NJBankers
2015 Economic Survey

FINAL ANALYSIS and REPORT OF SURVEY RESULTS

Field Period: September 23, 2014–November 10, 2014

Conducted for
NEW JERSEY BANKERS ASSOCIATION

Conducted by
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Sample and Protocol

The sample frame included all 108 member institutions of the New Jersey Bankers Association. Of the 108 banks in the panel, 84 completed the survey questionnaire for an overall response rate of 77.8% (84/108). Note: 71% of respondents participated in the most previous administration of this study.

The survey was fielded from Thursday, September 23rd through Monday, November 10th, 2014. The following contacts were made to the panel:

- September 23rd: Advance notification hard copy letters from Dean Hughes and NJBankers President John McWeeney
- September 23rd: Email invitation with clickable link
- September 26th: Three-day reminder email
- October 7th: Two-week reminder email
- October 8th - November 10th: Follow-up phone calls performed by NJBankers
- October 23rd: One-month follow-up email
- November 4th: Last chance email
NJBankers 2015 Economic Survey

Survey Context: Stage of the Business Cycle

At the close of 2014, a common business headline assessing the global economy was: “U.S. Grows – World Slows!” Underpinning it were two key federal data points released last December. Gross Domestic Product (GDP) unexpectedly increased by 5.0 percent in the third quarter of 2014, the highest rate since the third quarter of 2003, more than a decade ago. And the 11-month (December 2013-November 2014) reading on private-sector payroll employment showed that 2014 was about to be the best job growth year since 1997. The consensus was that the U.S. economy finally achieved full liftoff. At the same time, the global economy was sputtering.

However, economic headlines were more sober earlier in 2014. GDP had unexpectedly contracted by 2.1 percent in the first quarter, while payroll employment for the same period was on track to fall slightly below that of the preceding three years (2011-2013). But by midsummer 2014, improving data points eased any lingering worries. By the time of this survey (September-early November), the statistics were even more positive, but nowhere near the December blockbuster numbers.

As was stressed in last year’s report, the stage of the business cycle has a significant impact on economic survey responses and the expectations/outlooks of respondents, as well as on shifts in responses and expectations over time. To gauge where we are in the business cycle – both nationally and in New Jersey – the most widely-used metric is the monthly and annual change in private-sector payroll employment.\(^1\) The source of private-sector employment is the U.S. Bureau of Labor Statistics’ monthly payroll report, derived from a survey of employers. It is used not only to gauge phases of the cycle, but also the overall status of the economy. During recessions, employment change turns sharply negative; during economic expansions, it turns sharply positive. Two simple charts – one for the nation and one for the state – provide the context for the 2015 survey.

As a point of reference, the last economic downturn – the Great Recession – started in December 2007 and ended in June 2009. The beginning and end points were determined by the

\(^1\) Gross Domestic Product (GDP) is the broadest measure of total output of the United States economy; however, state GDP data lag by almost one year. At the time of this report’s publication, only advanced 2013 data is available.
Business Cycle Dating Committee of the National Bureau of Economic Research. By December 2014, the economic expansion following the recession reached 66 months in length – a full five and a half years. Thus, during the three months (September-November 2014) when the 2015 economic survey was conducted, the expansion was between 63 and 65 months long.

Last year, it was pointed out that the average length of all post World War II expansions approached 59 months. If that figure is used to gauge the length of the current expansion, it would suggest it was “post mature,” with certainly most of the highly-negative direct effects of the Great Recession now in the economic rear view mirror. But the expansion may only be middle-aged by a more current metric: the three expansions that immediately preceded the Great Recession lasted on average 95 months. So, by this measure, the expansion still has a long way to go if it turns out to be “average.”

_Thus, this macro context of the survey suggests that there should be an even stronger sense that the national economy has continued to advance, and that this advancement should extend into the short-term future._ Therefore, it is assumed that the current level of activity in many national economic subsectors will also probably advance going forward. This appears to be reflected in a number of the survey responses.

**Chart 1**

**U.S. Private-Sector Employment Change 2009-2014**

<table>
<thead>
<tr>
<th>Year</th>
<th>Employment Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>-5,013,000</td>
</tr>
<tr>
<td>2010</td>
<td>1,277,000</td>
</tr>
<tr>
<td>2011</td>
<td>2,400,000</td>
</tr>
<tr>
<td>2012</td>
<td>2,294,000</td>
</tr>
<tr>
<td>2013</td>
<td>2,365,000</td>
</tr>
<tr>
<td>2014*</td>
<td>2,805,000</td>
</tr>
</tbody>
</table>

Note: Employment change measured from December to December, seasonally adjusted.
Chart 1 shows annual private-sector employment change – measured December to December – in the United States for the 2009-2014 period. The numbers in the chart differ from last year’s totals due to annual benchmark revisions of the data series by the Bureau of Labor Statistics. The year 2009 registered the worst employment loss in the nation’s history, when more than 5 million jobs were lost, even though the second half of the year was technically in economic recovery. Growth then advanced modestly in 2010 (+1.3 million jobs), and then jumped in 2011 to 2.4 million jobs, a pace characteristic of a strong expansion. Employment gains nearly sustained that level in 2012 (almost 2.3 million jobs) and 2013 (almost 2.4 million jobs).

