Working Too Much

by Steve Brown

Research by Oxford Economics finds the average US worker only took 16 days off from work in 2013 vs. 20 days in 2003. This is even more shocking when you compare it to France, where companies are legally required to fund 30 days off annually. Clearly US workers are toiling away much longer than in many other countries, which is also perhaps one reason that we are so innovative and we continue to advance our position worldwide.

The community bankers we know are very industrious, with many working countless hours at the office or out with customers and then spending countless more giving back to their community. Few community bankers we know have extra time to do much of anything, so with that in mind we want to help by offering a few key points of interest you may want to consider around asset liability management (ALM).

First, as we have said before, the regulatory bar of what is acceptable as a "minimum" standard for measuring and managing interest rate risk has all but put a bullet in ALM models based on call report data. These basic models are just way too blunt given the optionality in the balance sheet (loan and deposit prepayments, etc.), they cannot capture or assist with the impending changes to the calculation of loan loss reserves (capture the life of the loan for ALLL), they cannot help your team understand relationship profitability (they do not accurately calculate or model loans and deposits at the individual level) and they are ineffective tools to help manage capital (everything drives off capital, so if the model cannot handle Basel III elements it isn't worth much) and many more elements. We urge bankers to review the model you are currently using and shift to an instrument level view if you are not already there. Blunt call report ALM reports are not only playing with regulatory fire, but are also putting your bank at a disadvantage to competitors in an extremely aggressive environment.

Next, there is all sorts of regulatory concern around deposits that flooded into the system (particularly non-maturity deposits (NMD) after the credit crisis and stayed. Regulators are concerned this bucket of funding might begin to drain once rates start to move higher again, so bankers should take a close look at this. Here, our suggestion is to put a microscope on NMD. Run a scenario of increasing the decay rate coupled with a reverse flow back to time deposits from NMD to match what you had in 2006 (prior to the decline in rates). Also, if you have issued longer term, non-brokered time deposits, make sure the "put option" that the depositor owns has been accounted for in rate shocks (rising rates will push depositors to break CDs and pay the penalty as they can reinvest their money at a higher level and break even pretty quickly in upward rate scenarios). Lastly, be sure to exclude or zero out brokered CDs, as regulators won't allow banks to pump themselves up again on wholesale funding like that again.

These sorts of tests will let you see what things would look like if the funding base supporting your current asset base reverted back to a more normalized structure. Also, be sure to adjust for rates and other factors based on current conditions, get a good handle on these risks as well and discuss them in detail at ALCO. The key is to have a plan and feel comfortable you can clearly explain what you are going to do to both the board and the regulatory team that will inevitably drill in.

Our third discussion point here to help you is around prepayments. When rates rise, prepayments usually slow down (sometimes sharply), so being prepared and understanding the risk is a good idea. Calculate your current prepayment rates on your assets and then slow things down to a worst case of zero. Then ask and discuss in detail what happens, where the funding comes from to support, how much extension risk you have and the impact/plan as well as how this extension will impact ALLL under the new life of loan provision.

These are just some of the types of analyses that bankers should be thinking about now, given the change in interest rate and regulatory expectations. The good news is that we can do these and others for you if you are one of our ALM clients, so you don't have to. If you are thinking of dumping your call report ALM vendor and want expert help to jump to the instrument level, give us a call and we will show you how easy it is to outsource this and get results. In the meantime, since we know you aren't going to take much vacation this year given the research, you have some extra time to ponder things before you inevitably collapse from utter exhaustion.

BANK NEWS

More Regulation

A report by the IMF suggested some of the following improvements could still be made to improve the stability of the US banking system: require banks under less intensive supervision to report developments to regulators; clarify supervisory expectations for capital to be held against interest rate risk; revise the 1996 guidance to include more quantitative guidelines regarding interest rate risk in the banking book; develop guidance to clearly distinguish, in supervisory recommendations and matters requiring attention, which are of Board responsibility and which are the responsibility of senior management; implement rules/policies promoting early action also for other issues than bank capital and liquidity; and introduce clear expectations and requirements regarding risk management standards applicable to banks with less than $10B of assets.

Director Benefits

A Bank Director survey on compensation finds the Top 5 benefits outside directors get from the bank are: no benefits offered (45%); deferred compensation plan (34%); travel expenses (24%); ability to elect to receive cash fees (10%); and life insurance (8%).

Online Savvy

Fiserv research finds 33% of US online households have paid a bill using a mobile phone.