Community Depository Institutions Advisory Council Meeting

Federal Reserve Bank of New York
33 Liberty Street, New York, New York
March 27, 2017

Agenda

11:00 a.m.

Administrative Matters

Presentations to the Council Members:

- National Economic Outlook (Richard Peach, Macroeconomic and Monetary Studies)
- Regional Economic Outlook (Jason Bram, Regional Analysis)
- Developments in Payments (Kenneth Isaacson, Wholesale Product Office)

12:30 p.m. Discussion of questions posed by the Board of Governors over lunch

Community Depository Institutions Advisory Council
Discussion Questions
March 27, 2017 Meeting
Federal Reserve Bank of New York

11. **Current Banking Conditions:**
What is the Council's view of the current condition of, and the outlook for, loan markets and financial markets generally? Please describe any significant changes in the creditworthiness of applicants for loans, loan demand, and lending standards in general.

a. **Small Business Lending:** Has credit availability for, and demand for credit from, small businesses changed significantly? Have lending standards for these borrowers changed?

b. **Commercial Real Estate Lending**: Have there been any changes in the Council's view of challenges in the commercial real estate market since the beginning of the year? How are commercial real estate loans performing compared to your expectations?

c. **Construction Lending:** What is the Council's view of the availability of credit for construction and development projects? Have Council members seen any changes in the demand for construction loans since the beginning of the year?

d. **Home Mortgage Lending:** What changes have Council members seen in the mortgage market since the beginning of the year? Is a trend developing among community banks to increase, decrease, or cease home mortgage originations, and if so, what are the likely causes for and effects of this trend?

e. **Consumer Lending:** What changes have Council members seen in consumer lending?

f. **Agricultural Lending:** Have there been any changes in agricultural lending?

g. **Deposits:** Have Council members seen any changes in local deposit markets?

2. **Economic Discussion:**

   a. **Overall Economic Conditions:** How do Council members assess overall economic conditions in their regions?

   b. **Particular Indicators:**

      i. **Inflation:** Are the prices of products and services rising more or less quickly (or declining more) than in the recent past? Are the prices for the products and services Council members purchase rising more or less quickly?

      ii. **Housing:** How have house prices changed in recent months? Have there been any changes in housing activity overall in Council members' regions?

      iii. **Labor Markets:** How have the labor markets in which Council members operate changed in recent months? In particular, assess the degree of job loss (how much and in which industries). What changes to wages have Council members observed in the past year?

      iv. **Consumer Confidence:** Is the Council seeing signs of improved consumer confidence? What is the outlook for consumer credit losses?

3. **Payment Systems:** Although the introduction of the EMV (Europay, MasterCard, and Visa) chip is aimed at reducing in-person fraud, it does not address online card fraud, which continues to grow. What has been the Council's experience with the EMV rollout in reducing in-person fraud in the United States? How does the Council view steps taken by the industry to address online credit fraud?

4. **Examination Practices:** Have Council members experienced problems with recent examinations? In particular, have examination practices constrained access to credit by creditworthy borrowers? What steps can be taken to address the Council's concerns?

5. **Regulatory Matters and the Future of Banking:** How are recent changes in the regulatory landscape affecting community depository institutions' ability to continue to provide services to their customers? What has been the effect on the industry generally?

6. **Additional Matters:** Have any other matters affecting community depository institutions emerged that Council members want to present at this time?

US Macro Overview
March 27, 2017

Overview

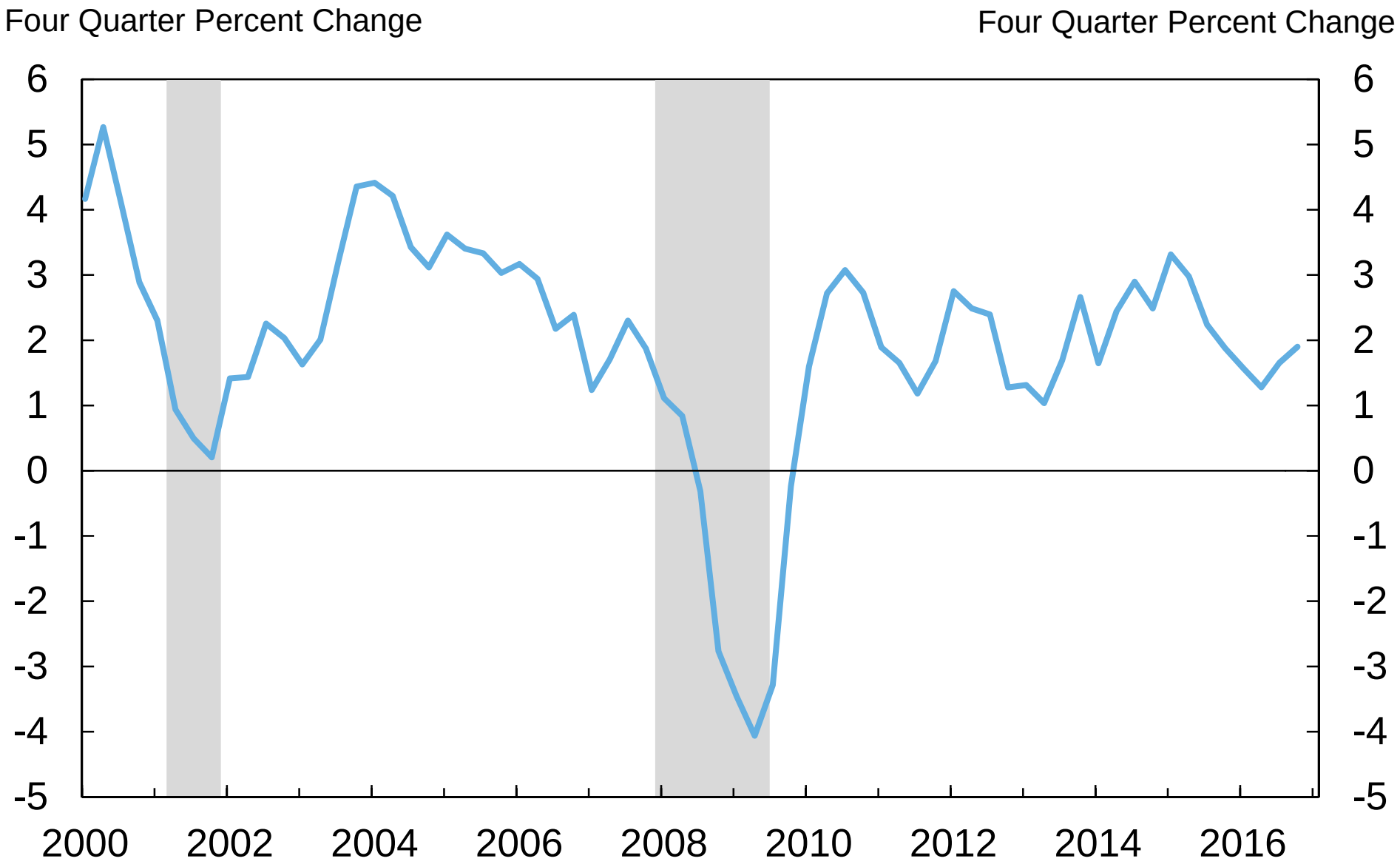
- The US economy appears to be regaining its footing after suffering a significant shock beginning in mid to late 2014.

- US labor market is now showing classic signs of being at or near full employment.

- Core inflation has edged higher over the past year but remains somewhat below the FOMC's objective.
  - Rent inflation continues to edge higher.
  - Health care price inflation has moved higher.
  - The rate of decline of core goods prices has begun to slow as past dollar appreciation has largely worked its way through the system.

- Big policy question is whether fiscal stimulus could boost the economy's underlying trend growth rate.

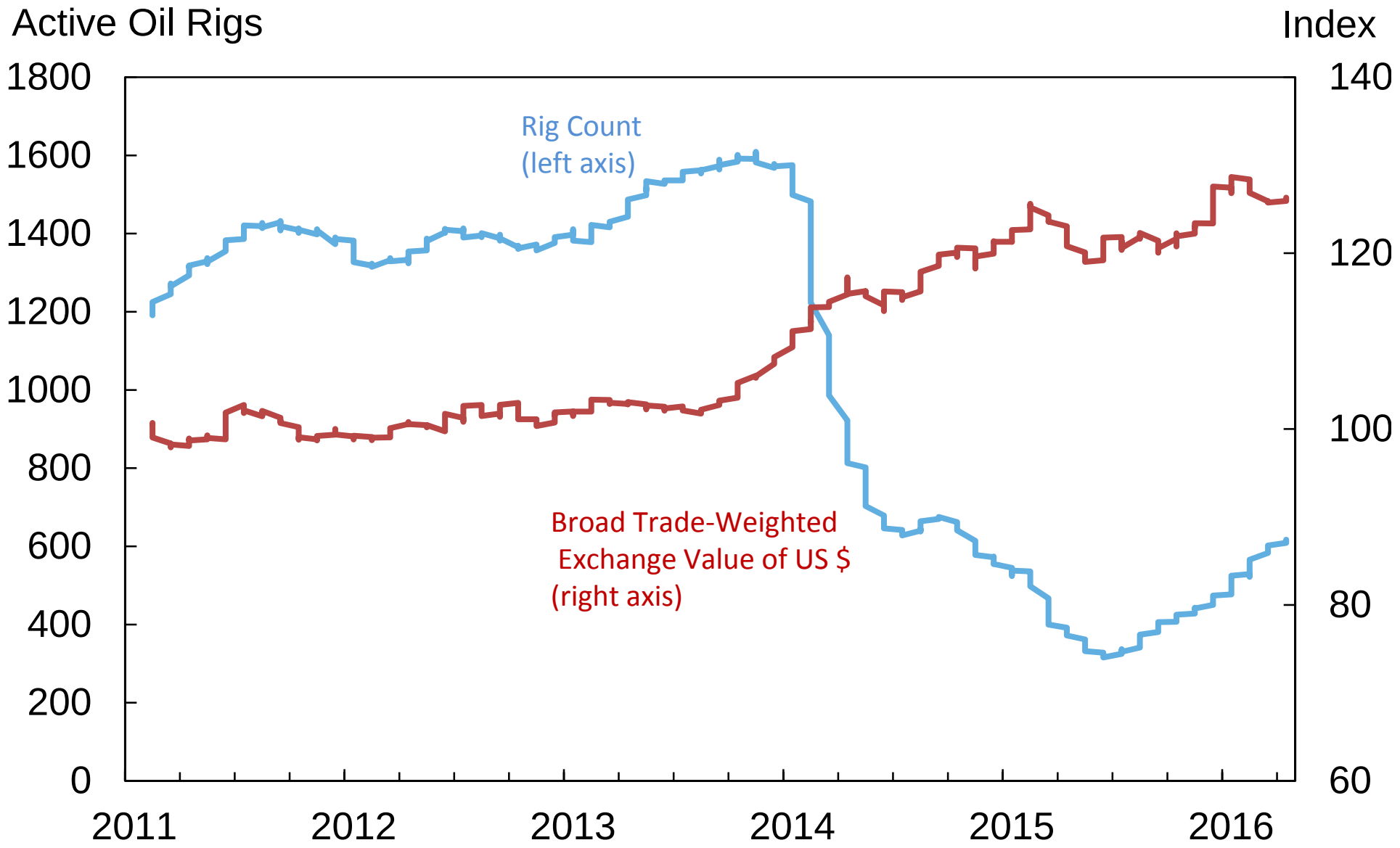
Growth of Real GDP



Source: Bureau of Economic Analysis

Note: Shading shows NBER recessions.

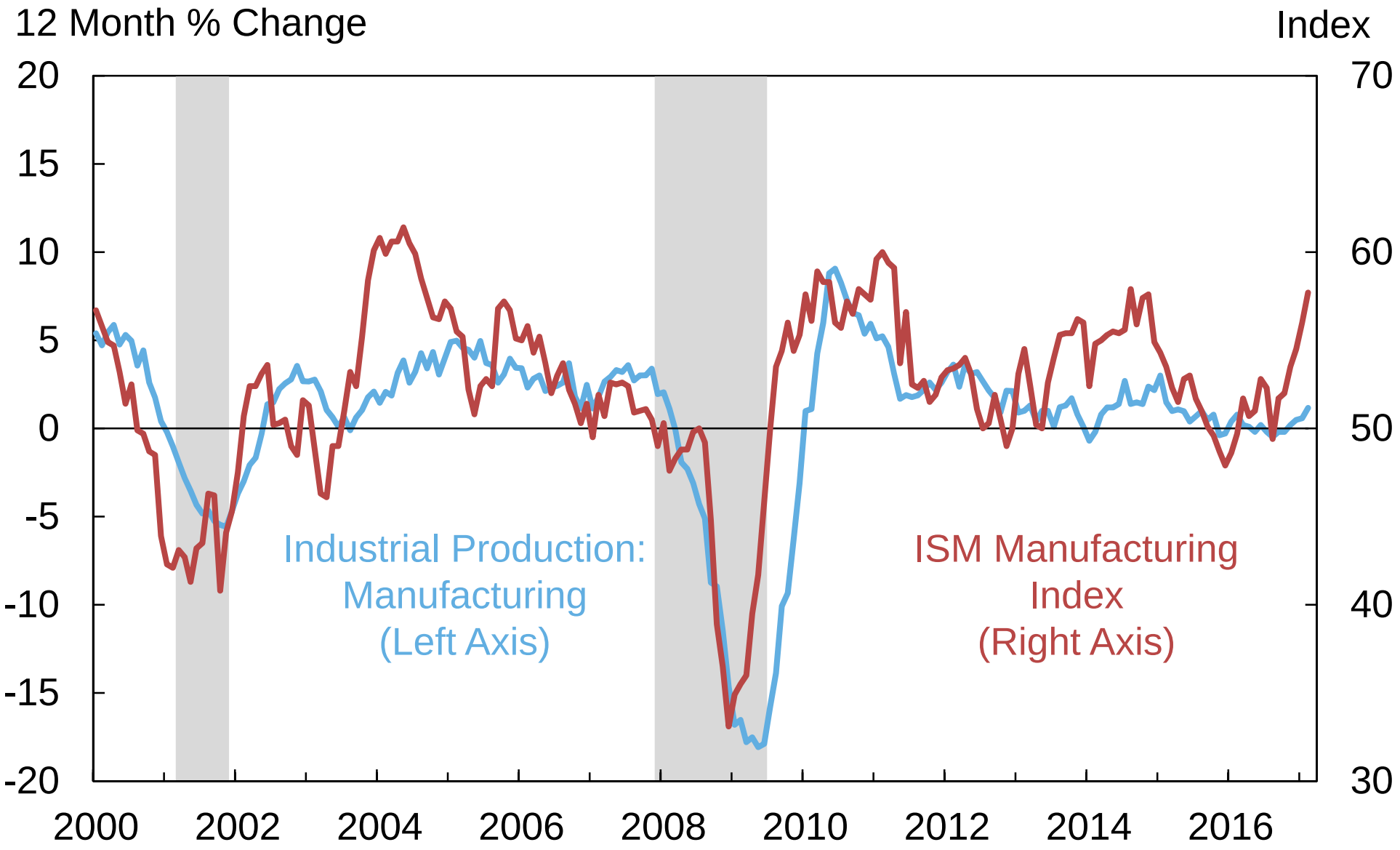
Nominal Trade-Weighted Value of US$ and Rig Count



Source: Federal Reserve Board and Baker Hughes

Note: Shading shows NBER recessions.

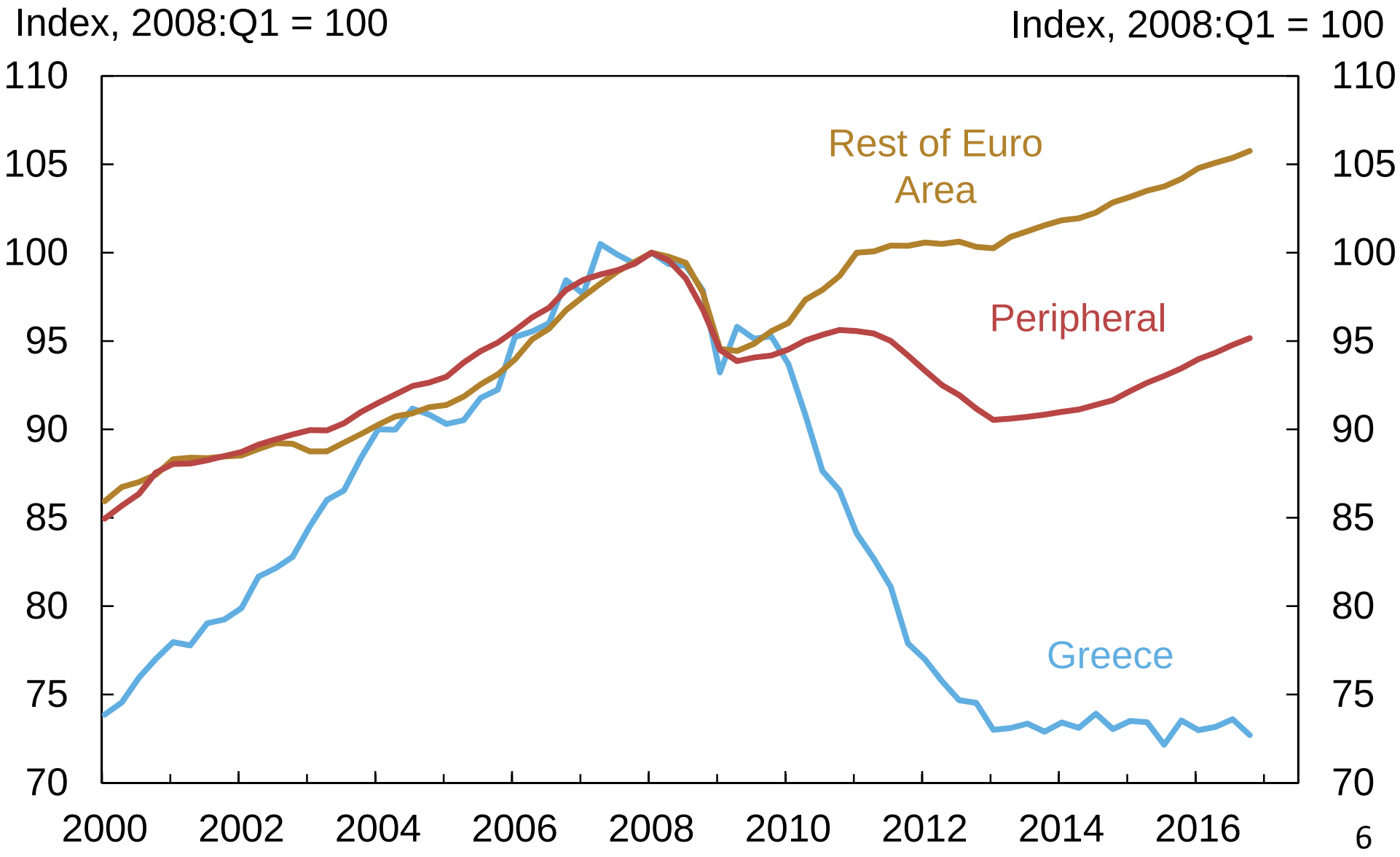
Manufacturing and ISM Manufacturing Index



Source: Institute for Supply Management,
Federal Reserve Board via Haver Analytics

Note: Shading shows NBER recessions.

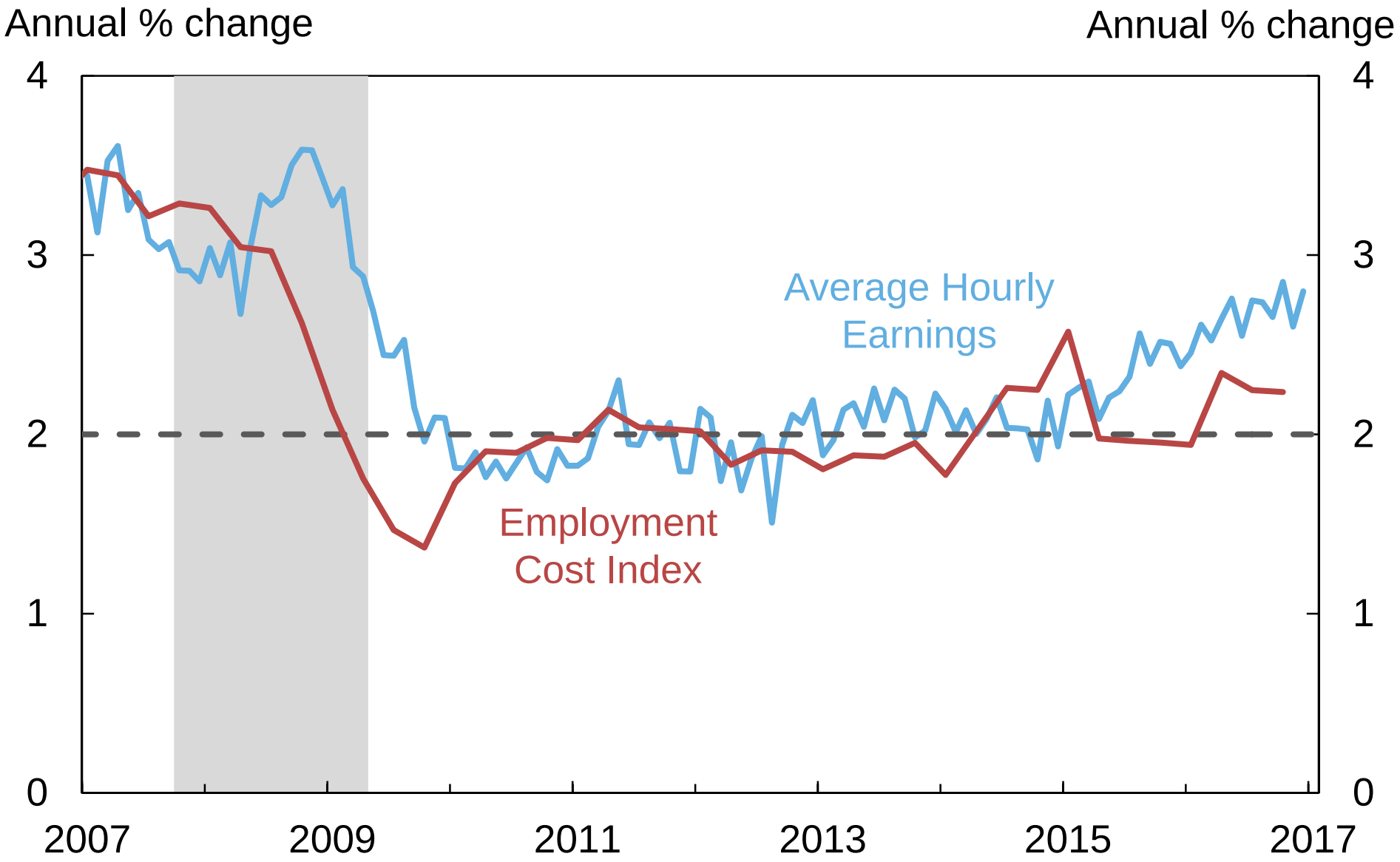
Real GDP in the Euro Area



Source: National Sources via Haver Analytics

Note: Peripheral includes Italy, Portugal and Spain.

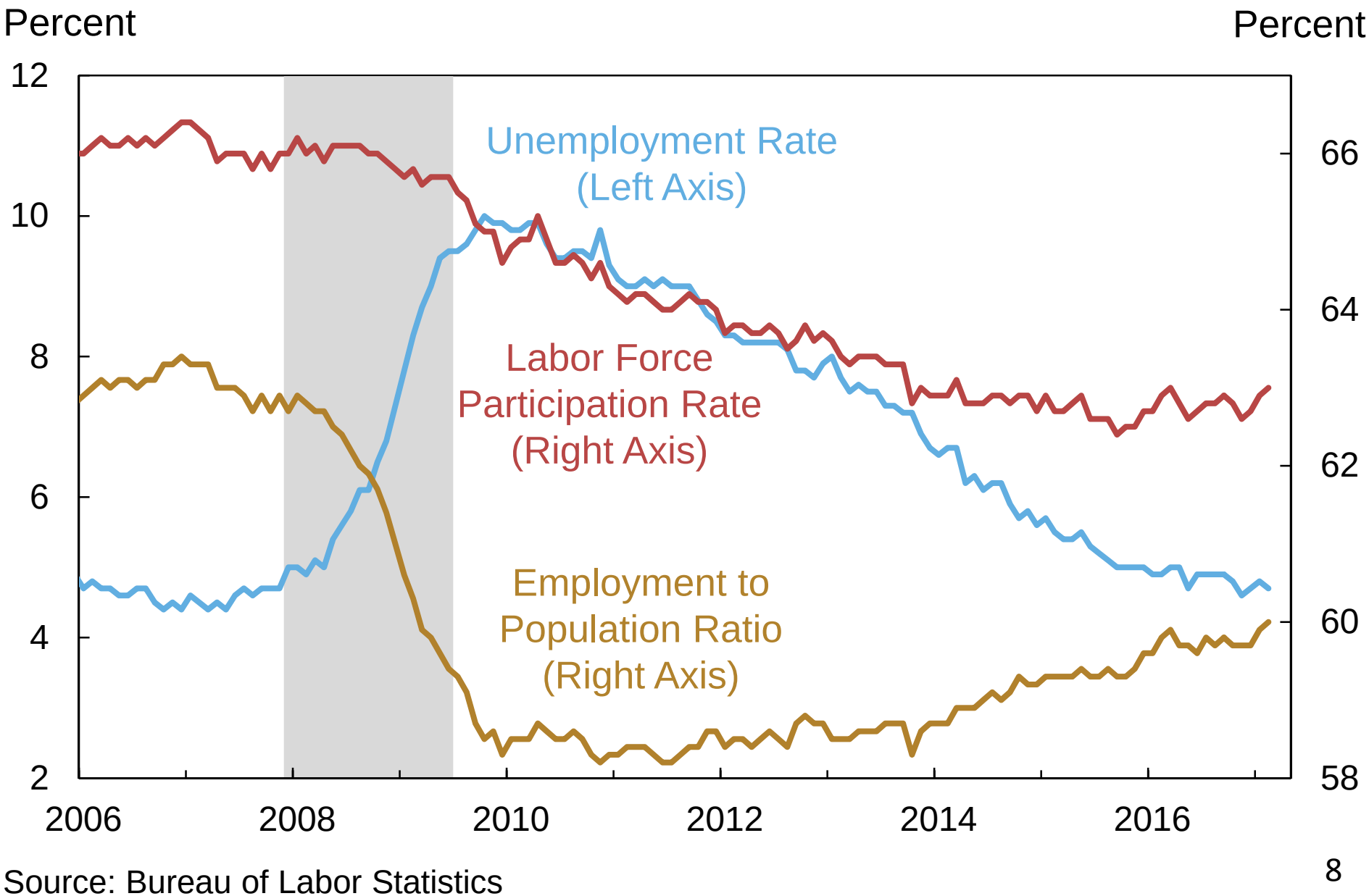
Growth of Average Hourly Earnings and ECI



Source: Bureau of Labor Statistics via Haver Analytics

Note: Shading shows NBER recessions.

