



Division of Banking

2025 IBA Bank Management &
Policy Conference

Superintendent of Banking Update

James Johnson

Superintendent of Banking

February 11, 2025



Today's Discussion

- Role Of State-Chartered Banks On The National Stage, By The Numbers
- How Bankers Are Feeling
- What The Data Shows
- Exam Observations and Things To Watch
- Q & A

State Chartered Banks

Across the country, state regulators:

- Monitor the safety and soundness of regulated institutions
- Protect their communities from illegal and predatory practices
- Promote local economic growth
- Utilize data to tailor supervision and target risk in the financial system

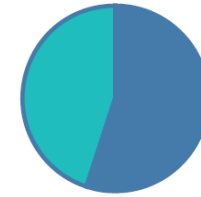
79%

OF ALL U.S. BANKS
*are chartered and supervised
by state regulators*

95%

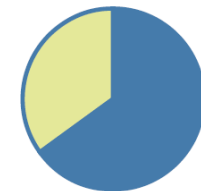
OF BANKS HEADQUARTERED IN IOWA
*are chartered and supervised
by state regulators*

U.S. banking industry as a whole, state-chartered banks provide:



55%

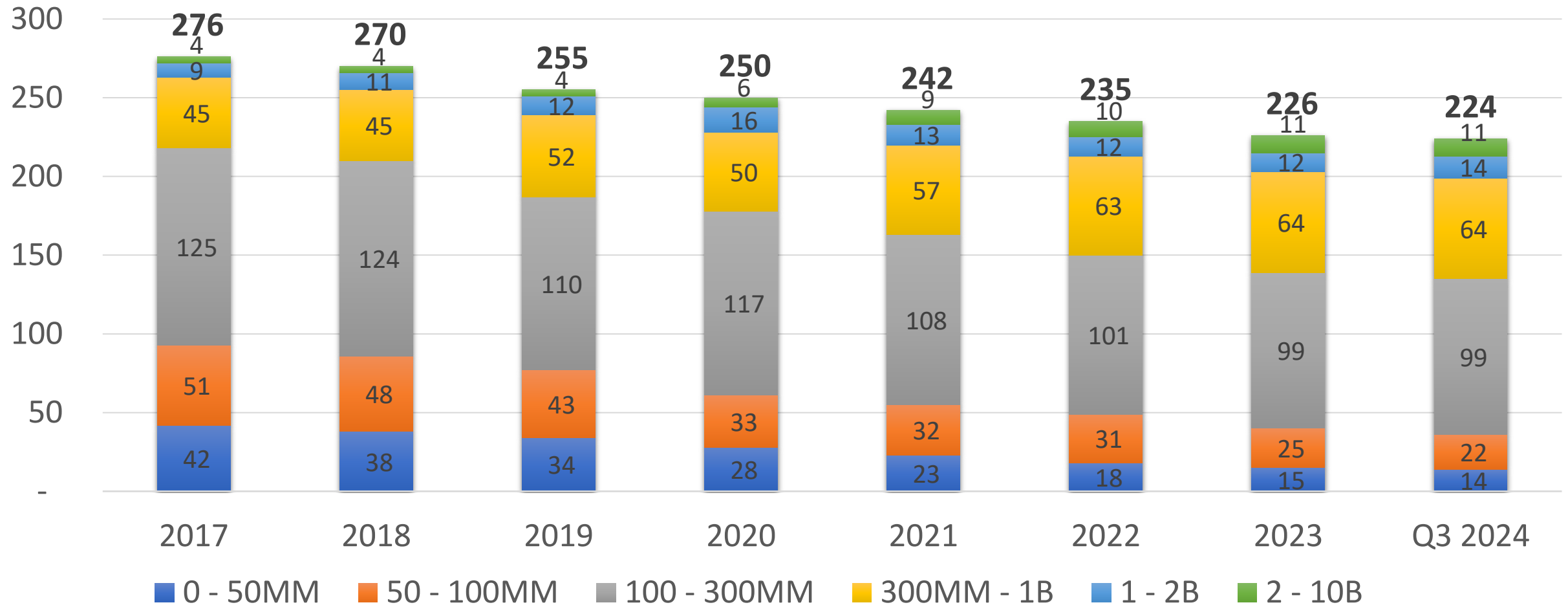
More than 1/2 of all small loans
to businesses



