Sitting Down To Review One Size Doesn't Fit All

by Steve Brown

At times we have thought about getting uniforms for employees with a big PCBB blue logo across the back, but picturing bankers wearing such things seems odd at some level. We know some employees might embrace it as it would be fun for awhile, but we know others might feel like it is tantamount to cloning so not necessarily a good thing. The good news is that doing so would give everyone a cohesive, identifiable look and alleviate those difficult early morning fashion choices. This may sound like a crazy idea given the potential blowback, but there is a lot in banking regulation that seems to be designed with a similar one-size-fits-all approach.

The good news for community banks is that the regulatory community seems to have noticed the stress and pressure of conforming to a constant flood of regulation and are throttling back some. There are even serious efforts underway to be more sensitive toward community banks if the recent presentation by FOMC Chair Janet Yellen (at an ICBA policy summit) is any indication. She said the Fed is trying to find a "smarter, more nimble and more effective regulatory approach" and to take a fresh look in its dealings with community banks. She said the Fed under her watch would seek to tailor the oversight of community banks to ensure that their regulatory burden is fair and sees a need for differentiation in the oversight required of smaller institutions. She also sees a need for institutions of different sizes, each of which serve different needs in our economy.

This is welcome news because we have heard plenty of cocktail conversation opining that regulators really want to see a significant decrease in the number of banks in this country and the easiest place to do that is with community banks. Conspiracy theorists put forth that the entire regulatory machine really wants community banks to all merge and get bigger or just go away entirely. Whether Ms. Yellen's comments move this concern to the back burner remains to be seen, but it is a good start.

Also of interest to community bankers in this same speech, she said the Fed is actively working to make examinations of community banks less burdensome and through technology to lessen the disruption of on-site exams. She also said the Fed is making efforts to address its concerns over systemic risk in the largest institutions by gearing oversight specifically towards the types of institutions that actually carry such risks.

If you are still not a believer that things are changing for the better, consider other regulations that differentiate between the largest institutions and community banks. We note that while Basel III applies to all banks, it also requires significantly more from large institutions. Further, one could argue that Dodd Frank is more onerous on the largest banks (albeit onerous for all). Finally, we think this is the first case when a Fed Chair has made an effort to indicate specifically that community banks do not carry the same level of risk to the economy and the financial system as very large institutions and therefore should merit a less stringent regime of regulation.

We could not agree more. As every reader of this publication knows, community banks generally have local ownership and control, local decision-making and therefore are typically relationship lenders. Personal familiarity with a borrower is not enough by itself to determine if a loan is sound, but it does contribute to a body of knowledge that is difficult to measure accurately in a quantitative model. At least, we certainly think so.

It is welcome news indeed that regulators appear to be making a conscious effort not to use a one-size-fits-all approach to overseeing banks. It is too costly to do so for community banks, doesn't add much value when examining simple relationship lending structures and is tantamount to shooting a gnat with a bazooka. That's why we are so happy regulators are sitting down to look at the size of the problem and where it resides versus just forcing uniform compliance regardless of risk profile.

BANK NEWS

No Bench

A survey by Korn Ferry finds only 27% of executives say they are confident their internal talent is experienced enough to handle the business environment. Meanwhile about the same amount at 30% said internal talent was "not ready at all" for promotion.

Retired Women

CNBC reports on BLS data that finds 35% of women ages 55 and older were working in 2012 and that women will account for 82% of the over 55Ys old workforce by the year 2022.

Biz Optimism

A survey by Duke University Fuqua School of Business of CFOs at 400 companies finds overall optimism reached an index of 61 on a scale of 100, the highest level since mid-2007.

Feeling Better

A survey by CNBC finds 91% of people now believe their home prices will remain stable or increase over the coming year, the highest level since Q1 2007.

Unemployment

While unemployment is down from 10.0% in 2009, at 6.30% it still remains above the 5.2% to 5.6% range the FOMC considers full employment.

Low Borrowing

The Fed reports loans as a percentage of deposits at U.S. commercial banks reached 75.2% at the end of April, the lowest level since 1978.

CEO Pay

An Associated Press/Equilar pay study finds the median pay package for a CEO of an S&P 500 company reached a record $10.5mm in 2013, an 8.8% increase vs. 2012. The median CEO pay package has climbed 50% since 2009.