NO WINKING PLEASE

by Steve Brown

People wink for all kinds of reasons including letting someone else know they are kidding, as a bonding ritual or to indicate attraction. No matter the reason, a wink is generally an informal way for 2 or more people to signal hidden knowledge or intent. Some people are very good at winking, while others scrunch up their face so much when they do it, the wink looks more like they have eaten an entire lemon. No matter what kind of winker you are, when it comes to banking and regulators - winking is not allowed.

Of course, we are talking about CAMELS ratings. As everyone knows, these supervisory ratings are assigned at the end of each examination and are disclosed only to senior bank management, supervisory personnel and board members. We don't know what exactly is going on out there in the hinterlands of banking, but suffice it to say we understand regulators aren't kidding around and are reminding banking organizations that disclosing the CAMELS rating is prohibited by law.

Except under very limited circumstances, CAMELS ratings cannot be disclosed whether by wink, nod or any other method, without express written permission of the primary examiner. The CAMELS rating is nonpublic information and is the property of the agency issuing the report.

While banks cannot disclose any portion of the report or make representations concerning the report without written permission, there is a general exception. Banks should read the regulations from their own primary regulator, but in general, banks can do so when necessary or appropriate for bank business purposes. When that is the case, a director, officer or employee, generally can disclose non-public information to a person or organization officially connected with the bank as officer, director, employee, attorney, auditor, or independent auditor. In addition, such information can generally be shared with consultants to the bank, provided that the consultant is under a written contract to provide services to the bank and the consultant has a written agreement with the bank which states its awareness of and agreement to abide by the prohibition on the dissemination of non-public information AND the consultant agrees not to use the non-public information for any purpose other than as provided under its contract to provide services to the bank.

We did some digging into the banking agency archives and found that this "reminder" was also sent out in 2007 and in 2005, so the concept isn't new - maybe bankers are talking more.

Quite a bit of research has been devoted to CAMELS ratings. Beyond being proprietary and confidential, banks that just paid the special assessment know all too well that CAMELS ratings are explicitly considered when it comes to FDIC deposit insurance pricing - the lower the CAMELS rating, the more you pay for FDIC insurance.

Banks may also be interested to know that research done by banking agencies finds private supervisory information from onsite exams remains useful (with respect to the current condition of the bank) for 6 to 12 quarters - data collected can be leveraged and generally maintains its value until at least the next scheduled onsite examination.

Another interesting tidbit we found is that examiner research indicates uninsured deposits at banks that are subjects of publically announced enforcement actions decline during the quarter after the announcement. While this may not be happening now due to recent FDIC insurance changes (we have heard and seen this), it nonetheless remains an ongoing regulatory concern - C&D's add funding stress.

Finally, bankers should know that the "S" in CAMELS was added in 1997 (we couldn't remember when) to cover interest rate sensitivity - we just found that interesting as we could not remember when it was added.

No matter whether your intent is a bonding ritual or just kidding, be forewarned that regulators suggest you keep both eyes open when talking about CAMELS and hold your chatter to discussions of the Dromedary (1 hump) or the Bactrian (2 humps).

BANK NEWS

Housing Recovery Slowed

Demonstrating how pulling one lever to solve a problem can have a ripple effect, new information finds the Home Valuation Code of Conduct (adopted by FN/FH requiring lenders to hire appraisers through independent 3rd parties only) has slowed down getting appraisal reports from a few days to as long as 3 to 5 weeks.

Dues are Due

Foreclosure action taken by homeowner associations has jumped 30% from 2Ys ago, as a weak economy pushes many people to stop paying their dues.

No More 401k Match

A survey by Grant Thornton finds 67% of companies plan to eliminate 401(k) matching this year.

Less Wealth

The latest research by Merrill Lynch finds the number of people with $1mm or more in assets dropped a record 19.5% in 2008. In the US, the number of millionaires fell 18.5% to 2.5mm people.