Labor Market Indicators



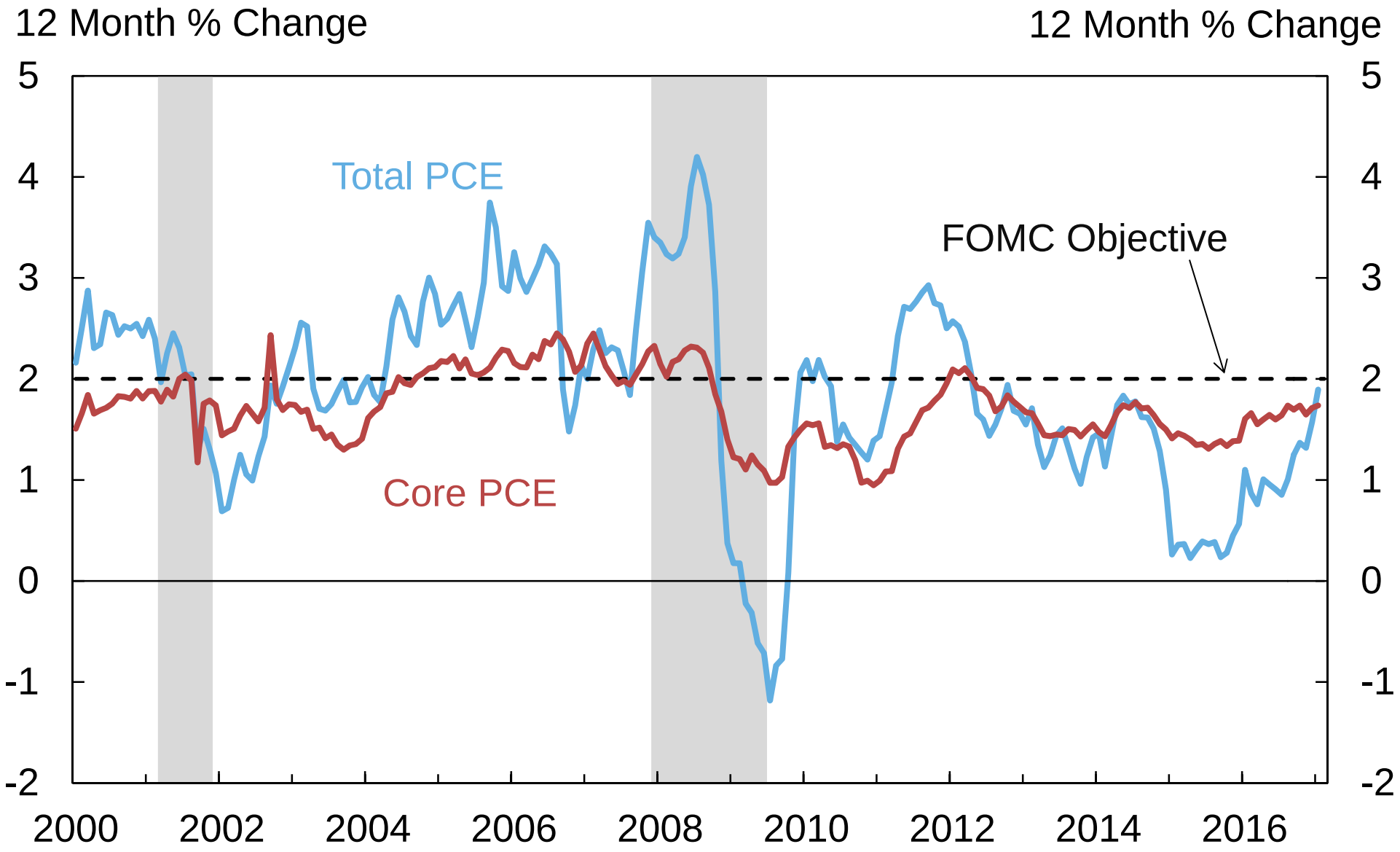
Source: Bureau of Labor Statistics
via Haver Analytics

Note: Shading shows NBER recessions.

Change in Labor Force Participation Rate by Age and Sex

	All Ages			Ages 16 to 24			Ages 25 to 54			Ages 55 and over		
	Total	Men	Women	Total	Men	Women	Total	Men	Women	Total	Men	Women
2006	66.2	73.5	59.4	60.6	63.3	57.9	82.9	90.6	75.5	38.0	44.9	32.3
2016	62.8	69.2	56.8	55.2	56.5	53.8	81.3	88.5	74.3	40.0	46.2	34.7
Change	-3.4	-4.3	-2.6	-5.4	-6.8	-4.1	-1.6	-2.0	-1.2	2.0	1.3	2.3
Contribution to Change in Participation Rate(Percent)												
	100.0	61.4	38.9	42.0	24.8	17.2	145.8	83.3	62.6	-87.8	-46.7	-40.9
Memo: Share of Population												
2006	100.0	48.3	51.7	16.1	8.2	8.0	54.6	26.9	27.6	29.3	13.2	16.0
2016	100.0	48.3	51.7	15.2	7.6	7.5	49.6	24.4	25.2	35.2	16.3	18.9
Change	0.0	0.0	0.0	-1.0	-0.5	-0.5	-5.0	-2.6	-2.4	6.0	3.0	2.9

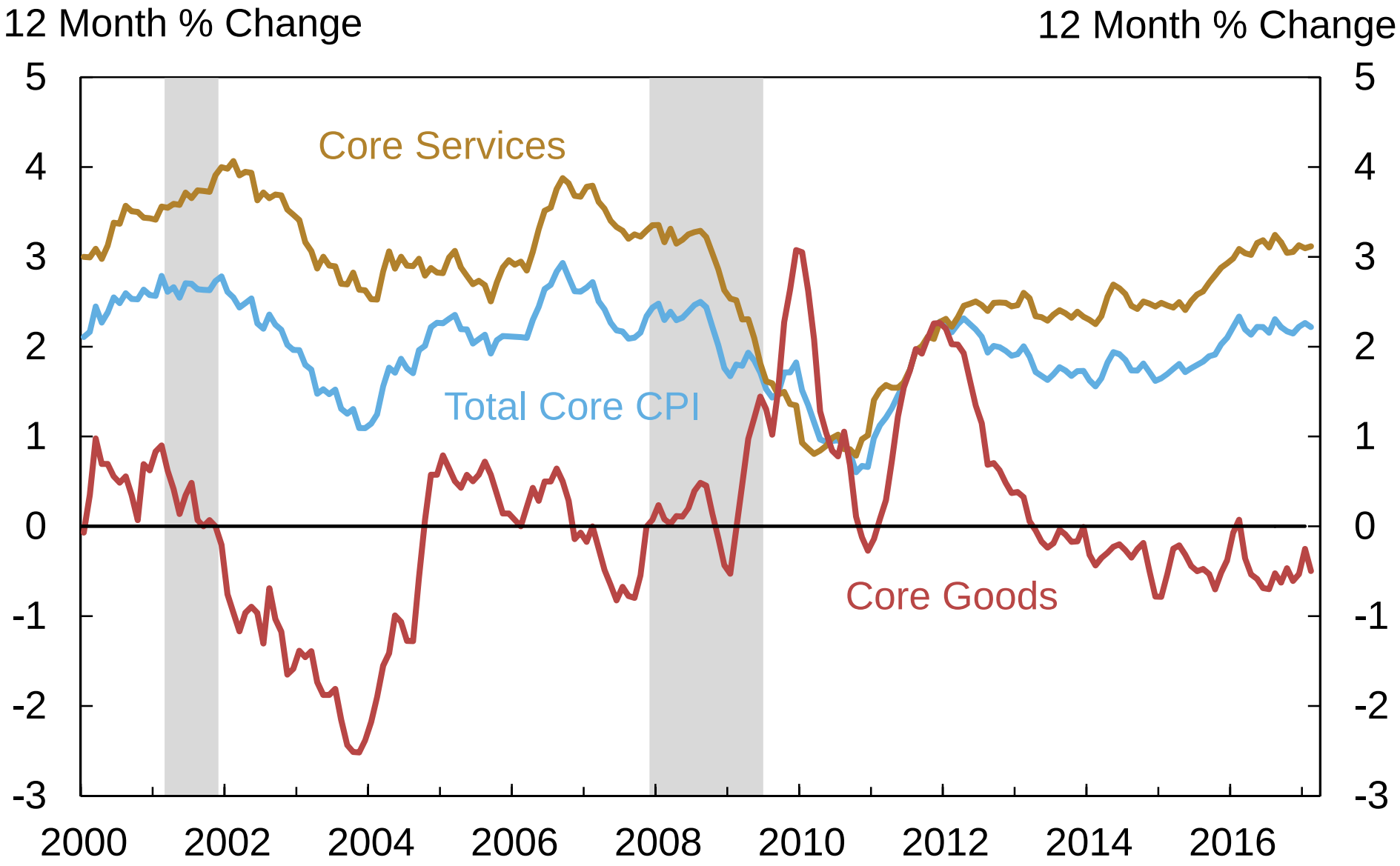
PCE Deflator



Source: Bureau of Economic Analysis
via Haver Analytics

Note: Shading shows NBER recessions.

CPI Inflation: Core Goods and Core Services



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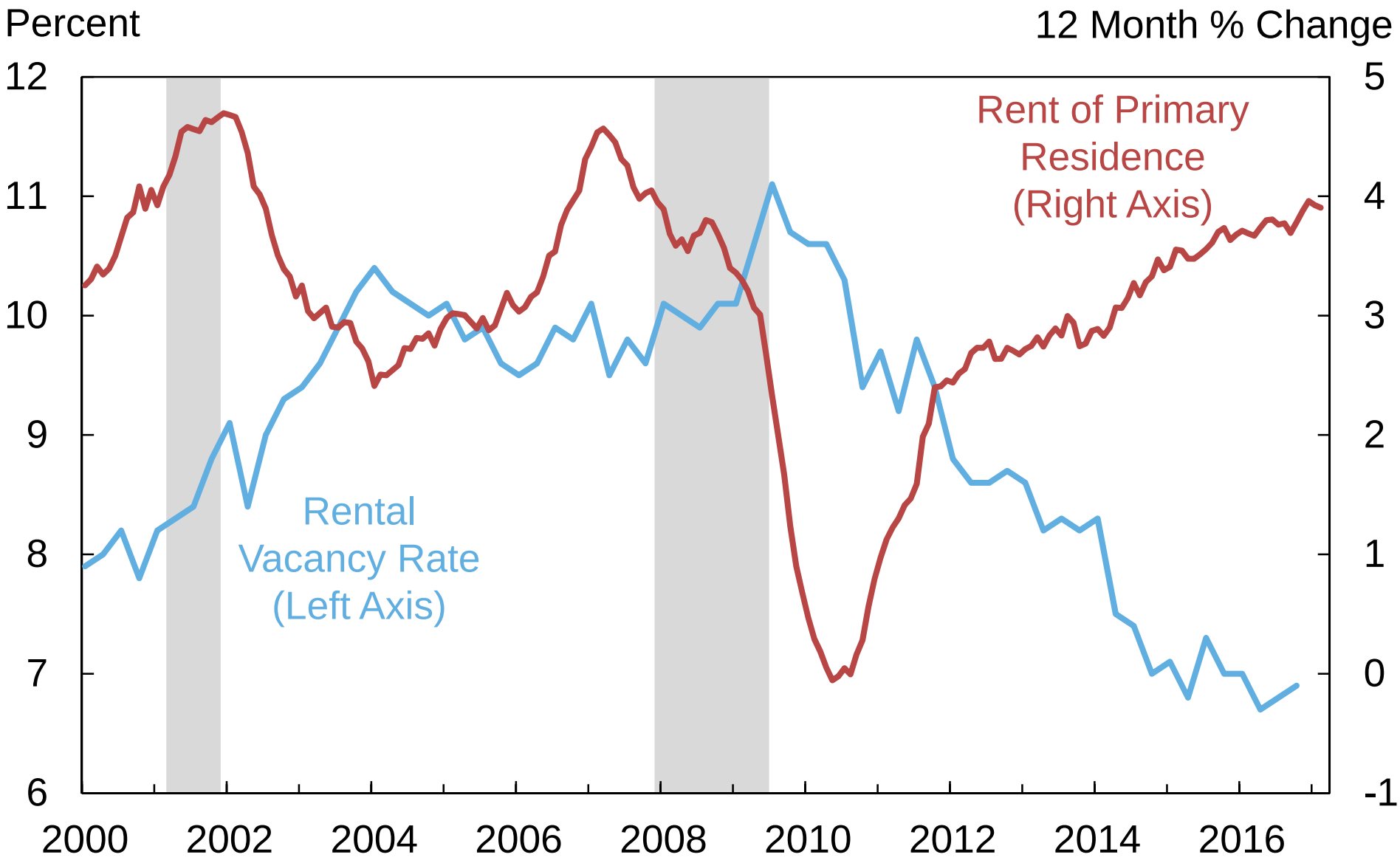
Source: Bureau of Labor Statistics

Note: Shading shows NBER recessions.

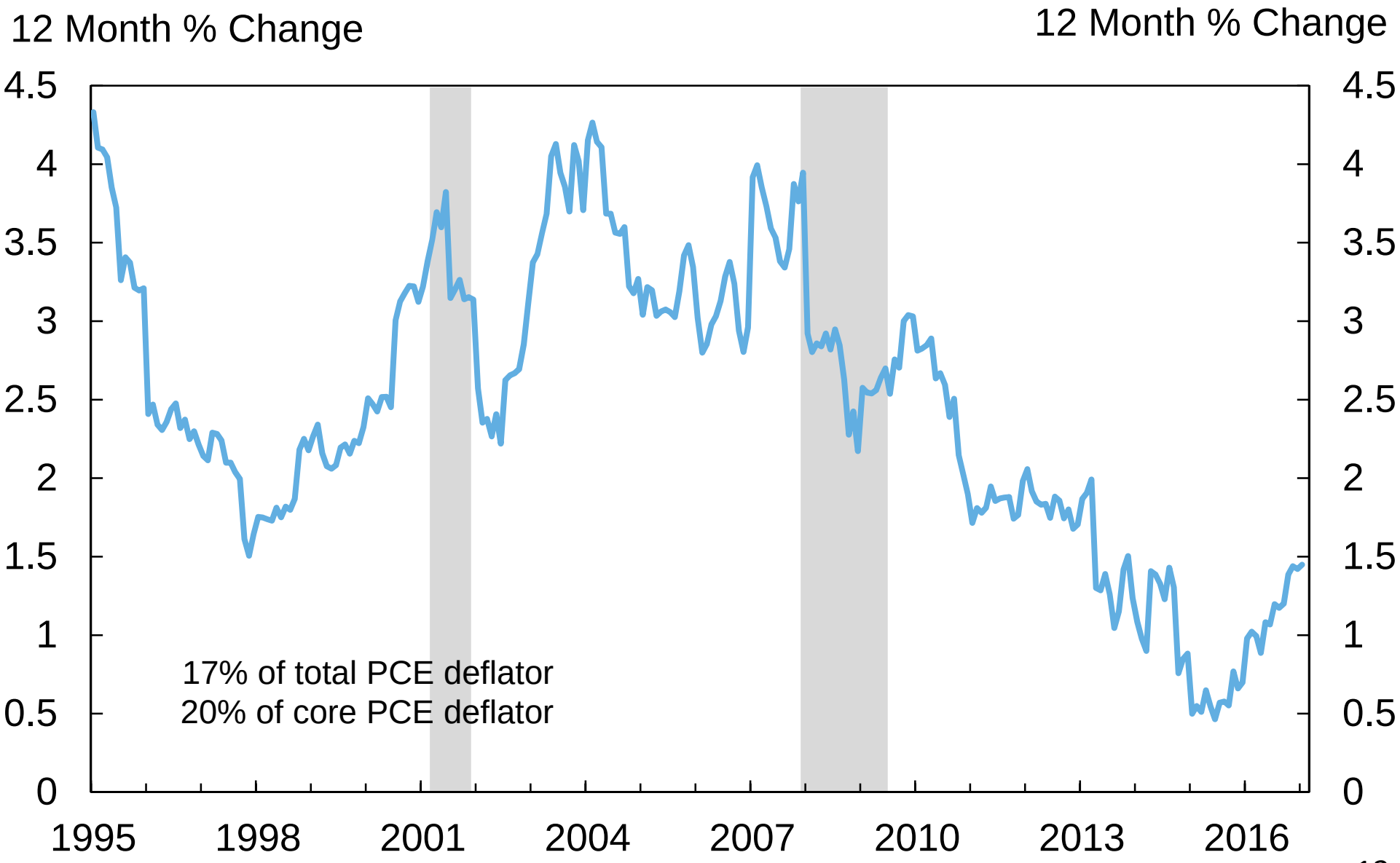
Rental Vacancy Rate and Rent of Primary Residence



Source: Census Bureau, BLS via Haver Analytics

Note: Shading shows NBER recessions.

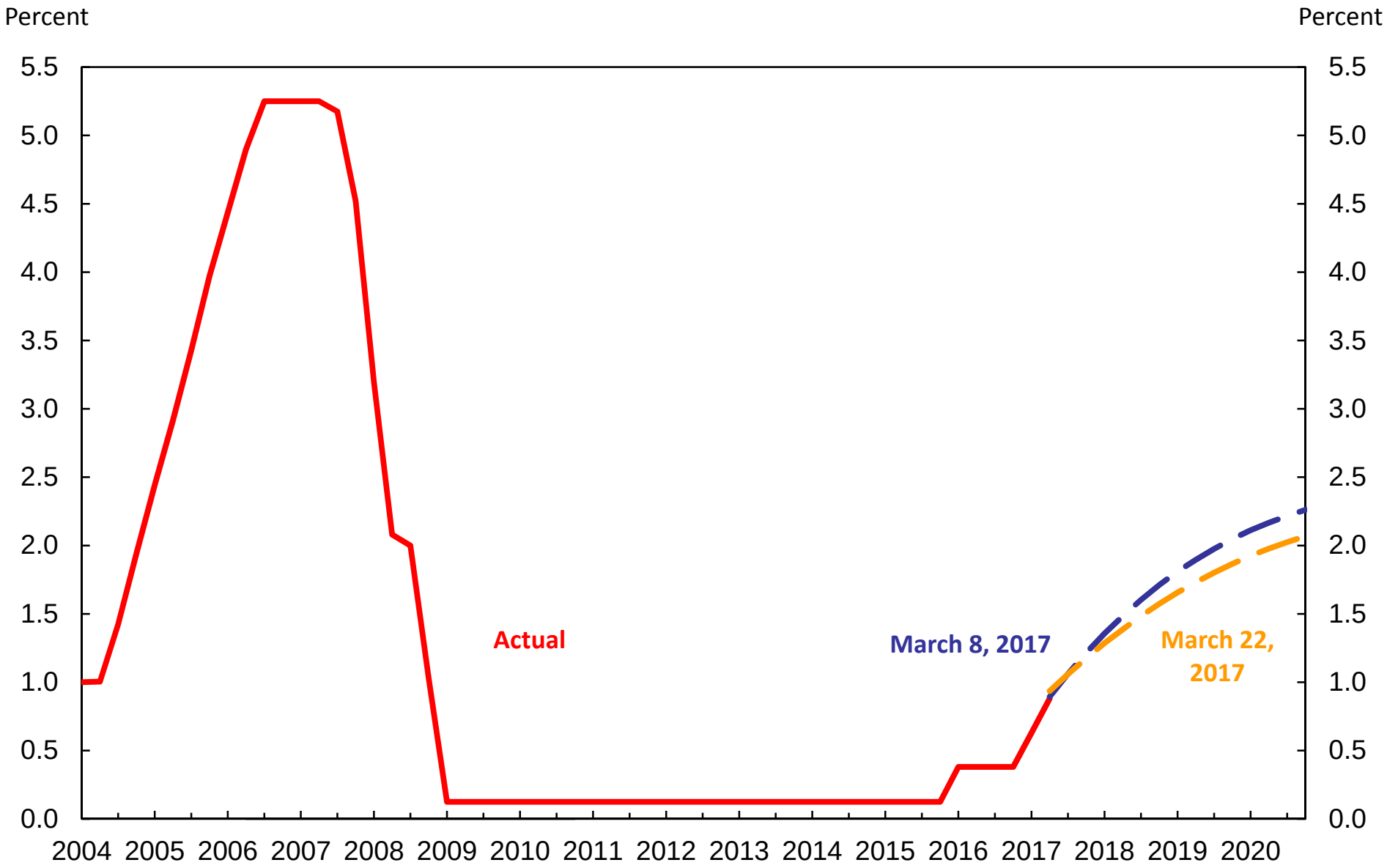
Personal Consumption Expenditures: Health Care Price Index



Source: Bureau of Economic Analysis

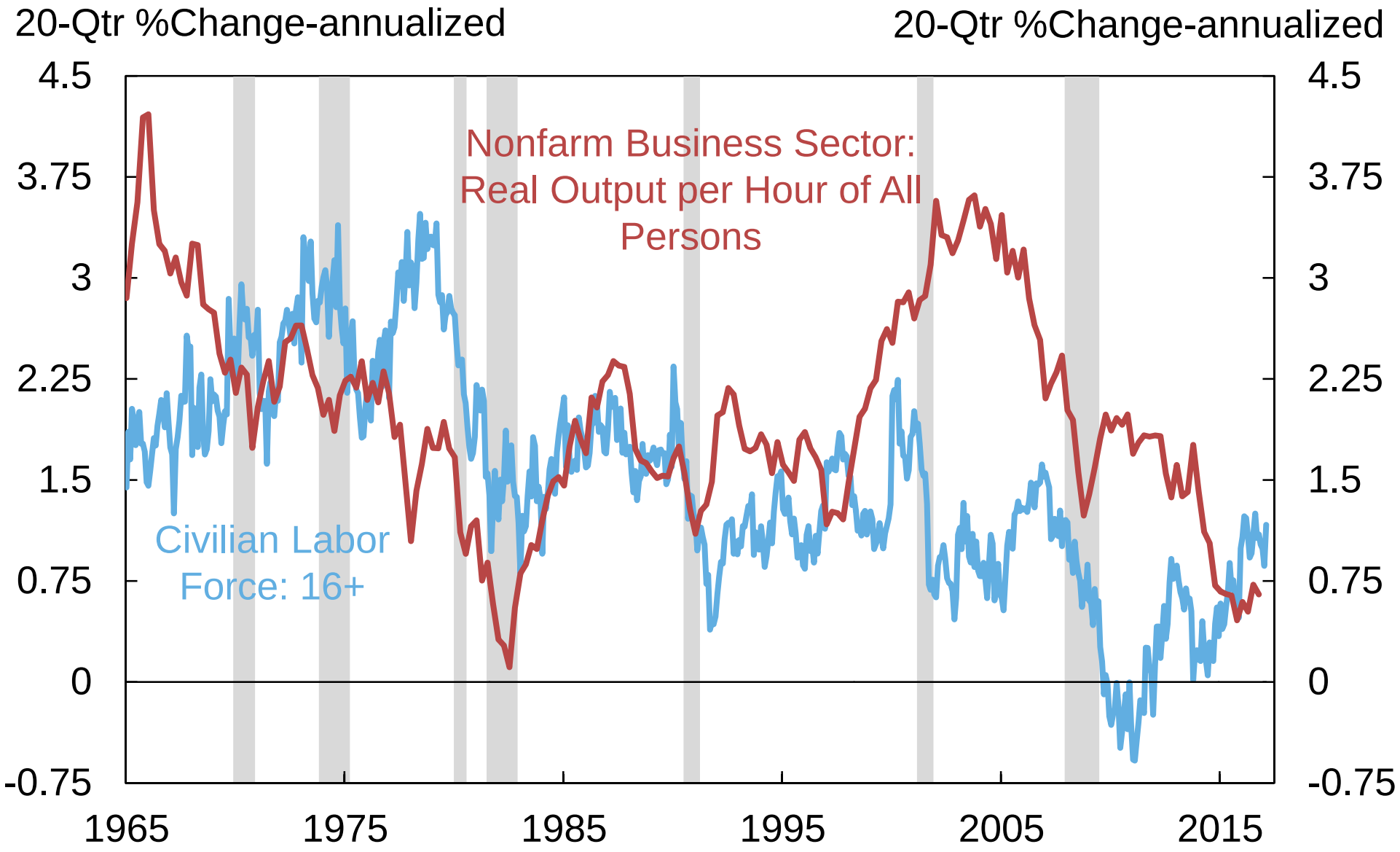
Note: Shading shows NBER recessions.

Actual and Expected Fed Funds Target



Source: Federal Reserve Board

Labor Force and Nonfarm Business Sector Real Output



Source: Bureau of Labor Statistics via Haver Analytics

Note: Shading shows NBER recessions.

Private Nonfarm Business Sector

(compound annual growth rates)	1987-2015	1987-1990	1990-1995	1995-2000	2000-2007	2007-2015
Output	2.9	3.3	3.0	5.0	2.8	1.3
Hours Worked	0.9	1.7	1.3	2.1	0.2	0.2
Labor Productivity (1)	2.0	1.6	1.6	2.9	2.6	1.2
(percentage points)						
Contribution to Labor Productivity from:						
TFP (2)	0.9	0.7	0.5	1.5	1.4	0.4
Labor Composition (3)	0.3	0.2	0.5	0.2	0.2	0.3
Capital Intensity (4)	0.8	0.7	0.6	1.2	1.0	0.5

(1) Output per hour worked.

(2) Output per combined units of labor input and capital services.

