

## FLOATING SOME NEW YEARS RESOLUTIONS

by [Steve Brown](#)

As the New Year begins, it only seems right that we should float a few resolutions. While many people will probably add weight loss and spending more time with family into the mix, we thought a more banking-specific focus might make sense as well. As a result, here are some of our resolution balloons for 2007: 1) Risk Management Â– Banks should ramp up their risk management processes. The flat yield curve and lower credit quality will reward banks that use risk management as a performance enhancing tool. Risk management practices are already coming under greater regulatory scrutiny, so embracing such an approach can only help. Proper risk management has become a critical element of safety and soundness. 2) Loan Pricing Â– The days of booking loans at prime plus 1% (with a point up front) are nearly impossible to find these days. Given tighter spreads, bankers will need to study up on probabilities of default, loss given default and market credit spreads to get a better handle on pricing. This education will not only help bankers better align risk and return, but also help support the loan business. 3) NIM Â– Net interest margins have been declining for many quarters. So much so in fact, large national banks don't even talk about NIM anymore. Instead, these banks focus on risk-adjusted return on equity. While independent banks will still be heavily reliant on NIM, recognizing the industry shift away from it is important to understand and embrace. Banks will need to spend extra effort to expand business lines, while finding ways to boost fee income. Given that independent banks are locked in a bitter struggle for customers with the large national banks, understanding how tighter spreads can still deliver acceptable risk adjusted returns is extremely important. 4) Prudent Review Â– Banks should ensure emergency processes and procedures have been rigorously tested. If nothing else, Katrina and 9/11 have taught all bankers that it is important to have an emergency plan, test it and do so thoroughly. 5) Interest Rates Â– Strengthening the ALCO process is also advisable, as yields are expected to gyrate throughout the year. The median forecast of Wall Street Primary Dealers at this point is for Federal Funds to drop to 4.75%, as GDP slows to 2.4%. Bankers need to be prepared not only for such an eventuality, but also pre-test and pre-model the stress that could occur if the opposite of this occurs. Understanding what could happen to profitability in multiple scenarios, will give the bank more comfort such exposures can also be controlled. While we are not sure where this year is heading, having a partial roadmap in advance and getting a better handle on risk management can only help.

### BANK NEWS

#### **National Bank Closing**

Since the Federal Government is closed today, the OCC has permitted national banks to close to recognize the passing of President Ford.

#### **Sovereign Suit**

The Justice Dept. has filed a suit accusing Sovereign Bank of defrauding the SBA of \$32mm. The complaint relates to SBA loans the bank originated that was knowingly based on "false and misleading" information. Sovereign contends that the event was related to a branch that it acquired from another bank and that the only wrong doing is that it "incorrectly" filed SBA paperwork.

#### **HMDA Cutoff**

The Fed increased the total asset size of banks that are not required to collect HMDA information from \$35mm to \$36mm for 2007.

### **Advertising**

We have looked at the advertising expenditures of the nation's top 100 banks and find the average large bank spends 40% of its budget on print media, 39% on television, 13% on the internet, 4% on radio and 4% on outdoor. Internet spending has more than doubled in 2006 compared to 2005.

### **Expense Reports**

Banks should note that after adding in all the people needed to create, approve and process manual expenses, the average expense report takes 57 minutes to create (costing approximately \$157 in time). In addition, such reports cost an additional \$50 on average to process.

### **Scary Technology**

A study of online banking users finds the following: 67% of people never change passwords; 33% write down information on paper and leave it on their desk near the computer; 33% store passwords on the computer so they won't forget them; 4% would provide personal information if requested by email; and 60% say they do not check the validity of email senders before responding.

### **ID Theft**

A new study by Capital One finds 93% of consumers are aware of ID theft, yet 41% of older Americans do not know thieves can get a drivers license with their information. In addition, an amazing 32% of people still carry their social security card with them and a whopping 45% think a new SS# can be issued if a theft occurs.

### **Online Scores**

A recent study ranked banking equal to other industries when it comes to online capabilities and ease of use. Bringing down the score as a substandard rating on "Business practices," which entails not sharing collected data.

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