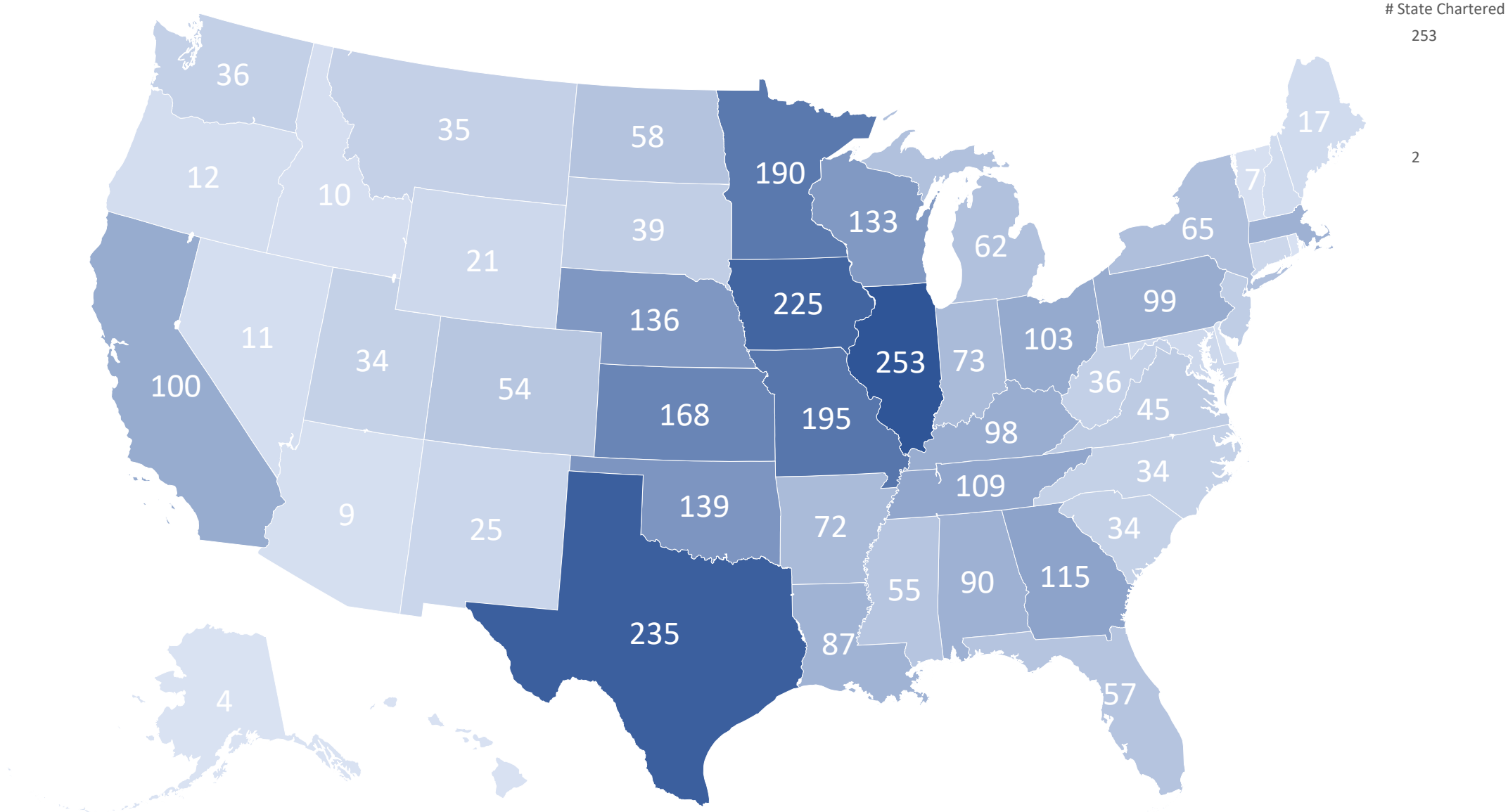
65%

Two-thirds of commercial bank
agriculture lending

Number of Iowa State Chartered Banks – By Size



Iowa ranks 3rd in U.S. for Number of State-Chartered Banks



By The Numbers: State Banking System



3,621
State Banks



79%
of Charters



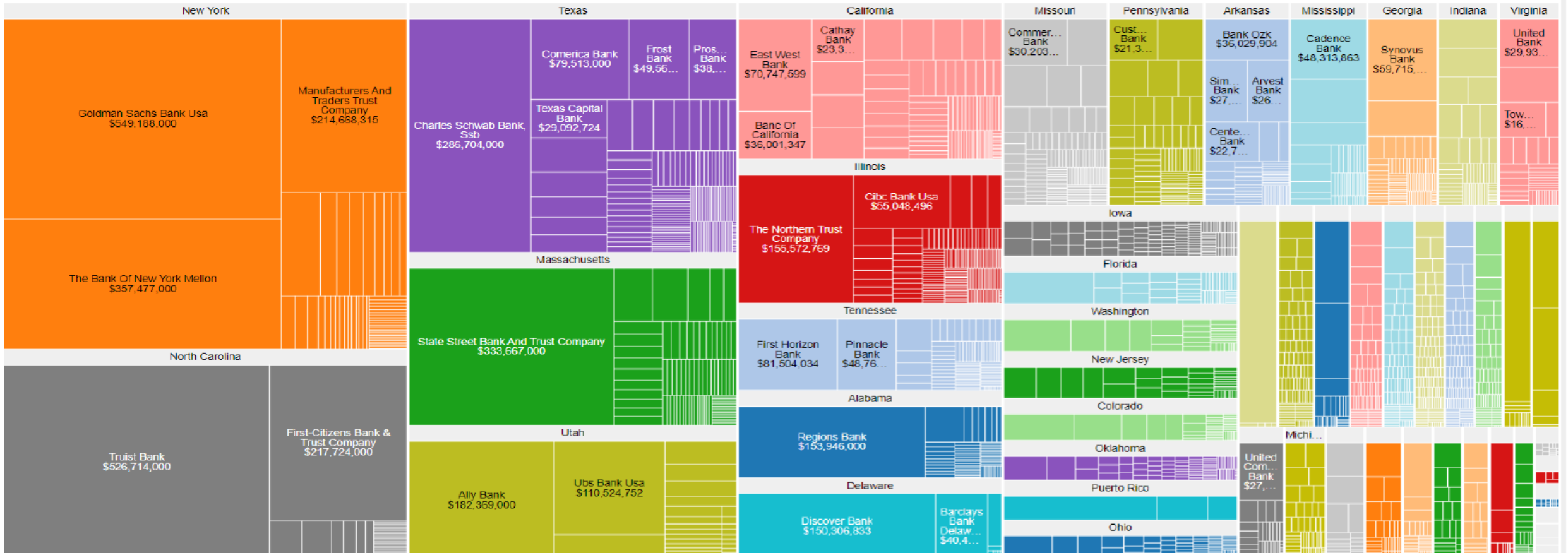
34%
of Assets



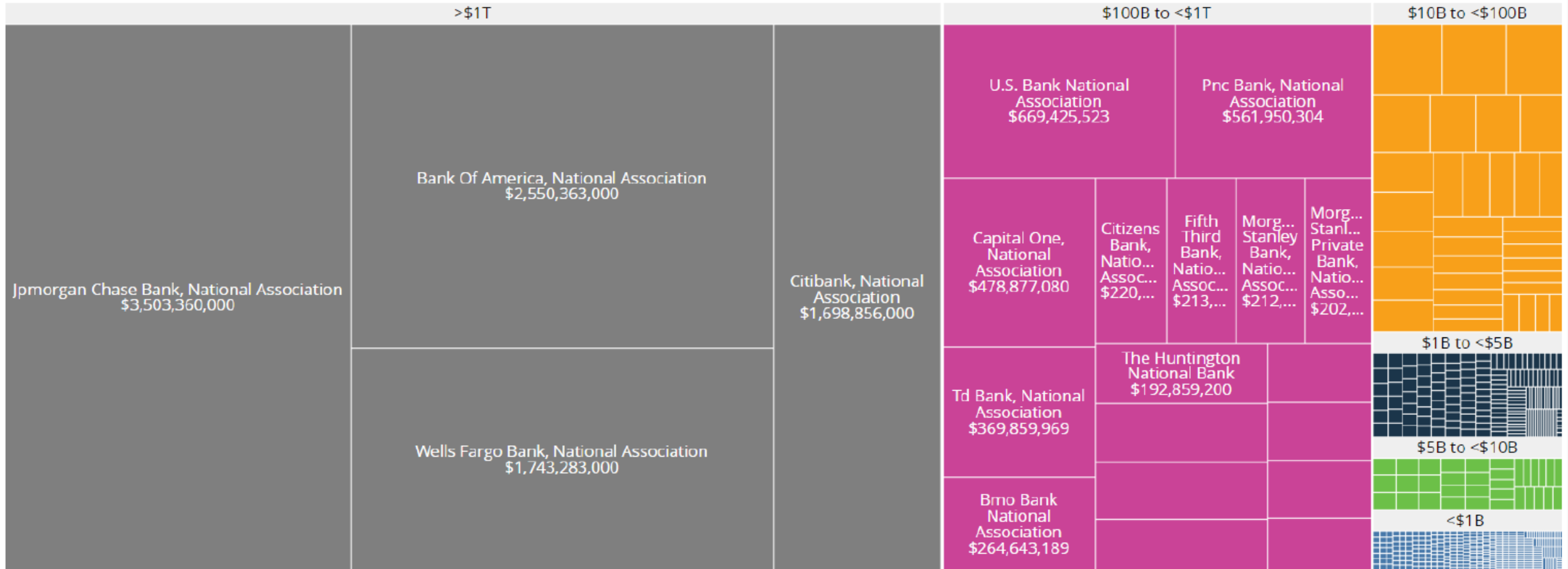
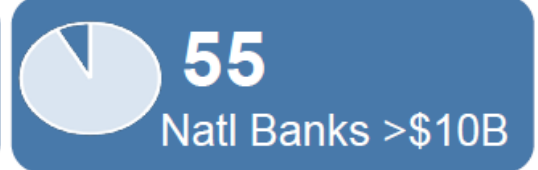
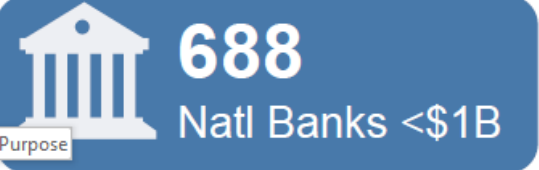
2,856
State Banks <\$1B



102
State Banks >\$10B

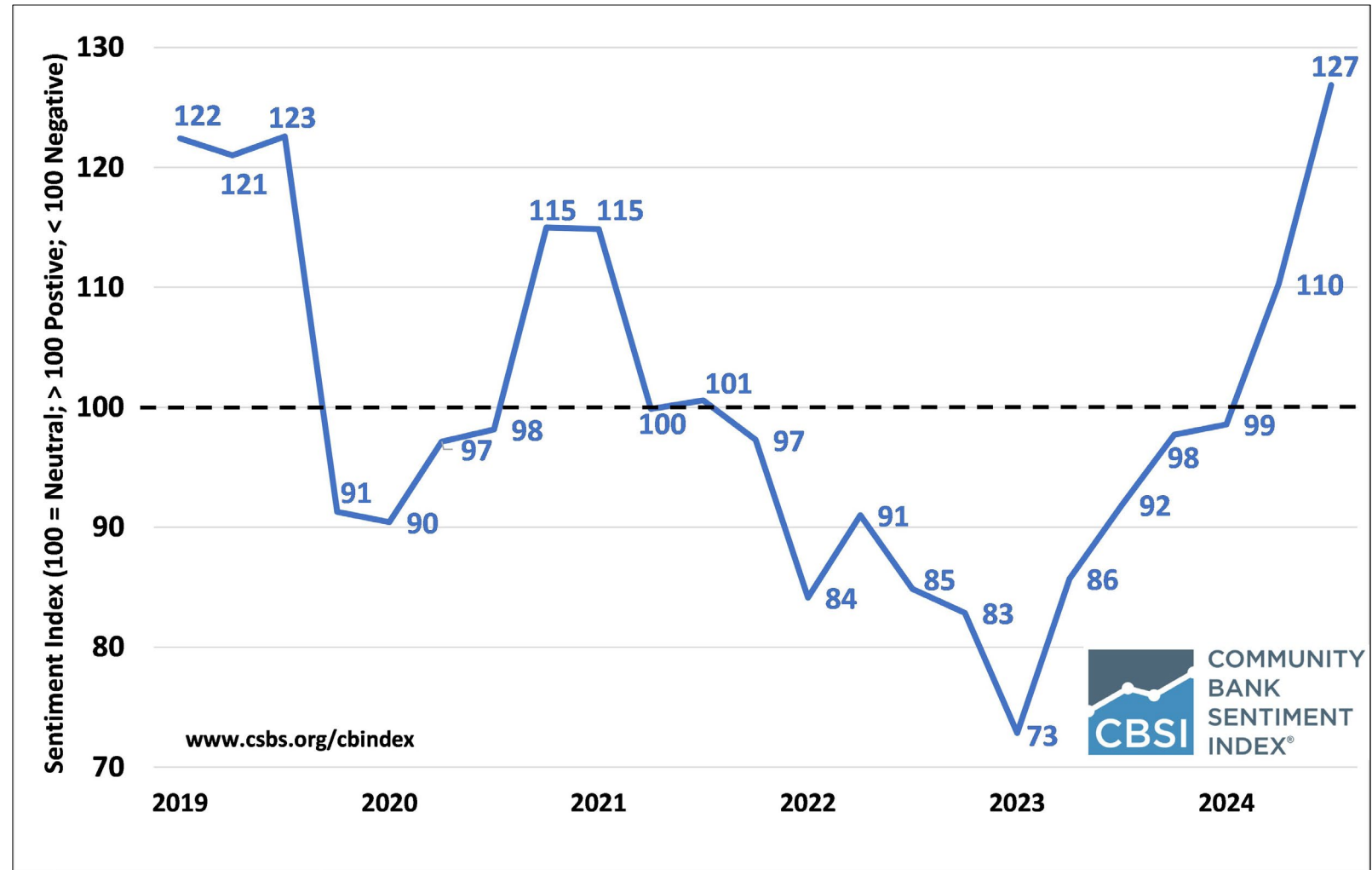


By The Numbers: National Banking System



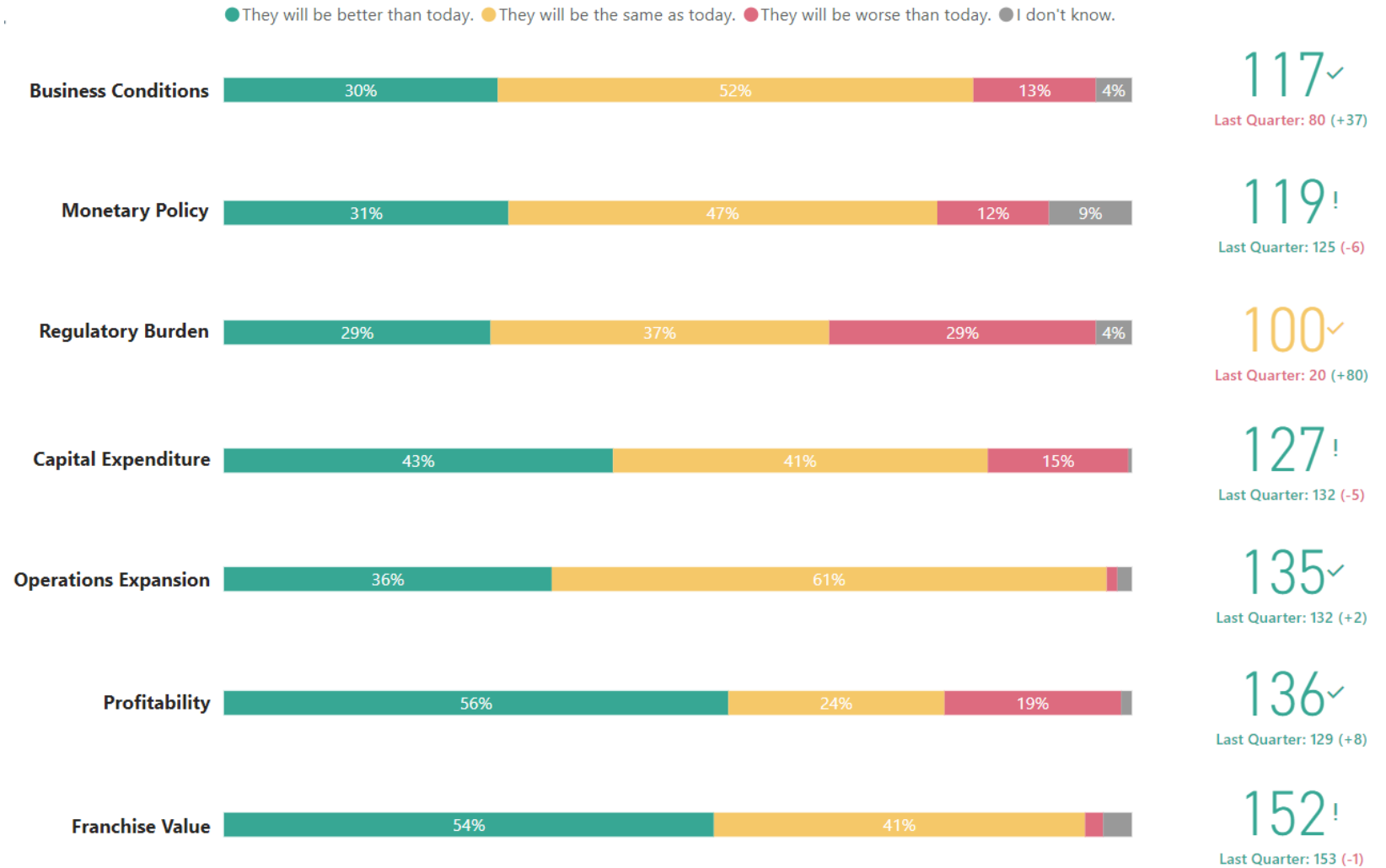
CSBS Community Bank Sentiment Index

Community bankers are optimistic about the future!