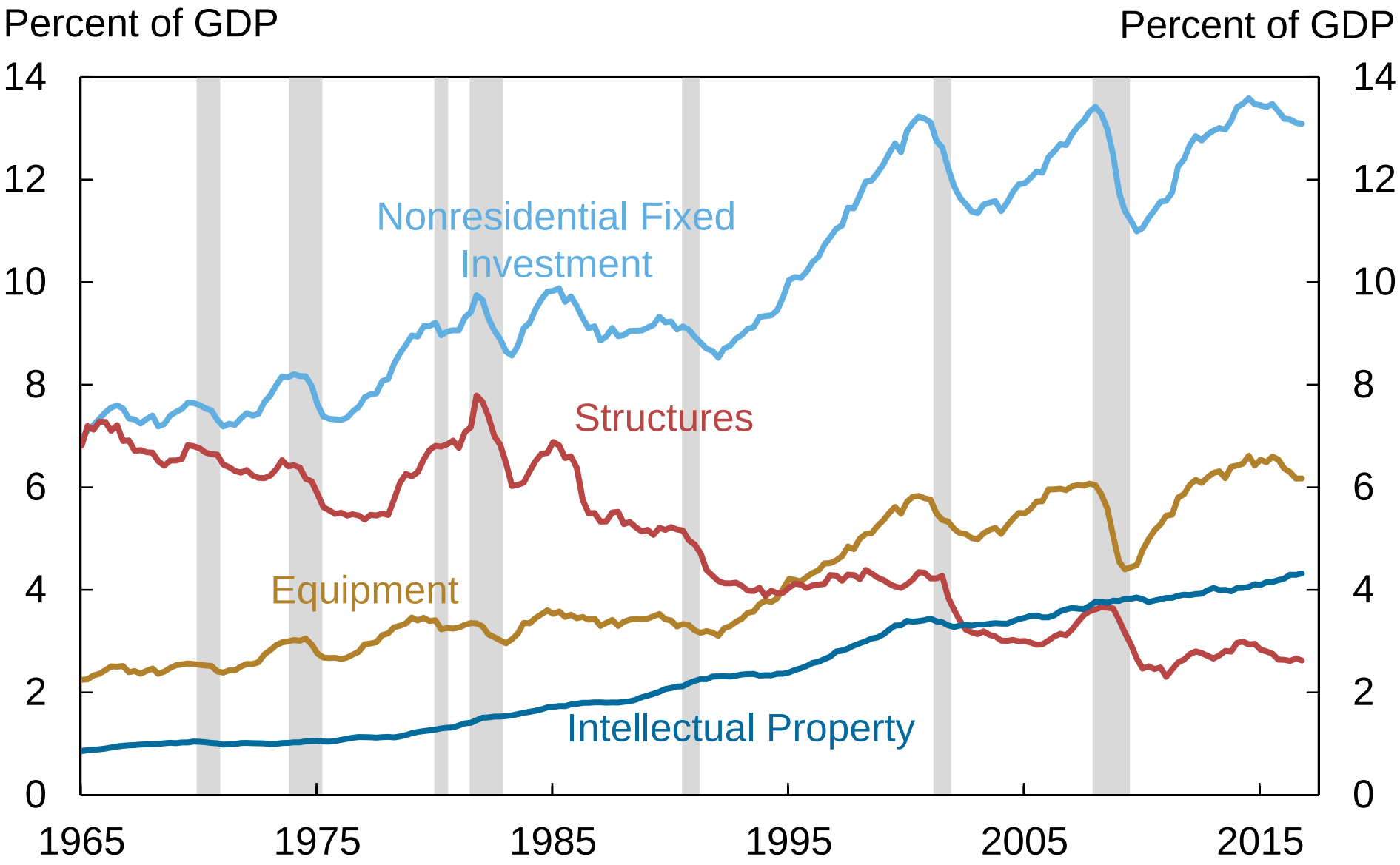
(3) Labor composition multiplied by labor's share of current dollar costs.

(4) Capital services per hour multiplied by capital's share of current dollar costs.

Note: Labor composition measures the effects of shifts in the age, gender, and educational attainment of the work force on the efficiency of hours worked.

Source: U.S. Department of Labor, Bureau of Labor Statistics, "Preliminary Multifactor Productivity Trends-2015", May 5, 2016.

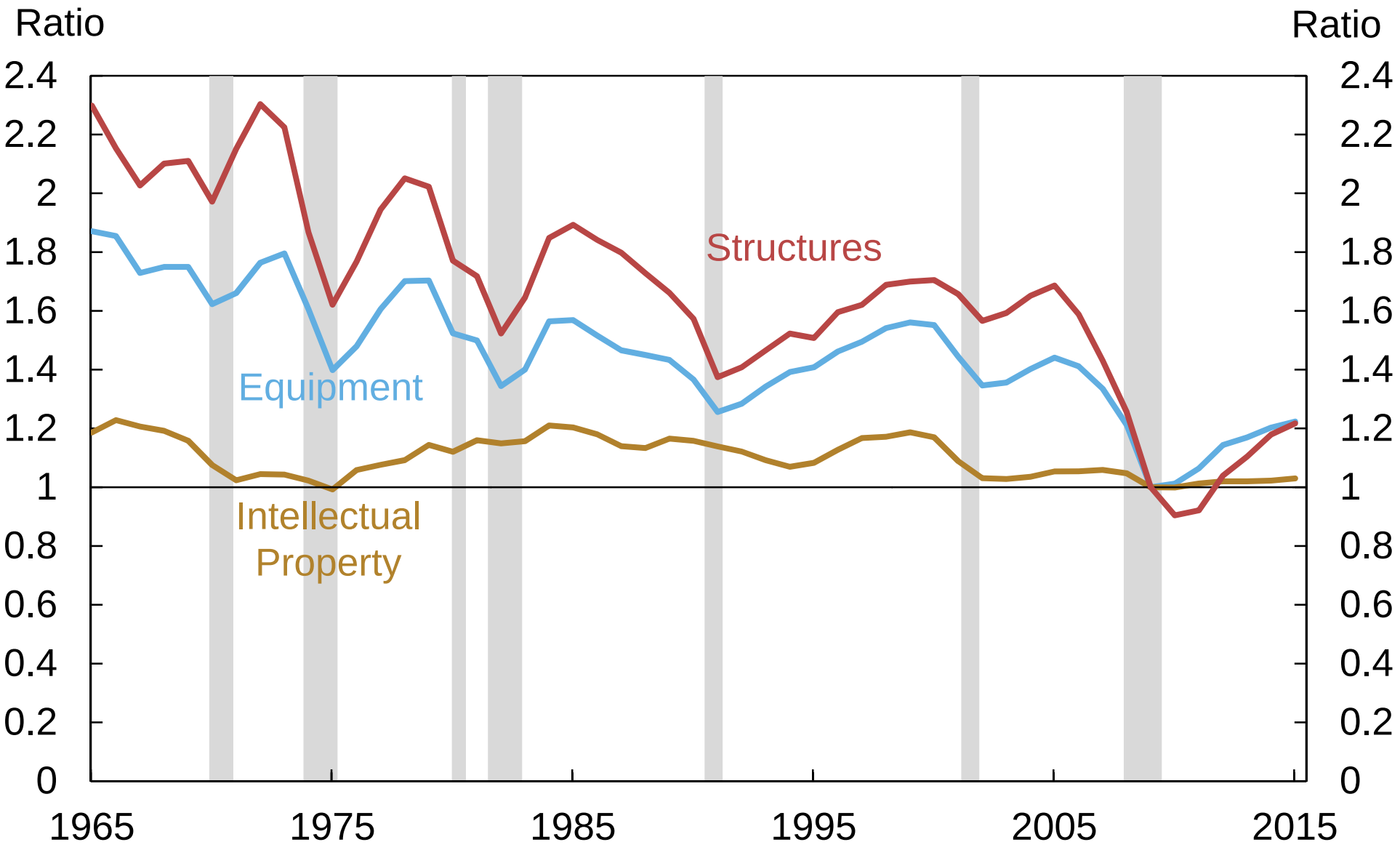
Real Private Investment Share of Real GDP



Source: Bureau of Economic Analysis via Haver Analytics

Note: Shading shows NBER recessions.

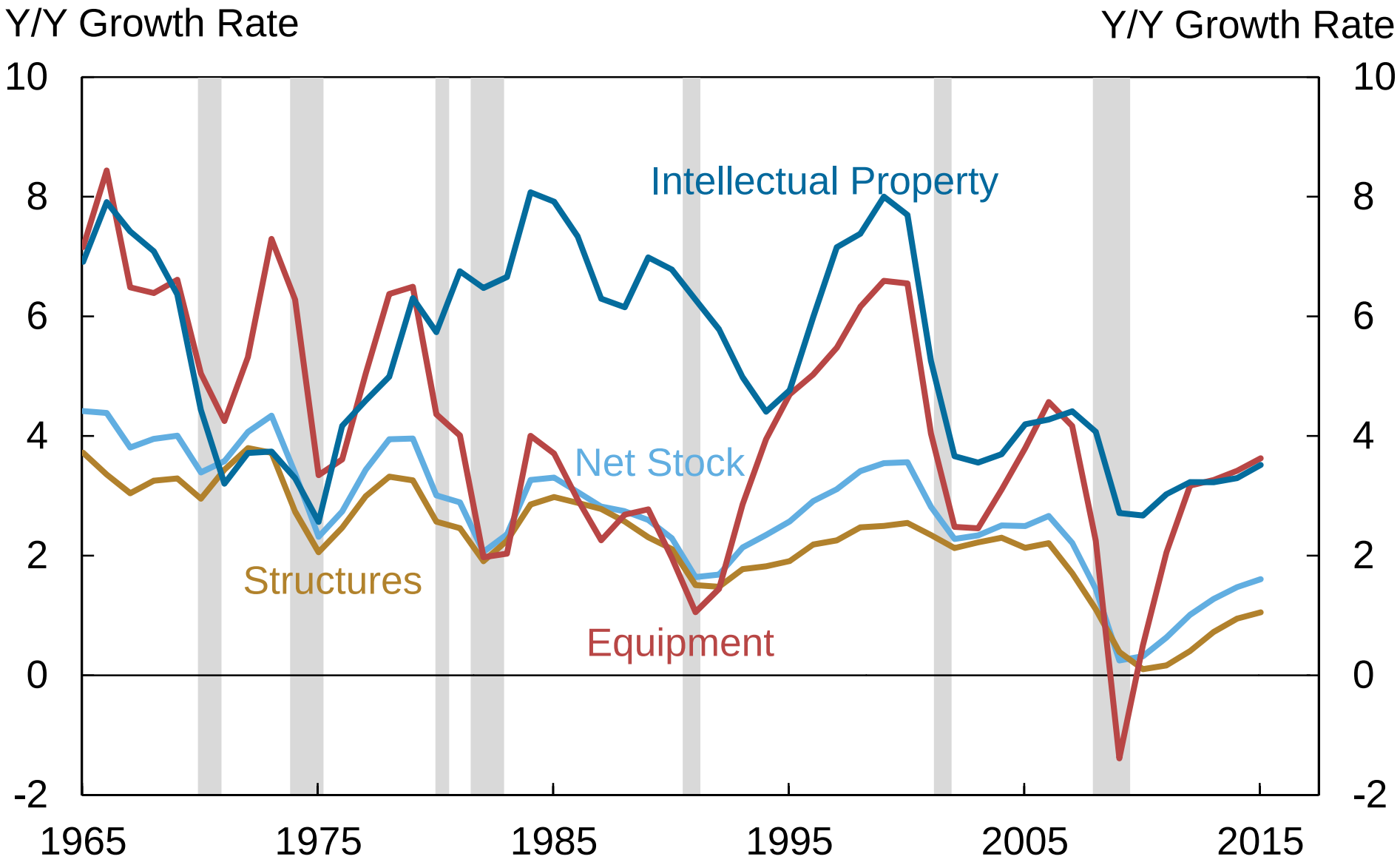
Private Investment Over Depreciation



Source: Bureau of Economic Analysis via Haver Analytics

Note: Shading shows NBER recessions.

Growth of Net Private Nonresidential Capital Stock



Source: Bureau of Economic Analysis via Haver Analytics

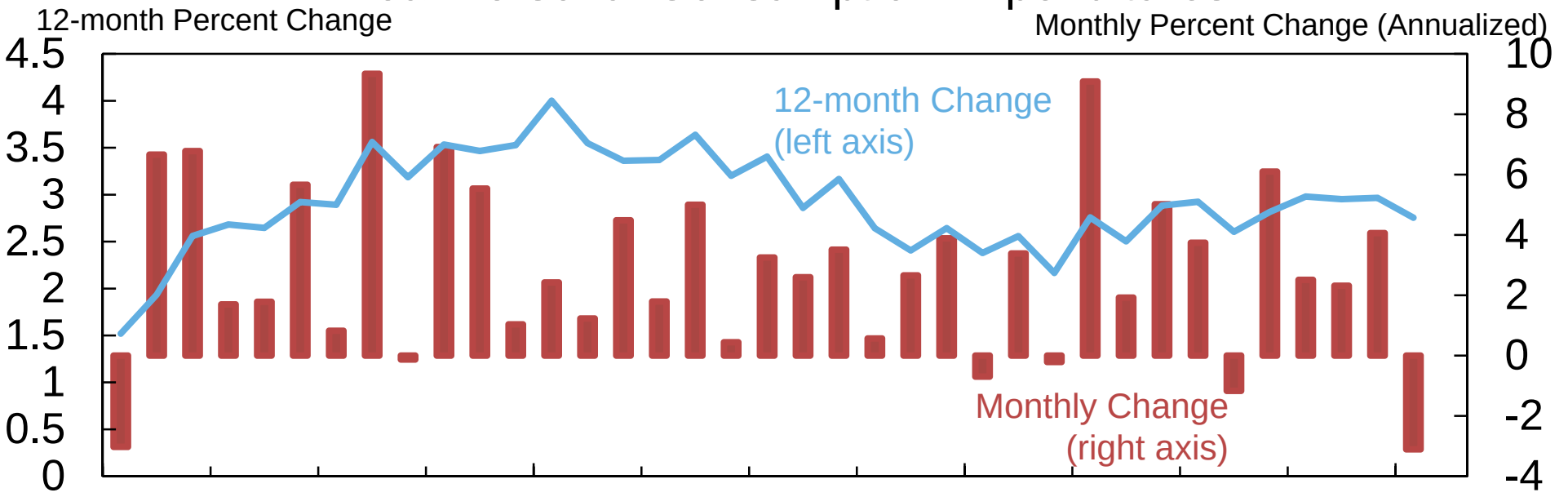
Note: Shading shows NBER recessions.

Reference Charts

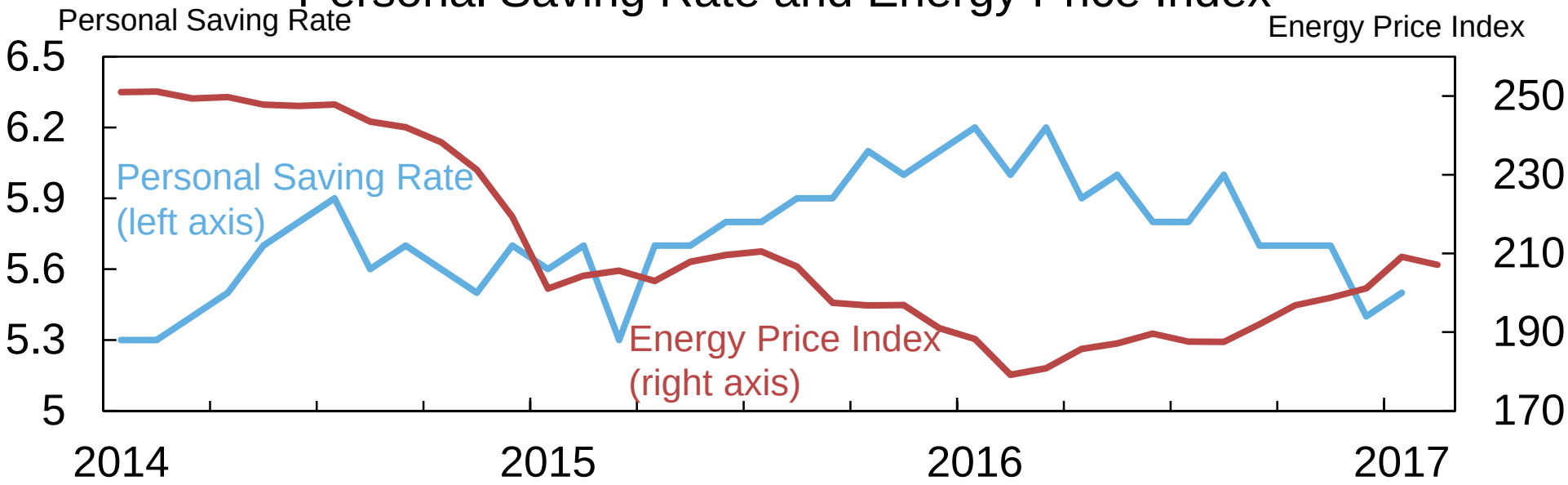
Average Percentage Point Deviation from Average Quarterly Real GDP Growth Rate

	20-years	15-years	10-years	5- years
Q1	-0.9	-0.8	-1.4	-0.6
Q2	0.6	0.4	0.8	0.1
Q3	0.3	0.5	0.6	0.8
Q4	0.1	-0.1	0.0	-0.2

Real Personal Consumption Expenditures



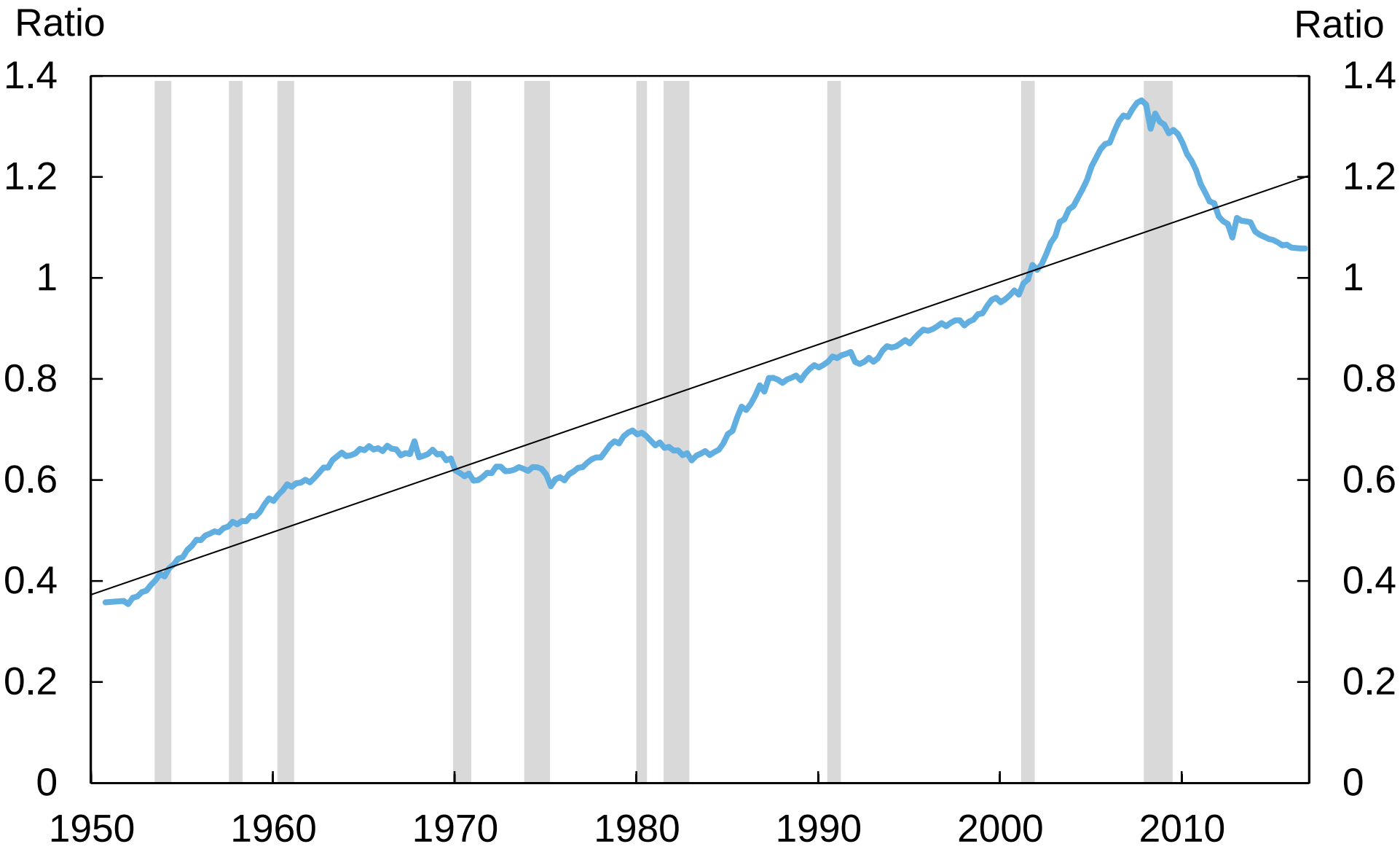
Personal Saving Rate and Energy Price Index



Sources: Bureau of Economic Analysis and
Bureau of Labor Statistics via Haver Analytics

Note: Shading shows NBER recessions.

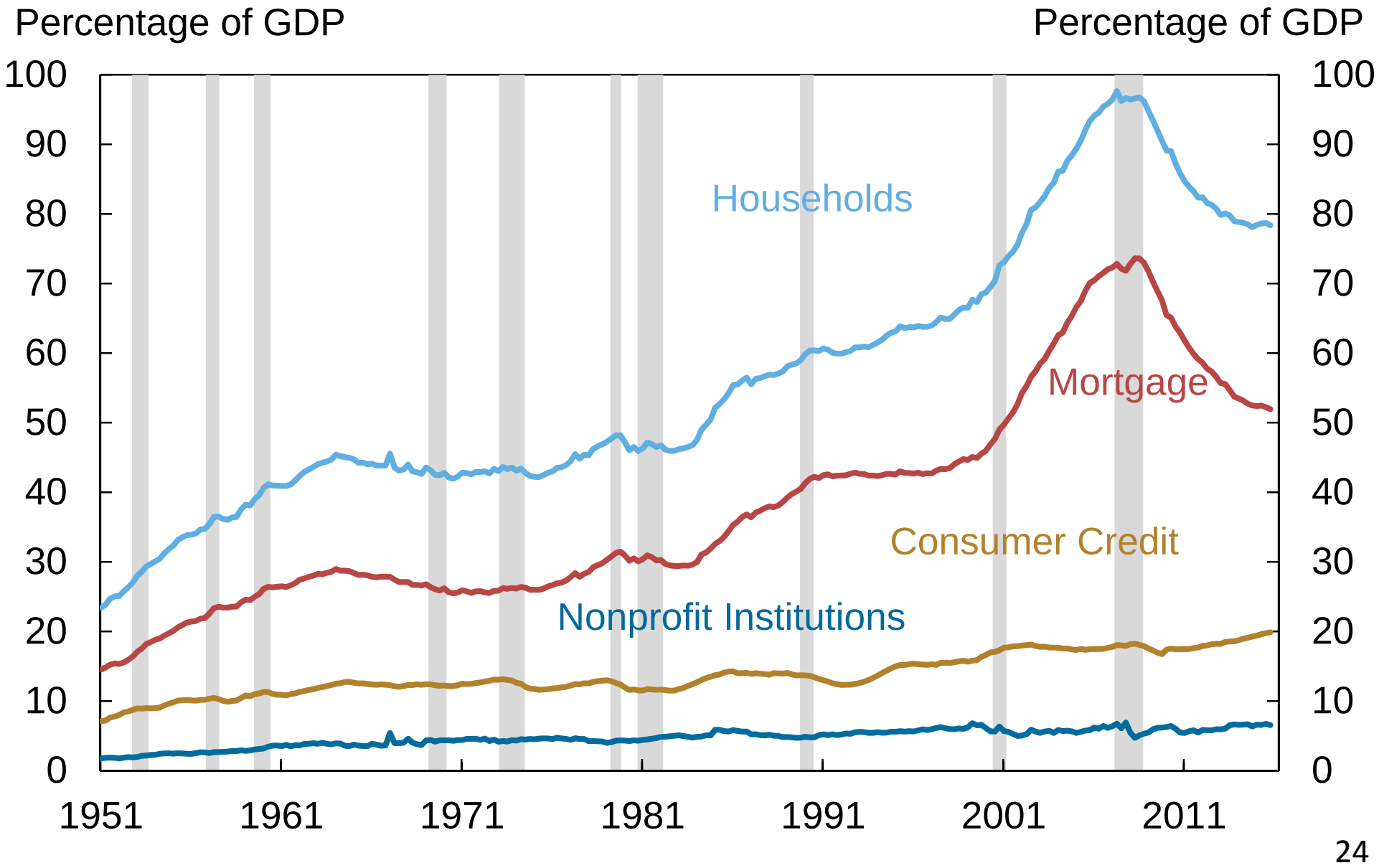
Household Liabilities/Disposable Personal Income



Source: Federal Reserve Board

Note: Shading shows NBER recessions.

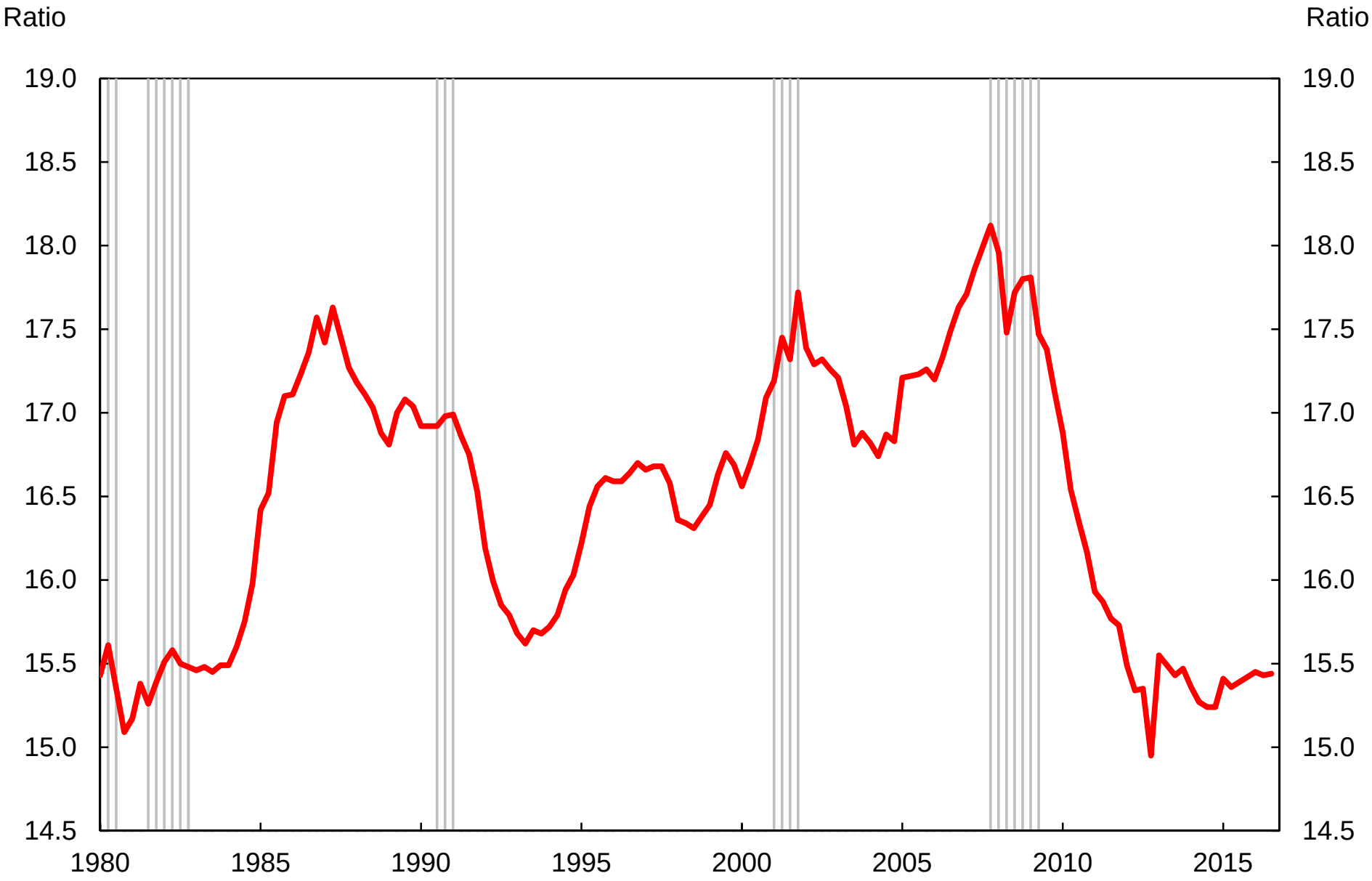
Debt by Sector: Households and Nonprofit Institutions



Source: Haver; Author's Calculations.

