Networking Luncheon

Lisa D’Ambrosio-Irons, Chairman

John Marshall Bank

July 17, 2018

Announcements

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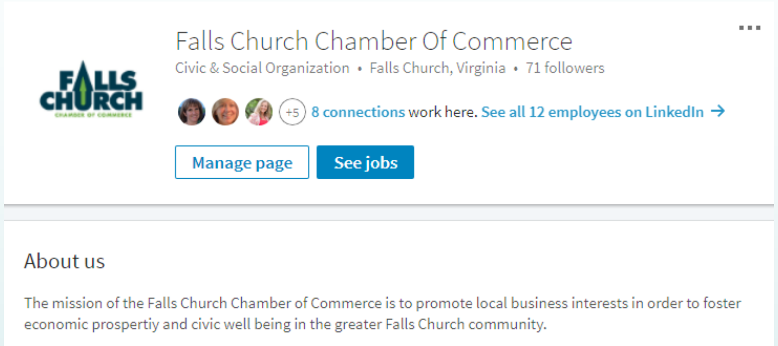

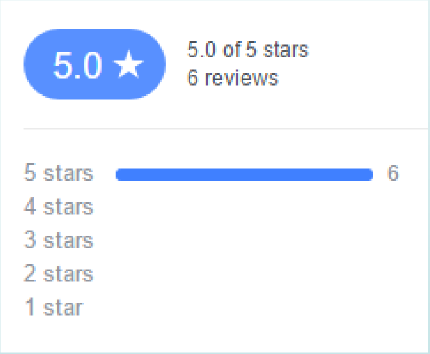

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Thank You

- Younes and the
  Italian Café Team
- Brenda Schrier of
  Brenda Schrier
  Photography
- Alisa and the
  Galleria Florist Team

Upcoming Events

Networking Mixer

- Hosted by FCNP
- **<u>Thursday</u>**, July 26
- 5:30 – 7 pm
- Refreshments
- Free!

August Event

- Networking Luncheon
  at the Eden Center
- Details TBD

Upcoming Events

Mark Your Calendar

for September Events!

- Networking Breakfast – Thursday, Sept 13
- Networking Luncheon – Tues, Sept 18
- Just Announced: Family Fun Night – Wed, Sept 26
  - Tickets will be available on line in a few weeks.
  - Sponsorships are now available.
    - See Sally or Cathy for details.

Self Introductions

Presentation

- Federal Regulations on Community Banks and Their Impact on Businesses
- Speaker: Darien Bates
  - Sr. VP Applied Data Strategy at Datanova Scientific
  - Founder/Principal of Datileo
  - Past experience includes time with
    - Promontory Interfinancial Network
    - Discovering Oz
    - Planit
    - Falls Church News-Press

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The Impact of S. 2155 on Businesses

07.16.18

Who we are

Datileo is an automated engagement utility (Software as a Service), a smart marketing technology provider that enables small and mid-sized businesses to use their data to deliver statistically optimized customer engagement experiences.

Our system applications are tailored to various business verticals, and we have specialized analytics and engagement models for banks, healthcare, education, and others.

Datileo’s system is powered by Datanova, an innovator in advanced data management and analytics technologies.

About Darien Bates

Darien is a founding principal and head of strategy for Datileo.

For nearly 15 years, Darien has worked with a range of banks and financial institutions, including Promontory Interfinancial Network, Citi, US Bank, Nuveen Investments, among others on using technology to improve their communications.

Prior to founding Datileo, Darien was director of marketing innovation and insights for Promontory Interfinancial Network.

He also once worked as a reporter for The Falls Church News-Press.

Darien has his B.A. from St. Mary's College of Maryland, where he graduated magna cum laude, *Phi Beta Kappa.*

How does bank regulation have a business impact?

However, you feel about it, banks are at the core of the American economy, and the rules and regulations that govern banks have a direct impact on the availability and cost of funding for business.

- Rates for business loans and lines of credit
- Interest paid on deposit and savings accounts
- Procedures for assessing risk, credit-worthiness and viability

A Brief History of Bank Regulation: 1929 - Today

1929
Stock Market Crash

1933
Glass-Steagall Act
- Establishes FDIC
- Regulates deposits
- Separates commercial and investment banking

1980 - 1994
Period of Significant Regulation Changes
- Rise of interstate banking (Riegle-Neal)
- FDIC Expansion (FDIC Improvement Act)
- Reduced distinction between commercial and investment banking (Depository Institutions Deregulation and Monetary Control Act)
- Savings + Loan Crisis

1999
Glass-Steagall Repeal
- Gramm-Leach-Biley significantly reduces distinction between Wall St. + Main St.

2010
Dodd-Frank Act
- Establishes CFPB
- Increased capital + reporting requirements
- Restricts mortgage lending and securitization
- Volcker Rule limits speculative investments
- First time liquidity assessed by type vs. product

2018
S. 2155
- Reduces capital restrictions on banks under \$10 BN in assets
- Enables more flexibility in mortgage lending for banks under \$250 BN
- Volcker Rule limits reduced for community banks (<\$10 BN)

The Impact of Dodd-Frank on Post-Recession Banking + Business

Dodd-Frank legislation was shown to increase the stability of the banking sector. However, the question is how it has impacted business?

