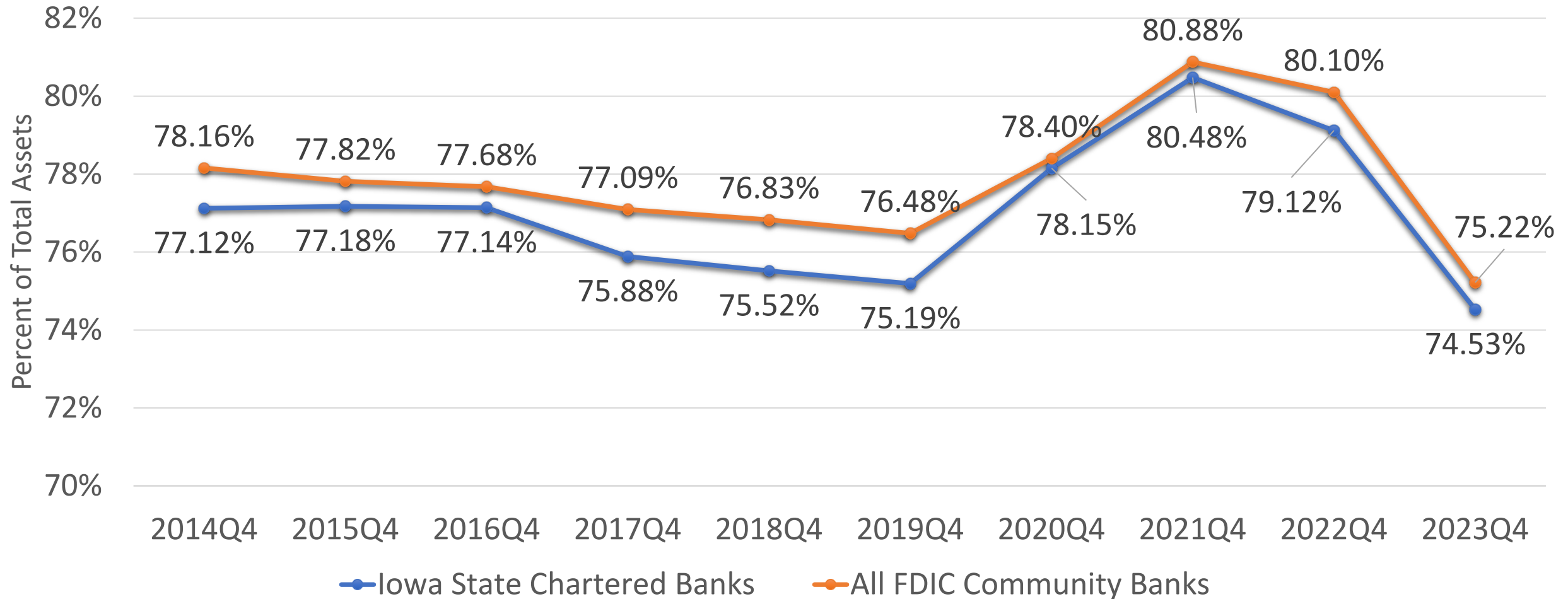


Interest Rate Hikes Impact on Bond Values

Iowa State Chartered Banks
Unrealized Bond Depreciation as % of Tier 1 Capital

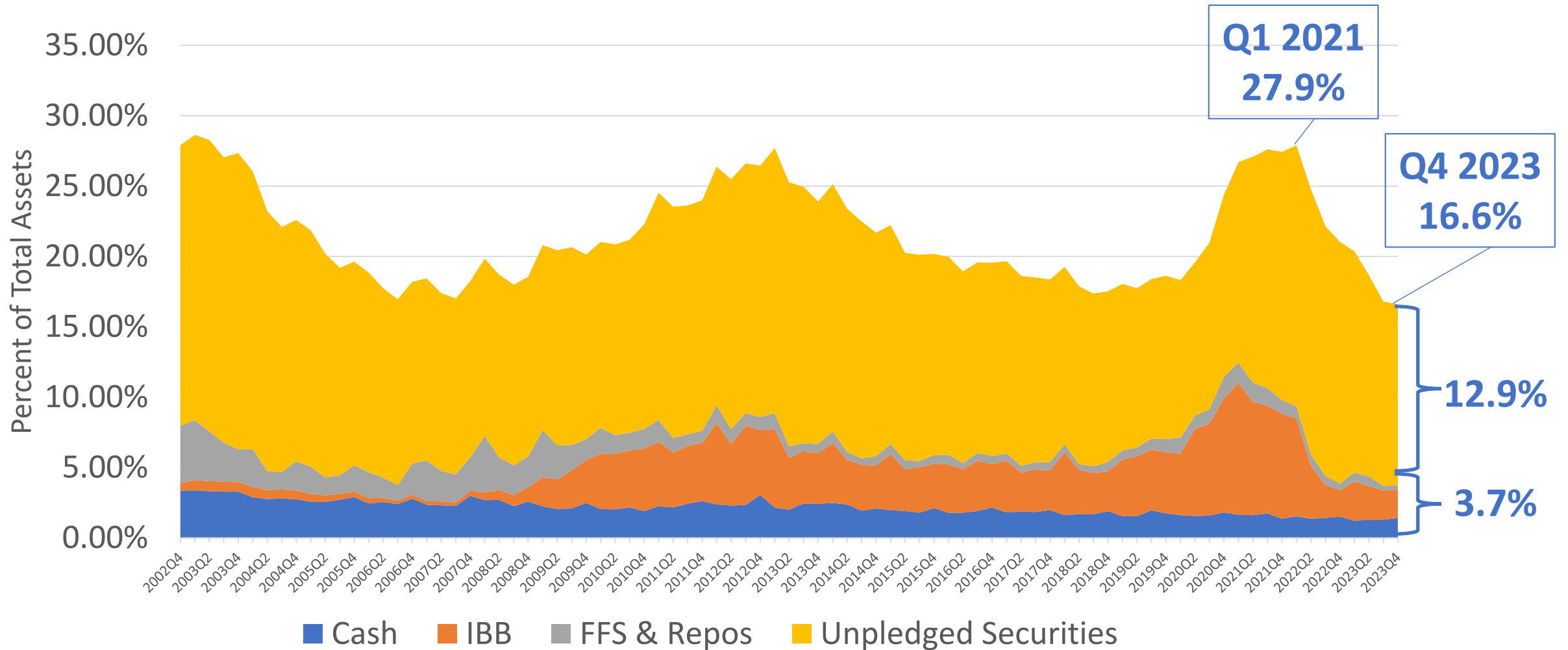


Iowa State Chartered Banks Core Deposits are on the Decline

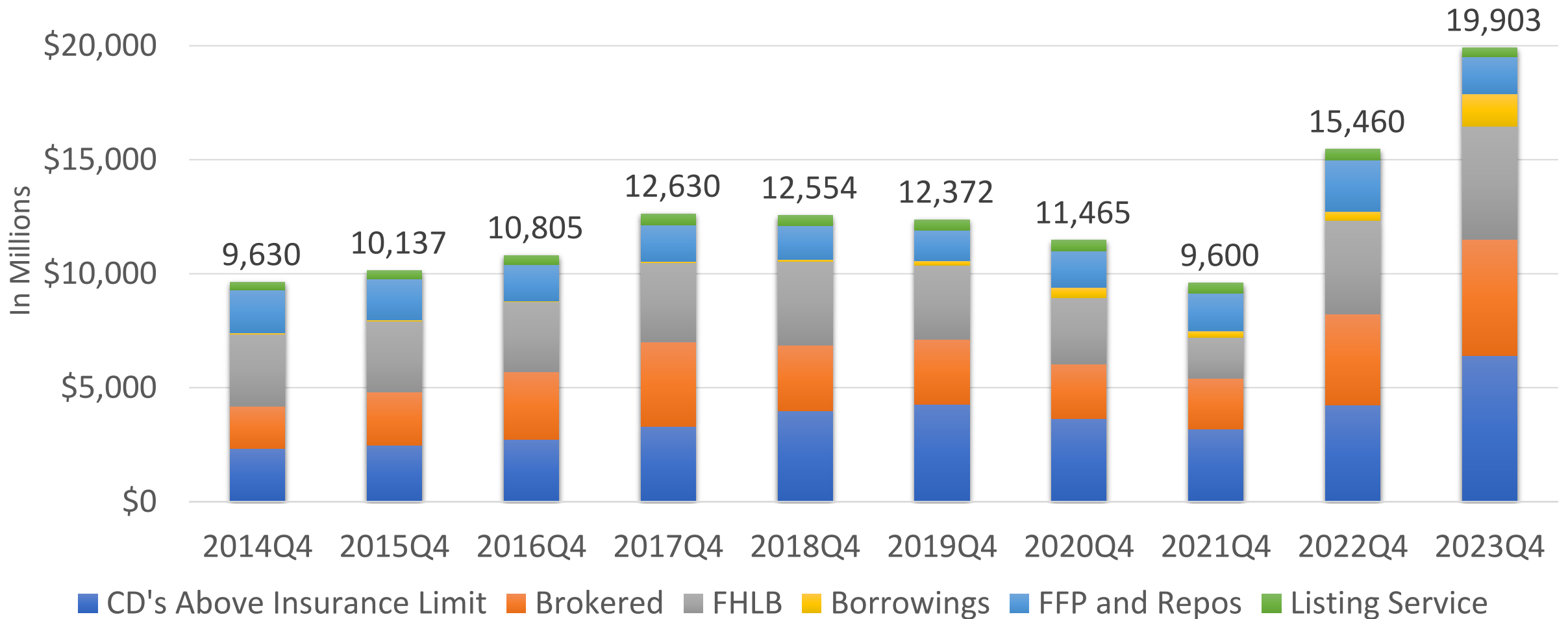


Iowa State Chartered Banks

Balance Sheet Liquidity has Reduced in Recent Quarters



Iowa State Chartered Banks Noncore Funding and Listing Service Deposits



Liquidity Analysis and Contingency Funding Planning