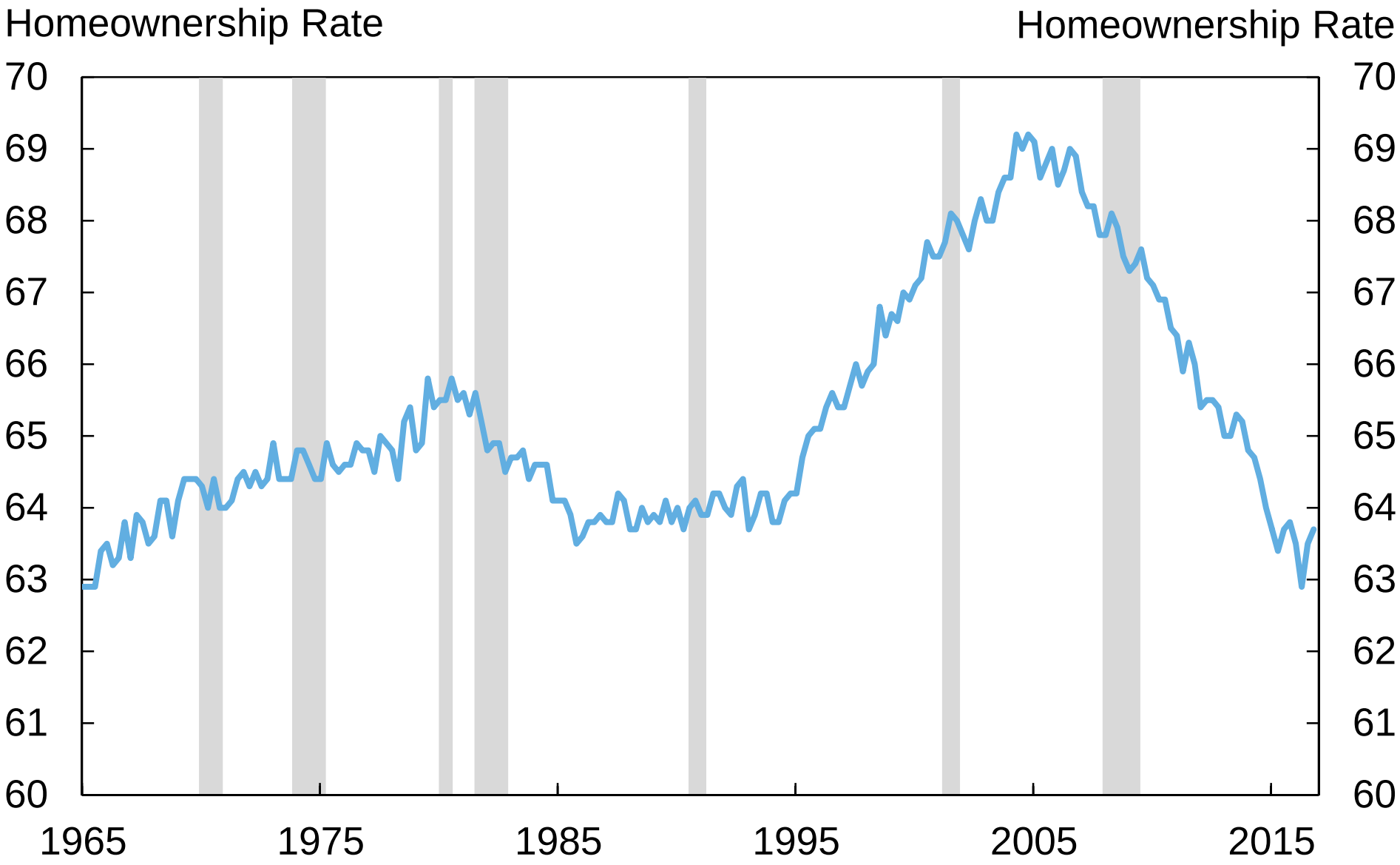
Note: Shading shows NBER recessions.

Household Financial Obligation Ratio



Source: Federal Reserve Board

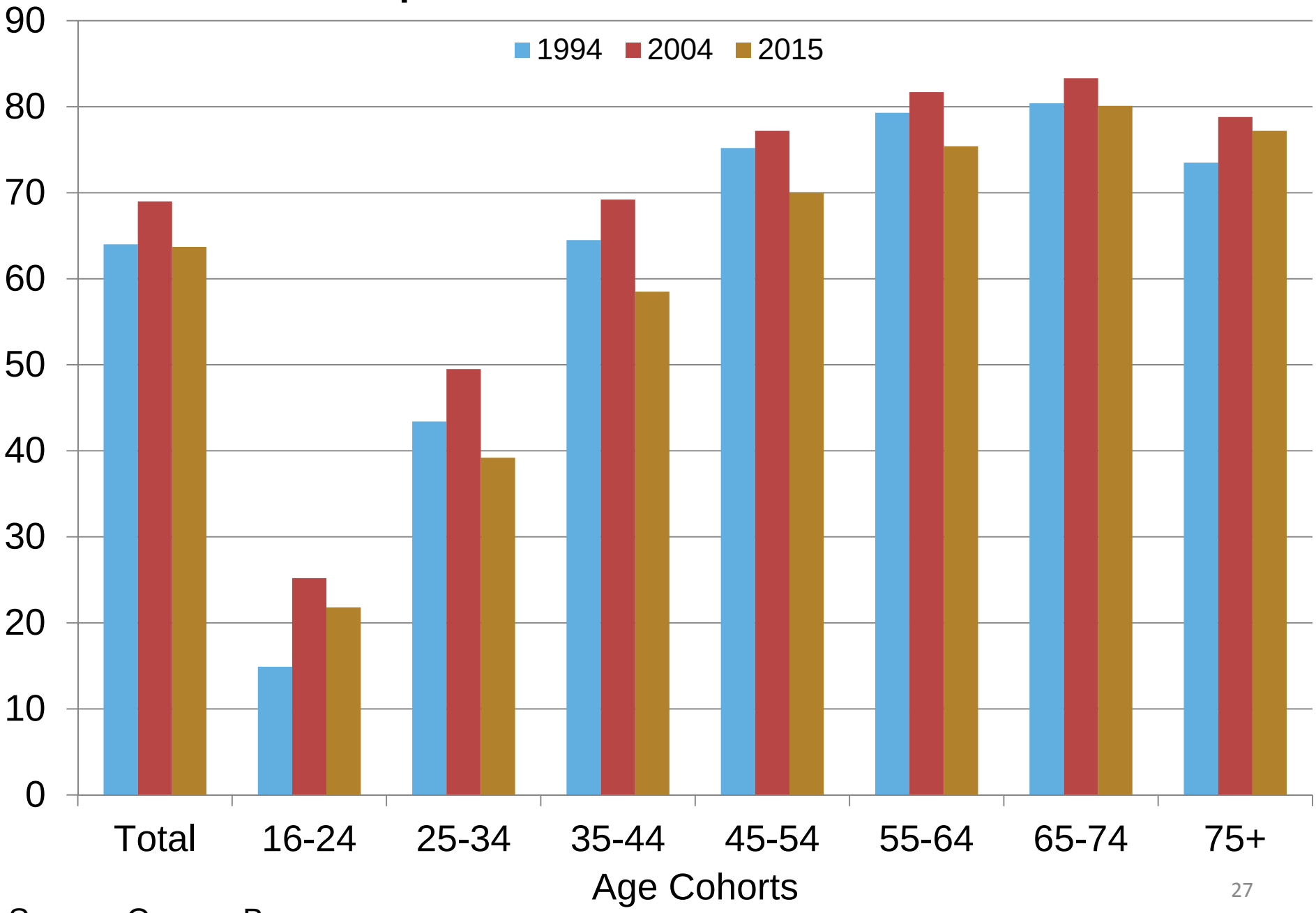
U.S. Homeownership Rate



Source: Census Bureau via Haver Analytics

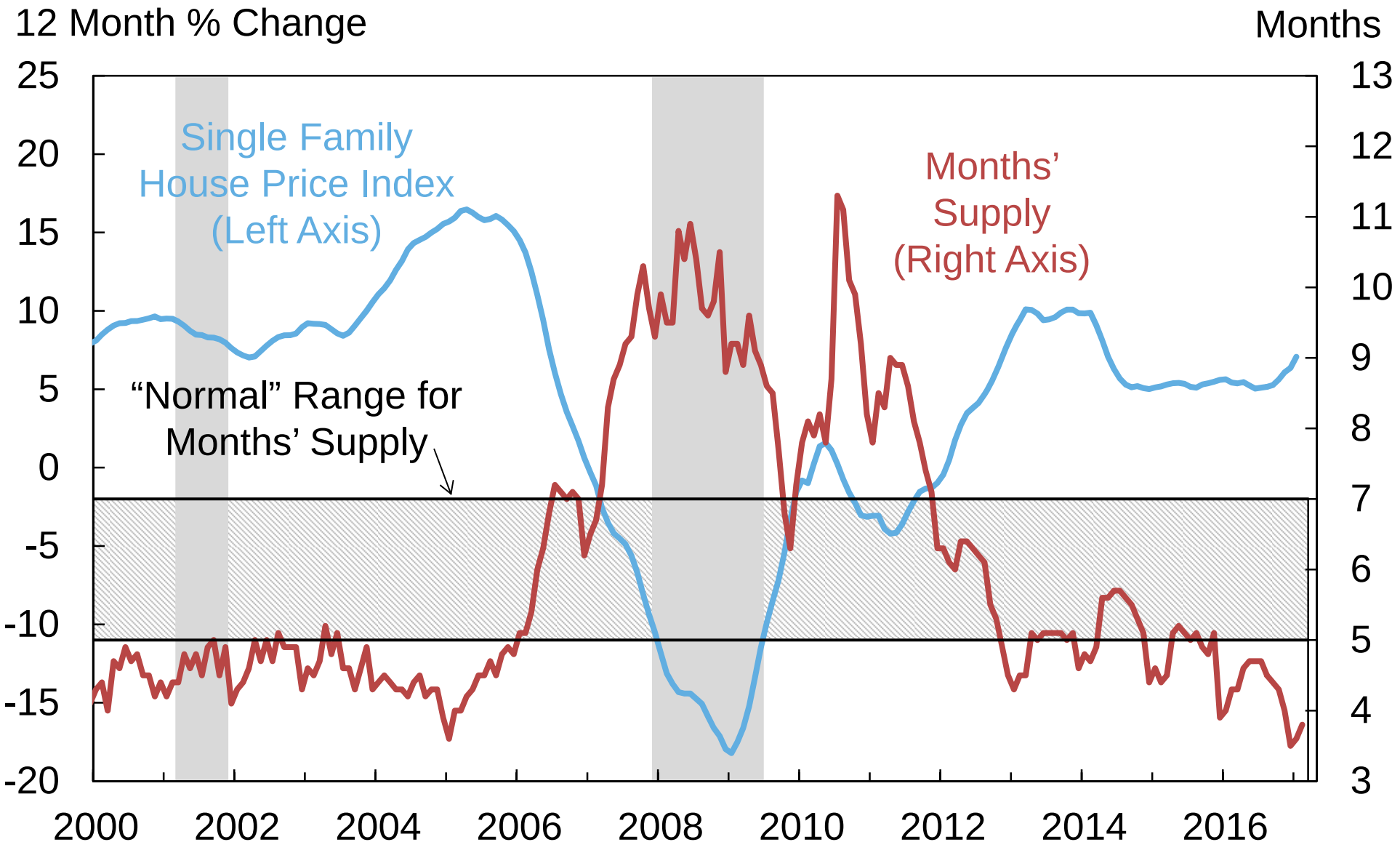
Note: Shading shows NBER recessions.

Homeownership Rate



Source: Census Bureau

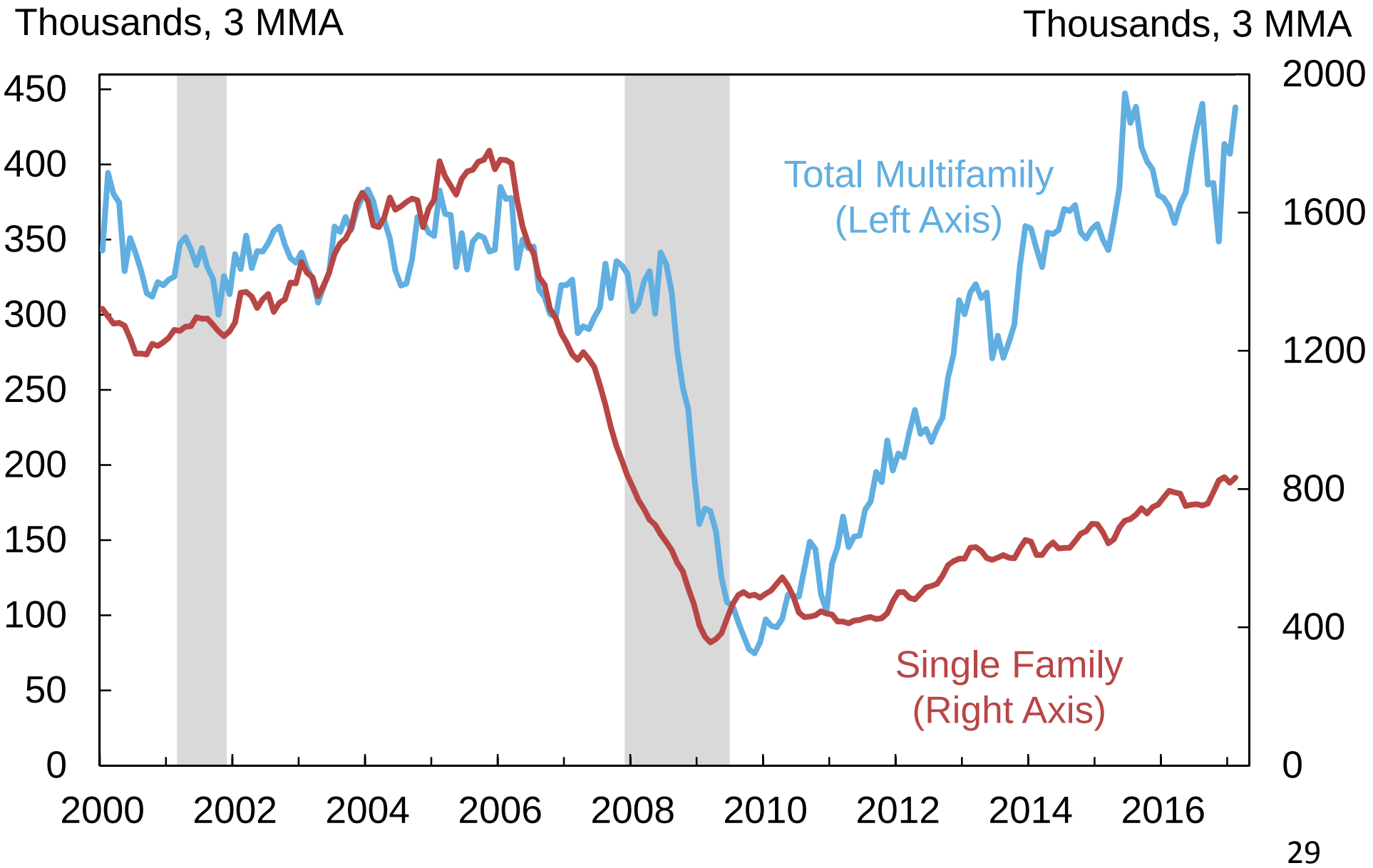
Single Family Housing Market



Source: CoreLogic, National Association of Realtors, via Haver Analytics

Note: Shading shows NBER recessions.

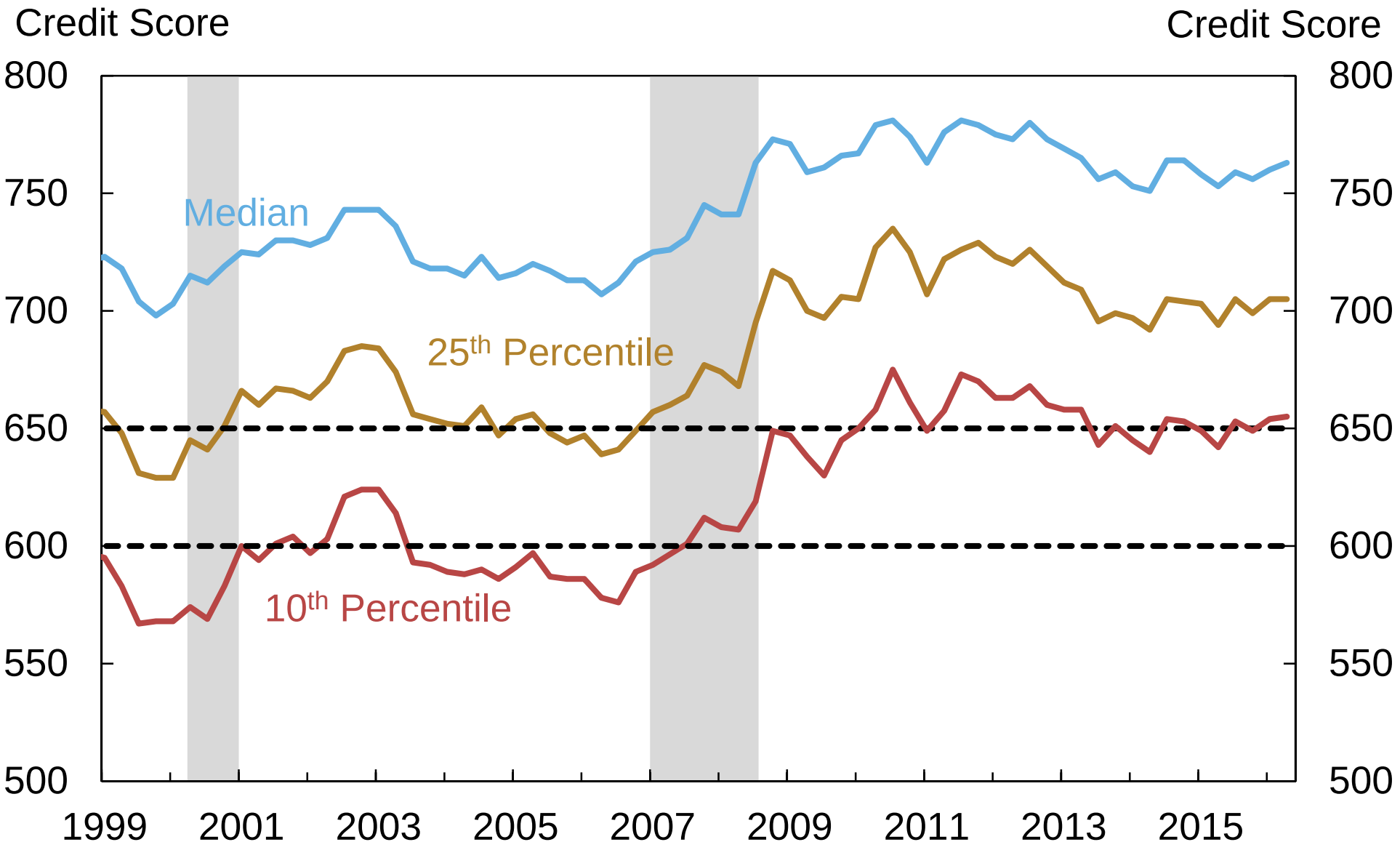
Housing Starts



Source: Census Bureau via Haver Analytics

Note: Shading shows NBER recessions.

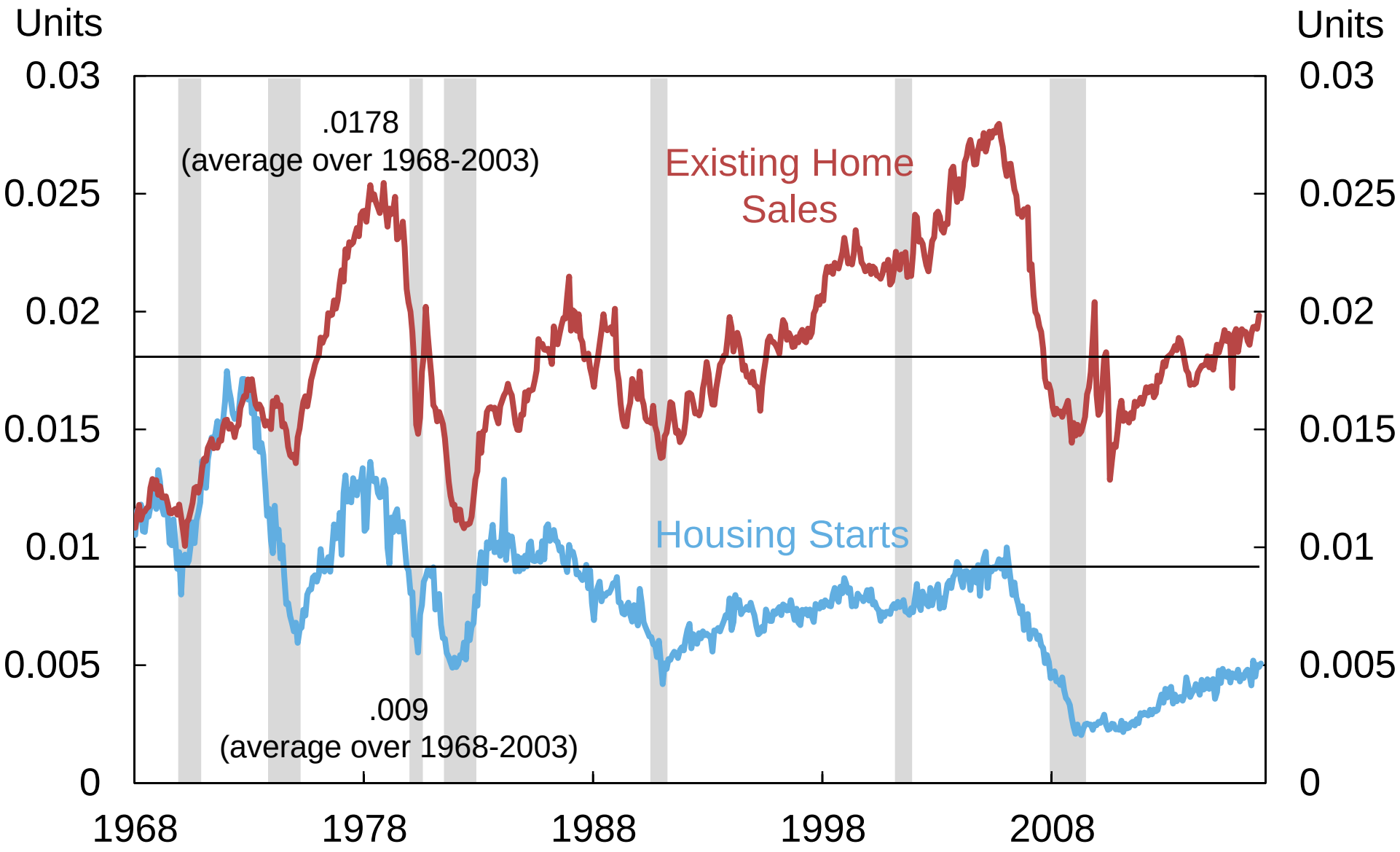
Credit Score at Mortgage Origination



Source: FRBNY / Consumer Credit Panel

Note: Shading shows NBER recessions.

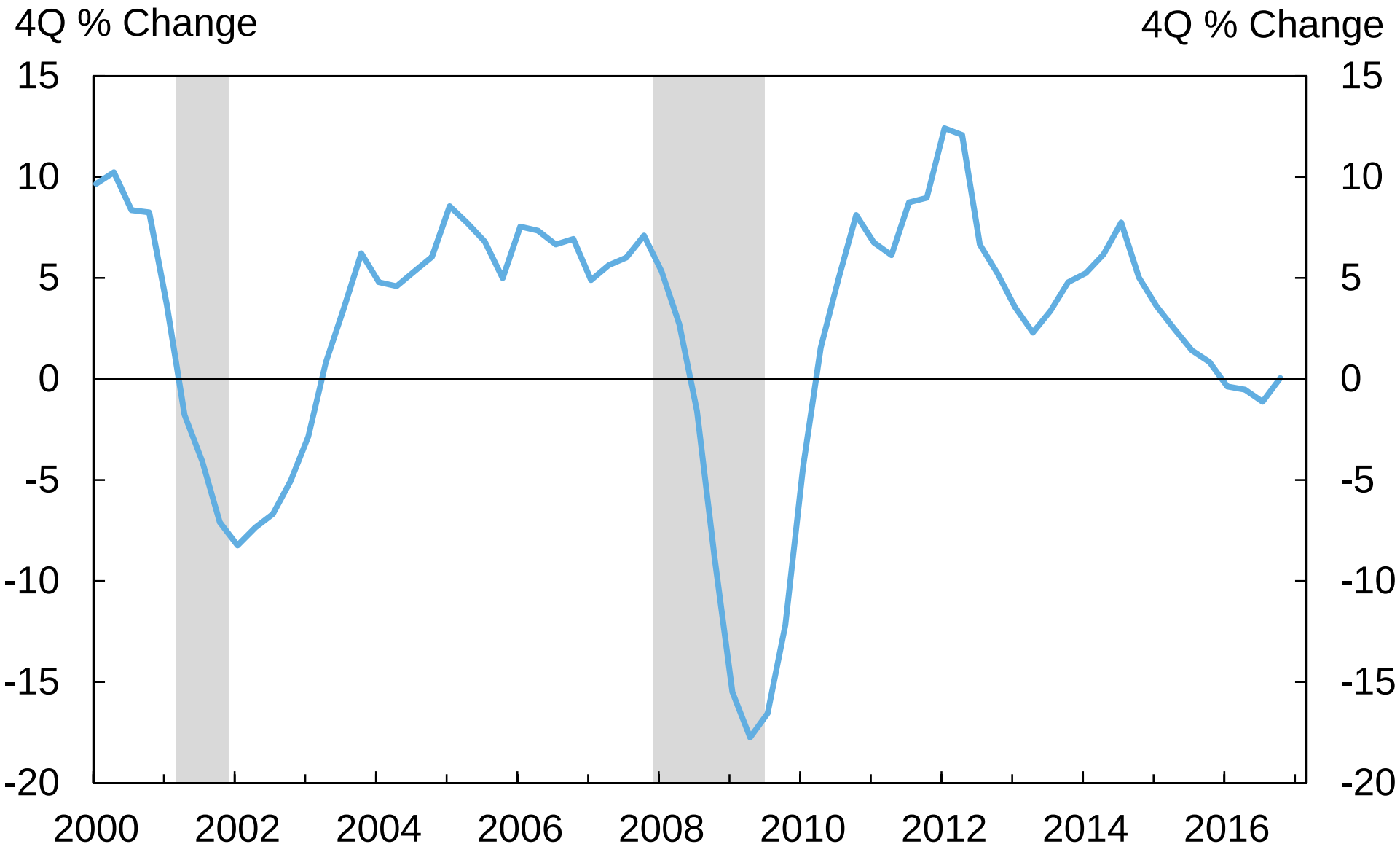
Housing Starts and Existing Homes Sales Per Capita



Source: BLS, Census Bureau, NAR

Note: Shading shows NBER recessions.

