

# FDIC Advisory Committee of State Regulators

October 18, 2023

Economic and Banking Conditions Discussion

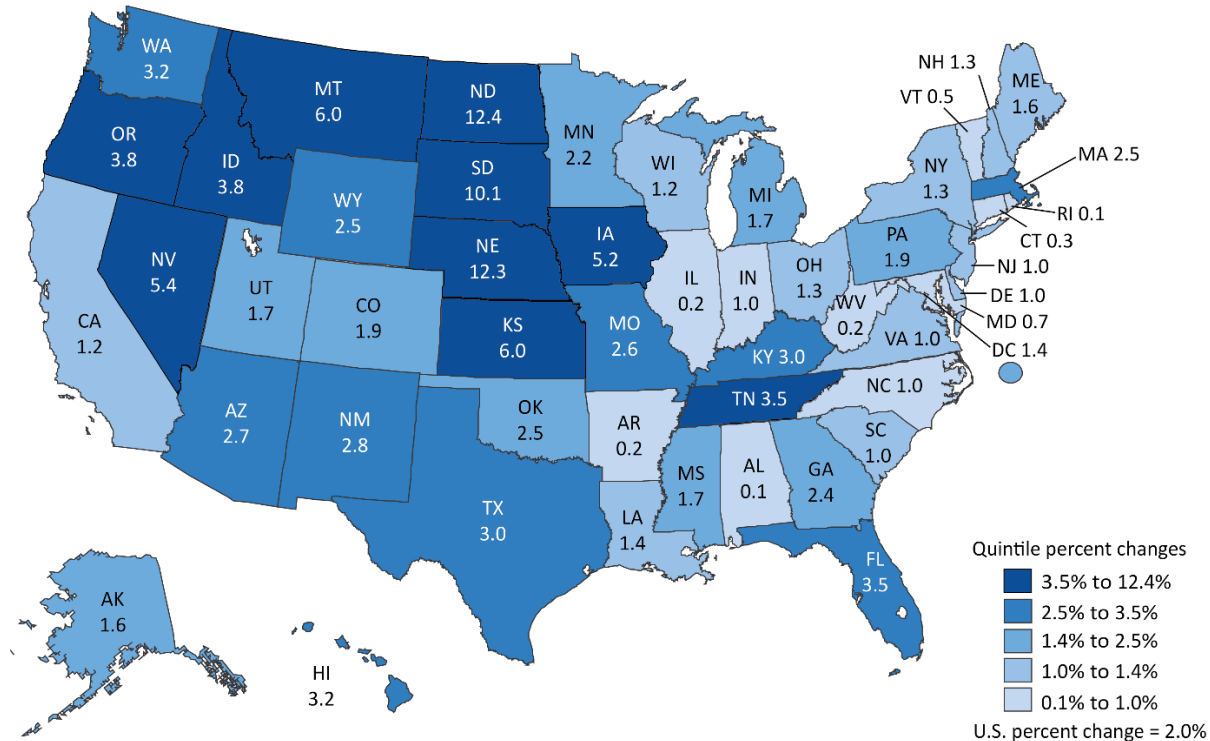


# Outline

- Economic Overview
  - Economic Growth
  - Interest Rates
- Funding and Interest Rate Risk
  - NIM
  - Deposits
  - Funding costs
- Credit Risk

