

Iowa Commercial Real Estate Association:

National Banking Events and Iowa Banking

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Superintendent of Banking

April 6, 2023



Today's Discussion

- Recap of Recent Events
- Economic Conditions
- Commercial Real Estate
 - *Signs of Stress?*
- Q & A



**IT'S BEEN A QUIET WEEK IN
LAKE WOBEGON, MY HOME
TOWN, OUT ON THE EDGE OF
THE PRAIRIE...**

- GARRISON KEILLOR -

Recap of Recent Events

Wednesday, March 8

- Silvergate Bank, La Jolla, CA announces self liquidation effective March 31, 2023.
- “In light of recent industry and regulatory developments.....”
- Serviced a lot of crypto companies like FTX, Coinbase, and Galaxy Digital.



Recap of Recent Events

Friday, March 10

- FDIC took control of Silicon Valley Bank, Santa Clara, CA.
- Partial acquisition by First Citizens Bank & Trust Company, Raleigh, NC
- ***2nd largest U.S. bank failure - \$209 billion in total assets***
- Primarily serviced technology startups and venture capital firms and investors, but also banked crypto related companies.



Recap of Recent Events

Sunday, March 12

- FDIC closed Signature Bank, New York, NY.
- Acquired by Flagstar Bank, N.A.
- ***3rd largest U.S. bank failure - \$110 billion in total assets***
- Primarily serviced venture-backed technology companies and digital asset firms in crypto related services.



Recap of Recent Events

Sunday, March 12

- U.S. Department of the Treasury, FRB, and FDIC issue a joint statement indicating all Silicon Valley Bank and Signature Bank deposits will be fully protected.
- FRB announces additional funding will be available through the Bank Term Funding Program.



Recap of Recent Events

Wednesday, March 15

- Shares in Credit Suisse collapse by as much as 30%.
- Swiss authorities announced a backstop for the country's second-biggest bank.
- UBS, agreed to buy Credit Suisse on Sunday, March 19.



Recap of Recent Events

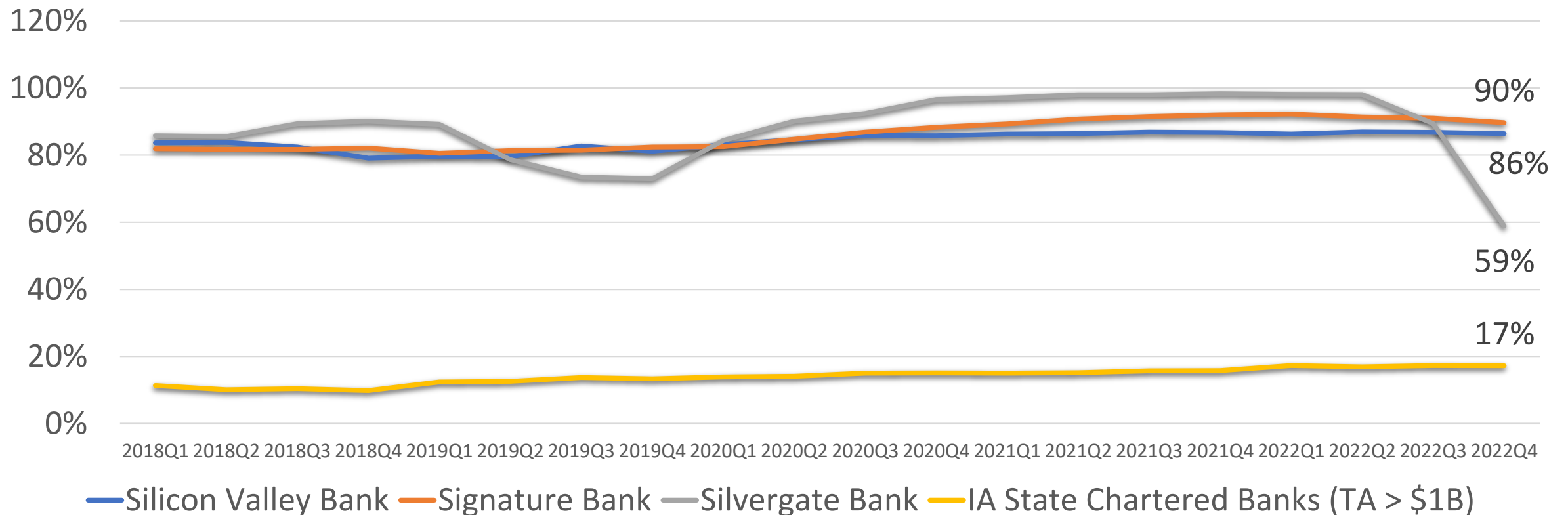
Thursday, March 16

- First Republic Bank customers withdrawing deposits.
- An agreement by 11 American banks deposited \$30 billion into First Republic to stabilize the bank.



