

# Department of Financial Institutions

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# DISCUSSION TOPICS

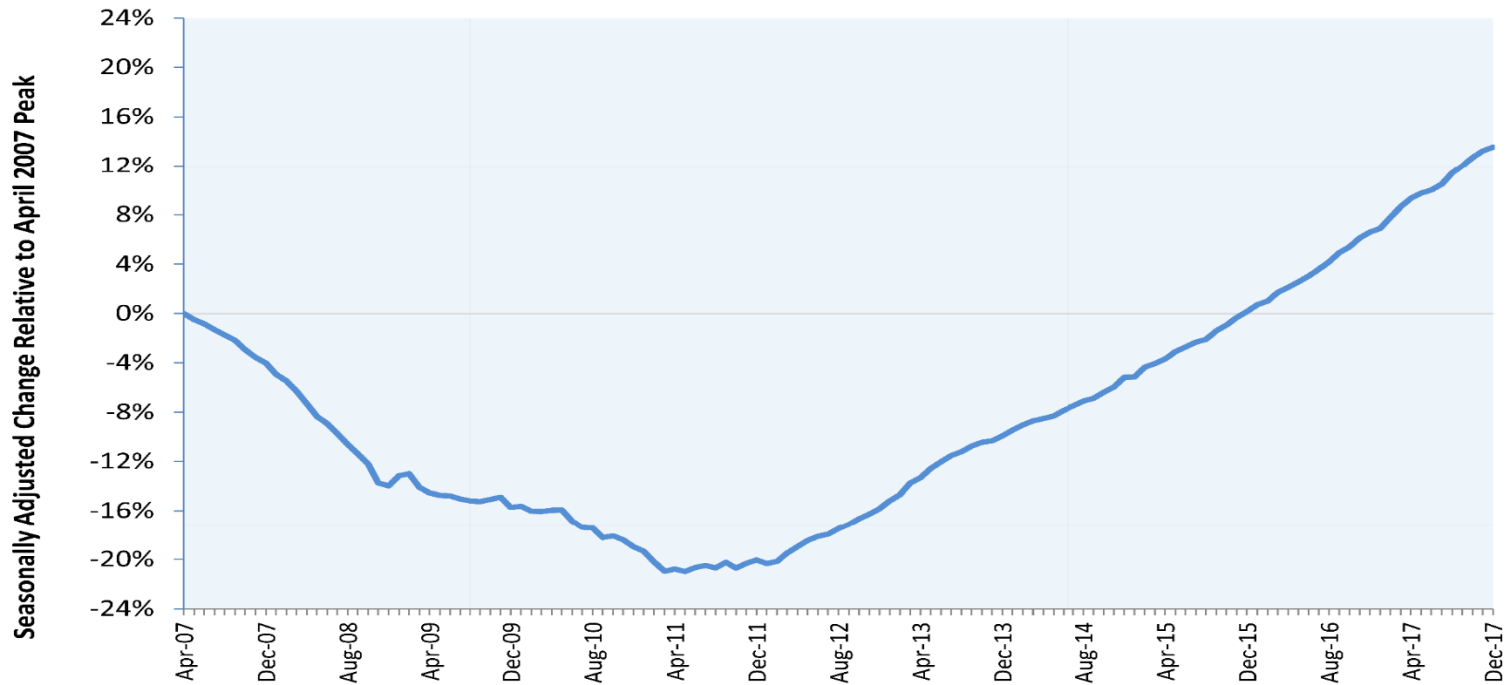
- Economic Conditions
- Non-Depository
- Securities
- State-Chartered Depository Institutions in Kentucky
- Community Banking in the 21<sup>st</sup> Century Conference

# KY ECONOMIC NEWS

- Corporate investment - \$9.2 billion in 2017, creating 17,200 jobs; previous record \$5.1 billion
- Kentucky exports totaled \$30.9 billion last year, an increase of 5.8% over 2016 results
- When compared on a per capita basis, Kentucky ranks fifth in nation for exporting. Examples of exports include:
  - Aerospace parts,
  - Transportation equipment,
  - Electronics, and
  - Bourbon
- Unemployment rate for July 2018 = 4.3%, compared to 5% for July 2017

