REGULATORY INSIGHT FOR YOU

by Steve Brown

You might find it interesting that there are a handful of things hotel owners will do to attract guests. A survey of 25k hotel owners by TripAdvisor found that in the U.S., it comes down to offering discounted rooms (58%), free Wi-Fi (44%), free parking (31%); free newspapers (20%) and a free nightÃ¢Â€Â™s stay (14%). The next time you rent a hotel room for yourself, or make a loan to a hotel, you might want to check and see what they offer and how they offer it, to gain some additional insight.

When it comes to insight, we cannot think of a community banker that wouldn't want to get some inside scoop on how to deal with examiners and examinations a little better. This is why we combed through lots of regulatory documents and information, talked to bankers and reviewed recent speeches and other sources for you this morning.

To begin, it is in your interest and regulators want you to have open lines of communication with them. Taking the time to meet with regulatory staff in your offices or in theirs periodically helps build credibility and it can give you insights. Doing this makes sense because you can get questions answered, understand key areas of focus and get to the bottom of new regulations in many instances. It also gives you a chance to update regulators as to what your bank has been doing and what it may do in the future to gauge concern or better understand potential requirements. You have to do this when you do anything significant anyway (such as branching, M&A, capital retirement, investments in real estate, changes in control, etc.); so getting in the habit before you absolutely need to do so also helps improve your understanding of the process and regulatory players.

When it comes time for an exam, understand that regulators are looking at both qualitative and quantitative factors. They are seeking to understand your policies, risk management process, financial position, business strategies and the like. Preparing presentations and ramping up dialogue in advance of the exam can be beneficial as well. It is perfectly ok to ask examiners what they are most concerned about so you can address any issues head on. This also gives you an opportunity to put your bank in context with the industry and peers. Focus on explaining financial trends, significant transactions, organizational structure, business lines, market conditions, strategic plans and anything else you think would help in that manner. This is also the time to be sure examiners understand any additional risk management programs or monitoring tools you use beyond the basics to help ensure everything is properly considered.

Next, it is important to understand the exam itself will be in part driven by your own specific exposures and risks. Concentrations, new product lines, and other factors are all baked into the pie so be prepared to discuss them at length. In addition, understand anything flagged on a prior exam will also be reviewed to ensure the bank has followed up on things and is in compliance.

Finally, understand that the examination itself isn't the only time your bank is reviewed. Every quarter, analysis is run on banks as Call Report data is filed and risk monitoring is applied by regulatory agencies. Oftentimes, things that seem out of place, significant changes in trends and other factors can prompt regulatory follow up outside of exams themselves. Consumer complaints, unanticipated external events and significant changes in the data are all potential drivers, to name a few.

As this process shows, much of what a banker should probably do is to just keep lines of communication open, asking questions and periodically meeting with regulators to better understand requirements, explain changes and gain insight into potential risks, issues or concerns coming your way.

BANK NEWS

Mortgage Guidance

The CFPB issued a proposal on mortgage servicing that picks up the key aspects that they released last April. Easier to read statements, better interest rate index/reset disclosures, more support for borrowers heading into foreclosure and greater disclosures around forced place insurance. In addition, the new proposal excludes small servicers that handle fewer than 1k loans from some aspects of the guidance.

Outlook

A recent WSJ survey shows economists at major financial institutions predict 3Q GDP will come in at 1.8%, while Q4 will come in at 2.1%. In addition, 70% see the fiscal cliff getting extended and 66% foresee QE3 from the Fed.

Mortgage Performance

The MBA released 2Q performance and showed that mortgage delinquencies rose 18bp, in-line with the economic slowdown.

Foreclosures

According to RealityTrac, foreclosures were down 3% in July.

Door-To-Door

The American Banker highlights the plight of what one bank will do as they struggle to generate loan growth. Cross River Bank ($200mm, NJ) sends their lenders door-to-door to businesses pitching small business loans with a 0% teaser rate. While it is too early to tell how effective the approach is, we are told that the program is "gaining traction."

Student Claim

Campus marketing powerhouse Higher One and its issuing card bank, the Bancorp (DE, $4B), agreed to pay $11mm back to students as well as $110k in civil money fines to the FDIC for violations related to its campus card program. The FDIC alleged the pair charged students multiple NSF charges for a single transaction, allowed students to remain overdrawn for long periods of time and used "unfair and deceptive" practices.