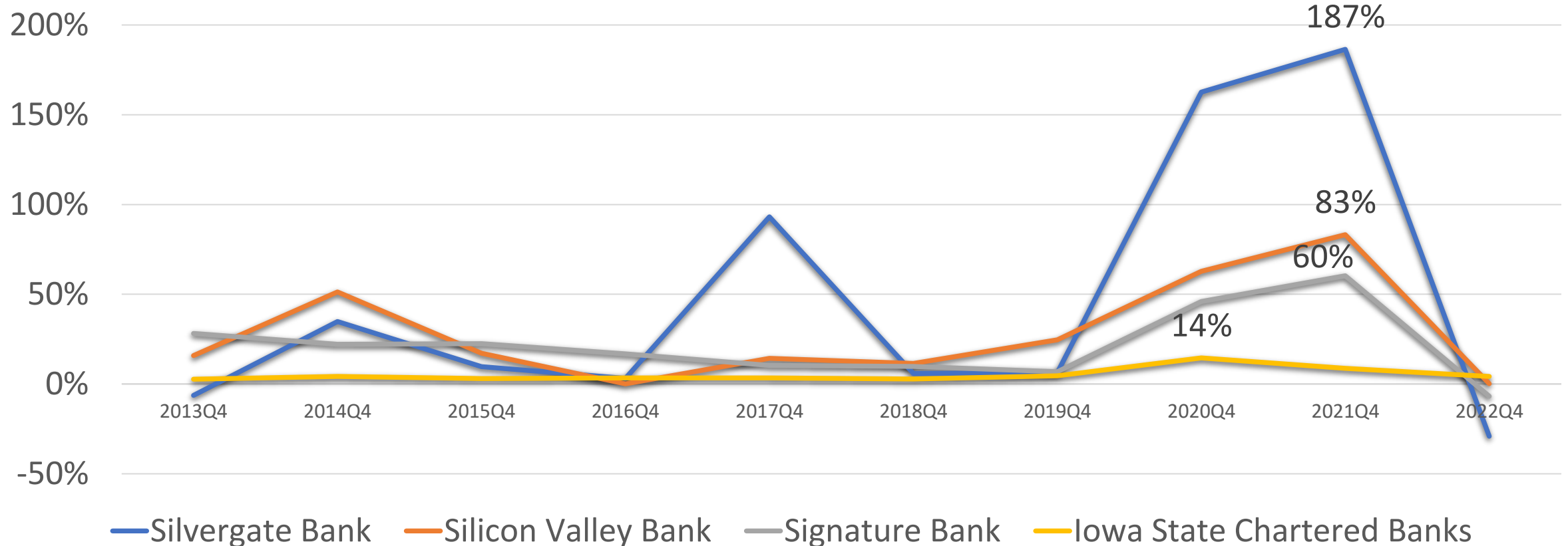
How Does all of this Apply or Not-Apply to Iowa Banks

Estimated Uninsured Deposits to Total Deposits



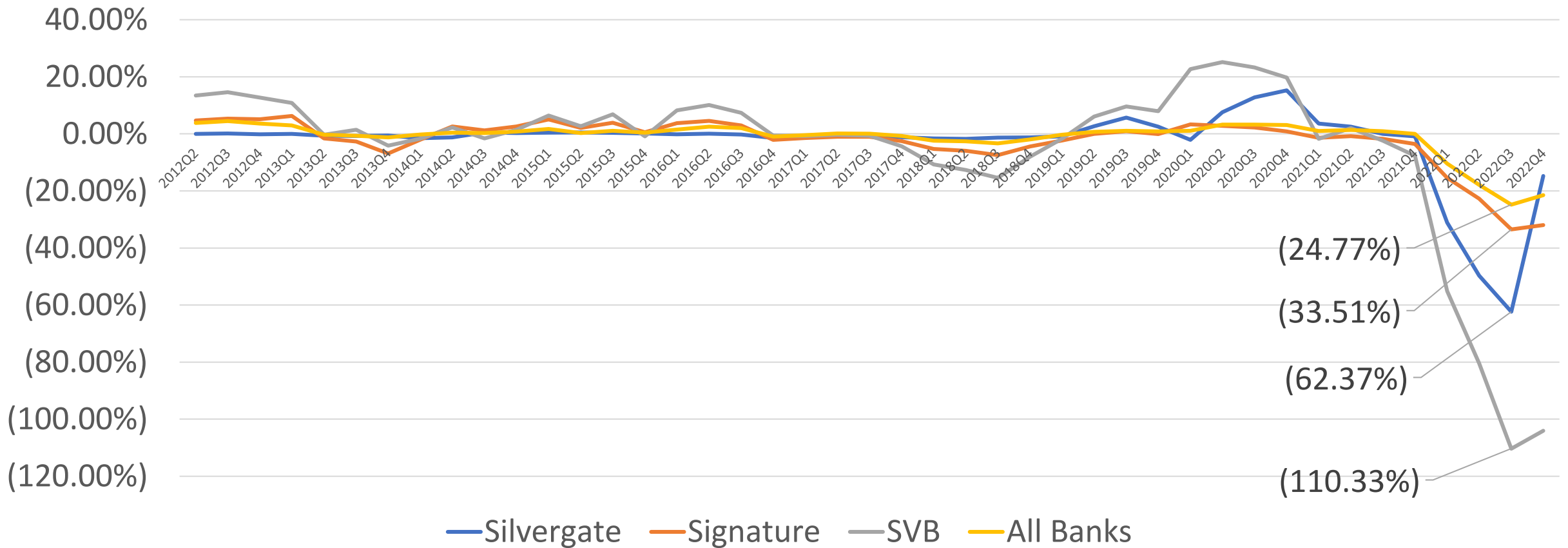
How Does all of this Apply or Not-Apply to Iowa Banks