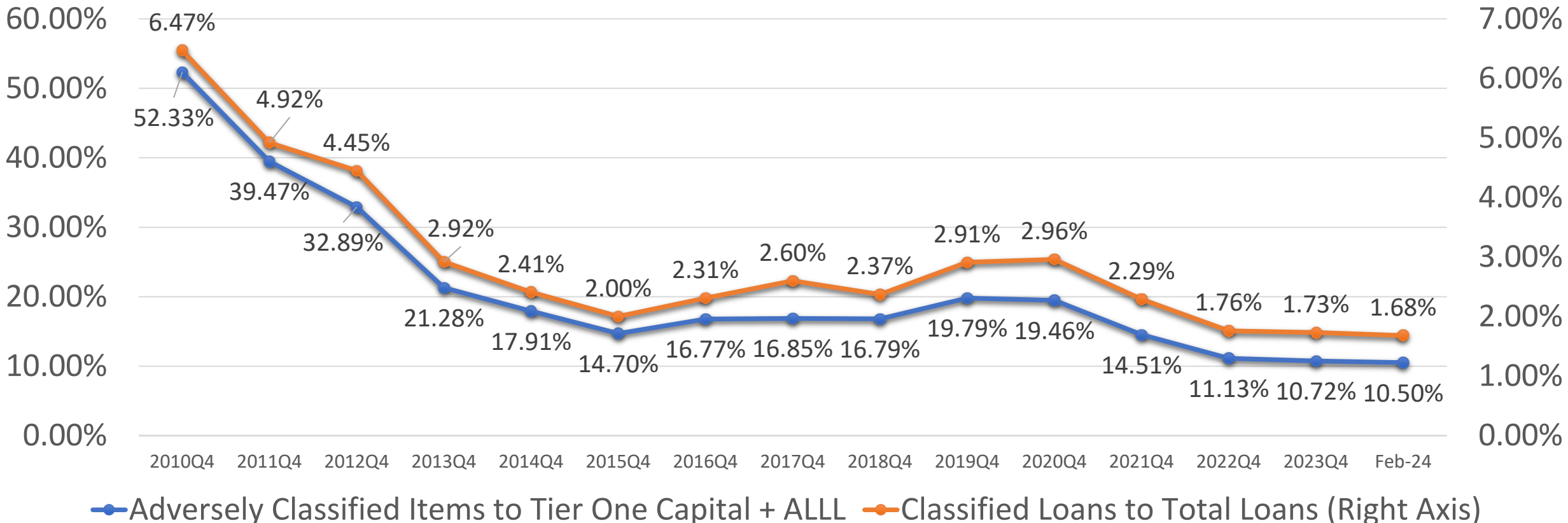
- Greater focus on deposit stability and concentrations
- Uninsured deposits may need to be factored into the analysis
- Adjustments for illiquid securities should be considered, with more focus on cash and short-term securities
- Ensure borrowing diversification is built into Contingency Funding Plans, along with cut off and processing timeframes



LIQUIDITY

Asset quality remains satisfactory overall, BUT there are reasons to watch closely.

