



# FGFOA

## Mitigating Banking Risk (Bank Safety and Soundness)

Presented by: VERIBANC

NOV 21<sup>st</sup> 2024



# Topics To Be Covered

- Regulatory Oversight (Federal & State)
- Interest Rate Risk
- Credit Risk
- Operational Risk
- Market Risk
- Liquidity Risk
- Bank Failure Trends
- Banking Sector Performance

QUESTION - What are the 3 FEDERAL banking regulators?



# Overview of Regulatory Oversight

- The Main Federal Banking Regulators
  - Federal Reserve (Fed)
  - Office of the Comptroller of the Currency (OCC)
  - Federal Deposit Insurance Corporation (FDIC)
- State Banking Regulators
- C.A.M.E.L.S. RATING



## Overview of Regulatory Oversight – cont'd

- C - Capital Adequacy
- A - Asset Quality
- M - Management Risk
- E - Earnings Proficiency
- L - Liquidity Strength
- S - Sensitivity to Market Risk



## Overview of Regulatory Oversight – cont'd

- The “Fed” was established by The Federal Reserve Act of 1913



- Has federal responsibility to:
  - Regulate and examine:
    - All state chartered banks that are “members”
    - Bank holding companies
    - Foreign branches of U.S. national member banks
    - State-chartered U.S. branches and agencies of foreign banks



# Overview of Regulatory Oversight – cont'd

- The Office of the Comptroller of the Currency (OCC) was created as a bureau of the U.S. Department of the Treasury by the National Currency Act of February 25, 1863.



- Has federal responsibility to:
  - Regulate and examine:
    - All nationally chartered banks that are not “members” and all federal savings associations



# Overview of Regulatory Oversight – cont'd

- The **FDIC** was established by the Banking Act of 1933 – dual purpose



- Has federal responsibility to:
  - Regulate and examine:
    - All state chartered banks that are not “members”
  - Also maintains the Insurance Fund





## Regulatory Duties & Responsibilities – cont'd

- Chartering & Licensing - Approvals
- Branching - Approvals
- Mergers, Acquisitions or Consolidations - Receivership
- Reserve Requirements
- Examinations
- Financial Analysis



# Interest Rate Risk - Defined

- Exposure to Current and Future:
  - Earnings
  - Capital

Due to adverse changes in the economy



# Interest Rate Risk – cont'd

Historical (most recent 5 years) Non-Performing Loan Amounts For 1-4 Family and C&I Loans

	1-4 Family (\$000)	C&I (\$000)
As of 12/31/2023 -	5,237	3,499
As of 12/31/2022 -	54	6,212
As of 12/31/2021 -	250	5,042
As of 12/31/2020 -	573	948
As of 12/31/2019 -	137	2,449



# Credit Risk - Defined

- Exposure to non payment by:
  - Borrower
  - Counterparty



# Credit Risk – cont'd

1-4 Family Loans to Non-performing Ratios:  
Interest/Loans

2023	5,237/266,119	=	1.97%
2022	54/199,578	=	0.03%
2021	250/199,017	=	0.13%
2020	573/270,792	=	0.21%
2019	137/127,647	=	0.11%



# Credit Risk – cont'd

Regulatory oversight mandates and monitors at exam time, the entire loan portfolio's loss assumptions via the bank's internal model and association Loan Loss Reserve (LLR).



# Credit Risk – cont'd

Credit Risk encompasses collateral.

Did the bank require enough collateral?

How was the collateral valued?

Who valued the collateral?

<https://www.c-span.org/video/?293156-1/2008-financial-crisis-credit-rating-agencies-panel-1>



# Operational Risk - Defined

The risk of loss resulting from inadequate or failed internal processes, people or systems or from external events.

Includes legal risk but not reputational risk.





# Operational Risk – cont'd

- ▶ What are Enforcement Actions (EAs)?  
How many are there?
- ▶ Name some?

