

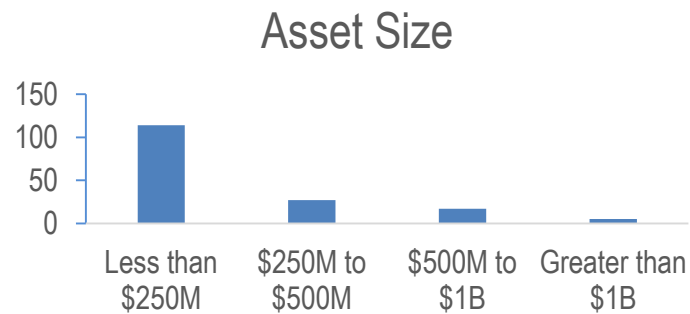
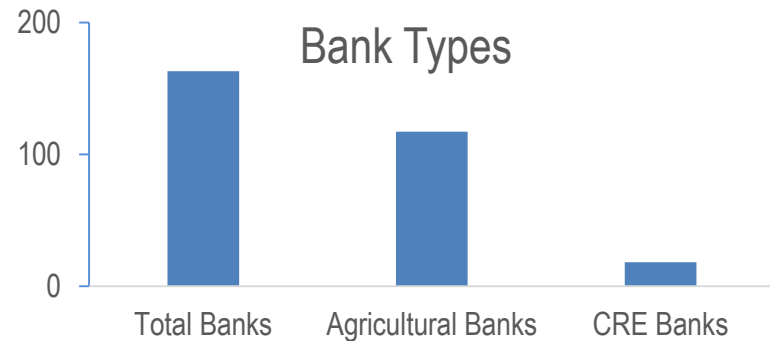
# Nebraska Banking Conditions







May 22, 2019



# Nebraska banks at a glance



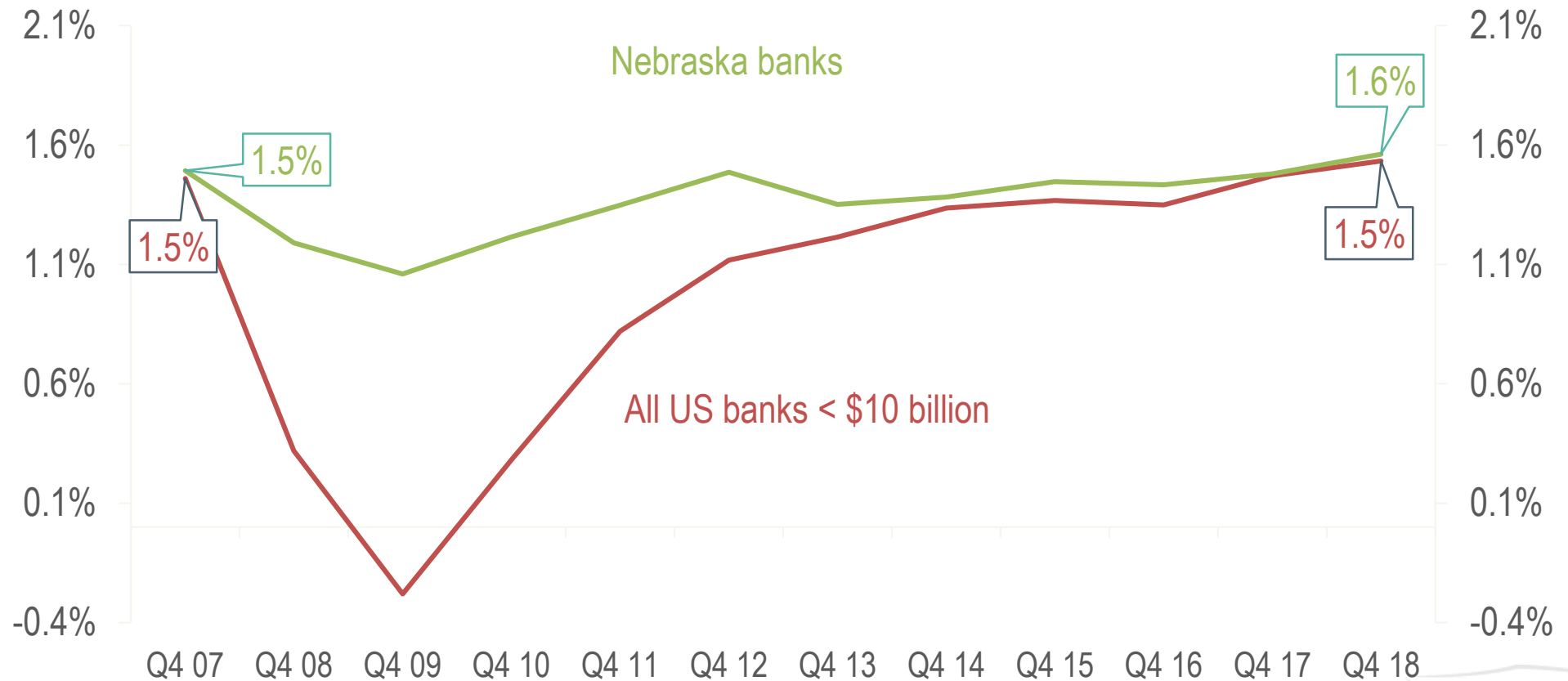
**Bank Classification**

-  CRE Bank
-  Ag and CRE Bank
-  Ag Bank
-  Non Ag/CRE Bank

*CRE banks have total CRE loans greater than 300 percent of total risk-based capital.  
 Ag banks have agricultural production and farmland loans greater than 25 percent of total loans.  
 Source: Reports of Condition and Income*