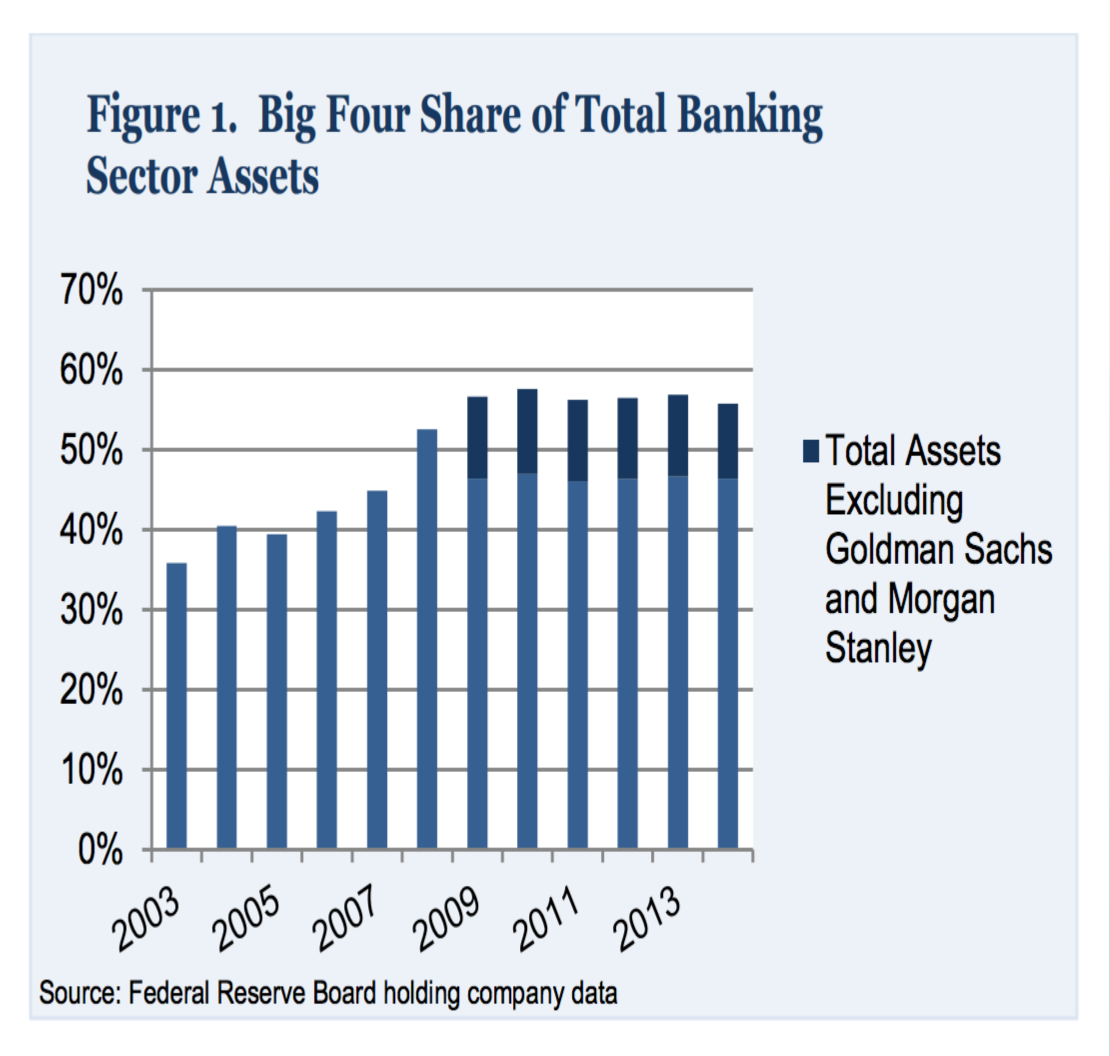
- What is the impact on credit availability?
- Has there been a shift in bank market competition?
- Is there a substantive change in the ways banks deliver services?