The average annual employment gain for the three-year period was 2.35 million jobs. Due to a strong year-end performance, 2014 was on course to add more than 2.8 million private-sector jobs based on the first 11 months of the year (through November). This is 450,000 jobs greater than the 2011-2013 annual average, and the best job-growth year in 17 years. The nation’s economic momentum going into 2015 is the strongest of the post-Great Recession period.

During 2014, the nation also achieved a key milestone. The United States lost approximately 8.8 million private-sector jobs during the Great Recession, leaving a deep employment hole to climb out of. Nonetheless, in March 2014, full employment recovery was achieved – the nation finally surpassed its pre-recession peak (December 2007). As of November 2014, the nation’s employment level was 2.0 million jobs higher than that of December 2007.

Chart 2

New Jersey Private-Sector Employment Change 2009 - 2014
Chart 2 provides the equivalent private-sector employment data for New Jersey. Again, the totals differ from those presented in the 2014 report due to benchmark revisions released in March 2014. In 2009, the year the recession ended, the state was still hemorrhaging employment (-114,400 jobs). Stability and modest growth was then achieved in 2010 (+8,200 jobs), the first full year of recovery. Growth more than tripled in 2011 (+28,800 jobs), and then increased to 45,400 jobs in 2012. Based on data for the first half of 2013, it appeared that the state was on track to add approximately 62,000 jobs, suggesting a sustained upward employment growth trajectory.

But an unanticipated net employment loss in the second half of the year reduced the total employment gain for 2013 to just 19,800 jobs. Then, based on the first 11 months through November 2014, employment growth rebounded in 2014 to just 34,250 jobs. Thus the bounceback was modest but positive. Overall, there has been a sustained soft patch of nearly 18 months. Much of this is due to unique, one-time factors. A very weak post-Superstorm Sandy shore season in 2013 rippled through the state economy as regional vacationers fled to non-New Jersey destinations. Out-of-state dollars stopped flowing into New Jersey, and a significant increment of in-state vacation dollars flowed to out-of-state destinations. Then, unique negative winter weather events in the first quarter of 2014 continued to weaken employment growth.

Further, as the year matured, the Atlantic City drama unfolded. Delayed resizing of the casino industry in the post-East Coast gaming monopoly era finally took hold. While it has not yet run its full course, it eventually will stabilize.

Despite these three one-time negative factors, employment growth has resumed a modest upward trajectory. But the economic “soft patch” was noticeable the past year, and it is consistent with some of the survey results. Nonetheless, it was probably evident that the New Jersey economy was just “muddling through” and that a significant amount of ground still had to be made up.

The reality of the current business cycle helps explain one of the key themes of the 2015 survey: growing economic optimism at the national level but less than full economic lift-off in New Jersey. While most survey metrics showed some improvement, the basic expectation is that current conditions will likely extend into the future.
Synopsis of Key Findings

• The 2015 survey respondents recognized sustained improvements in the health of the nation’s economy, with the overwhelming consensus that it was “fair to good.” There still was considerable doubt that “boom” times were at hand, but the “poor” rating virtually disappeared. In New Jersey, the survey responses were more muted. While the overall ratings generally improved over the past two surveys, the more positive rating (“good”) lagged significantly behind that of the nation.

• Short-term future economic expectations (for the next six months) for the nation were for current economic conditions to largely “remain the same.” But there was a growing share of responses – albeit still a minority – that expected it to “strengthen.” In contrast, the six-month expectations of the general New Jersey economy weakened in the 2015 survey compared to past surveys. Still, the majority of respondents felt it would remain “unchanged.”

• Similarly, there is a general expectation that businesses in respondents’ markets would “maintain current staffing levels” in the next six months, although a growing minority share expected businesses to “hire employees.”

• The basic expectation for the next six months is for long-term interest rates to “remain the same.” While the expectation for short-term interest rates is also to “remain the same,” an increasing number of respondents – compared to past surveys – expect them to “go up.”

• Business loan demand, in general, is continuing to improve. Only a slight majority of those surveyed still rated demand only as “fair.” The “good” and “excellent” ratings continued to grow. Ratings for business loan demand for the next six months also improved in general, but a strong majority of respondents still expect demand to “remain unchanged.”

• Assessments of current commercial real estate loan demand also showed improvement; for the first time, the highest proportion of responses fell into the “good” category. From this higher level, the prevailing expectation for commercial real estate loan demand six months from now is to “remain the same.”
• A somewhat more negative assessment of residential loan demand emerged compared to last year, although the majority of respondents still rated it “fair” or “good.” The expectation that improvement in demand would occur in the next six months diminished; the overwhelming expectation was that it would “remain unchanged.”

• Current residential refinance demand has continued to weaken, according to the respondents. This is not surprising after years of heavy residential refinancing at record low interest rates. The current conditions are overwhelmingly expected to “remain the same” six months from now.

• There is a diminishing expectation in the 2015 survey that home values would increase over the next six months compared to the 2014 survey. A growing majority of respondents expected them to “remain the same.”