# HOME PRICES - US

**Cumulative Seasonally Adjusted Price Change Relative to the April 2007 Peak for the U.S.**  
Purchase-Only, Seasonally Adjusted Index

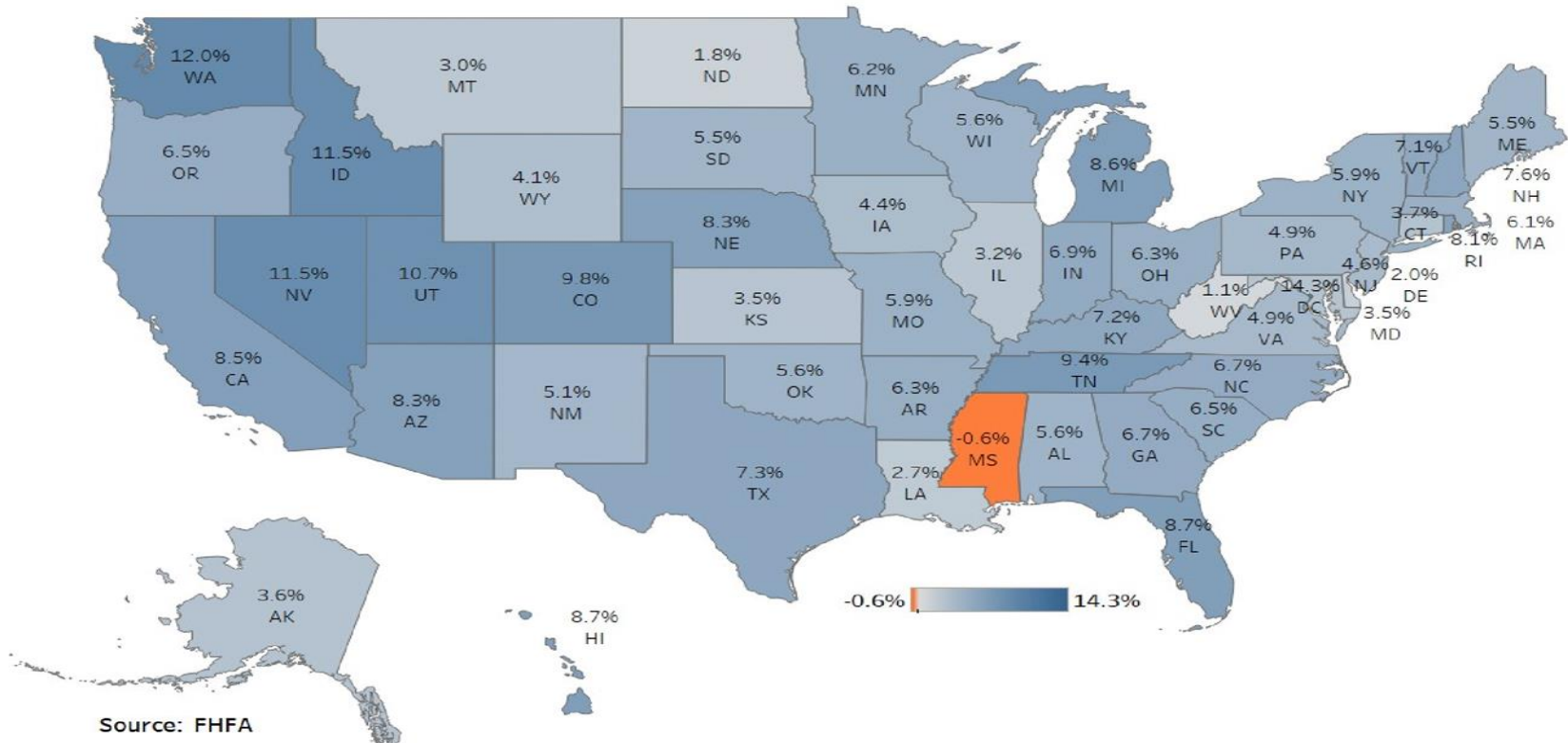


Source: FHFA

# HOME PRICES - US

## Four-Quarter Price Change by State: Purchase-Only Index (Seasonally Adjusted)

U.S. Four-Quarter Appreciation = 6.7% (2016Q4-2017Q4)