Post-Recession and The Big Four Banks

Growth has slowed

Nearly half of all banking assets in the U.S. are held by four banks: Bank of America, Citi, Chase, and Wells-Fargo.

While Dodd-Frank didn't break up the banks, it did slow their growth.

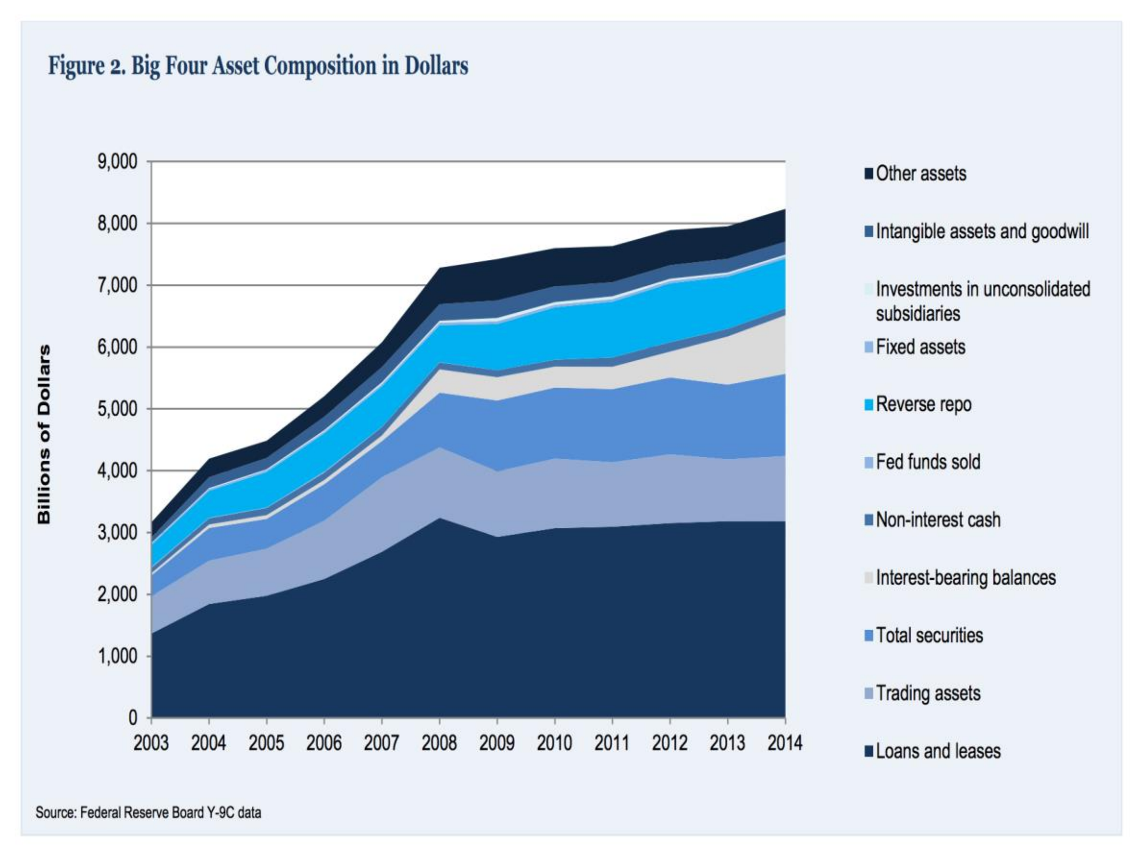


https://www.brookings.edu/wp-content/uploads/2016/06/big_four_banks_evolution_financial_sector_pt1_final.pdf

Post-Recession and The Big Four Banks (Continued)

Lending levelled off

Because of capital requirements, the **Liquidity Coverage Ratio**, and overall economic conditions, big banks have been making fewer loans and holding more cash deposits