• Multi-family rental housing was rated last year as the strongest commercial real estate submarket. This year, a significant share, but not yet a majority, of respondents “strongly agreed” or “somewhat agreed” that the current multi-family rental commercial real estate market is now a bubble.

• In general, the condition of four of the “negative assessment indicators” – the number of consumer bankruptcy filings, business customer bankruptcy filings, residential customer foreclosures, and business customer foreclosures – remained relatively stable, i.e., “unchanged.”

• When rating the foreclosure processes, the respondents indicated greater difficulty in the commercial process than in the residential process. Most did not consider residential property abandonment as a significant problem.

• One of New Jersey’s emerging commercial real estate problems is helping to resell, repurpose, or refinance obsolete industrial, office, or other commercial buildings. A strong majority of the survey sample had no experience in this area.

• The number of past dues for residential mortgage payments in the last six months, which had shown steady improvement in previous surveys, have started to become somewhat more of a problem again.
• The sharpest growing concern for consumer lending in the 2015 survey was interest rate risk; lack of demand is the second concern, while regulatory concerns diminished significantly. Lack of qualified borrowers supplanted lack of demand as the most significant obstacle to business lending.

• The Dodd-Frank Act was seen as having a considerably negative impact on the banking industry, bank operating costs, and on banking services to customers. Compliance costs of Dodd-Frank centered on special staff hires.

• Respondents were evenly divided about whether the new Consumer Financial Protection Bureau rules regarding qualified mortgages restricted their ability to make residential loans. But a majority said these restrictions caused them to accumulate excess funds that were not lent.

• There was some certainty that the respondents’ banks would not acquire another bank or be acquired by another bank over the next 12 months. That certainty was diminished somewhat when the time frame was expanded to 24 months.

• The majority of the survey sample responses indicated that respondents plan to buy, sell, or reconfigure their office/banking space – generally allocating less space for customer service and somewhat more space for back operations.

• The Millennial Generation is high on bankers’ radar screens. Virtually all respondents foresee a need to change business practices because of this generation’s needs.

• There is a growing, but still minority, concern that the respondents’ CAMELS rating does not accurately reflect their bank’s true risk profile.
DETAILED ANALYSIS OF SURVEY RESULTS

The Current Health of the Economies of the United States and New Jersey

The Great Recession ended in June 2009, when economic recovery officially began. Thus, all of the NJ Bankers Annual Economic Surveys took place during years of economic expansion. **Nonetheless, in all five years of the survey, there was not a single respondent who gave an “excellent” rating to the current health of the United States economy, or to the current health of the New Jersey economy.** This is particularly surprising since the latest survey took place during the beginning of the sixth year of economic expansion, which started in June 2014. While the nation’s employment growth has expanded at a strong rate over the past four years, the realities of lagging wage growth and stagnant household incomes may have tempered enthusiasm about the quality of the nation’s recovery and expansion.

Moreover, New Jersey’s employment growth continually has lagged the nation’s. At the time of survey, the United States had more than recovered all of its Great Recession private-sector employment losses. At the same time, New Jersey had yet to recover 60 percent of its recessionary job losses.

With the expansion well into its sixth year at the time of the survey, and national job growth at a high sustained level, it is not surprising that the survey respondents did see advances in the nation’s economy. Specifically, between 2013 and 2015, respondents generally indicated a trend toward marked improvement: the rating for “poor” tumbled from 29.1 percent in 2013 to just 4.8 percent in 2015, while the rating for “good” jumped from 0.0 percent to 24.1 percent. The combined “fair”/“good” category increased from 70.9 percent in 2013 to 95.2 percent in 2015. There is a growing sense that the national economy has been getting better.

The recent optimism at the national level, however, does not necessarily translate to the state level. Here, while the rating for “poor” dropped from 25.5 percent to 7.2 percent between 2013 and 2015, the “good” rating increased from 0.0 percent to just 8.4 percent, and actually declined slightly from 2014’s 12.0 percent. To put a finer point on it, the 2015 “good” rating in the state (8.4 percent) was approximately one-third of the national “good” rating (24.1 percent). In contrast, the “fair” rating in New Jersey (84.3 percent) was far higher than that of the United States (71.1 percent). This is consistent with the disappointing employment

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2 The Business Cycle Dating Committee of the National Bureau of Economic Research is the organization that specifies the precise dates of recessions and expansions in the United States.
performances for New Jersey during the past year. *The general perception is that the state’s economy is performing just adequately.*

**Six-Month Expectations of the U.S. and N.J. Economies**

*The nation-state economic differentials are expected to continue into the short-term future.* From 2013 through to 2015, there were steady increases in positive six-month-in-the-future national economic expectations. The proportion of the sample indicating the United States economy would “weaken” fell from 18.2 percent (2013) to just 7.2 percent (2015), while those who expected it to “strengthen” increased from 27.3 percent to 31.3 percent. The proportion asserting the status would “remain unchanged” increased from 54.5 percent to 61.5 percent. In contrast, the six-month expectations of the New Jersey economy in general weakened in 2015 compared to 2014. Those expecting the economy to “strengthen” fell from 29.3 percent (2014) to 20.5 percent (2015). The 2015 “strengthen” rating was the lowest in the history of the survey, and considerably lower than that of the national economy (20.5 percent versus 31.3 percent). While there was a steady increase in the proportion expecting the economy to remain “unchanged” – from 60.0 percent (2013) to 62.7 percent (2014) to 68.7 percent (2015) – there was also an increase in those expecting it to weaken, from 8.0 percent (2014) to 10.8 percent (2015).