# Earnings have almost recovered to pre-crisis levels



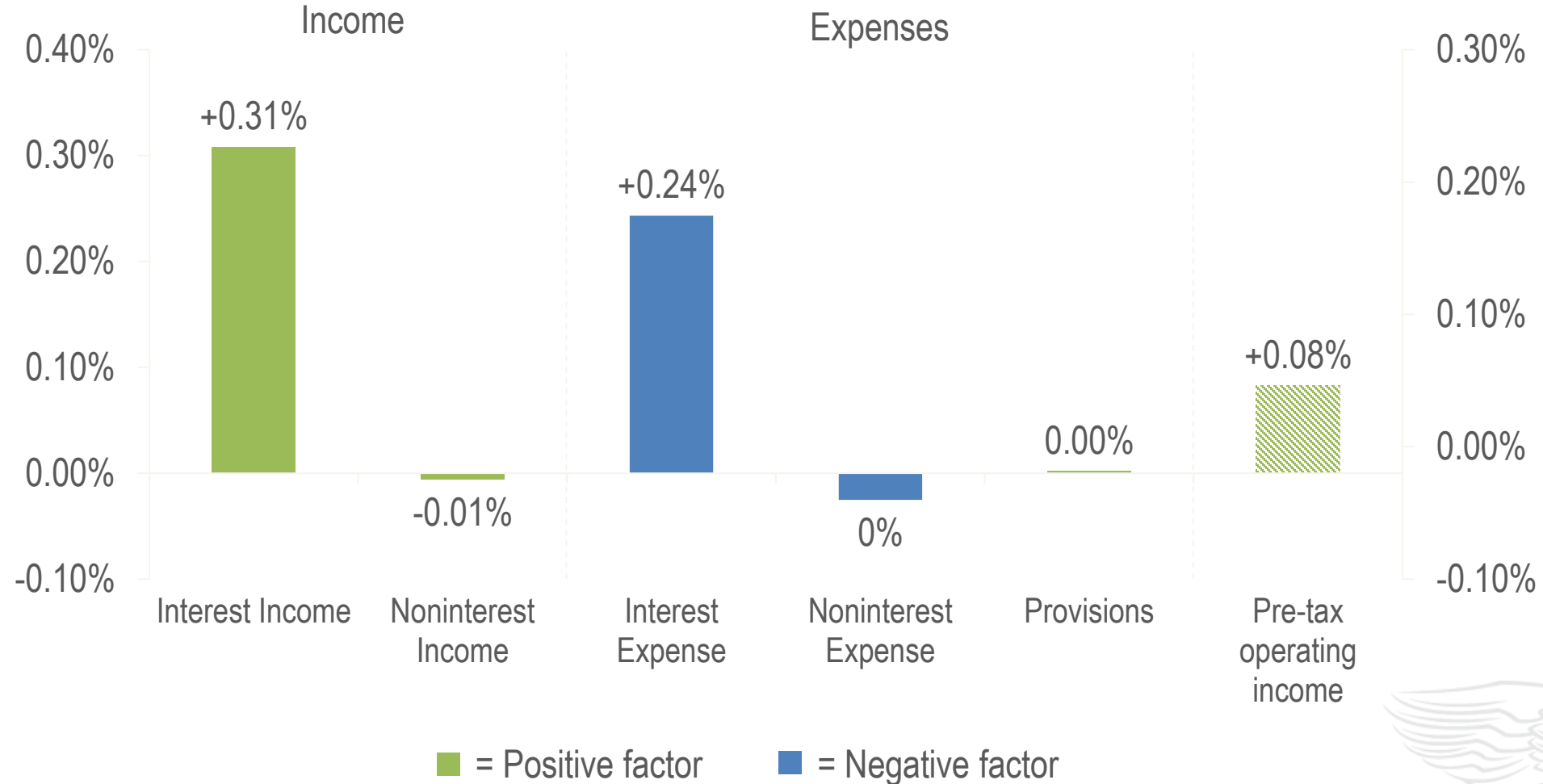
\*Pre-tax operating income, percentage of average assets

Source: Reports of Condition and Income



# Banks are benefiting from increased interest income

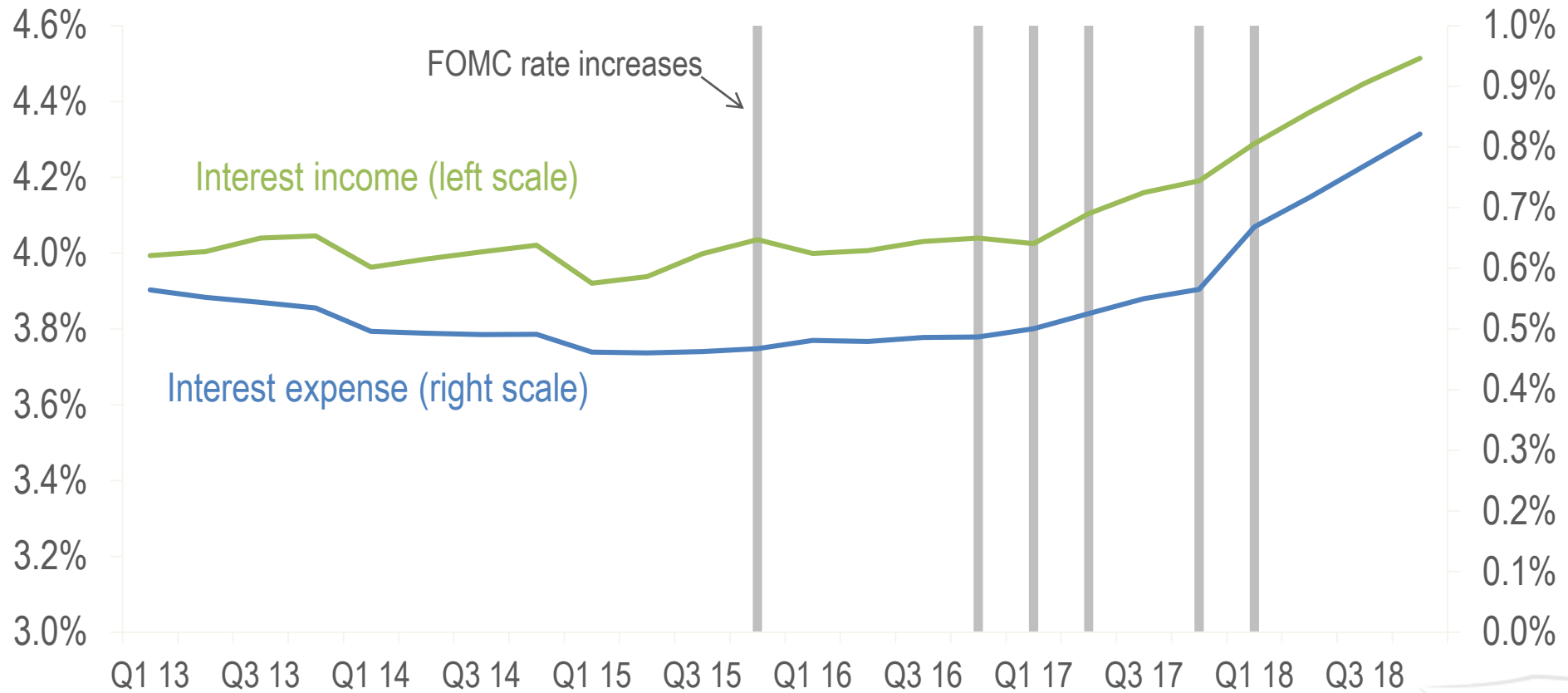
Q4 2017-Q4 2018 change in components of income