Asset Growth Rate



How Does all of this Apply or Not-Apply to Iowa Banks

Bond Appreciation/Depreciation as Percent of Tier 1 Capital



How Does all of this Apply or Not-Apply to Iowa Banks

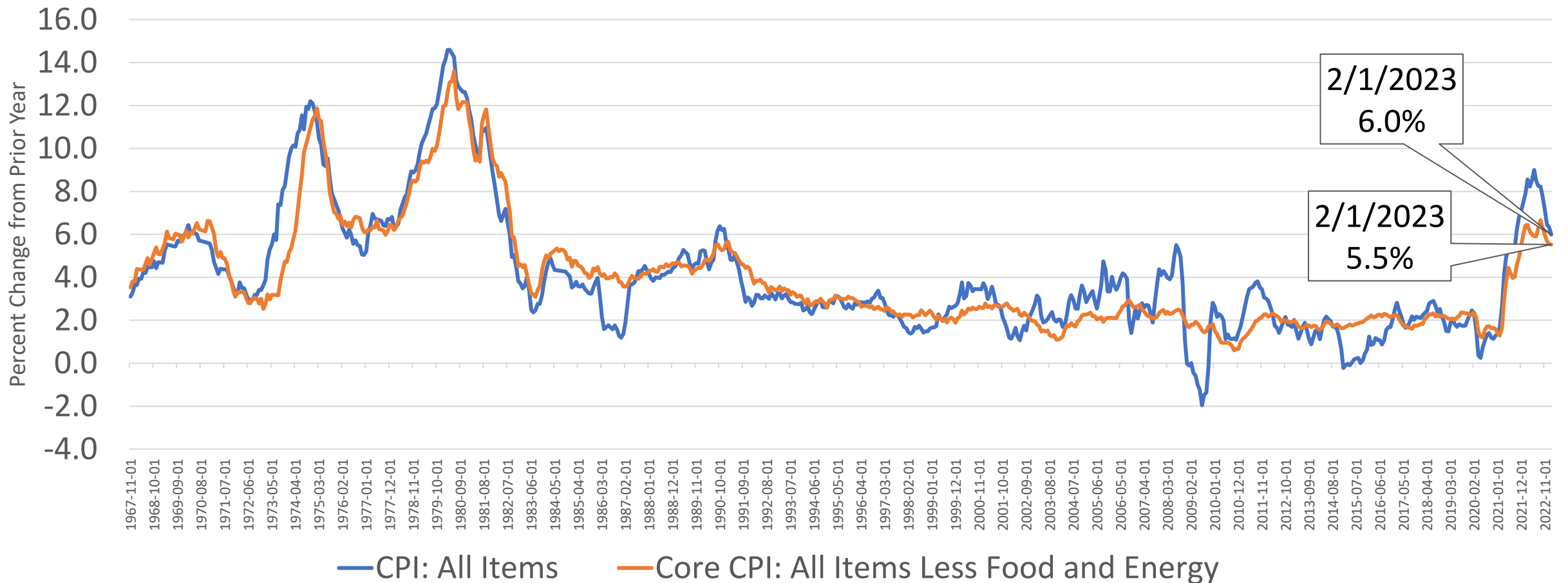


Silvergate Bank, Silicon Valley Bank, and Signature Bank

- All appeared to have concentrations in certain business lines, in this case tech and crypto related companies.

