

# **Interest Rate Risk Bank Performance & Insights**

**October 23, 2013**

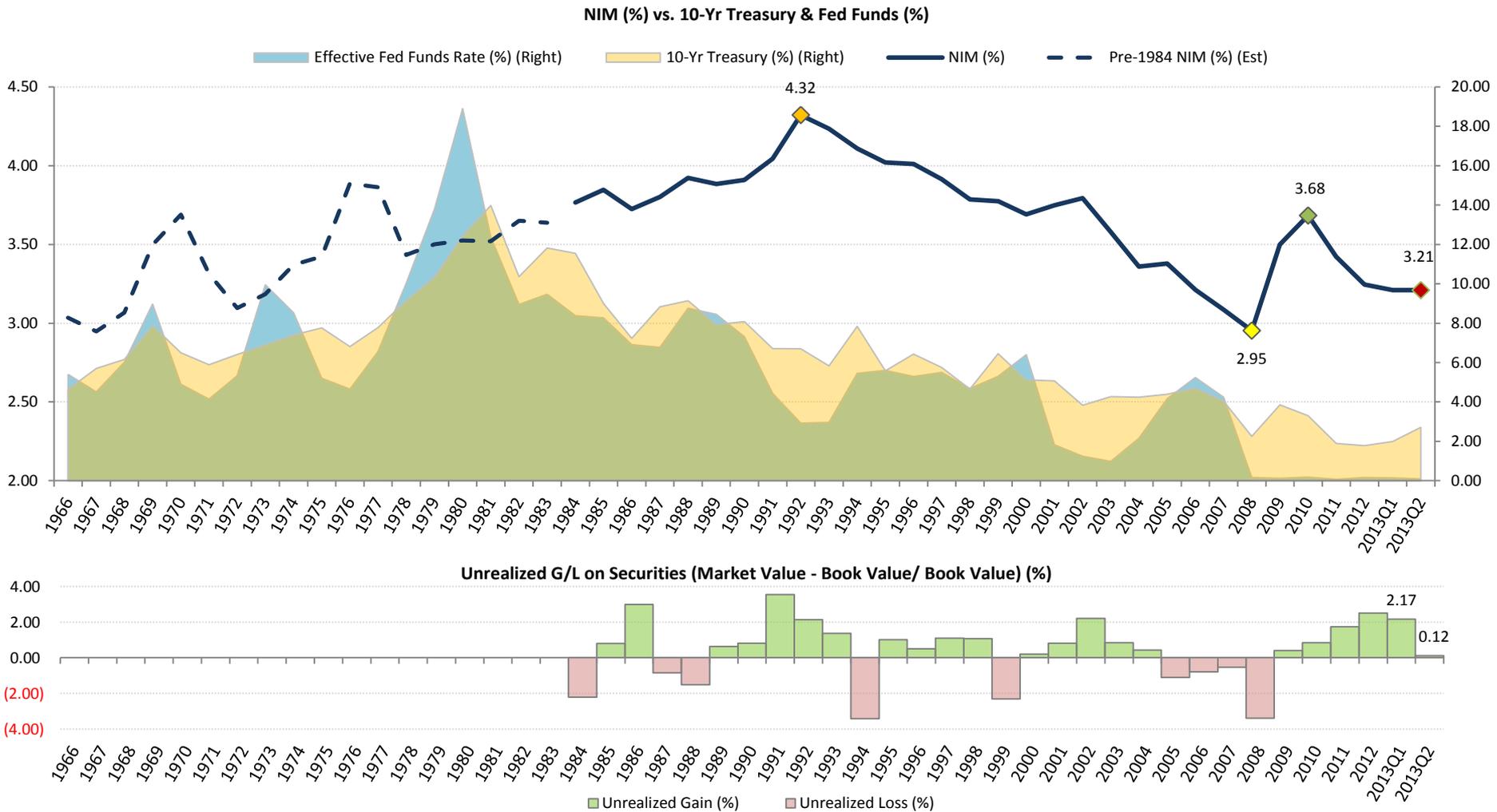
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The opinions expressed are those of the presenter and are not those of the Federal Reserve Bank of Atlanta, the Federal Reserve or its Board of Governors