CSBS Community Bank Sentiment Index

Community bankers are optimistic about the future!



Regulatory Issues Getting Attention

A Radical Shift in Hacking Calls For a Focus on Fundamental Controls

What CEOs Need to Know

*“This threat **[Volt Typhoon]** is not theoretical...CISA teams have found and eradicated Chinese intrusions into critical infrastructure across multiple sectors...And what we’ve found to date is likely the tip of the iceberg. Given the malicious activity uncovered by CISA, NSA, FBI, and industry partners, we are acting now, knowing that this threat is both real and urgent.”*

CISA Director Jen Easterly’s Congressional Testimony Jan 2024

Regulatory Issues Getting Attention

Actions that should be taken TODAY to mitigate Volt Typhoon activity

1. Apply critical patches timely.
2. Implement phishing-resistant Multi-Factor Authentication (MFA).
3. Ensure LOGGING is turned on for application, access, and security logs and store the logs in a central system.
4. Plan for “End of Life” technology.

Regulatory Issues Getting Attention

Iowa Division of Banking – Legal Lending Limit

Legal lending limit violations are more prevalent than we would like.

Legal Lending Limit Job Aid

idob.iowa.gov / Legal & Resources / Laws & Regulations

Call IDOB Bank Analyst

515-281-4014

IOWA DIVISION OF BANKING

LEGAL LENDING LIMIT JOB AID

IOWA CODE 524.904

This job aid is intended to assist regulators and bankers in applying the provisions of Iowa Code Section 524.904. Specifically, the job aid addresses the provisions that limit the loans and extensions of credit to **one borrower** and **borrowing groups**. The utilization of tables, diagrams, and defining common terminology is meant to give a better understanding of the code language and promote a standardized application of this code section. However, this document will not cover all legal lending limit situations or replace the language contained within the Iowa Code. Iowa Code Section 524.904 can be found in its entirety in Appendix C of this document and should be consulted for complete information.

One Borrower

Loans and Extensions of Credit to One Borrower

Includes: 524.904(1), subsection—

- A. Standby letters of credit or other similar arrangements
- B. Maker or endorser's obligation arising from a state bank's discount of commercial paper
- C. Reverse repurchase agreements
- D. Bank's share of a loan participation less any dealer reserves held by the state bank
- E. Overdrafts
- F. Amounts paid against uncollected funds
- G. Non-ledger debt, unless discharged, forgiven, or no longer legally enforceable
- H. Aggregate rentals payable under leases of personal property by the state bank as lessor
- I. Investments in which the bank invested under 524.901
- J. Amounts invested by a state bank for its own account in the shares and obligations of a corporation which is a customer of the bank
- K. All other loans and extensions not excluded by 524.904(6)

Excludes: 524.904(6), subsection—

- A. Protective advances for taxes and insurance
- B. Accrued and discounted interest
- C. Participations sold on a pro-rata nonrecourse basis
- D. Portions secured by a segregated deposit account which the bank may lawfully set off
- E. Loans and extensions of credit to banks
- F. Loans and extensions of credit fully secured by bonds the bank can invest in without limitation under 524.901(3)
- G. Loans and extensions of credit to and secured or guaranteed by a federal reserve bank, the U.S. government, or U.S. agency, department, bureau, etc.
- H. Loans and extensions of credit to one borrower as the drawer of drafts drawn in good faith against actually existing values in connection with a sale of goods which have been endorsed by the borrower with recourse or which have been accepted
- I. Loans and extensions of credit arising out of the discount of commercial paper actually owned by a borrower negotiating the same and endorsed by a borrower without recourse and which is not subject to repurchase by a borrower
- J. Loans and extensions of credit drawn by a borrower in good faith against actually existing values and secured by nonnegotiable bills of lading for goods in process of shipment
- K. Acceptances of other banks described in 524.903(3)
- L. Acceptances by the state bank for the account of the borrower pursuant to 524.903(1)
- M. A renewal or restructuring following reasonable efforts to bring the loan into conformance, unless new funds are advanced, a new borrower replaces the original, or the superintendent determines the renewal or restructure was undertaken as a means to evade the lending limit

Regulatory Issues Getting Attention

ELECTION: People are Policy



Martin Gruenberg
Chair, FDIC

*Resigned effective
Jan. 19, 2025*



Michael J. Hsu
Comptroller, OCC

??



Rohit Chopra
Director, CFPB

*Removed
Feb. 1, 2025*



Michael S. Barr
Vice Chair - Supervision,
FRB

*Resigning effective
Feb. 25, 2025*

Iowa communities devastated by weather events



Six inches of rain in three days led to swollen rivers and a levee break in Rock Valley

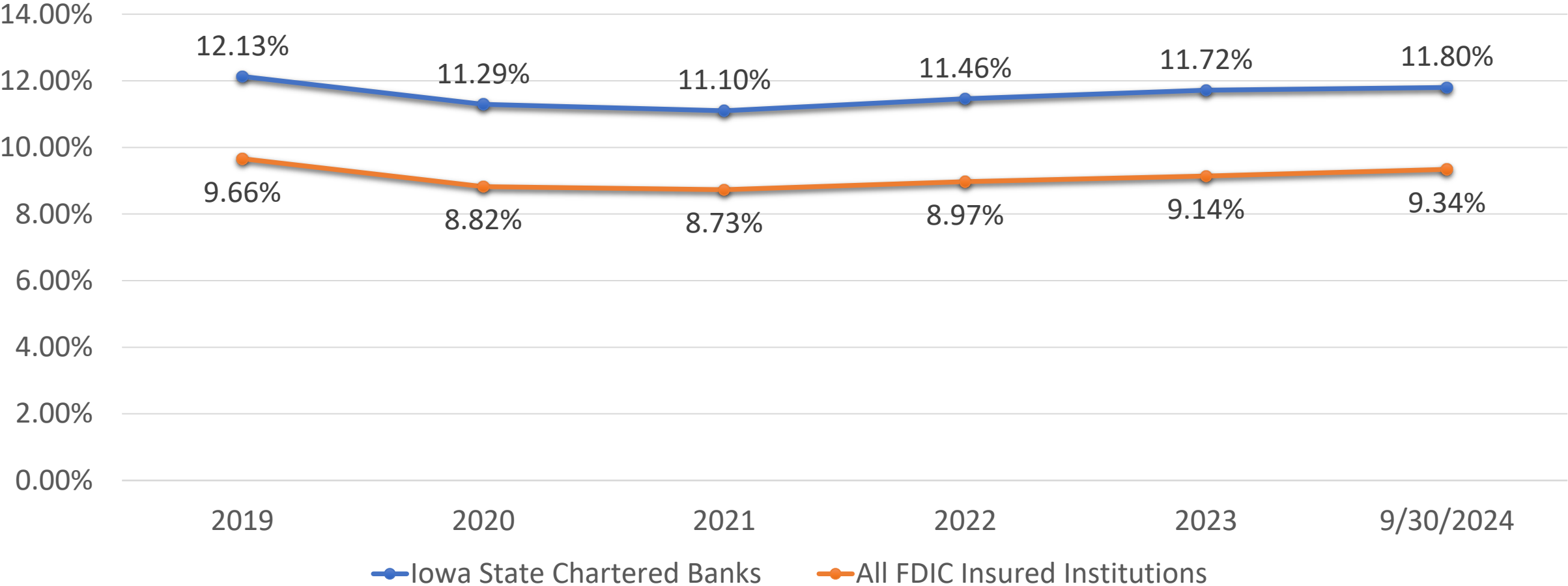
June 2024 Flooding



May 2024 Tornado

CAPITAL is strong!

Tier One Leverage Ratio

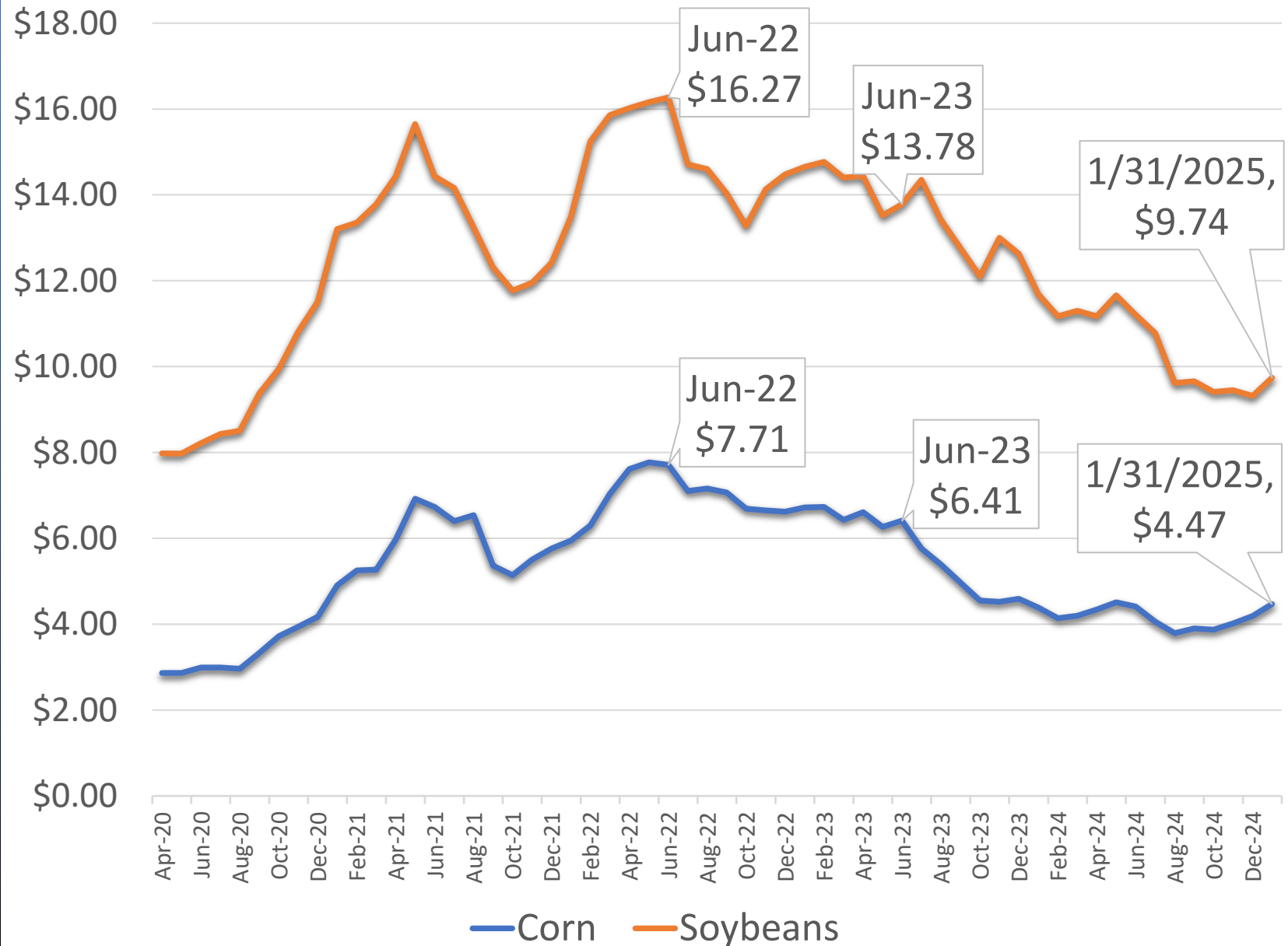


ASSET QUALITY remains satisfactory, but is worth watching.