Inflation is Improving but Remains Elevated

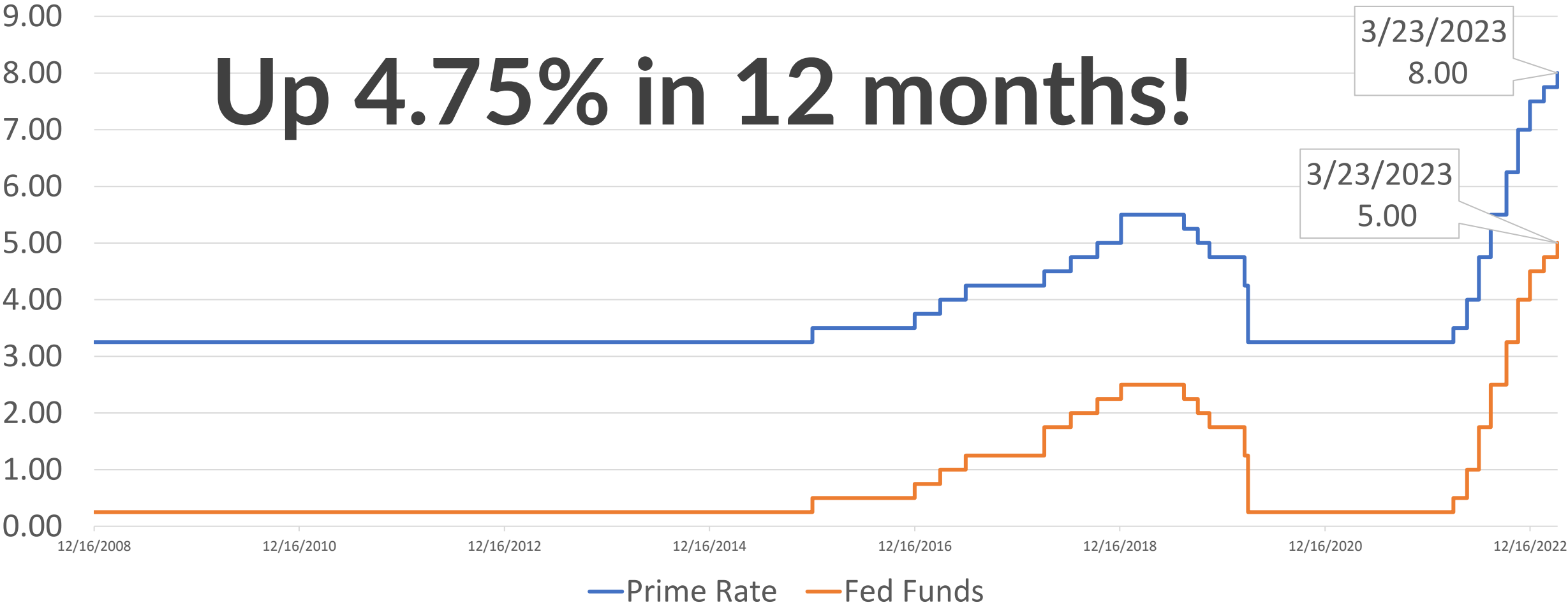
Consumer Price Index for All U.S. Urban Consumers



Source: FRB FRED St. Louis

FOMC Response to Inflation

Up 4.75% in 12 months!

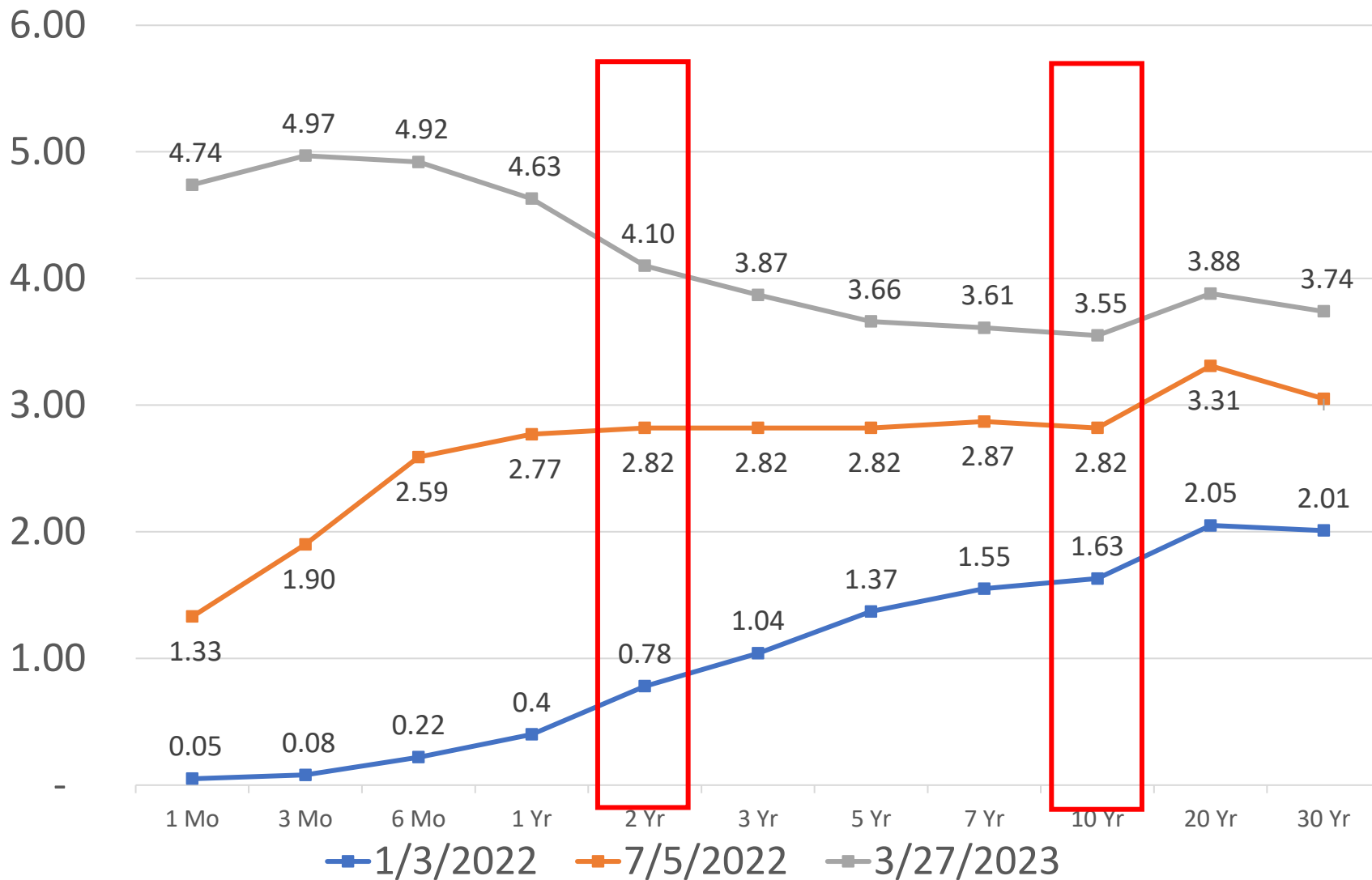


Source: FRB FRED St. Louis

U.S. DEPARTMENT OF THE TREASURY DAILY TREASURY YIELD CURVE RATES

What shape
is the yield
curve now?