QUESTION - ENFORCEMENT ACTIONS



# Operational Risk – cont'd

Federal Bank examiners will issue one or more Regulatory Enforcement Actions (EAs) if they find significant operational risk failures.

From: a Cease and Desist Order

To: a Civil Money Penalty



# Operational Risk – cont'd

Major EA Types:

Cease & Desist against an institution



Formal Agreement against an institution

Prompt Corrective Action/Capital Directive





# Operational Risk – cont'd

## Major EA Types:

Removal/Prohibitions against a person

Civil Money Penalty against an institution

Restitution to an institution

Cease & Desist against a person

Fine levied against a person

Restitution by a person





# Operational Risk – cont'd

Types of operational risks:

Internal:

Employee Theft

Fiduciary Breaches

Misuse of confidential customer information

Money Laundering





# Operational Risk – cont'd

Types of operational risks:

External:

Robbery,

Forgery,

Check Kiting,

Cyber Attacks





# Market Risk - Defined



Sensitivity to Market Risk is generally described as the degree to which changes in interest rates, foreign exchange rates, commodity prices or equity prices can adversely affect earnings and/or capital.



# Market Risk – cont'd

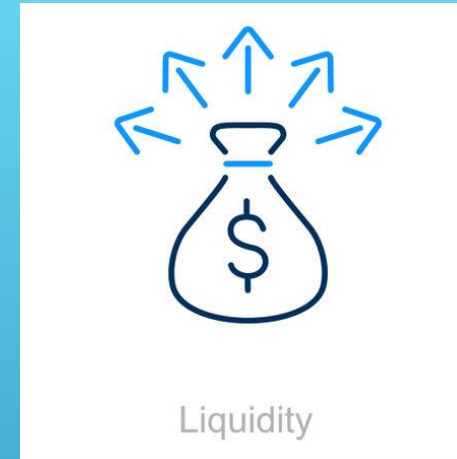
Silicon Valley Bank's Held to Maturity Securities Portfolio (\$000):

12/31/2022	\$91,327,000
09/30/2022	\$93,292,000
06/30/2022	\$95,820,000
03/31/2022	\$98,714,000
12/31/2021	\$98,201,000
09/30/2021	\$82,371,075
06/30/2021	\$59,997,790
03/31/2021	\$41,165,732
12/31/2020	\$16,592,544
09/30/2020	\$12,982,513
06/30/2020	\$12,859,045
03/31/2020	\$13,574,519





# Liquidity Risk



FDIC's definition:

- Liquidity reflects the institution's ability to fund assets and meet financial obligations.
- A balance of short and long term needs as well as adverse or unexpected events.



# Liquidity Risk – cont'd

Liquidity sources:

Cash

Organic Deposits – local community

Broker Deposits (not from local community)

Federal Home Loan Bank – line of credit

Loans coming due

Short term securities

Marketable securities



# Liquidity Risk – cont'd



(SVB) – assets of \$209 Billion

(As of 12/31/2022 Call Report)

Cash ≈ \$13 Billion

Short term securities ≈ \$26 Billion

FHLB borrowings ≈ \$37 to \$68 Billion

Low Liquidity Total: \$ 76 Billion

High Liquidity Total: \$107 Billion



# Failures and Acquisitions

Year	No. of Failed Banks	No. of "Complete" Acquisitions	Year	No. of Failed Banks	No. of "Complete" Acquisitions
2024	2	1	2012	45	42
2023	5	4	2011	86	84
2022	No Failures	N.A.	2010	139	134
2021	No Failures	N.A.	2009	120	107
2020	4	4	2008	20	18
2019	4	3	2007	2	0
2018	No Failures		2006	No Failures	N.A.
2017	8	8	2005	No Failures	N.A.
2016	5	5	2004	3	2
2015	8	8	2003	3	1
2014	18	18	2002	10	0
2013	24	23	2001	3	2

