FIRE PREVENTION IN BANKING

by Steve Brown

You may not have known it but your home is 10x more likely to have a fire than be burglarized according to the data. That is why when the clocks change for daylight savings time, experts remind everyone to replace the batteries in smoke detectors (it is good to do that 1x per year just to be safe). Experts also say you should test the smoke alarm monthly and replace the entire unit every 8 to 10Ys. When it comes to the cause of residential fires, the leading cause is cooking at about 3x more than anything else. In order, after that are heating; careless smoking; electrical equipment; candles; children playing with fire; bad wiring; flammable liquids; Christmas trees and barbeques. You can never be too careful when it comes to fire, so be aware, buy some fire extinguishers to spread around the house and make sure your smoke detectors are ample and batteries are fresh. Community bankers also feel like they have been fighting a credit fire for the past few years, as regulatory alarms sound continually throughout the house. Now that the economy seems to be finding some footing, it appears lending too will begin to return in the next few years. Before that happens, we spend a little time today to focus on the loan portfolio in order to prevent a credit fire in the future. When it comes to the loan portfolio, it is important to set the tone from the top. Directors should ask themselves what risks they want to take and which ones they most assuredly do not. Since things are not static, this can change over time, but when it does it is important to maintain controls and processes. Regulatory agencies are also very good at communicating outbound when they see something they don't like. Whether these are called negative trends, guidance or areas of concern, directors need to stay current on new information and requirements. It also makes sense to periodically take a close look at the entire board package. Ask yourself whether it is providing information and reporting that is sufficient to make informed decisions. Are you just listing things or is there enough data to make a decision and ask questions? Ensuring credit trends are picked up as they begin a cycle and being proactive in strategic planning/risk setting are all key areas where directors and senior management teams can make a difference. Another good idea is to have an annual or semiannual loan review team come in and kick the tires. They should be independent and focus on areas of risk both now and developing in the loan portfolio. Done properly, these teams not only can help surface problem loans; but also offer mitigation suggestions, recommend additional reporting, review policies and procedures and ensure grading accuracy is maintained. They are hired by you to identify and improve things, so don't be shy about asking for and documenting areas they see where your teams can improve, are strong, what are the latest best practices and potential areas of risk for the future. Finally, it is important every year or so to take a hard look at the loan review process overall to be sure it is doing what you want it to do. Closely review the troubled loan identification process and tighten up or refine as needed. In addition, check grading, key risk exposures, loan loss reserve adequacy and process, sector exposures, growth opportunities/risks and other factors. Doing this periodically with an eye toward improvement and by asking yourself how to improve things is just a good practice and setting a regular cycle (such as when you change your smoke alarm batteries) ensures you maintain consistency over time. Everyone can improve, just as checking the house for fire hazards, getting more education, having a focused effort and practicing can help prevent a potential problem.

Related Links:

PCBB 2012 Executive Management Conference

BANK NEWS

1Q Financials

Large banks put in one of the best performances in equities, moving up an average of 21% for the quarter. Regional and large community banks finished up 11% for comparison. Some large bank changes were: BAC +72%, RF +53%, C +39%, JPM +38%, STI +36%, ZION +31%, COF +31%, CMA +25%, BBT +24%, WFC +24%, BK +21%, NTRS +19%, HBAN +17%, USB +17%, FFNG +14%, MTB +13.8%, STT +12.8%, NYB +12.5%, PNC +11.8%, and, KEY +10.5%.

Rating Downgrades

This month, we expect Moody's to downgrade Morgan Stanley and UBS 3 notches, while Bank of America and Citi could fall to Baa2.

Concentration Tactic

In an effort to reduce its 558% CRE to capital concentration, Hudson Valley Bank ($2.8B, NY) sold $474mm of performing and non-performing CRE loans and will purchase approximately $65mm in SFR ARMs. A price was not disclosed, but the Bank will book about $16mm in gains.

Mitsubishi UFJ

Japan's biggest bank implied it was getting close on a West Coast regional bank acquisition when it said it is considering paying "several billion dollars" to buy a bank.

Student Loan Problems

A new study by the NY Fed shows Americans over 50 years of age compose 23% of the outstanding student loan debt ($36B), a number much higher than expected. Worse is the fact that 10% of that debt is delinquent (but compares favorably to the 25% delinquency rate for borrowers less than 30 years of age).

OD Options

TCF Financial ($19B, SD) is now allowing its retail customers to either pay for OD protection on a per item basis or by a single daily fee.