A VERY HEAVY LOAD INDEED

by Steve Brown

In Greek mythology, Atlas sided with the Titans in their war against the Olympians. When the Titans were defeated, Zeus condemned Atlas to hold the world on his shoulders. That would be a tough trick for anyone to pull off, but as a banker, keeping up with all of the regulatory promulgations can sure make it feel that way as you deal with a heavy load of inflow indeed.

We track financial institution alerts from all of the regulatory web sites and we have filled out and checked all of the boxes so we can stay on top of things. After seeing alert after alert, it got us thinking - how heavy a load is the regulatory side of things and is there any end in sight?

To be sure, the credit crisis is still upon us in a big way, banks are still booking losses and loans remain under strain. As such, the regulatory agencies are responding as would be expected - with greater regulation in more areas more of the time.

The result for many bank executives has been to print these documents, take them wherever they go and read them whenever and wherever they can. Ask a banker what good book they have read recently and you will probably hear such New York Times bestsellers as Transaction Account Guarantee Extension, Assessments Notice, or Statement on Prudent Commercial Real Estate Workouts.

This non-stop flow of regulatory change has also kept many bankers we know up at night, as they try to figure out the impact of each new regulatory change on their bank. The question is not whether the bank will need to be redesigned to succeed, only one of staging, as bankers consider whether to do so immediately or over the next 12 to 18 months. Industry change has been massive and ongoing tectonic shifts will continue given the environment.

We did some analysis that we thought bankers would appreciate. At the very least, the information should help when discussing how things have changed for your institution at the next board meeting.

Our analysis begins with a high level view and then moves steadily deeper into the data. At the top, we find roughly 75 major regulatory notifications of rule changes, etc. that were released in 2009. In rough terms, bankers were required to absorb and deal with roughly 6 new enhancements, revisions, proposals, policy statements or interagency guidance each and every month of the year last year.

Going down one more level, we added up the pages of each regulatory alert and found them to run from 1 page to 149 pages in length. Assuming a person can read 100 pages of a book in 45 minutes, since these are technical in nature, we adjusted that by another 15 minutes to handle added difficulty. Given an hour required to cover 100 pages, the roughly 2,000 pages of regulatory information meant bankers needed to set aside an additional 200 hours of time just to keep up. Given an 8 hour day and a 5 day work week, bankers lost a full 5 weeks just to stay on top of things. Add to that the load to notify board members, train staff, change policies, modify procedures, discuss the impact of any changes, alter strategic plans, bring in experts to get professional help and otherwise absorb these changes into the daily routine and we estimate it would take 2 to 3 times that. All told, our rough guesstimate finds bankers spent somewhere between 3 and 4 months dealing with all the changes.

To be sure, some regulatory change was required given the nonsense of the larger guys that caused the crisis. It is also inevitable that regulatory change will occur, as the process is deeply embedded into the banking system. Right now, though, the community bankers we talk to say they feel like they are carrying the weight of the world on their backs as they try to absorb and adapt to deal with such massive change. If there is any silver lining, perhaps bankers can take solace in the fact that so far this year, the flow is down by about 20%.

BANK NEWS

1Q Earnings

BNY Mellon posted a 74% jump in earnings, riding off of rising fee revenue and investment returns. M&I Bank struggled through a 6th consecutive quarter of losses, reporting $115mm in the red with higher credit expenses and a smaller tax benefit. Chargeoffs dropped to 3.94% and non performing loans to 4.58% from 4Q. The Northern Trust Corporation pulled in $157mm in profits largely from investment and trust fees, though net income dropped 3% and nonperforming assets jumped to $365mm compared to $172mm the same period last year. Revenue at State Street B&T topped $2.3B, a nearly 15% YoY rise, helping boost profits to $495mm, an 11% YoY increase.

Signature or Pin

Signature debits can bring in $1 for every $100 transacted on interchange fees compared to just 5 or 10 cents on PIN debit transactions. With that in mind, JPM Chase has sent out mailings along with new Chase debit cards to previous Wamu clients, encouraging customers to use "credit" and sign on debit card transactions. For some, the mailing implied this procedure to be safer, however according to Gartner, PINs are safer from a technical standpoint.