Source: Reports of Condition and Income



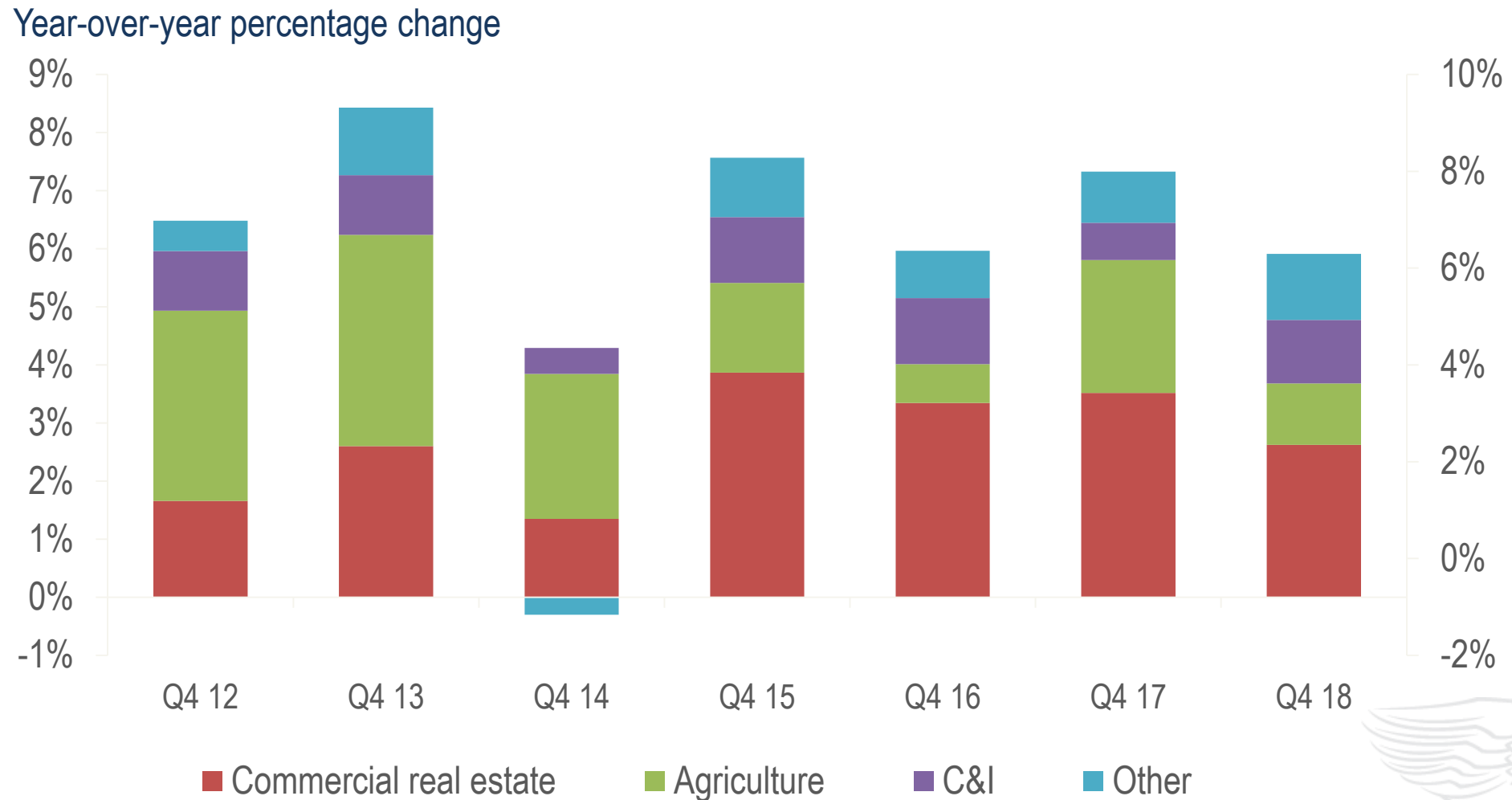
# Funding costs are also rising



Percentage of average earning assets  
Source: Reports of Condition and Income



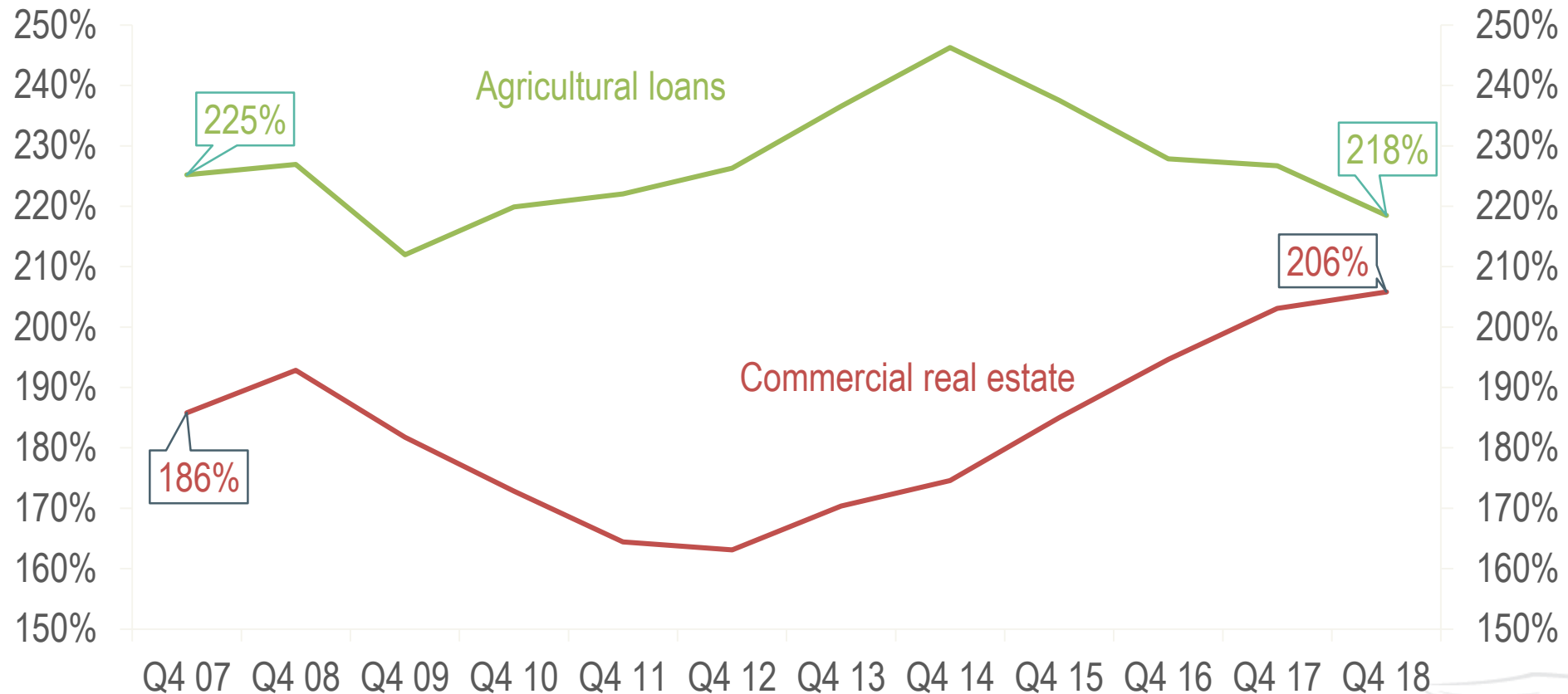
# Profits are boosted by strong loan growth, rising rates



