

## THE MANAGEMENT IN CAMELS

by [Steve Brown](#)

It is much easier to ride a 2 hump camel without a saddle than it is a 1 hump camel, but riding any camel (given their strong personalities) is a challenge in patience and tenacity. Achieving a satisfactory management rating in banking can be as difficult as finding a lost camel in the open desert. We continue our detailed discussion of examiner hot buttons as we review the "M" in CAMELS.

To begin, the Board ("BOD") is responsible for formulating policies, setting strategic direction and supervising bank management.. The BOD is expected by regulators to establish clear direction for the bank, have policies and set risk limitations (the goal is to set clear guidance about acceptable activities, procedures and risk limitations). The BOD is also expected to hire management with a proven ability to operate departments/institutions of similar complexity and have integrity and the capacity for sound business judgment. Finally, regulators expect the BOD to ensure management operates the bank within established policies and risk limitations.

The management team is responsible for implementing policies and managing day-to-day operations. Some of the things regulators will analyze related to management are whether the bank has a funding strategy; active portfolio management; strong compliance; robust technology/reporting systems; vetting of new business activities; how well the bank identifies, measures, monitors and controls risks; the strength of policies, procedures and controls; effectiveness of the audit program (should be comprehensive, independent, objective and overseen by an audit committee comprised of outside directors). The audit committee should also be the primary contact with auditors to ensure management does not have undue influence on auditors.

Some of the less-understood but equally important areas banks are expected to address are avoiding dominant influences/ concentration of authority (a management team member with a dominant influence over control systems). Examiners indicate this can lead to weaker performance and is a red flag that has contributed to bank failures. Examiners will also closely review management depth/succession and want to ensure management puts the interests of the bank first (Reg O, 23A, 23B, etc.).

For the BOD specifically, regulators expect directors to set strategic direction, ensure policy objectives are met and stay on top of basic facts/information (such as asset growth, capital growth, loan-to-deposit ratios, deposit mix, liquidity, portfolio composition, loan losses and delinquencies). Meanwhile, management is responsible for developing and implementing policies, procedures and practices that translate the BOD's goals, objectives and risk limits into prudent operating standards.

When rating management, examiners will apply all aspects of banking operations (as well as other financial service activities) in which the institution is involved. Factors that come into play include the level/quality of oversight; ability of the BOD (and management in their role) to plan for and respond to risks from changing business conditions (or the initiation of new activities or products); adequacy of and conformance with policies/controls; accuracy, timeliness and effectiveness of management information systems; adequacy of audits/internal controls; compliance with laws/regulations; responsiveness to auditor/regulatory recommendations; management depth/succession; susceptibility to a dominant influence/concentration of authority; reasonableness of compensation

policies; avoidance of self-dealing; willingness to serve legitimate banking needs of the community; risk profile and the overall performance of the institution.

Sure, riding a camel can be difficult, but we venture to say that managing a bank in this time of such upheaval is much more difficult - even for the best banks.

# BANK NEWS

## **M&A**

First Niagara Financial Group Inc. (\$11.6B, NY) has agreed to purchase Harleysville National Corp. (\$5.6B, PA) for \$237mm in stock or 1.13X book value. In April, First Niagara also purchased 57 branches from National City. At 1Q end Harleysville's loan delinquencies reached \$226.8mm or 2.42%, with construction delinquencies up to almost 9%.

## **Housing**

Despite yesterday's reports of rising home prices in major metro hubs and rising existing home sales for a 3rd consecutive month, new home sales are 21% less and prices for the median existing home is down 15% from than the same period last year.

## **Midnight Oil**

According to NFI Research, the average 8 hr work day has stretched to 10. Over 75% of execs and managers put in 41 - 60hrs a week, of which nearly ¾ work over 50hrs.

## **BofA**

The mega bank announced plans to close more than 600 branches (approx. 10%) citing customer preferences migrating to online and mobile banking.

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