



Update from the Iowa Division of Banking

Jeff Plagge

Superintendent of Banking

April 27, 2023



Today's Discussion

- Impact of Recent Bank Failures
- Economic and Banking Conditions
- Emerging Issues
- Q & A



Impact of Recent Bank Failures

Timeline

- **March 8th**, Silvergate Bank, La Jolla, CA announces self liquidation effective March 31, 2023. (**\$11 Billion**)
- **March 10th**, FDIC took control of Silicon Valley Bank, Santa Clara, CA. (**\$209 Billion**)
- **March 12th**, FDIC closed Signature Bank, New York, NY. (**\$110 Billion**)
- **March 12th**, U.S. Department of the Treasury, FRB, and FDIC issue a joint statement indicating all Silicon Valley Bank and Signature Bank deposits will be fully protected.
- **March 12th**, FRB announces additional funding will be available through the Bank Term Funding Program.



Impact of Recent Bank Failures

Timeline

- **March 16th**, 11 American banks deposited \$30 billion into First Republic to stabilize the bank.
- **March 19th**, UBS agreed to buy Credit Suisse



How Does all of this Apply or Not-Apply to Iowa Banks



Silvergate Bank, Silicon Valley Bank, and Signature Bank

- All appeared to have concentrations in certain business lines, in this case tech and crypto related companies.

Federal Reserve Bank

Bank Term Funding Program

Program:	To provide liquidity to U.S. depository institutions
Eligibility:	Any U.S. federally insured depository institution (including a bank, savings association, or credit union).
Collateral:	Generally high-quality U.S. Treasuries, agency debt, and mortgage-backed securities.
Advance Size:	Advances will be limited to the PAR value of eligible collateral pledged by the eligible borrower.

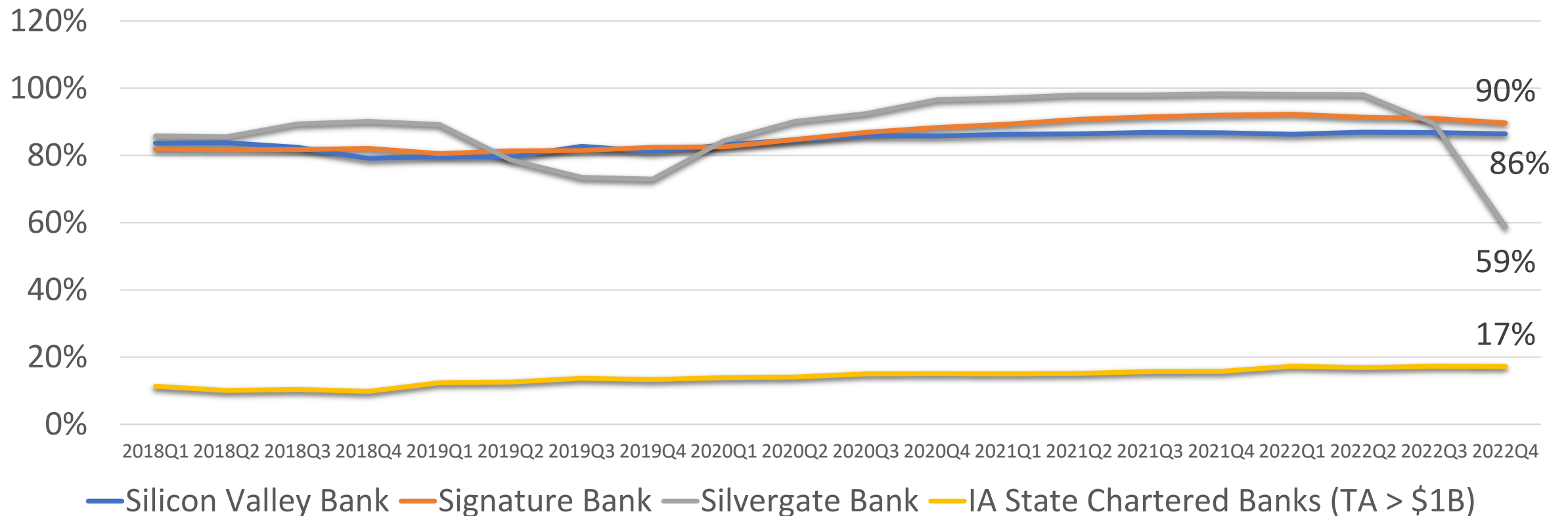
Federal Reserve Bank

Bank Term Funding Program

- Rate:** The rate for term advances will be the one-year overnight index swap rate plus 10 basis points; the rate will be fixed for the term of the advance on the day the advance is made.
- Prepayment:** Borrowers may prepay advances (including for purposes of refinancing) at any time without penalty.
- Advance Term:** Up to one year.
- Fees:** There are no fees associated with the Program.
- Duration:** Advances can be requested until at least March 11, 2024.

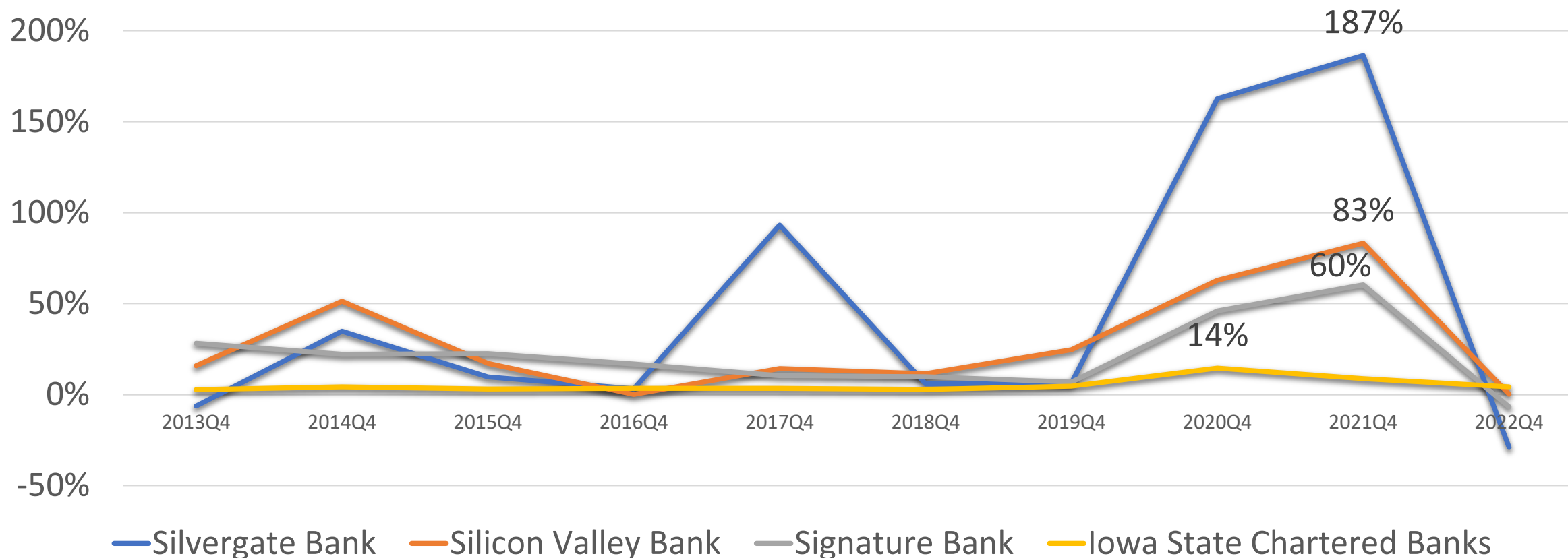
How Does all of this Apply or Not-Apply to Iowa Banks

Estimated Uninsured Deposits to Total Deposits



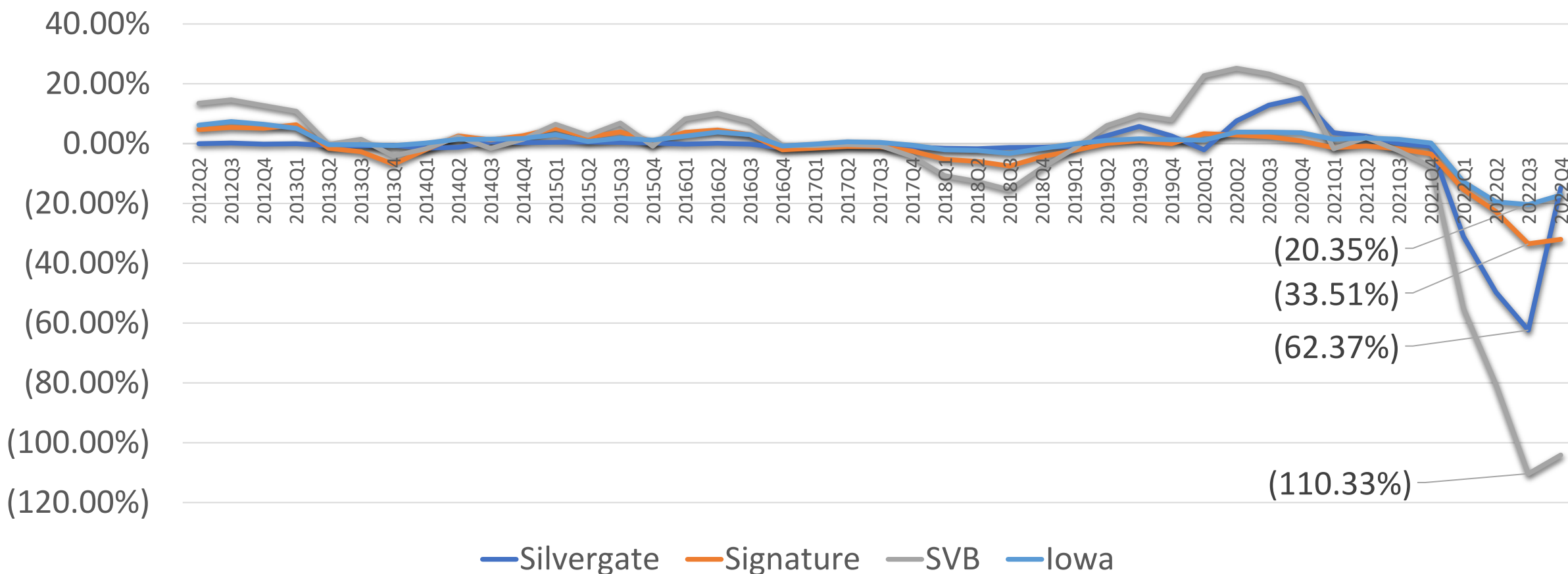
How Does all of this Apply or Not-Apply to Iowa Banks

Asset Growth Rate



How Does all of this Apply or Not-Apply to Iowa Banks

Bond Appreciation/Depreciation as a Percent of Tier 1 Capital



What is the potential impact?

“... the FDIC will undertake a comprehensive review of the deposit insurance system and release a report by May 1, 2023”

“... the FDIC will issue in May 2023 a proposed rulemaking for the special assessment for public comment.”

FDIC Chairman Martin J. Gruenberg statements before the Committee on Banking, Housing, and Urban Affairs on March 28, 2023



What is the potential impact?

FDIC estimated cost to the Deposit Insurance Fund (DIF):

- Silicon Valley Bank
\$20 Billion
- Signature Bank
\$2.5 Billion

FDIC Chairman Martin J. Gruenberg statements before the Committee on Banking, Housing, and Urban Affairs on March 28, 2023



What is the potential impact?

- New debates over AOCI (HTM & AFS) and capital
- More monitoring and reporting on deposit mix, especially uninsured deposits.
- More stringent stress testing on regional banks.
- More implications on future M&A analysis.



What is the potential impact?

- Review of Fed and FHLB liquidity access process and deadlines.
- Regulators will be scrutinized for not being more aggressive.
- Renewed focus on concentrations.
- More attention on contingency funding and crisis management plans.
- New liquidity metrics.