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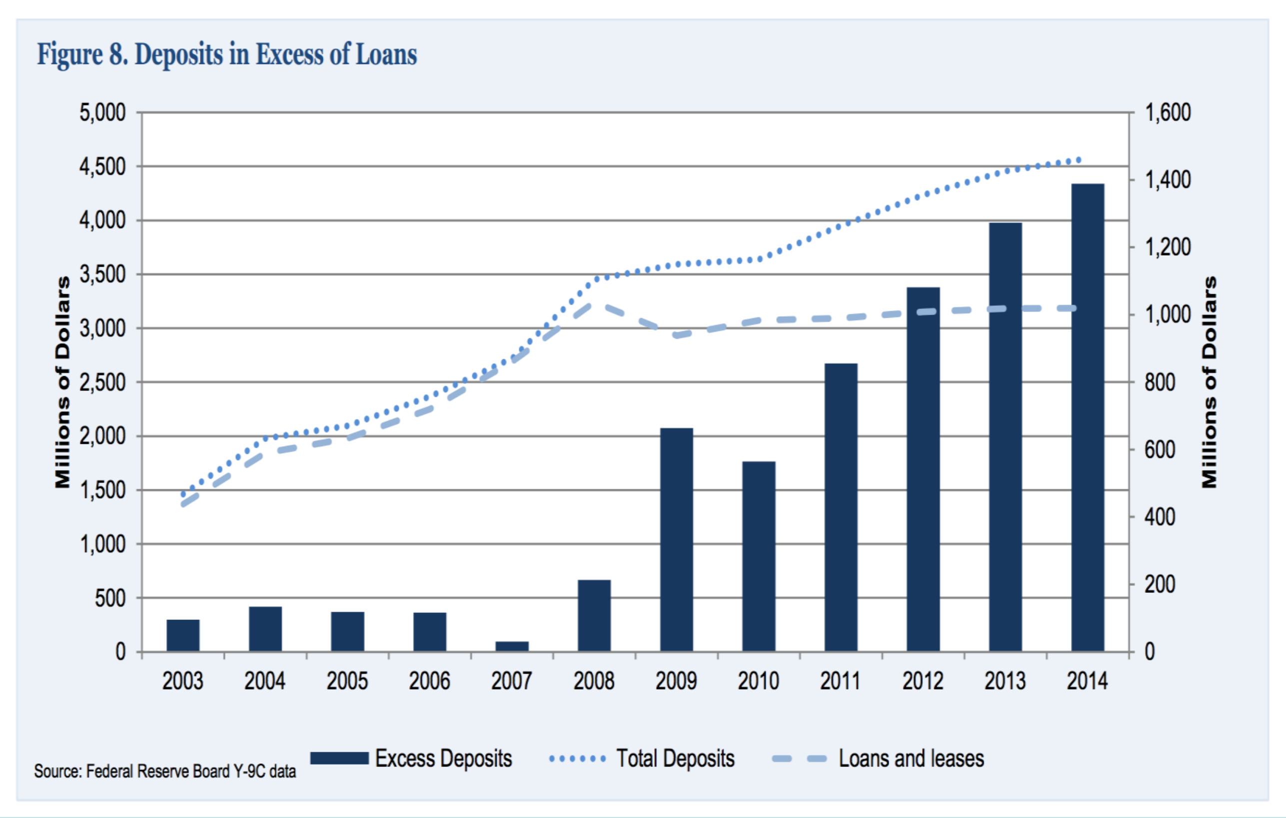
Post-Recession and The Big Four Banks (Continued)

Deposits exceed loans

The largest banks now hold deposits well in excess of the loans that they make, partly due to regulatory requirements and partly due to economic conditions.



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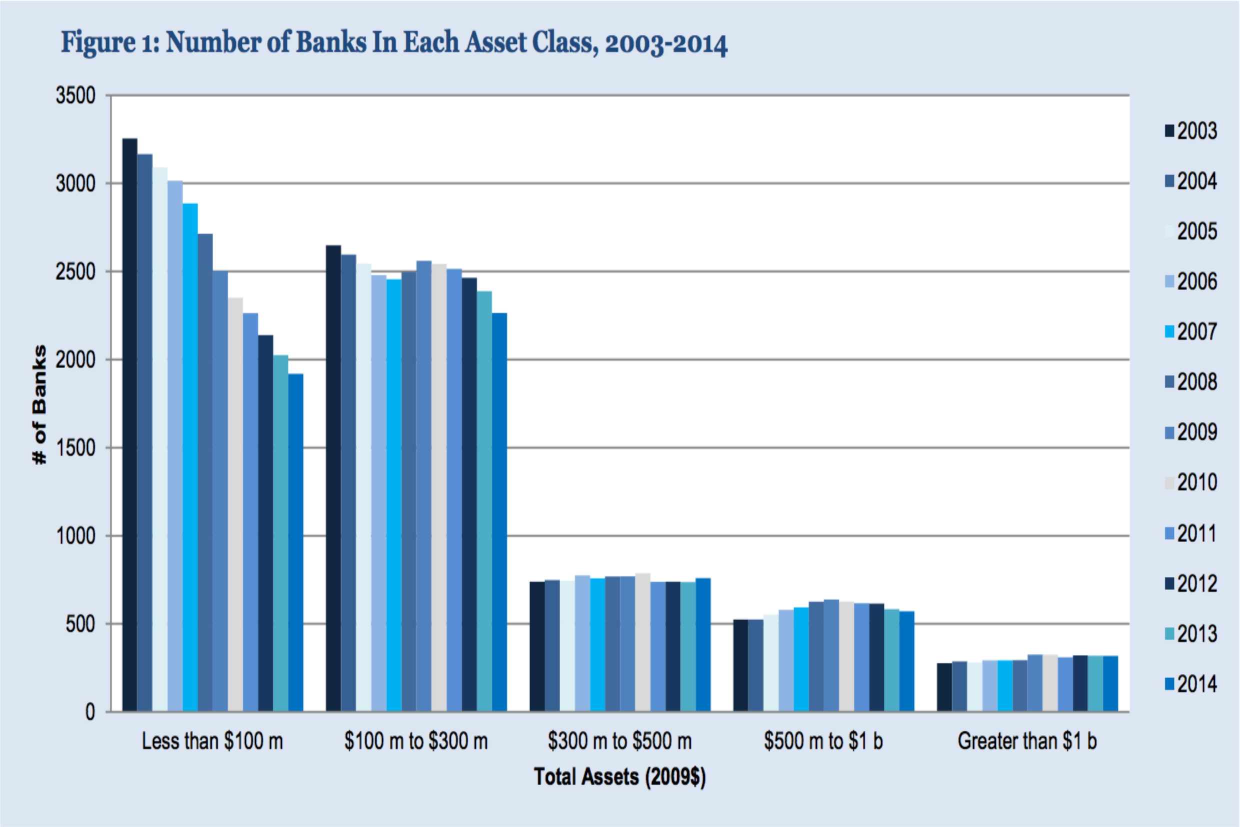
Post-Recession and Community Banks

