Summer Recreational Reading

by Steve Brown

Summer is the time for bankers to get away from the salt mines for a few days, to take a little time to refresh and rejuvenate. When you go on vacation, we recommend you leave the pinging smartphone behind, or at least turn the sound off or even better, lock it in the hotel room safe. In this state of uninterrupted bliss, we're sure you will search for some recreational reading recommendations, so we have a few any banker will be proud to carry on the plane.

For your summer reading pleasure--and just in the nick of time--there are a number of new missives from the regulatory community. What could be more scintillating to read at the beach than the latest clarifications from FASB on Current Expected Credit Loss (CECL) model? CECL was proposed in Dec. 2012 and is still under review, but gradually more information is being released that bankers should know.

At a high level, the CECL model will replace the current historical loan loss model by incorporating a life of loan calculation. Recent clarification allows that a historical average loss calculation can be used however, when reasonable or supportable forecasts can't be obtained. Another important point about this is that all contractual cash flows including prepayments will need to be considered. Banks will not include extensions, renewals or modifications though, unless the institution believes there will be a troubled debt restructuring.

As you think about fun in the sun and prepare for CECL, you will need to consider how to integrate future cash flows into your loan loss reserve. You will need to include prepayments into both your ALM model and your ALLL calculation. At the very least, banks should be making their current ALLL calculation as robust and granular as possible, as this work will make the transition into a CECL model that much easier.

For a broader read on banking, consider taking the OCC's booklet, "A Common Sense Approach to Community Banking." It focuses on helping your bank find success while maintaining a robust risk assessment and management process. For its part, this 19-page novella was published last summer, but the information is still current, applicable and worthy of review. It is clear from this read that the OCC was interested in helping community banks succeed by focusing on three interrelated areas: risk assessment and management by leveraging the OCC's Risk Assessment System (RAS), strategic planning and capital planning.

The OCC's RAS is designed to help banks identify and manage risk using a systematic and repeatable process. Risk is defined as events either expected or unanticipated that can have an adverse effect on a bank's earnings capital or franchise value. The RAS tool gives bankers a common framework to assess the eight categories of risk, and perhaps even more important, to judge the direction of that risk.

Finally, for the banker that is already a little fed up with the quantity of regulations, perhaps it is time to write your own missive. While sitting on the beach, make your voice heard by writing in comments to recent and pending regulations or guidance. One place to start is at the very beginning, as federal bank regulatory agencies are currently seeking comments in an effort to reduce burden and are asking you to identify outdated, unnecessary or unduly burdensome regulations (no, you cannot just answer "all"). The first comment period will focus on three categories: Applications and Reporting, Powers and Activities and International Operations. The remaining nine categories will follow over the next 2Ys.

If you prefer, from your beach-side chaise lounge suggestions could be written down, placed into a bottle and tossed into the ocean. You might get a ticket for littering, but perhaps they will also find their way to your friendly regulator's desk eventually. No matter what, enjoy your vacation reading no matter what it is.

BANK NEWS

Different Opinion

A BAI survey of small business owners and bank executives identified the following differences of opinion (out of 5 points) when asked about whether or not the bank offers loan products that meet their needs (3.7 for bank vs. 3.2 for small biz customer). The good news for many community banks is that at the other end of the spectrum when asked if the bank provided mobile banking options that met their needs banks ranked themselves at only 2.7 but small business owners rated this at 3.1. Perception is reality.

More Social

FutureCast reports Millennials are 250% more likely to adopt new digital, social or mobile tools than other generations.

Risk Management

Regulators indicate all sound risk management systems share the following common fundamentals: proper risk identification, accurate and timely measurement of risk, prudent risk limits as set forth in operating policies/procedures and accurate and timely risk monitoring.

Slower Growth

A survey by the National Association of Business Economics (NABE) finds economists have reduced their GDP growth expectations to 3.0% annualized for Q2 vs. 3.5% in the prior June survey.

Economic Growth

It is interesting to note that the average expansion length (time between recessions) since World War II is just under 5Ys (59 months) and the last three lasted an average of 7.5Ys. We have officially been out of the latest recession following the credit crisis now for 61 months (as of June). While we don't expect a downturn anytime soon, history can be an important reminder when prudently managing the risk in any bank.