Nonetheless, from the 2014 survey to the 2015 survey, the proportion of the sample indicating that “in the next six months businesses in your bank’s market are likely to ‘hire employees’” **nearly doubled from 12.5 percent to 24.7 percent, while the percentage indicating that they would “maintain current staffing levels” dropped from 77.8 percent to 66.7 percent.**

**Interest Rates Over the Next Six Months**

Interest rate expectations have changed dramatically in the surveys since 2011. *The basic expectation in the 2015 survey is stability in long-term interest rates and more of a tendency to see a rise in short-term interest rates.* In 2013, only 5.5 percent – one in twenty – of respondents expected long-term interest rates to “go up” over the next six months. That expectation jumped to more than half (57.3 percent) in 2014, before slipping to 33.7 percent – one out of three – in 2015. In 2013, only 10.9 percent expected them to “go down”, or just one in ten. But that share fell to even lower levels in 2014 (2.7 percent) and 2015 (3.6 percent). The majority (62.7 percent) in 2015 expected long-term interest rates to “remain the same.” This is much higher than 2014 (40.0 percent) but much lower than 2013 (83.6 percent).

Among a minority of respondents, there are growing expectations that short-term interest rates will “go up” in the next six months. In 2013, only 5.5 percent expected them to “go up;”
this response jumped to 18.7 percent in 2014 and to 30.5 percent in 2015. And, although still a majority, the share of respondents expecting short-term interest rates to “remain the same” fell from 90.9 percent in 2013, to 81.3 percent in 2014, and to 67.1 percent in 2015. Not surprisingly, virtually no one expected them to go “down” in all three survey years: 2013 (3.6 percent), 2014 (0.0 percent), and 2015 (2.4 percent).

Demand

Business Loan Demand

_In general, business loan demand is improving._ The net proportion of the sample rating current demand for business loans in their market as either “excellent” or “good” moved from 15.4 percent in 2013 to 26.1 percent in 2014, and then on up to 39.0 percent in 2015. Similarly, those rating demand as “poor” dropped from 34.6 percent in 2013 to just 7.3 percent 2015. _Despite these impressive positive shifts, a majority of respondents (53.7 percent) in 2015 still rated demand as just “fair.”_

Looking forward, _business loan demand expectations for the next six months improved from 2014’s nadir._ In the five years of the survey, the lowest share of respondents expecting business loan demand to go up occurred in 2014 (19.2 percent). However, expectations for demand to “go up” improved in 2015 (26.8 percent). Nonetheless, most respondents (70.7 percent) in 2015 still expected demand to “remain unchanged.” Only 2.4 percent expected business loan demand to “go down” in 2015. This is consistent with the responses from 2013 and 2014.

Commercial Real Estate Loan Demand

The question on “rating the current demand for commercial real estate loans in your market” was first posed in 2014. _This year’s survey (2015) shows general improvement in demand._ The net “excellent”/“good” response increased from 45.8 percent in 2014 to 55.1 percent in 2015. This improvement was due to a positive change in the “excellent” rating, which jumped from just 1.4 percent in 2014 to 11.3 percent in 2015.

Despite this “current” improvement, respondents’ expectations for commercial real estate loan demand in the next six months show a two-year decline. Those expecting demand to “go up” fell steadily from 34.0 percent in 2013, to 25.0 percent in 2014, and to 20.0 percent in 2015. Still, the overwhelming sentiment in 2015, even more so than past surveys, was that _the six-month expectation on commercial real estate loan demand would “remain unchanged” (76.3 percent)._ This is up from 60.4 percent in 2013 and 72.2 percent in 2014.
Residential Loan Demand

After some improvement was evident in the assessment of current residential loan demand in 2014, particularly as compared to 2013, a somewhat more negative assessment emerged from the 2015 survey data. Those rating it “good” or “excellent” (combined) fell from 31.1 percent (2014) to 22.2 percent (2015), and those rating it “poor” jumped from 8.1 percent (2014) to 19.8 percent (2015). In the last three surveys (2013, 2014, and 2015), those rating it “fair” hovered in the vicinity of 60 percent, or roughly three out of five. In 2014 and 2015, none (0.0 percent) rated it “excellent.”

A similar pattern shows up in the expected residential loan demand in the next six months, where those indicating that demand would “go up” dropped from 30.2 percent in 2013 to 23.0 percent in 2014, and still lower to 12.4 percent in 2015. Despite such diminished expectations, an overwhelming 79.0 percent of respondents in 2015 expected loan demand to “remain unchanged.” That is the highest percentage for this measure in the history of the survey.