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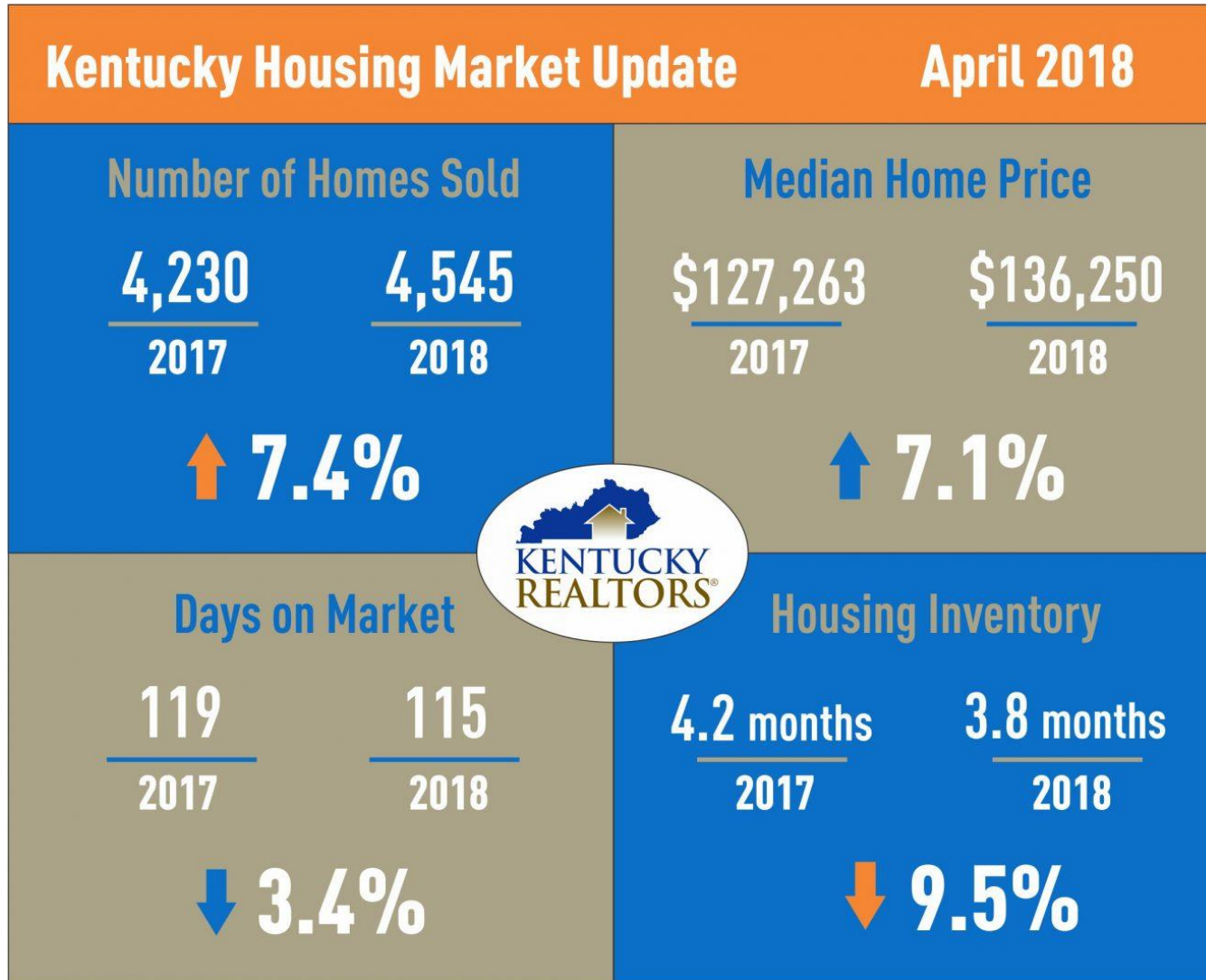
High = 14.3% DC

