



Washington State Department of
Financial Institutions

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Agenda

- ▶ Industry Trends
- ▶ Ratio analysis and CAMELS
 - ▶ Regulatory Reforms
 - ▶ Marijuana Banking
- ▶ Updates from WA DFI and DOB
 - ▶ Q&A

Industry Trends

- ▶ Consolidation, consolidation, consolidation!!!!
- ▶ Blurring of the lines between various business models
- ▶ Growth - organic and M&A
 - ▶ Total banking assets to \$60.5 billion, up approximately 10%
 - ▶ Average bank size grew from \$1.2 billion to \$1.4 billion in the prior year
 - ▶ WA loan growth rate 11% outpaces national average of 7%

Ratios and CAMELS

- ▶ Overall Financial Condition
- ▶ CAMELS - Risks are well managed
- ▶ Earnings
 - ▶ NIM's are up with rising rates
 - ▶ Cost of funds continues to rise and put pressure on earnings
 - ▶ Benefit from reduction in corporate tax rates

Liquidity

- ▶ Balance sheet liquidity remains strong, average 23%, but is declining with loan growth
- ▶ Core funding remains strong, yet rising interest rates put pressure on both cost and mix of funds
- ▶ Competition for funding is picking up
- ▶ Large Deposits (>2% of total deposits) and uninsured are growing
- ▶ High rate deposits - FDIC is sounding the alarm bell
- ▶ Regulatory Changes: Reciprocal deposits

Regulatory Changes

- ▶ Passing of 2155 - Economic Growth, Regulatory Relief, and Consumer Protection Act signed into law on May 24, 2018
 - ▶ Establishes a “community bank leverage ratio” between 8-10% - DOB is part of CSBS working group
 - ▶ Lengthens exam cycles - \$1-\$3 billion for an 18 month cycle. In effect
 - ▶ Reciprocal deposits - excluded from brokered designation within certain limits - out for comment
 - ▶ Creation of a short-form Call Report every other quarter for banks with less than \$5B in assets
- ▶ FDIC is re-visiting FILS and Examination Guidance

Marijuana Banking - Brief History in WA

- ▶ Been fully legal since 2014
- ▶ Banks and credit unions began directly serving the industry (MRBs) in WA state and have been doing so for several years- examinations by both FDIC/NCUA and WA DFI
- ▶ 97% of Retail Shops have a bank account per LCB

Latest Events - Marijuana Banking

- ▶ DOJ's recent actions to repeal the Cole Memo - don't need to spell out prosecutorial discretion.
- ▶ What will FinCEN do?
- ▶ Legislation that may or may not move forward (Bipartisan support)
- ▶ Current administration - mixed messages
- ▶ Significant growth in the industry across the country (Canada now legal)
- ▶ States will be reliant on tax revenue
- ▶ Banking MRBs is not without risk

Banking the Marijuana Industry

Recommendations

- ▶ Determine Board approved risk tolerance
- ▶ BSA Policy should distinguish between permissible and prohibited banking activity for MRBs
- ▶ SAR Procedures should be enhanced to include Limited/Priority/Termination Framework and Red Flags
- ▶ Price for risk
- ▶ Lessons learned on Examinations
- ▶ Stories of FI's who did not intend to bank the industry

DFI and DOB Updates

Q&A