

# OCOB 2023 Year in Review

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north carolina  
COMMISSIONER OF BANKS



# Artificial Intelligence

## Generative AI vs. AGI

- AGI = Artificial general intelligence.
  - Not here yet, and possibly not ever here at all.
- Generative AI = large-language model artificial intelligence.
  - ChatGPT, Bard/Gemini, Bing
  - Improving around the same pace as Nvidia's stock price!
  - Based primarily on human-generated content.

## Regulatory Approaches

China's approach – Nothing without approval.

### EU's Artificial Intelligence Act

- Risk Categories
  - Unacceptable risk (e.g. social scoring, subliminal manipulation, biometric identification)
  - High Risk (e.g. critical infrastructure, sensitive areas, safety components)
  - Limited Risk
  - Minimal Risk

American approach – open-ended.

- Executive Order No. 14110 – October 30, 2023
  - Security, competition, worker support, bias safety testing, privacy, consumer protection, federal use, and international leadership.
  - Establishes Ai.gov, and sets 90 day plans.
- 15 state laws or resolutions



# What Gemini Thinks about Financial Services in 2023

The major financial issues for 2023 are:

- **Aggressive Federal Interest Rate Hikes:** The Federal Reserve implemented a series of substantial interest rate increases throughout 2022 and early 2023 to combat high inflation. This aimed to slow economic activity and curb rising prices.
- **Banking Crisis:**
  - **March 2023:** This period saw a series of bank failures, starting with the collapse of **Silicon Valley Bank (SVB)**. A bank run ensued after SVB sold off its bond portfolio at a significant loss, causing depositors to lose confidence.
  - **Subsequent Failures:** The crisis continued with the closure of **Signature Bank** two days later and **First Republic Bank** facing immense pressure.
  - **Global Impact:** The crisis impacted global markets, triggering a decline in bank stock prices and raising concerns about financial stability.
- **Government Intervention:** To prevent further contagion, the US government intervened through:
  - **Emergency Liquidity Measures:** Providing financial support to stabilize the banking system.
  - **Increased Regulatory Scrutiny:** Implementing stricter regulations to prevent similar situations in the future.

Here are some additional points to consider:

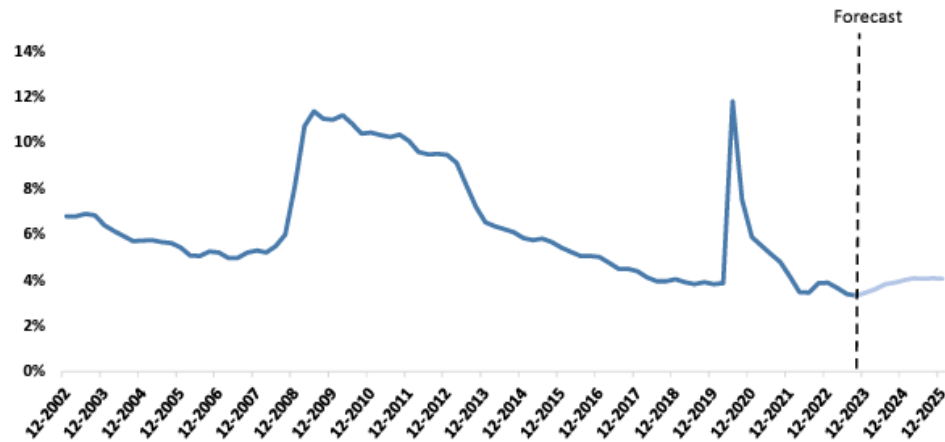
- The crisis highlighted the vulnerability of certain banking institutions to rising interest rates and potential liquidity issues.
- It emphasized the importance of **stress testing** banks to assess their ability to withstand economic shocks.
- The long-term effects of the crisis, including potential reforms and regulations, are still being evaluated.

Overall, the 2023 banking crisis served as a wake-up call for the US financial system, prompting a focus on strengthening regulations and ensuring the stability of financial institutions.