Residential Refinance Demand

From 2013 to 2015, the current demand for in-market residential refinances has weakened. Those indicating that demand is “poor” increased from just 1.9 percent in 2013, to 25.7 percent in 2014, and to 33.7 percent in 2015. Similarly, the share indicating that demand was “excellent” fell to 1.3 percent in 2015, down from 15.1 percent two years earlier (2013). The share of respondents indicating that demand was “good” dropped significantly, from 39.6 percent in 2013 to 6.3 percent in 2015.

Demand expectations over the next six months for residential refinances exhibit the same pattern as expectations of residential loan demand – 79.2 percent expected refinances to “remain unchanged” while 79.0 percent expected residential loan demand to “remain unchanged.” There were two “breaks in trend” during the three year period. Expectations that residential refinances in the next six months would “go down” jumped from 22.6 percent in 2013 to 43.2 percent in 2014, but then fell to 19.5 percent in 2015. Respondents indicating that demand would “remain unchanged” declined from 66.0 percent in 2013 to 54.1 percent in 2014, but then increased to 79.2 percent in 2015.
Real Estate Values

This question was asked for the first time in 2014; the majority of respondents in both survey years – 2014 (56.0 percent) and 2015 (69.5 percent) – expect home values over the next six months to “remain unchanged.” There was a bit more pessimism in 2015, when only 28.1 percent expected home values to “go up,” compared to 42.1 percent indicating movement in that direction a year earlier (2014). The expectation that home values would go down was very minimal.

Are we in a rental housing bubble? Close to half (45.7 percent) of the respondents either “strongly agreed” or “somewhat agreed” that the current multi-family rental commercial real estate market is a bubble. This compares to just 27.2 percent that either “strongly disagreed” or “somewhat disagreed.” Just over a quarter (27.3 percent) were on the fence – “neither agreed nor disagreed.”

Negative Indicators

In general, the condition of four of the “negative assessment indicators” – the number of consumer bankruptcy filings, business customer bankruptcy filings, residential customer foreclosures, and business customer foreclosures – did not change substantially.

Customer bankruptcies for both consumers and businesses remained relatively stable with approximately 90 percent reporting unchanged or decreased filing over the past six months. The same pattern is evident in the numbers for both residential and commercial foreclosures. With regard to rating foreclosure processes, the overarching theme shows a greater difficulty in the commercial process (with 22.4 percent indicating the process is worsening over time) than in the residential process (at 15.0 percent).

Slightly more than one out of four respondents view residential property abandonment as a “serious” or “moderate” problem; nearly two-thirds of the sample have had some exposure to the issue, but only 5.0 percent see it as a “serious problem.”

Over a quarter of the 2015 sample (27.5 percent) had experience with one of New Jersey’s emerging commercial real estate problems, i.e., helping to resell, repurpose, or refinance obsolete industrial, office, or other commercial buildings. Thus, there is a lack of experience in dealing with such problem properties.
An overview of the number of past dues for residential mortgage payments over the past six months indicates some deterioration. In 2014, the proportion of the sample indicating residential mortgage past dues were increasing was 8.3 percent; in 2015, that doubled to 16.5 percent. At the same time, those who anticipated the number of past dues would decrease halved from 43.1 percent in 2014 to 22.8 percent in 2015. Clearly, then, the improvement that was previously evident in 2014 was not repeated in 2015.

**Common Obstacles to Lending**

The “Common Obstacles to Lending” set of questions was first asked in 2014. Here, respondents were asked to rank order four common obstacles to consumer and business lending: regulatory concerns; lack of demand; lack of qualified borrowers; and interest rate risk. In addition, there was an “other, specify” catch-all category.

The leading concerns for consumer lending in the 2014 survey were the regulatory environment (37.5 percent) and a lack of demand (36.6 percent), with greater than one-third of the sample selecting those categories as the most significant obstacle. However, in 2015, interest rate risk (42.9 percent) supplanted lack of demand (34.2 percent) as the most significant obstacle to consumer lending.

In 2014, lack of demand was indicated by 44.8 percent of the respondents as the most significant obstacle to business lending, followed by the lack of qualified borrowers (22.4 percent). In 2015, it was lack of qualified buyers (34.7 percent) and interest rate risk (18.9 percent) that were seen the most important obstacles.

**Sources of Information**

Respondents were asked to briefly list or describe the sources from which their bank gets information about the real estate market in their region. Overwhelmingly, these data show the following conclusions. First, most member institutions gather information from a variety of sources. Second, many of these sources are local and include local brokers, realtors, and firms as well as business customers. Third, the availability of local information varies regionally within the state.

These conclusions emerge from a word frequency analysis of these textual data. Among the 268 words written across the 57 responses to this question, the word “local” appeared the most often, at 23 times. The next most often occurring terms – at 14 and 13 times respectively – were “realtors” and “real estate.” Specific sources identified included: CoStar; Crains, Marcus
& Millichap; MLS; NJBiz; Otteau Group Report; and Reis Reports, as well as various government data sources.

**Dodd-Frank**

This year for the first time we asked a small battery of questions about the Dodd-Frank Act. *The membership’s opinions and reported experiences were overwhelmingly negative.* A distinct majority (86.4 percent) report that Dodd-Frank has had either a “very” or “somewhat” negative impact on “the banking industry,” and a nearly as strong majority (79.0 percent) say the same about “impact in terms of services to customers.”