Focus on 2 Yr vs 10 Yr



From the Desk of Professor
Ernie Goss:

Raising the Debt Ceiling – *Tax More, Spend Less or Grow Faster?*

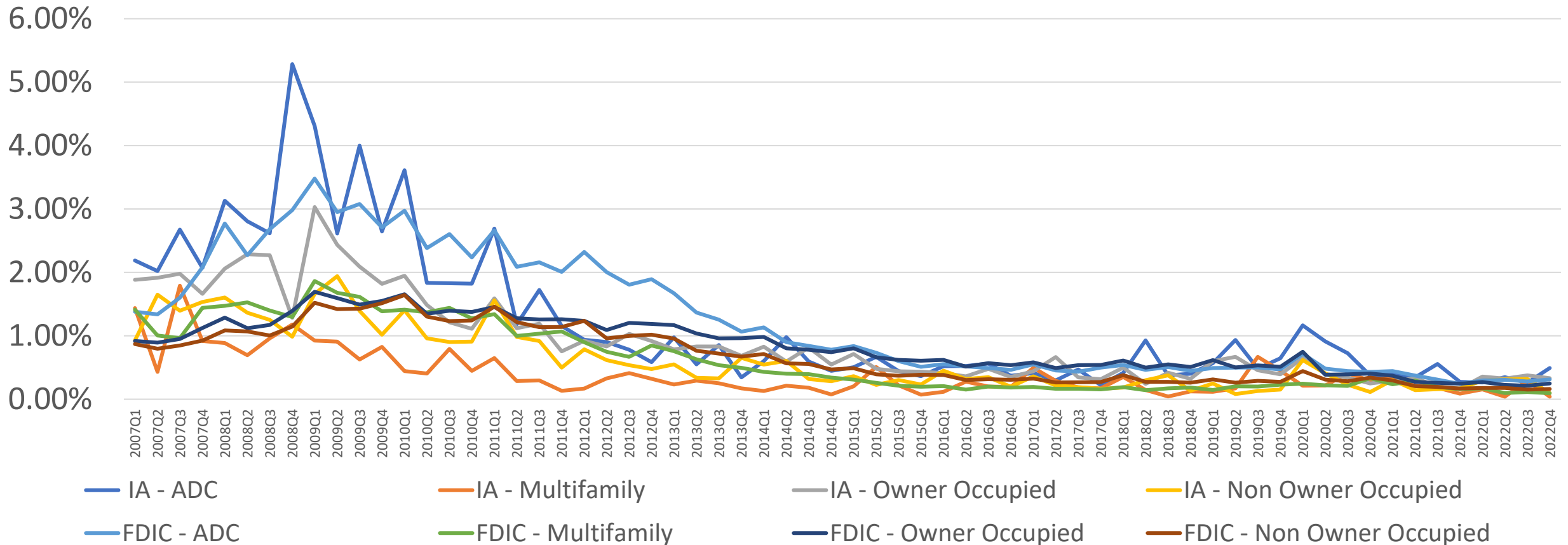
**Table 1: Ranking of post-1950 presidents
in terms of increasing the debt-to-GDP ratio**

| Rank | President | Change in Debt to GDP |
|------------|-------------|-----------------------|
| 1 (first) | Eisenhower | -18.2% |
| 2 | Johnson | -9.1% |
| 3 | Nixon | -8.4% |
| 4 | Clinton | -6.7% |
| 5 | Biden | -5.0% |
| 6 | Kennedy | -4.2% |
| 7 | Carter | -2.7% |
| 8 | Ford | 2.6% |
| 9 | Bush Sr. | 11.8% |
| 10 | Bush Jr. | 11.9% |
| 11 | Reagan | 18.1% |
| 12 | Trump | 23.0% |
| 13 (worst) | Obama | 37.9% |
| | | |
| | Pre-Reagan | -40.0% |
| | Post-Reagan | 90.8% |