# Aggregate Period-End U.S. Commercial Bank Net Interest Margin & Unrealized Gain/Loss on Securities Performance vs. Interest Rates



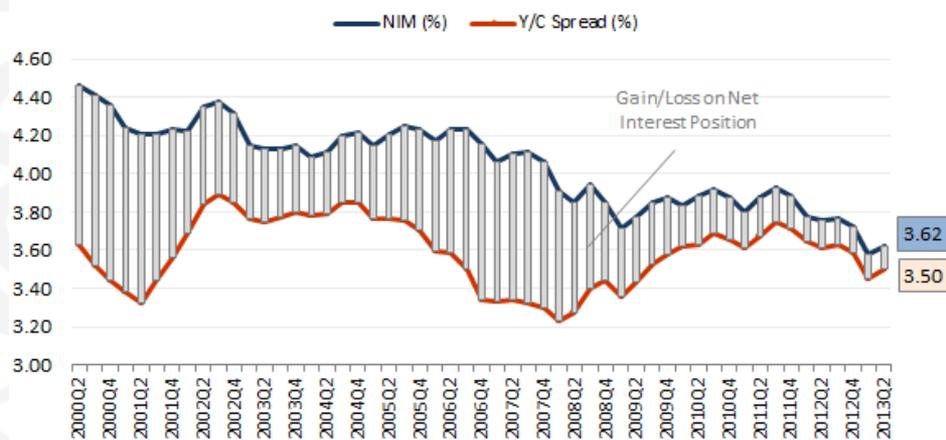
NIM (%): Year-to-Date Annualized

Source: FDIC, Call Report Data, FRB St. Louis (FRED)

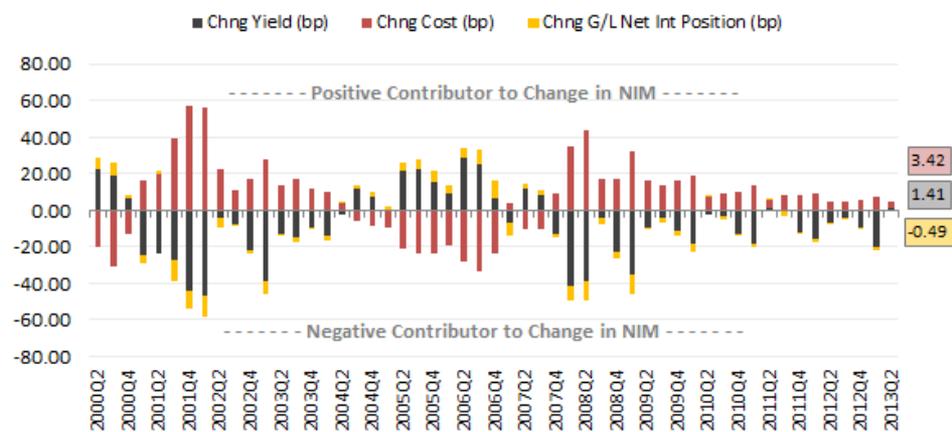
# Net Interest Margin (%) – Performance & Drivers

Average U.S. Commercial Banks

Net Interest Margin (NIM) (%) vs. Yield/Cost Spread (%) (Average)