Iowa State Chartered Banks
 Classified Items includes Substandard, Doubtful, and Loss
 (12 Month Floating Examination Averages)



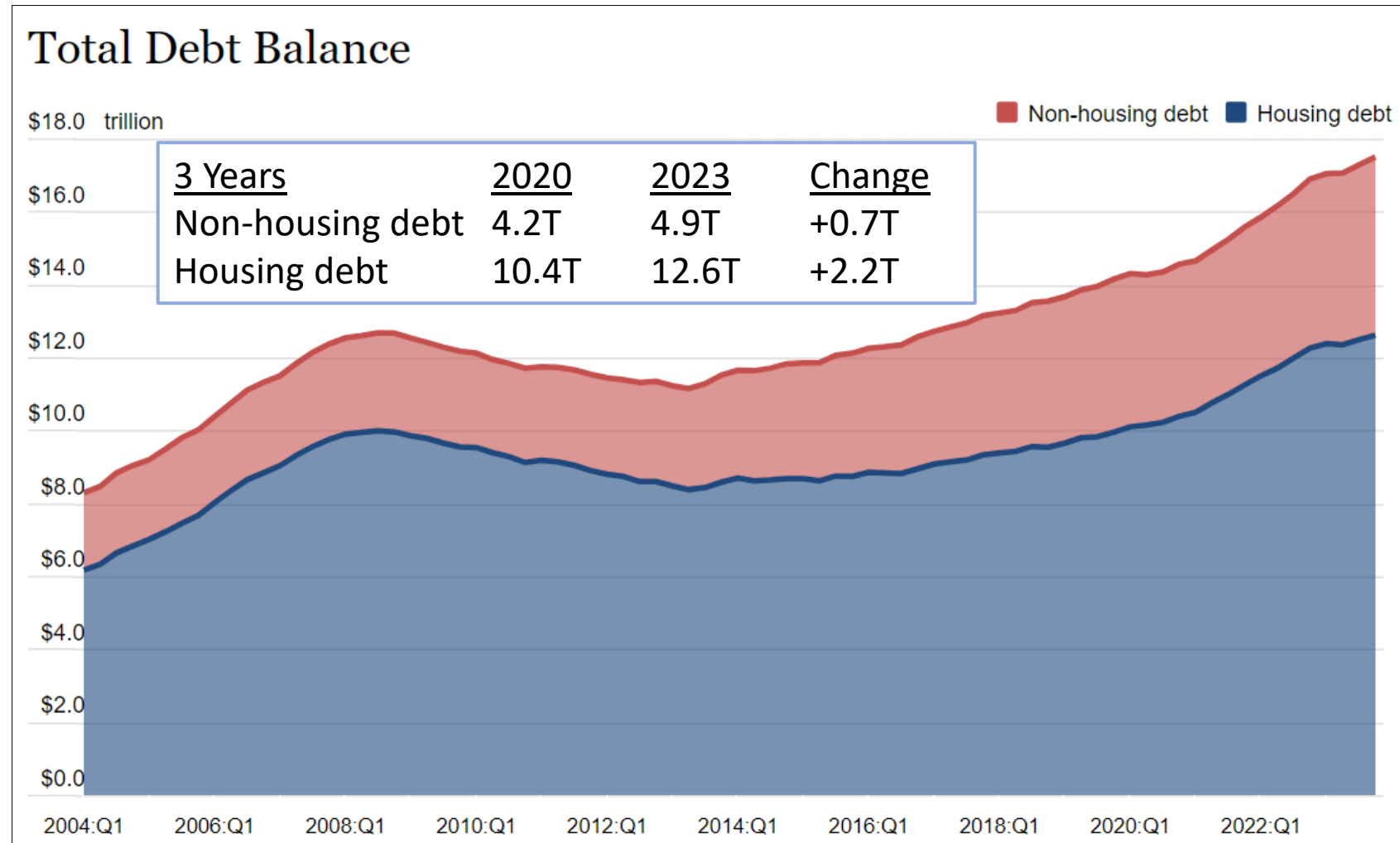
Consumer debt has increased significantly since year-end 2020 in the U.S.

