MISLABELED FISH AND REGULATION

by Steve Brown

Research finds, on average, 50% of the fish eaten in the US are not the same fish as labeled in stores. Tests conducted find fish labeled as cod, salmon and snapper, for example, are often actually lower cost species. Outside of carrying around your own genetic testing kit to be sure, there probably isn't much you can do about it. Speaking of making sure things don't get mislabeled, we took a deep dive into recent spate of regulatory speeches, testimony and research to see what we could uncover that might be of interest to community banks. Here is what we found:

Regulators expect the economic recovery to be "slow and bumpy" and the housing market faces "significant pressure." Examiners have also been directed to "be more forward looking" when assessing and assigning regulatory ratings.

CRE Lending: Regulators indicate the CRE market remains "unsettled" and "recent weakness" in commercial property price trends "highlights continued concerns." In particular, "community banks still face lingering problems in their real estate loan portfolios" and "volumes of troubled assets and charge-offs remain high." Community banks are "overly concentrated in this sector." There are signs the CRE sector is beginning to stabilize, but "we are a long way from a full recovery" and vacancy rates "across all major property types" are "high by historical standards." Regulators expect CRE recovery will be "slow" and for "vacancy rates to remain elevated."

ALLL: Balances "remain low by historical standards" and examiners are "closely evaluating" bank decisions to reduce ALLL. In addition, the number of troubled institutions "remains high" as banks continue to struggle with "lingering credit quality issues." Examiners see "signs of stabilization in charge-off rates (for CRE) and a decline in non-performing loans," but levels remain "elevated" and continue to require "significant attention" by bank management and examiners.

Loans: The level of noncurrent loans to total loans "is still relatively high." Meanwhile, loan origination remains "sluggish" and banks are "reducing loan balances."

Funding: Common areas seen in bank failures were "rapid CRE growth" fueled by "short-term volatile funding sources."

Avoiding Trouble: Banks can avoid trouble by adhering to and monitoring the basic precepts of sound banking practice that include "prudent underwriting practices;" "strong risk management systems;" identifying and controlling "the build-up of risk concentrations;" having "diversified funding sources, adequate loan loss reserves and strong capital cushions."

Underwriting: Regulators will be looking closely at how banks underwrite loans to ensure "standards are not compromised by competitive pressures," a chase for "yield" or a "desire for rapid growth or market share."

Risk Management: Regulatory emphasis for community banks has been to make sure banks "effectively recognize and manage the inherent concentrations that they may have in their lending portfolios." Examiners expect banks to have "strong risk management and audit functions;" "improve stress testing processes;" "improve risk concentration aggregation;" enhance model validations to ensure "quantitative models and the key assumptions used to support these models" has been adequately reviewed and managed.

Capital Planning: Regulators "expect banks of all sizes to improve their capital planning, liquidity risk management processes" and to have a contingency funding plan that provides detail about "the bank's strategy for addressing unexpected liquidity shortfalls."

Good News: All speeches we read separated community banks from larger banks and indicated regulators are keenly aware that community banks play a critical role in getting small business lending (and ultimately jobs) going again.

FORECLOSURE ACTIVITY

According to RealtyTrac, foreclosures of residential mortgages dropped 2% in May (a 33% decrease from last year). Unfortunately, the inventory of unsold bank-owned REOs increased.

BANK NEWS

Bank M&A

Volumes remain depressed as the bid and ask for bank prices have increased. Bank acquisitions have accounted for only 0.9% of US purchases this year (not counting FDIC assisted deals) versus an average of 8.1% from 1995 to 2004.

Retirement

A survey by Fidelity finds 50% of people do not know their 401(k) balances.