

MANAGING RISK AND ROLLER COASTERS

by [Steve Brown](#)

If you are like us, you enjoy riding roller coasters every now and then. Whether it is the thrill of what awaits you just over the top, the plunge down the other side, or the camaraderie from screaming in fear into your seat mate's face, there is no denying that such rides are exhilarating. Bank risk management can be much like riding a coaster. Banks these days no longer wait for disaster to hit, but are proactively modeling future events. These banks evaluate shortcomings and put in place methods and practices to monitor, manage and control the risk of such events. Today's events (also see Treasury section) provide a good example. Global risk concern has pushed spreads on corporate loans wider by as much as 40bp, increased default expectations and reduced corporate flexibility and liquidity. As with our CRE concentration analysis service, banks with robust models in place are able to project the impact of such an event on their earnings and capital. In an effort to monitor, measure, manage and control risk within the organization, more banks have begun setting up risk committees alongside the traditional audit committee structure. The goal of the risk committee is to provide a framework that increases attention and focus on risk management, corporate governance, compliance and business processes throughout the company. Studies show some 70% of banks say interaction with their board on risk management strategies and governance issues has risen dramatically in the past 3Ys. The competitive environment has also provided a significant driver to these holistic risk management changes shaping up in the industry. Forced along by Basel II (requires large banks to have a thorough understanding of their operational risk) and extreme customer competition, more and more community bankers have begun evaluating how they can better manage and leverage their risks in an effort to achieve greater returns. The overriding focus of such an endeavor is to establish a framework of holistic risk assessment across the entire organization. The best way to achieve that is to adopt processes that document, test, review and stress internal controls and consistently apply them across the organization. Finally, bankers that do this most effectively also ensure internal communication occurs among disparate groups, information is shared, practices are disseminated and common platforms are utilized wherever possible. This structure allows bankers to reduce costs while increasing risk controls and profitability. Risks are everywhere in banking and translating risk management strategies into processes can seem daunting. Community bankers can begin by establishing policies and procedures, having a central point of oversight; auditing, monitoring and reporting to executive management and the board; ensuring communication lines among departments are working; providing consistent support and enforcement; and implementing continuous process improvement. Risk management is part of banking, so one might as well come along for the ride.

BANK NEWS

FHLB Merge

Talk of the Federal Home Loan banks of Chicago and Dallas uniting has been verified by an executive press release. The merge, tentatively as soon as mid-September would form the 3rd largest FHLB bank with 1,745 members and assets of \$141B.

M&A

KBC Group NV, a Belgian banking company, has agreed to buy reverse mortgage lender Vertical Lend, Inc., in an effort to create one of the largest players in the growing reverse mortgage market.

Cash Management

Visa released a product that we feel will soon become the standard cash management tool. The Firm announced its "Intellilink" application which is a web-based service that allows the dashboard display and tracking of expense data, accounts payable and merchant transactions. Users can set rules, compliance guidelines and alerts in the system. In addition, the system comes with the ability to recognize spending and fraud patterns in order to be control corporate spending.

Card Deal

Capital One Financial Corp. will buy NetSpend Holdings Inc., the Austin-TX based marketer of prepaid debit cards, for \$700mm.

SunTrust

Unveiled a new deposit program, called "My Cause," that will donate \$100 to a charitable organization selected by the customer.

Bush Keeps Limits

President Bush denied requests to raise the limit on the amount of loan assets FNMA and FHLMC can hold in their portfolios, saying lenders should not expect a government bailout for problems in the mortgage market.

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