Non-housing debt

+17%

Housing debt

+21%

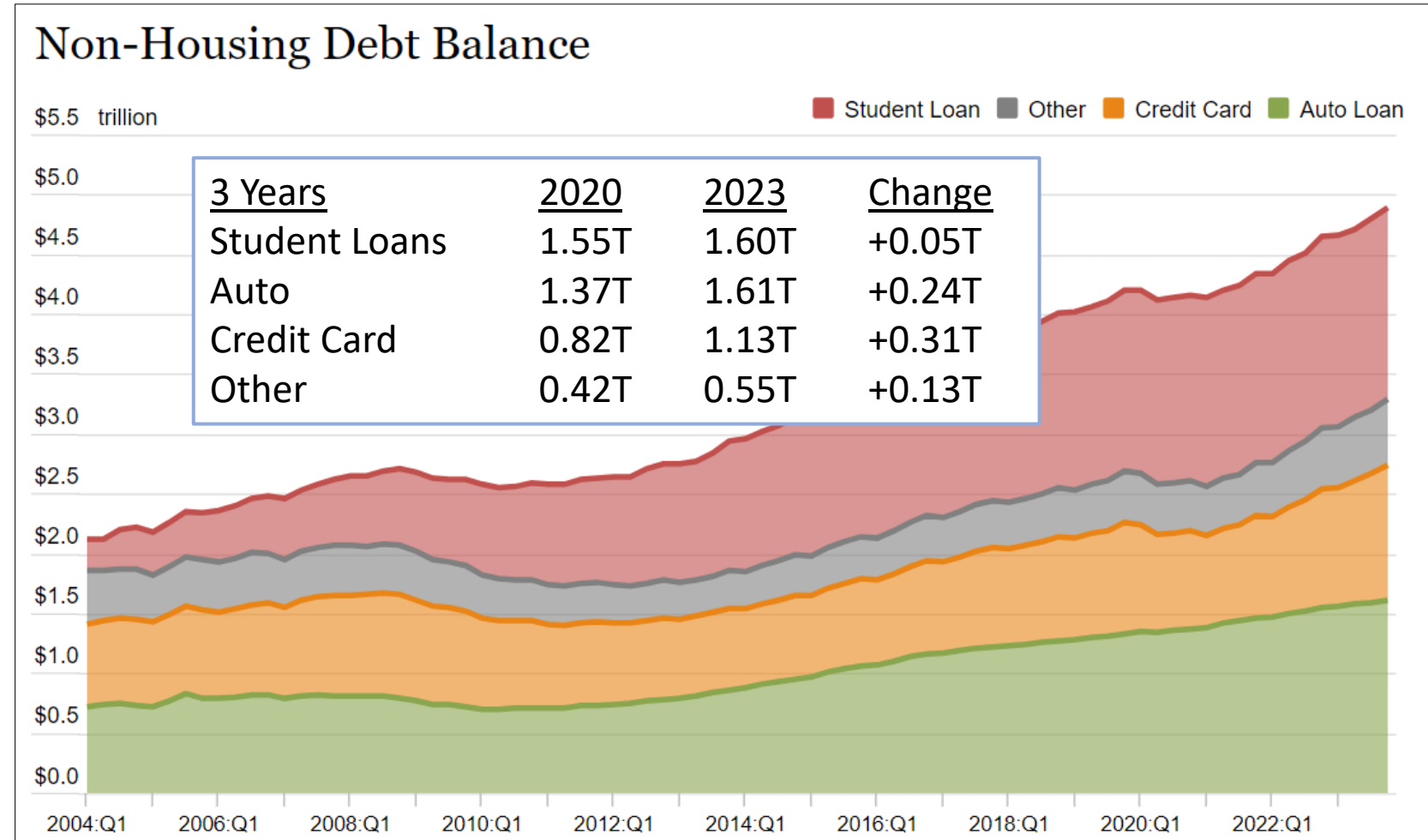


Source: FRB-NY Consumer Credit Panel/Equifax

Auto loans and credit cards have seen the largest increase in non-housing debt since year-end 2020 in the U.S.

Auto
+18%

Credit Card
+38%



Source: FRB-NY Consumer Credit Panel/Equifax

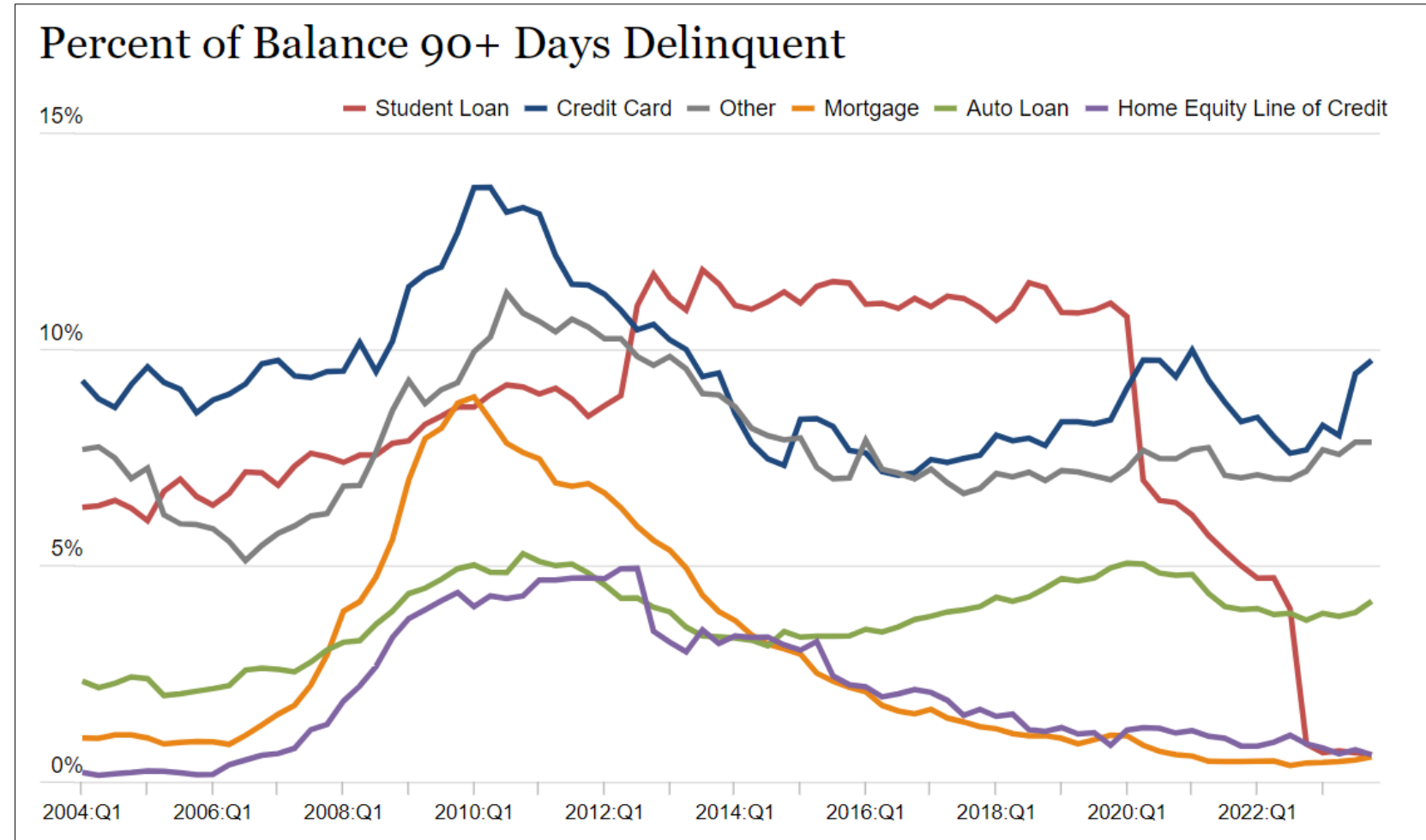
Auto and credit card delinquencies are on the rise.