Key Takeaways

from Current Crisis

Reminds us of Previous Lessons

1. Concentrations still matter
2. Capital is still important
3. Liquidity is extremely important in a crisis
4. Business models matter

Provides us New Lessons

1. Uninsured deposits need to be on the radar
2. Social media's impact on depositor fear
3. Time to respond is shorter with the velocity of money



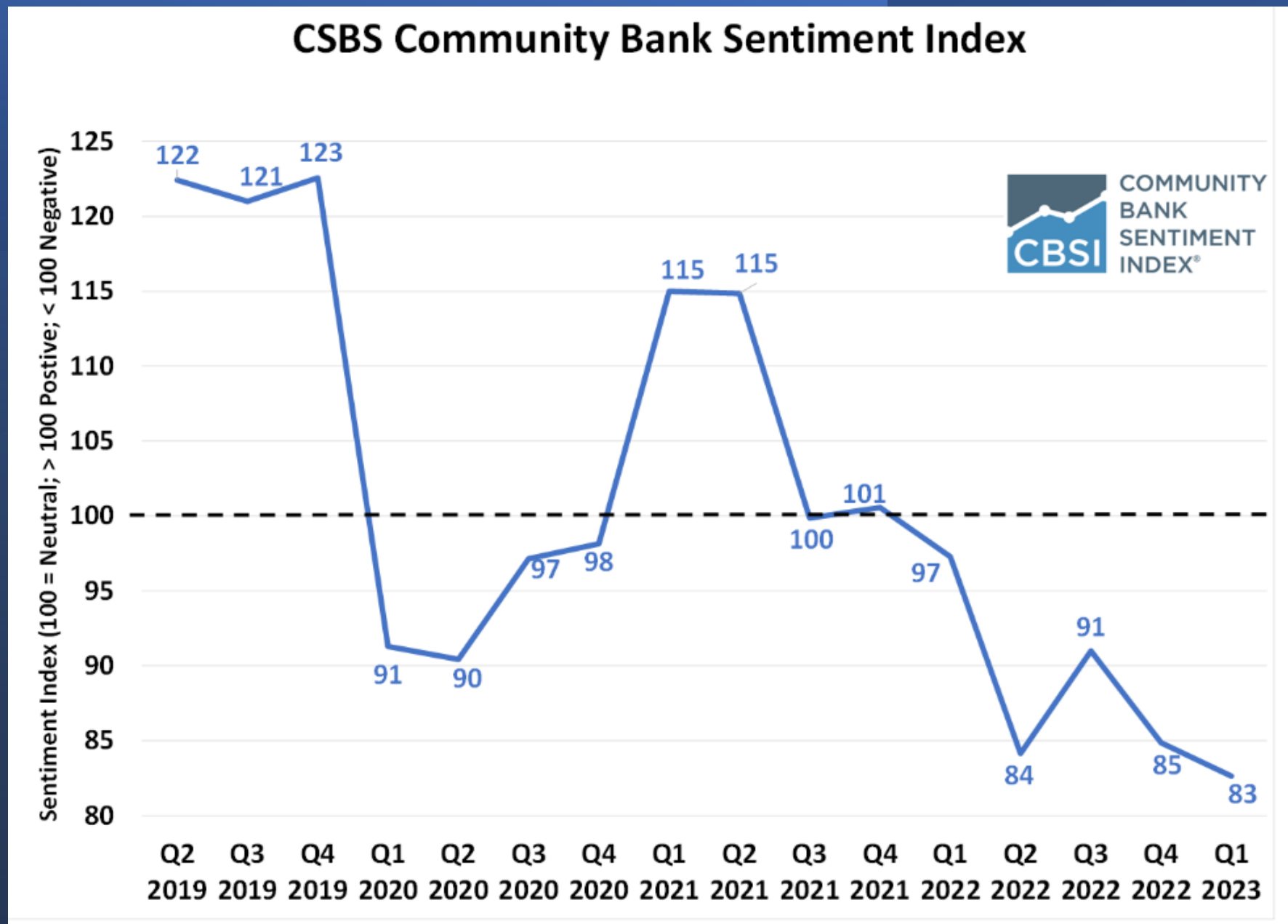


Risk Management Considerations

- Identify and review loan and deposit concentrations.
- Assess the adequacy of on balance sheet funding and any reliance on wholesale funding sources.
- Review Interest Rate Risk models, to ensure it will properly capture the impact of large interest rate movements.
- Consider the impact of large interest rate increases on borrower cash flow's, collateral values and the bank's deposit and funding costs.
- Discuss the adequacy of capital and reserve levels, determine sources of additional capital if needed.
- Ensure Contingency Funding Plans are up to date.



Community Bank Sentiment Index (CBSI)





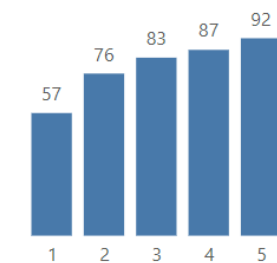
Community Bank Sentiment Index (CBSI)



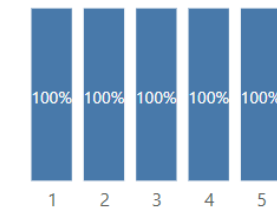
Current Sentiment



By District



Percent of Total



District

1 - Northeast, 2 - Midwest,
3 - South, 4 - Great Plains, 5 - West

● They will be better than today. ● They will be the same as today. ● They will be worse than today. ● I don't know.



51✓

Last Quarter: 37 (+14)

39✓

Last Quarter: 33 (+7)

22!

Last Quarter: 26 (-4)

133!

Last Quarter: 137 (-4)

131!

Last Quarter: 132 (-1)

82!

Last Quarter: 99 (-18)

122!

Last Quarter: 128 (-6)



Community Bank Sentiment Index (CBSI)

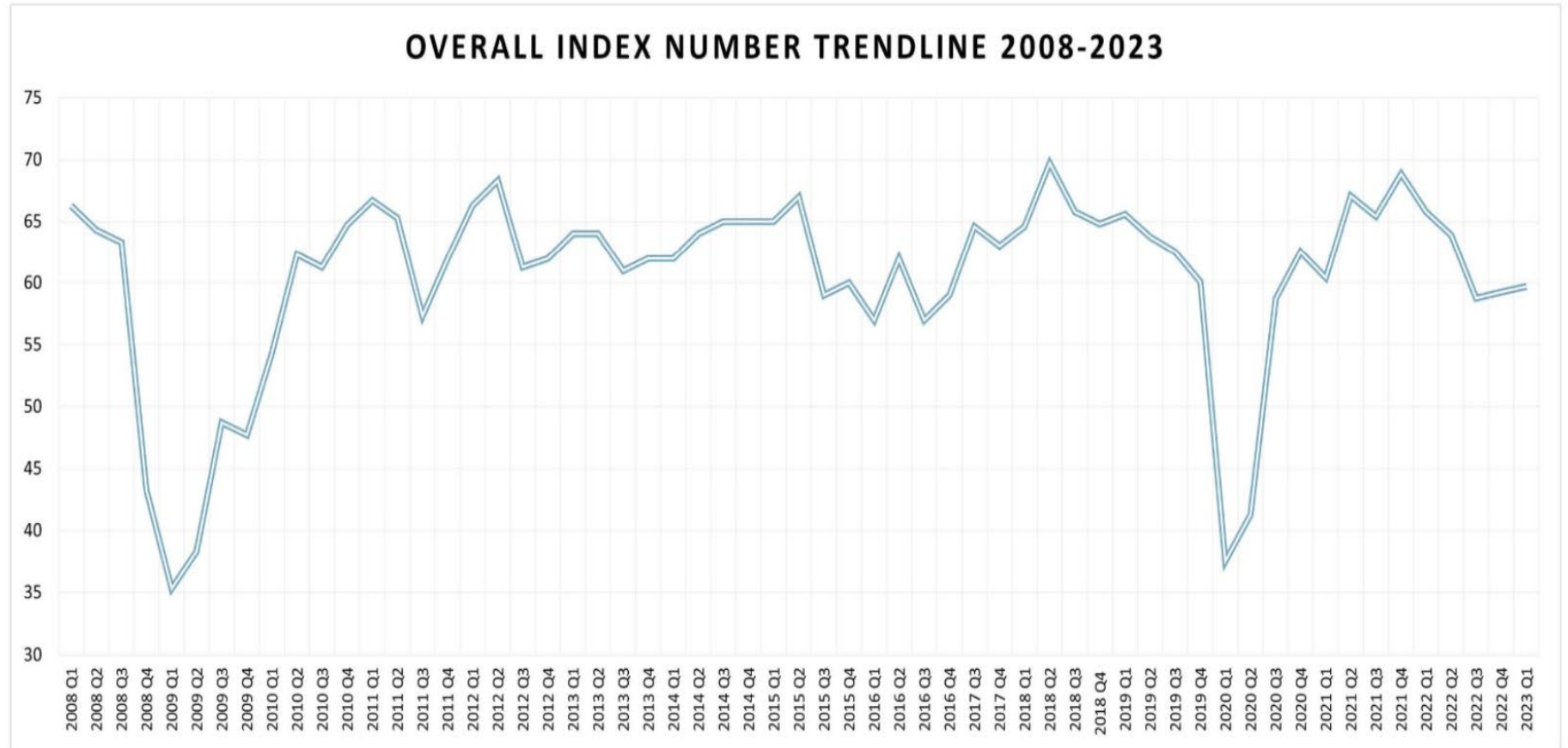
Q1 2023 Survey Highlights:

- Top concerns for 2023 - inflation, government regulation, the cost/availability of labor, and cyberattacks.
- 94% of community bankers believe the U.S. economy is currently in a recession.



