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## Reviewing 2014

by [Steve Brown](#)

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We want to wish our readers a Happy New Year. We are sure that 2015 will be filled with interesting events just as 2014 has been. We thought we'd highlight some of what took place over the course of the last year.

**Television:** Fallon took over for Leno and Colbert for Letterman. There were continuations of popular TV series like Game of Thrones and House of Cards and there were notable celebrity marriages (Brad and Angelina and even George Clooney, the epitome of Hollywood bachelorhood got married).

**Music:** Our personal favorite cultural event was the musical alliance of Lady Gaga and Tony Bennett in creating an album of classic jazz tunes, Cheek to Cheek. There is remarkable energy between these two artists of radically different generations (Lady Gaga is 28 and Tony Bennett is 88, a contemporary of Frank Sinatra). The album rocketed to the top of the charts at its release in Sep and as a result, Tony Bennett has become the oldest artist ever to top the Billboard charts. The album has introduced a generation of hipsters to the jazz greats and octogenarians everywhere are exclaiming "now that Lady Gaga is a fine jazz singer!" There are lessons here for bankers seeking to understand how to provide value to a broad sector of customers in an environment of changing preferences.

**Banking:** Janet Yellen was confirmed as the first female chair of the Federal Reserve. She was immediately tasked with overseeing the winding down the Fed's unprecedented stimulus efforts, doing so with appropriate timing for the economy and in a manner that won't disrupt the financial markets. The FOMC announced the end of QE3 purchases in Oct but many other elements remain, including when to slow the reinvestment from maturing and returning principal from the bonds and therefore decreasing the size of the Fed's balance sheet. The other question on everyone's mind is the timing of increases in the Fed Funds rate. It is widely expected in mid-2015, but there are a host of concerns which could alter that timing, including inflation that is running below Fed targets and a significant drop in longer term Treasury yields over the course of this year. Bond prices have gained in 2014 but the stock indexes have sky rocketed, setting new record highs almost every month. We've said it before - we think the equity averages are ahead of themselves given the tepid level of the economic recovery.

**Economy:** In the general economy, we saw the unemployment rate drop from 6.6% in Jan to 5.8% in Nov (Dec numbers will be out on Jan 9). At the same time, the workforce participation rate remains near its 30Y low and many people remain underemployed. The most recent readings on GDP show gaining strength with an increase in Q2 of 4.6% and the latest revision of Q3 showed an increase of 5%. The economy as measured by statistics has improved a great deal, but many in the middle and lower economic brackets have felt little benefit. Falling oil prices will help consumers but will also adversely affect oil producing regions.

**Regulation:** In the world of banking regulation, Basel III was finalized and will begin implementation on Jan 1. FASB is also ironing out the details on CECL, the current expected loss model for the calculation of ALLL (expected to increase by 30% to 50%). Enterprise risk management gains ever more emphasis, especially in light of increasing cyber risk and credit card fraud.

Next Year: We think the economy will continue to improve and this will help banks as loan business increases. There are a host of concerns over rising short term interest in the nearer future, but hopefully opportunity as well. We are standing by to help your bank with the challenges and opportunities that lie ahead, so don't hesitate to give us a call.

We wish you and everyone in your bank the happiest of New Years and we look forward to continuing the discussion in 2015.

## **BANK NEWS**

### **Building a Strategic Plan**

The OCC indicates strategic plans for banks should: cover at least a 3Y period; contain a comprehensive assessment of risks that currently impact the bank or could impact the bank during the period covered under the plan; articulate overall mission statement and strategic objectives for the bank and how it will achieve those objectives; include an explanation of how the bank will update, as necessary, the risk governance framework to account for changes in its risk profile projected under the plan; and be reviewed, updated and approved as necessary, due to changes in the bank's risk profile or operating environment that were not contemplated when the plan was developed.

### **Risk Appetite**

Regulators suggest banks have a risk appetite statement that indicates the aggregate level and type of risk the board of directors and management are willing to assume to achieve the bank's strategic objectives and business plan. The statement should also be consistent with applicable capital, liquidity and other regulatory requirements.

### **Risk Categories**

The OCC identifies the following 8 categories of risk that banks should monitor for all products, services and activities: credit risk, interest rate risk, liquidity risk, price risk, operational risk, compliance risk, strategic risk and reputational risk. Regulators also remind bankers that these risks are not mutually exclusive and may be interdependent, so a thorough analysis is a good practice.

### **Life Expectancy**

A study by United Health Foundation reported by USA Today finds the states with the lowest life expectancy in the US in order are MS, AR and LA. Meanwhile, states with the highest life expectancy in order are HI, VT and MA. Diet and exercise were key contributors.

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