KY = 7.2%

Low = (0.6%) MS



# KY HOUSING MARKETS



# TAX RELIEF IMPACT

According to a 01/22/2018 American Banker article:

- Corporate rate declined from 35% to 21%
- Increased bonuses and minimum wage
- Increased dividend payouts
- Increased investment in technology – including “newer and smaller branches”
- Expansion into new markets
- Expansion of products and services – with increased C&I and consumer lending



# NON-DEPOSITORY DIVISION

	2015	2018	% Change
Mortgage Companies	1,021	1,493	46.2%
Mortgage Brokers	108	122	13.0%
Mortgage Loan Originators	6,878	8,374	21.8%
Consumer Loan Companies	376	386	2.7%
Money Transmitters	83	105	26.5%
Check Cashers / Payday lenders *	532	443	(16.75)

\* Note: the number of payday lenders has steadily declined since 2009 due to a statute change that placed a moratorium on new licenses. This is set to expire in July 2019.





# SECURITIES DIVISION

	2015	2018	% Change
Broker-Dealer Registrations	1,473	1,454	(1.3%)
Broker-Dealer Agents	119,477	129,037	8.0%
State Investment Advisors (IA)	189	192	1.6%
IA Representatives	5,408	5,920	9.5%

# BEST PLACES TO WORK IN KY

- According to a Kentucky Chamber of Commerce survey, in the top 100:
  - Town & Country Bank and Trust Co.
  - Forcht Bank
  - Heritage Bank USA, Inc.
  - Independence Bank
  - Kentucky Bank
  - Limestone Bank (formerly known as PBI Bank)
  - Central Bank & Trust Co.
  - Republic Bank
  - Stock Yards Bank and Trust Co.

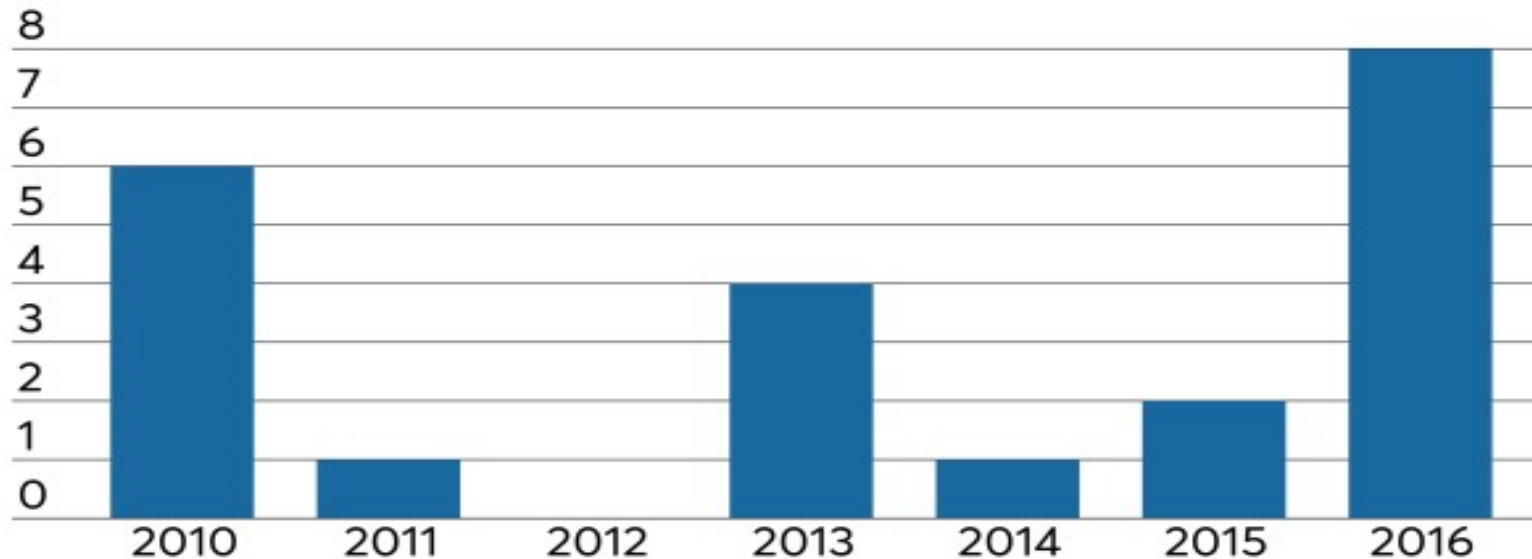


# NEW BANKS - US

## On the upswing

The number of deposit insurance applications is beginning to pick up again following the financial crisis