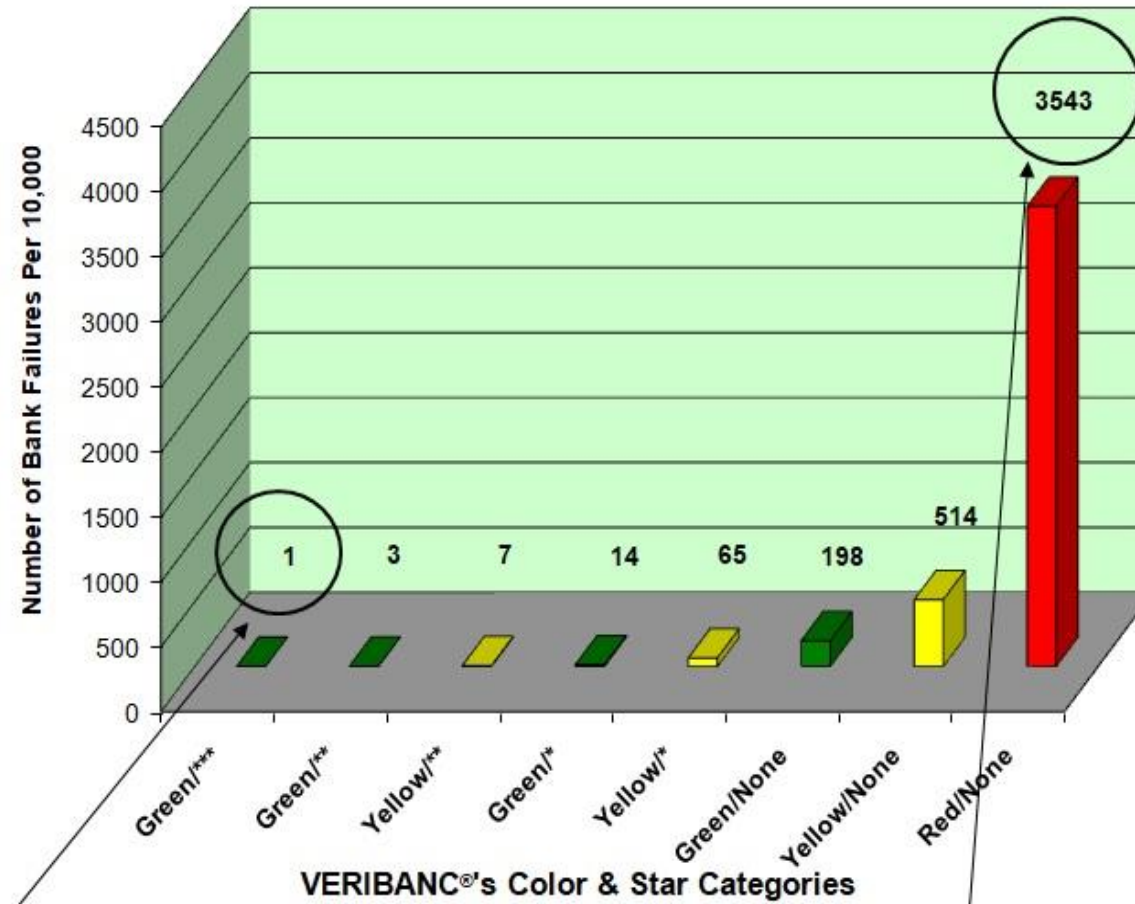


Average Number of Banks in Each Color Code and Star Classification  
With Failure Rates Between 1991 and 2023  
(2 so far in 2024, THE FIRST NB OF LINDSAY, REPUBLIC BANK)

Color Code and Star Rating	Average No. of Banks in Each Category	Average Percentage of Banks in Each Category	Annualized Failure Rate Per 10,000 Banks/Year
Green/***	6,261	79.15	1
Green/**	640	8.09	3
Yellow/**	502	6.34	7
Green/*	261	3.30	14
Yellow/*	149	1.88	65
Green/None	8	0.10	198
Yellow/None	33	0.42	514
Red/None	58	0.73	3,543



## Annualized Bank Failure Rates (1991-2023)



There is a 1 in 10,000 chance that a Green/\*\*\* bank will fail each year.  
There is a 3,543 in 10,000 chance that a Red/None bank will fail each year.  
Ratings are through the quarter ending 12/31/2023.