Source: Reports of Condition and Income



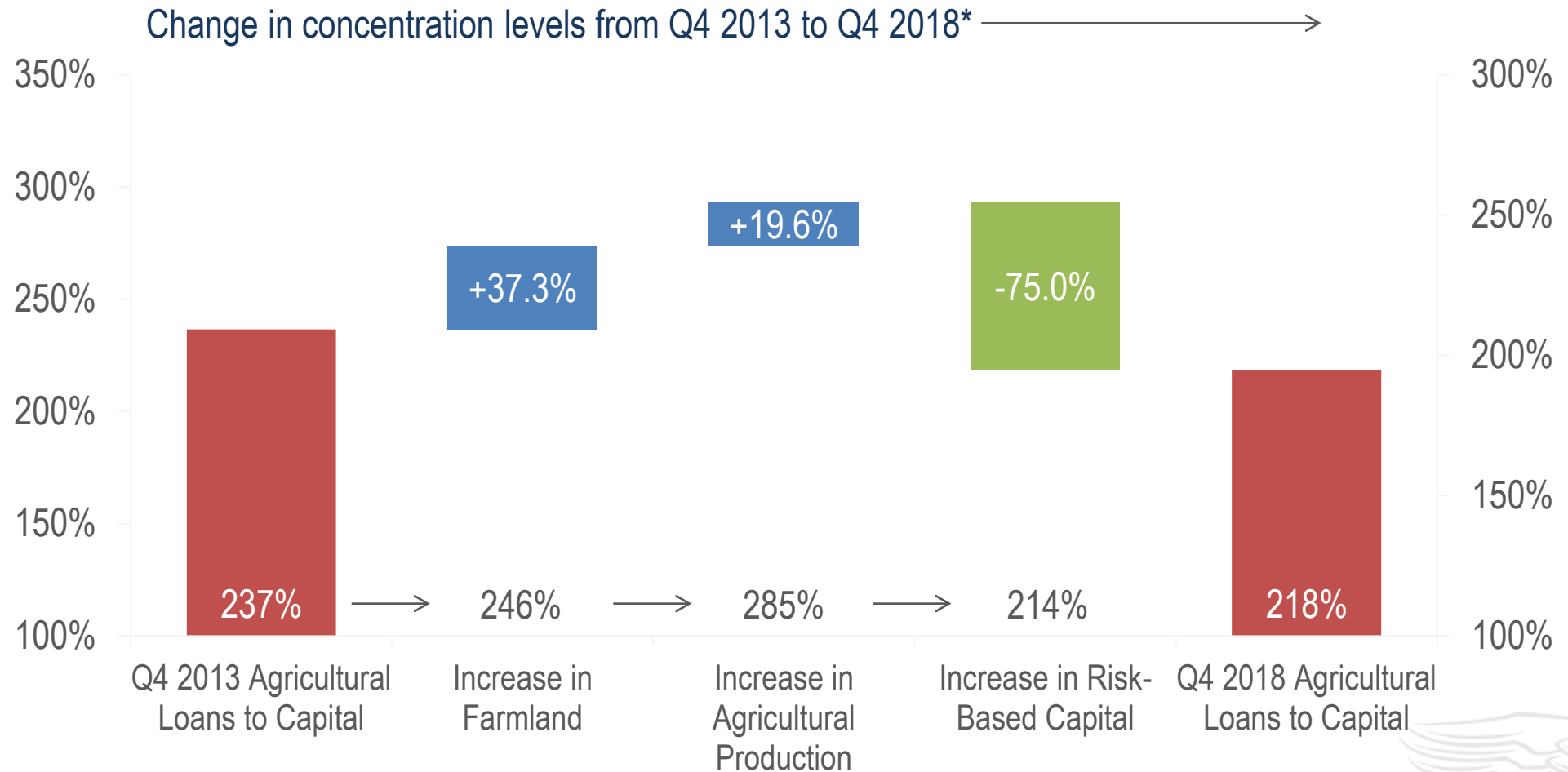
# Commercial real estate concentrations are increasing



Percentage of risk-based capital, Nebraska banks only  
 Source: Reports of Condition and Income