Auto

- 2022 - 3.7%
- 2023 - 4.2%

Credit Card

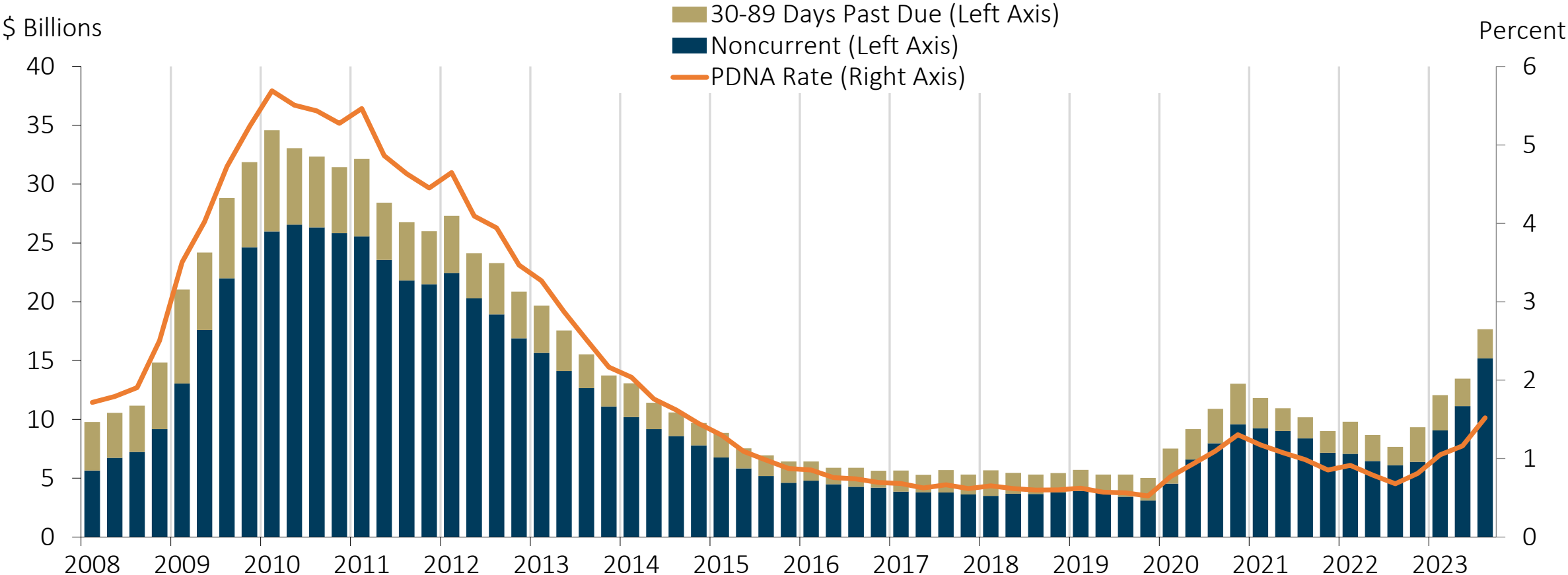
- 2022 - 7.0%
- 2023 - 9.7%



Source: FRB-NY Consumer Credit Panel/Equifax

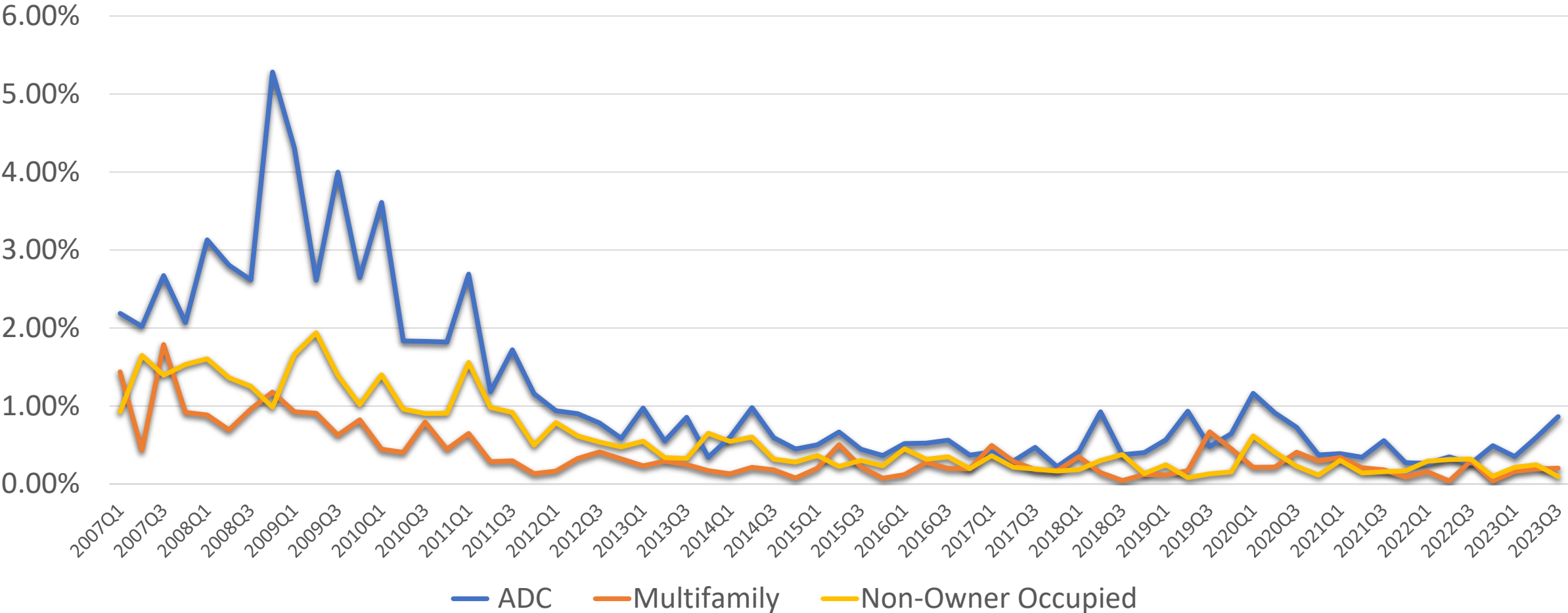
CRE delinquencies remain low nationally, despite an increase in 2023.

