Notes from the Ambassador Bank Vault **March 2, 2018**

Highlights From The Jones Walker Fourth Annual Financial Services Conference

"The dog that didn't bark." Sir Arthur Conan Doyle. We left the Jones Walker conference earlier this week feeling that overall credit conditions are pretty darn good given that neither asset quality nor the implications of the FASB's new credit loss model (CECL) were discussed by any of the presenters. We checked our notes from last year's conference; and were impressed by the accuracy of the speakers' 2017 predictions regarding tax reform, lighter regulatory burdens, and the growing importance of technology to help meet cybersecurity concerns and to attract the Millennial Generation as customers. The top 2018 banking priorities cited this week include gaining and retaining core deposits, cybersecurity issues, and likely modifications of the Dodd-Frank Act.

- We attended the Fourth Annual Jones Walker Financial Services Conference in Washington, D.C. The seminar, which included approximately 150 attendees, was geared to legislative/regulatory developments and banking industry priorities in 2018 that are likely to most affect community banks. There were many bankers and consultants with only a few buy- and sell-side analysts or investors in attendance.

- The speakers included Representative Patrick McHenry, Chief Deputy Whip and Vice-Chairman, Financial Services Committee (R) and the Hon. Keith A. Noreika, former Acting Comptroller of the Currency. There was also a bank panel consisting of Presidents & CEOs: John Asbury (Union Bank & Trust), John P. "Jack" Barnes (People's United Bank), Alessandro P. DiNello (Flagstar Bank), and Robert. Jones (Old National Bancorp).

- Rep. McHenry commented that Congress would likely submit a bill to President Trump later this year to modify the Dodd-Frank Act ("Dodd-Frank"). Although the House of Representatives could pass more comprehensive legislation to aggressively scale back Dodd Frank, political factors probably limit the Senate to more moderate revisions. Rep. McHenry also noted that it is too soon to gauge the full impact of regulatory "rightsizing" and the Tax Cuts and Jobs Act (the "Tax Act").

- Mr. Norieka discussed several initiatives that should help ease some regulatory burdens that community banks face. Among the items highlighted were restructuring the role of local bank examiners to provide them with more discretionary ability, reviewing the implications of the CRA ratings system, simplifying the holding company organizational structure, and streamlining BSA/AML supervision. It should become easier to form a *de novo* bank compared with the past decade.

- Mr. Noreika also opined that commercial real estate ("CRE") guidance will still be a concern at the OCC. He noted that arbitrary limits may not make as much sense for the industry vs. regulatory guidance.

- The banking panel of four chief executive officers discussed the likelihood that the $50 billion SIFI designation would be increased to $250 billion. Jack Barnes, President and CEO of Peoples United, discussed the huge amounts of data and related costs that are associated with the SIFI designation. He also noted that only three banks crossed this threshold since 2010.

- Although not explicitly stated, it makes sense to infer that if the $50 billion SIFI designation was raised, then changes could also occur with the $10 billion asset threshold. Among other items mandated by the

Dodd-Frank Act, institutions which exceed $10 billion are capped on fees it can charge retailers, face more extensive stress tests, and are directly regulated by the Consumer Finance Protection Board. We believe that if any changes are made, they will be focused on stress testing.

- An unintended consequence of the $10 billion asset threshold is that it forces banks near that asset size to consider if remaining independent can be justified due to the reduced fees and higher costs of complying with stress testing and other regulatory burdens.

- The panelist appeared to agree that funding will be the top banking priority for 2018, particularly if interest rates rise. It was suggested that it is more difficult to grow core deposits than to make good loans.

- Among the open-ended questions are: (1) will core deposits perform in the same manner as in previous rising interest rate cycles; (2) what will Internet banks do to retain core deposits; (3) what will the large regional and money center banks do to attract deposits.

- Merger and acquisition activity should increase if the SIFI designation is increased to $250 million. The panelists agreed that small institutions (assets under $1 billion or so) may need to find partners in order to better achieve economies of scale.

- Mounting cyber-security challenges affect financial institutions of all sizes as each organization has a responsibility to appropriately protect customers. This duty should be recognized as more than a response to regulators, but rather, as an essential part of the firm's self-interest. Both senior management and the Board of Directors need to be involved as cyber-attacks have become increasingly more sophisticated and harder to detect.

- A cyber-security industry consultant suggested that companies establish contingency plans regarding technology attacks in order to preserve stock prices, reputational risk, and the company's brand.

Please feel free to contact Rick Weiss at 610.351.1633 or rweiss@ambfg.com with questions or comments.