MOVING AROUND RISK

by Steve Brown

Census data finds that while most people in this country have moved to a new community at least once in their lives, about 40% never leave the city or town where they were born. There are many factors that come into play when you look closely at who moves and who doesn't that we find interesting. For instance, did you know the affluent are the most likely to move (by income group), while those with a college degree will move about 33% more often than those with a high school diploma (by education level). In addition, those who live in the Midwest are about 25% more likely to stay in their hometown than those who live in the West (by geography). Given that roughly 41mm Americans move every year, this "churn" provides a good opportunity for community banks to capture new customers. It also provides a nice opportunity to introduce these new customers to the small businesses you already bank and that already operate in the mover's new neighborhood. Helping to connect the dots for these new customers is a great way you can support your local community while you support yourself.

Speaking of supporting your bank, we consider the role of risk oversight at the board level and where things stand at this point in the industry around this key issue. By leveraging a recent analysis commissioned by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), we find boards are looking at and working to improve how they operate in this area. As with anything, room exists for further improvement.

According to the data, most boards these days feel they are proactive when it comes to risk management, but 71% said their boards were not formally executing mature and robust risk oversight processes, so there is plenty of room for improvement. One critical area many bankers are working diligently to incorporate into their plans is the consideration of changing risks in the context of bank strategy. Here the key is balancing the desire for more information and control, with the need to generate performance and drive the business forward. By enhancing reporting and information flows all the way up to the board level, discussion naturally increases and the opportunity to explore "what-if" scenarios can bubble to the surface. Once that process unfolds, bank executives can have frank and far reaching discussions with directors about the risks the entity is taking or wants to take and the expected returns. That allows everyone to step back and analyze whether such risks are acceptable and whether balance has been achieved.

To get going on your own risk reporting at the board level, consider it is all about perspective. Each bank has its own unique risks and issues, so reports can vary, but in order to effectively manage risk it must be measured and reported. Some reports your bank might consider in this area include a high level summary of the top risks your bank faces. This can be subjective, objective or a mix of the two, depending on the risk. It can also be broken down by major operating unit to add even more granularity to the process. Once you have that nailed down, consider providing an overview of the methodologies you use to analyze and measure risk. This information can be critical for management as well as the board, as well as provide insight into your overall process. Fine tuning is natural along the way and the process of listing them can be useful in opening your eyes to other areas that might be missing, understated or overstated in your analysis. Finally, consider adding a summary of emerging risks that are important for your board to know. These can run the gamut, but getting started and refining the report over time is more important than worrying about trying to create something all-inclusive up front.

Like moving, managing risk at the bank can be stressful, but with the right amount of pre-planning and help it doesn't have to be. Keep refining your process and taking steps and before long you will turn around and all of the risk boxes will be neatly packed up over time.

BANK NEWS

Foreclosure Comp

In order to ensure consistency among banks, the Fed and OCC issued guidance setting forth compensation or other remedies for SFR mortgage borrowers that were deemed "wrongfully foreclosed" by the courts.

TPS Redemption

BofA said it will retire $3.9B of TRUPs in July in order to prepare for lower capital treatment under Dodd-Frank (starts in 2013 for banks larger than $15B in assets). While a half-dozen banks have already redeemed their TRUPs, a 3Q rush is expected for the remaining regional banks.

Mutual Funds

SEC Chair Schapiro told Congress that money market mutual funds pose significant risks to the financial system and require further reforms. The SEC is reviewing tighter rules that could require money market funds to buy and sell their shares based on the market value of the funds' assets and maintain a capital buffer that would increase their ability to suffer losses without breaking the buck.

Not Good

A quarterly survey of CEOs of major companies finds European worries and U.S. economic softness are weighing on expectations for hiring, sales and capital spending. The survey found 75% of CEOs expected sales to grow in the next six months (down 7.4% from the prior quarter); 43% said they would increase capital spending (down 10.4%) and 33% planned to hire more staff (down 6.0%).

EUROPEAN BANKING

Europe will outline a banking union proposal at its June 28-29 summit. Look for possibly a single pan-Euro regulator, deposit insurance, direct equity injections to raise capital and joint/several risk guarantees.