Quarterly Non-Owner-Occupied CRE Past-Due and Noncurrent Loans (All FDIC Insured Institutions)



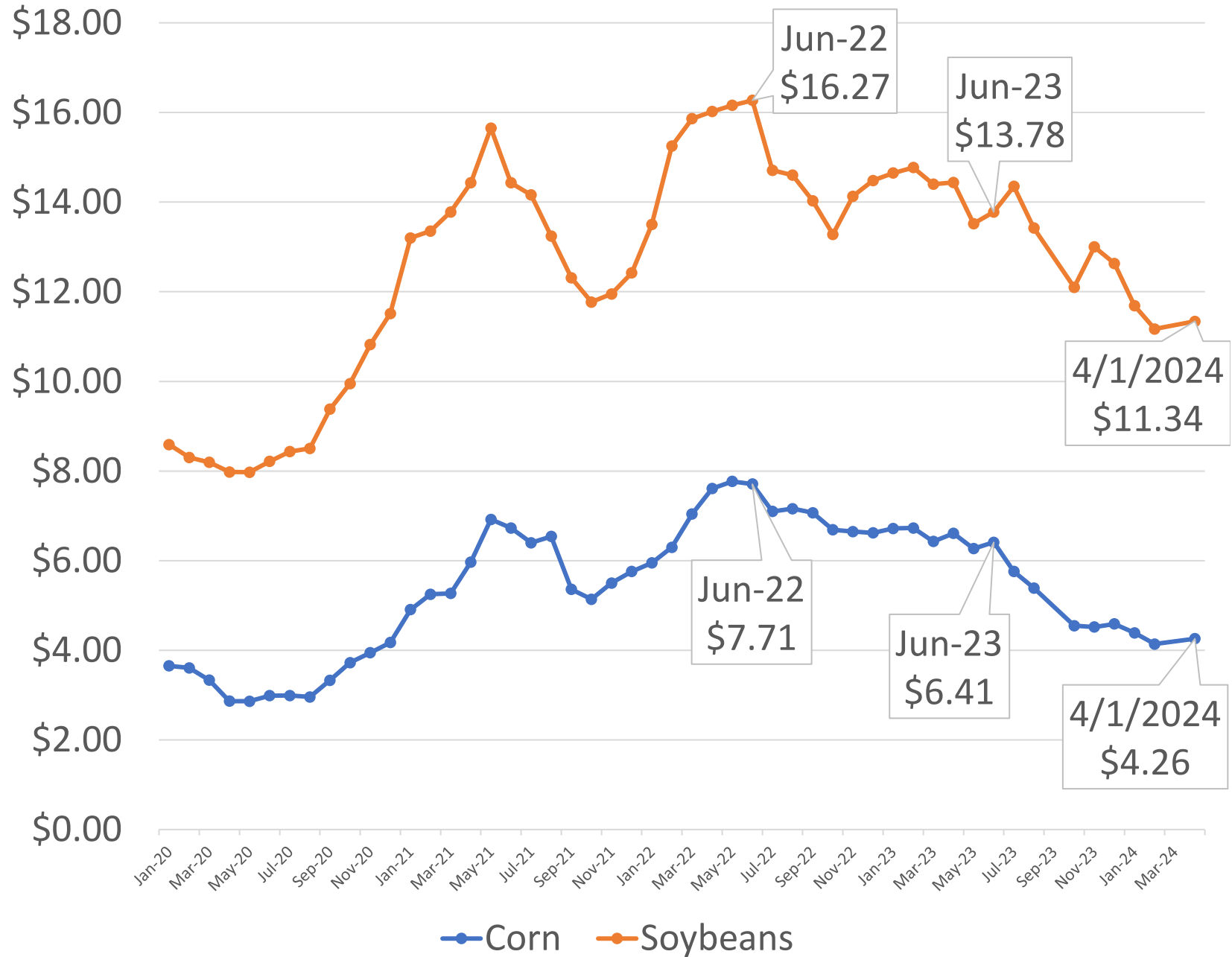
Source: FDIC.

CRE delinquency rates remain low in Iowa state-chartered banks.