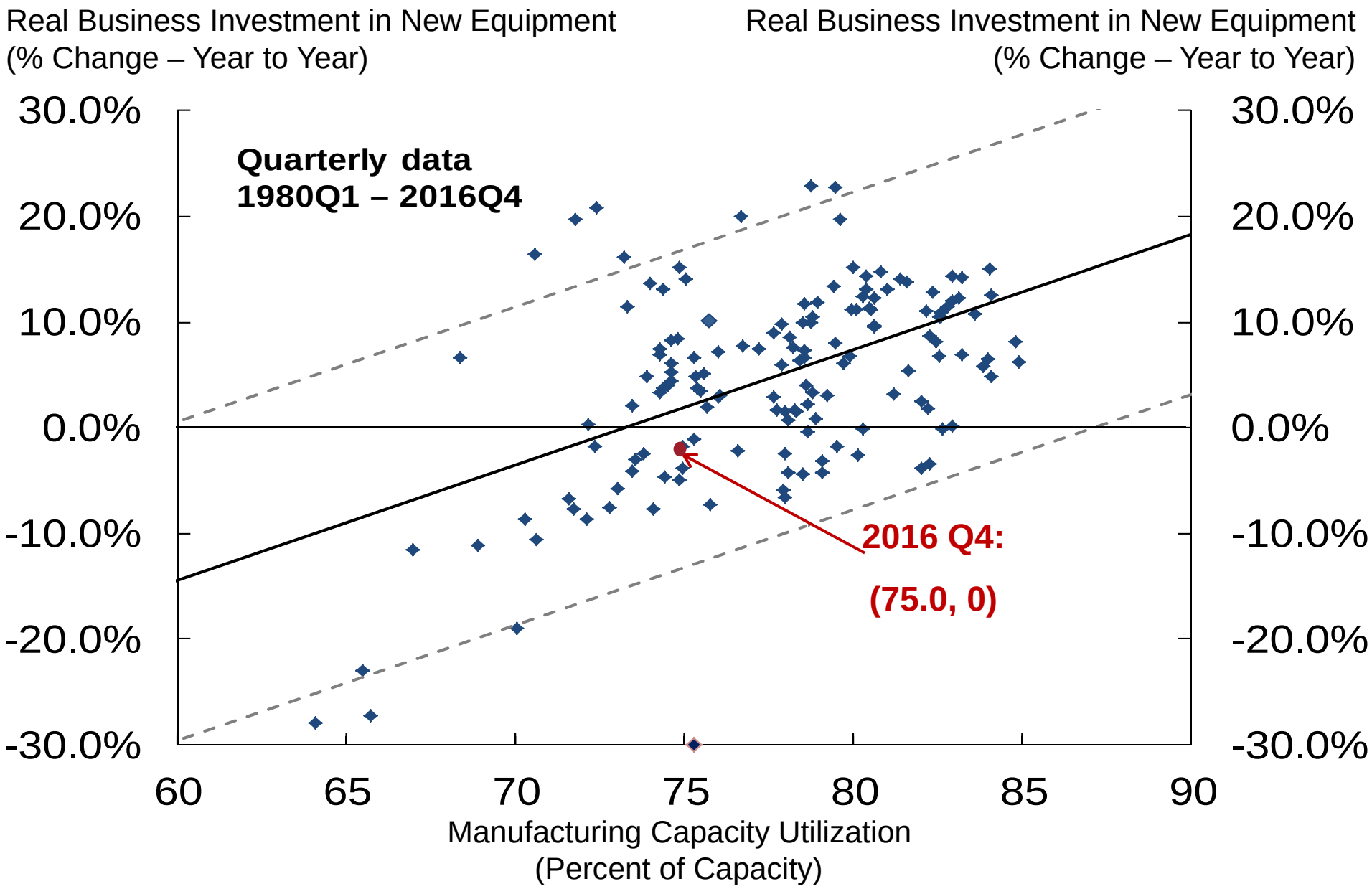
Real Business Fixed Investment



Source: Bureau of Economic Analysis

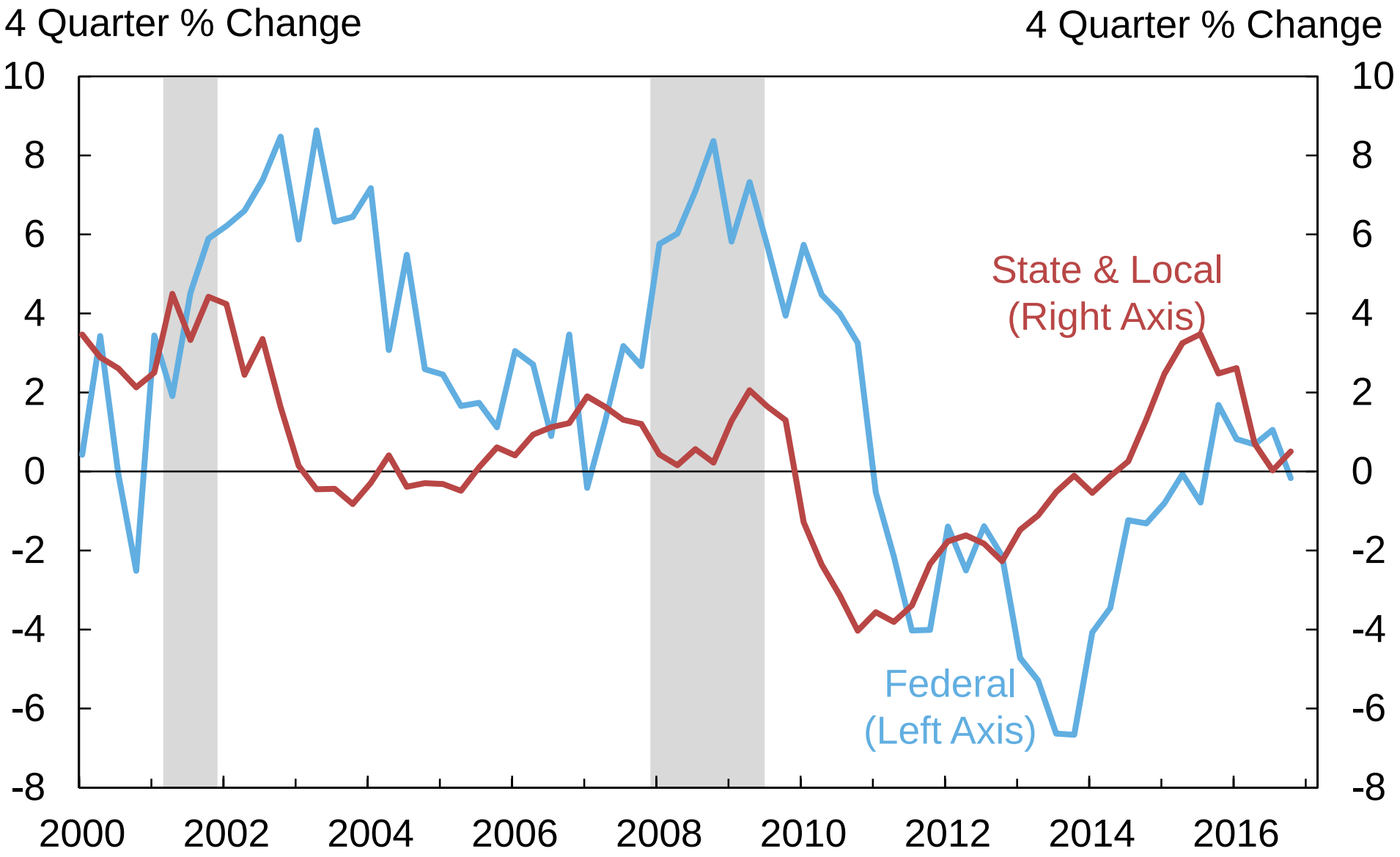
Note: Shading shows NBER recessions.

Equipment Investment Spending and Capacity Utilization



Source: Federal Reserve Board, Bureau of Economic Analysis

Real Government Consumption and Gross Investment

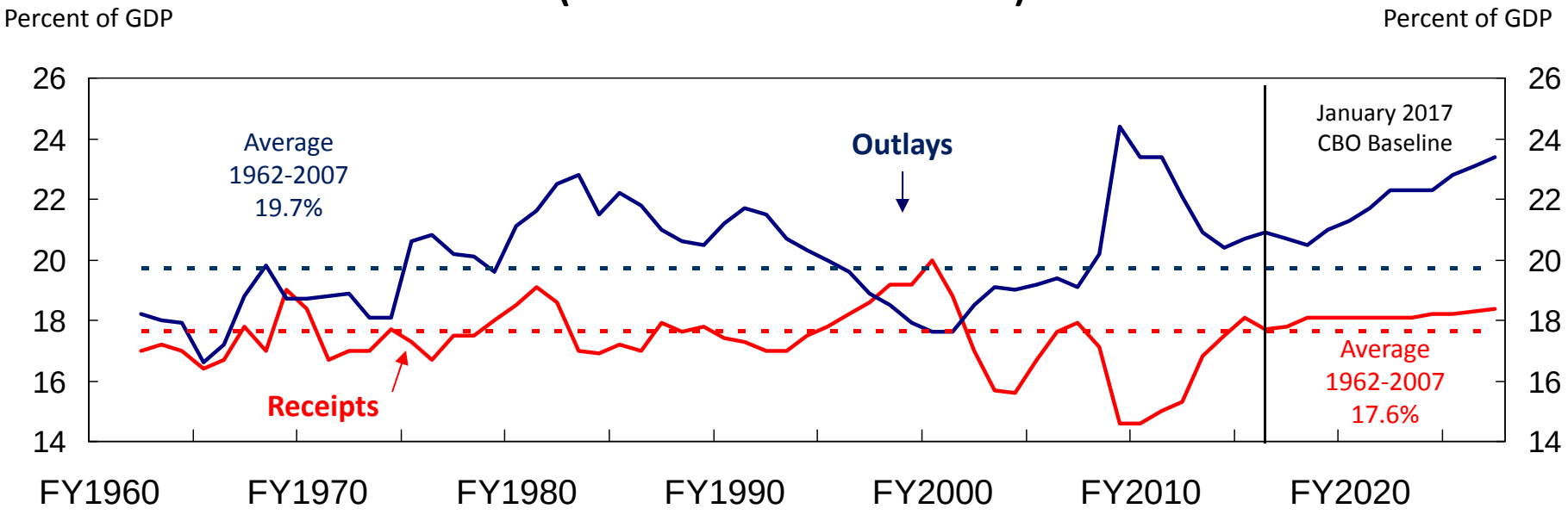


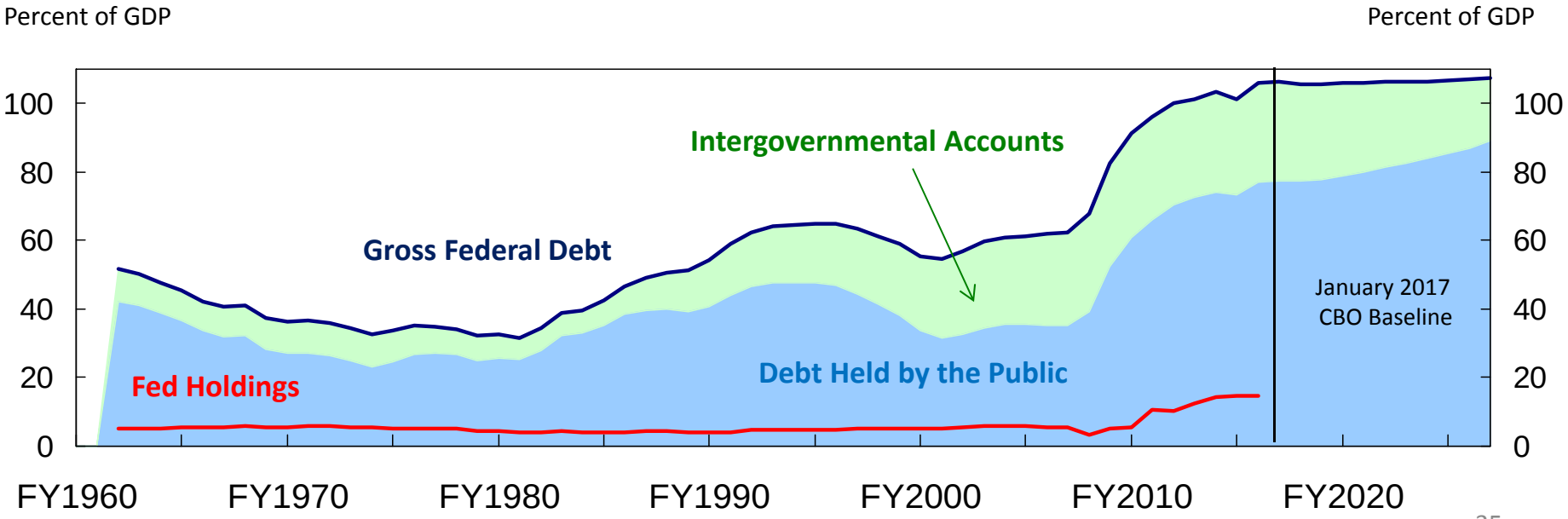
Source: Bureau of Economic Analysis

Note: Shading shows NBER recessions.

Federal Receipts, Outlays, and Debt

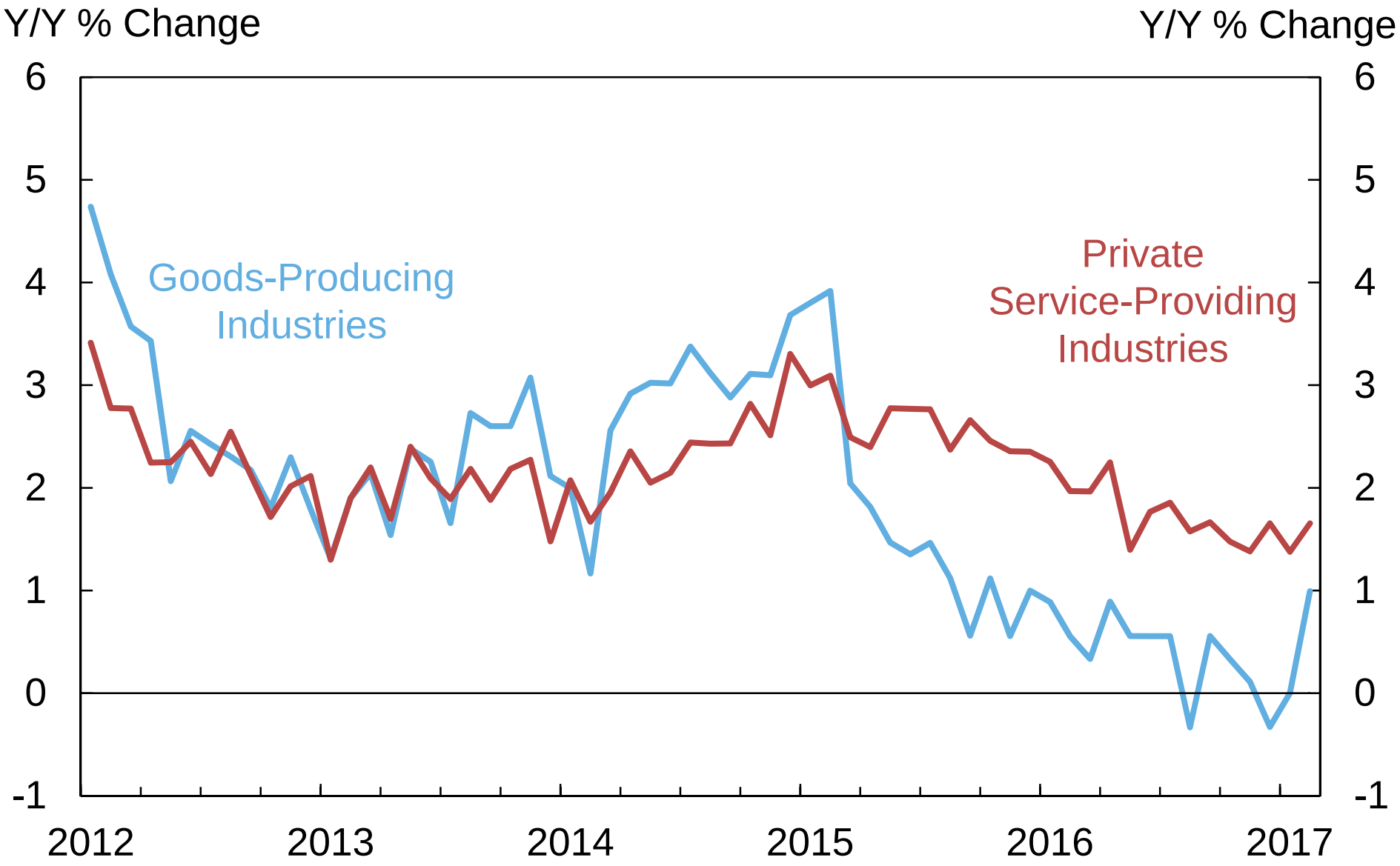
(CBO Current Law Baseline)





Sources: Bureau of Economic Analysis and Congressional Budget Office

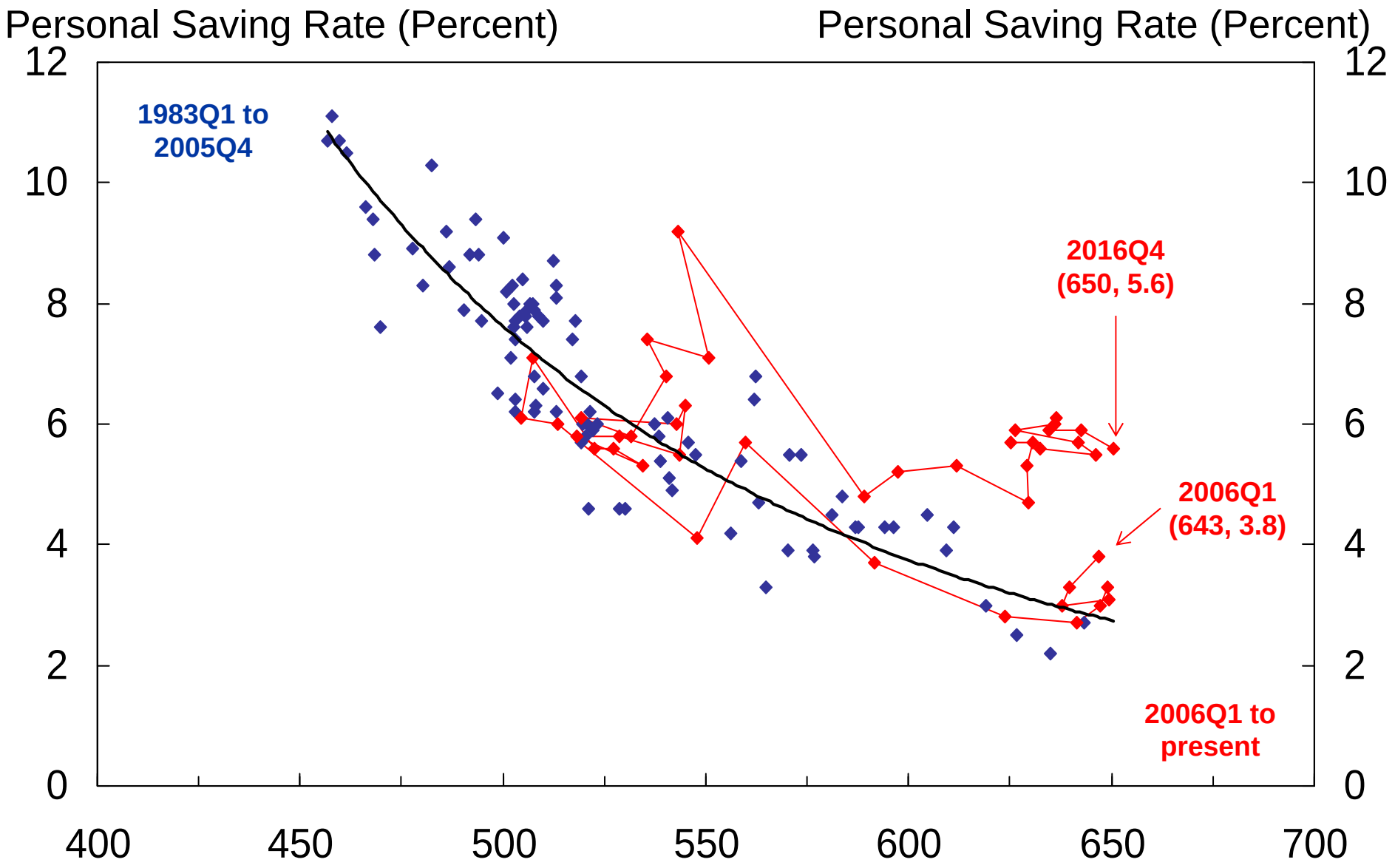
Aggregate Weekly Hours Worked



Source: Bureau of Labor Statistics

Note: Shading shows NBER recessions.

Personal Saving Rate and Household Net Worth



Source: Bureau of Economic Analysis and Federal Reserve Board

Note: Fitted line is from 1983Q1 to 2005Q4.

FEDERAL RESERVE BANK *of* NEW YORK

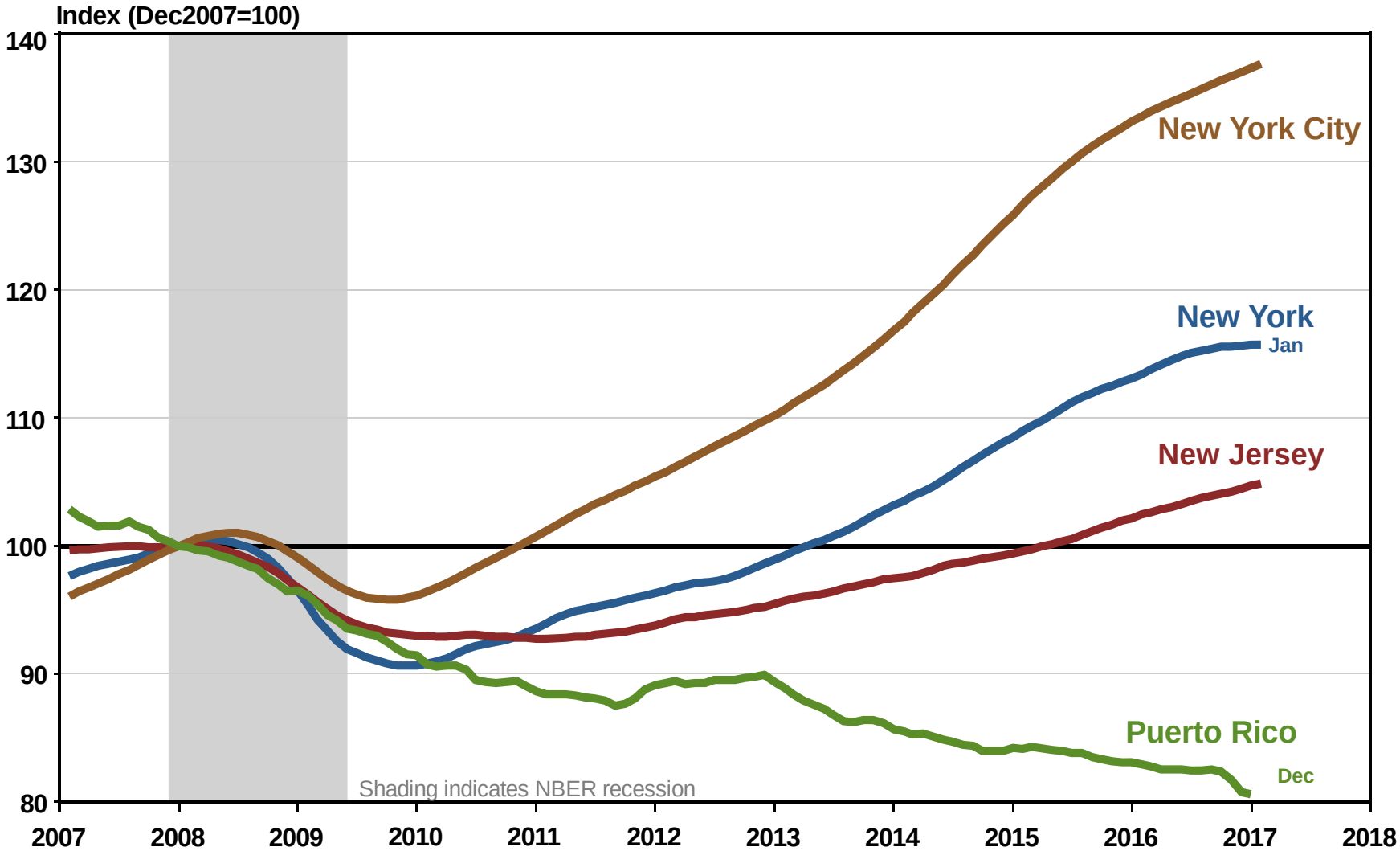
Overview of the Regional Economy

Jason Bram, Research Officer

Presentation to the Community Depository Institutions Advisory Council (CDIAC)
March 27, 2017

Regional Economic Activity

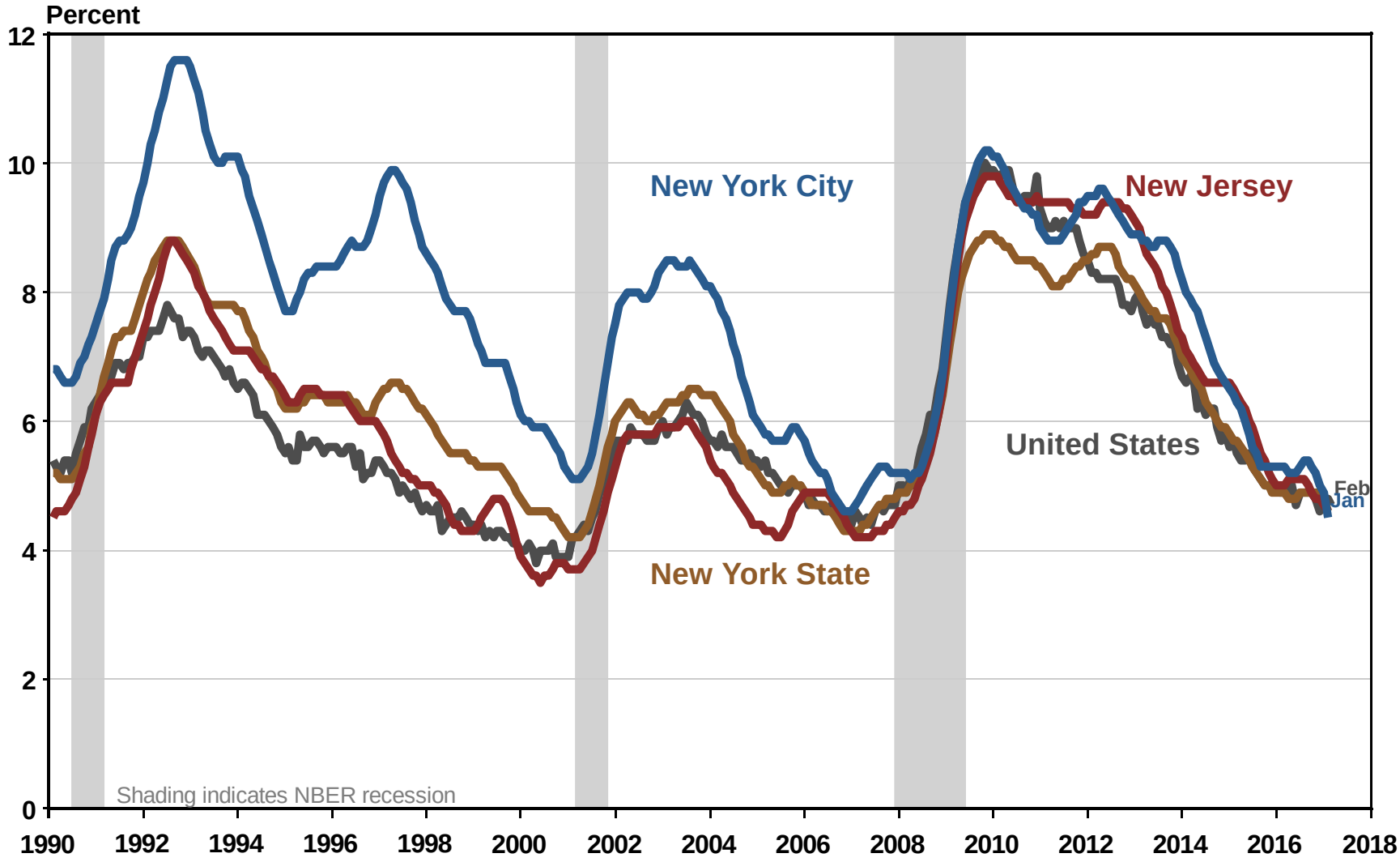
Index of Coincident Economic Indicators (CEI)



Source: Federal Reserve Bank of New York.