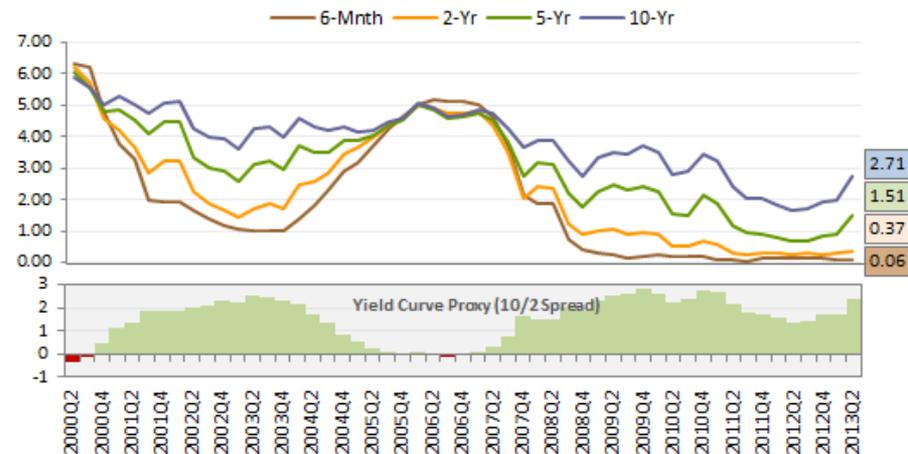


Contributors to Quarterly Change in NIM (%) (Average)



- Overall, while average NIM performance has declined, it has been supported by declining liability costs and increases in net earning assets (due to increasing noninterest deposits).
- With short-term rates near zero and the incremental benefits of funding earnings assets with low cost deposits constrained, these positive contributors to NIM are at historically low levels thus making yield performance even more important.
- Though small, the increasing yield curve over the quarter boosted yields while costs continued to decline.

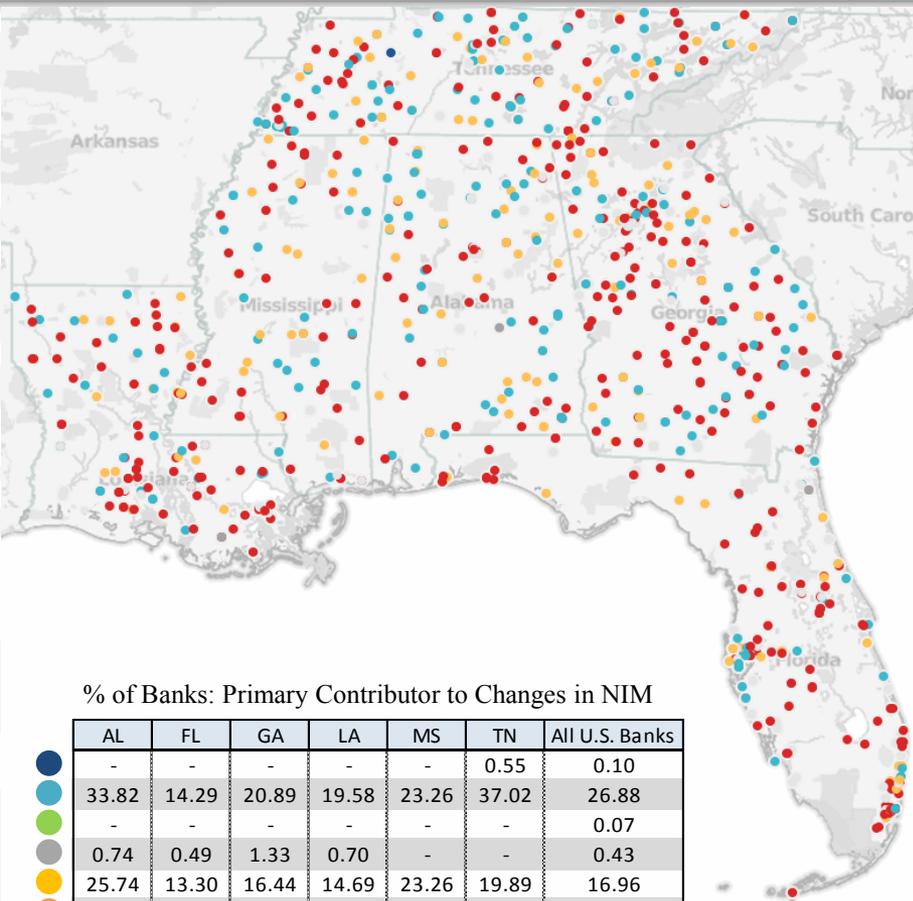
U.S. Treasuries (Constant Maturity Rate) (%)



NIM (%) & Yield/Cost Spread (%): Quarter Annualized

Source: Call Report Data, FRB St. Louis (FRED)