- Agriculture is showing signs of stress but but may do better than expected.
- Commercial real estate is showing signs of stress, primarily in office space, in big banks (> \$250B), in large metro areas.
- Consumer debt is on the rise, along with auto and credit card delinquencies.
- Starting to see a slight uptick in classification levels based on examination data.

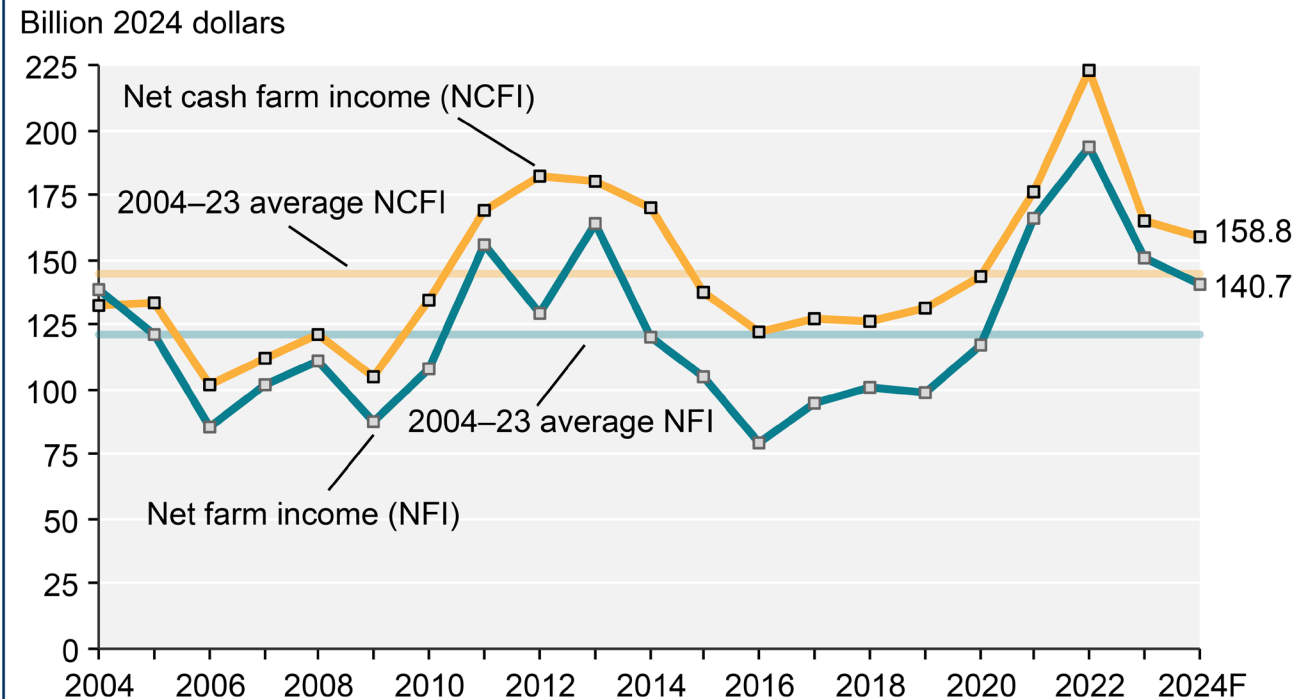
Grain Prices
Seeing
Improvement
after Long
Decline

Monthly Average Grain Prices for Iowa



USDA: Forecasts Farm Income to Fall in 2024

U.S. net farm income and net cash farm income, inflation adjusted, 2004–24F

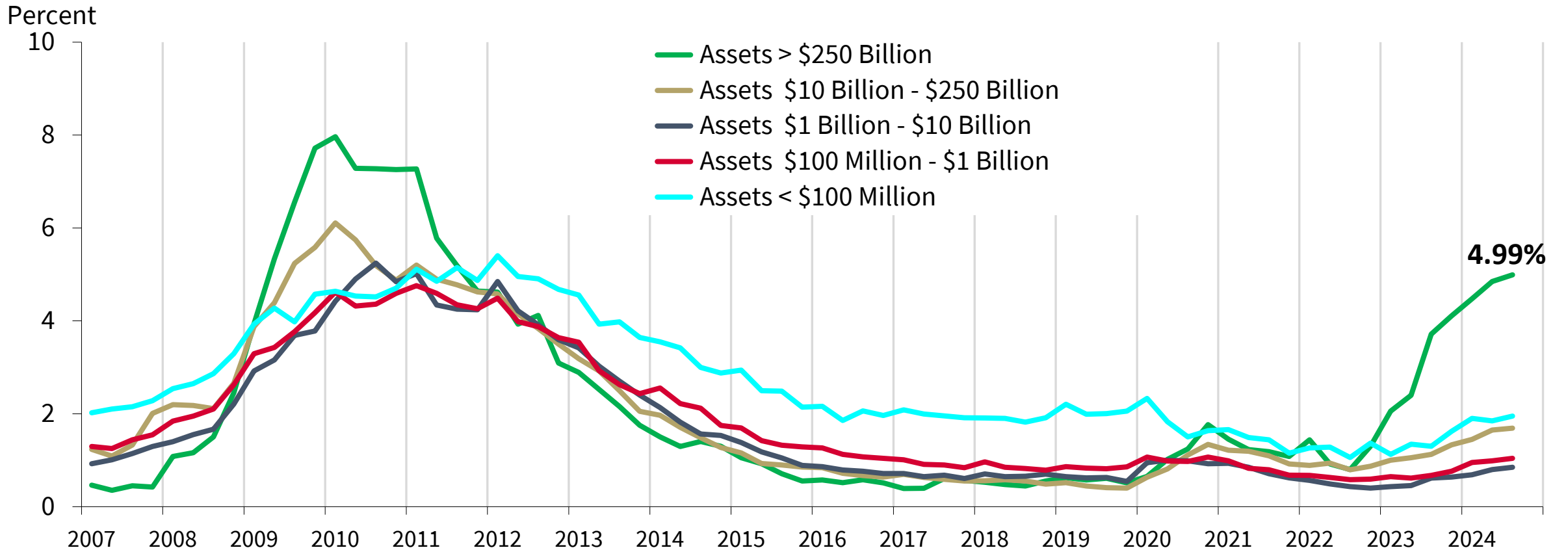


Source: U.S. Department of Agriculture, Economic Research Service. (2024, December 3). Farm sector income & finances: Farm sector income forecast.

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 2024 by USDA, Economic Research Service.
Source: USDA, Economic Research Service, Farm Income and Wealth Statistics.
Data as of December 3, 2024.

Are there signs of Commercial Real Estate stress and where are they?

Bank Non-Owner Occupied, Nonfarm Nonresidential Loan



Source: FDIC.

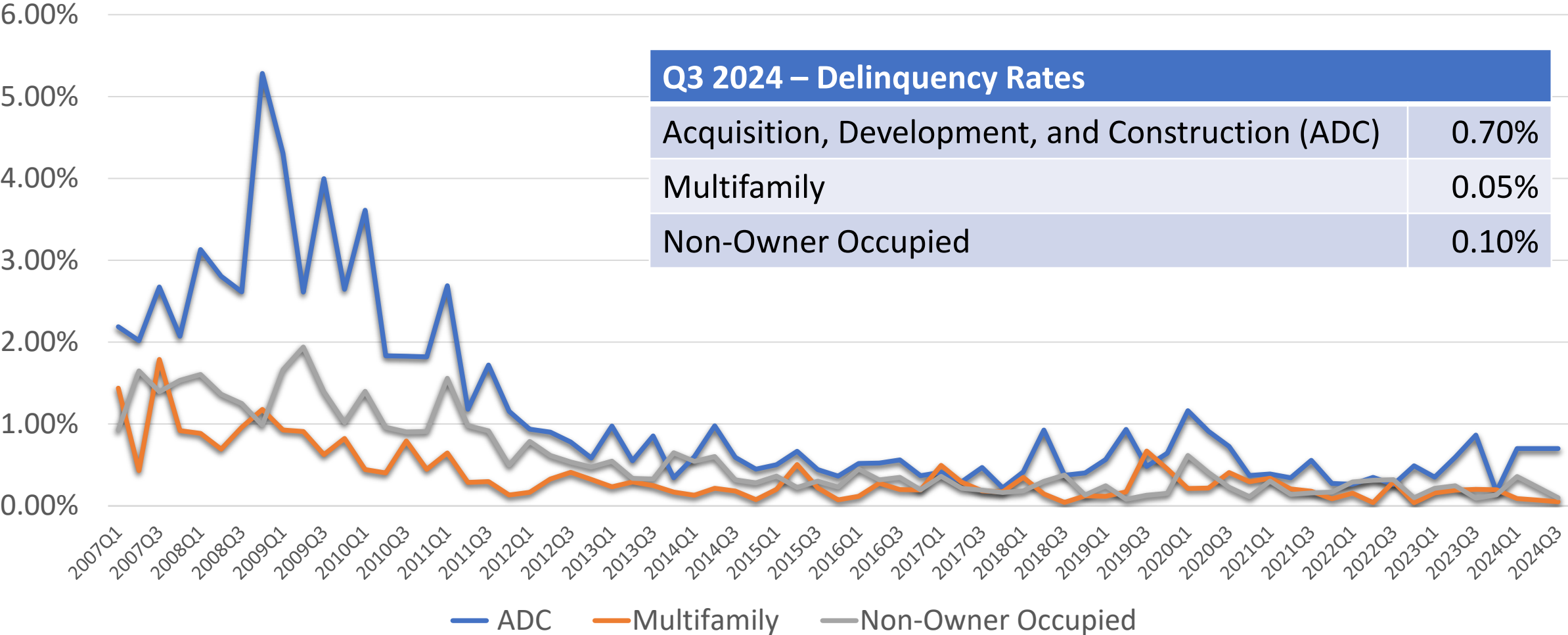
Are there signs of Commercial Real Estate stress and where are they?