# Banks have increased capital to support agricultural loan growth



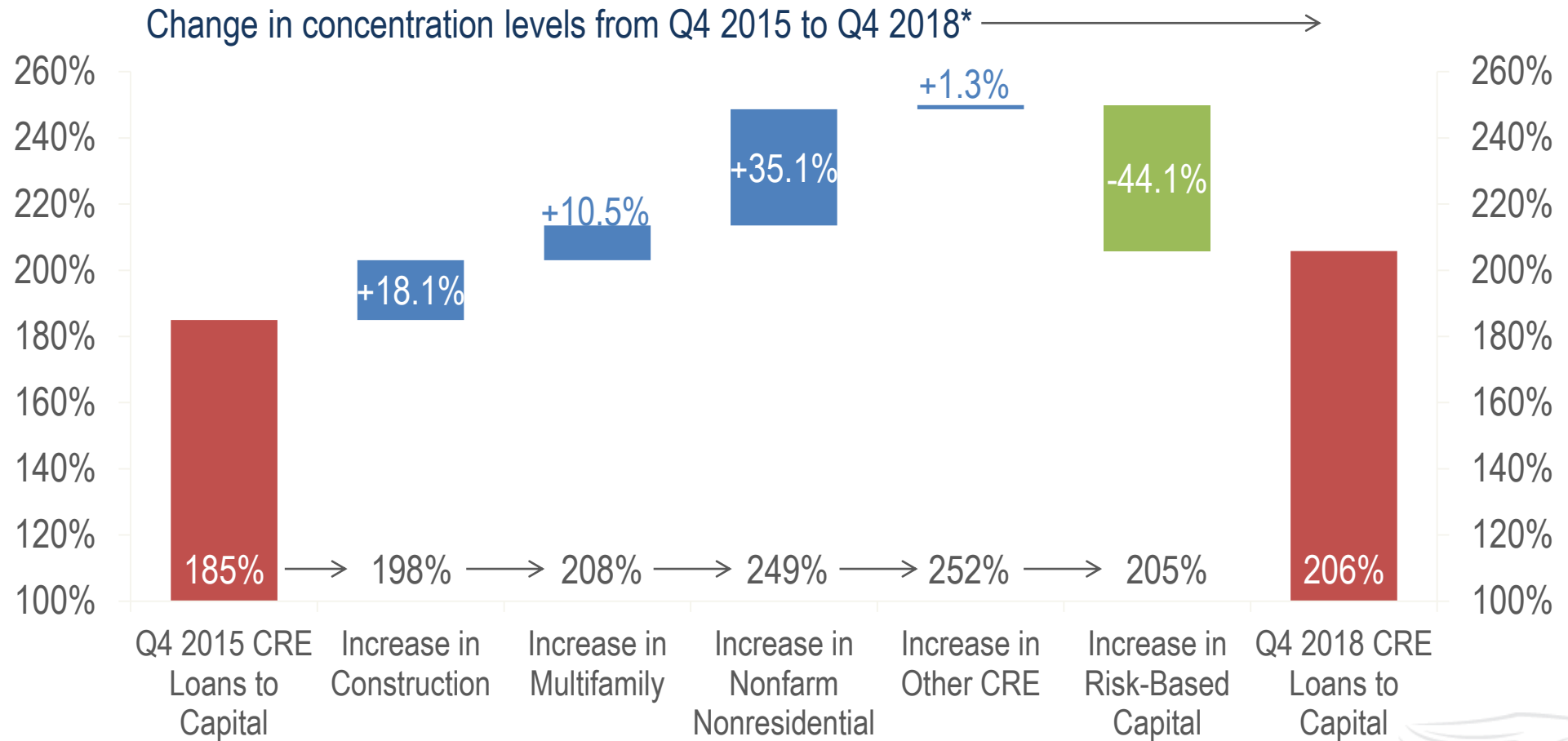
\*Nebraska banks

Source: Reports of Condition and Income





# But capital growth is not commensurate with CRE growth

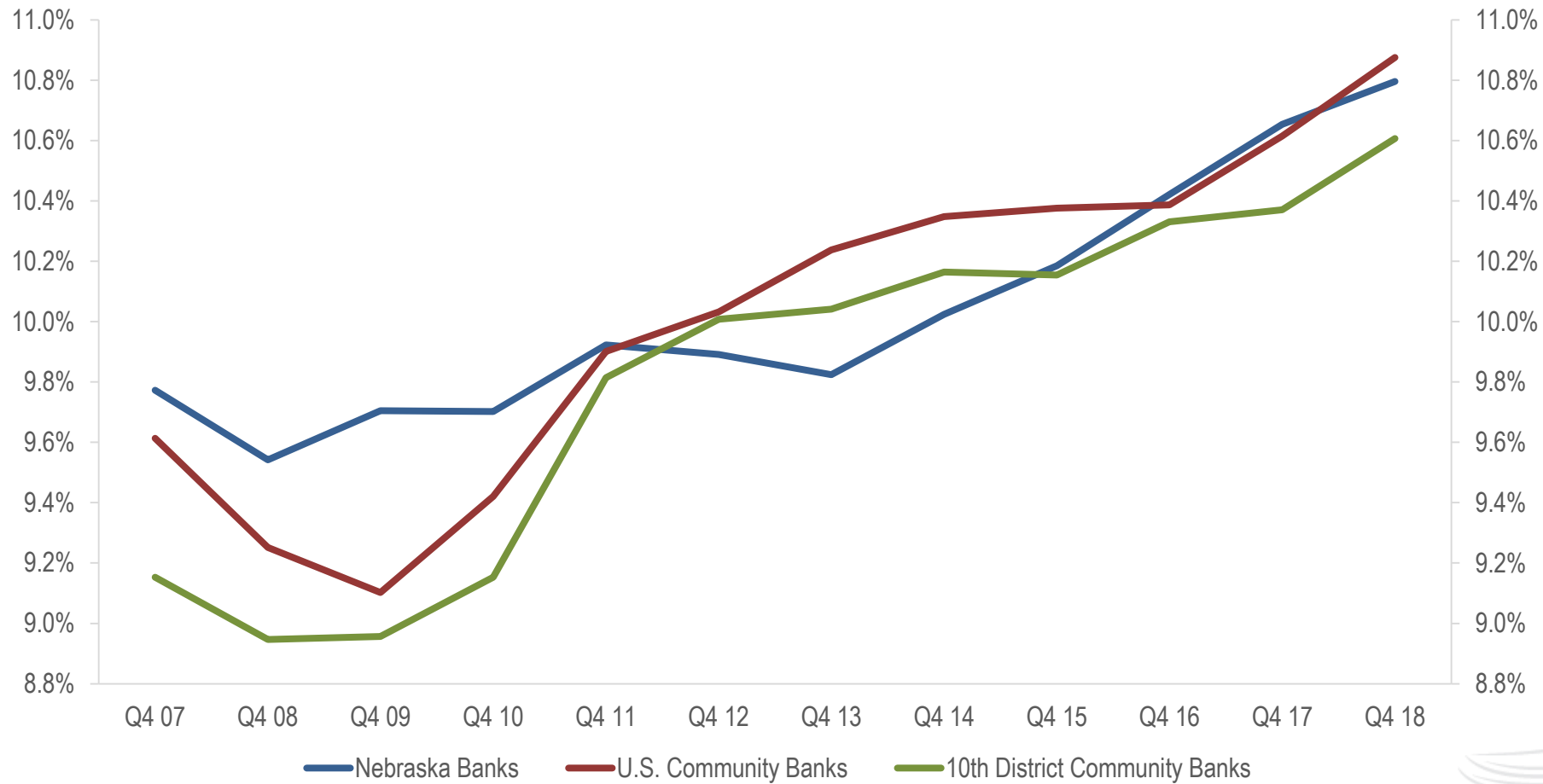


\*Nebraska banks

Source: Reports of Condition and Income



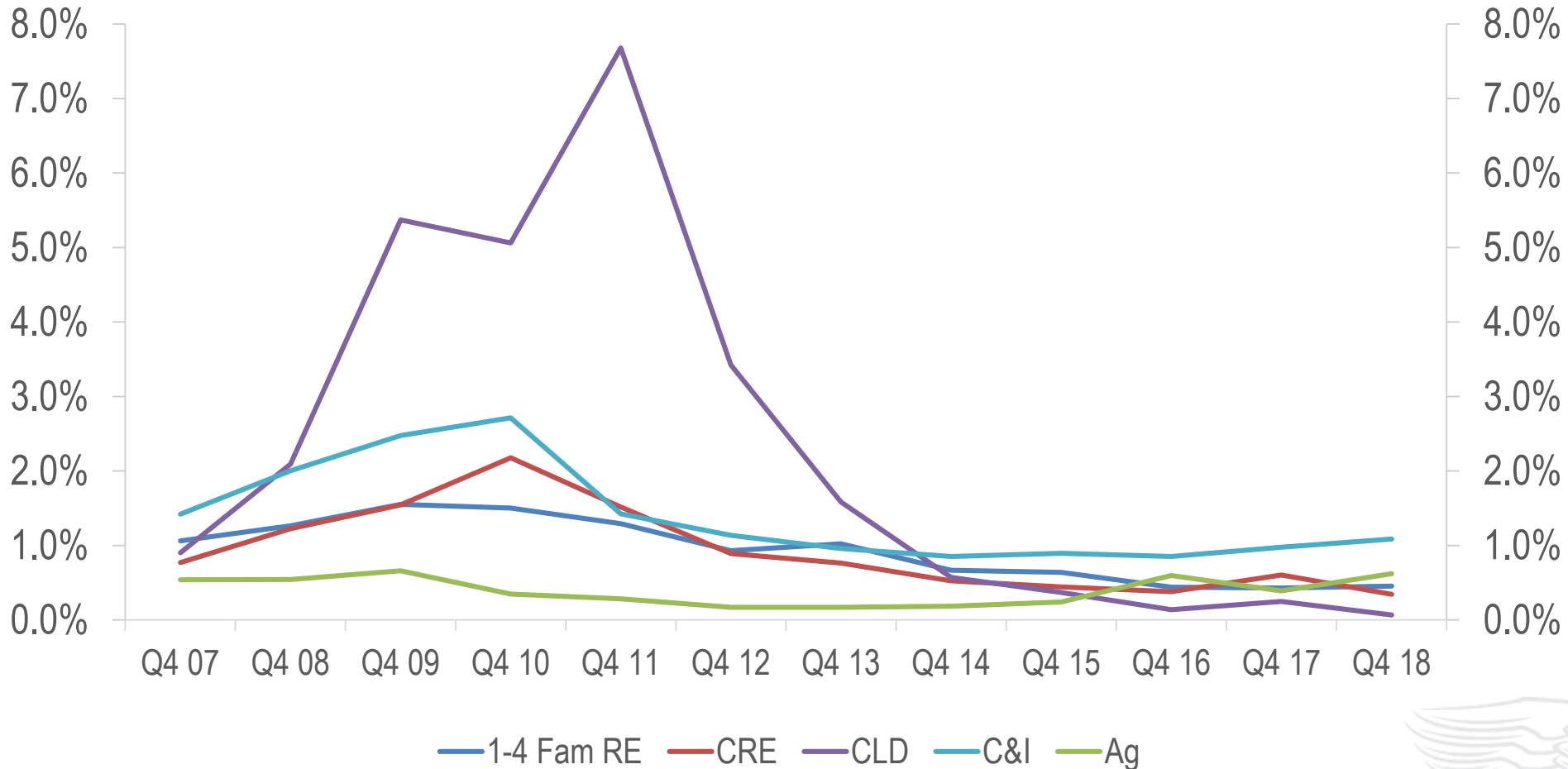
# Capital ratios continue to increase



Tier 1 Leverage Ratio  