# Primary Driver of Changes in NIM: Southeastern States (2007Q2-2013Q2)



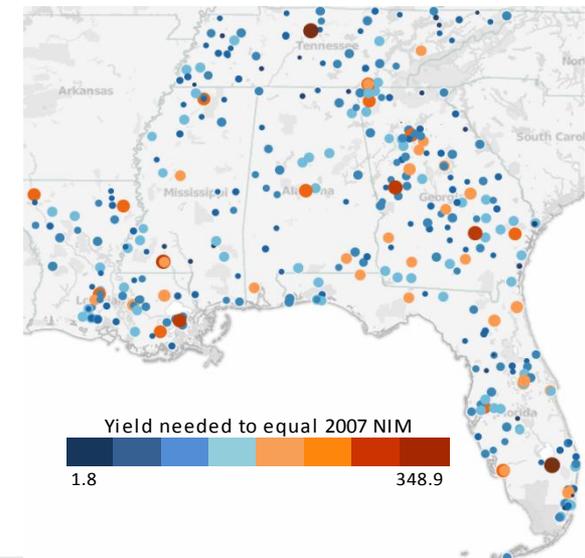
Color Scale

- Null
- NIM Increase: Yield Driven
- NIM Increase: Cost Driven
- NIM Increase: Asset/Liability Mix
- No Change in NIM
- NIM Decrease: Asset/Liability Mix
- NIM Decrease: Cost Driven
- NIM Decrease: Yield Driven

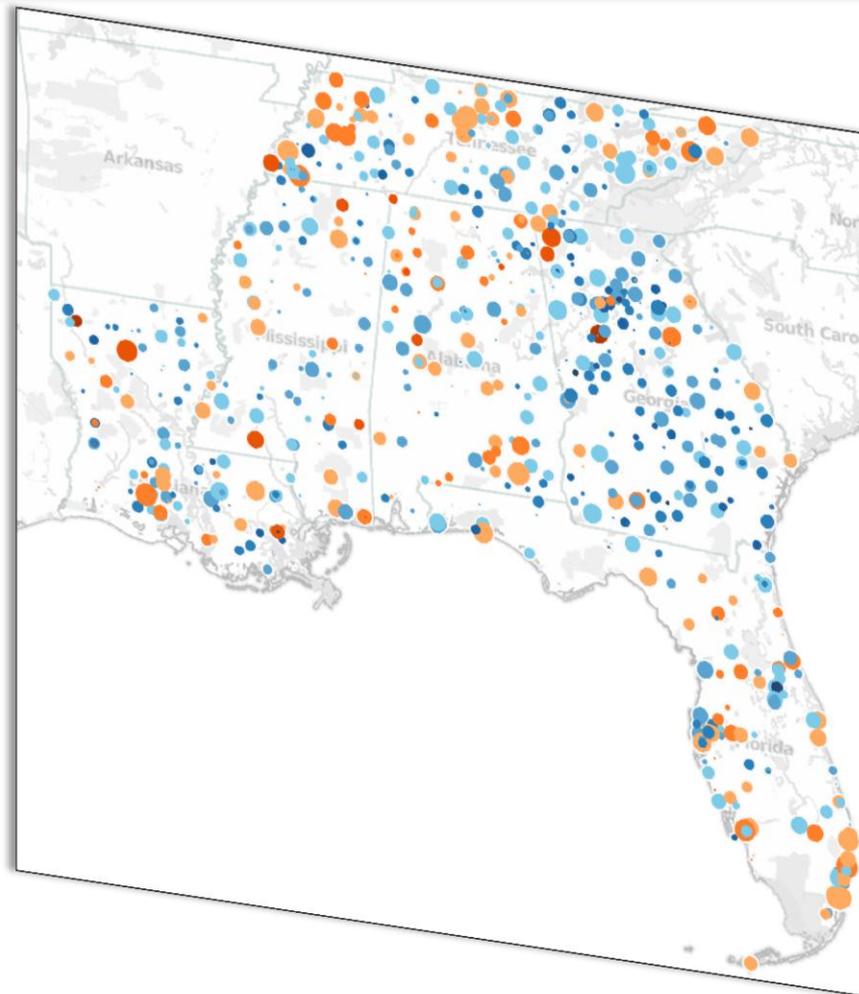
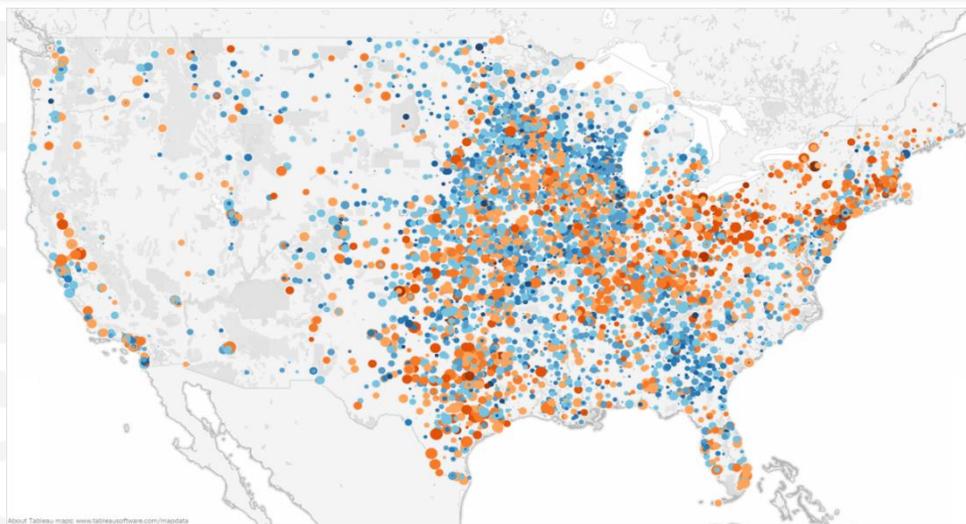
- 27% of all banks see rising NIM due to declining costs. A greater percentage of TN banks (37%) are benefiting from lower costs, while only 14% of FL banks are growing NIM through interest cost savings.
- Asset/Liability mix has been a large driver for declines in NIM for many banks – a scenario where the elements for NIM growth are in place but the mix causes NIM to fall. AL has a larger share of its banks where mix is a primary driver.
- Banks whose NIM has declined and current asset yields are below 2007Q2 NIM levels may be most vulnerable to continued low interest rates. Given current interest costs and funding structure, banks in this group need to increase yields from 1.8bp to over 348bp to equal 2007 NIM.