TREPP CMBS Research – December 2024

“CMBS Delinquency Rate Surges in December 2024, Office Hits All-Time High, Retail Sees Largest Respective Rate Increase”

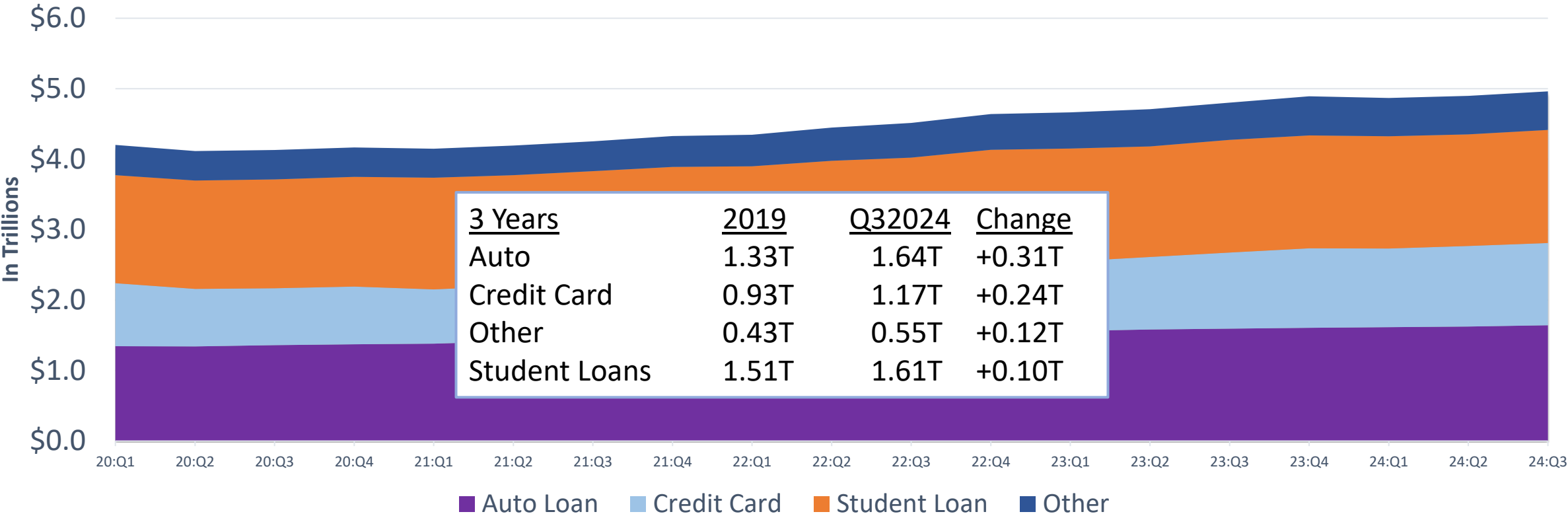
	DEC-24	NOV-24	OCT-24	3 MO	6 MO	12 MO
Overall	6.57	6.40	5.98	4.71	4.66	4.51
Industrial	0.29	0.32	0.32	0.32	0.62	0.57
Lodging	6.14	6.92	6.09	6.23	6.32	5.40
Multifamily	4.58	4.18	3.24	3.33	2.36	2.62
Office	11.01	10.38	9.37	8.36	7.55	5.82
Retail	7.43	6.57	6.82	7.07	6.42	6.47

Commercial real estate delinquency rates remain really low in Iowa state-chartered banks.



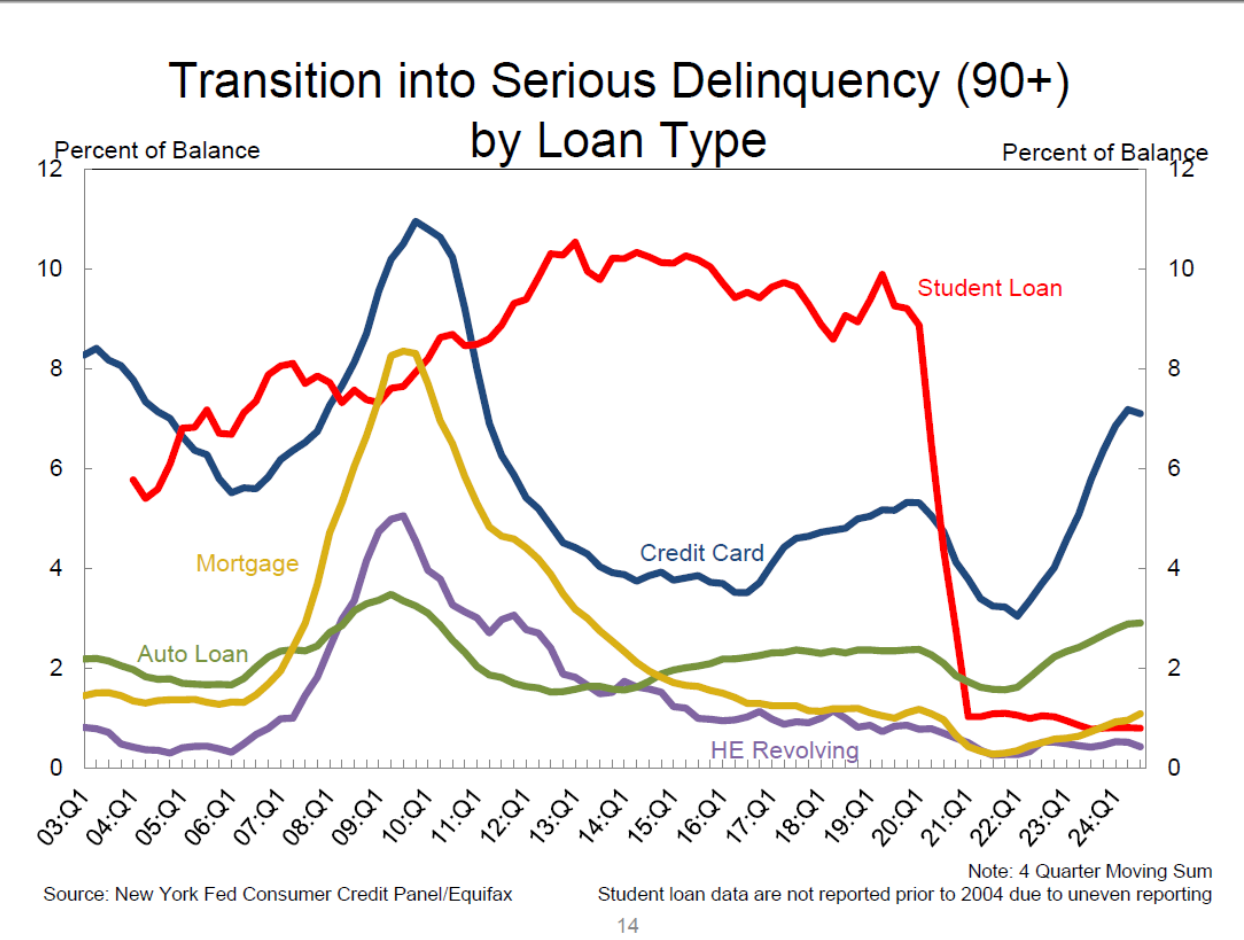
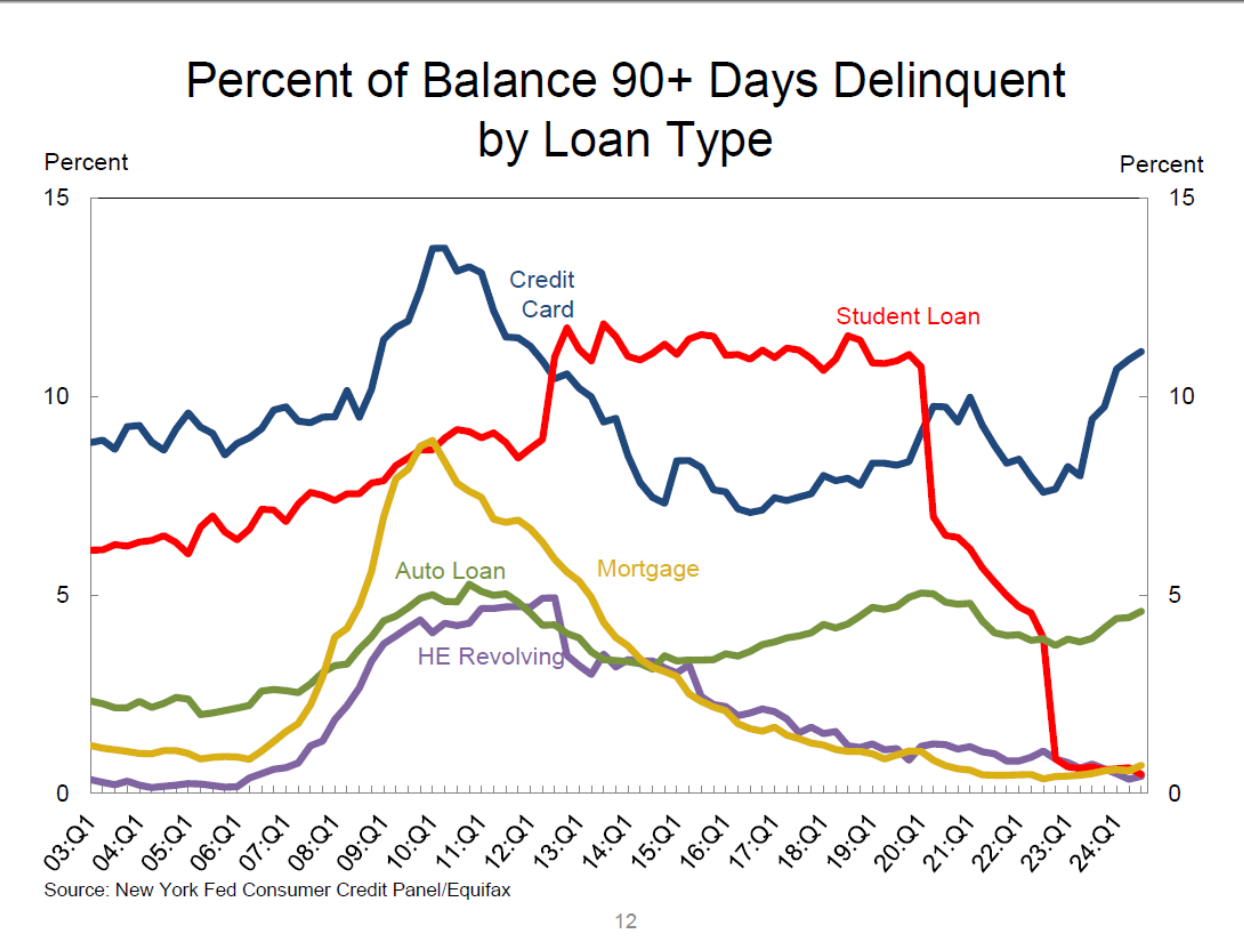
Auto loans and credit cards have seen the largest increase in non-housing debt since year-end 2019 in the U.S.

Non-Housing Debt Balance by Type



Source: FRB New York – Quarterly Report on Household Debt and Credit (Q3 2024)

Auto and credit card delinquencies are on the rise, along with the percentage of consumers transitioning into serious delinquency.



Source: FRB New York – Quarterly Report on Household Debt and Credit (Q3 2024)

What about Student Loan Debt?

