Federal Reserve Bank of Chicago

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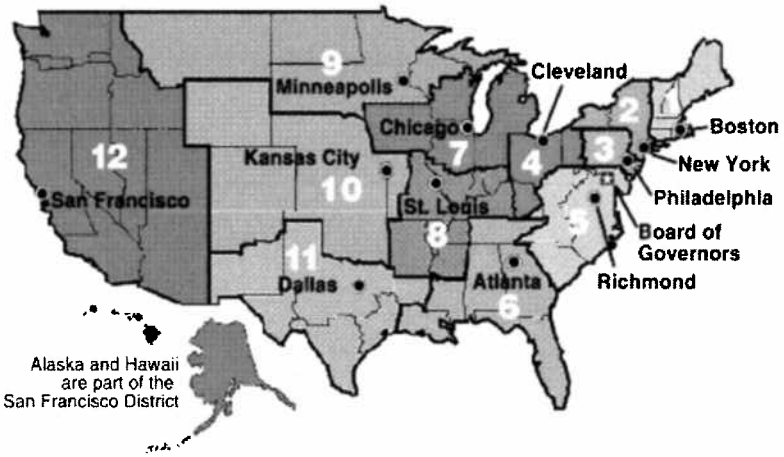
Federal Reserve Bank of Chicago

1

Federal Reserve System



2

7th Federal Reserve District

3 Major Roles of The Fed

Research and Monetary Policy

Financial Services and Payments Services

Supervision and Regulation

The Federal Reserve System strives to promote:

Safe Banking System

Efficient Payment System

Sustainable economic growth without inflation

5

Federal Reserve Bank of Chicago: Chicago Fed Statistics

Number of employees - 1,500

- Chicago Headquarters
- Detroit Branch
- Des Moines office

Counterfeit notes found – 30-40 per day

Currency received and counted - 8.9 million notes; $124 million

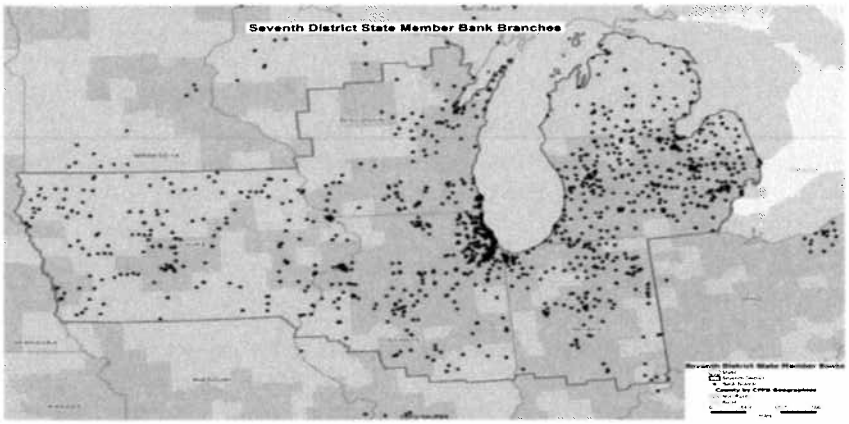
Unfit currency destroyed - $10 million per day

6

Supervised Entities

- State chartered "Member" Banks
  - 144
- Bank Holding Companies
  - Approximately 900
- Savings & Loan Holding Companies
  - 54
- Foreign Branch Offices

7th District Banks & Branch Locations



Supervisory Responsibilities

- Safety & Soundness
  - Trust
  - Bank Secrecy Act
  - Information Technology
- Consumer Compliance (less than $10 billion)
- Community Reinvestment Act

- Department is structured by size and discipline
  - Community (by state), Regional, Large, Risk Specialists

Impact of Dodd Frank

Primary Changes	Impact to FRB(C)
• Establishment of the Consumer Protection Financial Bureau (CFPB)	• Policy and Supervisory Collaboration between CFPB and FRB
• Portfolio Makeup	• Addition of Thrift Holding Companies

• New Regulations
  • More than 200 proposals and rules
  • not all consumer compliance
  • 7 new consumer compliance rules issued in January
	• Develop Corresponding Supervisory Programs
	• Conduct Outreach to Member Institutions