Goss calculations based on U.S. BEA data

Commercial Real Estate (CRE) Delinquencies

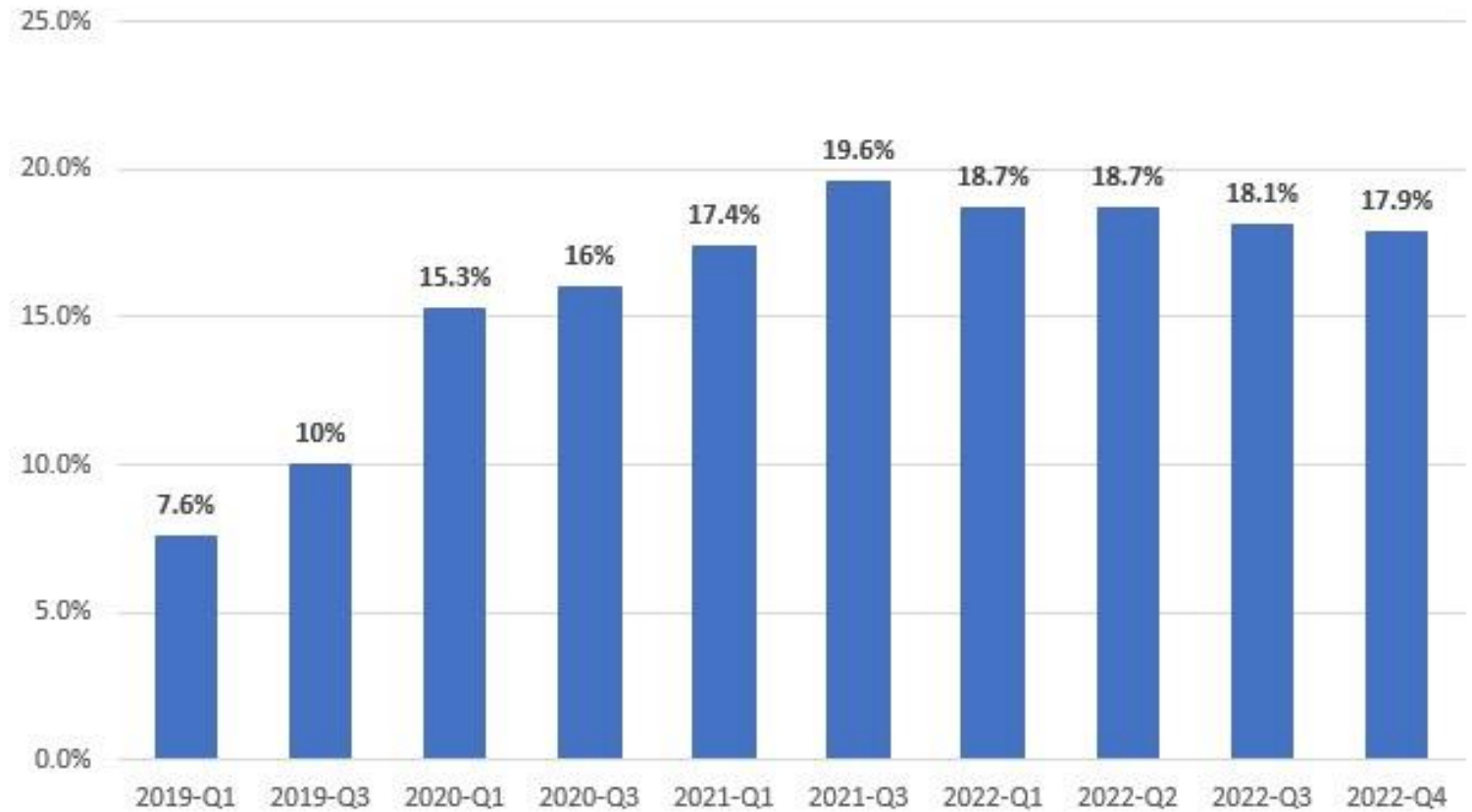
CRE Delinquency Rates for Iowa State Chartered and FDIC Community Banks



Des Moines Commercial Real Estate (CRE)

Downtown Des Moines office vacancy

Over 1.1 million square feet, or 17.9%, of office space in downtown Des Moines was vacant in the fourth quarter of 2022, CBRE's market analysis shows. The Central Business District has more than 6.5 million square feet of office space.



Source: CBRE

Signs of Commercial Real Estate (CRE) Stress

Top 5 States with an Increase in Office Delinquencies

| State | Property Type | Feb'23 DQ% | Dec'22 DQ% | Change in DQ% |
|-------|---------------|------------|------------|---------------|
| PA | OF | 8.6 | 0.99 | +7.61 |
| NC | OF | 10.34 | 3.45 | +6.89 |
| MS | OF | 10.5 | 5.62 | +4.88 |
| SC | OF | 14.28 | 10.41 | +3.87 |
| DC | OF | 8.2 | 4.85 | +3.35 |