# Recent Florida Bank Failures

(2013- 2023)



Fail Date	Name	City	Assets
10-16-2020	First City Bank of FL	Fort Walton Beach	\$135M
01-16-2015	First N.B. of Crestview	Crestview	\$ 80M
06-20-2014	Valley Bank	Fort Lauderdale	\$ 82M
10-30-2013	Bank of Jackson Cty	Graceville	\$ 25M
08-02-2013	First Cmnty BK of SW FL	Fort Meyers	\$266M
04-19-2013	Heritage Bank of N. FL	Orange Park	\$111M
04-19-2013	Chipola Cmnty BK	Marianna	\$ 39M



Name	Reasons for Failure
First City Bank of FL	12 consecutive qtrs. of: income loss equity/assets < 3% problem loans in excess of LLR
First N.B. of Crestview	11 out of last 12 qtrs. with an income loss Last 6 qtrs., prior to failure equity/assets < 3% problem loans in excess of LLR for last 12 qtrs.
Valley Bank	8 out of last 12 qtrs. with an income loss problems loans in excess of LLR for last 12 qtrs. loss of equity began 10 qtrs. prior to failure
Bank of Jackson Cty	9 out of last 12 qtrs. with an income loss problems loans in excess of LLR for last 12 qtrs. equity/assets < 3% for last 10 qtrs.





# Alliance Credit Union of Florida Conserved

## ***Accounts Remain Protected by Share Insurance Fund; Member Services Uninterrupted***

**ALEXANDRIA, Va. (Nov. 8, 2024)** – Florida’s Office of Financial Regulation today placed **Alliance Credit Union of Florida in Gainesville, Florida, into conservatorship**, and appointed the National Credit Union Administration as conservator.

Member deposits at Alliance Credit Union of Florida remain protected by the National Credit Union Share Insurance Fund. Administered by the NCUA, the Share Insurance Fund insures individual accounts at Alliance Credit Union of Florida up to \$250,000, and a member’s interest in all joint accounts combined is insured up to \$250,000. The Share Insurance Fund also separately protects IRA and KEOGH retirement accounts up to \$250,000. The Share Insurance Fund has the backing of the full faith and credit of the United States.

Members can continue to conduct transactions with the credit union. Member services will continue uninterrupted online and at the credit union’s downtown office at 412 East University Avenue, Gainesville, Florida, and its Millhopper office at 4280 N.W. 16<sup>th</sup> Blvd., Gainesville, Florida. The downtown office is open Monday through Thursday, 8 a.m. to 5 p.m., and Friday from 9 a.m. to 6 p.m., Eastern. The Millhopper office is open Monday through Thursday, 9 a.m. to 5 p.m., Friday from 9 a.m. to 6 p.m., and Saturday from 9 a.m. to 12 p.m., Eastern.

## Statement by Chairman Harper on CFPB's Settlement with Navy Federal Credit Union

**ALEXANDRIA, Va. (Nov. 7, 2024)** – National Credit Union Administration Chairman Todd M. Harper released the following statement today on the Consumer Financial Protection Bureau's settlement with Navy Federal Credit Union to **resolve unfair and deceptive authorize positive, settle negative (APSN) practices**. Navy Federal Credit Union has more than \$180 billion in assets and is headquartered in Vienna, Virginia.

“Navy Federal's authorize positive, settle negative practices and the subsequent charging of overdraft fees were not only unfair and deceptive, but they also caused substantial harm to consumers. More overt, in many cases, consumers were charged an overdraft fee completely unaware of Navy Federal's complex processes related to the posting of transactions and whether they will incur an overdraft fee.

“APSN practices and an overreliance on overdraft and non-sufficient fees are counter to the credit union system's statutory mission of meeting the credit and savings needs of their members — especially those of modest means. Credit union member-owners have the right to know about any fees and practices that affect their hard-earned savings and credit unions owe it to their members to be transparent. The settlement with Navy Federal underscores the importance of ensuring fair and responsible treatment of consumers and protecting consumers from predatory business practices.”