Small banks are disappearing

While consolidation in banking has been happening since the early 200s, the recession increased the pace of decline for small banks.



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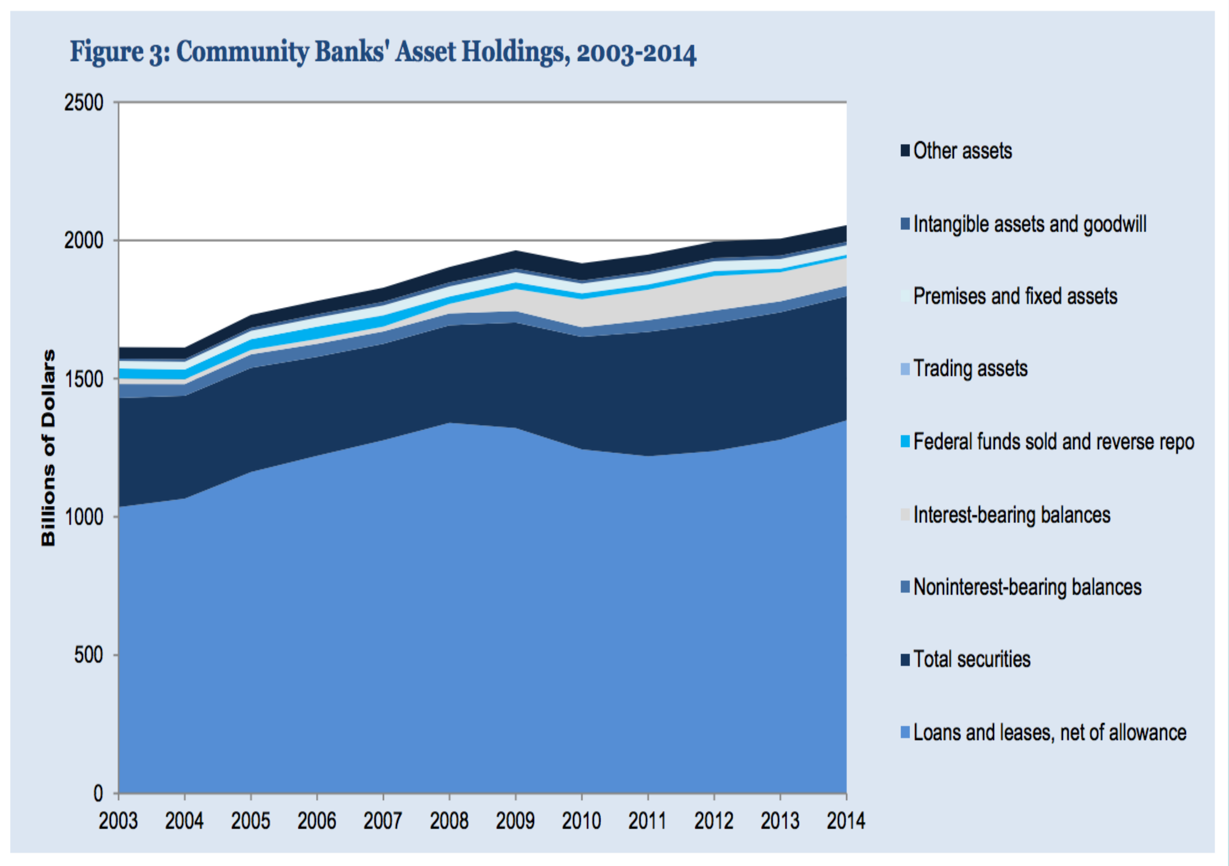
Post-Recession and Community Banks (Continued)

Asset composition more stable than big banks

While big banks saw a leveling off of loans and a growth in cash deposits, community banks have seen a smaller shift in their asset composition.