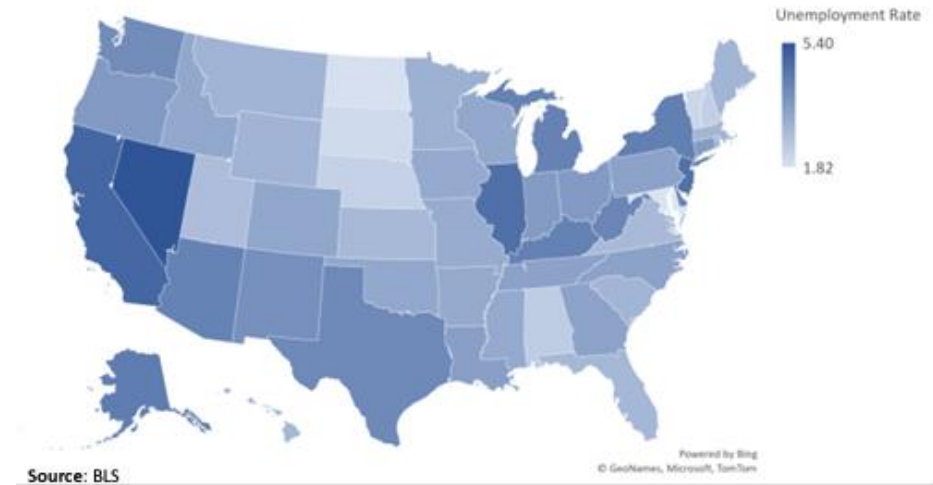
# Macroeconomic Trends in NC

1.1: NC Unemployment Rate (% SA)



Source: BLS, Moody's Analytics (Forecast)

1.2: Unemployment Rate (% SA)



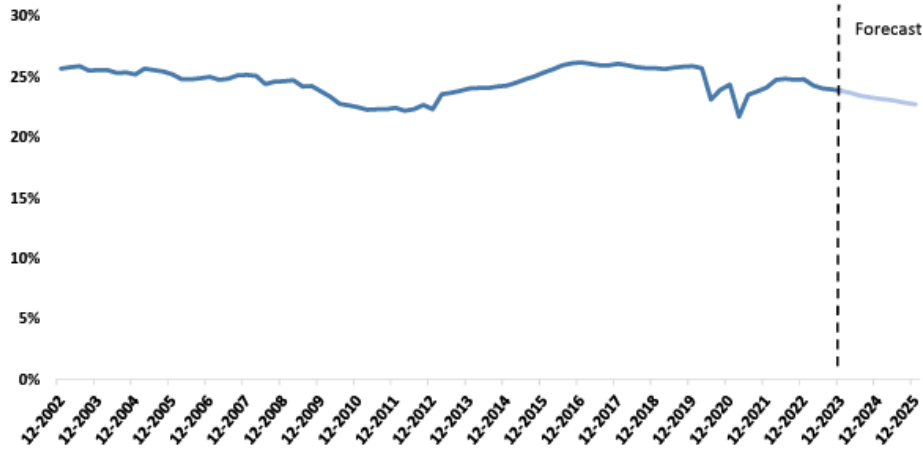
Source: BLS

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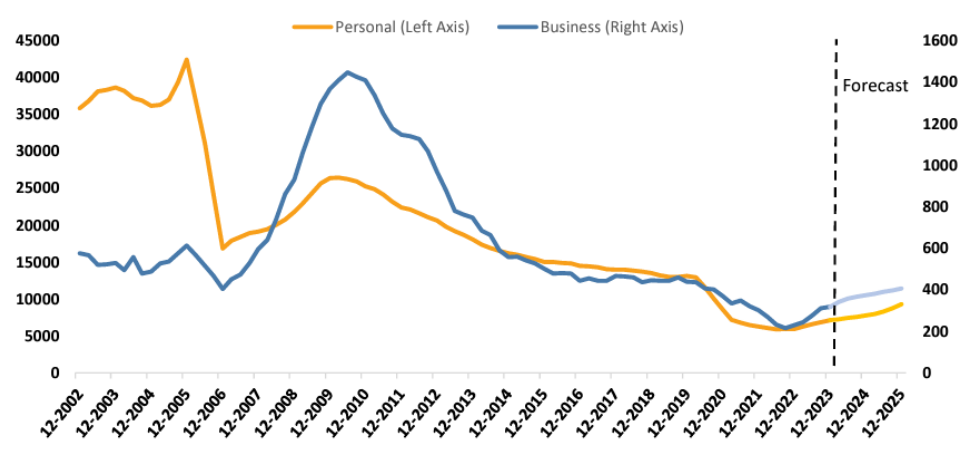
# More Trendlines