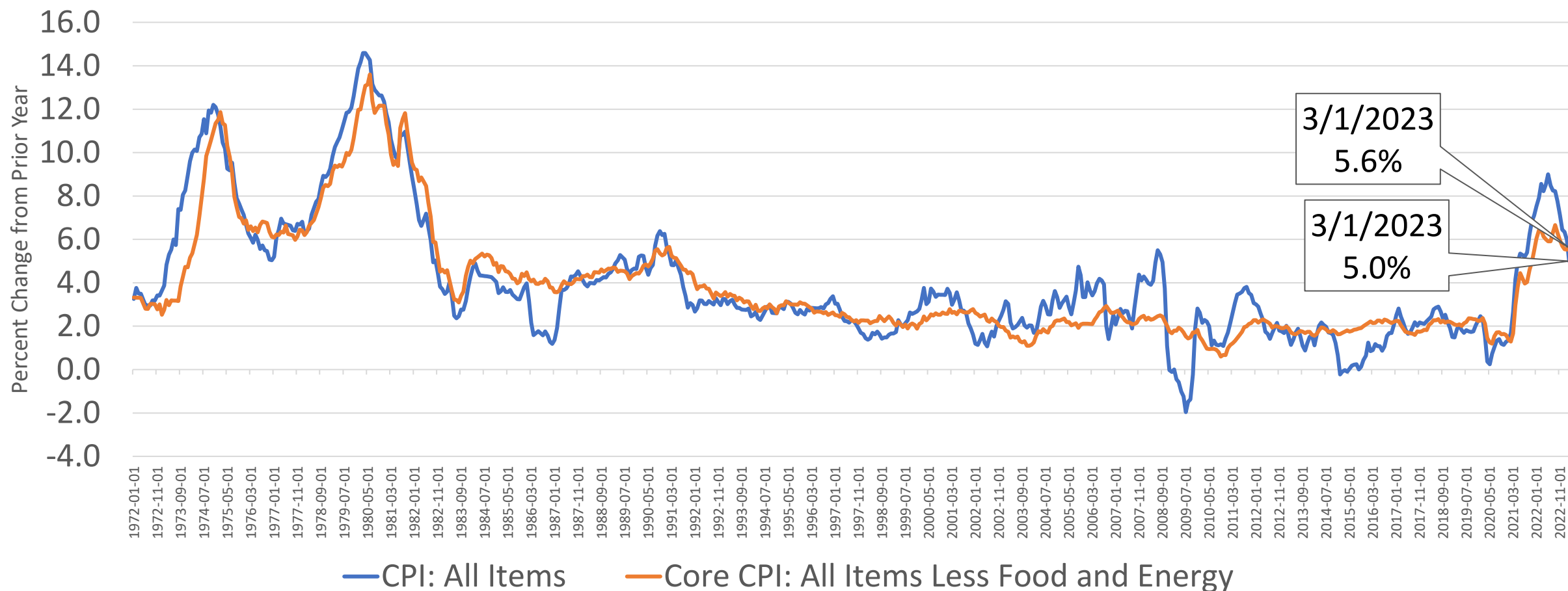
Q1 2023 Economic Outlook Survey

Iowa Business Council Projects Positive Six-Month Economic Outlook



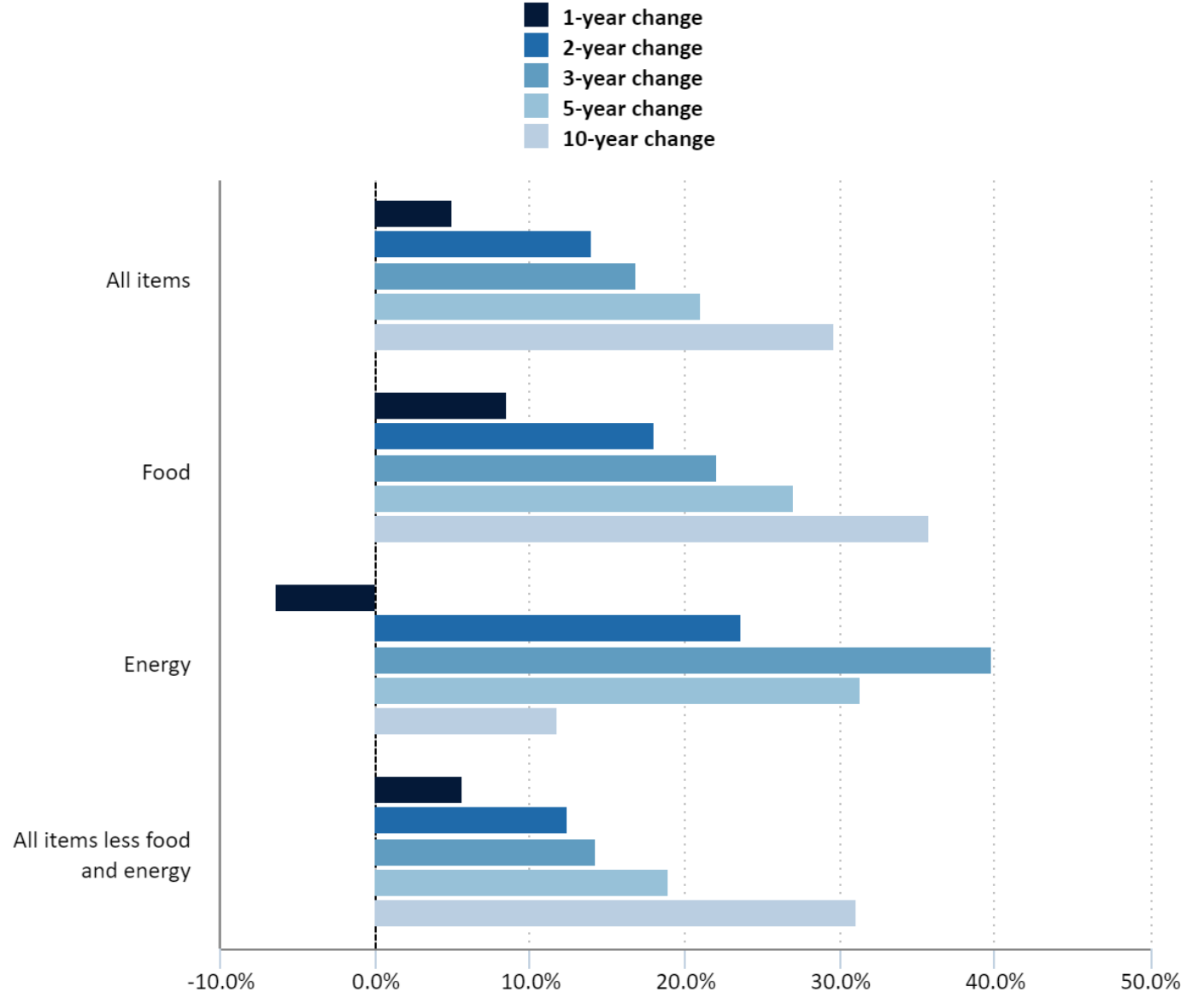
Inflation is Improving but Remains Elevated

Consumer Price Index for All U.S. Urban Consumers



Inflation is Improving but Remains Elevated

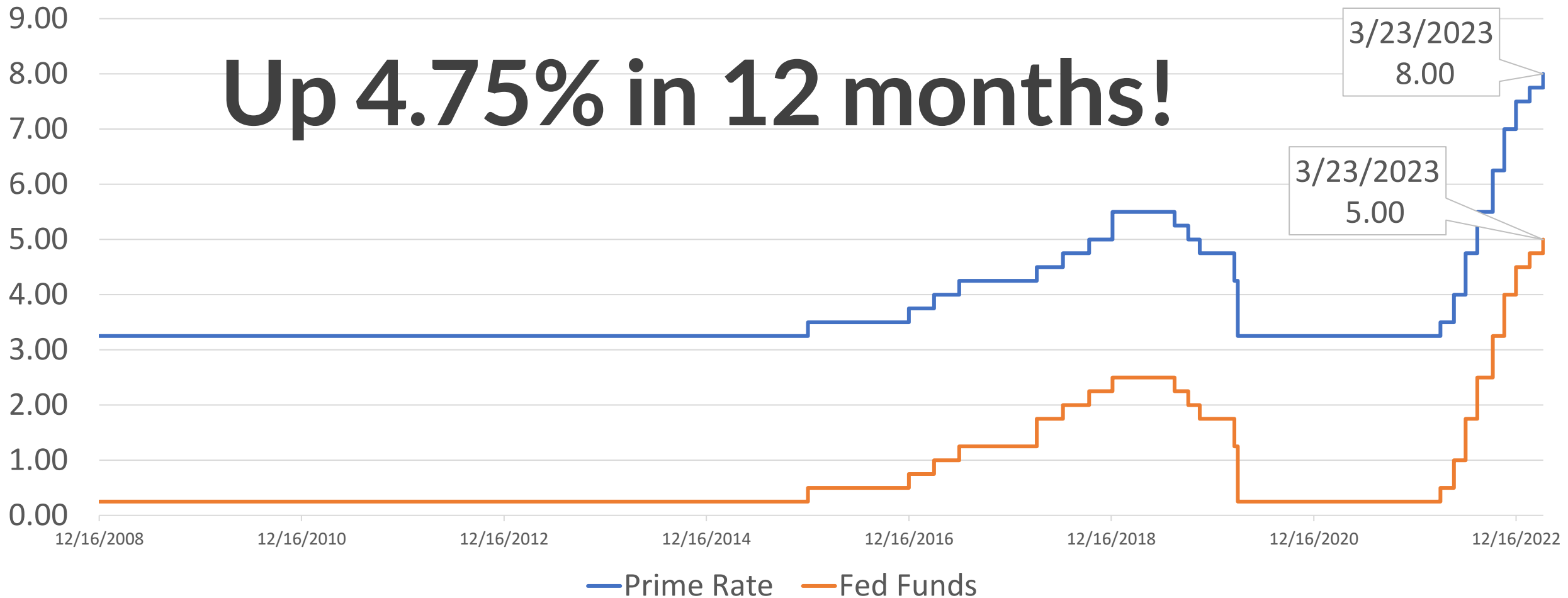
Percent change in the Consumer Price Index for All Urban Consumers, selected periods and categories, March 2023, not seasonally adjusted



Source: U.S. Bureau of Labor Statistics

FOMC Response to Inflation

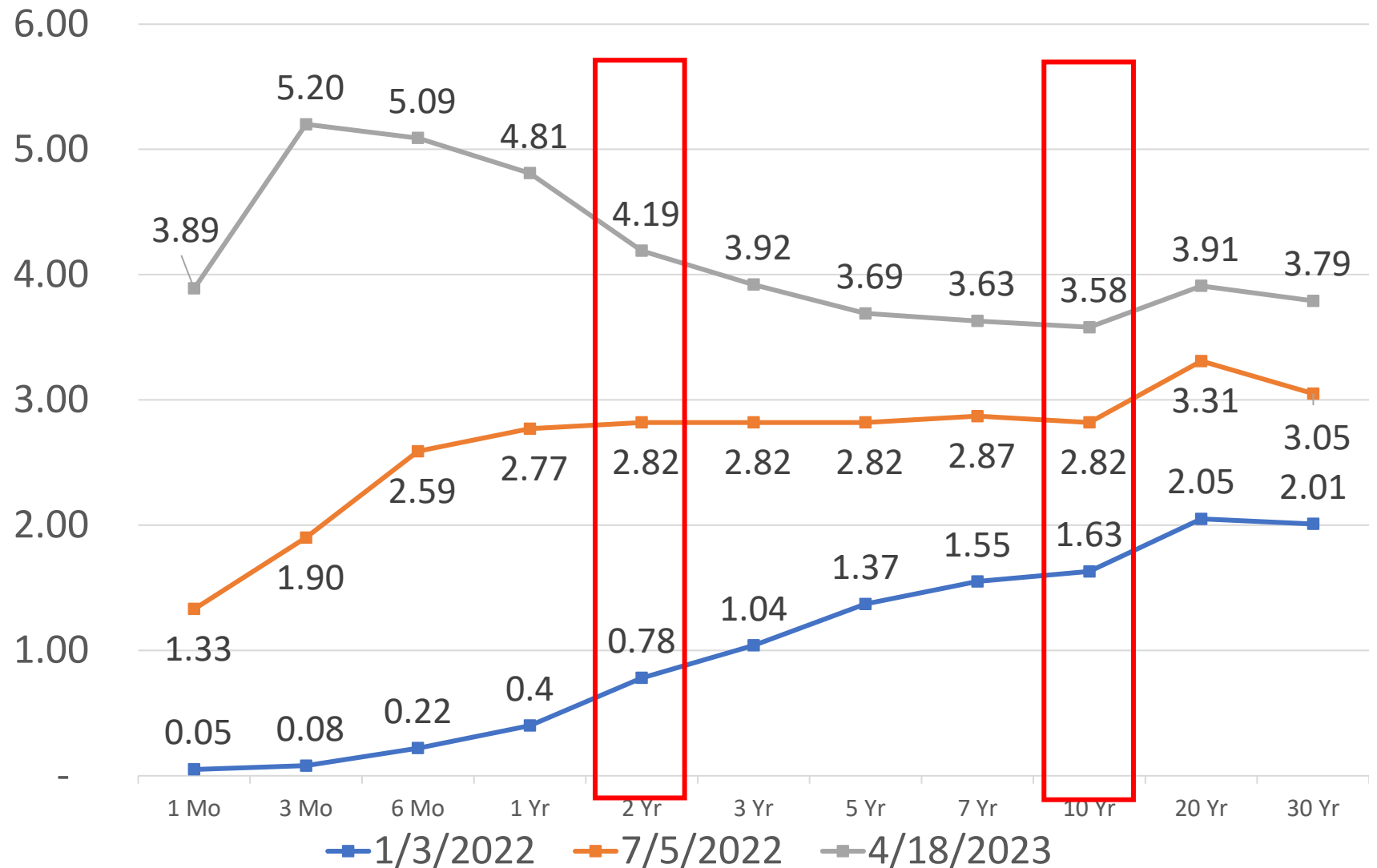
Up 4.75% in 12 months!



What shape
is the yield
curve now?