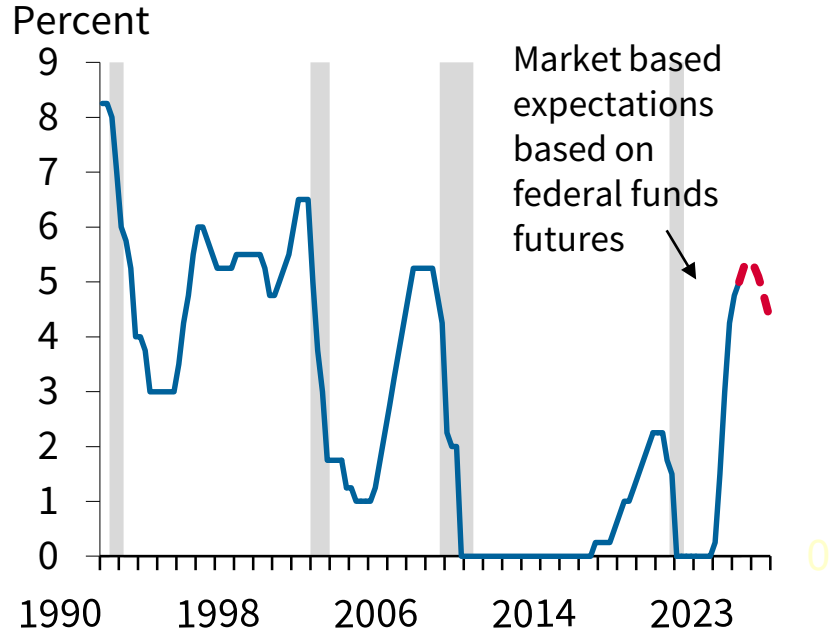
# The economy remained resilient this year, but conditions varied across states.

Real GDP: Percent Change at Annual Rate, 2022:Q4–2023:Q1

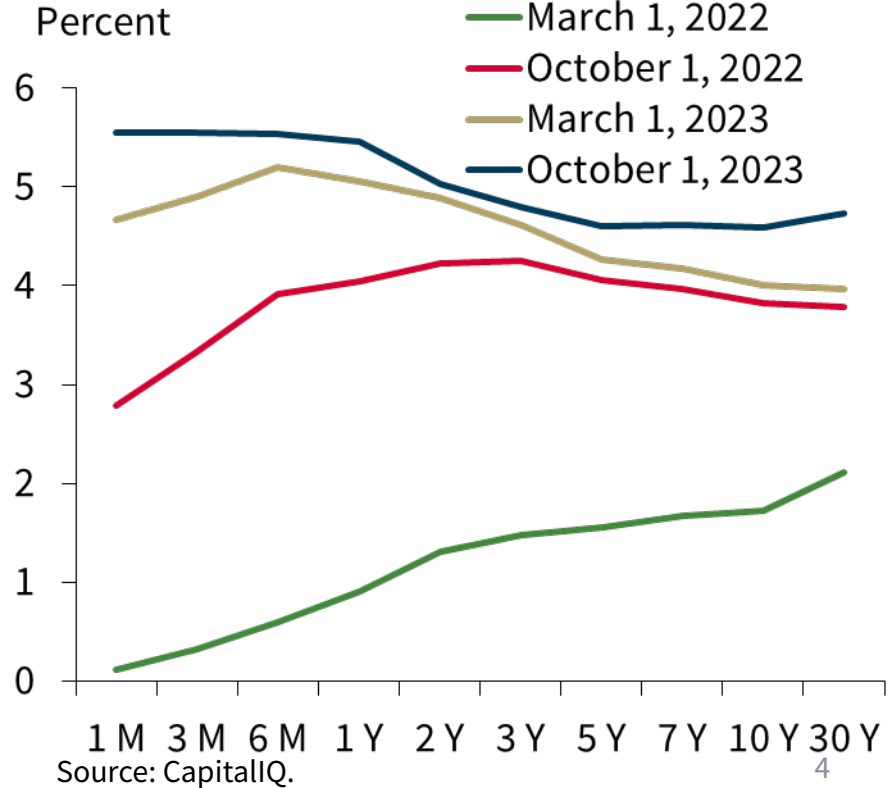


# The yield curve inversion deepened this year as rates rose, though markets expect the federal funds rate to decrease in the coming quarters.

