



Washington State Department of
Financial Institutions

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State of the State Agenda

- ▶ Industry Trends
- ▶ Metrics and CAMELS
- ▶ Regulatory Reforms
 - ▶ Industrial Hemp
 - ▶ Q&A

Industry Trends

- ▶ Consolidation has continued but slowed
- ▶ Raising capital is somewhat challenging
- ▶ Numerous CEO retirements: key is early planning

Washington Consolidation at a Glance

Washington	2 nd Q 2019	2 nd Q 2018
Number of Banks Headquartered in the State	41	46
Total Banking Assets in millions	\$81,608	\$79,091
Year-over-year Loan Growth	6.49%	8.23%

Overall Financial Condition - CAMELS

- ▶ Overall risks are well managed
- ▶ Capital - Levels remain strong
 - WA - Leverage 11%
 - Regulatory Changes - CBLR, waiting final rule
- ▶ Asset Quality
 - Continue to see strong loan portfolio performance
 - CRE down, but ADC steady

Washington Banks CRE Concentrations at a Glance

	2 nd Q 2019	2 nd Q 2018
Total CRE	347%	376%
ADC	50%	53%
C&I	56%	63%

Overall Financial Condition - CAMELS

- ▶ Management
- ▶ Earnings
 - ▶ ROA and NIM's are up slightly
 - ▶ Cost of funds continues to rise and put pressure on earnings
 - ▶ Concern about rates continuing to decline

Overall Financial Condition - CAMELS

▶ Liquidity

- ▶ Balance sheet liquidity remains strong at approximately 20%, but declining with loan growth
- ▶ Core funding is still a strength for many, yet interest rates put pressure on both cost and mix of funds - especially in community banks
- ▶ Competition for funding is significant
- ▶ Regulatory Changes: national rate calculation; proposal out for comment

▶ Sensitivity to Market Risk

Banking the Cannabis Industry

2018 Farm Bill

- ▶ Passing of the Farm Bill - December 2018
 - ▶ Took industrial hemp off the Schedule 1 class of drugs
 - ▶ Defined industrial hemp as cannabis with < 0.3% THC
 - ▶ Requires states to develop programs approved by USDA
 - ▶ FDA oversees hemp as a food additive

Resources: *(in addition to the FinCEN guidance)*

- ▶ CSBS Examiner Cannabis Job Aid now public
 - ▶ www.csbs.org
- ▶ <https://dfi.wa.gov/banks/marijuana>

Q&A

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