WE HAVE YOU COVERED - PART 2

by Steve Brown

When it comes to rain, it always helps to have an umbrella handy to stay dry. Given the amount of regulatory rain as of late, we wanted community bankers to know Pacific Coast Bankers' Bank (PCBB) has you covered. This is particularly true when it comes to the new correspondent risk guidance. Yesterday we outlined the credit perspective, which is admittedly the largest probable exposure for most banks. Today, we examine the funding piece of this new guidance and then close off with a wrap up to help you deal with this new guidance from a macro perspective.

The funding exposure as defined under the guidance relates to how much of your bank's funding comes from a correspondent bank such as PCBB. The regulatory agencies under the new guidance indicate they will consider amounts perhaps even as low as 5% of your total liabilities as a funding concentration. This means, if you borrow Fed Funds for an amount that exceeds 5% of your total liabilities on any given day, you may need to flag it as a concentration, report it to your board or management committee and have a documented plan in place to track, report, manage, monitor and deal with such exposures over time.

When it comes to funding concentrations, regulators are concerned that your bank may have to replace funds you have borrowed from a correspondent on short notice, increasing risk and potentially adding stress to the organization. As such, they want you to be able to identify such borrowings and make sure any significant ones (by type, structure, source, maturity and other factors) are taken into account as part of your regular planning, contingent planning and board reporting processes.

Whether or not you have a concentration in either credit (you have lent money to the correspondent) or funding (you have borrowed from the correspondent), we have a process to help you including providing reporting, so don't worry too much.

As for the guidance, it also requires banks establish and maintain written policies and procedures to avoid excessive exposures to correspondents in relation to the correspondent's financial condition. Specifically, it recommends banks track such items as deteriorating capital (PCBB's has been rising and RBC is about 23%) or asset quality (PCBB's has been improving); volatile funding sources (PCBB only has 2% of liabilities currently from such sources) or being placed under a public enforcement action (PCBB is not under one).

Contingency planning for banks above and beyond monitoring such risk and reporting to the board can include such actions as reducing the level of uninsured funds left with the correspondent; limiting the amount of funds the correspondent can borrow "As Principal;" establishing limits on asset and liability purchases from and investments in correspondents; specifying in such plans reasonable timeframes to meet targeted reduction goals for various types of exposures.

For the vast majority of banks doing business with PCBB, this new guidance (beyond additional documentation) is a non-event given how PCBB is structured. Loan leverage remains low (about a 30% loan to deposit ratio); capital is very high (Total RBC is about 23%); liquidity is extremely high (about 67% of assets are in cash or securities); PCBB only very rarely borrows from the Federal Funds pool "As Principal" (and then the amounts average very low levels per participating bank); and PCBB's liability structure is only about 2% supported by wholesale funding sources such as brokered CDs.

PCBB has already taken aggressive steps to insulate our community bank customers from this latest regulatory downpour and we will be handing out even more umbrellas soon to support more reporting, tracking and managing. As with this latest regulatory missive, you needn't worry because we are standing by to help you through it while making sure you remain dry.

BANK NEWS

Fin Reg

Another surprise amendment was introduced this week that would allow each state to set fee limits on debit usage, regardless of where the bank is located. This comes on the back of last week's surprise amendment that would limit "swipe" fees charged to merchants on each card transactions.

Branch M&A

Metcalf Bank ($1.0B, MO) will buy 4 branches, $155mm in deposits and $165mm in loans, from First National Bank of Olathe ($904mm, KS) for an undisclosed sum.

CU Closed (8 YTD)

The NCUA closed Convent Federal Credit Union ($173mm, NY) yesterday.

Bank Bill

A new bill, Capital Access for Main Street, is on the table in Congress, which will permit banks with assets less than $10B to amortize CRE losses over a 7Y period under certain circumstances.