Unemployment Rates

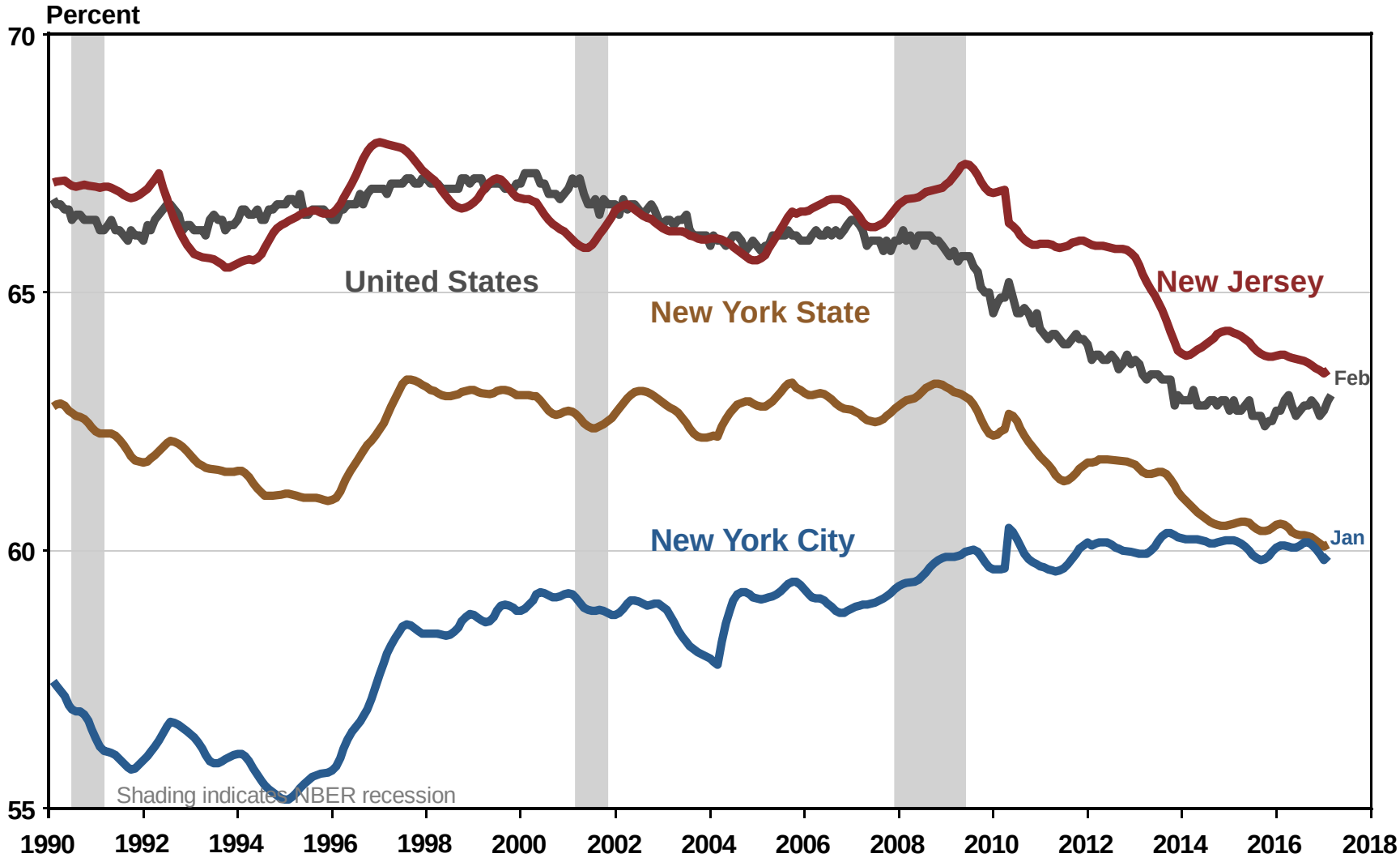
Seasonally Adjusted



Source: Bureau of Labor Statistics and Moody's Economy.com.

Labor Force Participation

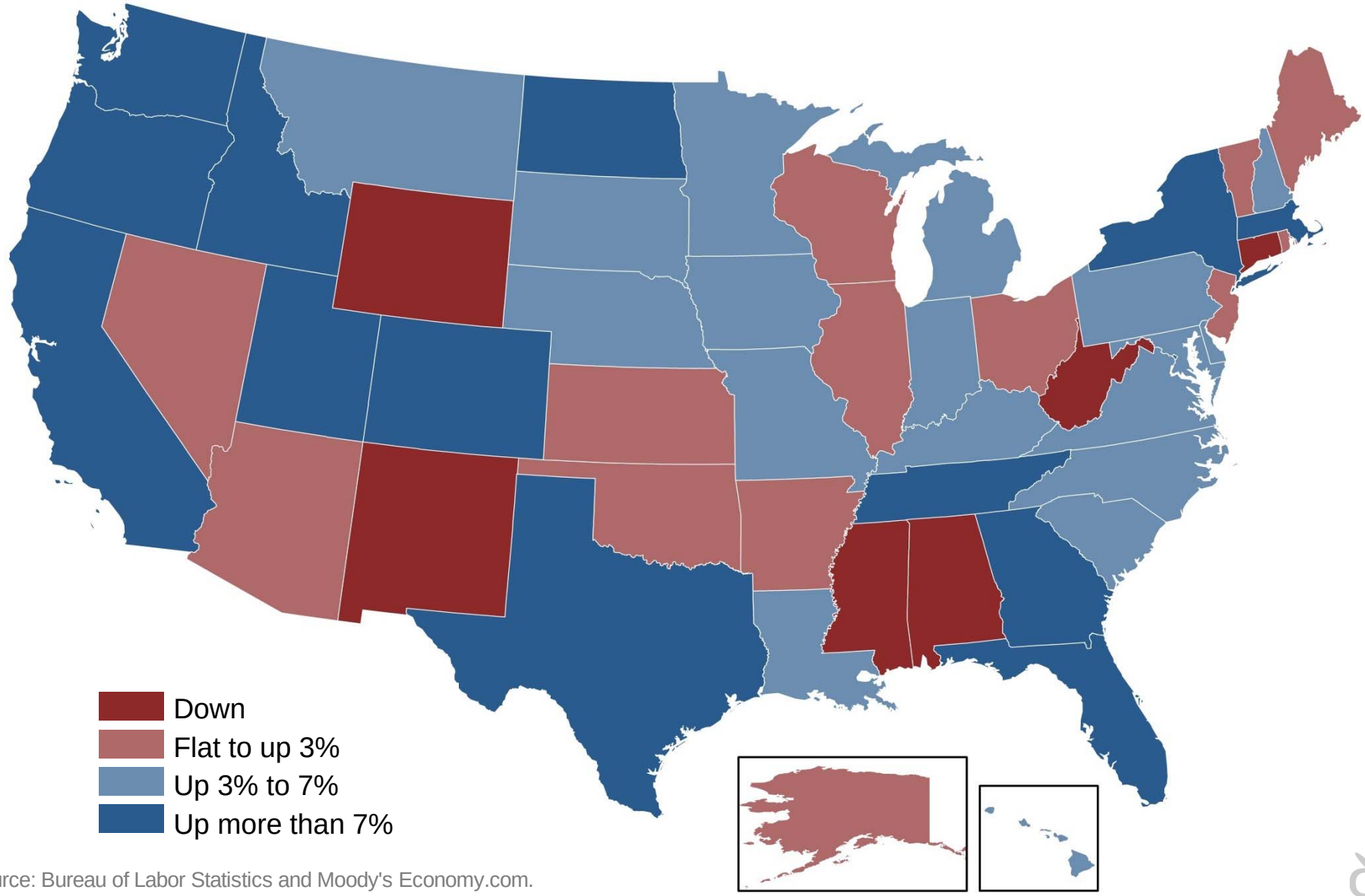
Seasonally Adjusted



Source: Bureau of Labor Statistics and Moody's Economy.com.

Private-Sector Job Trends

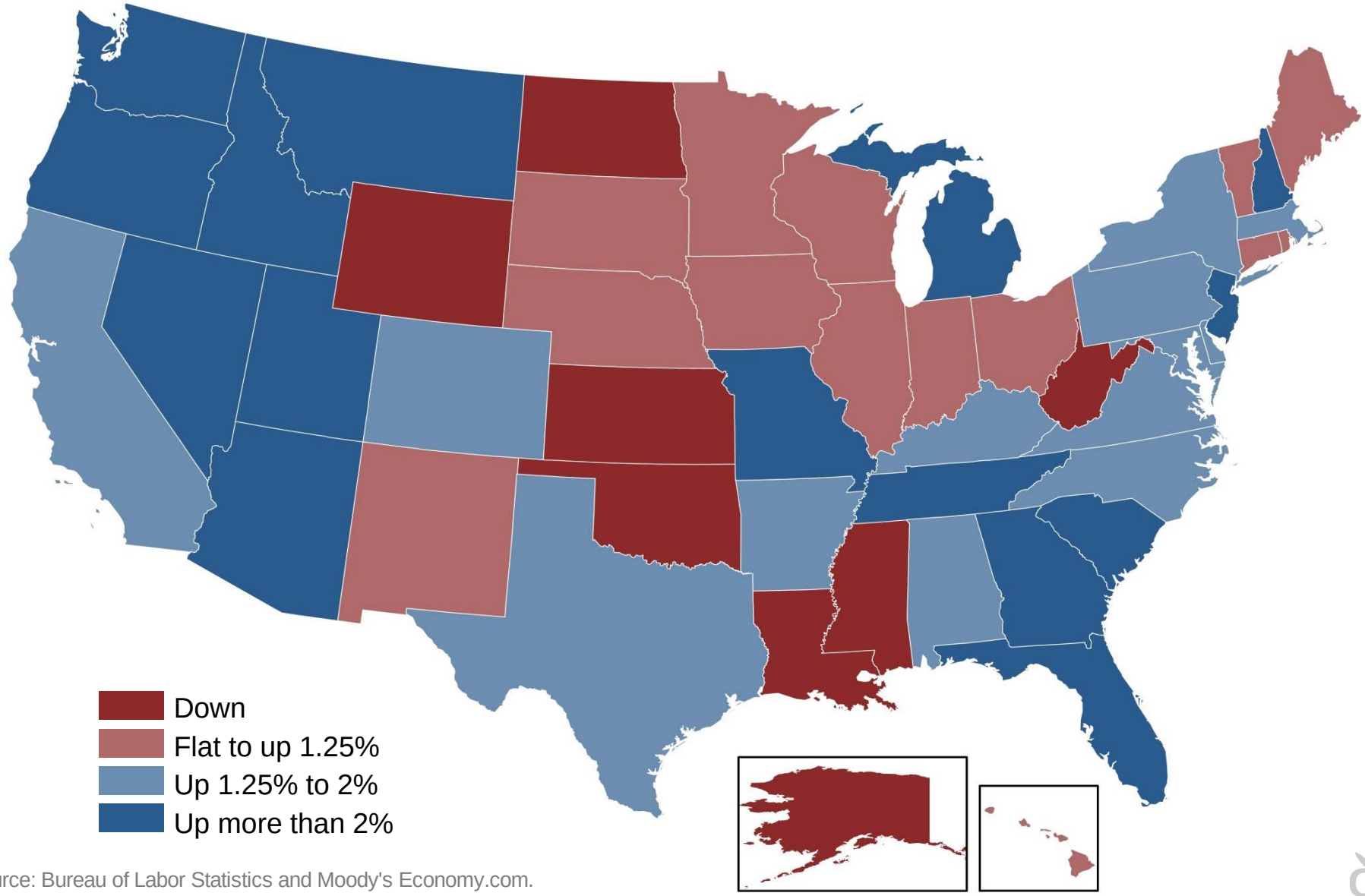
Percent Change From Previous Peak to January 2017



Source: Bureau of Labor Statistics and Moody's Economy.com.

Recent Private-Sector Job Growth

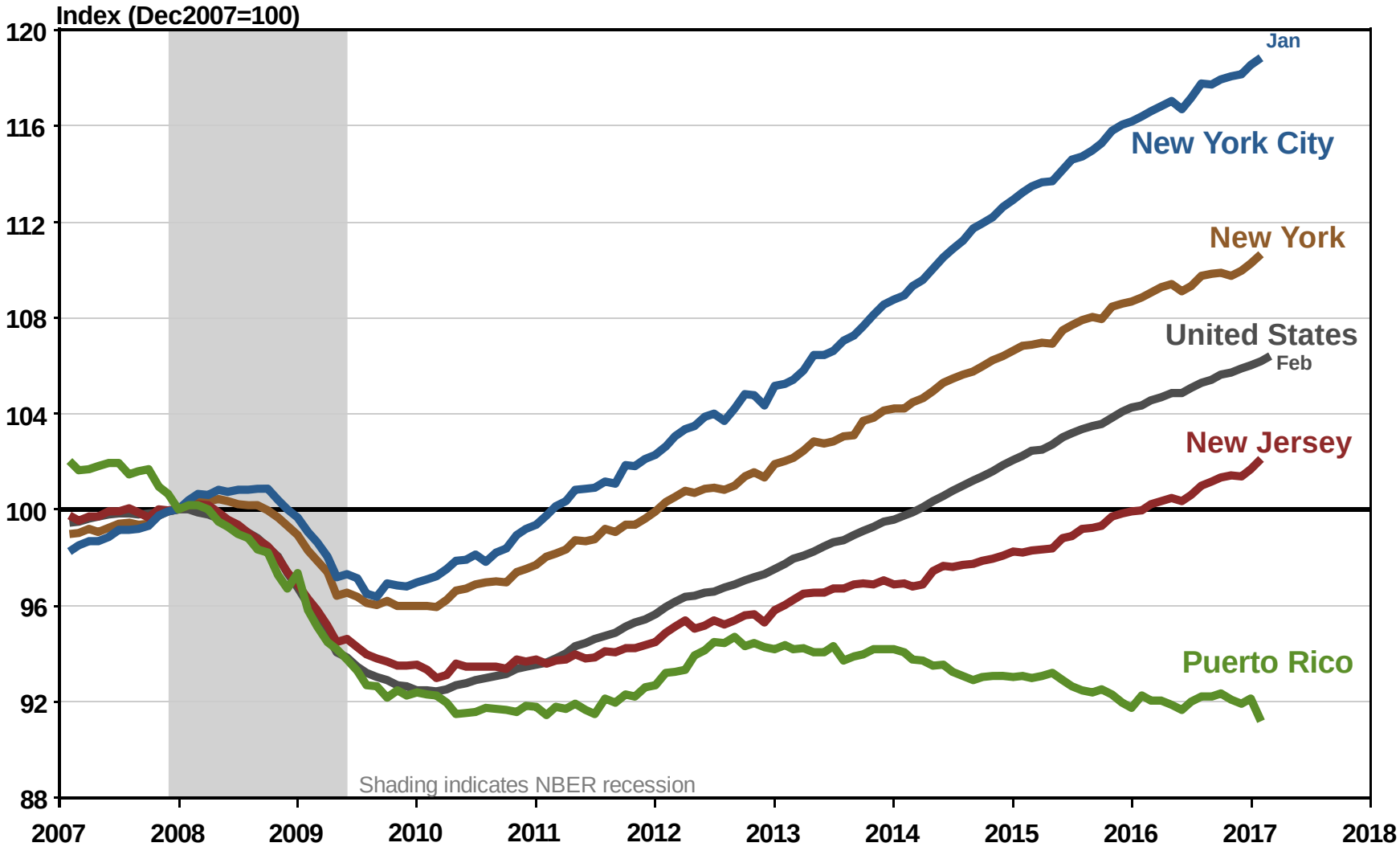
Percent Change From January 2016 to January 2017



Source: Bureau of Labor Statistics and Moody's Economy.com.

Private-Sector Employment

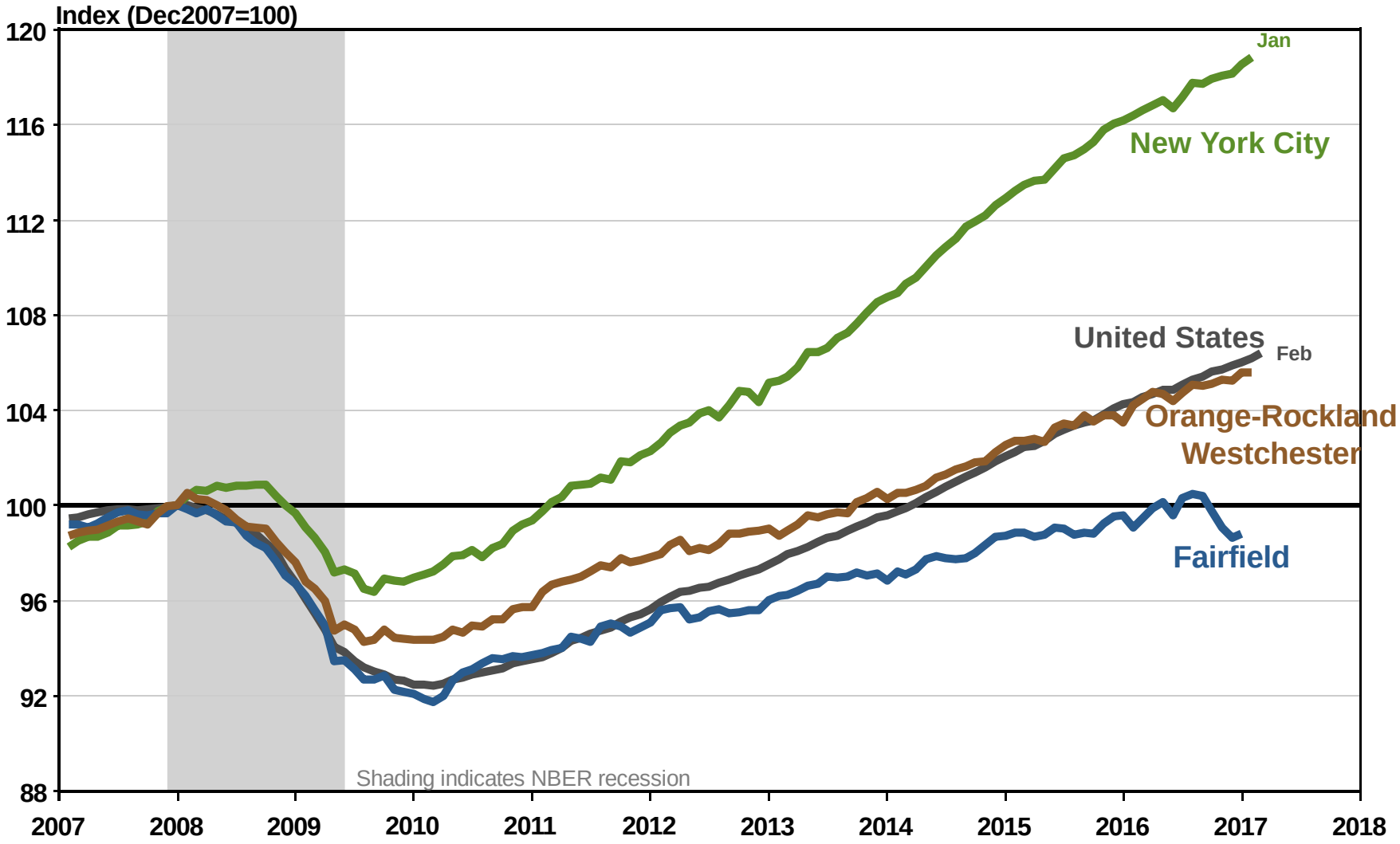
Seasonally Adjusted Index



Source: Bureau of Labor Statistics and Moody's Economy.com.

Private-Sector Employment

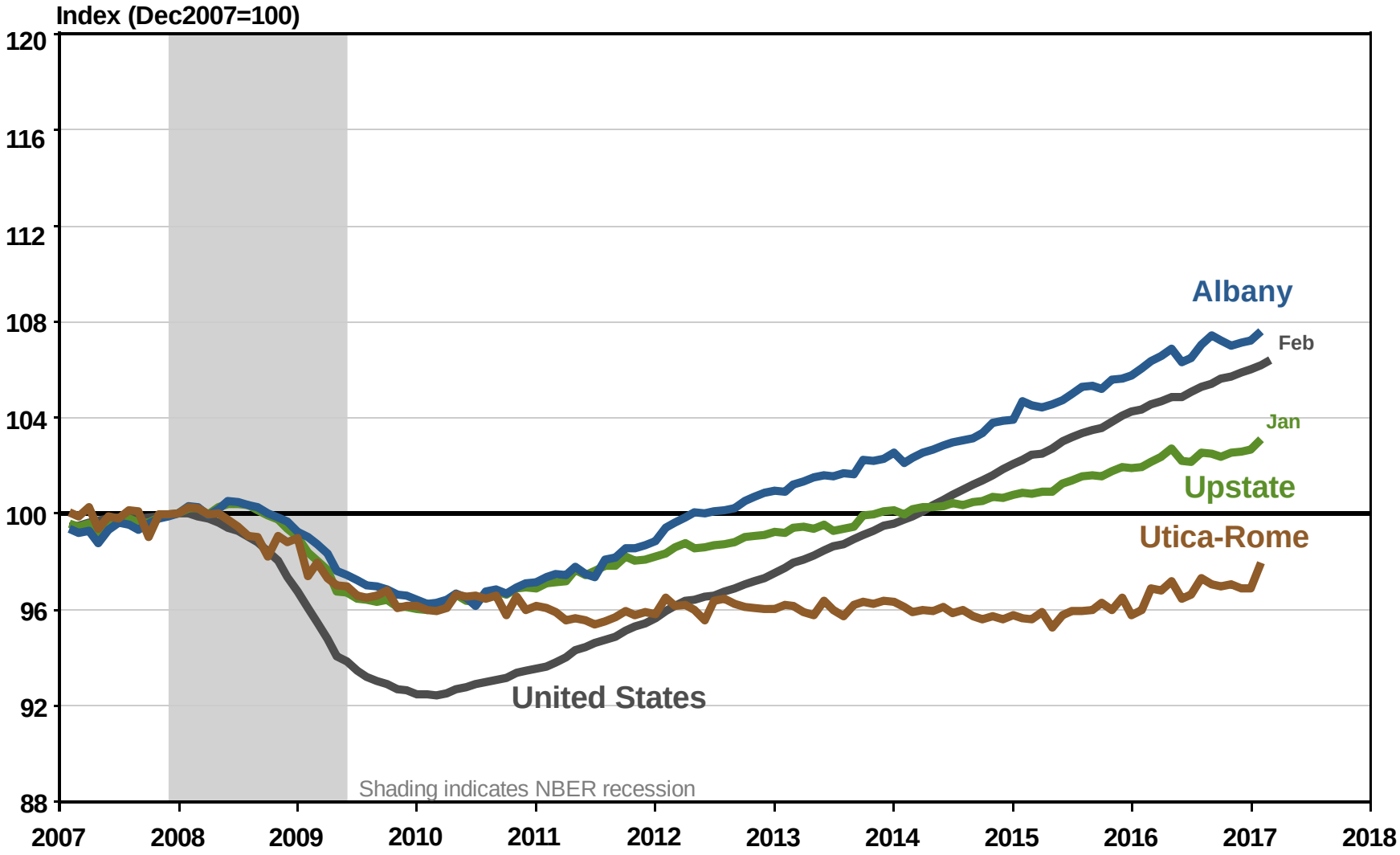
Seasonally Adjusted Index



Source: Bureau of Labor Statistics and Moody's Economy.com.

