"Age is strictly a case of mind over matter. If you don't mind, it doesn't matter."

– Comedian Jack Benny, born on this day in 1894

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Bankers Say Downside Economic Risks Outweigh Upside Risks

By Thomas F. Siems, Ph.D., CSBS Senior Economist

Community bankers responding to the fourth quarter 2019 Community Bank Sentiment Index (CBSI) survey judged that the balance of risks to 2020 economic growth is weighted more to the downside, but they are not nearly as downbeat as professional economists. Moreover, bankers’ assessment of risks to 2020 economic growth is not uniform across the five CSBS Districts (map).

Key Points

- Community bankers in the Northeast had the most pessimistic view of 2020 economic growth.
Bankers nationwide listed the single greatest downside risk to 2020 economic growth is a “political or geopolitical event.”

However, bankers nationwide listed the greatest upside risks as lower interest rates, trade policy and a prolonged Fed pause.

As shown in Chart 1, for the full sample of 208 banks, most bankers (33%) answered that the balance of risks to 2020 economic growth is weighted more to the downside, with 21% saying the risks are more to the upside, 30% said neither, and 16% said they did not know or are unsure. When examined by CSBS District, we find similar conclusions to those when investigating bankers’ outlook for profitability. District 1 bankers have the most pessimistic view of 2020 economic growth. District 2 (Upper Midwest) and District 4 (Great Plains) bankers also have more “downside” responses than “upside” responses, whereas District 3 (Southeast) and District 5 (West) bankers judge 2020 economic risks as roughly balanced.
By way of comparison, the National Association of Business Economics’ (NABE) Outlook Survey was conducted in mid-November, about one month before the CSBS survey, and asked similar questions. In the NABE survey, 53 professional economic forecasters indicate that the 2020 economic balance of risks are skewed much more to the downside (71%), with 19% of respondents believing the balance of risks are to the upside and the remaining 10% supposing they will be equally balanced.

By a large margin, 34% of bankers said the single greatest downside risk to 2020 economic growth is a “political or geopolitical event,” with all five CSBS Districts listing this risk as the top concern. The other top answers to this question are a “global growth slowdown” (15%), “manufacturing weakness spilling over to reduced consumer spending” (10%) and “trade policy (increased protectionism)” (9%). The NABE panelists ranked “trade policy” (50%) as the single greatest downside risk, followed by “political or geopolitical event” (14%) and “global growth slowdown” (10%).

Bankers responded that the single greatest upside risks to 2020 economic growth are “lower interest rates” (20%), “trade policy (reduced protectionism)” (20%) and “prolonged Fed pause” (13%). Lower interest rates and a prolonged Fed pause were the top concerns in three CSBS Districts (Northeast, Upper Midwest and West), whereas trade policy was cited as the top concern in two Districts (Southeast and Great Plains). In comparison, the NABE Outlook Survey’s top answers to this question are “trade policy” (42%), “stronger global growth” (16%) and “stronger wage growth” (14%).

In answer to the question, “When do you think the next recession will most likely begin?” Chart 2 shows that bankers believe the odds of a recession starting in 2020 are 23%, rising to 57% by mid-2021, with 43% saying the next recession will not start until mid-2021 or later. More bankers in District 3 (51%) and District 4 (47%) put the odds of a recession starting further into the future (past mid-2021), whereas 76% of bankers in District 1 believe a recession will begin sooner rather than later (after mid-2021). Professional economists in the NABE Outlook Survey believe the odds of a recession starting in 2020 are 43%, rising to 66% by mid-2021, so that 34% judge the next recession to begin after mid-2021.
In summary, bankers’ assessment of risks to 2020 economic growth lean to the downside but are not as negative as professional economists. Bankers in the Southeast and West regions have a more balanced assessment of risks. According to surveyed bankers, the single greatest downside risk to 2020 economic growth is a political or geopolitical event, whereas the top candidates as the single greatest upside risk are lower interest rates, trade policy and a prolonged Fed pause. Twenty-three percent of bankers expect the next recession to begin in 2020.

For more information, visit the CBSI webpage.

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Regulation

CSBS released a survey of consumer lending laws and regulations of all 50 states and Washington, D.C., alongside a new policy paper that examines the nonbank consumer finance marketplace.

John Ryan, CSBS president and CEO: “These resources offer a comprehensive look at the current state of U.S. consumer finance: the history of the industry and current supervision in the whitepaper and a nationwide look at similarities and differences across licensing schemes in the survey. The information is vital to states looking to craft more uniform requirements and to industry, particularly new entrants, policymakers and consumer groups searching for a verified summary of state compliance requirements.”

The survey of consumer finance licensing laws identifies state licensing and lending requirements for consumer loans as defined by state statutes. It includes business activities that trigger a need for a consumer loan license, major license requirements, statutorily mandated loan terms and limits on fees and charges.

All information contained in the survey is verified by the relevant state regulatory authority. The information will be updated on an annual basis and expanded to include usury restrictions.

Consumer Finance Survey Highlights:

- Almost all states have minimum financial requirements: net worth or assets and/or surety bonds
- 29 states manage consumer loan licenses through NMLS
- 13 states’ laws have applicability to commercial small business lending
- 7 states require an in-state physical presence
- No state has a minimum loan amount, and the maximum ranges from $1,500 to $92,500

The state consumer law survey is one of 11 commitments state regulators made to strengthen and streamline state regulation based on CSBS Fintech Industry Advisory Panel recommendations. It is also a key part of CSBS Vision 2020, a bundle of initiatives driving toward a more uniform and networked system of nonbank licensing and supervision.

The overview of nonbank consumer finance focuses on personal, auto, student, small dollar and
payday loans as well as online and fintech lending. It is part of an ongoing series titled *Reengineering Nonbank Supervision*.

**Overview of Nonbank Consumer Finance** Key Findings:

- Outstanding student loan balances are estimated at $1.6 trillion owed by approximately 45 million consumers
- Personal loan balances (secured and unsecured credit combined) were at an all-time high of over $305 billion mid-year 2019, a growth of 46% in the last four years
- Millennials have the highest level of debt overall (avg. $134,323), and Baby Boomers carry the second highest level (avg. $95,095)
- Spurred by fintech online loans, outstanding unsecured personal loan balances increased to $148 billion in the second quarter of 2019, up 222% from 2012

*Editors Note: At 3:28, we discuss a "loophole" for ILCs. From a technical perspective, it is an exemption for ILCs, not a loophole.*

**Simply Soundbite: What's an ILC?**

**Host:** Matt Longacre  
**Guest:** Darryle Rude, Chief Examiner, Utah Department of Financial Institutions

Simply Soundbites is a new mini-series on the Simply Stated Podcast, where the guest of the week explains a complex topic or definition from the news in ten minutes or less.

We ask Darryle Rude, Chief Examiner at the Utah Department of Financial Institutions, what an Industrial Loan Corporation is (also known as an Industrial Bank or ILC).