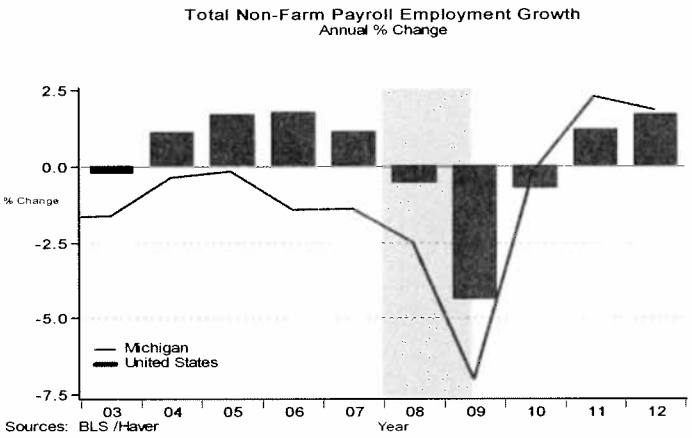
7th District Michigan Profile

- Detroit Branch
  - Michigan-based examiners
- 16 State Member Banks with shared responsibility with DIFS-State of MI Banking Division
  - Ranging in size from $41 mil. total assets to $5.9 bil.
- 77 Bank Holding Companies
  - Ally $182 bil. total assets
- 6 Savings & Loan Holding Companies
  - Flagstar $14 bil. Total assets

Financial Crisis Look-back

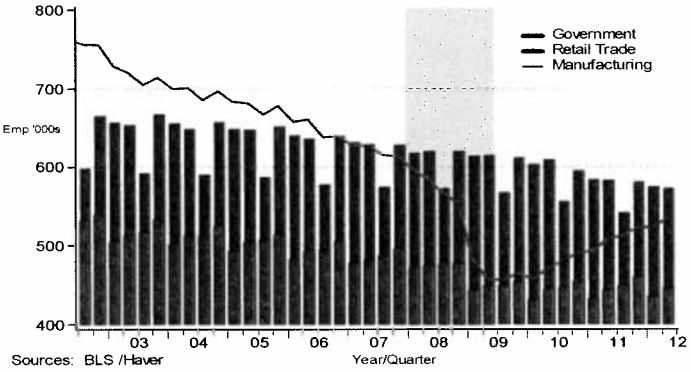
- Michigan hit by economic downturn 18-24 months before the rest of the nation
- Downturn had a disproportionate impact on the State
  - SE Michigan hardest hit
- 13 Michigan bank failures (3 state members)
  - All but 2 in Macomb, Wayne, or Oakland County
  - No bidders for 2 in Macomb County
  - 8 were opened in mid-90's or later