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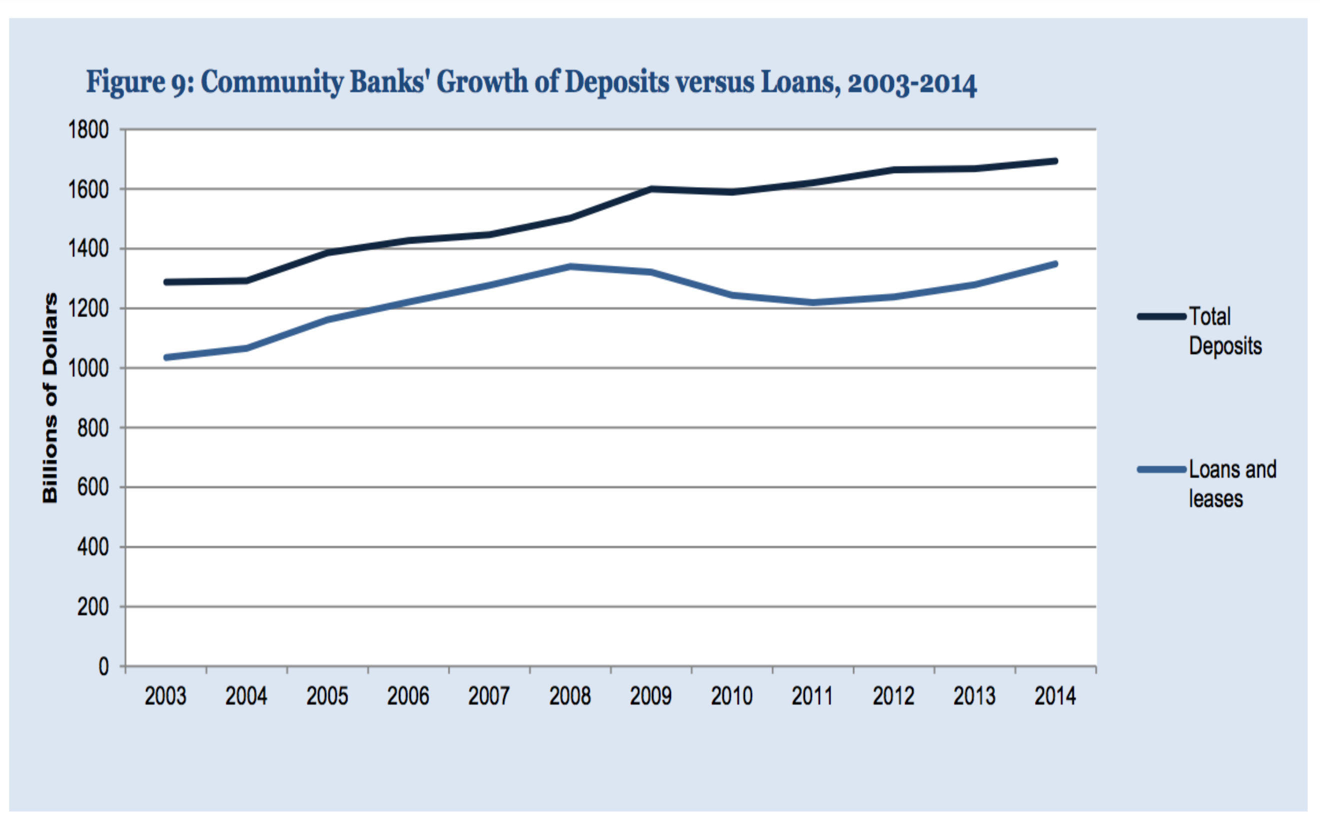
Post-Recession and Community Banks (Continued)

Gap has shrunk between loans + deposits

Big banks have seen ongoing growth in excess deposits, while in community banks the gap has shrunk.