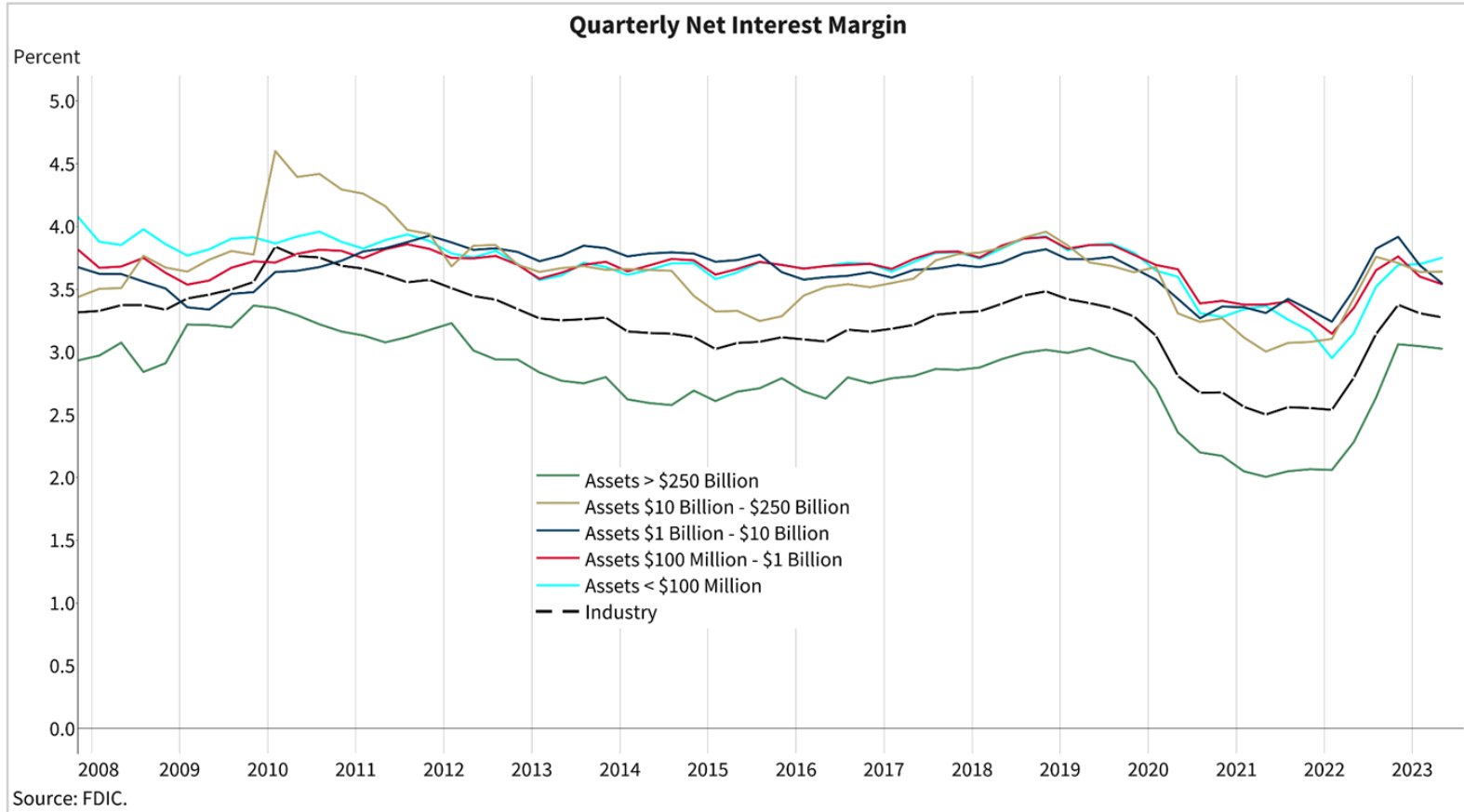
Federal Funds Rate Target - Lower Bound



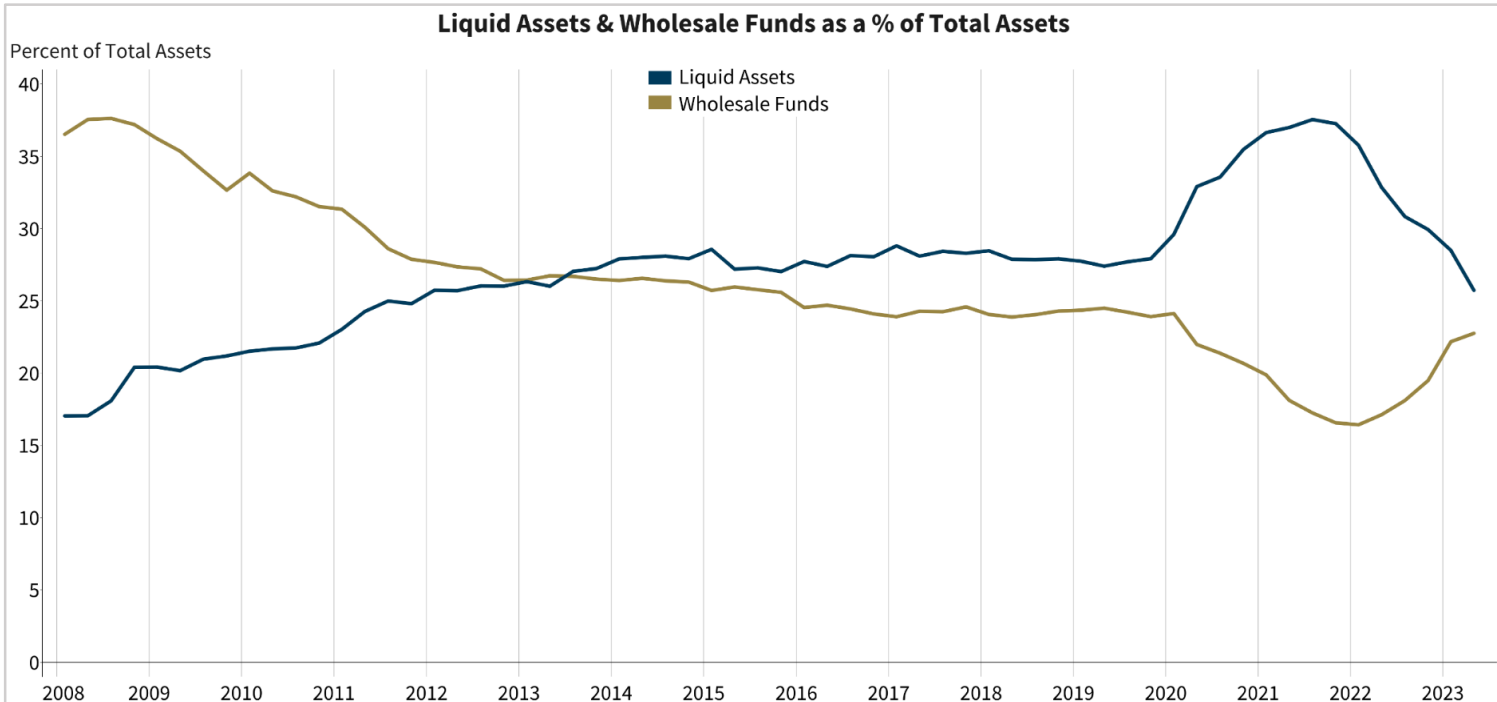
Sources: Federal Reserve; CME Group. Data as of Sept. 7, 2023.  
 Note: Data points to lower limit of Federal Funds Target Rate.



