Buzzword Bingo And Hot Buttons

by Steve Brown

We enjoy the cartoon Dilbert and one favorite episode involved something called "Buzzword Bingo." Here, each committee meeting attendee had a bingo card with trending management words in each box. Every time the boss uttered a buzzword on the card, the player could check off a box with the objective of filling a row. The boss exclaimed "everyone is locked-in today so my proactive leadership must be enabling singular focus." Dilbert shouts BINGO!!

Whether you enjoy Dilbert or not, you know corporate buzzwords are not a new concept. They first came about at the turn of the 20th century with the advent of large factory assembly lines at companies like Ford and GE. Over more than 100Ys, management books have explored low hanging fruit, boiling the ocean, leverage, value-added, ideation and disruption.

Now we hear that bank regulators have hot buttons. Being literal by nature, we thought back to when the regulators were last in our bank. We scanned our memories looking for a big red button under their suit jackets, but we could not recall ever seeing one. We then went to a strong source, Merriam Webster, who defined a hot button as an issue that causes a strong emotional response and often causes people to argue. Regulators don't strike us as that emotional, but they certainly do have areas of focus and concern.

At our recent Executive Management Conference in San Francisco, we had a session on regulatory hot buttons. It certainly generated a lot of interest from attendees and in the Q&A session, a number of bankers provided insight from their own recent exams. We outline some here to help those who could not attend as you perhaps prepare for your next exam.

Capital planning surfaced right away as an area of primary importance to regulators. That certainly makes sense, particularly when you consider new regulations coming down the pike with Basel III. Also important to capital planning is stress testing. Such tests should assess what will happen to credit, IRR and liquidity in different economic scenarios.

Credit is the primary engine of banks, so it always offers a range of regulatory concerns. Here bankers noted loan growth is improving somewhat, but mostly in only a few sectors. Non-real estate diversification in bank loan portfolios is declining and CRE concentrations are increasing after declining since 2008. Multifamily lending especially has accelerated and as concentrations rise, pricing spreads have narrowed. CRE and C&I underwriting standards have eased since the depths of the crisis and banks are experiencing decreased spreads over funding costs in both areas.

Interest rates are also an area of concern, as rising rates will affect nearly every part of a bank's balance sheet. Some banks have reached for yield, either by taking on greater credit risk or through longer duration or more complex securities. Deposit assumptions may also skew the results generated by models that bank management uses in its planning. Concerns include stressing assumptions and weak model governance.

Vendor management is yet another area of regulatory focus and importance for bankers. New guidance was issued in Dec. 2013 to address this so be sure to read it. Regulators worry that because banks use so many vendors for so many things, managing them requires a proper due diligence

program. It is important to evaluate vendors' capacity and ability plus their financial soundness. Simply asking whether your bank would make a loan to a given vendor can answer lots of questions and get you well down the risk management path.

Finally, banks have added risk to their balance sheets during the past several years in an effort to maintain declining earnings. Bank management and boards need to understand and manage their risk exposures and how those risks may change as economic conditions change. As you can see, we found no buzzwords among these regulatory concerns, but we will continue to look for that big red button as we play Buzzword Bingo in the next committee meeting.

BANK NEWS

M&A

Five bank holding company Ames National Corp ($1.3B, IA) will acquire First Bank ($86mm, IA) for about $4.7mm.

Branch Activity

A report from Bankrate.com finds 30% of U.S. consumers have not visited a branch in at least 6 months, but 50% have done so within the past 30 days. Of note, only 19% of those ages 18 to 29 have visited a branch in the past week vs. 29% for those 30 to 49 years old. Banks should also note that 20% of retirees have not visited a branch in over 1Y.

Loan Competition

Wells Fargo has announced it will extend $100B in new loans to small businesses over the next 5Ys, as it actively targets this customer group in an effort to raise its profile and capture more customers.

Loan Competition

The SEC is still working on rules related to the JOBS Act that would allow small companies to raise capital from accredited investors through the internet. The rules that would allow business owners to sell equity stakes in their companies are expected to become effective late this year may allow private companies to raise up to $5mm through social media or crowdfunding sources with audited financial statements and up to $3mm without providing audited statements. Community bankers will need to keep a close eye on these rules as they could impact lending opportunities and increase competition.