1.5: NC Debt to Income Ratio (% , NSA)



Source: FRB, BEA, Moody's Analytics (Forecast)

1.6: NC # of Bankruptcies for 12 Months Ending (NSA)



Source: US District Courts, Moody's Analytics (Forecast)



# State of Banking



# At a Glance



## North Carolina At a Glance

### State Chartered Bank Overview

	2023Q4	2022Q4	2021Q4	2020Q4	2019Q4
Total Assets (millions)	793,397	702,450	631,356	588,870	531,652
Institutions (#)	35	36	37	40	38
Count of New Institutions (<3 Years)	0	1	2	2	1
Institution (# - YoY Change)	(1)	(1)	(3)	2	0
Institution is Subchapter S	1	1	1	1	1

### 2023Q4 Breakdown by Asset Categories

	Institutions (#)	Total Assets (millions)
Up to \$50 Million	3	96
\$50 Million to \$100 Million	2	146
\$100 Million to \$300 Million	8	1,453
\$300 Million to \$1 Billion	10	5,761
\$1 Billion to \$2 Billion	4	5,515
\$2 Billion to \$10 Billion	4	15,957
Greater Than \$10 Billion	4	764,468
<b>Total</b>	<b>35</b>	<b>793,397</b>



# The Numbers for 2023

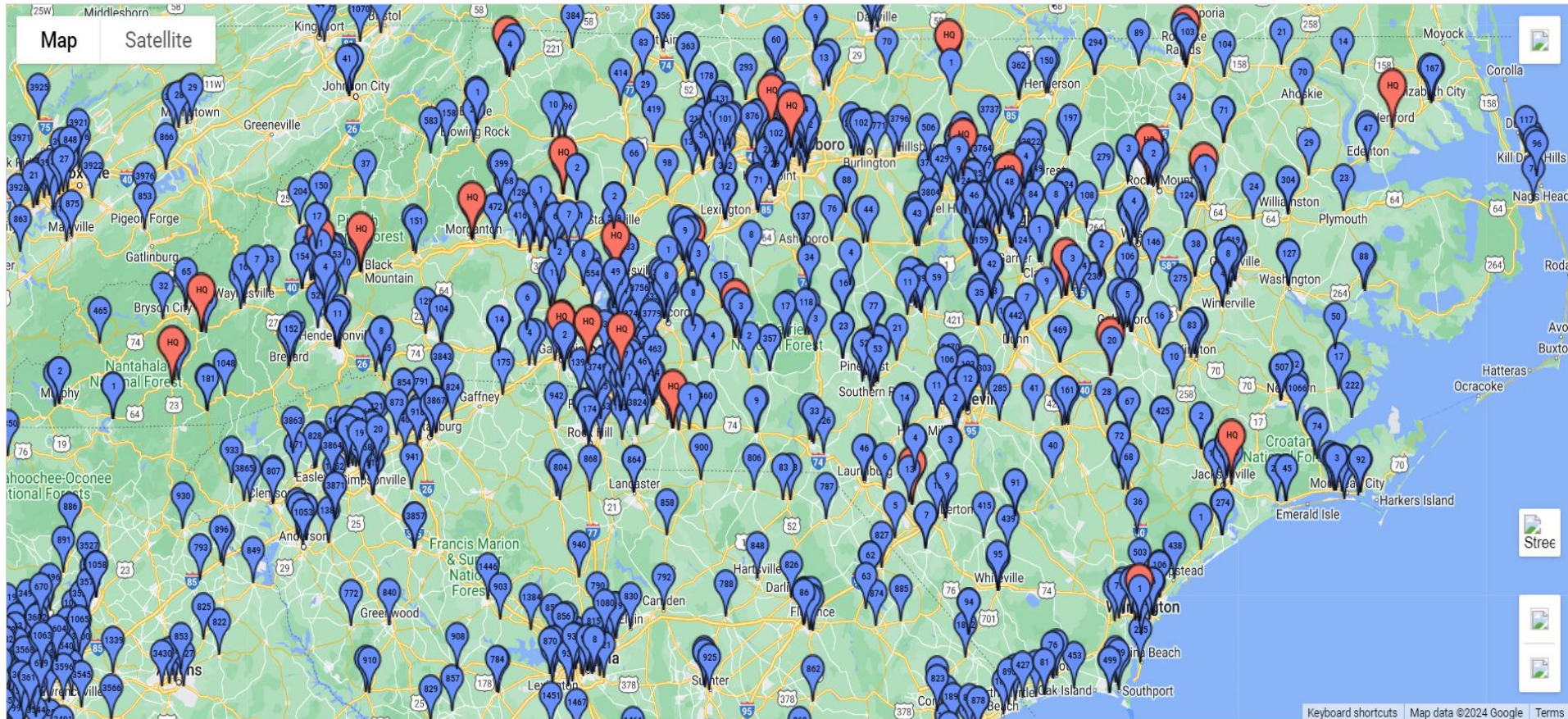
- CAELS
  - Capital –
    - No bank has negative T1 after unrealized losses.
  - Assets –
    - Growth continued, at slower pace
    - Quality is also strong
    - Feds see additional concentration risk, both sides of the balance sheet
  - Earnings
    - Sufficient, with increasing expenses
  - Liquidity
    - Tightened up; diversified sources
  - Sensitivity to Market Risk