# The net interest margin declined for the second consecutive quarter.



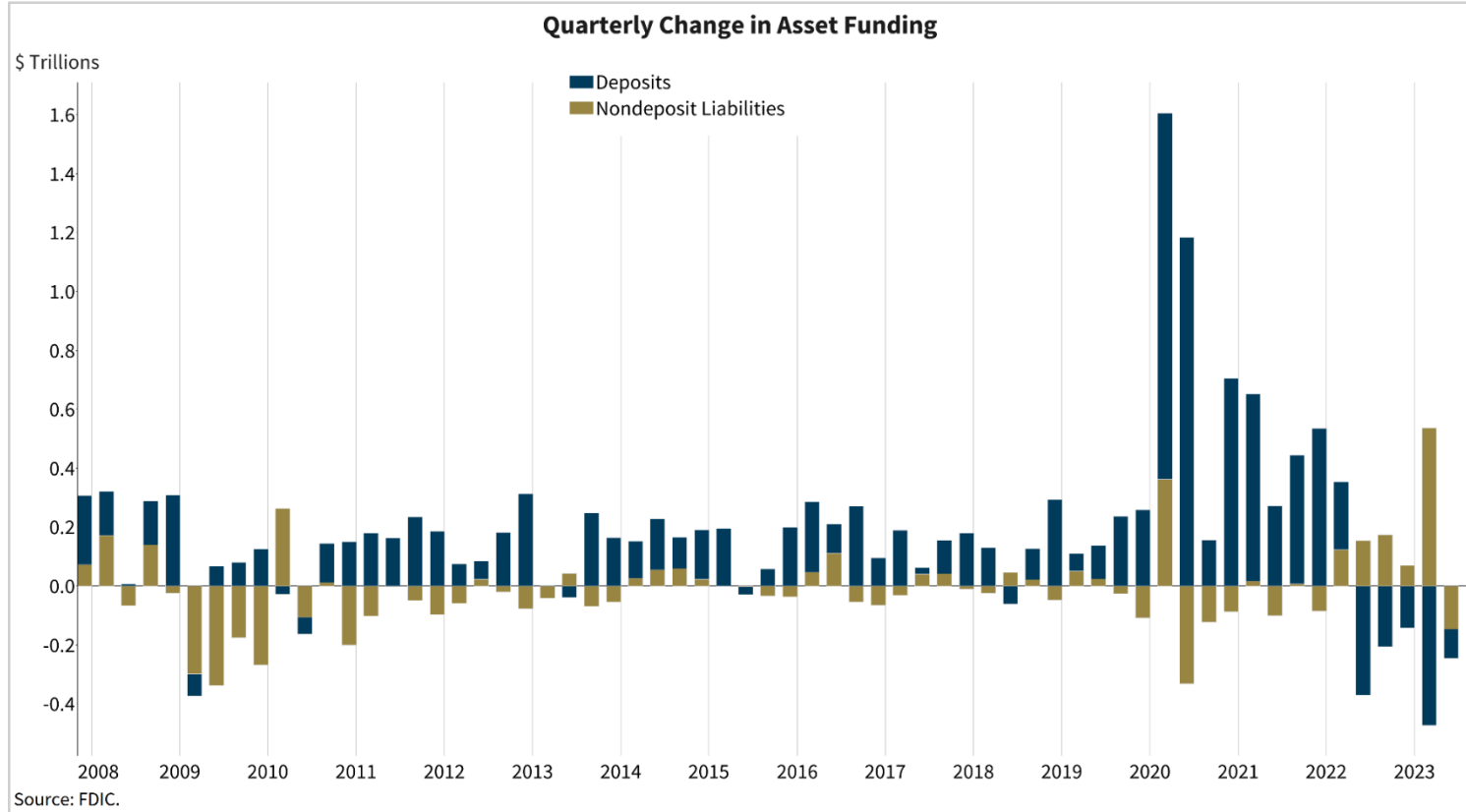
# Liquid assets decreased and wholesale funding increased from the prior quarter.