## Failed Bank Information for The First National Bank of Lindsay, Lindsay, OK

On Friday, October 18, 2024, The First National Bank of Lindsay was closed by the Office of the Comptroller of the Currency. The Federal Deposit Insurance Corporation (FDIC) was named Receiver. No advance notice is given to the public when a financial institution is closed. All insured deposits have been transferred to First Bank & Trust Co., Duncan, OK.

The full balance of all insured deposit accounts has been transferred to First Bank & Trust Co.

In addition, based on the estimated recoveries of the failed bank assets, the FDIC will make 50 percent of uninsured funds available to those depositors on Monday, October 21, 2024. This amount could increase as the FDIC sells the assets of the failed bank.

You may continue to use your checks and ATM/Debit card to access your insured deposits. Direct deposits like paychecks and social security benefits will continue as usual. Please refer to the Banking Services section below for more details.

For accounts exceeding \$250,000 and/or accounts that appear to be related and exceed this limit are reviewed by the FDIC to determine ownership and insurance coverage. To schedule an appointment with a Claims Agent, call Customer Service & Records Research in Dallas at 1-888-206-4662, Monday through Friday (excluding federal holidays) between 8:00 a.m. and 4:00 p.m. Central Time.

You can also visit the FDIC's [Failed Bank Customer Service Center \(FBCSC\)](#) and register using [Login.gov](#) to review your insurance determination, schedule an appointment, and communicate about your account(s). You may be eligible to file a claim against The First National Bank of Lindsay.

If you have not been paid for services rendered prior to October 18, 2024, please refer to the [Filing Claims](#) section below.

## US Household Debt Surges to Record \$17.8 Trillion

Auto loan, credit card, and mortgage balances jumped in the second quarter.

U.S. households took on more debt in the second quarter, but overall delinquency rates stabilized from the previous three-month period, suggesting that consumers could still prop up the national economy, according to the Federal Reserve Bank of New York.

The New York Fed's latest report-a quarterly assessment of household debt and credit conditions—found that **total household debt increased by \$109 billion**, or 0.6 percent, to \$17.8 trillion in the second quarter. In the three-month period ending in June, **mortgage debt surged by \$77 billion, to a record \$12.52 trillion.**

**Credit card debt reached an all-time high of \$1.142 trillion**, up \$27 billion from the previous quarter and \$111 billion from the same time a year ago.

**Auto loan debt rose \$10 billion, to \$1.626 trillion, another record.** This is up \$44 billion from last year. The regional central bank reported that student loan debt fell by \$10 billion, to \$1.585 trillion, driven by the federal government's forgiveness program.

**Homeowners tapped into home equity lines of credit (HELOC)** in the April–June period, highlighting the demand for an alternative to refinancing amid higher mortgage rates, says Andrew Haughwout, director of Household and Public Policy Research at the New York Fed.



# BANKING INDUSTRY PERFORMANCE – Cont'd

## For the Quarter Ending 12/31/2023

	No. of Banks	Total Assets Held (\$Millions)	Percentage of Industry (%)
< \$200 Million	1,582	\$ 168,434	0.71
>= \$200 Million to < \$500 Million	1,284	\$ 419,122	1.77
>= \$500 Million to < \$ 1 Billion	781	\$ 555,477	2.34
>= \$ 1 Billion to < \$ 10 Billion	836	\$ 2,353,598	9.94
>= \$ 10 Billion to < \$ 50 Billion	112	\$ 2,467,779	10.42
>= \$ 50 Billion to < \$100 Billion	13	\$ 898,530	3.79
>=\$100 Billion	<b>33</b>	<b>\$16,826,227</b>	<b>71.02</b>
Totals:	4,641	\$23,689,167	

▶ What are Insider Loans?

QUESTION?

<https://www.veribanc.com/>