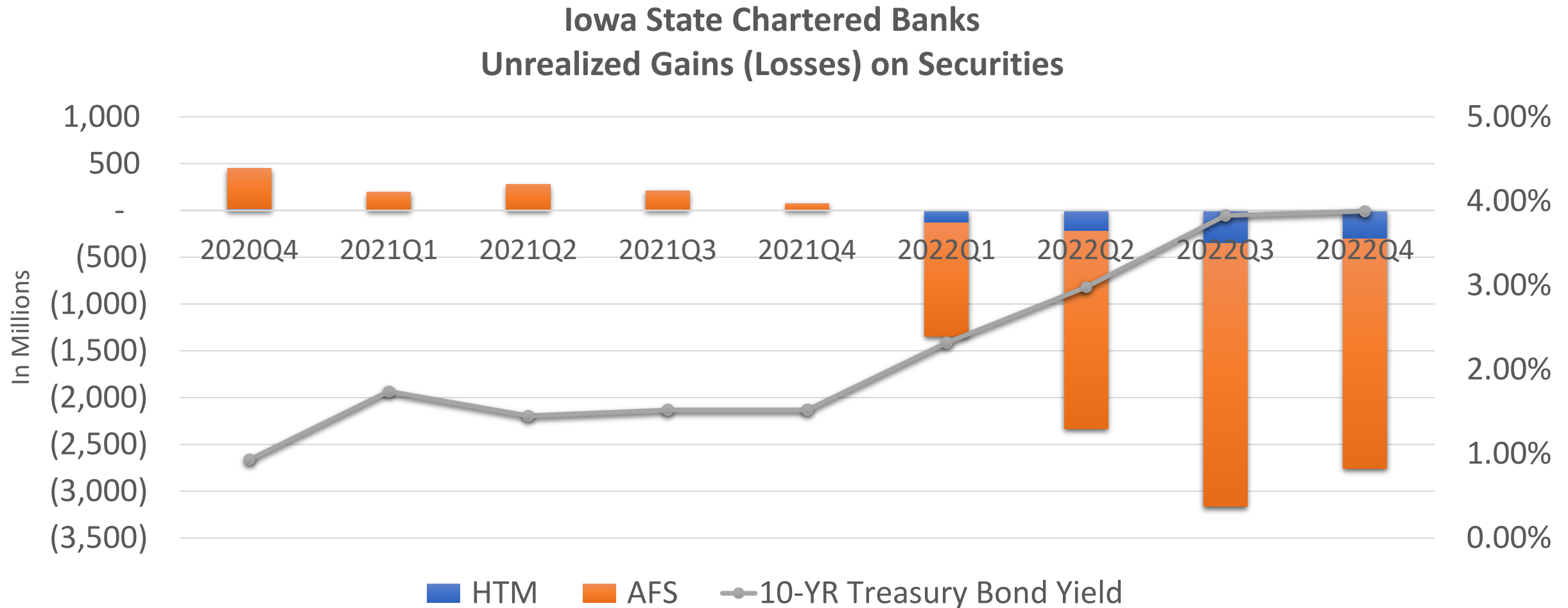
Focus on 2 Yr vs 10 Yr

U.S. DEPARTMENT OF THE TREASURY DAILY TREASURY YIELD CURVE RATES

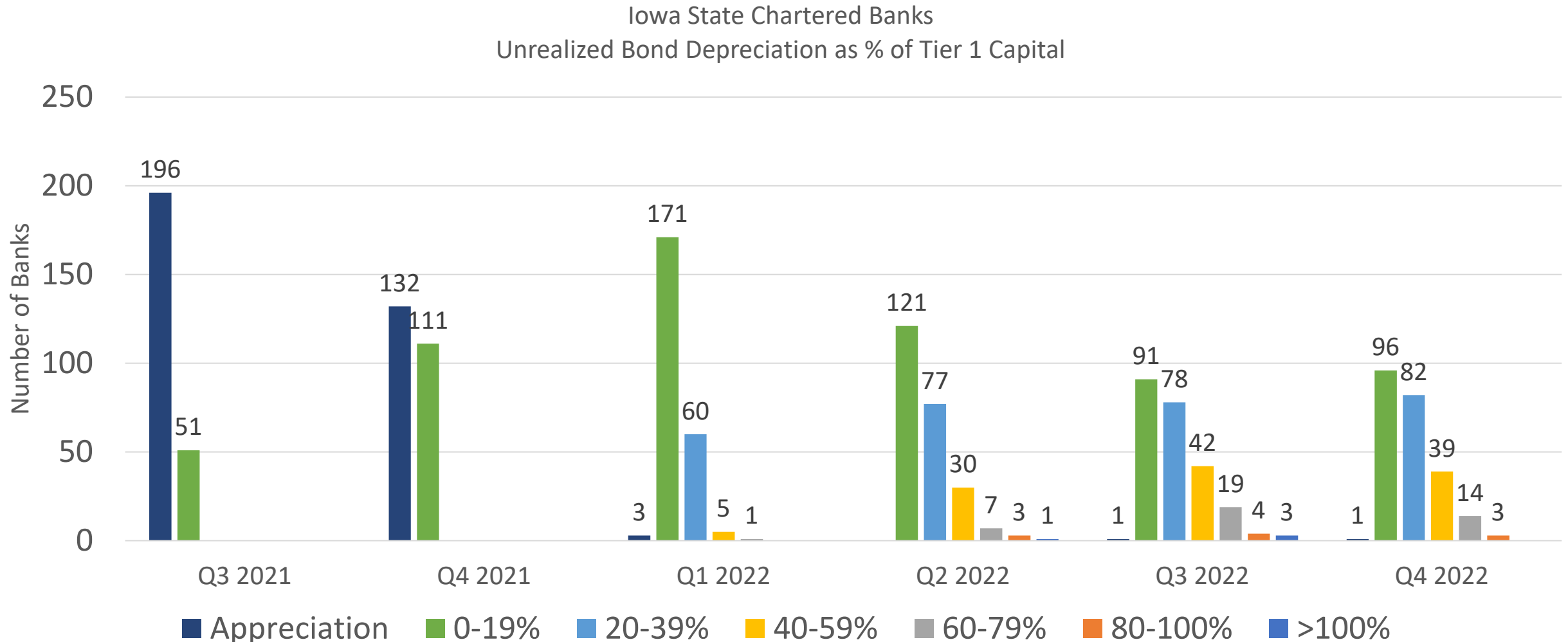


Source: U.S. Department of Treasury

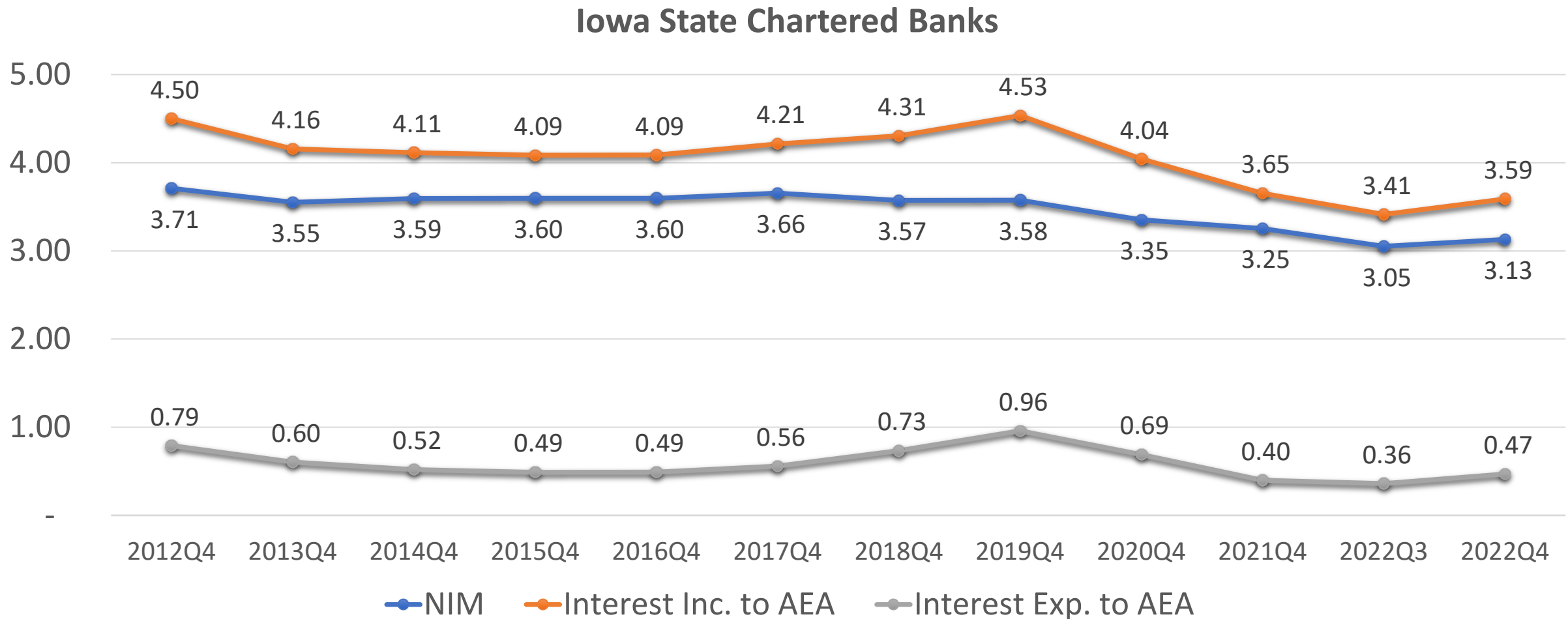
Interest rate increases – impact bond values, portfolio liquidity, and potentially an institutions FHLB borrowing capacity



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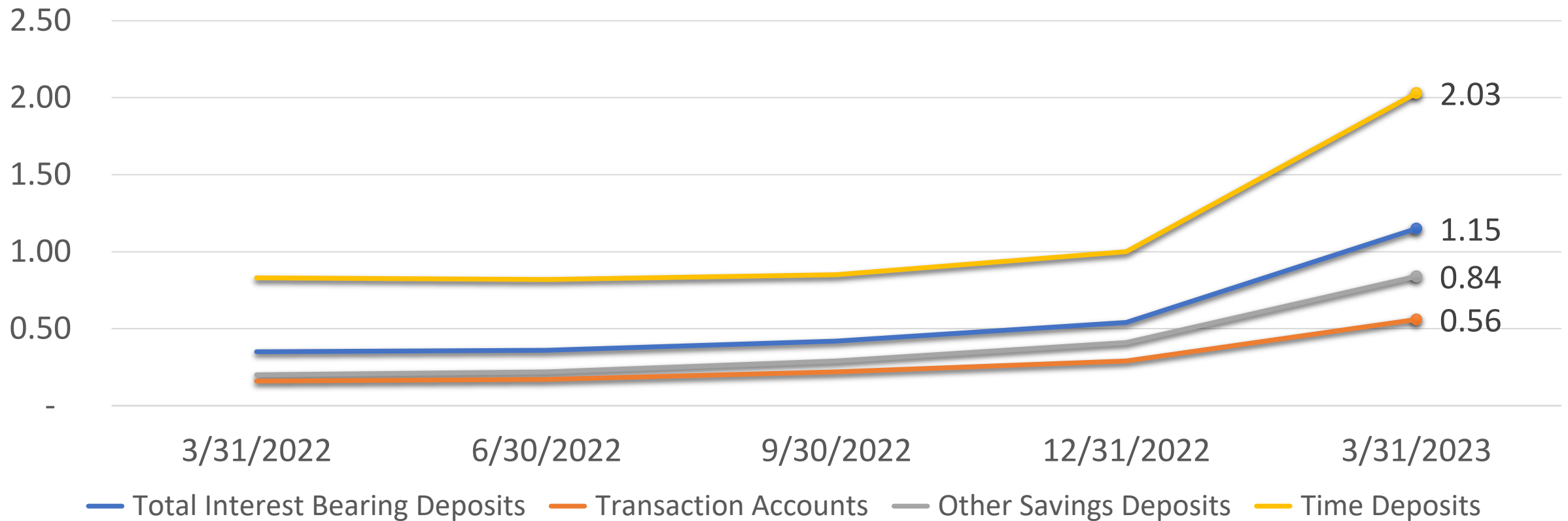


Interest rate increases – impact on net interest margins and future profitability