 Source: Reports of Condition and Income



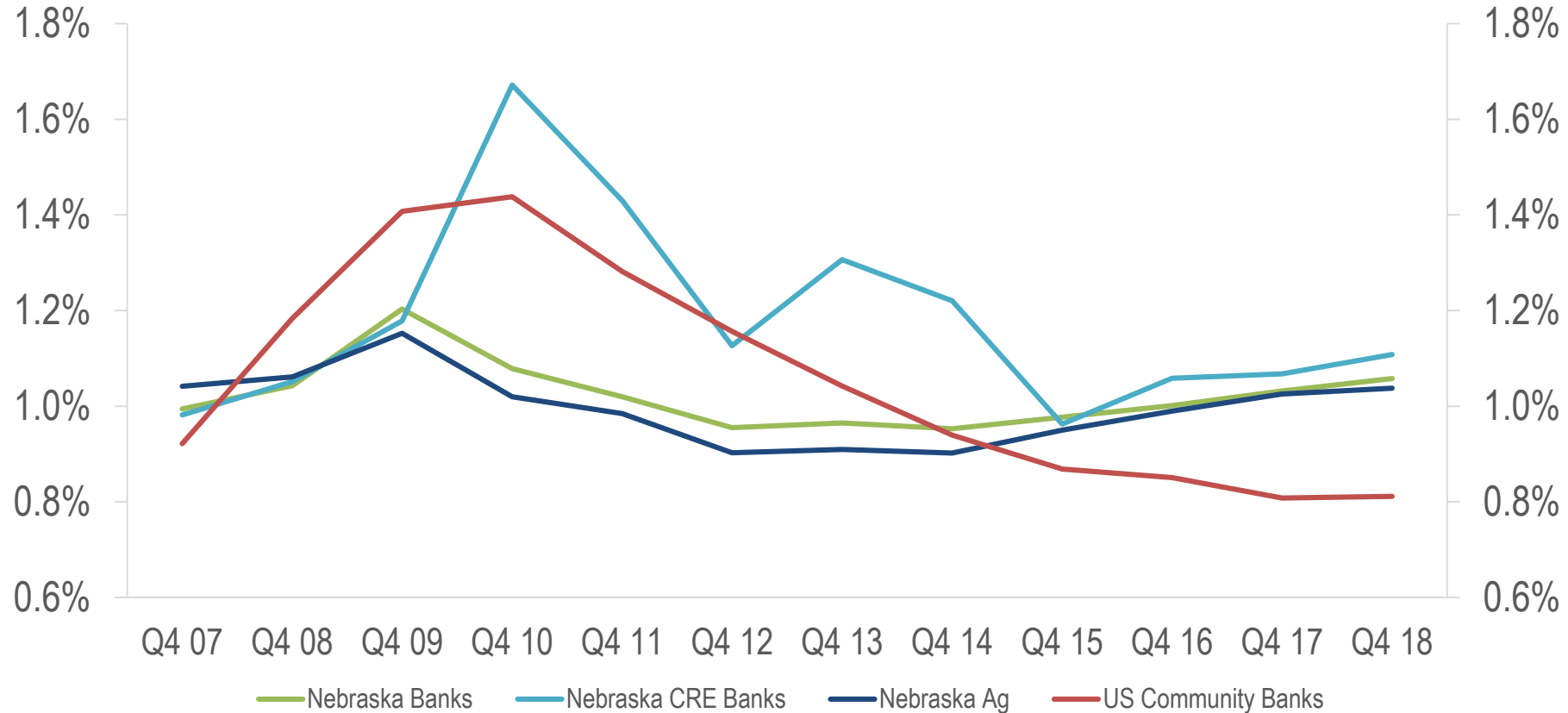
# Problem loans have increase slightly



Past due and Non-accrual loans to total loans  
Source: Reports of Condition and Income



# ALLL levels are approaching pre-crisis levels



Percentage of average assets

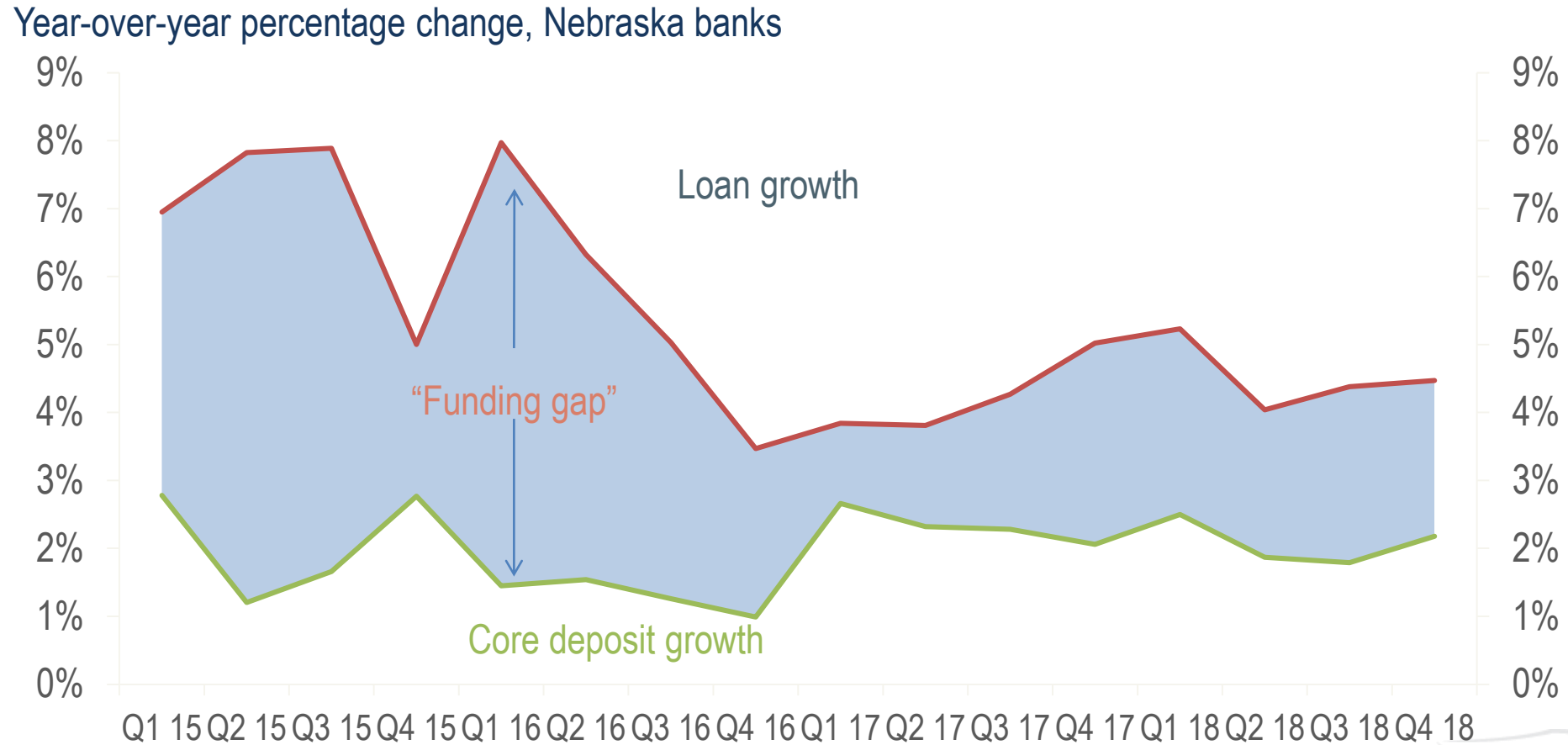
*CRE banks have total CRE loans greater than 300 percent of total risk-based capital.*