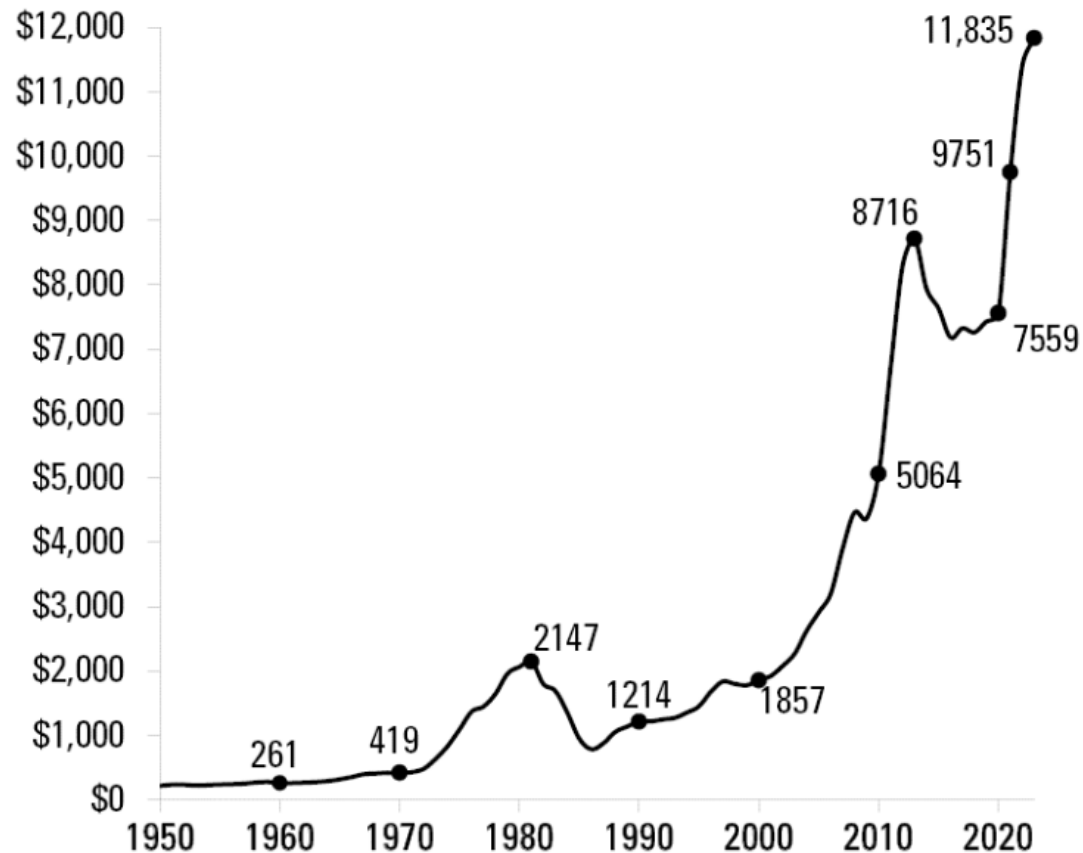
Grain Prices on the Decline

Monthly Average Grain Prices for Iowa



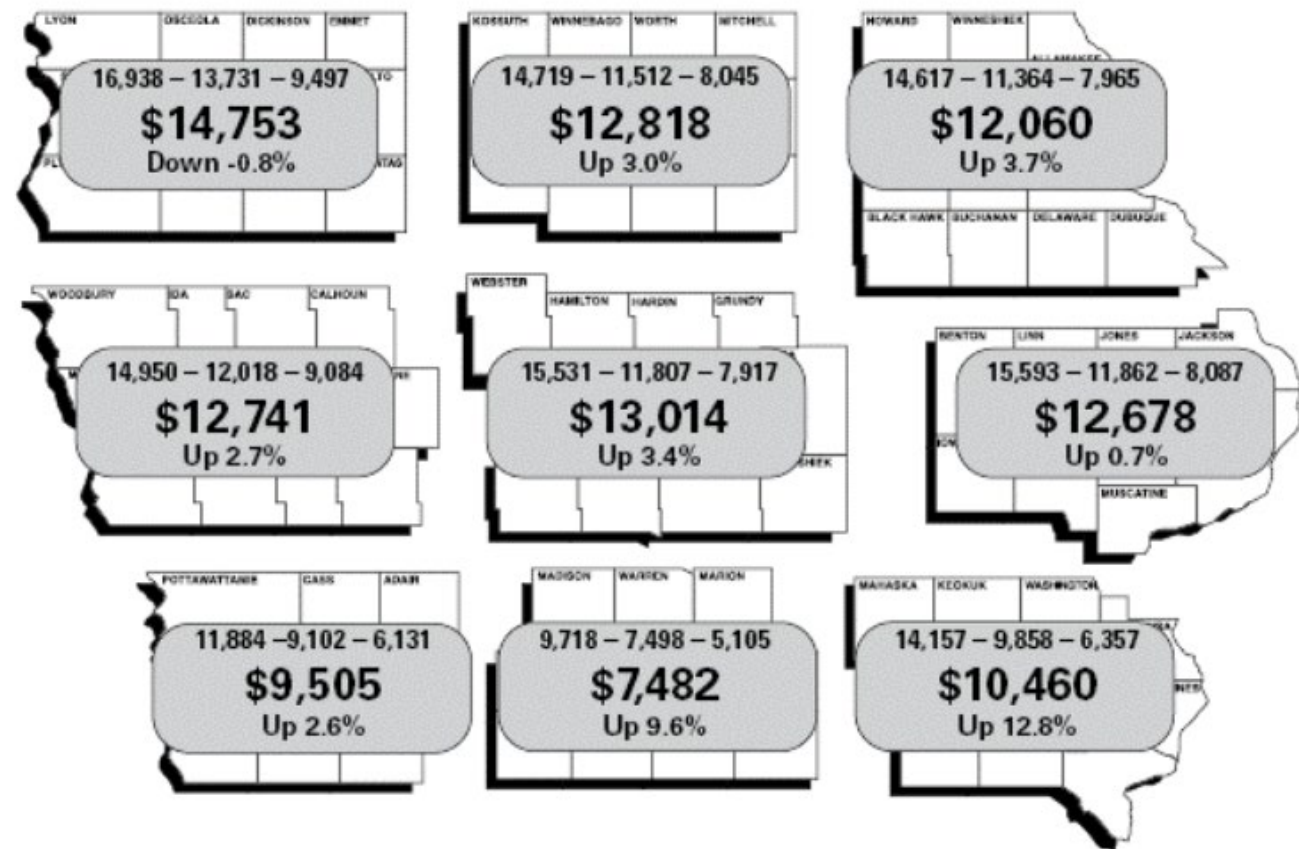
2023 ISU Land Value Survey

Figure 1. Average value per acre of Iowa farmland.