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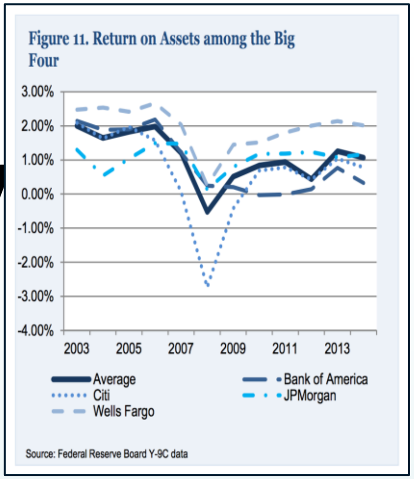
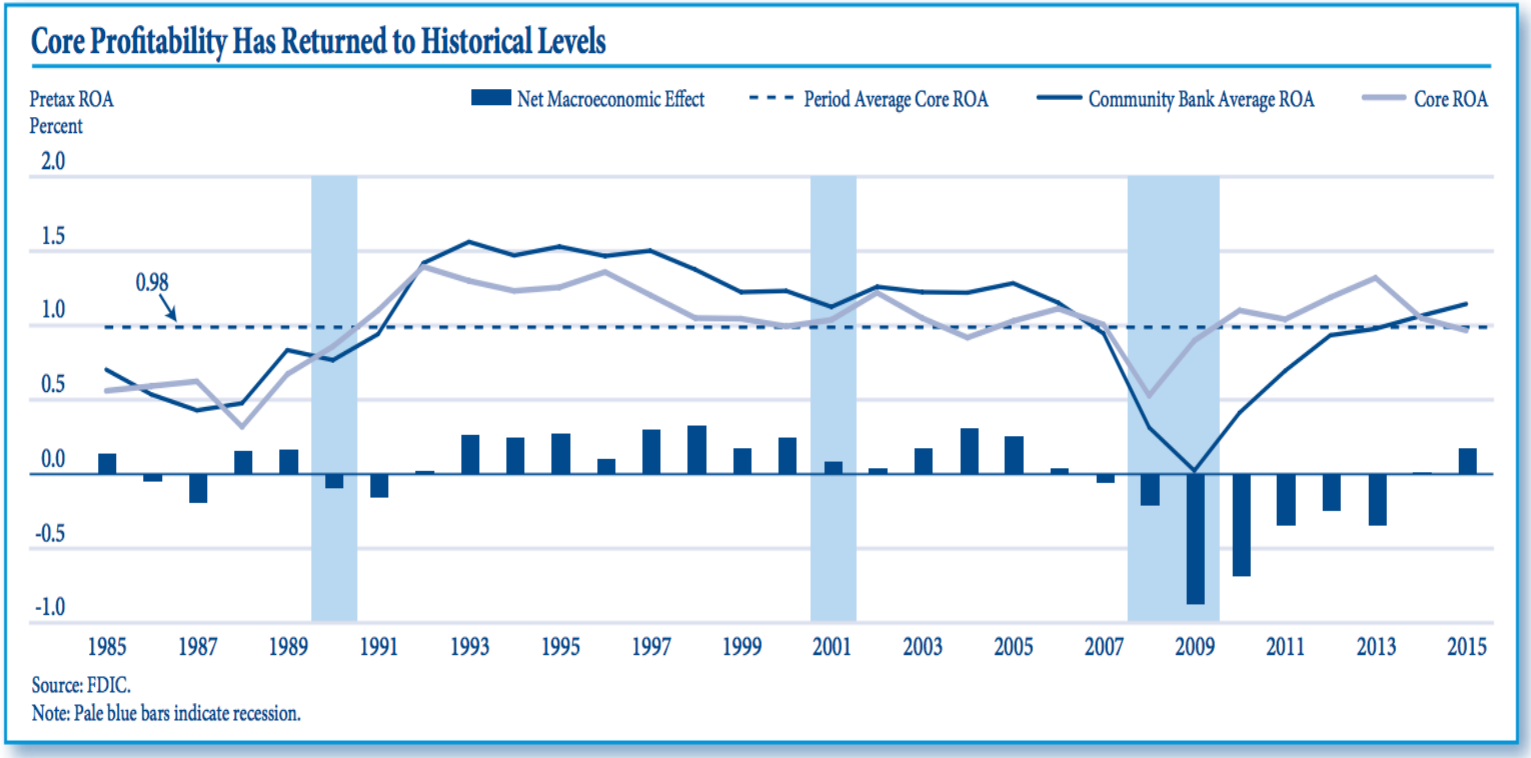
Post-Recession Profitability

Profitability returned before S. 2155

Community banks are





https://www.fdic.gov/bank/analytical/quarterly/2016-vol10-4/article1.pdf

So what does S. 2155 propose to do

While it’s a large bill with a lot of details to it, there are some primary objectives that the bill seeks to achieve.