*Ag banks have agricultural production and farmland loans greater than 25 percent of total loans.*

Source: Reports of Condition and Income



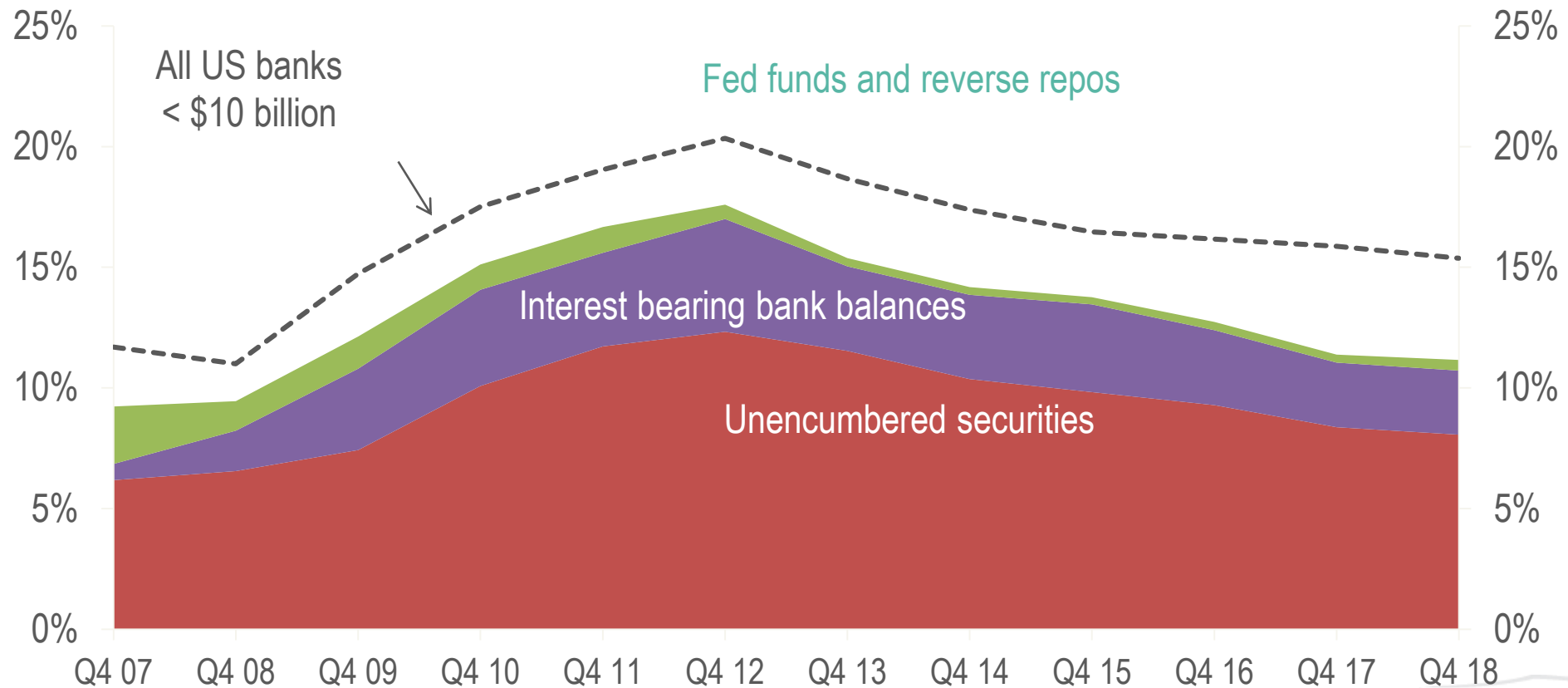
# Loan growth has outpaced deposit growth