Private-Sector Employment

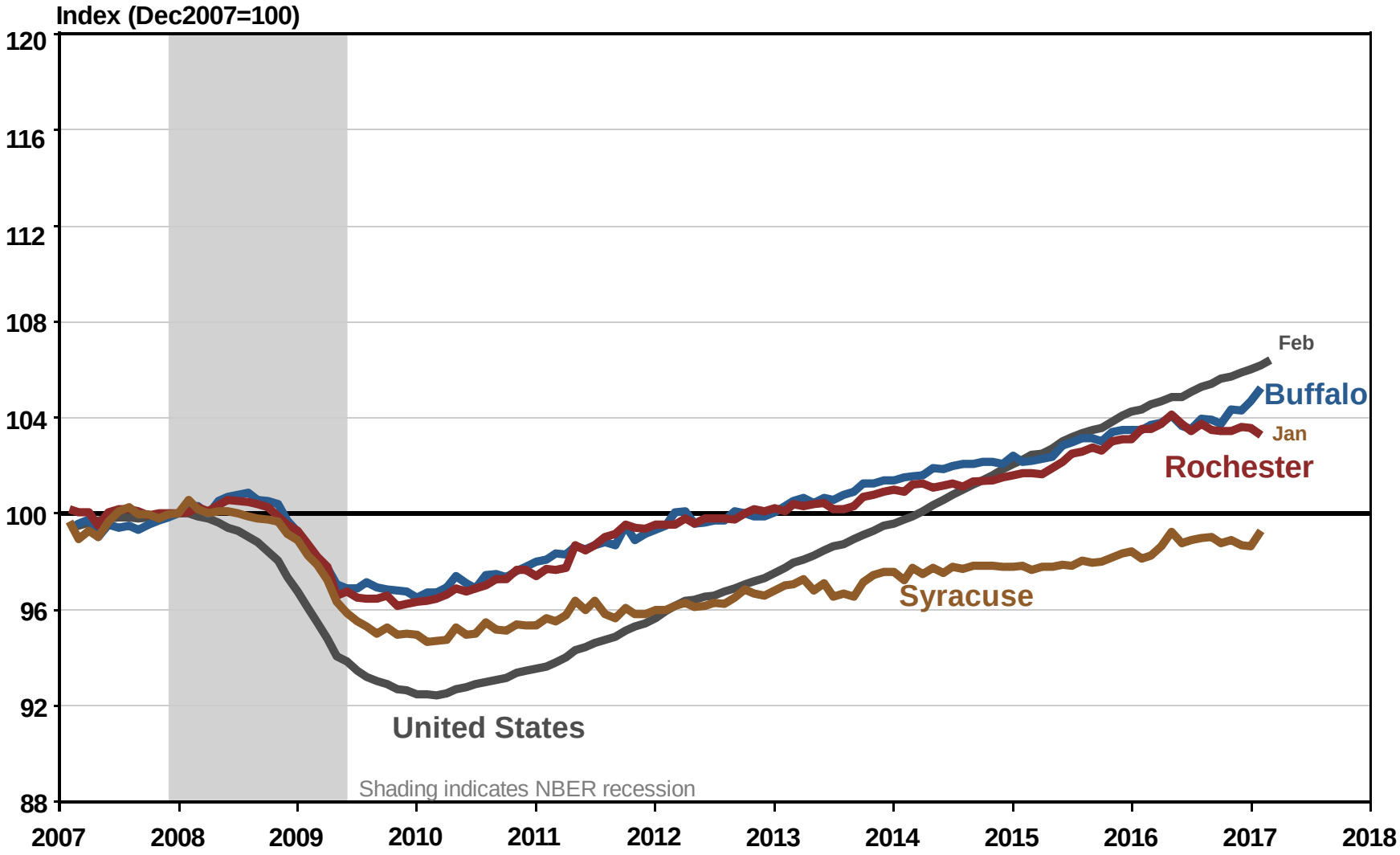
Seasonally Adjusted Index



Source: Bureau of Labor Statistics and Moody's Economy.com.

Private-Sector Employment

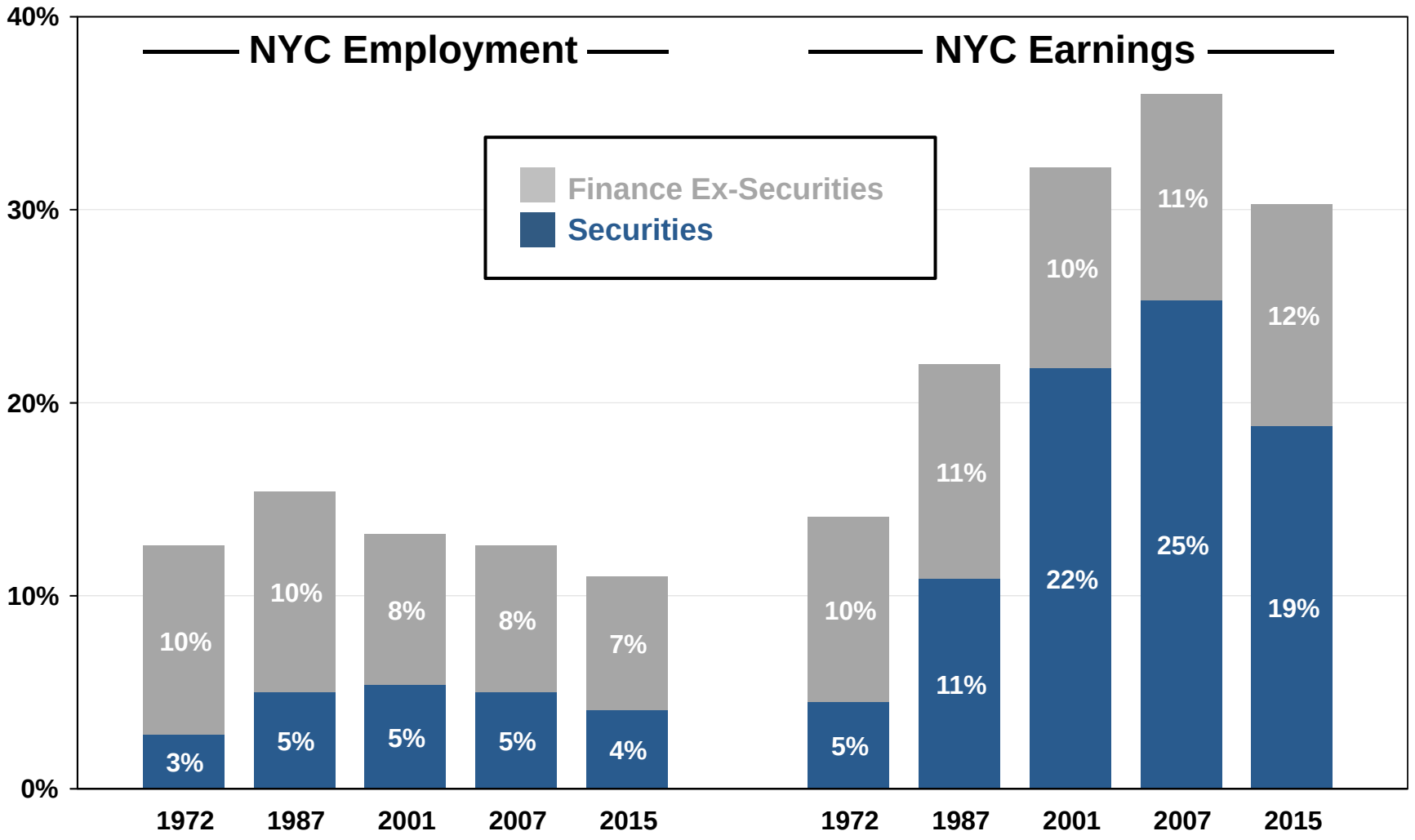
Seasonally Adjusted Index



Source: Bureau of Labor Statistics and Moody's Economy.com.

NYC Finance and Securities

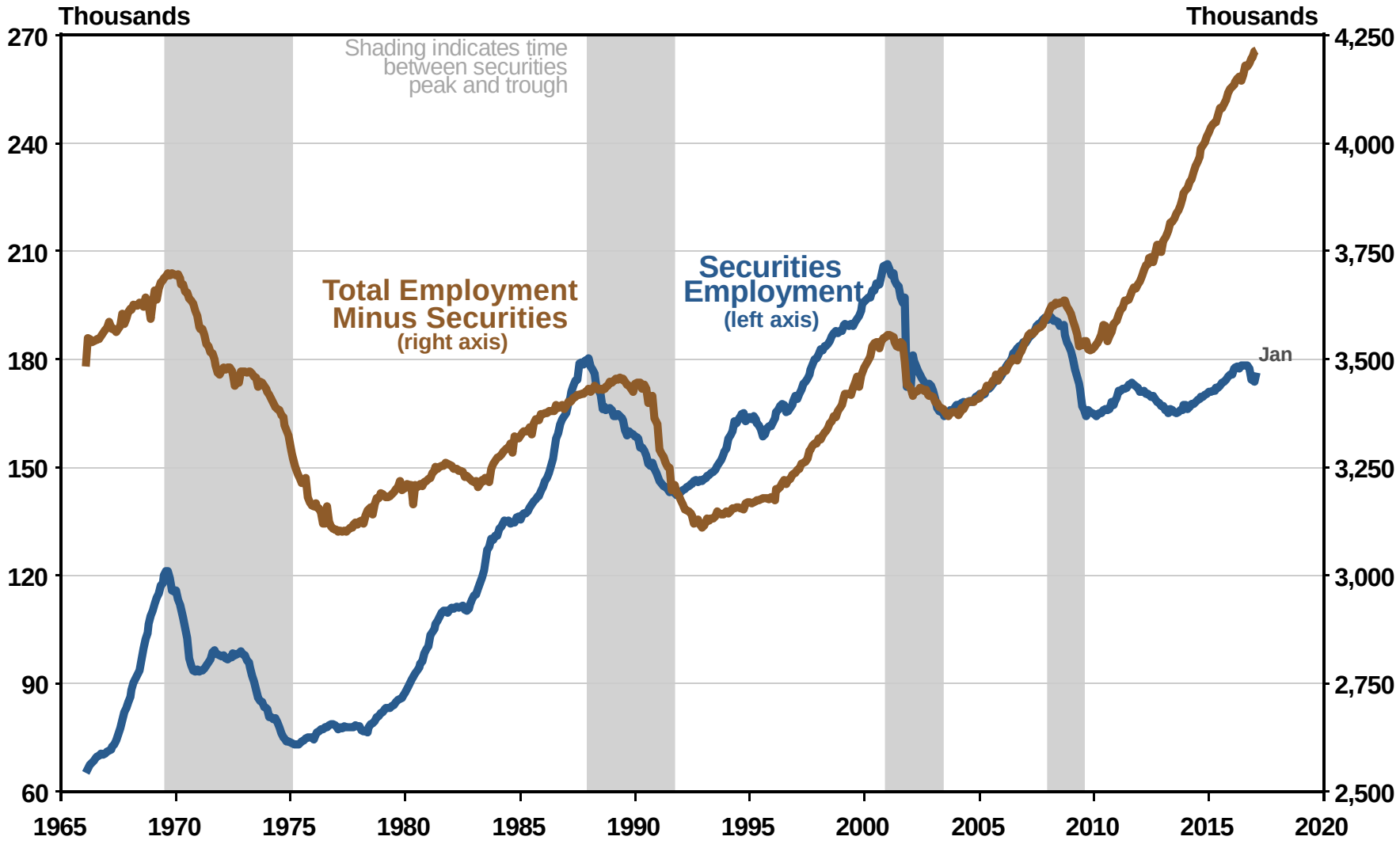
Sectors' Share of NYC Employment and Earnings



Source: U.S. Bureau of Labor Statistics (QCEW).

NYC Securities Employment

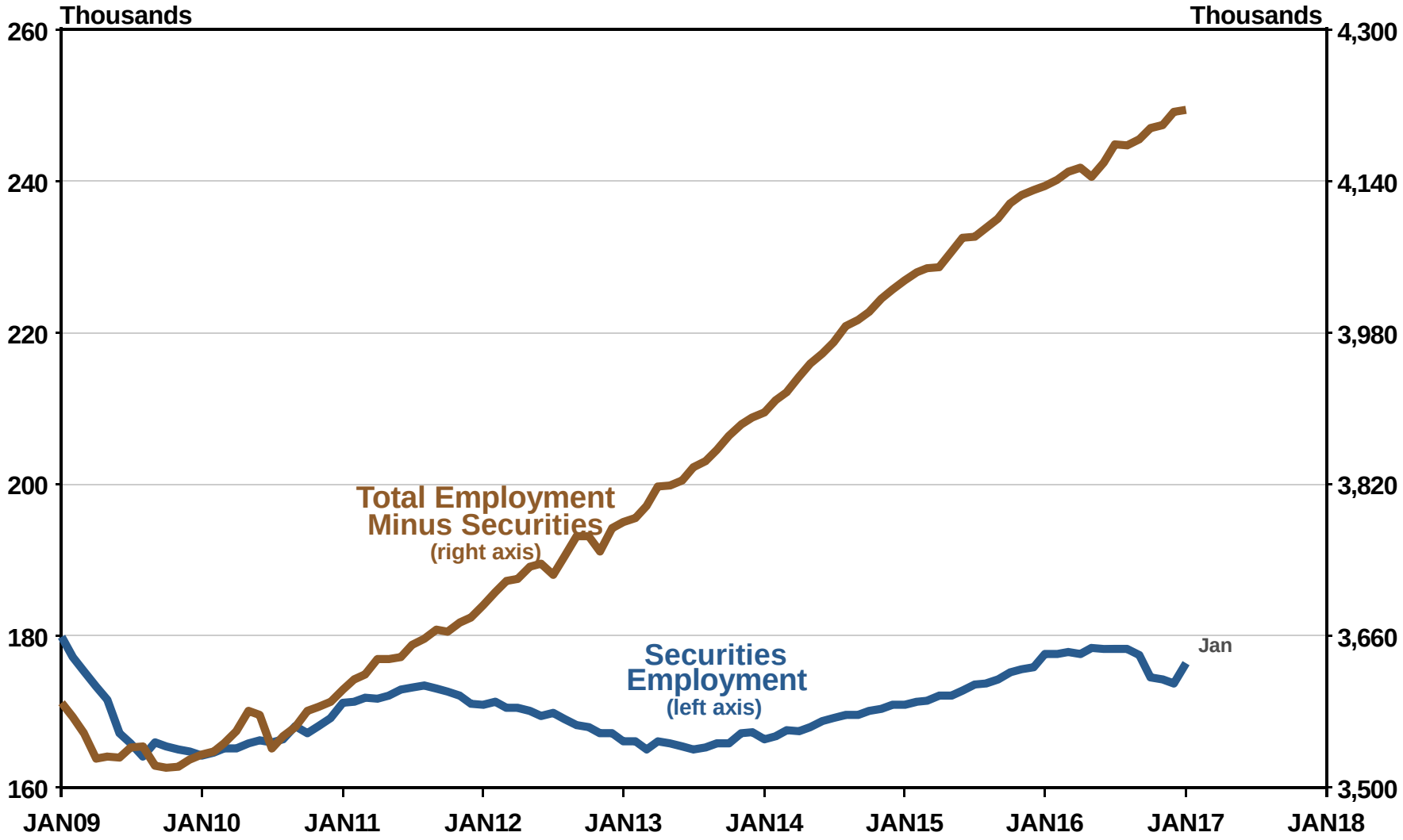
Seasonally Adjusted Levels



Source: Bureau of Labor Statistics, Moody's Economy.com, and FRBNY calculations.

Recent NYC Securities Employment

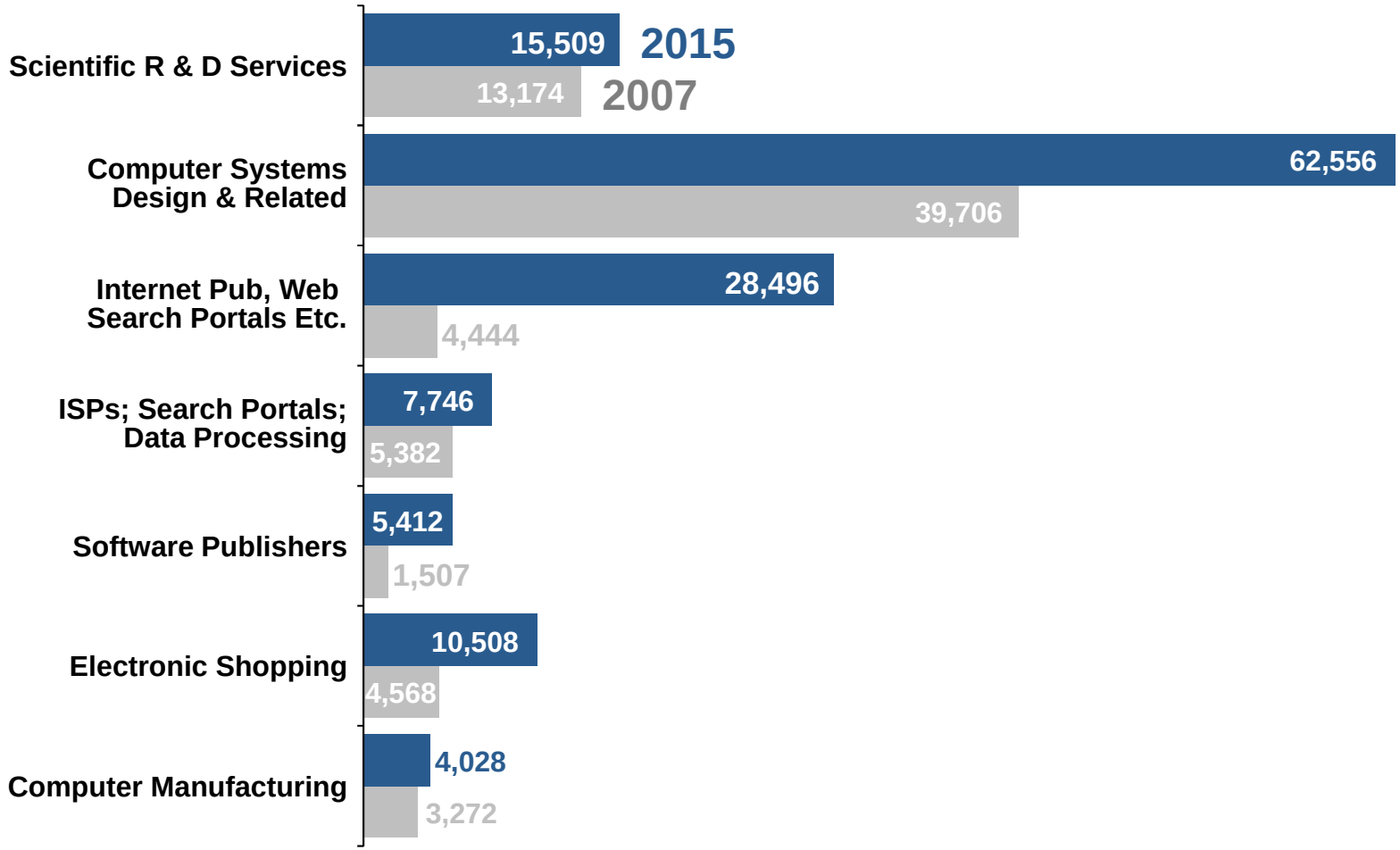
Seasonally Adjusted Levels



Source: Bureau of Labor Statistics, Moody's Economy.com, and FRBNY calculations.

NYC Tech Employment in Select Industries

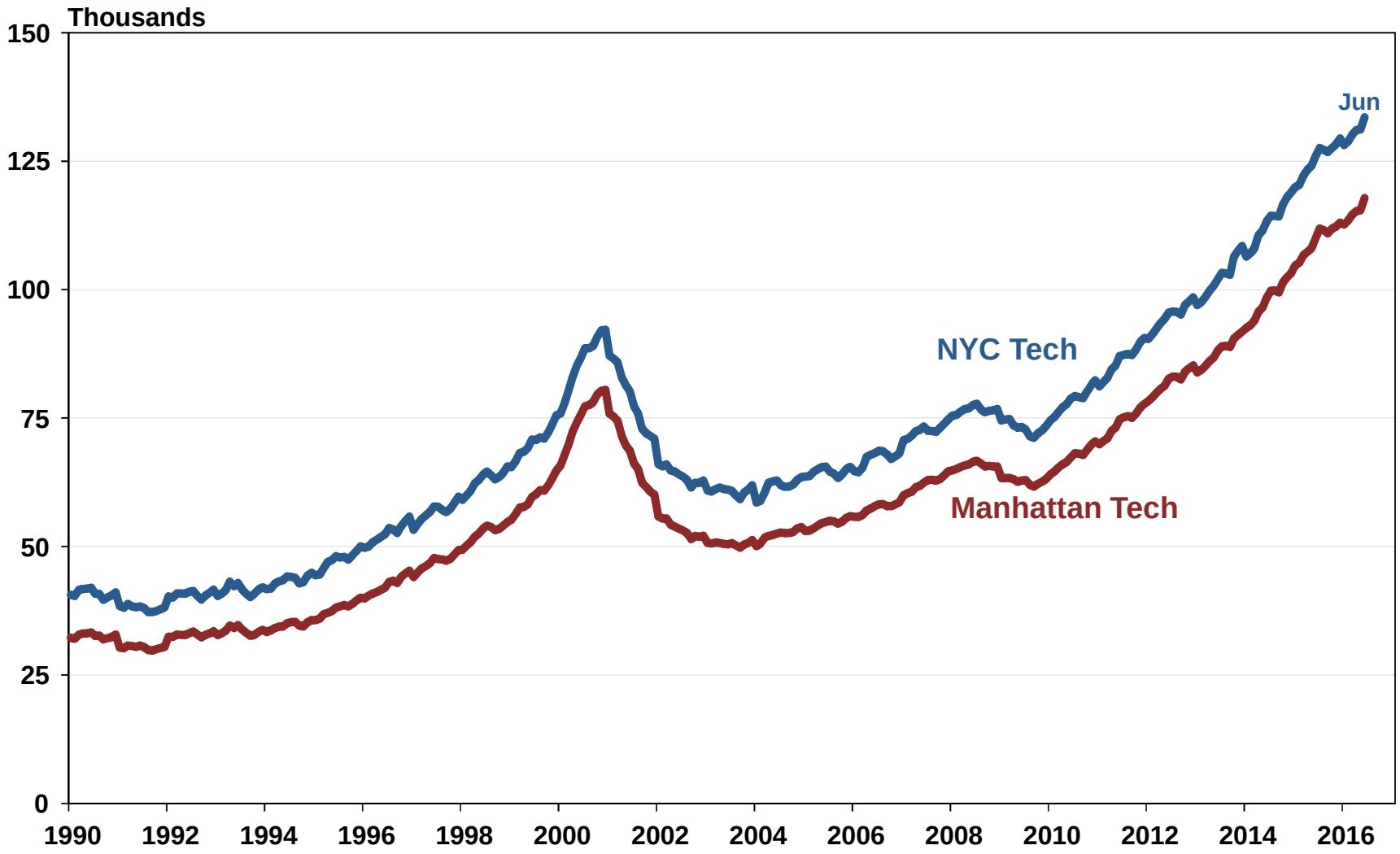
Number of Payroll Jobs, 2007 and 2015



Source: U.S. Bureau of Labor Statistics (QCEW) and FRBNY Staff Calculations.

Trends in NYC Tech Employment

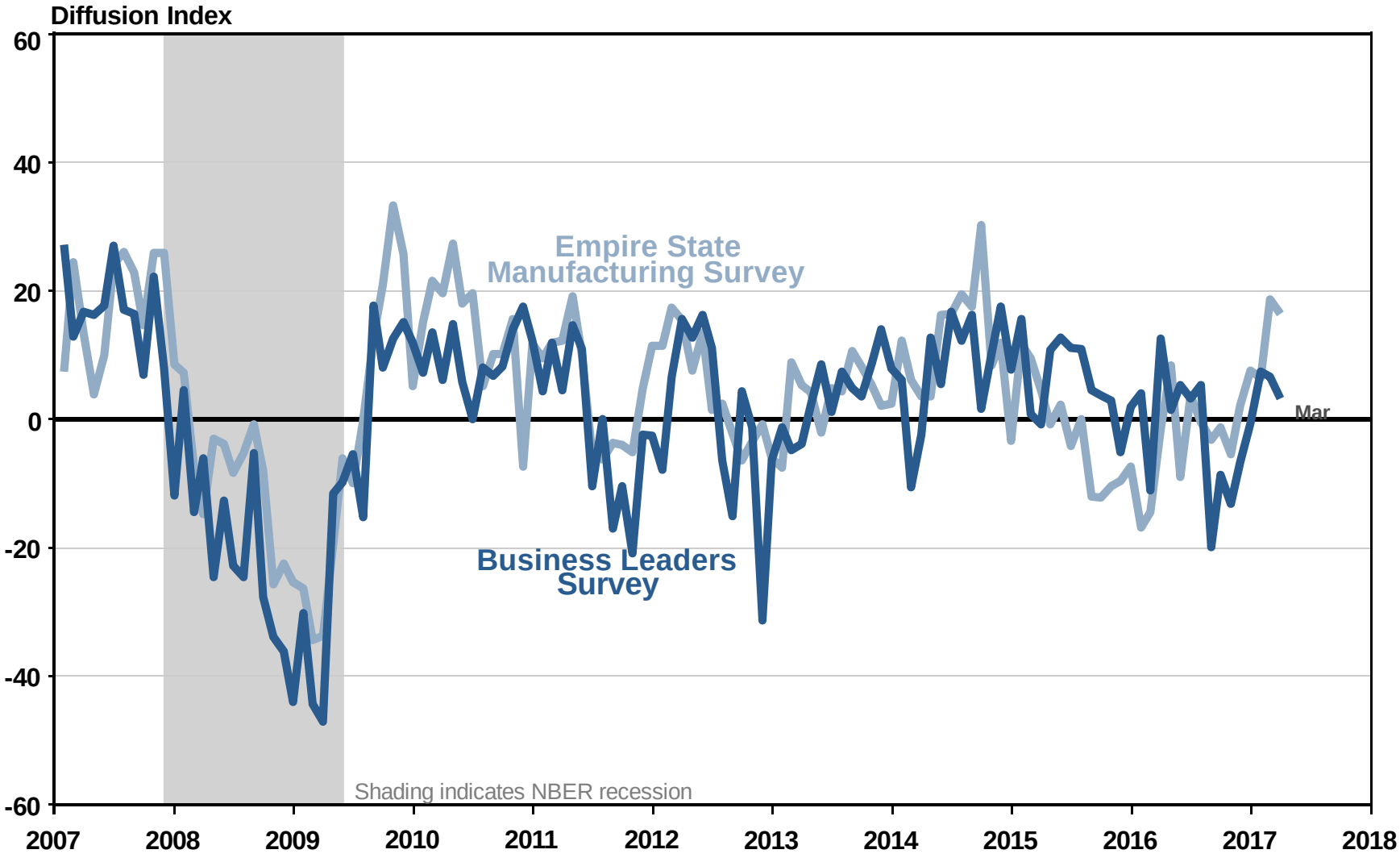
Employment Levels in Thousands



Source: U.S. Bureau of Labor Statistics (QCEW) and FRBNY Staff Calculations.