Payroll Employment Growth



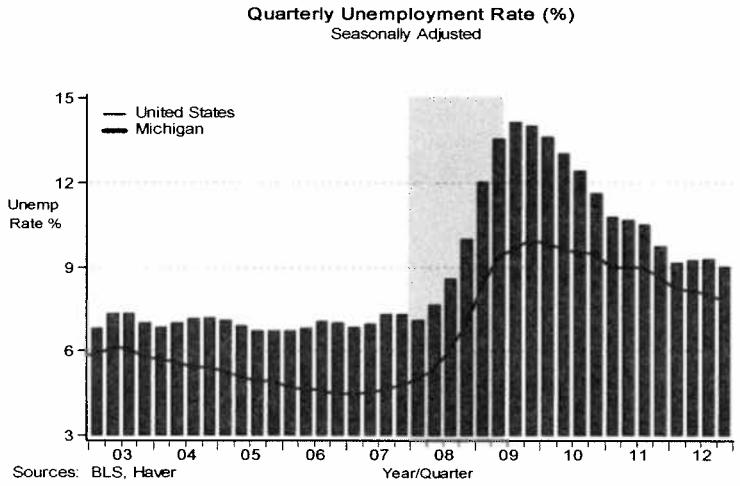
Sources: BLS /Haver

Employment by Industry

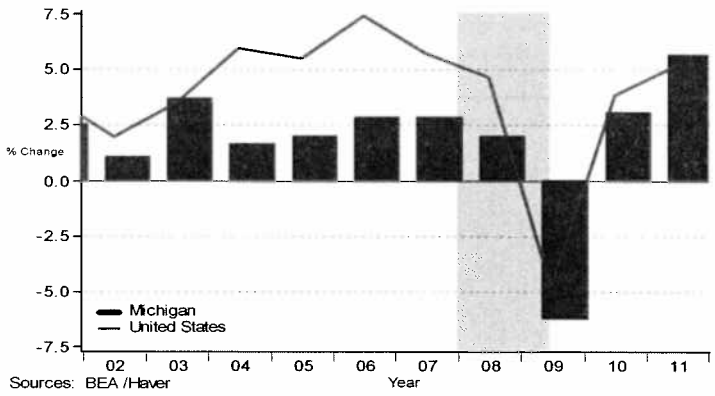


Sources: BLS /Haver

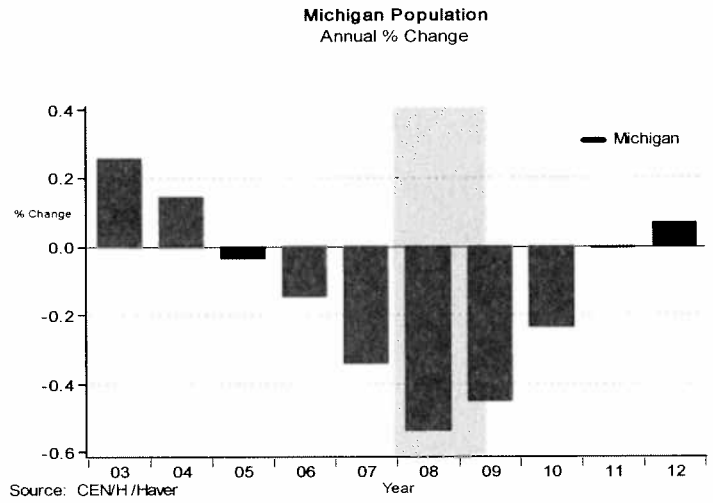
Unemployment Rate



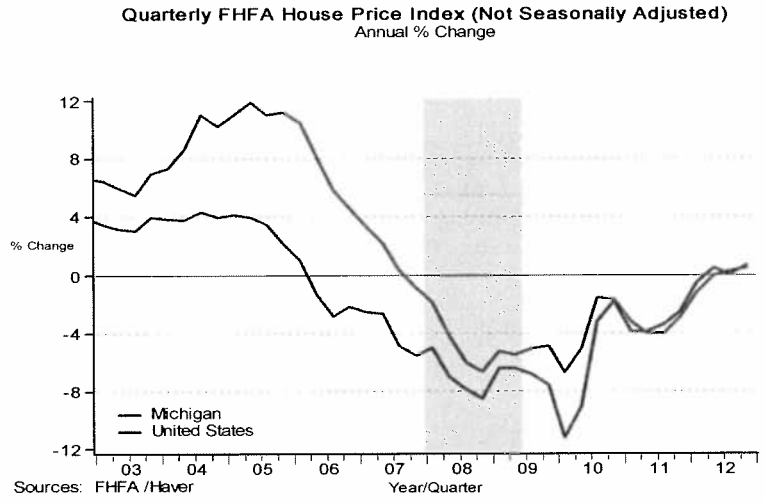
Personal Income



Population Change



House Price Index



Current MI banking trends

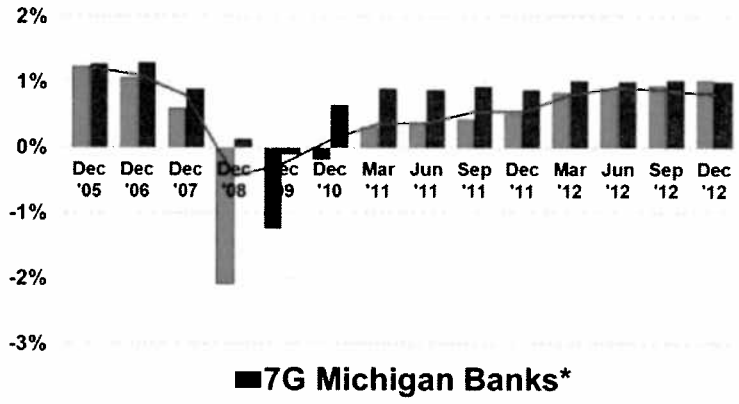
Positive trends in regulatory CAMELS composite ratings
Earnings trends show improvement:

# of State-wide banks that reported annual net losses:

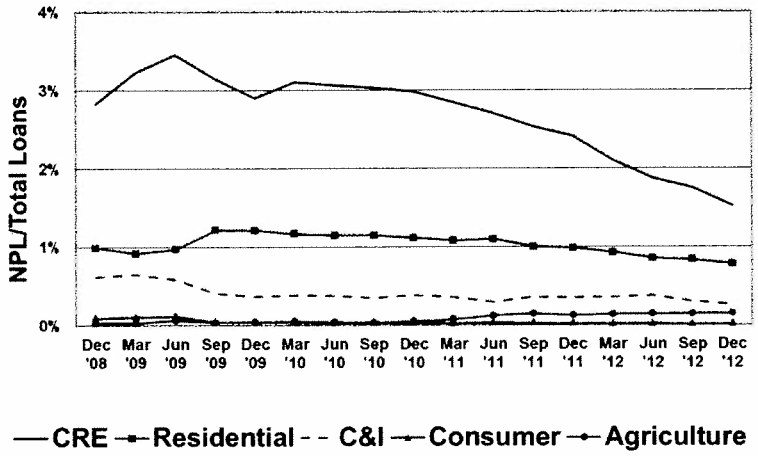
2009 - 42
2010 - 34
2011 - 19
2012 - 5

Only includes 114 banks still in existence 12/31/2012

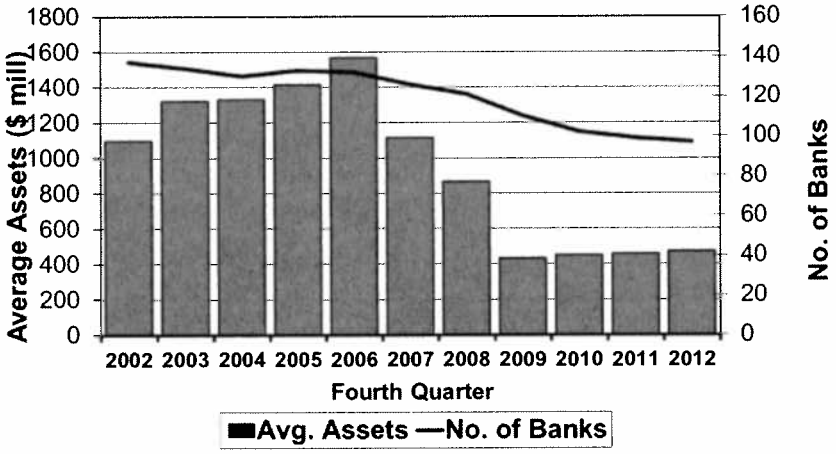
Earnings - ROAA



MI Asset Quality - Nonperforming



7th District MI # of Banks & Size



Banker Hot Topics

Longstanding concerns:

- Level playing field
- Regulatory burden

Post recession concerns:

- Basel III capital requirements
- Uncertainty (national debt, fiscal policy, low rate environment, world economy, CFPB rules)
- Disproportionate share of deposits controlled by banks headquartered out-of-state

Community Bank Model

- Post recession viability – building a sustainable model
- 98% of banks are less than $10 billion in total assets
  - Hold less than 20% of banking industry assets
  - However, hold more than half of small loans to businesses.
  - Represents more than 40% of their total commercial lending.

Qualified Mortgages

- Ability to Repay - requires a reasonable, good faith determination of ability to repay in consumer credit transaction secured by a dwelling
- Establishes liability protections for qualified mortgages
  - Safe Harbor, Rebuttable Presumption of Compliance

Qualified Mortgages*

Limits on loan features

- Loan term may not exceed 30 years
- No negative amortization or interest-only periods
- No balloon payments (except for certain portfolio loans by small creditors in rural or underserved areas)

Points and fees cap

- Generally 3% of total loan amount
- Higher caps for loans <$100,000
- Up to two additional bona fide discount points allowed depending on rate

Relevant underwriting requirements

- Monthly debt-to-income ratio cannot exceed 43%
- Use maximum rate in first in first five years after first payment, full amortization
- Consider and verify income or assets
- Consider and verify current debt obligations, alimony and child support

