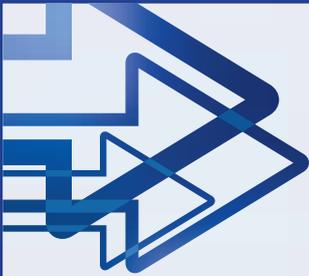




WBA WISCONSIN ECONOMIC REPORT

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Wisconsin Bankers Association

Banks Will Overcome Challenges, Continue Strength in 2019

By Rose Oswald Poels, WBA President and CEO

Wisconsin's banking industry saw steady growth throughout 2018, and I expect that trend to continue for most of 2019.

Much of the strength of the last year can be attributed to greater national certainty and legislative policies at the state and federal level that have improved the overall economy, providing consumers and business owners with greater confidence to borrow money for purchases and to fund growth. Certainly federal tax reform has strengthened the balance sheet of both individuals and businesses, including banks. In addition, the banking industry finally saw the beginning of regulatory relief with the bi-partisan passage of S. 2155, the Economic Growth, Regulatory Relief and Consumer Protection Act. There is a delay in realizing the benefits from this law as regulators need to write rules to implement the law; however, much of the industry will see some relief from overly burdensome rules. The industry will continue to work with the 116th Congress to hopefully provide more meaningful relief for both banks and their customers.

Looking ahead to 2019, there are several indicators bankers and regulators are watching that will impact the banking industry: core deposits, the ag sector, and technology. Core deposits are an important component of

a bank's funding source and one that regulators expect to be a primary source. However, as Wisconsin's population continues to age and competition from non-bank sources intensifies, banks are finding it increasingly challenging to grow core deposits from local sources. As a result, banks look to other sources for funding loans which often are more expensive, impacting a bank's net interest margin. On the loan side, regulators are focused on ag portfolios and concentrations of commercial real estate loans. Additionally, the competition to attract loan customers has been very strong and regulators are closely watching bank's underwriting standards to ensure they maintain discipline.

The ag sector is understandably a concern as farmers have experienced the "perfect storm" of challenges for too long. Ag lenders will continue to work closely with their farm customers to help them through these challenging times in 2019 but as more annual operating loans are rolled over into longer term financing, the need for a positive turn-around in the health of our state's ag sector becomes increasingly critical for banks and farmers alike. Industrial hemp is a potential new crop that could help provide some diversity to Wisconsin farmers. Bankers are helping advocate for the 2018 Farm Bill to permanently legalize hemp and hemp products so that banks

have a clearer regulatory path to do business with all groups involved with this crop and its byproducts.

Technology will continue to transform the way banks do business in 2019 as investment in this area remains strong. Technology improvements are focused not only on streamlining internal operations but also on enhancing the customer experience with a bank. This necessary expense also impacts a bank's net interest margin.

Through the third quarter of 2018, the number of Wisconsin-headquartered banks declined to 204, and I expect that number to continue to decline in 2019 by about 6-8%. Banking remains a relationship business so even as acquisitions continue, branch offices will exist in communities where a headquarters once was located to continue to meet the financial needs of local customers.

Despite our shrinking numbers, the size of Wisconsin banks will continue to grow because we are the engine of our state's economy. While the outlook for much of 2019 is positive for the industry, we are mindful that a correction is coming and may start to materialize near the end of the year.

Founded in 1892, the Wisconsin Bankers Association is the state's largest financial industry trade association, representing nearly 250 commercial banks and savings institutions, their nearly 2,300 branch offices and 23,000 employees.