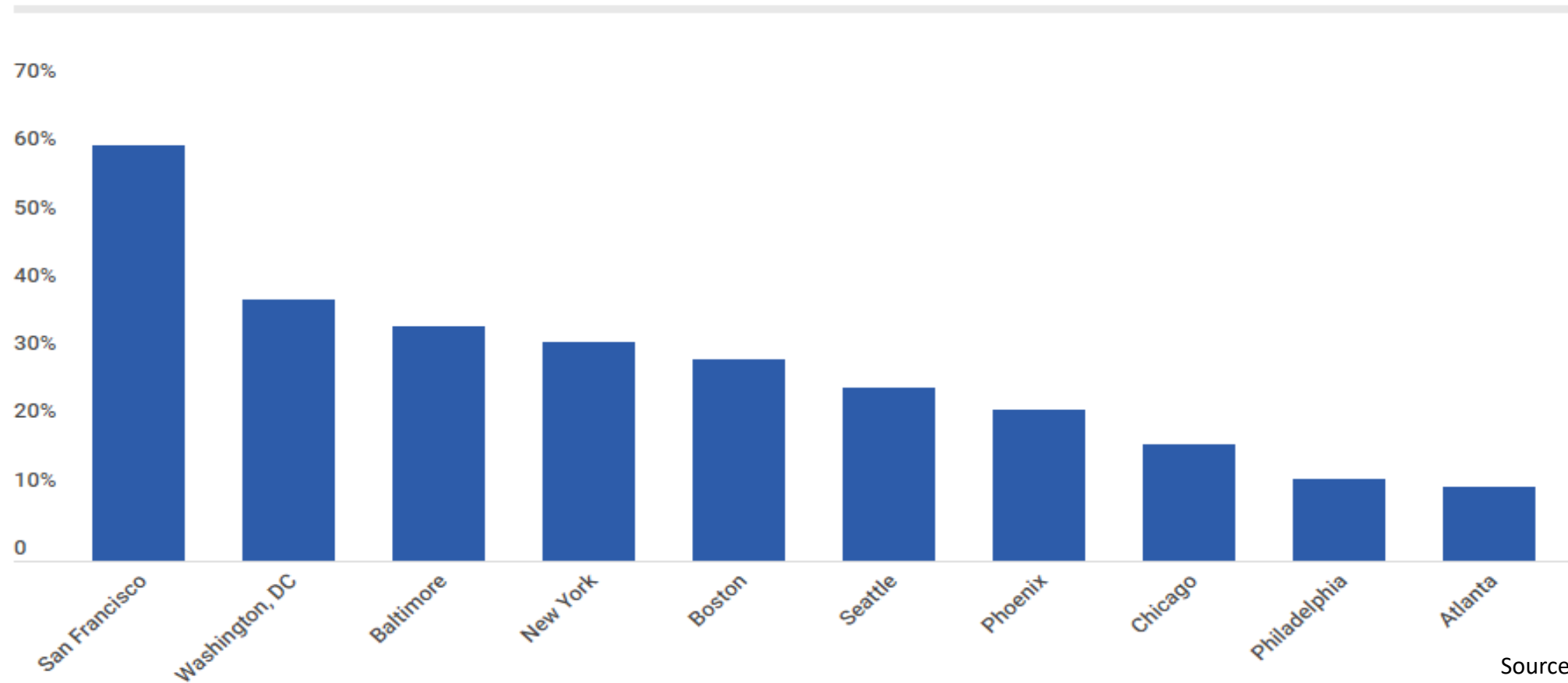
Top 5 States with an Increase in Retail Delinquencies

| State | Property Type | Feb'23 DQ% | Dec'22 DQ% | Change in DQ% |
|-------|---------------|------------|------------|---------------|
| MO | RT | 14.92 | 2.98 | +11.94 |
| IN | RT | 15.75 | 11.44 | +4.31 |
| VA | RT | 8.68 | 6.64 | +2.04 |
| NM | RT | 3.64 | 1.79 | +1.85 |
| OH | RT | 7.06 | 5.31 | +1.75 |