Qualified Mortgage: Balloon Payments

Balloon payment QM allowed in certain circumstances:

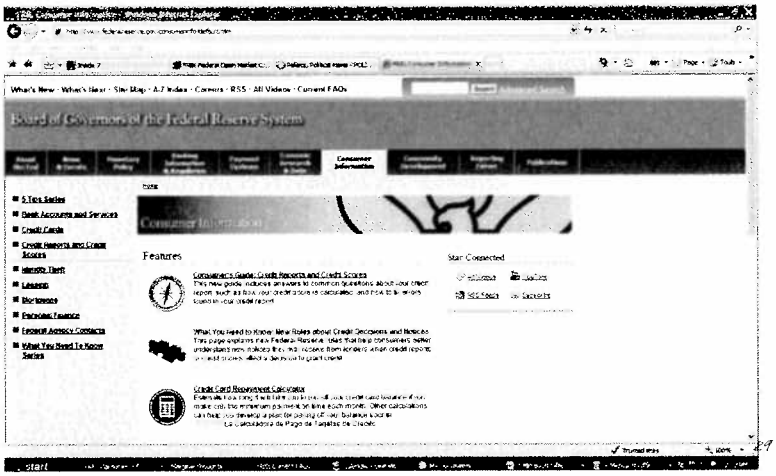
- Creditor criteria:
  - More than 50% of the creditor's first lien mortgages must be in rural or underserved counties;
  - With affiliates, originates no more than 500 first-lien mortgages per year; and
  - Has less than $2 billion in assets (not including affiliates)

Appendix

Federal Reserve Bank of Chicago and Federal Reserve System Resources

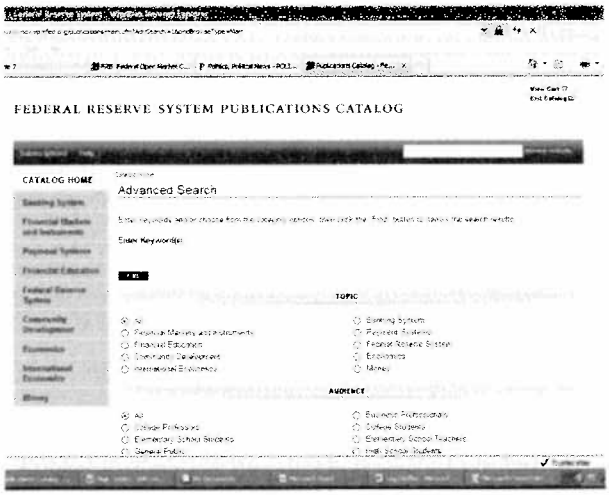
Federal Reserve Consumer Information

http://www.federalreserve.gov/consumerinfo/default.htm



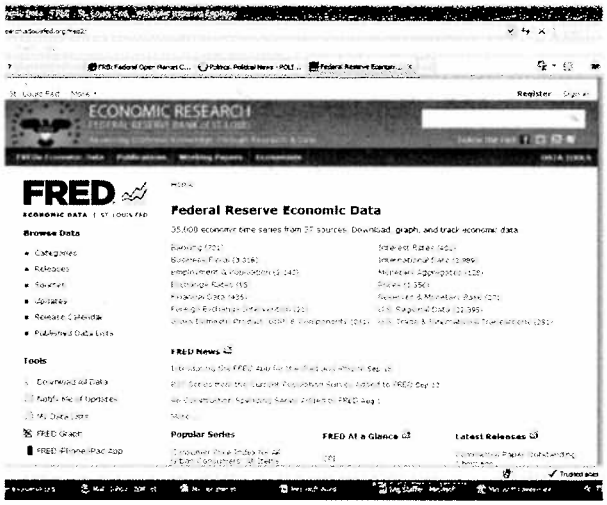
Federal Reserve System Pub List

https://www.newyorkfed.org/publications/main.cfm?AdvSearch=1&cmdBrowseType=Main



Economic Statistics & FRED

http://research.stlouisfed.org/fred2/



31

Federal Reserve System News & the iPad

http://www.chicagofed.org/webpages/utilities/ipad/the_fed.cfm

32