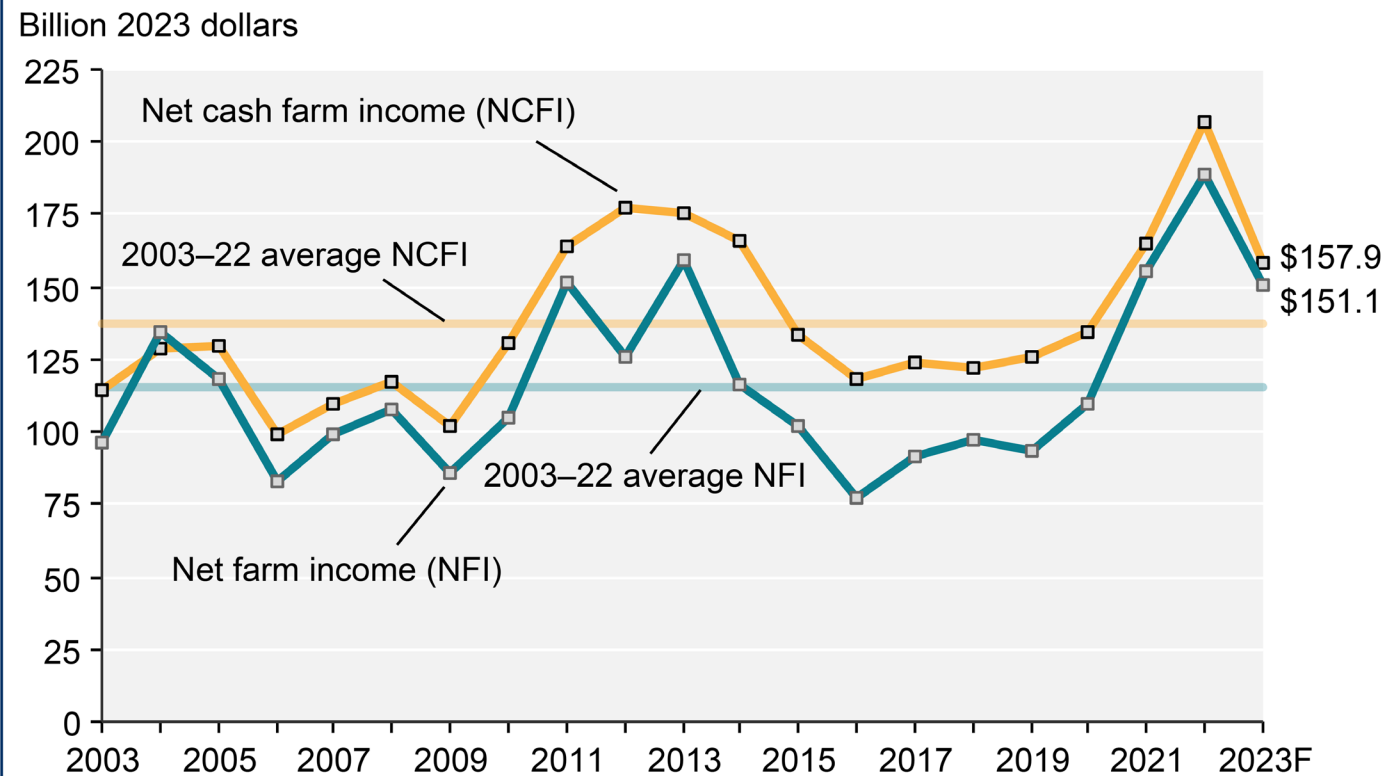
Source: Iowa State University Land Value Survey

Figure 3. 2023 Iowa land values by crop reporting district.



USDA: Forecasts Farm Income to Fall in 2023

U.S. net farm income and net cash farm income, inflation adjusted, 2003–23F



Note: F = forecast. Values are adjusted for inflation using the U.S. Department of Commerce, Bureau of Economic Analysis, Gross Domestic Product Price Index (BEA API series code: A191RG) rebased to 2023 by USDA, Economic Research Service. Source: USDA, Economic Research Service, Farm Income and Wealth Statistics. Data as of November 30, 2023.

- Net farm income is forecast to decrease by \$31.8 billion (17.4 percent).
- Direct Government farm payments are forecast to decrease \$3.5 billion (22.3 percent).
- Total production expenses, are forecast to increase by \$14.9 billion (3.5 percent).

**Source: USDA Economic Research Service
November 30, 2023 – Forecast**

Observations from Recent Examinations

- Leadership/staff turnover
- Earnings challenges
- Tighter liquidity, challenges retaining deposits, more reliance on wholesale funding
- Out of territory loan participations
- Legal lending limit violations



Areas of Focus on Examinations

- Staffing adequacy and succession planning
- Earnings
- Commercial Real Estate
- Liquidity / Funds Management
- CECL
- IT/Cybersecurity



IT/Cybersecurity Top Three Threats to Banks

- Business Email Compromise
- Ransomware
- Managed Service Provider/Vendor Breaches



A majority of Iowa state-chartered banks IT infrastructure is outsourced.

Product Type	By Processing Method			
	Outsourced	In-House	Cloud	Not Applicable
ACH	85.9%	13.1%	0.5%	0.5%
Core Banking Platform	73.3%	26.2%	0.0%	0.5%
Mobile Banking	91.6%	3.1%	1.6%	3.7%
Online Banking - Business	81.2%	3.1%	0.0%	15.7%
Online Banking - Consumer	94.2%	3.7%	0.0%	2.1%
Person to Person - Business	24.6%	0.5%	0.0%	74.9%
Person to Person - Consumer	49.7%	1.6%	0.0%	48.7%
Wire System - Primary	75.9%	21.5%	2.1%	0.5%
Wire System - Secondary	59.2%	13.6%	2.6%	24.6%

Note: 191 of 232 banks (at time of survey) responded to the IDOB IT survey, equals an 82% participation rate.

Areas of Focus on Examinations – IT/Cybersecurity

- Patch Management
- End of Life / End of Support
- Multi-Factor Authentication
- Remote Access Controls
- Vendor Management, including oversight of Managed Service Providers
- Business Continuity / Disaster Recovery (Backups)
- Social Engineering and Cyber Awareness Training for Employees



IDOB Information Technology (IT) Survey

- Link will be provided in an email from Superintendent James Johnson
- Data will be used to:
 - Monitor the potential impact of cybersecurity events on Iowa banks
 - Provide summary data on industry trends, for training purposes and sharing with industry
- Survey will be conducted annually
- Subsequent surveys will autofill prior years response
- Time to complete is expected to be minimal