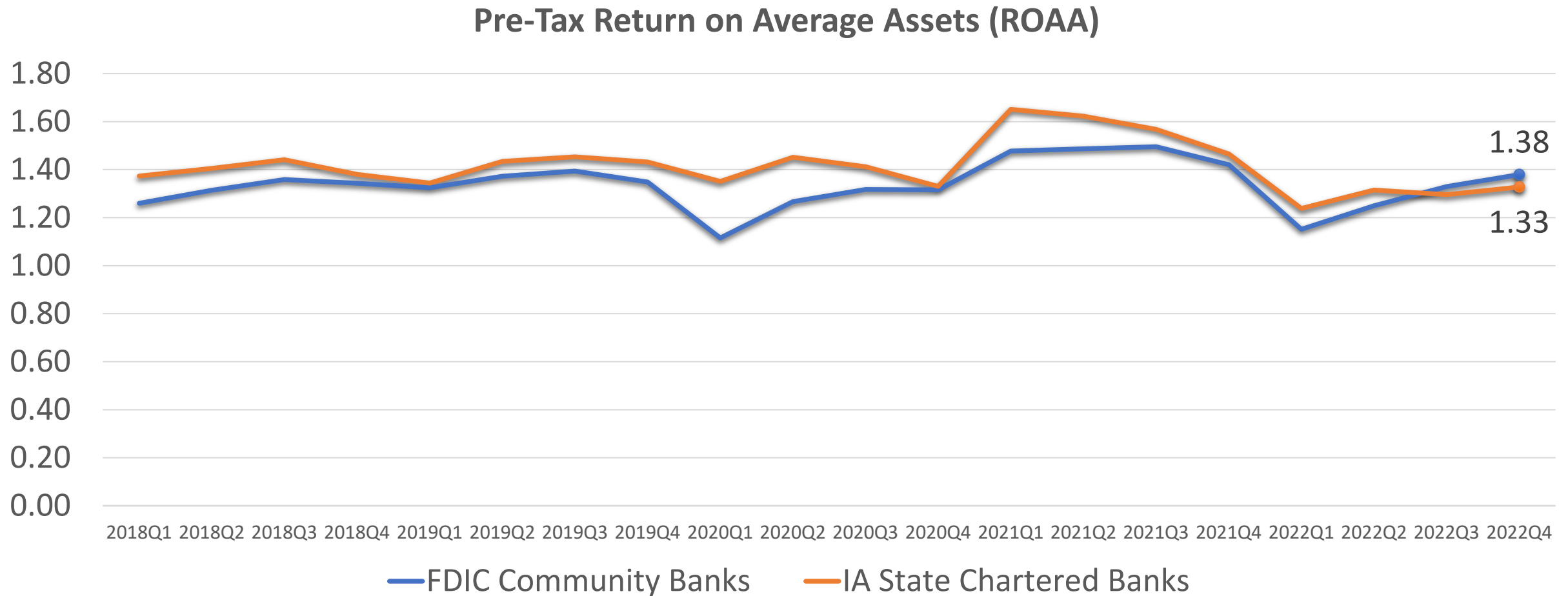


Interest rate increases – impact on net interest margins and future profitability

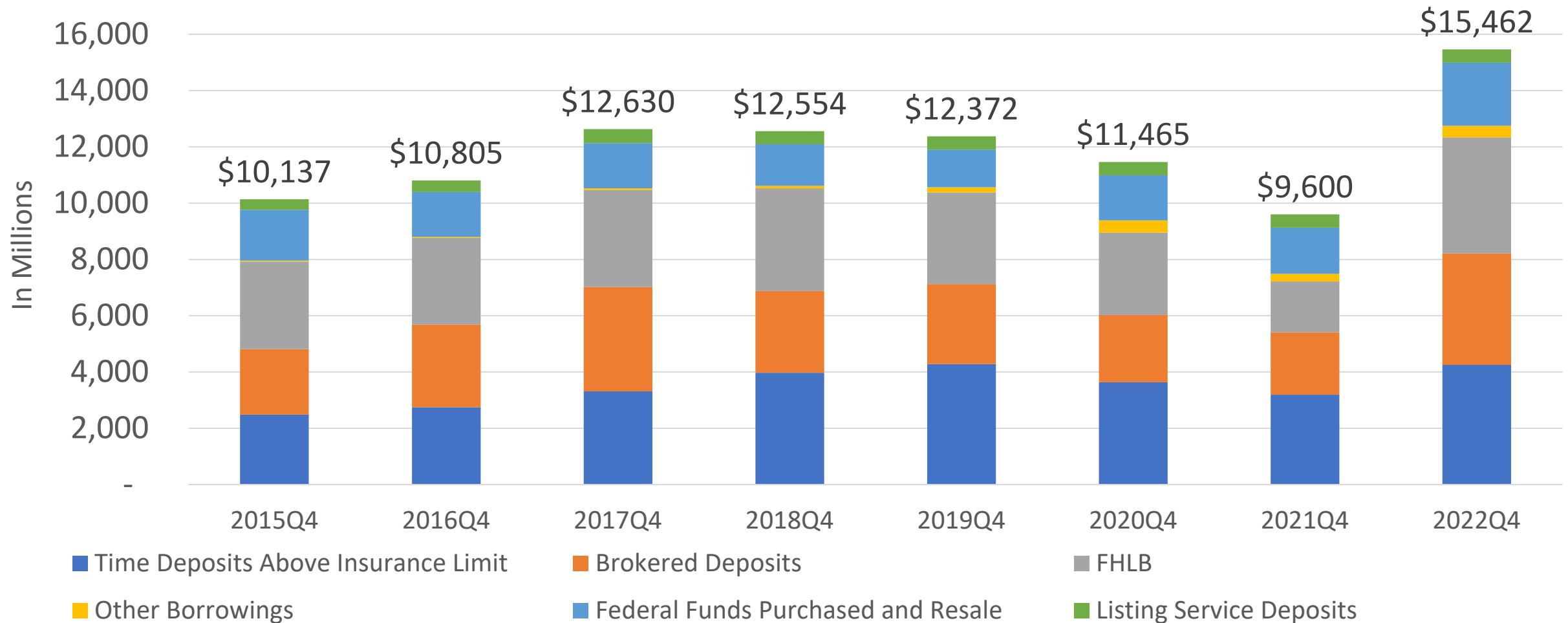
All Insured Commercial Banks in Iowa
State Average Cost of Deposits



Interest rate increases – impact on net interest margins and future profitability

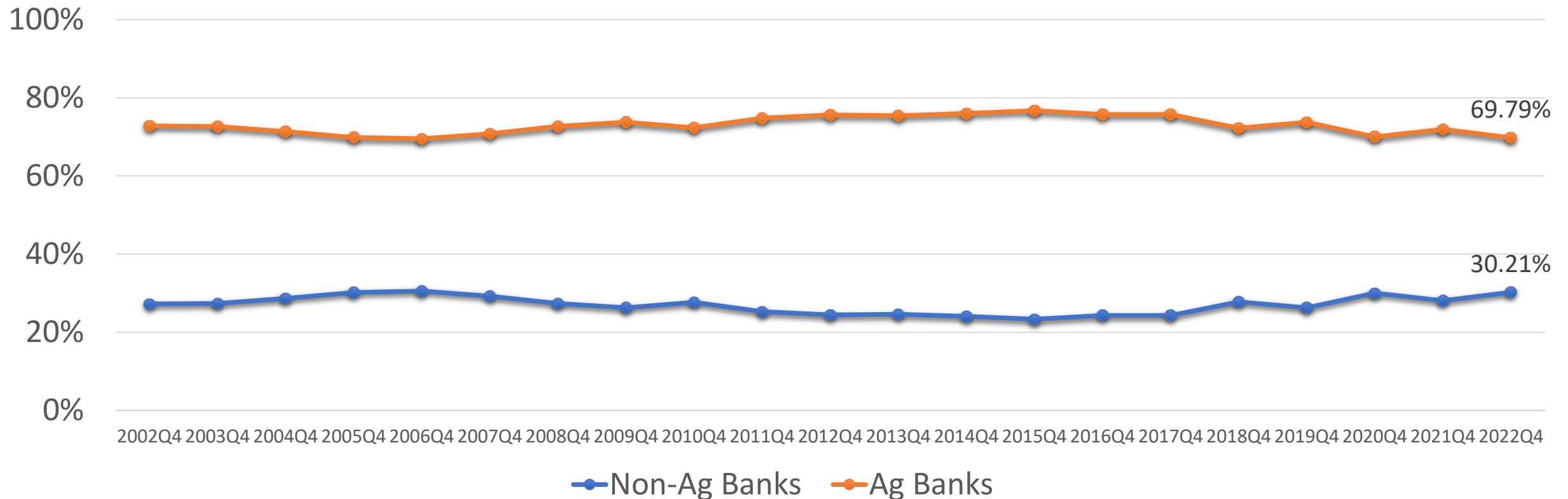


Iowa State Chartered Banks Noncore Funding and Listing Service Deposits

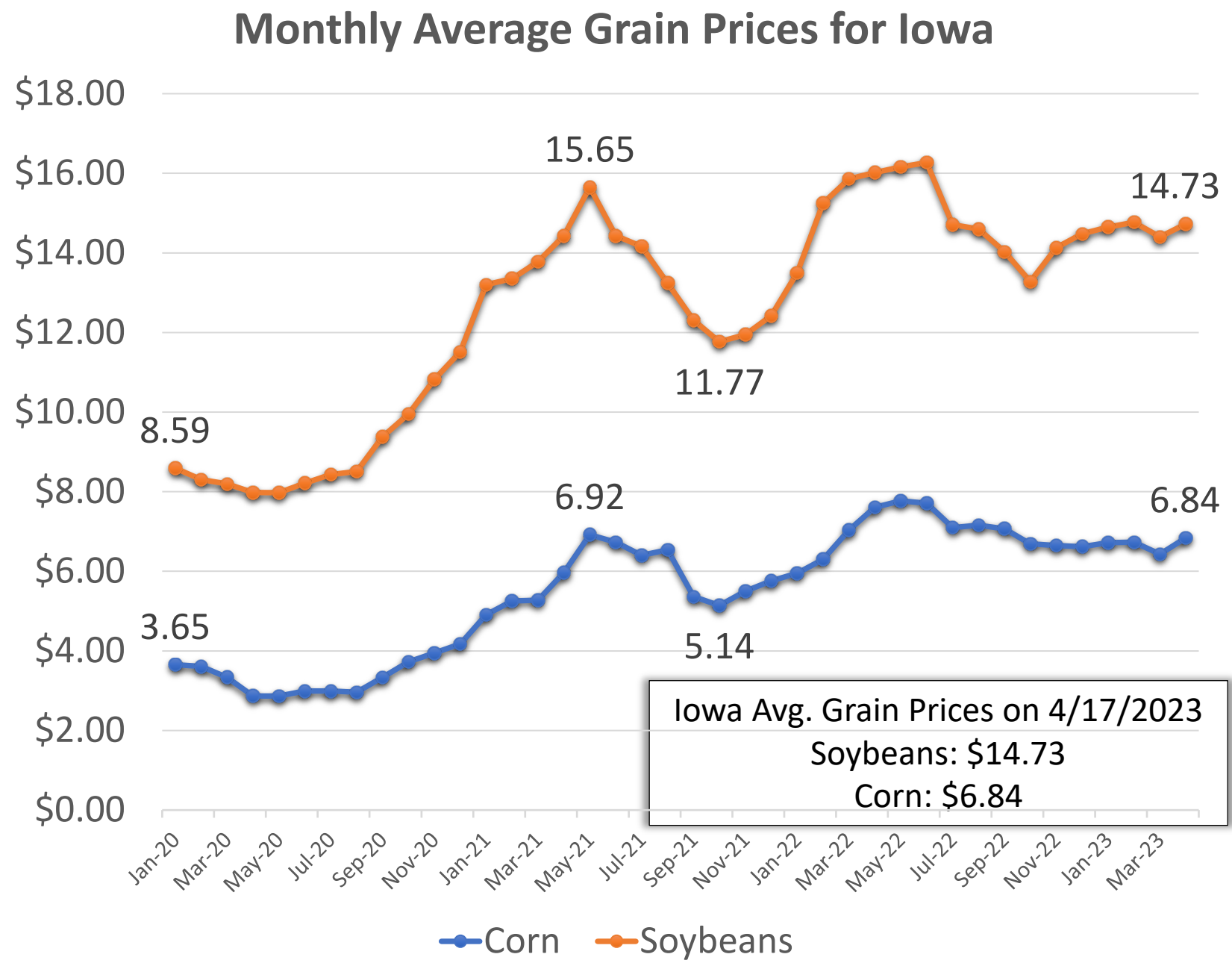


Why do we remain focused on the health of the Agricultural economy?