Source: Reports of Condition and Income



# Liquid asset cushions have declined to support growth

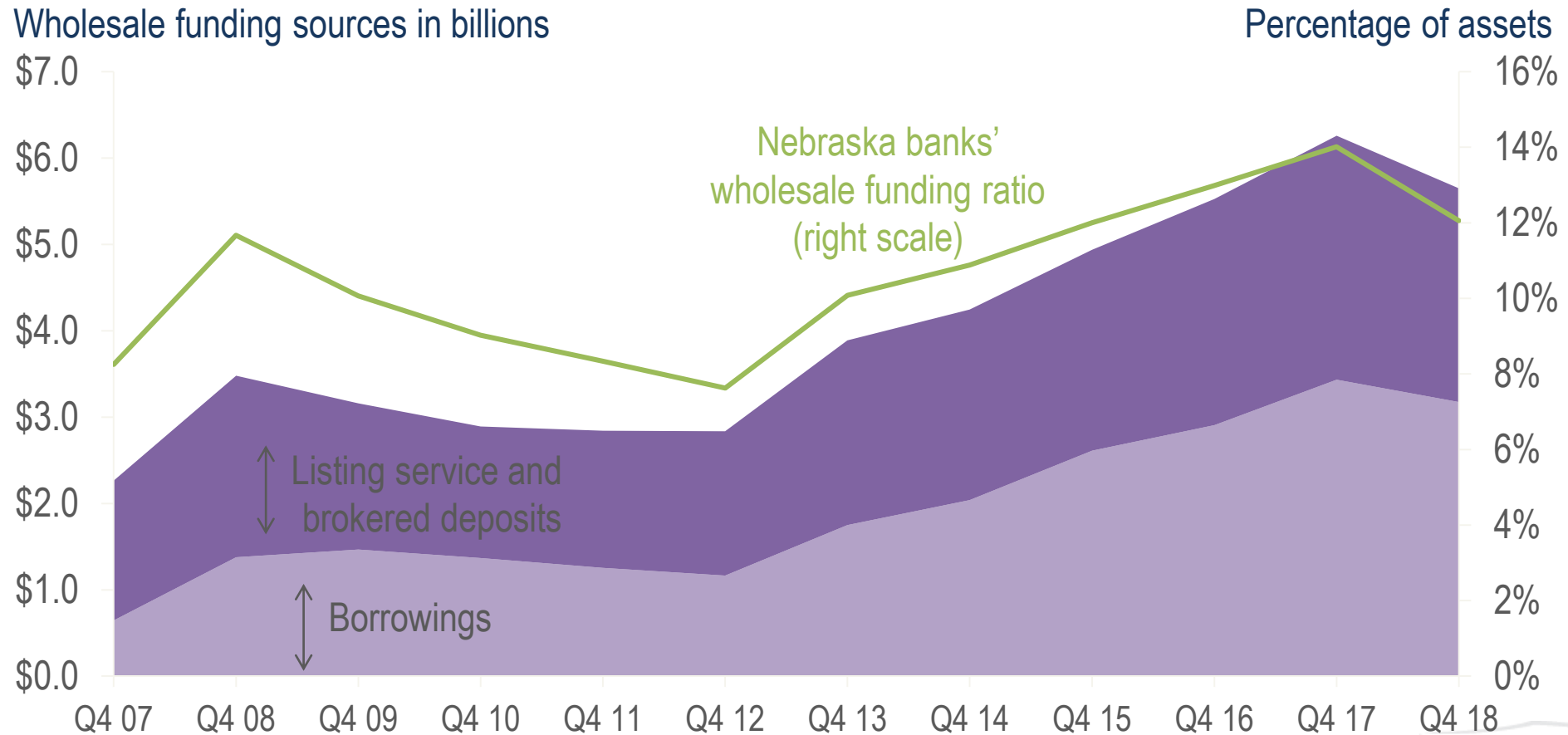


Percentage of assets

Source: Reports of Condition and Income



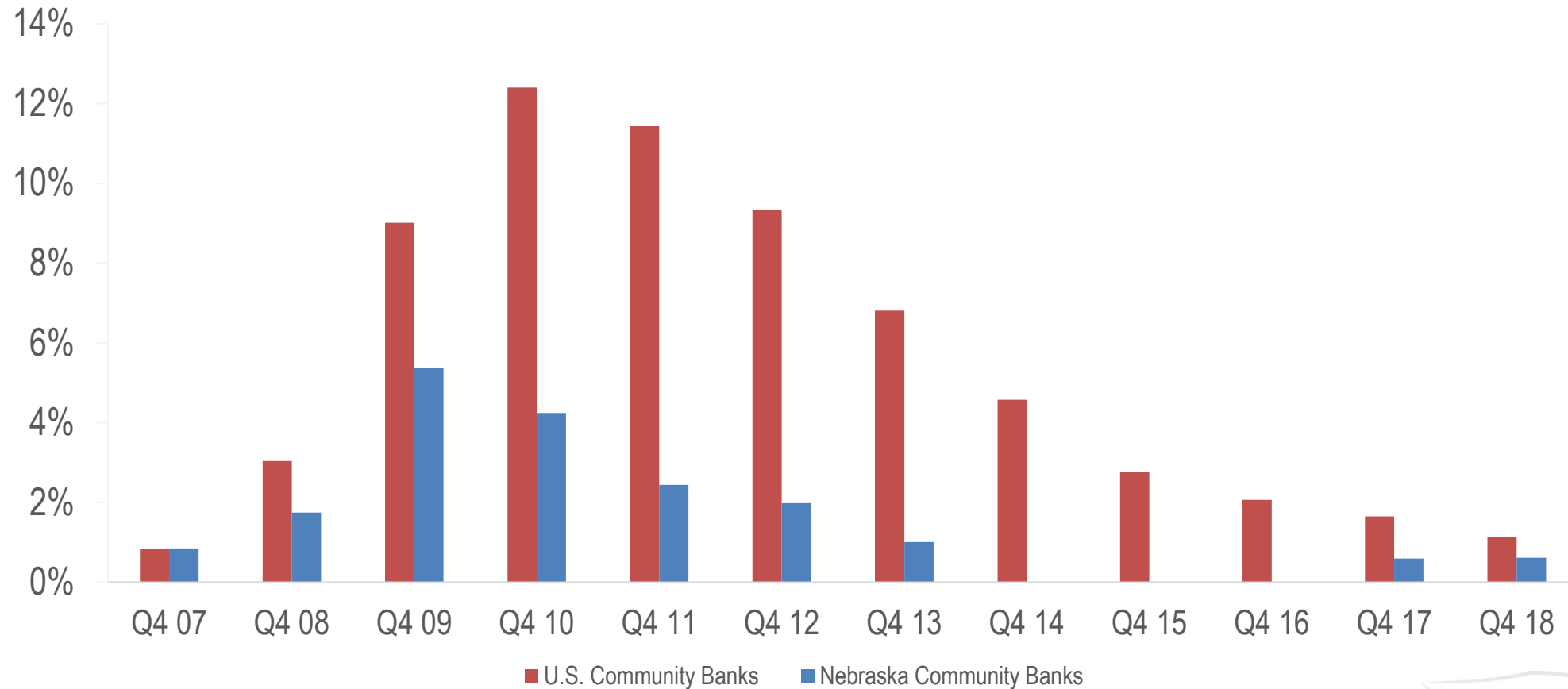
# Banks are increasing reliance on volatile funding sources



Source: Reports of Condition and Income



# Problem banks have declined



Banks rated 4 or worse, as a percentage of Total Banks  
 Source: Reports of Condition and Income





# Emerging Risks – Supervisory Response

- Agriculture
  - ✓ Carryover debt
  - ✓ Supervisory expectations for risk management of agricultural credit risk (SR Letter 11-14)
- Commercial Real Estate
  - ✓ Rapid growth
  - ✓ Supervisory guidance on CRE concentrations and risk management for CRE lending (SR Letters 07-1 and 15-17)
- Liquidity
  - ✓ Asset side liquidity and wholesale funding
  - ✓ Supervisory guidance on funding and liquidity risk management (SR Letter 10-6)
- Cybersecurity
  - ✓ Vendor Risk Management (SR Letter 13-19)
  - ✓ Incident Response Planning



# Regulatory Perspectives on Fintech

- A number of high level workgroups have been established across the Federal Reserve System, including this Reserve Bank to evaluate impact and policy implications
- Our interests: Central bank policy objectives and socially beneficial and financially sound innovations
- If the marketplace and regulators can support responsible connectivity between Fintech firms and supervised entities, such integration could benefit banks, particularly community banks
- Although the landscape is changing, time-tested risk management tools remain applicable.



# Tips for Community Bankers in Fintech

- Build bank leadership and directorate knowledge
- Consider your strategic plan and risk tolerance:
  - Opportunities and challenges
  - Strengths and weaknesses
- Employ vendor risk management practices
- Evaluate organizational cultural match
- Consider compliance implications
- Talk to your Federal and State regulatory contacts



# How we provide outreach to our banks

DIRECTOR'S  
RESOURCES ↘

*Bank* Director's  
**Desktop** A FEDERAL  
RESERVE RESOURCE

*Training for*  
BANK DIRECTORS

THE FED TELECONFERENCE  
PROGRAM ↘

**ask the Fed**  
a program of the FEDERAL RESERVE SYSTEM



*Survey of*  
COMMUNITY DEPOSITORY INSTITUTIONS

**FEDCONNECTIONS**

Connecting bankers with timely, relevant information to promote effective bank supervision and risk management. A service of the Federal Reserve Bank of Kansas City.

REGULATORY UPDATES ↘

*2019*  
*Regulatory Update*  
SEMINAR  
Federal Reserve Bank of Kansas City

NEWSLETTERS ↘

**FEDLINKS**  
*Connecting Policy with Practice*

FEDERAL RESERVE SYSTEM  
COMMUNITY BANKING  
**CONNECTIONS**<sup>TM</sup>  
A SUPERVISION AND REGULATION PUBLICATION

**SR** Supervision  
and Regulation  
**Letters**

# Questions?

Marci Brett  
Manager – Supervision and Risk Management  
[marci.brett@kc.frb.org](mailto:marci.brett@kc.frb.org)