% of Banks: Primary Contributor to Changes in NIM

	AL	FL	GA	LA	MS	TN	All U.S. Banks	
●	-	-	-	-	-	0.55	0.10	
●	33.82	14.29	20.89	19.58	23.26	37.02	26.88	
●	-	-	-	-	-	-	0.07	
●	0.74	0.49	1.33	0.70	-	-	0.43	
●	25.74	13.30	16.44	14.69	23.26	19.89	16.96	
●	-	-	-	-	-	-	-	
●	26.47	47.29	45.78	47.55	47.67	30.94	41.35	
	28.68	27.59	20.89	24.48	29.07	23.76	24.08	Increasing Yield/Cost Spread/Decreasing NIM
	21.32	41.38	39.11	46.15	38.37	24.31	35.95	Current Yield < Previous NIM



# Reach for Yield? Loans & Securities Mature/Reprice > 3Yr/ Assets (%) (Size & Growth)



Assets Mat/Rep > 3Yrs/Assets (%)  
0% 50% 100%  
Data Width = Absolute change from 2007Q2 to 2013Q2

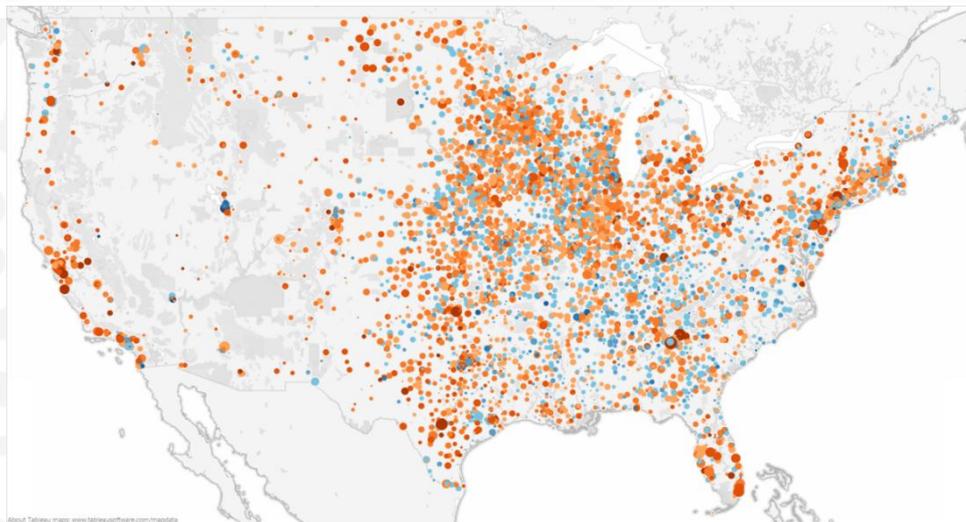
% of Total Assets

State	Loans & Securities Mat/Repr <= 3Yrs		Loans & Securities Mat/Repr > 3Yrs		2013Q2 Securities*		Unrlzd G/L (%) (FV - BV / BV)	
	2013Q2	2007Q2	2013Q2	2007Q2	<=0-5Yr	>5Yr	2013Q2	2013Q1
AL	37.70	50.29	46.58	37.30	3.59	18.51	(0.81)	1.94
FL	34.68	52.92	45.20	28.95	1.78	8.30	(1.07)	0.99
GA	45.41	68.14	31.53	18.42	2.49	10.06	(1.33)	1.16
LA	43.30	54.37	40.73	30.91	4.81	9.09	(0.01)	1.96
MS	41.67	57.72	42.46	30.91	7.88	11.34	(0.64)	1.65
TN	38.29	57.68	44.53	29.48	2.72	11.16	(0.46)	1.90
U.S. Banks	37.51	56.70	44.81	29.49	3.99	7.76	(0.25)	1.66

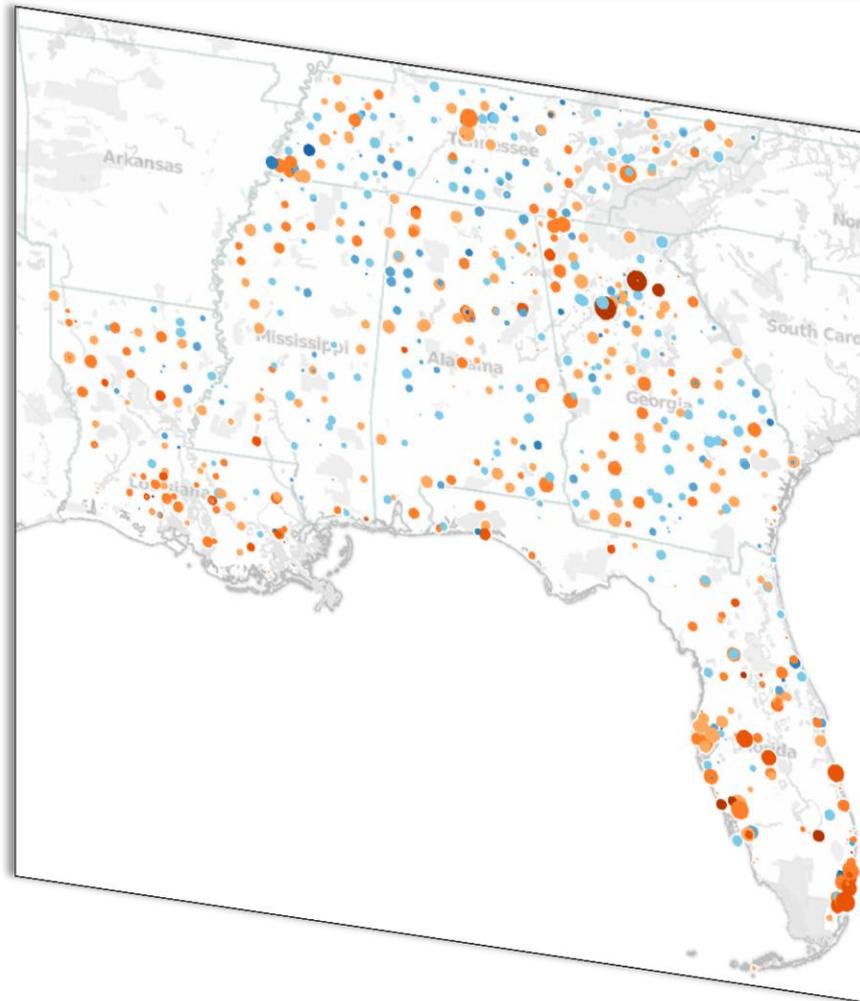
\* Excludes Other Mortgage Securities (<=3Yr & >3Yr)