While nearly one in five of the sample members are neutral to the impact of Dodd-Frank “in terms of services to customers” (19.8 percent), only one in eight (12.4 percent) are neutral to the impact of Dodd-Frank “on the banking industry.” In neither case did any respondent (0.0 percent) indicate that Dodd-Frank had a “very positive” impact.

Statistically, all respondents agreed that the Dodd-Frank Act had a negative impact “in terms operating costs for your bank.” Of the 93.8 percent who responded “negative,” 60.5 percent responded “very negative.” Of Dodd-Frank compliance costs incurred, the great majority were to fund new hires related to regulatory compliance. Of those reporting increased expenditure related to Dodd-Frank, 82.4 percent cited “special hires related to compliance,” and 45.9 percent cited “special hires related to security of documents and processes.”

**Residential Qualified Mortgage Loans**

This survey year, a new focus is on the January 10, 2013 federal Consumer Financial Protection Bureau policy, which took effect on January 10, 2014, authorizing two types of residential qualified mortgages (RQMs): the *Safe Harbor* and the *Rebuttable Presumption*. Two questions were directed toward this regulation.

The first probed whether these new rules on RQMs restricted the bank’s ability to make residential loans. There are two noteworthy observations. First, the “yes” versus “no” distribution was statistically equal – meaning answers to the question about the constraining effects of this policy were 49.4 percent “yes” and 50.6 percent “no”. It is likely that this “non-variation” is informed by the second, and methodologically more significant observation, i.e., that there is less than 12 months of experience under these conditions.
Those who indicated they were restricted by the rules were then asked whether they had accumulated excess funds as a result. Combining the two questions so the percentages can be seen in terms of full-sample outcome, roughly one in two sample members (49.4 percent) reported the RQM rules restricted their ability to make residential loans, and roughly one in three sample members (32.5 percent, taken as 65.8 percent of 49.4 percent) reported they accumulated excess funds that were not lent.

Of those who indicated they had accumulated excess funds as the result of the RQM rules, most respondents reported they invested those funds in short-term investments. One response stood out: “Excess funds going into investment accounts not the local economy” [sic].

**Acquisitions**

The same two-part question – how likely is it that “your bank will acquire” or “your bank will be acquired by” another bank – was asked for two different timelines: over the next 12 months and over the next 24 months.

There is more certainty over the next 12 months, compared to the next 24 months. To illustrate, over the “next 12 months,” 45.5 percent indicated it was “very unlikely” they’d acquire another bank; that metric falls to 29.0 percent when the time frame is extended “over the next 24 months.” Similarly, but less severe, 64.0 percent said it was “very unlikely” they’d be acquired over the “next 12 months.” But that response dropped to 54.8 percent when the timeframe was extended to 24 months.

**Space Usage**

Three questions were asked about commercial space utilization for bank operations. First, over the next 12 months, slightly over six out of ten (62.5 percent) indicated they plan to buy, sell, or reconfigure any of their office/banking space. Second, within this process, slightly over half (52.5 percent) anticipate less need for customer service space, while a very small minority of one in ten indicated the need for more customer service space. In contrast, more than a third (35.0 percent) see the need for more backroom operations space, while only 21.2 percent suggested they would need less.

**The Millennial Generation**

A new series of questions was directed at changing demographics; the focus was on the Millennial Generation, defined for purposes of the survey as “those currently between the ages
of 18 and 34 years old.” There is a substantial awareness and sensitivity to the demographic changes happening in the banking market space.

More precisely, 93.8 percent of respondents “foresee a need to change business practices to meet the needs of the Millennial Generation.” On the other hand, 6.2 percent did not. Of those who answered “yes,” a follow-up, open-ended question asked them to describe “in what way” business practices would need to change. The overwhelming theme in that set of responses was “technology,” with a specific and repeated mention of the “electronic delivery” of services and products.

Also as open-ended text questions, the survey asked about the Millennial Generation’s impact on “the residential real estate market in your business region,” and how their “workforce preferences will affect commercial space utilization in your business region, if at all?” From the first question, while there were a number of different directions and ideas expressed, one theme emerged: the increased and continuing importance of residential real estate rentals over purchases. This is opposite of earlier survey results that showed close to half (45.7 percent) of respondents either “strongly agreed” or “somewhat agreed” that the current multi-family rental commercial real estate market is a bubble.”

The dominant prediction of the impact of the Millennials’ “workforce preferences” on commercial space utilization was essentially “none.” There was some observation about the Millennials’ penchant for telecommuting, but by and large, little change is anticipated.

**CAMELS Score Rating**

The percentage of banks indicating their CAMELS score accurately reflected their bank’s true risk profile dropped from four out of five institutions (79.7 percent) in 2014 to two out of three (67.1 percent) in 2015. Concomitantly, the percentage indicating the CAMELS score was not a true reflection of the bank’s risk profile increased substantially (from 20.3 percentage points in 2014 to 32.9 percentage points in 2015).

