CERTAIN ACTIVITIES CAN INCREASE RISK

by Steve Brown

Look around your workplace and you might be surprised to find out as many as 33% of your coworkers are using unsanctioned (non-company approved) technology, according to research from Forrester. While social media sites make up a bulk of this technology, applications like Adobe, Skype, Google Earth and WinZip are also common offenders. Our point here is that IT is one area that banks are struggling to keep up due to the rapidly changing nature of the industry. Just as change in the workplace is part of banking, so too is change in the lending sector.

As bankers have experienced first hand since the end of 2008, community bank lending has changed forever. Regulators will no longer simply let bankers set aside a 1.25% ALLL, concentrate in construction lending and fund it with wholesale deposits, to name but a few structural changes. To better understand changes in lending it helps it helps to think of your lending portfolio as a conglomeration of risks. Some risk helps improve franchise value and some does not. Unfortunately, like technology, lending risk is constantly changing. Economic changes, borrower issues and legal rulings shift risk. As such, regulators are looking for bankers to be forward looking in identifying and documenting credit risk. This is particularly true for any bank with a lending concentration.

That isn't too shocking when you consider some sectors have been hit hard and prices are still declining. In some regions, prices have fallen 40% or more from their peak and while the speed of descent has slowed, the arrow still points downward. Even sectors that once seemed very low risk, such as income producing CRE, have seen vacancy rates jump to as much as 25%. If you bank the owner of that building, how long can they keep up debt payments when 25% of the building is empty? It is helpful to complete this analysis in order to get a better handle on lending risk management.

Remember the 5C's of credit you learned when you first entered the industry? These have seen significant strain and even blown completely apart in some regions, where it is difficult to find any borrowers with "Character" or any other "C" for that matter. Jingle mail is more common in some regions than jingle bells at Christmas and we have trained our customers through the power of the internet and heavy competition that shopping around is the best way to go when you don't get what you want. All of these issues add strain to long-term relationships and can even push borrowers that were once "pillars of the community" to walk away from their debt obligations. Simply put, when people become really strained, the truth is often hard to find.

Running a loan book is tougher than ever, which is why risk management is coming into its own. Seeing your bank in a different light, where your portfolio is made up of hundreds of smaller ones that can be grouped, shocked, diversified and shifted around to reduce risk is all part of the game. Whether you are protecting the bank against technology issues or working the loan portfolio, managing risk is critical to your bank's success. This is another reason why we urge you to sign up now for our EMC Conference in San Francisco in May; where we will give attendees even more specific information to take back on lending risk management.

Register now to save, as our Early Bird registration discount ends this week.

BANK NEWS

Closure (22)

Habersham Bank ($388mm, GA) was closed on Friday with all of its deposits (no premium) and approx. 70% of the assets under loss share sold to SCBT National Association ($3.6mm, SC). Citizens Bank of Effingham ($214mm, GA) was closed on Friday with all if its deposits (1% premium) and approx. 78% of its assets under loss share sold to HeritageBank of the South ($680mm, GA). San Luis Trust Bank, FSB (333mm, CA) was closed on Friday by the OTS. First California Bank ($1.5B, CA) will assume all deposits (no premium) and 64% of the assets under loss share. Charter Oak Bank ($121mm, CA) was closed with its 2 branches and all deposits (no assets) being assumed by Bank of Marin ($1.2mm, CA).

FDIC Transactions

As of Friday, for 2011, the tale of the tape for FDIC-assisted transaction is as follows: Average deposit premium paid - 0.2%; average asset discount - 16.2%; average amount of assets purchased in an institution - 73%; and, average cost of resolution as a percent of deposits - 24%.

Wamu Suit

The FDIC is rumored to be preparing malfeasance lawsuits against the executives of the failed Washington Mutual Bank.

Office Rents

Office space in Rio, Brazil is now the most expensive in the Americas, surpassing NYC.

Spending Again

Bloomberg reports S&P 500 companies reduced cash and short term investments from $2.46T to $2.41T as of the latest quarter end, marking the first drop in 2Ys. Meanwhile, capital spending increased $22.3B, the largest quarter to quarter increase in 7Ys.