# Nonmaturity Deposits/ Assets (%) (Size & Growth)

Nonmaturity Deposits = Demand Deposits, NOW, ATS, MMDA & Other Savings



Nonmaturity Deposits/Assets (%)  
0% 50% 100%  
Data Width = Absolute change from 2007Q2 to 2013Q2



State	Nonmaturity Deposits/ Assets (%)		Nonmaturity Deposits/ Assets > 3Yr (%)		Nonmaturity Deposits/ Long-term Assets (%) *	
	2013Q2	2007Q2	2013Q2	2007Q2	2013Q2	2007Q2
AL	50.00	35.78	108.09	99.99	172.61	197.01
FL	56.67	42.31	130.10	145.42	199.29	298.98
GA	49.62	36.69	153.93	197.57	222.78	340.18
LA	56.36	47.30	132.21	149.41	241.20	323.00
MS	48.47	38.92	120.46	126.66	204.76	297.96
TN	44.84	35.30	100.48	123.69	168.60	228.69
U.S. Banks	53.38	40.25	119.40	137.28	187.47	278.55

\* Long-term Assets = Loans & Securities Mature/Reprice > 5Yr + CMOs Mature/Reprice > 3Yr

# For more details...



Part 1: Historical NIM & Interest Rates, DuPont Explanation, Drivers of NIM Performance

[http://www.frbatlanta.org/pubs/financialupdate/12q4\\_vp\\_net\\_interest.cfm](http://www.frbatlanta.org/pubs/financialupdate/12q4_vp_net_interest.cfm)

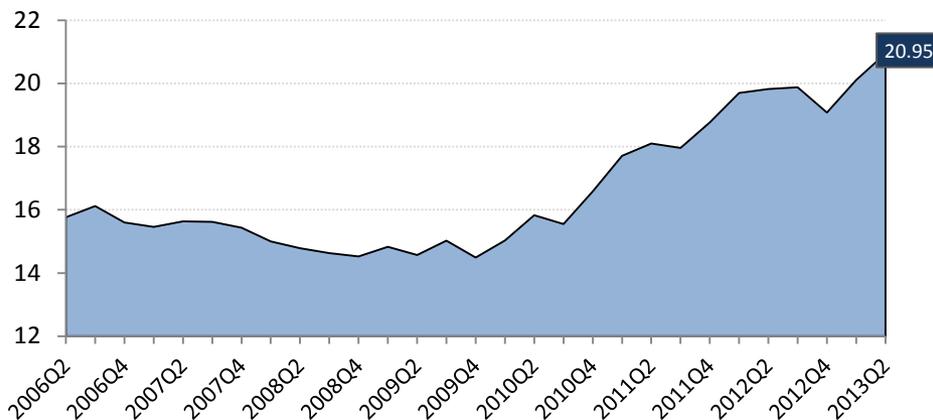
Part 2: Response to Declining NIM (%) - Earnings & Efficiency, Changing Balance Sheet Durations

[http://www.frbatlanta.org/pubs/financialupdate/13q1\\_vp\\_net\\_interest\\_part\\_2.cfm](http://www.frbatlanta.org/pubs/financialupdate/13q1_vp_net_interest_part_2.cfm)