With only two data points on this issue, it is impossible to know whether the fairly dramatic increase in the number of respondents discontent with their bank’s CAMELS score is (a) part of the typical year-to-year variation, or (b) is the result of some exogenous shock to the banking system, such as from new restrictive regulations, or (c) is an artifact resulting from change in the sample frame membership due to mergers and acquisitions. To that last possibility, the 2014 field survey administration sample frame held 119 banking institutions; for 2015, it holds 108, 11 firms fewer than 2014 (a loss of 9.25 percent of the 2014 sample).
APPENDIX

NJBankers 2015 Economic Survey

Survey Questions and Responses
1. How would you rate the current health of the United States economy?

- Excellent: 70.9%, 76.0%, 71.1%
- Good: 29.1%, 13.3%, 24.1%
- Fair: 0.0%, 0.0%, 4.8%
- Poor: 0.0%, 0.0%, 0.0%

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2. How would you rate the current health of the New Jersey economy?
3. In the next six months, do you expect the United States economy to...

- Strengthen?
- Remain unchanged?
- Weaken?

<table>
<thead>
<tr>
<th>Year</th>
<th>Strengthen (%)</th>
<th>Remain Unchanged (%)</th>
<th>Weaken (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>54.5%</td>
<td>27.3%</td>
<td>18.2%</td>
</tr>
<tr>
<td>2014</td>
<td>60.0%</td>
<td>29.3%</td>
<td>10.7%</td>
</tr>
<tr>
<td>2015</td>
<td>61.5%</td>
<td>31.3%</td>
<td>7.2%</td>
</tr>
</tbody>
</table>
4. In the next six months, do you expect the New Jersey economy to...

- Strengthen?
  - 2013: 60.0%
  - 2014: 62.7%
  - 2015: 68.7%

- Remain unchanged?
  - 2013: 25.5%
  - 2014: 29.3%
  - 2015: 20.5%

- Weaken?
  - 2013: 14.5%
  - 2014: 8.0%
  - 2015: 10.8%
5. In the next six months, do you expect long term interest rates to...

- 2013: 83.6% go up, 10.9% remain unchanged, 5.5% go down
- 2014: 57.3% go up, 40.0% remain unchanged, 2.7% go down
- 2015: 62.7% go up, 33.7% remain unchanged, 3.6% go down

NJBANKERS 2015 Economic Survey
6. In the next six months, do you expect short term interest rates to...

- go up?
- remain unchanged?
- go down?

- 2013: 90.9%, 3.6%, 5.5%
- 2014: 81.3%, 18.7%, 0.0%
- 2015: 67.10%, 30.50%, 2.4%
7. Please rate the current demand for business loans in your market.
8. In the next six months, do you expect that business loan demand will...

- go up?
- remain unchanged?
- go down?

<table>
<thead>
<tr>
<th>Year</th>
<th>Go up</th>
<th>Remain Unchanged</th>
<th>Go Down</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>28.8%</td>
<td>1.9%</td>
<td>19.2%</td>
</tr>
<tr>
<td>2014</td>
<td>19.2%</td>
<td>2.7%</td>
<td>26.8%</td>
</tr>
<tr>
<td>2015</td>
<td>26.8%</td>
<td>2.4%</td>
<td></td>
</tr>
</tbody>
</table>

NJBankers 2015 Economic Survey
9a. Please rate the current demand for commercial real estate loans in your market.
9b. In the next six months, do you expect that commercial real estate loan demand will...
10. Please rate the current demand for residential loans in your market.
11. In the next six months, do you expect that residential loan demand will...

- go up?
- remain unchanged?
- go down?

2013: 30.2%; 9.4%
2014: 23.0%; 14.9%
2015: 12.4%; 8.6%

79.0%
12. Please rate the current demand for residential refinesances in your market.
13. In the next six months, do you expect that residential refinance demand will...
13a. In the next six months, do you expect that home values in your market will...
In last year’s NJBankers Annual Economic Survey, respondents indicated that the multi-family rental commercial real estate submarket was the strongest submarket. With that in mind, how strongly do you agree or disagree that the current multi-family rental commercial real estate submarket is a bubble?
200c. In the past six months, how has the number of your customer bankruptcy filings changed for...

- **Consumer customers?**
  - Decreased: 28.4%
  - Remain unchanged: 65.4%
  - Increased: 6.2%

- **Business customers?**
  - Decreased: 25.4%
  - Remain unchanged: 62.5%
  - Increased: 11.1%
200d. In the past six months, how has the number of your customer foreclosures changed for...

- Residential customers:
  - Decreased: 30.3%
  - Remain unchanged: 57.9%
  - Increased: 11.8%

- Commercial customers:
  - Decreased: 30.3%
  - Remain unchanged: 60.5%
  - Increased: 9.2%
200e. Please rate the following financial processes...

- Residential customers:
  - Improving: 11.2%
  - Remains Unchanged: 73.8%
  - Worsening: 15.0%

- Commercial customers:
  - Improving: 7.9%
  - Remains Unchanged: 69.70%
  - Worsening: 22.4%
In the past six months, how much of a problem has the abandonment of residential properties by consumers been for your bank?
200g. Has your bank had any experience with helping to resell, repurpose, or refinance obsolete industrial, office, or other commercial buildings?