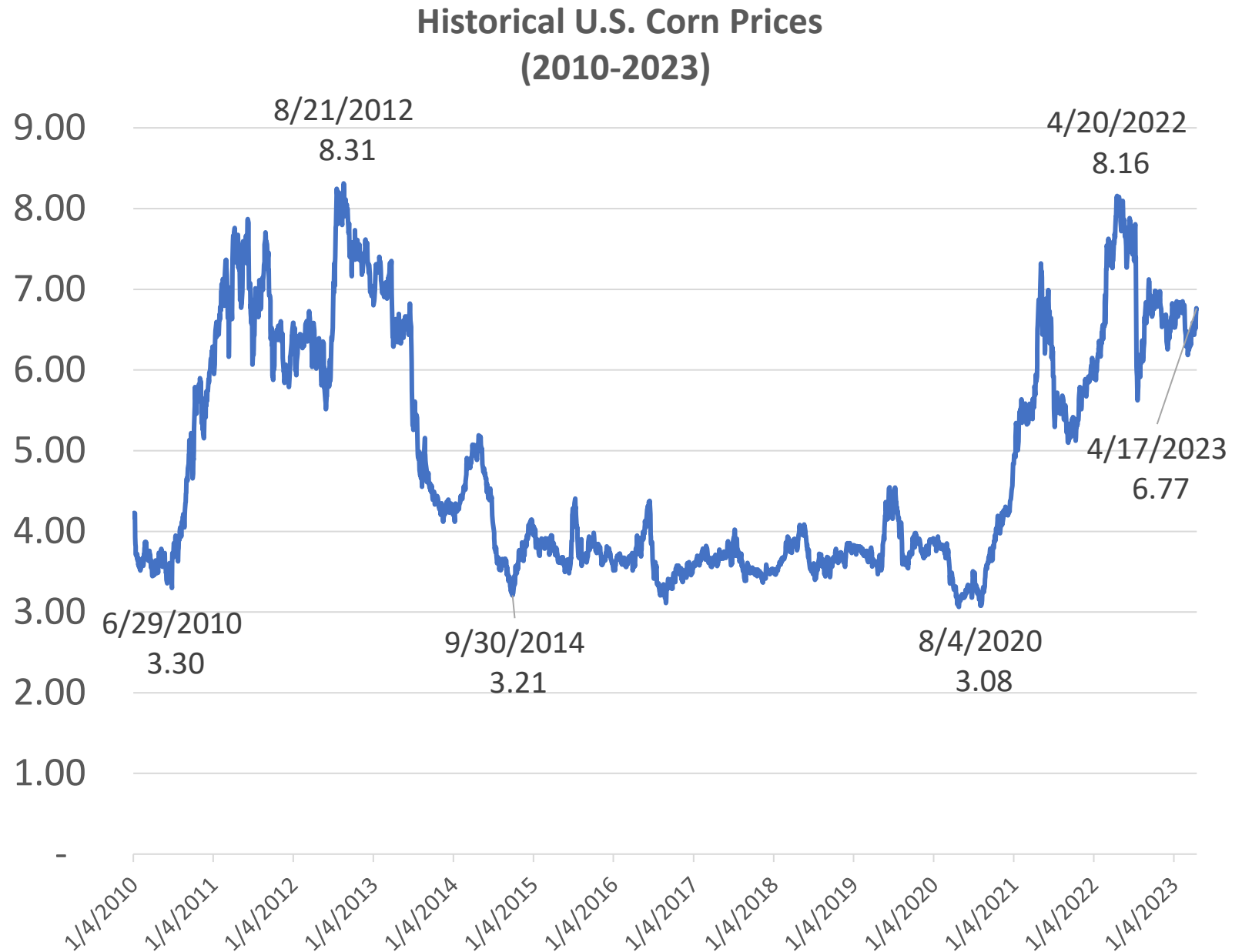
Iowa State Chartered Banks
Percentage Ag and Non-Ag Banks
(Note: Ag Banks = Ag Loans > 25% of Total Loans)



Grain Prices
Remain
Elevated



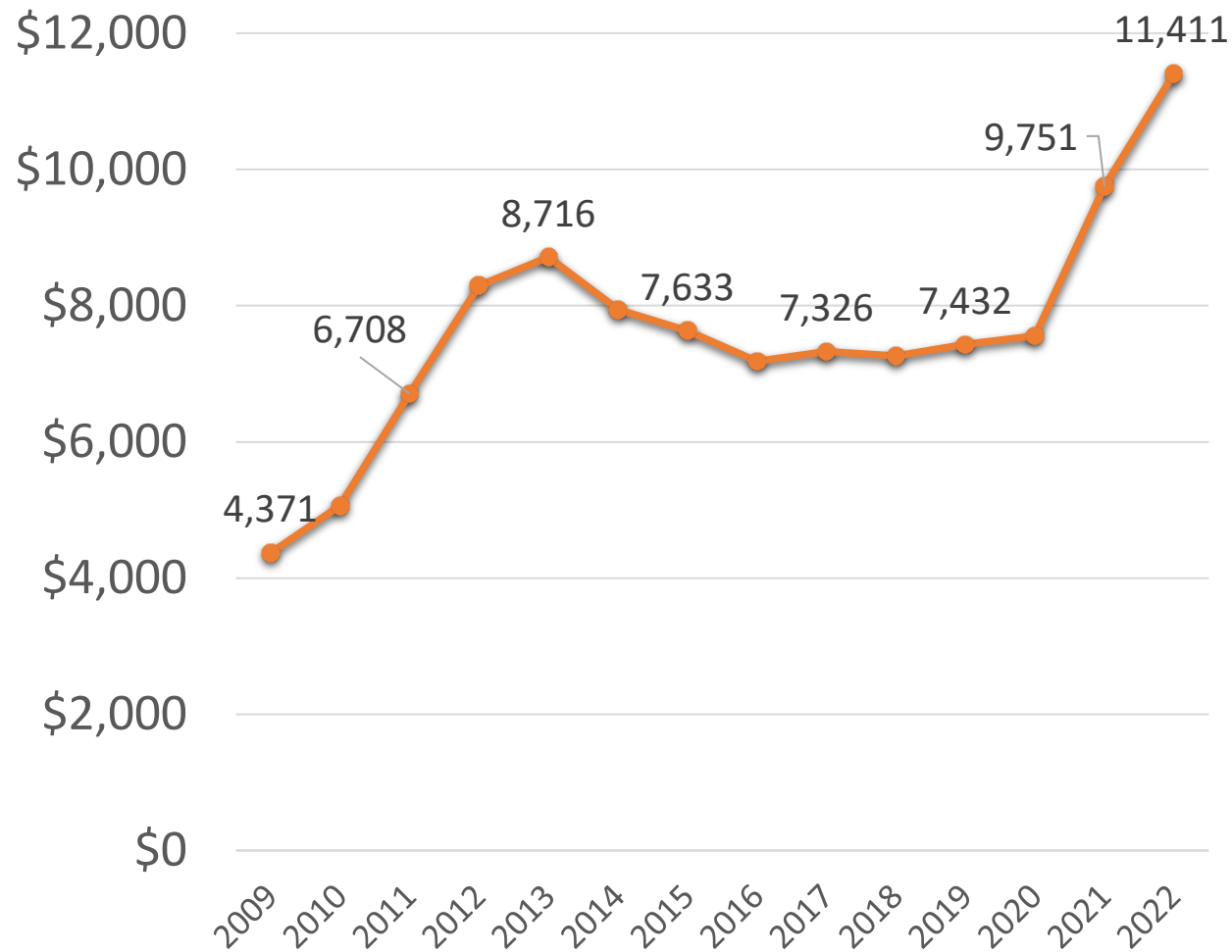
Remember Grain Price Volatility



USDA: Forecasts Farm Income to Fall in 2023

- Net farm income is forecast to decrease by \$25.9 billion (15.9 percent) from 2022 to \$136.9 billion in 2023.
- Direct Government farm payments are forecast at \$10.2 billion in 2023, a \$5.4 billion (34.4 percent) decrease from 2022 levels.
- Total production expenses are forecast to increase by \$18.2 billion (4.1 percent) in 2023 to \$459.5 billion.

Farmland Values



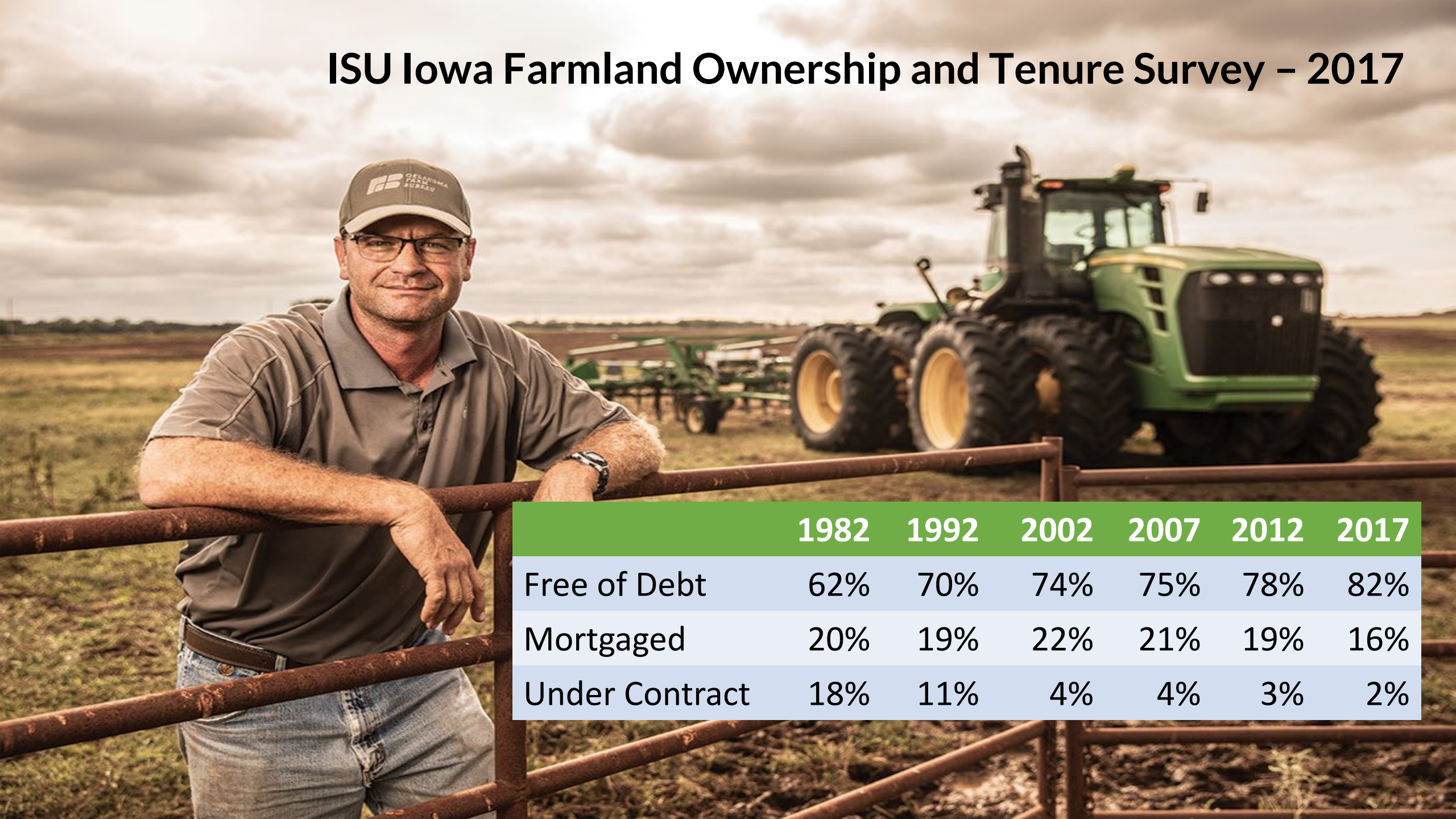
Price Per Acre on the Rise

- 2022 state average \$11,411 est.
- \$1,660 (or 17%) increase from 2021

Common Factors

- Higher commodity prices
- Strong yields
- Limited supply / Strong demand
- Low interest rates through summer 2022