- Reduce regulatory reporting requirements for community banks to reduce non-interest expense
- Limit capital requirements so community banks can lend more of their money
- Loosen restrictions on mortgage lending for community banks, as long as they don’t sell those loans to Wall St.

What are the potential outcomes of this bill?

The unintended consequences of a bill are often harder to predict, and frequently have more impact even, than the intended consequences.

The big thing to understand is that the difference between big banks and community banks is likely to grow even greater, and understanding that may provide businesses with an opportunity.

- Community banks may start becoming a more vital provider of capital for small business lending
- Big banks may continue to increase their effort to attract ”core” deposits to support ongoing asset growth
- Certain borrower application requirements may* become simpler at community banks

*Just because federal documentation requirements change, doesn’t mean that it will be instituted at a bank level datileo

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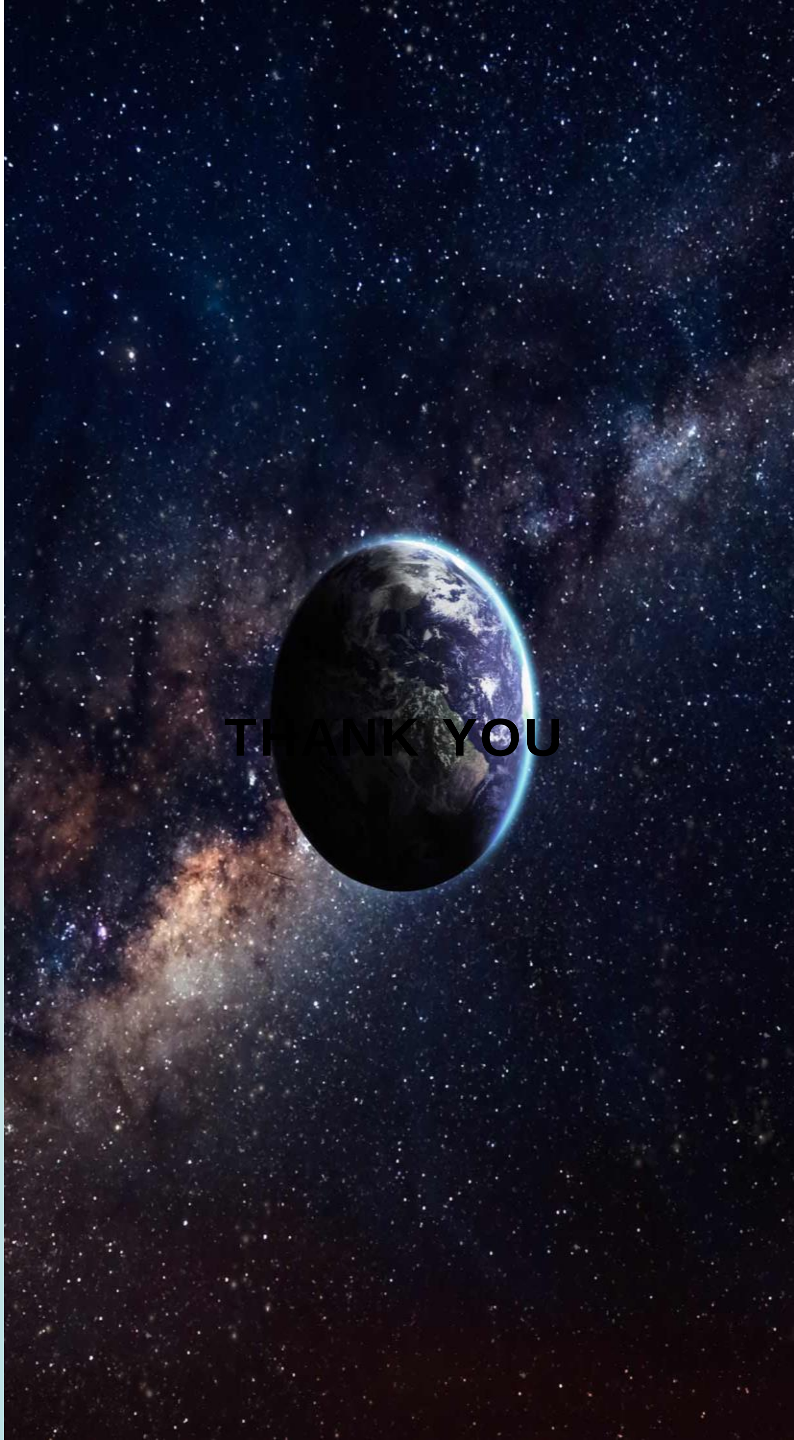

Thank You!

Raffle