● Applications per year



Source: FDIC

In 2017, there were eight (8) applications. The last new state-chartered bank in Kentucky opened in 2009.



# DEPOSITORY DIVISION - BANKS

	12/31/2015	12/31/2016	12/31/2017	06/30/2018
# of Banks	137	133	124	125
# of Banks (< \$100 million)	31	26	25	26
Total Assets (millions)	\$48,046	\$50,786	\$52,069	\$53,130
Total Loans (millions)	\$32,387	\$35,001	\$36,639	\$37,883

# BANKING CONDITIONS – 06/30/2018

	EMPLOYEES	NIM	ROAA	ROE	CAP
National	736,311	3.53	1.35	11.58	10.40
<b>Kentucky</b>	<b>12,197</b>	<b>3.87</b> <b>#2</b>	<b>1.20</b> <b>#5</b>	<b>10.82</b> <b>#5</b>	<b>11.10</b> <b>#1</b>
Illinois	44,184	2.50	1.11	10.99	8.86
Indiana	11,762	3.65	1.37	12.16	10.33
Missouri	24,156	3.55	1.43	13.90	10.10
Ohio	27,316	3.52	1.75	14.64	10.59
Tennessee	14,584	3.93	1.35	10.76	10.23
Virginia	13,649	3.84	1.19	8.60	10.73
West Virginia	5,077	3.65	1.15	9.35	10.04



# DEPOSITORY DIVISION – CREDIT UNIONS

	12/31/2015	12/31/2016	12/31/2017	03/31/2018
# of CU	25	24	24	22*
# of CU (< \$100 million)	17	16	16	14
Total Assets (millions)	\$3,639	\$3,861	\$4,038	\$4,113
Total Loans (millions)	\$2,355	\$2,604	\$2,759	\$2,783
NIM	3.31%	3.19%	3.23%	3.27%
ROAA	0.71%	0.60%	0.64%	0.56%
NW ratio	12.68%	12.54%	12.15%	12.12%

\*Note: LMPOCU placed into conservatorship 12/15/2017;  
liquidated 06/29/2018.



# DFI ACTIONS

- Red Tape Reduction initiative:
  - The KDFI has eliminated 16% of outstanding regulations relating to the financial services industry
  - Continue to review - consolidate and clarify
- On a national level, KDFI has advocated for (SB 2155):
  - Right-sized regulation based on
    - Business model
    - Risk
  - Qualified Mortgage status for portfolio lending
  - Simplified capital rules for community banks



# COMMUNITY BANK CONFERENCE

- October 3-4, 2018
- St. Louis, MO
- Federal Reserve Board and CSBS
- Provide research and study regarding community bank issues
- Emphasize
  - The need to right-size regulation
  - Importance of community bank business model



# CASE STUDY COMPETITION

- Case study challenge
  - Involve college students in community bank conference
  - Introduce college students to banking industry
- Kentucky Universities:
  - Murray State
    - 2016 (finalist); also entered in 2017 and 2018
    - Case Study presentation at DFI Board meeting in 2016 and 2017
  - Eastern Kentucky University
    - First entry in 2018 – Fintech and the Banking Industry
    - **Won** the nation-wide competition
    - Will present at the October 2018 Community Bank Conference
    - Team member a KDFI employee



# FINAL THOUGHT

John P. Kotter – A Sense of Urgency

“When people have a true sense of urgency, they think that action on critical issues is needed **now**, not eventually, not when it fits easily into a schedule. **Now** means making real progress every single day.”