Signs of Commercial Real Estate (CRE) Stress

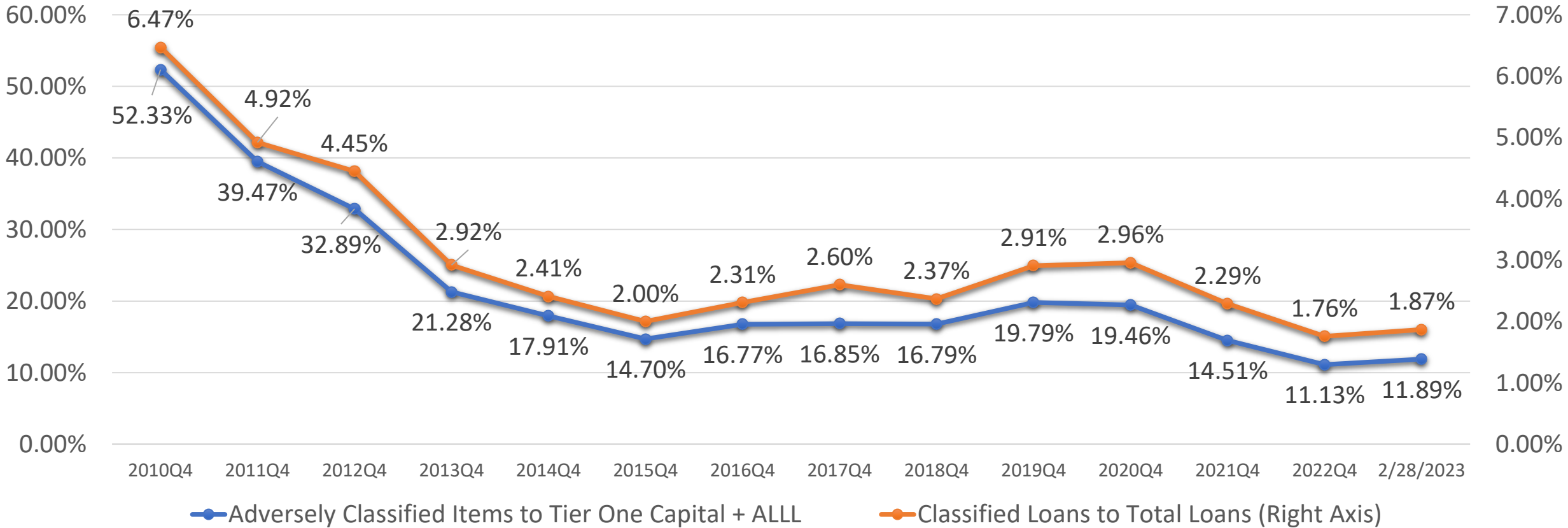
Criticized Office Loans

(% of Outstanding Balance by MSA)

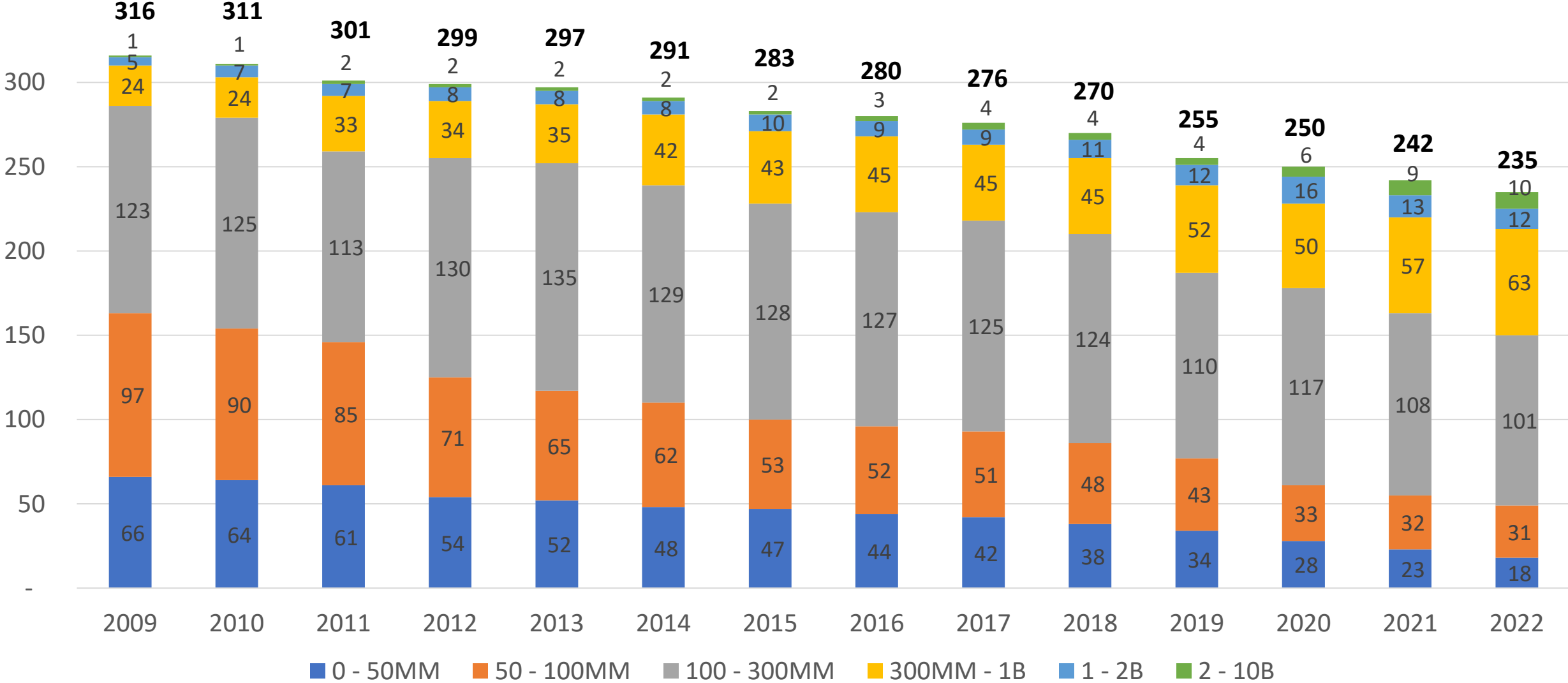


Asset Quality in Iowa State Chartered Banks Remains Satisfactory Overall

Iowa State Chartered Banks
 Classified Items includes Substandard, Doubtful, and Loss
 (12 Month Floating Examination Averages)



Number of Iowa State Chartered Banks – By Size





Risk Management Considerations

- Identify and review loan concentrations by loan type and individual.
- Assess the adequacy of on balance sheet funding and any reliance on wholesale funding sources.
- Review Interest Rate Risk models, to ensure it will properly capture the impact of large interest rate movements.
- Consider the impact of large interest rate increases on borrower cash flow's, collateral values and the bank's deposit and funding costs.
- Discuss the adequacy of capital and reserve levels, determine sources of additional capital if needed.

Questions

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