

UNHEALTHY TO BURY ONE'S HEAD IN SANDS OF RISK

by [Steve Brown](#)

A Staples survey finds 80% of workers come in even though they know they are sick (up 20% over last year). Further, 65% of those who stay home return to work even though they are still contagious. To stay protected, alert coworkers that this study also found 51% clean their desks 1x per week or less and only 6% know the break room sink is the dirtiest place in the office (followed by the microwave). Stay healthy this flu season, but if you get it, know it can take 1 day for symptoms to appear and can still be contagious for up to 7 days beyond that. It just doesn't make sense to bury one's head in the sand this time of year when it comes to protecting yourself from risk. One area bankers have been making significant progress over the past few years is in the area of risk management. Yet, many are still struggling with the concept. That is why we found a survey by Deloitte interesting in this area. It found out that there are some common challenges many executives face around managing risk. Specifically, when asked what the biggest challenges they were facing in effectively managing risk, the following surfaced: people are unaware of what they need to do concerning risk (28%); cost and budgeting constraints (27%); incentives do not reward making risk-based decisions (26%); inadequate information (23%); lack of clarity of risk roles in the organization (22%); misalignment of risk and business operating models (22%) and an organization that is too complex to manage (21%). We are not sure where your bank shakes out in this area, but would venture to say many of these challenges we have seen are commonly at a variety of community banks across the country. One way to address many of these issues is to have a thorough discussion of what risk management is and what it is not. Risk managers are not policemen walking around the bank on a beat looking for problems. Rather, they are experts that help business line managers, executives and boards understand where risk is coming from and seeking to protect the bank within an acceptable risk-return framework. Another important aspect here is to make sure risks are identified and communicated throughout the bank. If employees have no idea that major risks usually fall under the headings of credit, market, operational, liquidity, legal and reputational, they cannot add much value to the process. Help educate them on the nuances of each and empower them to make change and you stand a good chance of improving your risk profile over time. In that regard, we suggest your bank might begin by circulating the definition for each one and then holding a meeting to discuss nuances. It is also important to help employees understand that banks are in the risk-taking business. Perhaps equally important, employees must also know that having a risk is not the same thing as having to be concerned about that risk. As such, simply understanding definitional aspects can help. Finally, be sure to alert all employees that managing risk is everyone's job. If someone sees something that appears odd, adds what seems to be too much risk or just doesn't seem to fit the profile of the bank from their perspective it is important to elevate that to the risk manager so they can look into it. Through this approach the bank is better protected, no one has their head inadvertently in the sand and potential issues surface much faster so they can be dealt with before things get out of control.

BANK NEWS

M&A

Nicolet Bankshares (\$654mm, WI) will acquire Mid- Wisconsin Financial Services (\$462mm, WI) in an all stock deal valued at \$10.2mm. The deal creates the 6th largest bank holding company in WI and would allow Mid-Wisconsin to pay off the \$10.5mm in TARP that it owes when the transaction closes.

M&A

The First National Bank of Santa Fe (\$760mm, NM) will merge with Strategic Growth Bancorp (\$291mm, NM) for an undisclosed sum. Strategic has reportedly raised \$250mm from investors seeking to invest in banks located in the Southwest and has been looking for opportunities. The CEO of First National said his bank wasn't being bought out, but rather the move was a combination of assets and resources.

Branch Closures

Home Federal Bancorp (\$1.1B, ID) will close 4 branches in OR as it seeks to improve efficiencies, reduce costs and adjust its business model to customers that are using more electronic banking services. This brings the bank's total to 10 since late last year.

Branch Sale

NCAL Bancorp (\$349mm, CA) will sell a branch to Manufacturers Bank (\$2.1B, CA) for an undisclosed sum, as it seeks to focus more on its core geography.

Loan Limits

FNMA and FHLMC announced the maximum conforming loan limits for mortgages they acquire will not change in 2013 (will be \$417,000 in most locations, but as high as \$625,500 in certain high-cost areas in the U.S.).

Competition

Bank of America has reportedly decided not to roll out new fees on checking accounts until late 2013, as it seeks to avoid consumer uproar and continues to evaluate major changes to its retail business.

Failure Rate

Research by the FDIC finds the long-term failure rate for community banks (over the past 26Ys) is about the same as for other banks (0.69% vs. 0.66%, respectively).

Branch Cost

Goldman Sachs indicates commentary from the largest banks suggests the cost of operating in in-store branch is about 25% that of a traditional branch.

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