- Yes: 27.5%
- No: 72.5%
17. In the past six months, has the number of past dues for residential mortgage payments...
18a. Here are some common obstacles to consumer lending. Please rank-order these obstacles from “most” to “least” significant obstacles to consumer lending for your bank:

Displaying Percentages for “Most” Significant Obstacle

<table>
<thead>
<tr>
<th>Obstacle</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regulatory concerns</td>
<td>37.5%</td>
<td>17.1%</td>
</tr>
<tr>
<td>Lack of demand</td>
<td>36.6%</td>
<td>34.2%</td>
</tr>
<tr>
<td>Lack of qualified borrowers</td>
<td>15.5%</td>
<td>9.2%</td>
</tr>
<tr>
<td>Interest rate risk</td>
<td>6.9%</td>
<td>42.9%</td>
</tr>
<tr>
<td>Other, please specify</td>
<td>13.0%</td>
<td>11.1%</td>
</tr>
</tbody>
</table>
18b. Here are some common obstacles to business lending. Please rank-order these obstacles from “most” to “least” significant obstacles to business lending for your bank:

*Displaying Percentages for “Most” Significant Obstacle*

<table>
<thead>
<tr>
<th>Obstacle</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of demand</td>
<td>44.8%</td>
<td>17.3%</td>
</tr>
<tr>
<td>Lack of qualified borrowers</td>
<td>22.4%</td>
<td>34.7%</td>
</tr>
<tr>
<td>Regulatory concerns</td>
<td>11.9%</td>
<td>13.7%</td>
</tr>
<tr>
<td>Interest rate risk</td>
<td>11.8%</td>
<td>18.9%</td>
</tr>
<tr>
<td>Other, please specify</td>
<td>18.2%</td>
<td>33.3%</td>
</tr>
</tbody>
</table>

NJBankers 2015 Economic Survey
14. In the next six months, do expect that businesses in your bank's market are likely to...

- Hire employees: 13.0% in 2013, 12.5% in 2014, 9.7% in 2015
- Maintain current staffing levels: 77.8% in 2013, 77.8% in 2014, 66.7% in 2015
- Lay off employees: 9.3% in 2013, 24.7% in 2015

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Generally speaking, has the Dodd-Frank Act had a positive or negative impact on the banking industry?
200j. In your experience, has the Dodd-Frank Act had a positive or negative impact in terms of services to customers?
200k. In terms of operating costs for your bank, has the Dodd-Frank Act had a positive or negative impact?

- Very Positive: 0.0%
- Somewhat Positive: 2.5%
- Neutral: 3.7%
- Somewhat Negative: 33.3%
- Very Negative: 60.5%

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2001. Please identify any compliance costs your bank has incurred as the result of the implementation of rules and regulations under the Dodd-Frank Act.

- Special hires related to compliance: 82.4%
- Special hires related to security of documents and processes: 45.9%
- Depletion of reserves/savings to fund compliance costs: 40.5%
- Other, please specify: 17.6%
200m. On January 10, 2013, the Consumer Financial Protection Bureau issued a set of rules, which took effect on January 10, 2014, regarding the two types of residential Qualified Mortgage loans, the “Safe Harbor” and the “Rebuttable Presumption.”

Have these new rules regarding qualified mortgages restricted your ability to make residential loans?

- Yes: 49.4%
- No: 50.6%

NJBankers 2015 Economic Survey
200n. Have these restrictions caused your bank to accumulate excess funds that are not lent?

65.8% Yes

34.2% No
200p. Over the next 12 months, how likely is that...

- ...your bank will acquire another bank?
  - Very Likely: 13.0%
  - Somewhat Likely: 19.5%
  - Uncertain: 45.5%
  - Somewhat Unlikely: 17.3%
  - Very Unlikely: 5.2%

- ...your bank will be acquired by another bank?
  - Very Likely: 64.0%
  - Somewhat Likely: 4.0%
  - Uncertain: 12.0%
  - Somewhat Unlikely: 2.7%
  - Very Unlikely: 2.7%

NJBankers 2015 Economic Survey
200q. Over the next 24 months, how likely is that...

- Your bank will acquire another bank?
  - Very Likely: 7.9%
  - Somewhat Likely: 21.0%
  - Uncertain: 25.0%
  - Somewhat Unlikely: 17.1%
  - Very Unlikely: 29.0%

- Your bank will be acquired by another bank?
  - Very Likely: 4.1%
  - Somewhat Likely: 8.2%
  - Uncertain: 20.6%
  - Somewhat Unlikely: 12.3%
  - Very Unlikely: 54.8%

NJBankers 2015 Economic Survey
200r. In the next 12 months, does your bank plan to buy, sell, or reconfigure any of your office/banking space?

- Yes: 62.5%
- No: 37.5%
200s. In the future, do you think your bank will need more or less customer service space?

- More: 10.0%
- The Same: 37.5%
- Less: 52.5%

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200t. In the future, do you think your bank will need more or less backroom operations space?
200u. Do you foresee a need for your bank to change business practices to meet the needs of the Millennial Generation?
101a. Do you believe that your CAMELS rating accurately reflect your bank’s true risk profile?

<table>
<thead>
<tr>
<th>Year</th>
<th>Yes</th>
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</tr>
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<tr>
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