# Locations in North Carolina

Office Locations **Pin Legend: Red=Main Company, Yellow=Main Company is Admin Office, Blue=Branch** 2958 total active locations. 852 NC locations.



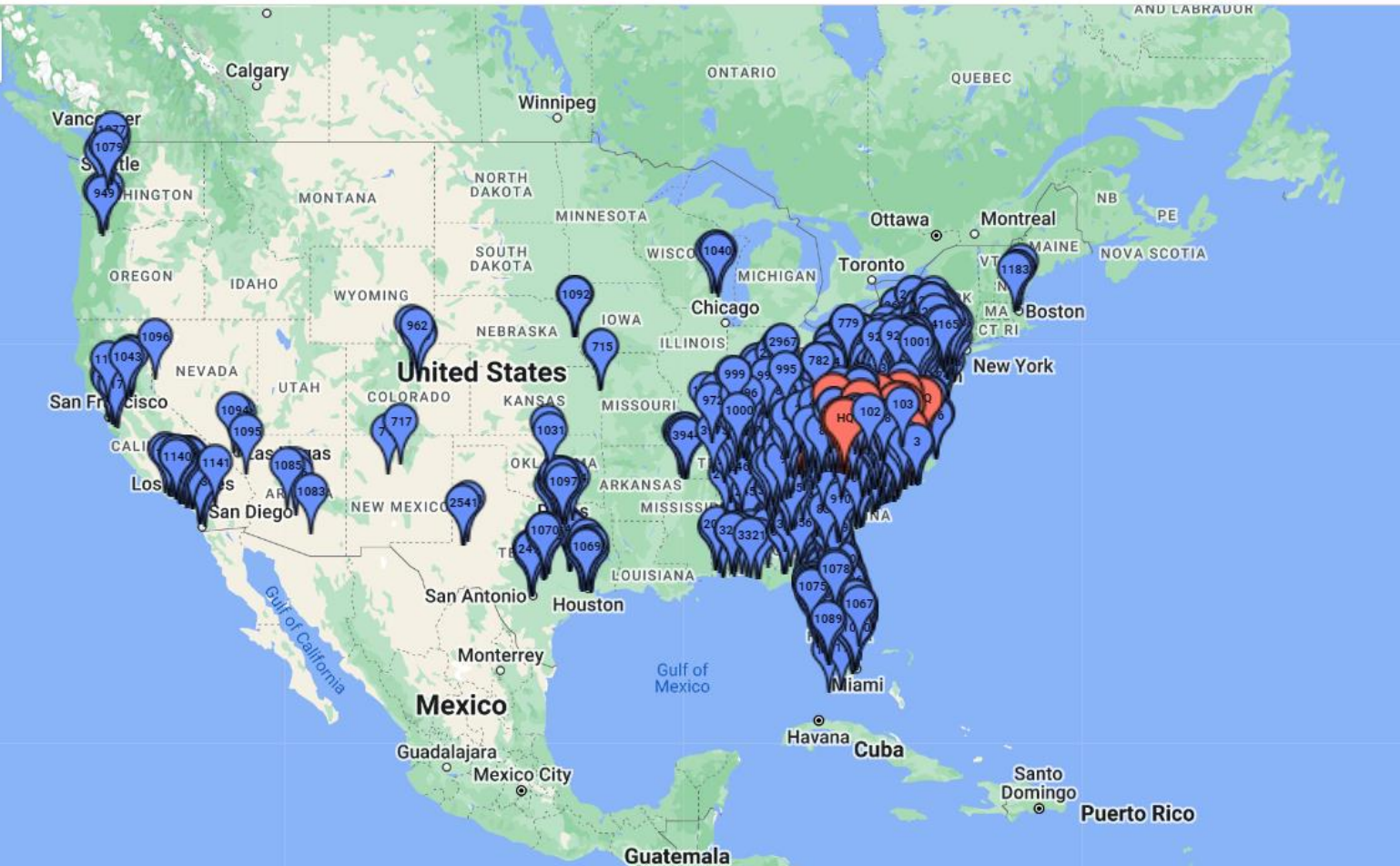
# Locations in the US

Office Locations

Pin Legend: Red=Main Company, Yellow=Main Company is Admin Office, Blue=Branch

2958 total active locations. 852 NC locations.

Map Satellite



# Banking Update

## Regulatory onslaught in the name of risk elimination

### Shift in Perception of Banking

- Sufficient liquidity
- Sufficient capital
- Sufficient earnings

### Corporate Governance

### Velocity of Findings

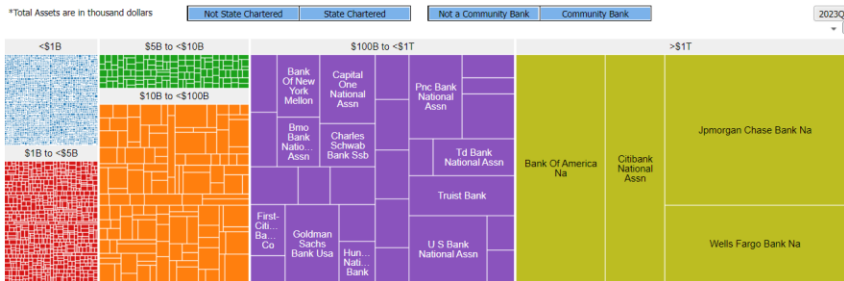
### Alphabet Soup

- CRE
- CRA
- BaaS
- SAB 121
- NSF
- LTD
- Basel III



# Why Continue to Argue?

- Community banks hold 36% of industry assets, but they outperform in terms of their local lending:
  - Community banks provide 57% of all small loans to businesses.
  - Community banks provide loans for commercial property, community-based housing projects, and retail services.
- Community banks leverage detailed local knowledge and personal relationships to ensure collectability of lending relationships and long-term growth in their communities.
- Community banks are now the training ground for bank staff everywhere; large banks no longer serve as a feeder system.
- The diverse banking industry fuels the growth, safety, and innovation of the U.S. economy.



# Housing and the Mortgage Market

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# Just a few of the issues



Housing supply!!