As of September 30, 2024:

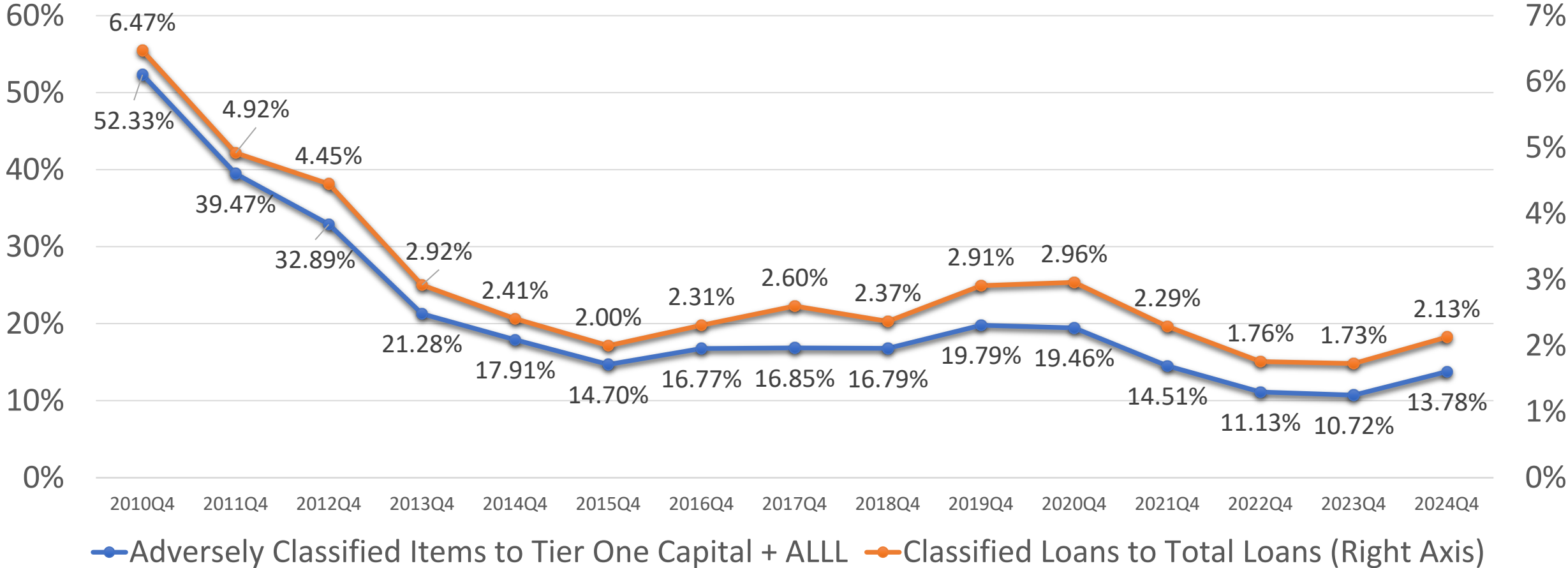
- Americans owe \$1.61 trillion in federal and private student loan debt.
- 46.2 million borrowers have federal student debt.
- ***0.49% of student loans are 90 days or more delinquent.***

There is more to the story:

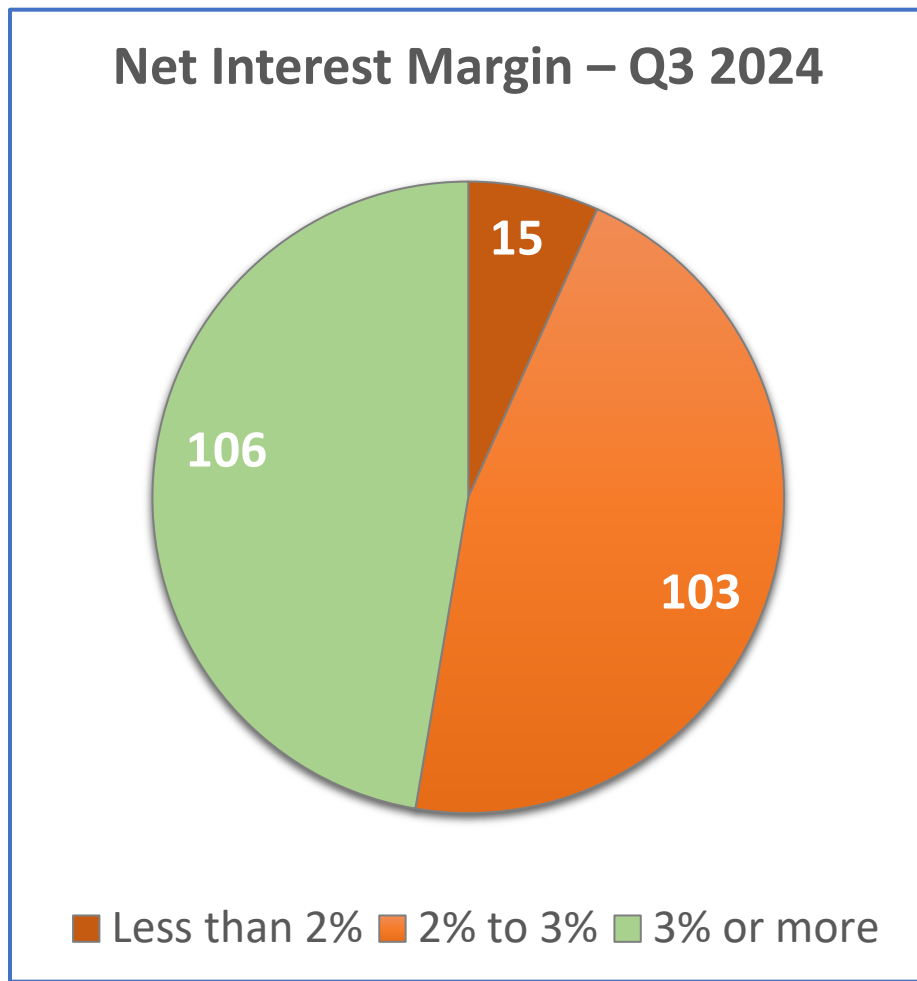
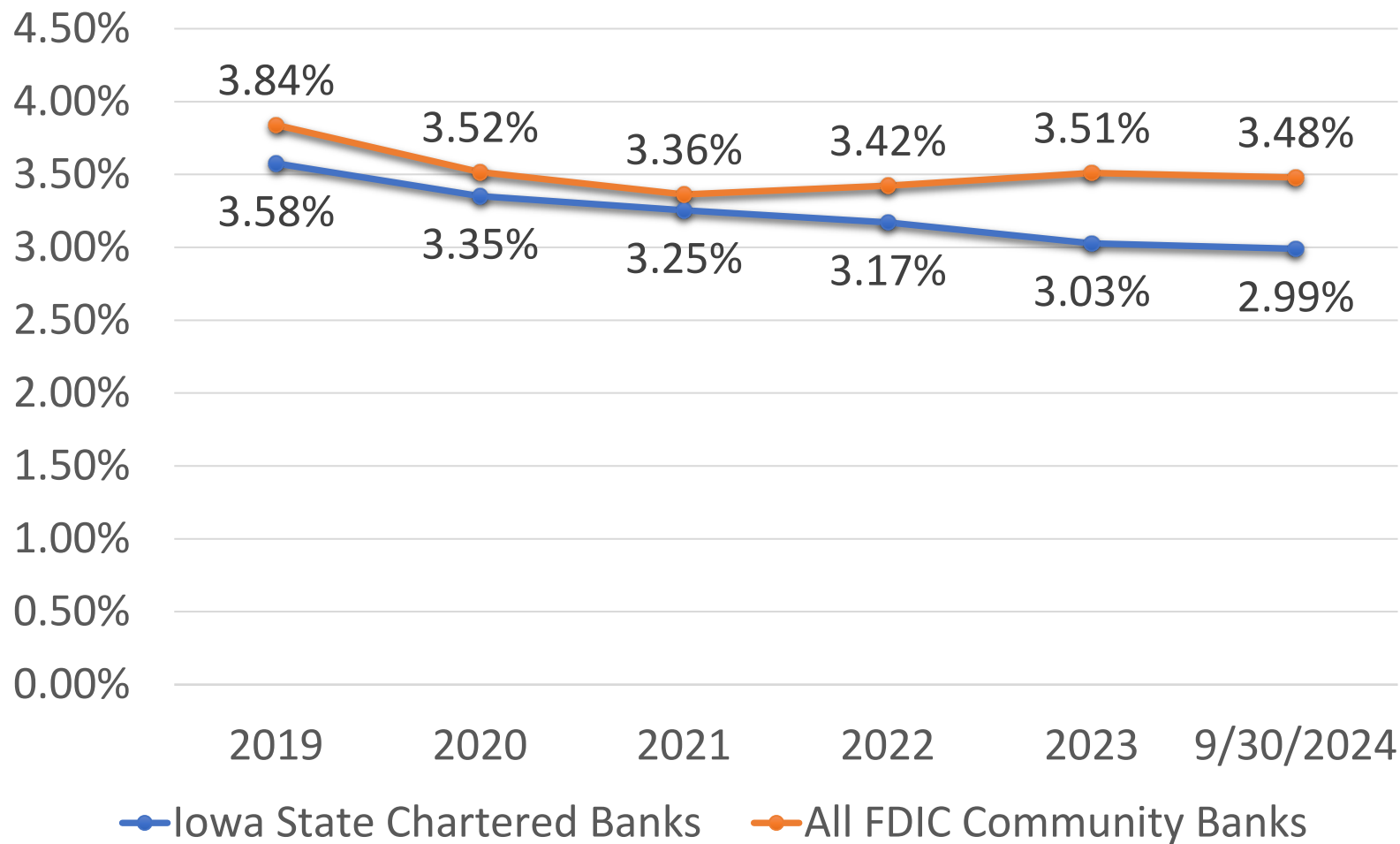
- March 2020, federal student loan payments were paused.
- Congress passed a law preventing additional extensions of the moratorium.
- ***Student loan interest resumed Sept. 2023 and payments in Oct. 2023.***
- ***Missed federal student loan payments will not be reported to credit bureaus until Q4 2024.***

Classifications remain relatively low, but we are starting to see a slight uptick.