Current Economic Conditions

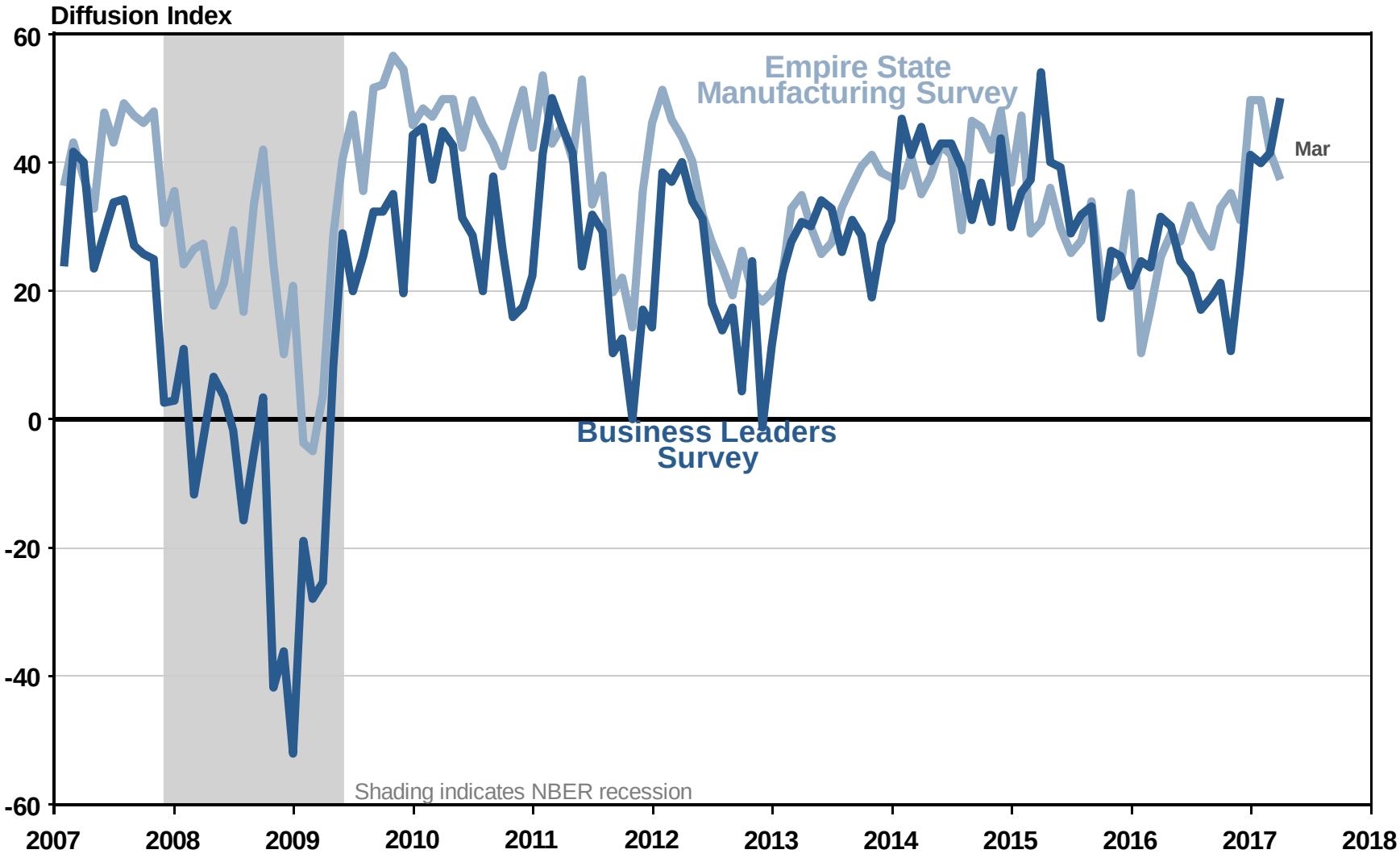
FRBNY Business Surveys, Current Conditions



Source: Federal Reserve Bank of New York.

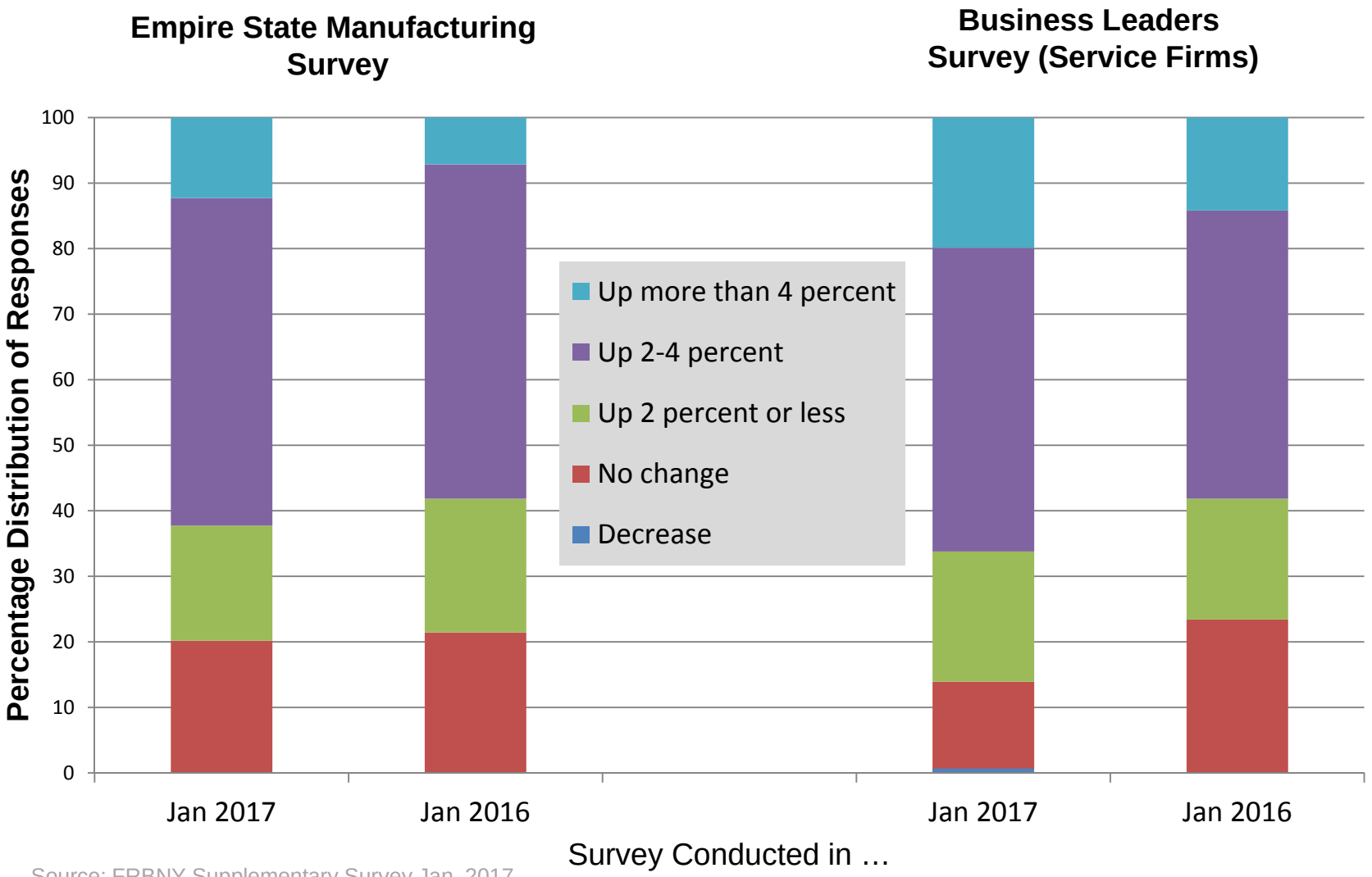
Future Economic Conditions

FRBNY Business Surveys, Conditions Six Months Ahead



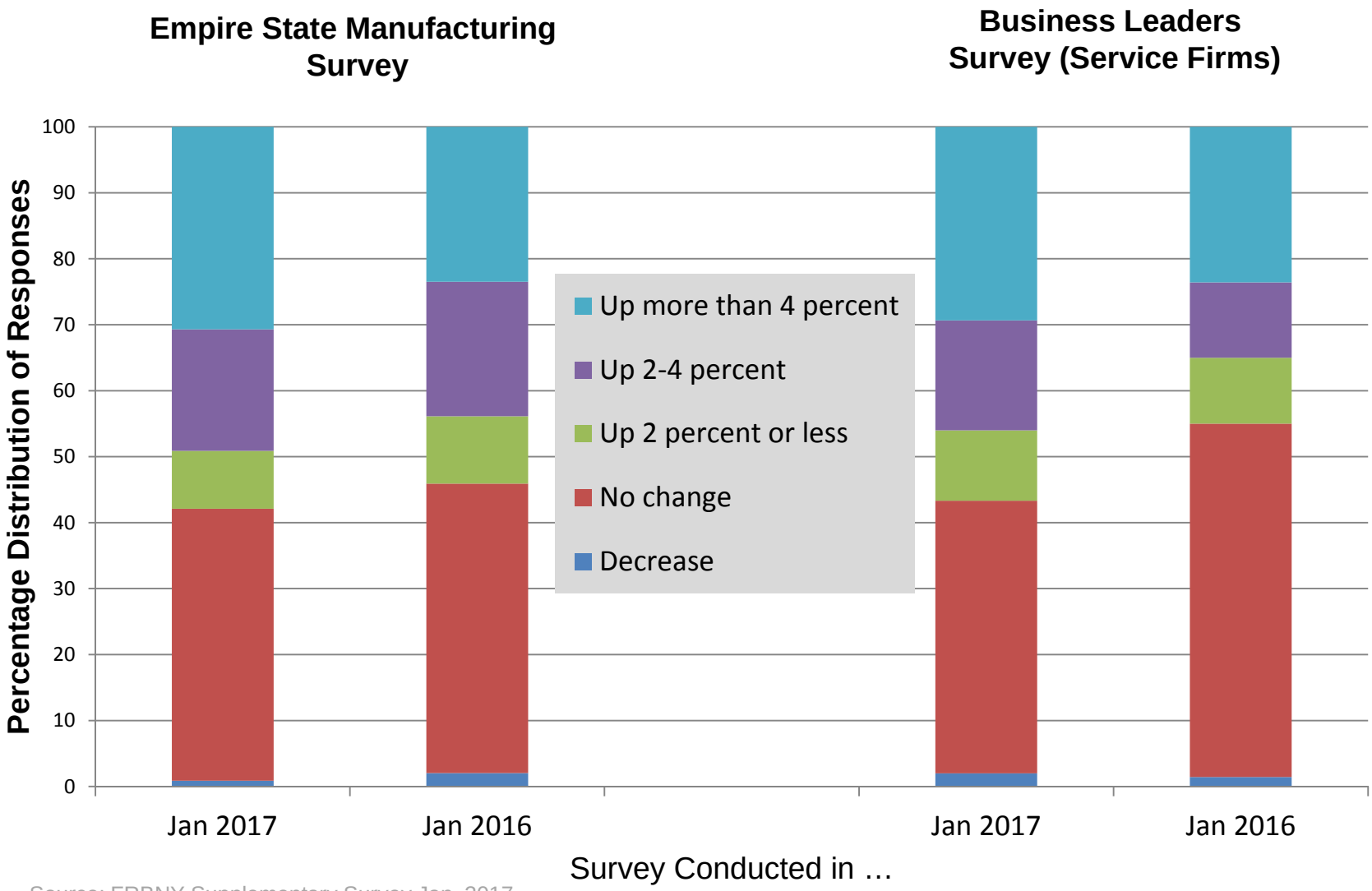
Source: Federal Reserve Bank of New York.

Expected Percent Change in Salaries for Existing Workers



Source: FRBNY Supplementary Survey Jan. 2017
https://www.newyorkfed.org/medialibrary/media/survey/business_leaders/2017/2017_01supplemental.pdf

Expected Percent Change in Salaries for New Workers



Source: FRBNY Supplementary Survey Jan. 2017
https://www.newyorkfed.org/medialibrary/media/survey/business_leaders/2017/2017_01supplemental.pdf

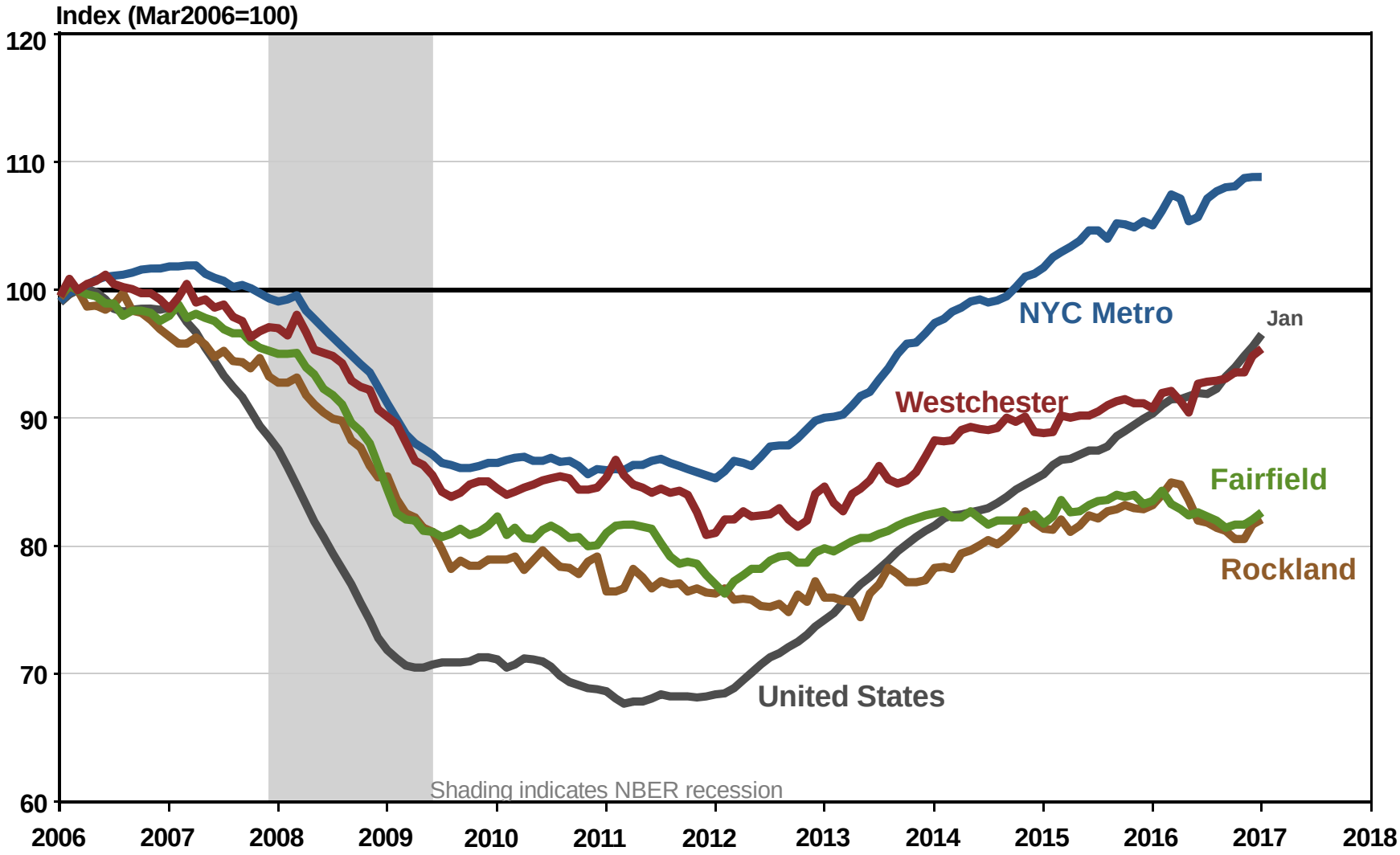
Regional Recap

- Unemployment is at multi-year lows across much of the region.
- NYC has led the region in job growth; New Jersey has lagged, Fairfield County has been weak, and PR remains depressed.
- Upstate, the Buffalo, Rochester and Albany areas have seen moderate job creation, but other areas have lagged.
- The securities industry, which typically drives NYC's economy has been flat during this rapid expansion.
- The city's tech sector has picked up some of the slack.
- Businesses have grown more upbeat about the economy and have become a bit more inclined to raise wages.

Supplementary Charts on Housing Markets

Home Prices

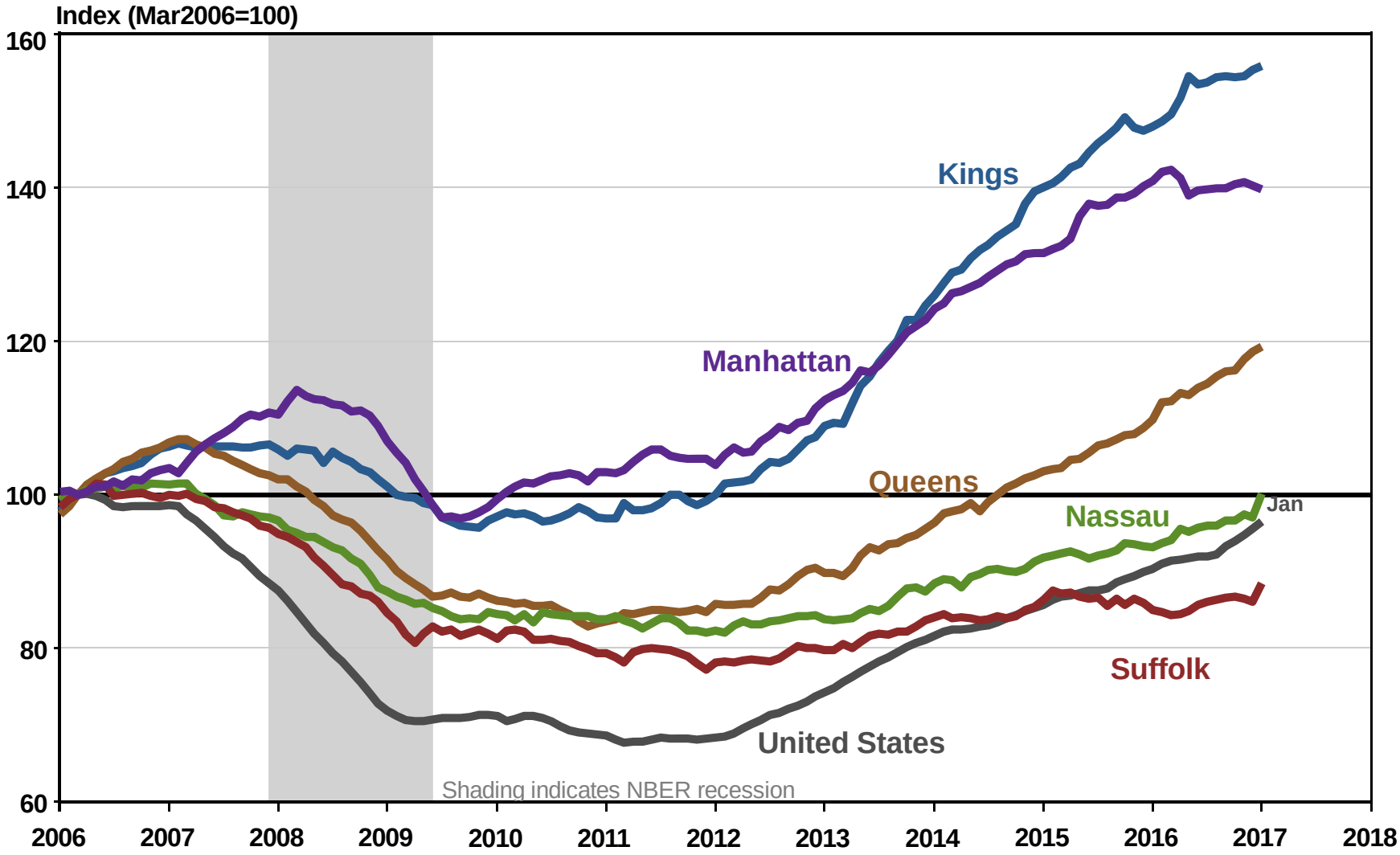
CoreLogic Home Price Index, Seasonally Adjusted



Source: CoreLogic Home Price Index (including distressed sales).

Home Prices

CoreLogic Home Price Index, Seasonally Adjusted



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Home Prices

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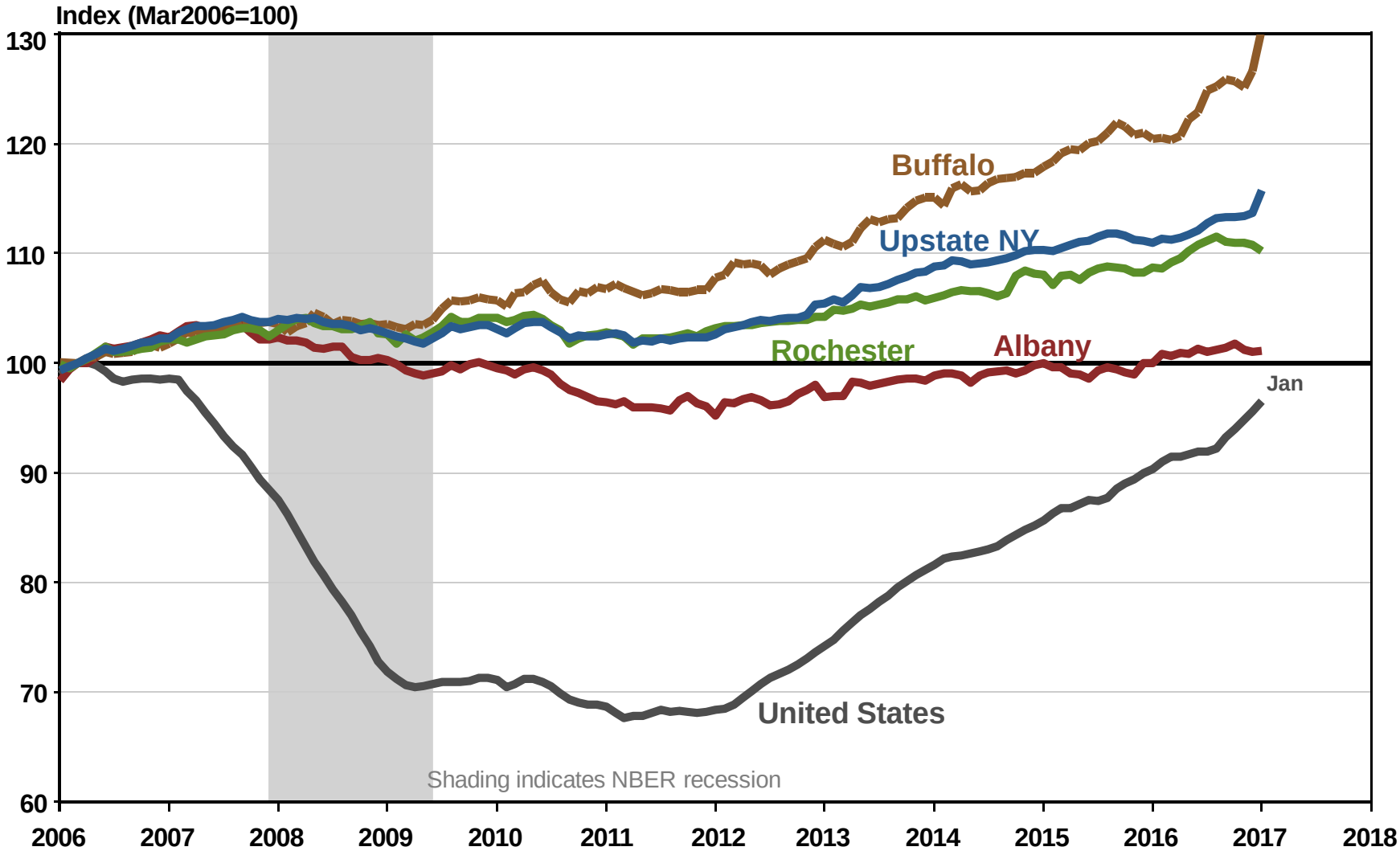

Source: CoreLogic Home Price Index (including distressed sales).

FEDERAL RESERVE BANK of NEW YORK

Developments in Payments

Speaker: Ken Isaacson, Senior Vice President, FRBNY

March 27, 2017

Agenda

- Strategies for Improving the Payments System (SIPS)
  - Accomplishments and next steps
- FRBNY Wholesale Product Office initiatives in support of SIPS
  - ISO 20022 payments messaging format
  - Cross-border payments
  - Enhanced settlement
- Questions

Strategies for Improving the Payments System

- In 2015, the Federal Reserve System initiated a multi-year effort to enhance U.S. payment systems, as outlined in the ***Strategies for Improving the U.S. Payment System*** **(SIPS)** paper.[1]
- These strategies focus on advancing the desired outcomes of **speed, efficiency, security, international, and collaboration.**
- Two task forces were launched in early 2015 to engage with stakeholders –
  - The Faster Payments Task Force (FPTF); and
  - The Secure Payments Task Force.
- In January 2017 –
  - The Fed published a progress report on the accomplishments to date and future plans.[2]
  - The FPTF published part one of its final report –
    - Describes task force background and processes, the payments landscape, and the benefits of faster payments.[2]
- In mid-2017, the FPTF will publish part two of its report to –
  - Assess faster payment solution proposals submitted by task force members to achieve a ubiquitous faster payment capability in the United States;
  - Identify gaps to achieve the desired outcome; and
  - Make recommendations for further industry actions to close gaps.

[1,2]The original SIPS paper, 2017 progress report, and part one of the Task Force report can be found here: https://fedpaymentsimprovement.org/two-years-five-strategies-continuous-progress-strategies-for-improving-the-u-s-payment-system-turns-two/

Achieving SIPS Strategies

- The **Faster Payments Task Force** key accomplishments include –
  - Established an independent team to assess faster payments proposals against faster payments effectiveness criteria.
  - Analyzed potential challenges to successful faster payments implementation such as
    - provider interoperability, rules and standards, governance, adoption, safety and security.
- The **Secure Payments Task Force** launched work to address the industry's most pressing payment system security issues such as –
  - identity management, data protection, and fraud and risk information sharing.
- Several SIPS strategies are being advanced by existing Federal Reserve financial services business lines.
  - FRBNY, as operator of wholesale services, is focused on **ISO 20022**, **cross-border payments**, and **enhanced settlement**.
- The Federal Reserve is analyzing potential further actions to fully achieve the SIPS desired outcomes.

ISO 20022

- A new message format is coming to the Fedwire Funds Service and CHIPS.
  - By 2020 (preliminarily – likely to change)
- Standard message formats for wire transfer payments provide opportunities for –
  - Richer data (e.g., purpose codes, extended remittance information).
  - Easier compliance with evolving regulatory requirements.
  - Efficiencies from a common format instead of multiple proprietary formats (e.g., reduced mapping & market practices).
- The Fed is engaging with both domestic and global industry groups to plan for the new format.
- Work is underway to finalize the implementation timeline, specify enhancements, map to legacy formats, and create usage guidelines/implementation guide.
  - Will be published to Fedwire Funds Service participants in Q4 2017, with a comment period to follow.[1]

[1]Periodic updates about the ISO 20022 initiative are published on the FedPayments Improvement website. https://fedpaymentsimprovement.org/payments-efficiency/iso-20022/

Cross-Border Functionality

- The Fed's SIPS paper asserts that there are opportunities to improve the speed, convenience, and efficiency of international payments.
  - About 30% of Fedwire Funds Service payments are international.
- In February 2017, SWIFT implemented the Global Payment Innovation (**SWIFT gpi**) initiative, which is designed to improve the speed, transparency and end-to-end tracking of cross-border payments.
- In March 2017, the Fed implemented a **market practice** to carry gpi-related information in the Fedwire Funds Service message format.
- The Fed will evaluate additional enhancements that could improve the speed, efficiency or transparency of cross border payments –
  - to complement the SWIFT gpi payment tracking service.
- The Fed will continue to –
  - facilitate industry dialogue on international payments; and
  - offer training opportunities to use the Fedwire Funds Service for cross-border payments.

Enhanced Settlement Services

- Real time retail payments are coming.
  - Typically 24x7x365.
  - Sometimes requiring receiving bank to pay the receiver before being paid by the payer's bank.
  - Credit exposures between banks can build – especially on weekends.
- The National Settlement Service (NSS) is a multilateral deferred net settlement system where interbank credit exposures can be extinguished.
- We are pursuing a three-phase approach for expanding the hours of NSS.
  - Phases 1 and 2 of that effort are now complete and the WPO stands at-the-ready to open NSS as early as 9 pm on the prior calendar date.
  - Phase 3 is framed as an exploration of what it would take to implement 24x7 and/or weekend hours.
- A decision to implement Phase 3 NSS hours will depend on –
  - Industry demand; and
  - Evolving alternative settlement solutions
    - E.g., 24x7 Fedwire, joint accounts, more frequent same-day ACH cycles