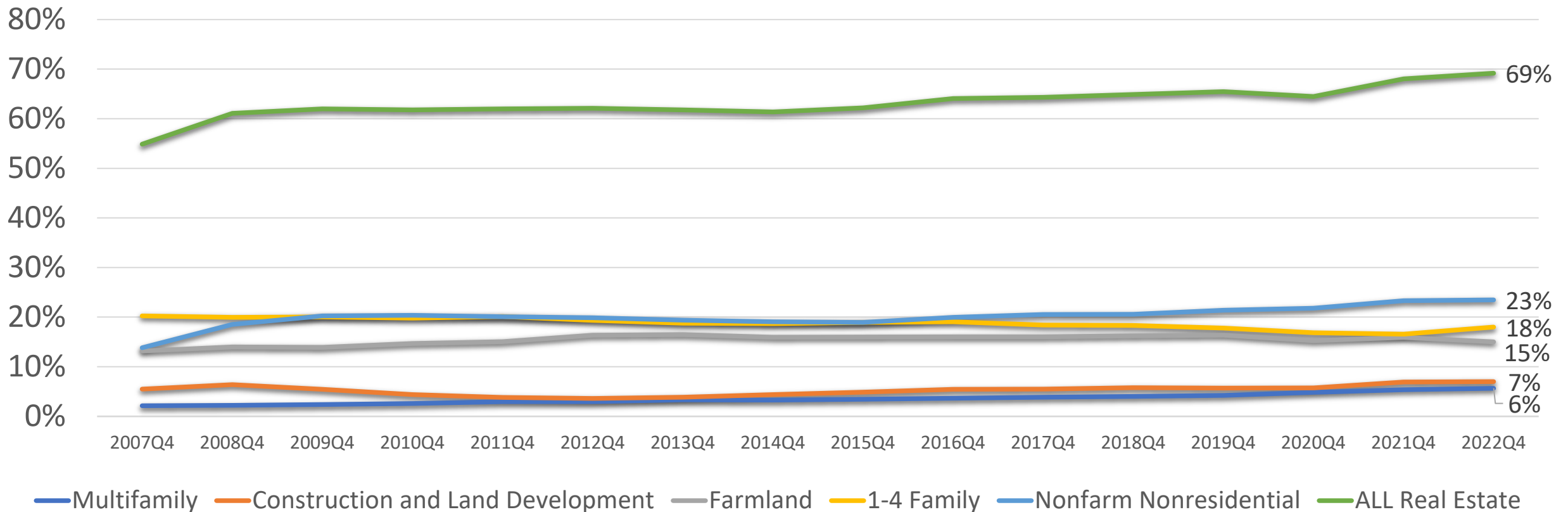
ISU Iowa Farmland Ownership and Tenure Survey – 2017



	1982	1992	2002	2007	2012	2017
Free of Debt	62%	70%	74%	75%	78%	82%
Mortgaged	20%	19%	22%	21%	19%	16%
Under Contract	18%	11%	4%	4%	3%	2%

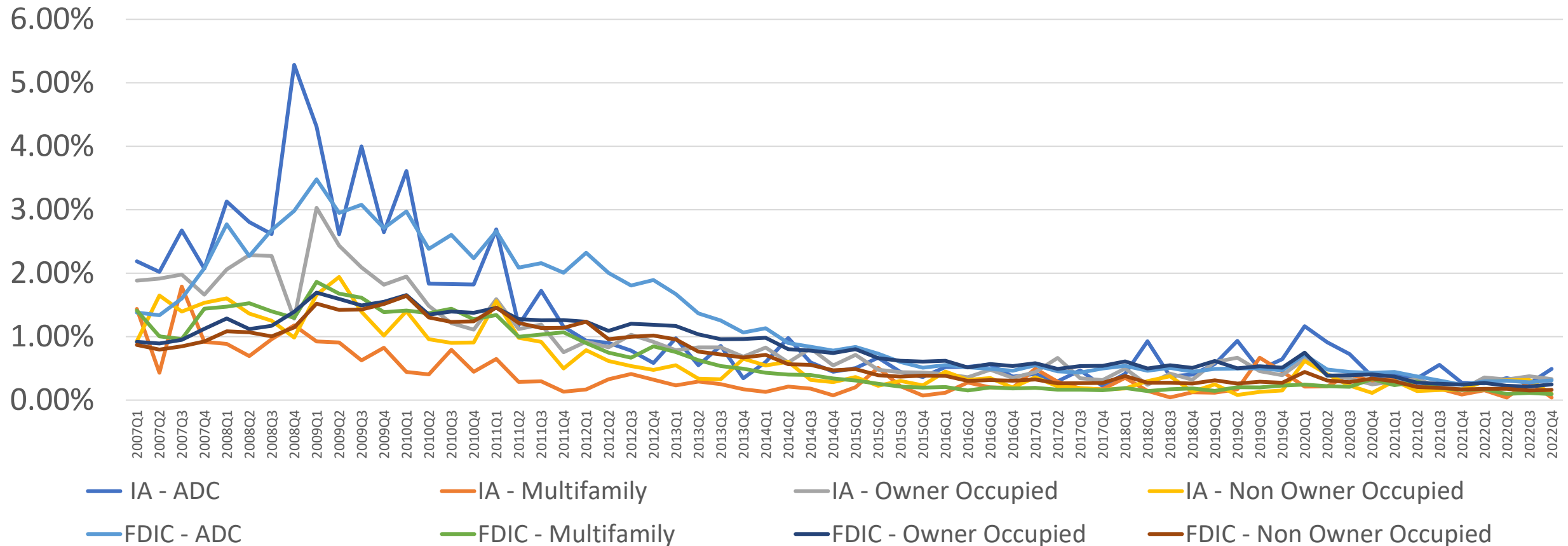
Commercial Real Estate (CRE)

Iowa State Chartered Banks
Real Estate Loans as a percentage of Total Loans and Leases



Commercial Real Estate (CRE)

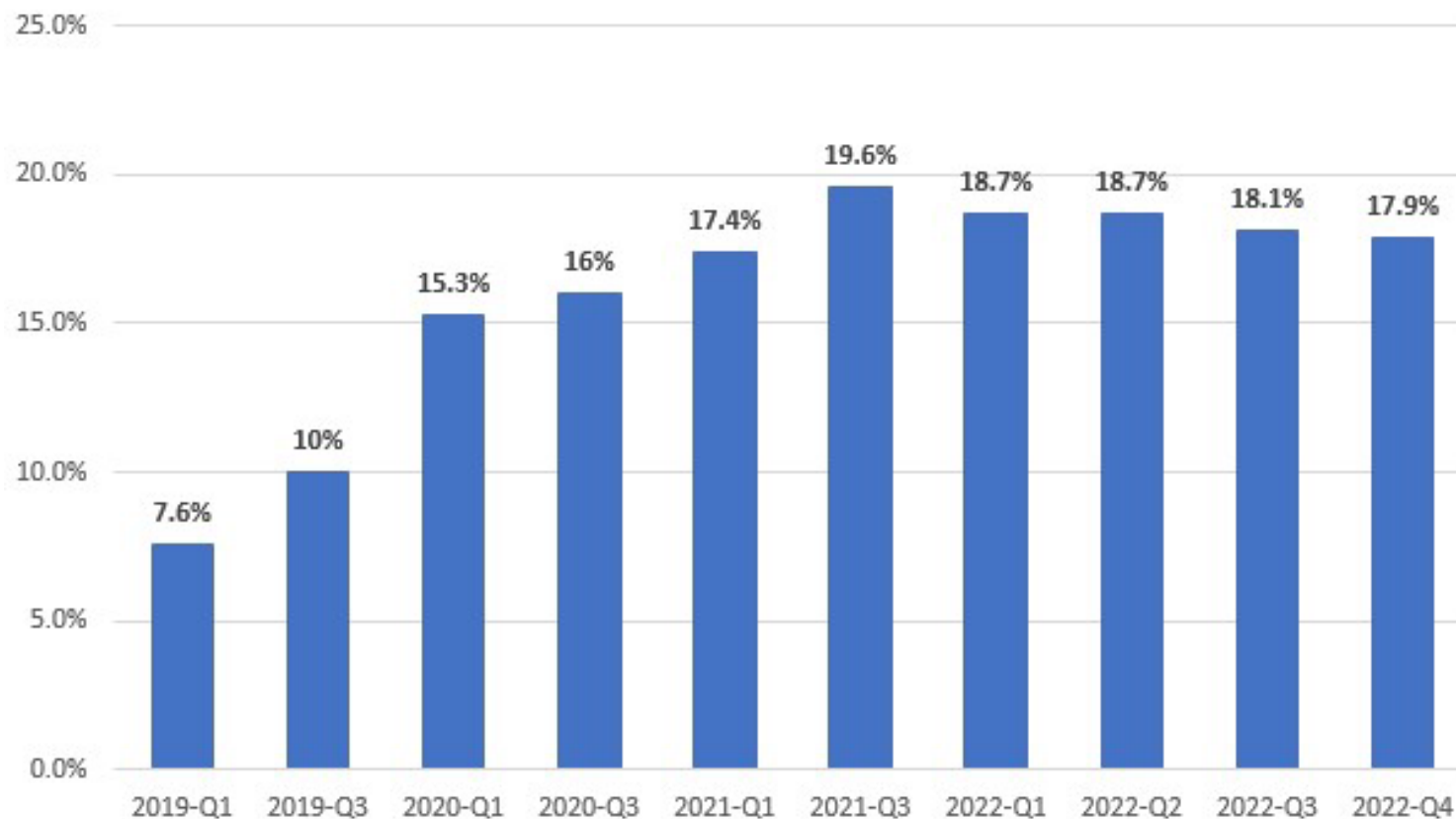
CRE Delinquency Rates for
Iowa State Chartered and FDIC Community Banks



Des Moines Commercial Real Estate (CRE)

Downtown Des Moines office vacancy

Over 1.1 million square feet, or 17.9%, of office space in downtown Des Moines was vacant in the fourth quarter of 2022, CBRE's market analysis shows. The Central Business District has more than 6.5 million square feet of office space.



Source: CBRE

Signs of Commercial Real Estate (CRE) Stress

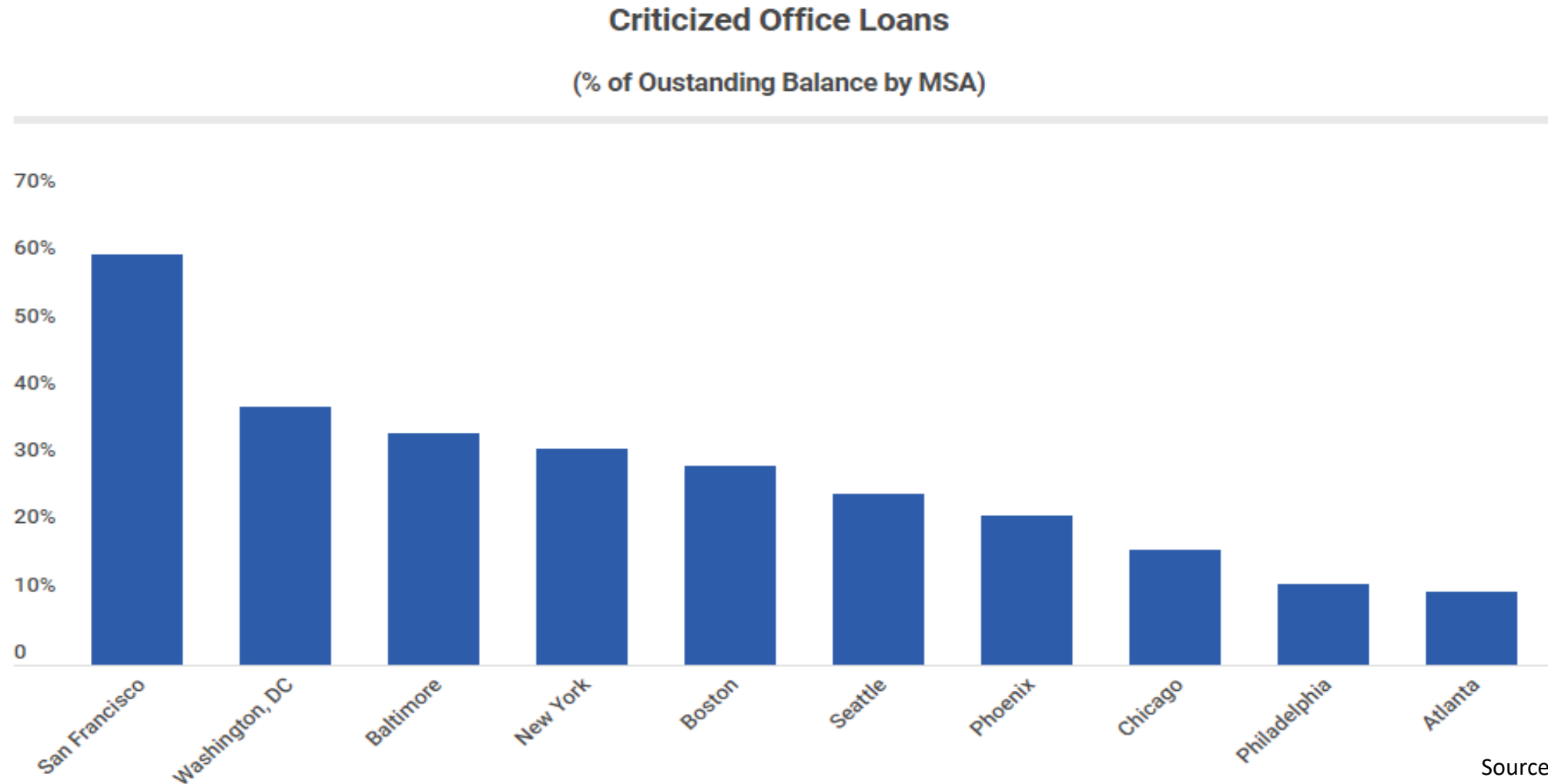
Top 5 States with an Increase in Office Delinquencies