Iowa State Chartered Banks - *Classified Items*
(12 Month Floating Examination Averages)

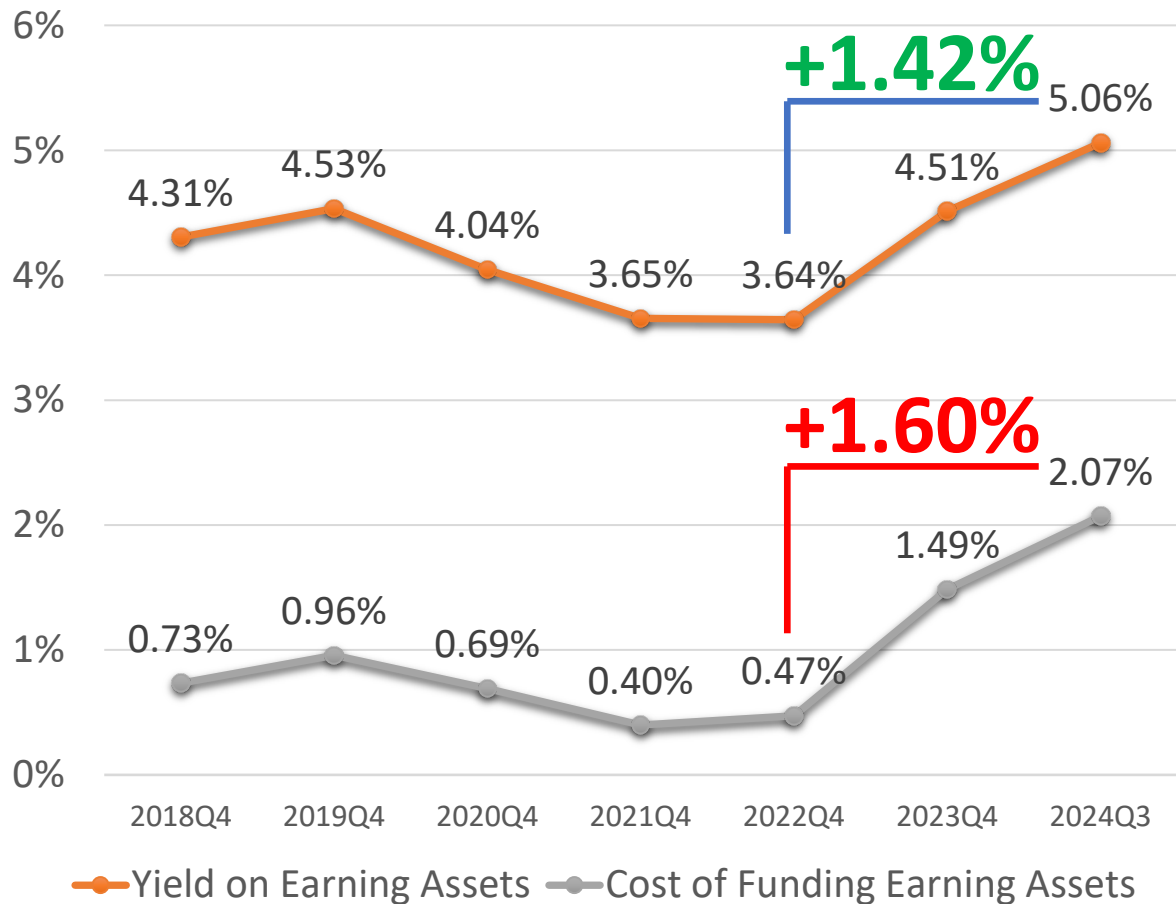


EARNINGS remain stressed by net interest margins, especially in Iowa.

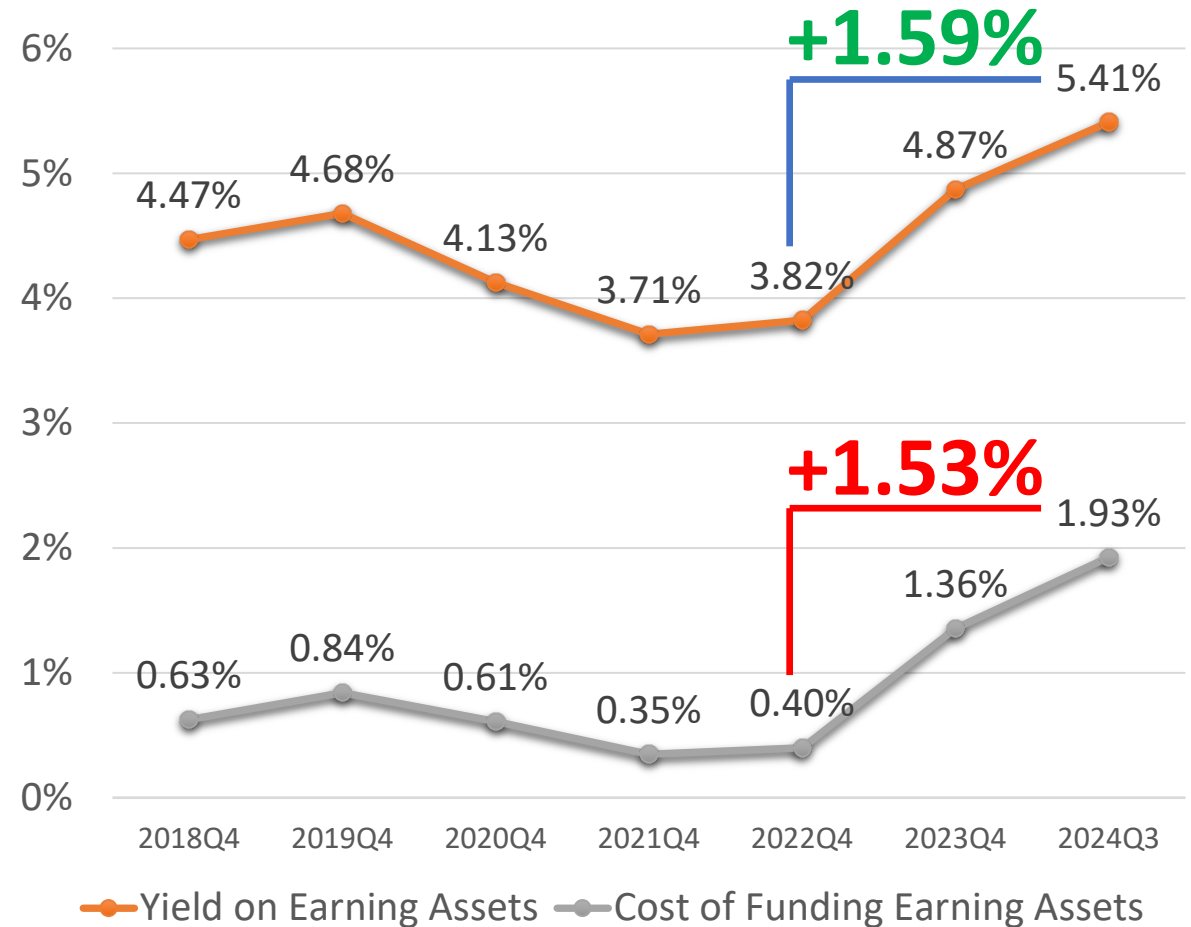


Iowa's increase in funding costs, similar to U.S. trend, but lags improvement in asset yields.

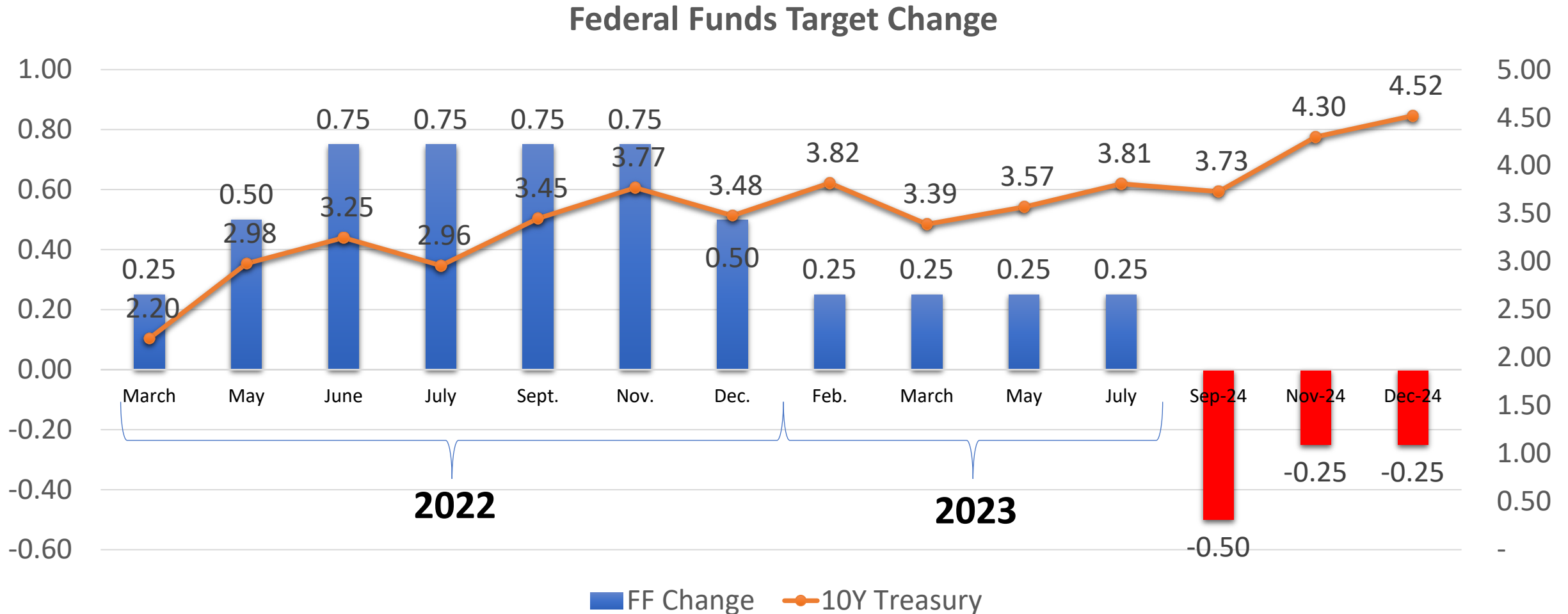
Iowa State Chartered Banks



All FDIC Community Banks



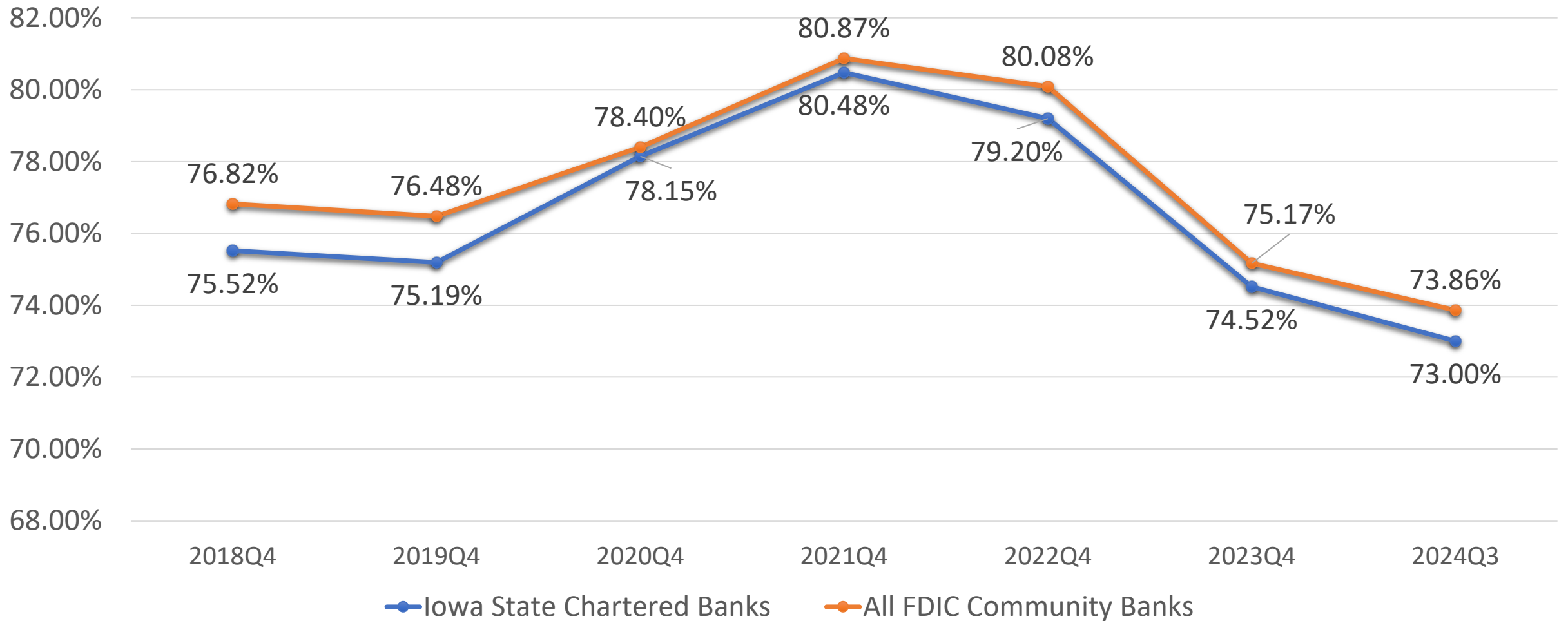
Will recent interest rate changes improve NIM's in Iowa?