# Summary: Trends in Common IRR Metrics

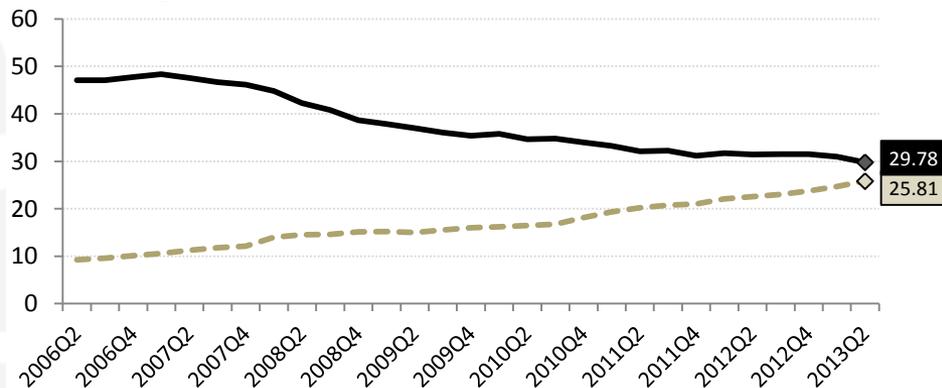
## 6<sup>th</sup> District Median

Total Securities/ Assets (%)



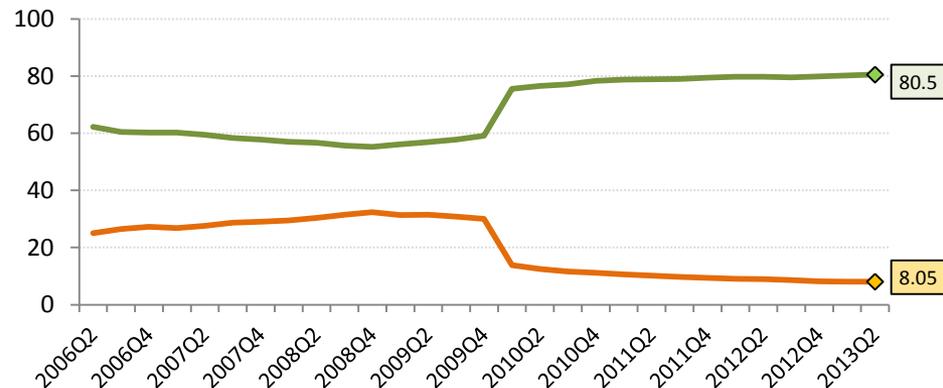
Asset Sensitivity

Long-term Assets/ Assets (%)    Rate-sensitive Assets/ Assets (%)



Funding

Core Deposits/ Total Assets (%)    Noncore Liabilities/ Assets (%)



Long-term Assets = Loans & Securities Mature/Reprice > 5Yr + CMO Mature/Reprice > 3Yr  
 Rate-sensitive Assets = Assets Mature/Reprice < 1Yr

Core Deposits = Deposits (<=\$250K) - Brokered Deposits (<= \$250K); Prior to 3/31/2010, the insured limit was \$100K

Noncore Liabilities= Jumbo Time, Foreign Deposits, Brokered Deposits, Other Borrowings, Fed Funds & Repurchase Agreements

# Regulations: SR 12-15

- “Investment securities are expected to have good to very strong credit quality. In the case of structured securities, this determination may be influenced more by the quality of the underlying collateral, the cash flow rules, and the structure of the security itself than by the condition of the issuer”
- Potential alternative to fixed rate agency paper is non-agency, floating rate CMOs, which can earn yields similar to Agency paper but with much less interest rate risk; Standardized Supervisory Formula Approach (*SSFA*)
- No longer relying on rating agencies to determine classification rating; recently upgraded \$6MM of TRUPS rated BB

# Hot Button Issues

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- **Deposit betas – banks have conducted studies forecasting projected betas in a rising rate environment based on historic data**
- **Usefulness of guidance (SR 10-1) – some bank's view the advisory guidance as an academic exercise**
- **Common report findings**