Affordability  
Rental rates  
Innovative products



Company renewals are on the rise



Trigger leads generating legislation and aggravation



FHFA steering banks out of FHLB toward the discount window; proposing a rule that you must have 10% of assets in mortgage.



President's title insurance proposal – focused on demand, not supply.

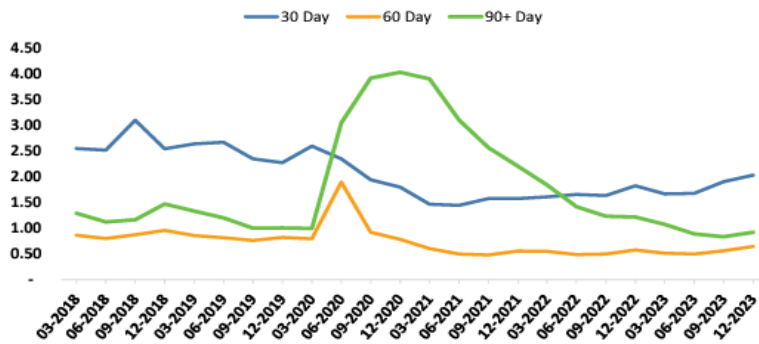


# Q4 2023 Delinquency Rates

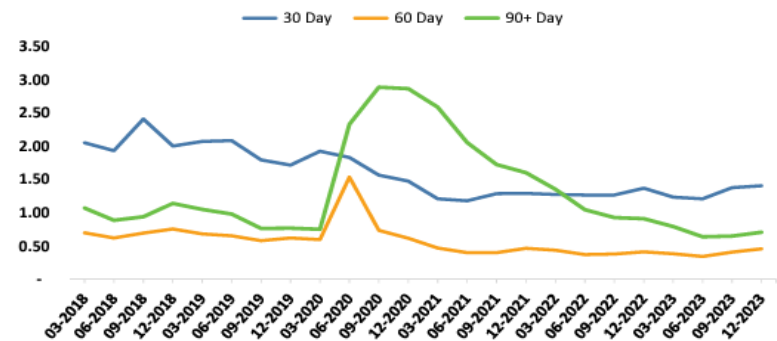
## North Carolina

### 2023 Q4 Seasonally Adjusted Delinquency Rates by State

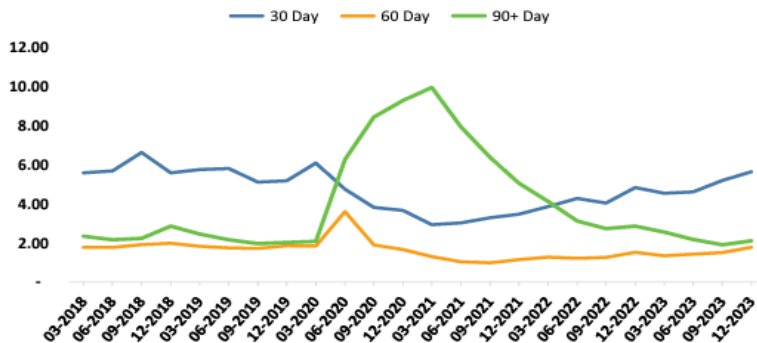
All Loans - North Carolina (% SA)



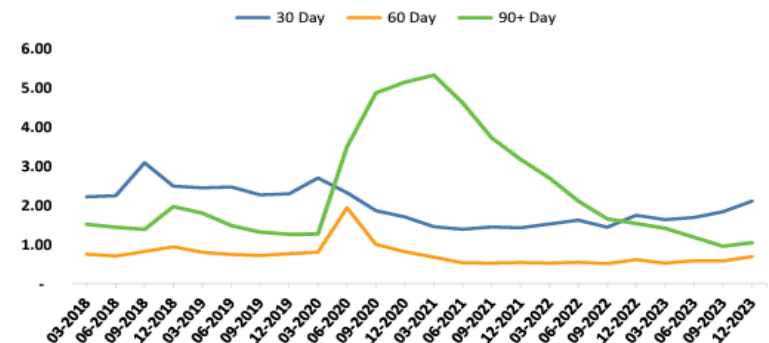
Conventional Loans - North Carolina (% SA)



FHA Loans - North Carolina (% SA)



VA Loans - North Carolina (% SA)



Source: Mortgage Bankers Association National Delinquency Survey - to subscribe visit [www.mba.org/NDS](http://www.mba.org/NDS). All data are seasonally adjusted.