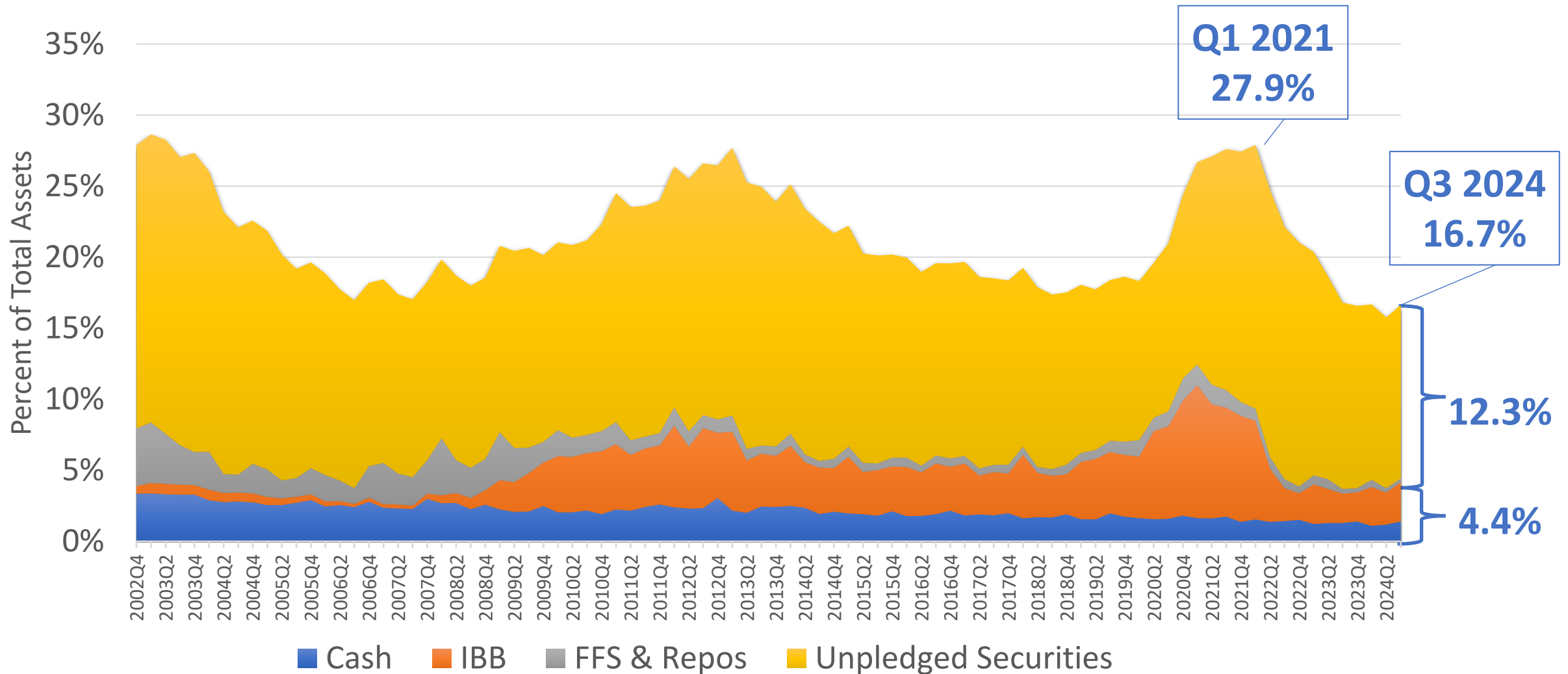
LIQUIDITY is tighter.

- Competition for deposits remains tough, and deposits as a percent of total assets have declined.
- Balance sheet liquidity has reduced.
- Bond portfolios continue to have depreciation.
- Reliance on wholesale funding has increased.

Iowa State Chartered Banks Core Deposits as a Percent of Total Assets



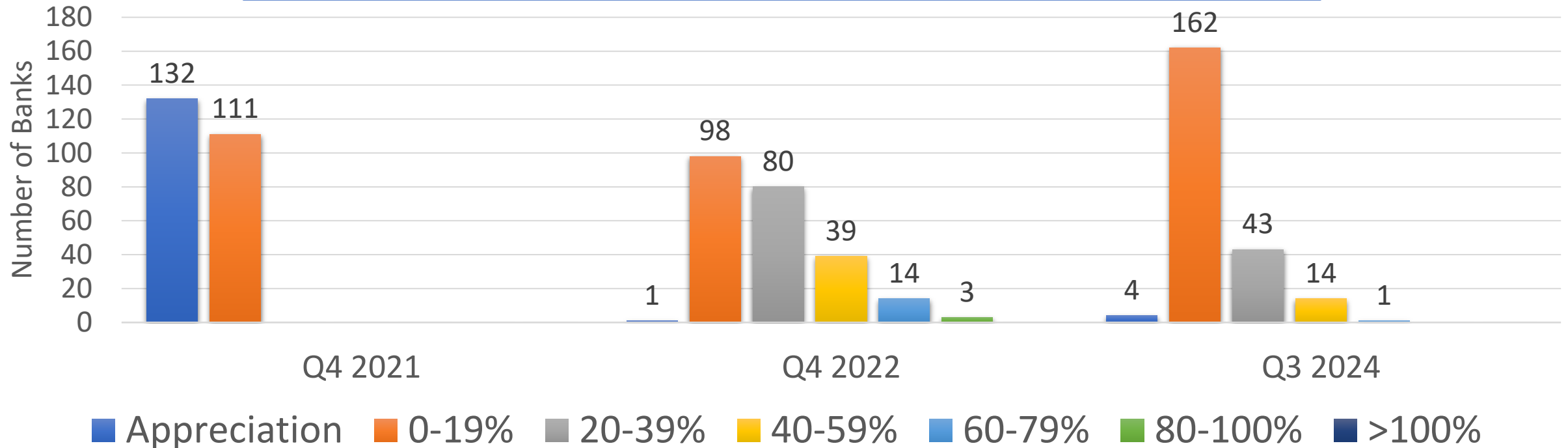
Iowa State Chartered Banks Balance Sheet Liquidity has Reduced in Recent Years



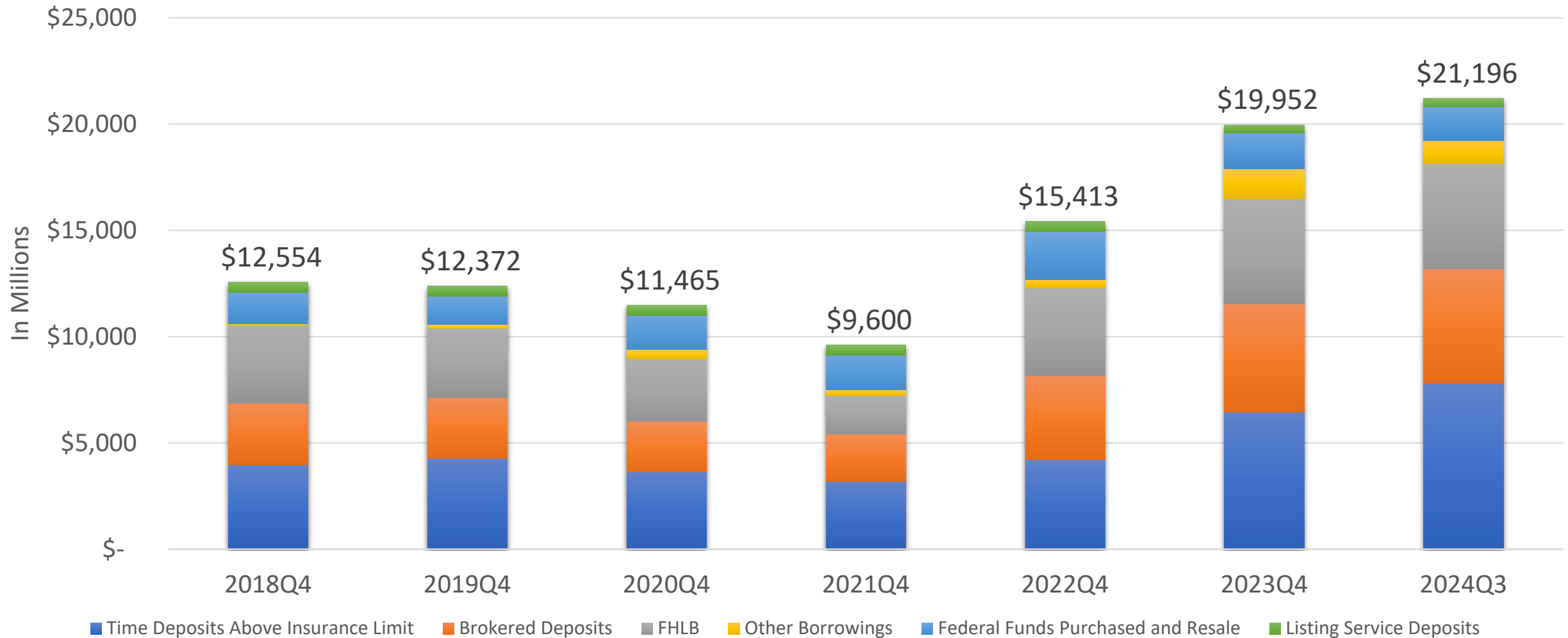
Bond portfolio depreciation is decreasing, but continues to present a cost to access funds.

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

Percentage of Bond Portfolios with Depreciation
Q4 2021 – 45.7% Q4 2022 – 99.6% Q3 2024 – 98.2%



Iowa State Chartered Banks Noncore Funding and Listing Service Deposits



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
- IT weaknesses



Things to Watch

- Agriculture
- Data Analytics
- Information Technology / Cybersecurity
- Virtual Currency / Digital Assets
- Artificial Intelligence
- Fintech

Q & A

Iowa Division of Banking

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(515) 281-4014

For more information

idob.iowa.gov