DOTS, DASHES AND TELEGRAPHING

by Steve Brown

The telegraph was dreamed up in 1832 by Samuel Morse as a functional way to push dots and dashes through wires spread miles apart to form letters of the alphabet. His "Morse Code" was born and the telegraph was heavily used for years to send messages over long distances prior to the advent of the telephone. Telegraphing, on the other hand, occurs when one divulges their intention of something that is about to occur. Whether you think regulators speak in code all the time or not, they usually will telegraph their intentions to banks prior to upcoming exams.

That is why we closely monitor regulatory web sites, continually talk to bankers and share everything we get from conferences. While lots of information is pumped out every day from all of these sources, here are some highlights we think you might want to know and monitor.

Housing: Regulators want to be sure banks are tracking and reporting how they are supporting efforts to avoid unnecessary home foreclosures. While this doesn't impact community banks all that much, expect questions at your next exam (and to provide additional reports) related to how your bank's efforts are supporting lending, how funds are used in the community and any uses of federal funding in any programs.

RDC: Given huge adoption rates, regulators have refocused energy on the use of remote deposit capture. Regulators want banks to have in place sound risk management and mitigation systems; require adequate risk management at customer locations; ensure customers properly control nonpublic personal information; authenticate customers using stronger methods than single-factor methods if through the internet; raise customer awareness of RDC risks; evaluate the adequacy of internal controls; document risk management practices; ensure the board is involved in overseeing development and ongoing operation of these programs and protect sensitive information.

Funding: Banks should be prepared for a very close look at the funding side of the balance sheet. Regulators have warned that regardless of CAMELS rating, banks that engage in aggressive growth strategies (or rely on a volatile funding mix) will see heightened review. Regulators expect banks to have a plan to control risk exposures, limit the use of volatile liabilities (or FDIC liability guarantees set to expire) to fund aggressive asset growth and ensure lending can be supported by stable funding sources.

Insurance: The increase in the standard maximum deposit insurance amount to $250,000 per depositor was extended through 12/31/2013.

Funding Cap: Effective 1/1/2010, banks cannot pay a rate on deposits more than 75bp above the national rate (a simple average of rates paid by U.S. depository institutions as calculated by the FDIC). Rates paid on deposits will be reviewed for sure at the upcoming examinations, so be prepared.

Lessons Learned: Regulators have reviewed closely the causes of each bank failure and the events of the credit crisis overall. Some focal points bankers can expect include more capital is better (12% is the new 10%); liquidity is critical; contingency planning is mandatory; stress testing of liquidity and credit are required; asset quality is a primary focus; the ALLL should be rising, not falling; consumers need more protections; excessive risk concentrations lead to defaults; investment portfolios can contain bad things and be managed by inexperienced people with limited capital markets acumen and it bears repeating that banks cannot have enough capital or liquidity right now.

We will keep you up to speed with the dots and dashes of regulatory speak so you are prepared for upcoming examinations as the industry continues to evolve.

BANK NEWS

Mobile Remote Capture

BofA will begin testing a new customer service allowing electronic check depositing through mobile phones. USAA Federal Savings Bank began providing this service in August to US military families.

OD Fees

Charges collected by banks and credit unions rose 35% over the past 2Ys according to FDIC figures.

Small Biz

According to PayNet Inc, loans to small and medium sized US firms that were at least 30 days past due rose to 4.40% over August from 4.36% and those in default rose from 0.78% to 0.81%. On a slightly positive note, loans 90 days past due dropped by 1bp to 1.51% for August.

SBA Down

Over fiscal 2009 the SBA approved 27% fewer loans than it did during fiscal 2008. Of the top 10 lenders last year, only Wells Fargo increased its lending, as the rest of the 9 reduced volume by an average of 30% or more.

SFR Juggernauts

The latest data shows Bank of America and Wells Fargo originated 44% of all home loans written in 2Q, followed by JPMorgan at 7.7% and Citi group at 5.7%.

Good/Bad News

The IMF said the "global economy appears to be expanding again," as they modified economic forecasts. They now expect the world economy to contract 1.1% in 2009 before expanding 3.1% in 2010. The IMF said it expects bank losses to ultimately reach $3.4T from '07 to '10 and that US banks have recognized 60% of total losses expected so far.

Size Definition

The SBA defines a small business loan as a loan under $1mm, while defining a micro loan as under $100k.