Questions?



# Other Consumer Categories

## Money Transmitters

- Crypto winter fallout
  - MTRA states coordinated throughout 2023
  - Several crypto-related bankruptcies
- New application models
  - More crypto options

## Consumer Finance

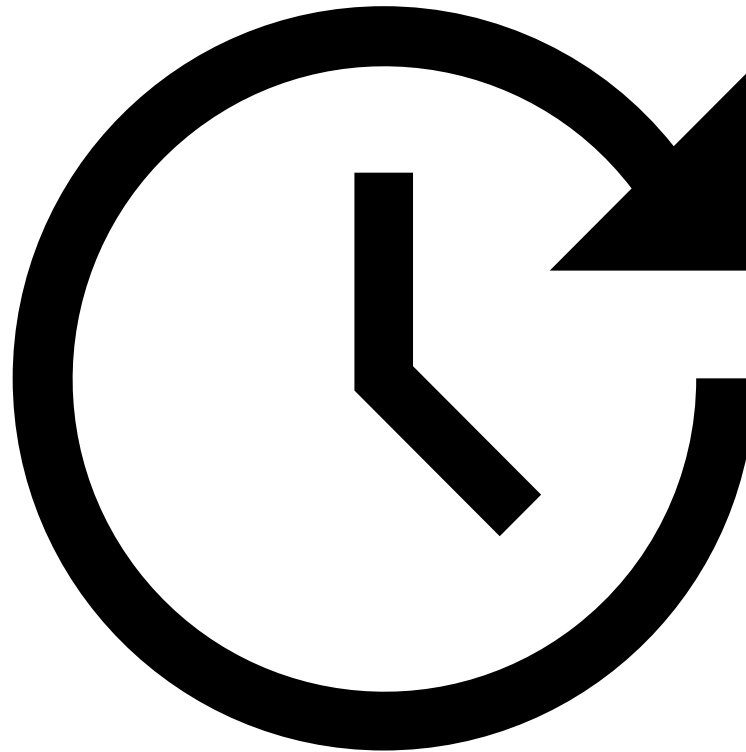
- AutoMoney North v. Walters –
  - Pending in District Court in South Carolina
  - Constitutional challenge to NCGS 53-190, plus NCGS 24-2.1
  - Loans <\$600 made in SC can bear interest up to 300%.





# Up Next

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# 2023's Regulatory Watch List

- ~~— Fintech competition and partnership~~
- ~~— LIBOR transition to SOFR/alt reference rates~~
- ~~— Modes of revenue generation~~
- ~~— Small business data collection~~
- ~~— Financial privacy and portability~~
- ~~— De novo banking calibration~~
- ~~— Appraisal accuracy and availability~~
- ~~— Student loan servicing~~
- ~~— Consumer credit standards~~
- ~~— Prudential standards for mortgage lenders~~
- ~~— One Company, One Exam~~
- ~~— Networked Supervision~~
- Deposit Insurance calibration
- Funding the DIF
- Modern Bank Runs
- Capital levels
- Concentrations (both sides of the balance sheet)



# 2024's Watch List

## Bank Items

- Fintech partnership and competition
- Revenue sources
- Concentrations
- Small business data collection (1071) rule
- CFPB overdraft lending proposal
- FRB Novel Supervisory Program
- Special purpose bank charters
- EGRPRA review (3d around)
- Check fraud
- Frequency of call data

## Non-bank Items

- Will CFPB's funding survive?
- Stablecoin legislation
- Consumer credit standards, utilization – lifestyle inflation?
- Prudential standards for mortgage servicers and lenders
- One Company, One Exam and Networked Supervision
- CFPB “repeat offenders” registry
- CFA Servicing
- Student loan servicing
- Earned Wage Access



# Questions

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