State	Property Type	Feb'23 DQ%	Dec'22 DQ%	Change in DQ%
PA	OF	8.6	0.99	+7.61
NC	OF	10.34	3.45	+6.89
MS	OF	10.5	5.62	+4.88
SC	OF	14.28	10.41	+3.87
DC	OF	8.2	4.85	+3.35

Top 5 States with an Increase in Retail Delinquencies

State	Property Type	Feb'23 DQ%	Dec'22 DQ%	Change in DQ%
MO	RT	14.92	2.98	+11.94
IN	RT	15.75	11.44	+4.31
VA	RT	8.68	6.64	+2.04
NM	RT	3.64	1.79	+1.85
OH	RT	7.06	5.31	+1.75

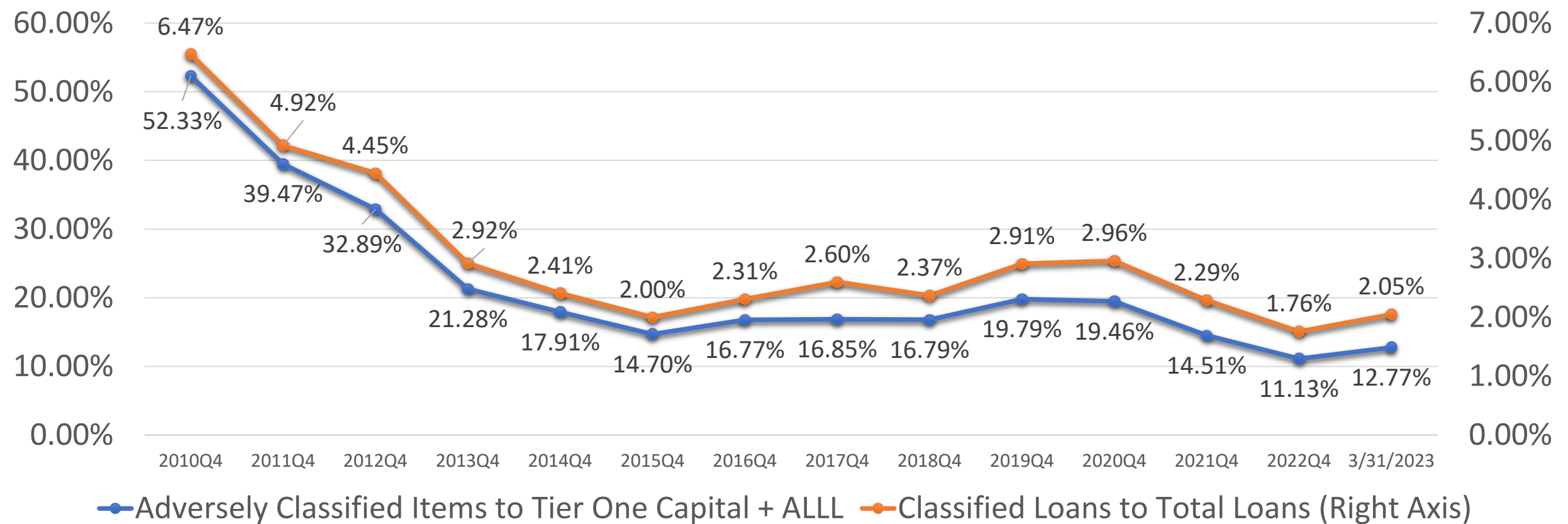
Signs of Commercial Real Estate (CRE) Stress



Source: Trepp.com

Asset Quality in Iowa State Chartered Banks Remains Satisfactory Overall

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





Merger & Acquisition Trends



Number of State-Chartered Banks Continues to Decline

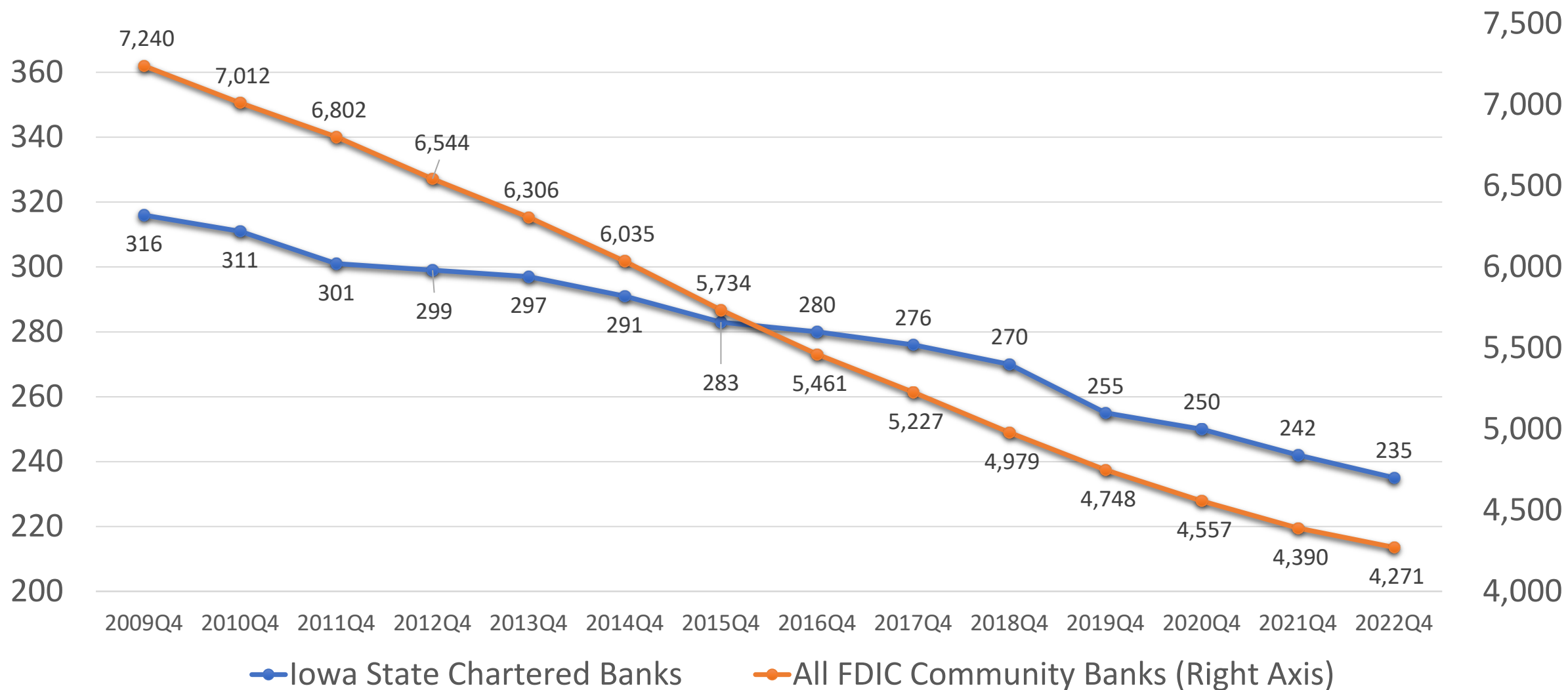


Losing Banks below \$100 Million in Total Assets

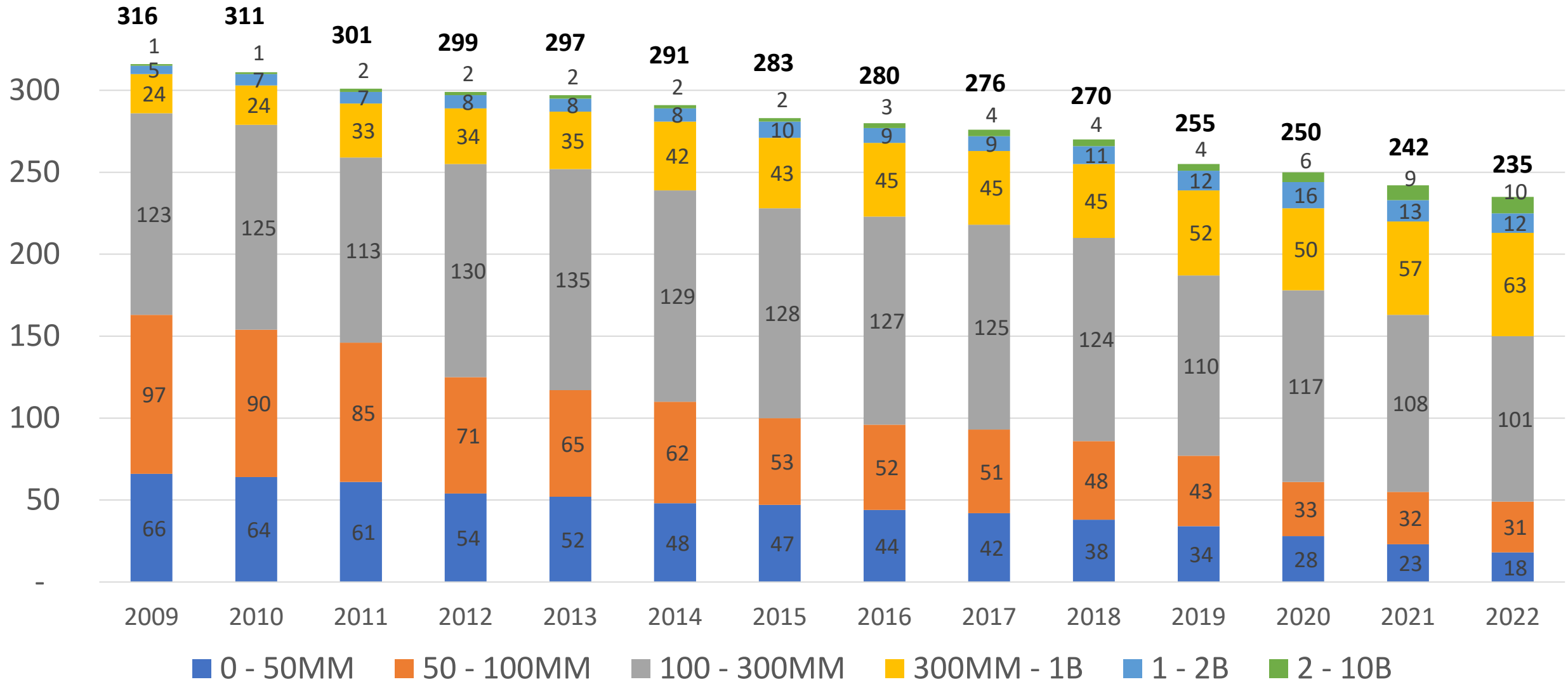


Common Reasons

Bank Numbers Continue to Decrease



Number of Iowa State Chartered Banks – By Size





Emerging Issues

- Succession Planning / Attracting and Retaining Talent
- Cybersecurity and Ransomware Threats
- Shrinking Liquidity in Banks
- Attracting and Retaining Deposits
- CECL Implementation
- The Politics of ESG
- Continued Pressure on Net Interest Margin

IDOB Information Technology (IT) Survey

- Link will be provided in an email from Superintendent Jeff Plagge
- Asks for basic information on vendors of critical IT products/services
- 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



Thank You for Participating!

Annual CSBS Community Bank Sentiment Survey

Quarterly CSBS Community Bank Sentiment Survey

CSBS Member Banks

Today's Day with the Superintendent Event

Questions

JEFF PLAGGE, SUPERINTENDENT
IOWA DIVISION OF BANKING