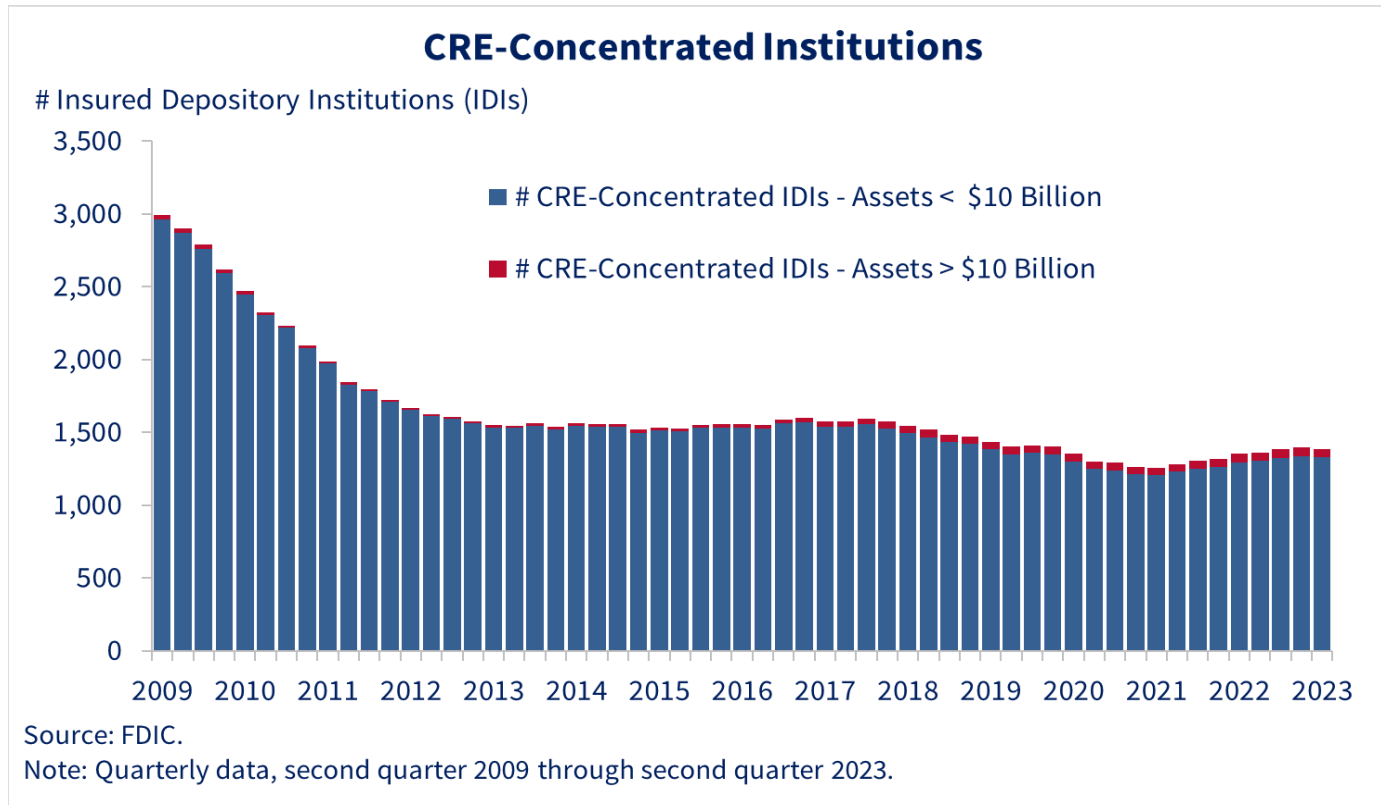
Source: FDIC.

Note: Liquid assets are defined as cash, federal funds sold, securities purchased under agreements to resell, and securities (including unrealized gains/losses on securities) less pledged securities. Wholesale funding includes federal funds purchased and securities sold under agreement to repurchase; Federal Home Loan Bank borrowings; brokered (net of reciprocal deposits), municipal and state, and foreign deposits (which are not FDIC insured); other borrowings; and listing services. For the period 2018 to 2021, reciprocal deposits were consolidated with brokered deposits. Data for listing services became available first quarter 2011.

# Deposits declined for the fifth consecutive quarter and borrowings decreased.



# Almost 1,400 banks report a commercial real estate credit concentration.



\*CRE-concentrated is defined as ADC loans >100% or Total CRE loans >300% of Tier 1 Cap and ALLL/ACL.



## Discussion

- How are the banks you supervise being affected by rising interest rates?
- What concerns do you have about funding and interest rate risk?
- Which bank lending portfolios are of most concern to you?
- What other risks or concerns would you like to highlight?