

ALBERT'S BRAIN AND BANKING EXAMS

by [Steve Brown](#)

Albert Einstein once famously (and obviously humorously) tried to explain relativity to someone by stating "When you are courting a nice girl an hour seems like a second. When you sit on a red-hot cinder a second seems like an hour. That's relativity." That makes some sense when you think about it since relativity is based on a person's interpretation of space, time and motion; but we would also have to add humor. This genius clearly had a sense of humor, as well as a bright mind. Clearly, they go hand in hand, so if you think yourself funny, ask someone if they would consider you a genius and enjoy the relative responses you will get in context of how fast they move away from you, look at you with spacey eyes or check their watch to see when they can end the discussion. Since we are relatively completed with our introduction this morning, we move onto relatively more important banking industry matters. We jump right into a discussion today around the duties and responsibilities of directors and what management teams can do to better prepare for the next exam. To gain a deeper understanding, we took a look from the regulatory perspective by reviewing recent handbooks, speeches and research materials. Certain themes immediately emerge from this. Regulators expect directors know and understand they have a fiduciary duty to shareholders and depositors; make sure policies are defined properly and that management is ready, willing and able to do a proper job. In addition, regulators point out that responsibility lies with the directors and it cannot be delegated, but it can be assigned for others (management) to complete. One place to do this is when preparing for an exam. Here, directors and management should know that regulators often begin their process by analyzing the most recent financial information (Call Reports, etc.), reviewing prior examinations, Board minutes, audits, plans, and policies. That gives a good overview of the institution and gets the ball rolling related to areas that might need a closer review (such as concentrations, insider activity, capital planning, asset disposition, etc.). While exams can run the gamut, one good way to get ready that we would recommend is for the management team to do a dry run "mock exam." Start by looking with a fresh set of eyes at your minutes and in the way you review prior exams, audits, etc. Use a yellow highlighter, take notes, whatever works, but rip the bank apart from the perspective of highlighting anything that might need more explanation. Do this about two months prior to an exam to have enough time to prepare. Then, move to create your checklists, add explanations where needed and take the time to document what you did in any significant area and why. Don't forget to prepare PowerPoint presentations talking about your bank, what makes it tick, why you are strong, etc. Keep in mind that examiners roll from bank to bank, so if they were just at a CAMELS 5 and then roll into your 3, they may need to reset their minds as well. Help them jumpstart the process by giving an overview, providing additional documentation to support and clarifying any reports that may need a further explanation. Remember, they just arrived and you have been there the whole time, so don't skip steps. Next, make sure planning documentation is thorough. This is one area where regulators are spending more time. They want to know how you are using your capital, where you are taking risks and whether those risks are identified, measured, monitored and controlled. Make sure your plan continuously evolves based on present and future projections, your goals and objectives, and available resources. Then, track, analyze and report how things are going at the Board level and revise if needed. You don't have to be Albert Einstein smart to know that being prepared and up front in your dealings can be good for your bank. Take the steps every time to prepare and you will come off aching your bank examination SAT's without straining your brain.

BANK NEWS

TAG Extension

A coalition of banking organizations is urging all members of Congress to pass a 2Y extension of the Transaction Account Guarantee program (insurance on non- interest bearing transaction accounts). Community bankers want the program extended to ensure unlimited insurance coverage on small-business accounts doesn't expire at the end of this year. For any shot of this happening please contact your Congressional representative today!

Foreclosures

RealtyTrac reports homes entering into the foreclosure process in Aug. were up 1% vs. Jul. but are down 13% over the same month in 2011 (when it hit a 17Y high).

Less Income

The Census Bureau reports the average American household saw its income fall for the 4th consecutive year in 2011. This is worrisome as consumer spending provides about 67% of economic growth.

USA Downgrade Risk

Moody's is warning the U.S. credit rating could be downgraded if the government does not take steps to avoid the fiscal cliff (expiration of Bush tax cuts, tax increases and spending cuts) at the end of the year. Moody's said the gov't must produce a stabilization and downward trend in the ratio of debt to GDP to avoid a downgrade.

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