Dump The Clutter To Better Prepare

by Steve Brown

It is that time of year when community banks are putting the finishing touches on strategic plans for the next few years. Many are also looking around their offices thinking about or already moving to clear out old files that are lying around. Now that there are only 18 business days left in 2015, it is perhaps time to clear the decks as you get ready to roll on 2016. As you do, consider changing some habits as well. For instance: an SBA study finds that 80% of papers filed are never referenced again (so think twice before filing anything), and a survey of executives by Esselte finds executives waste 6 weeks per year searching for lost documents (get more organized by simplifying things).

To help you get more done on the regulatory front, we combed through a recent speech on managing risks by Comptroller Curry of the OCC. Even if your bank is not nationally regulated, there are some key themes here that all regulators have been talking about, so we wanted to raise everyone's awareness.

Certainly, the economy has become a bit more stable in recent years and that is a good thing. The credit crisis has receded now, but clearly no one wants to go back there so regulators are emphasizing lessons learned and risks they see surfacing.

The first of these is credit risk. As loan demand has increased over the past few years, regulatory concerns have slowly risen alongside that growth. Admittedly, credit quality metrics remain low, but Curry also points out that "many asset quality metrics are lagging indicators of performance," so care and diligence should continue to be exercised.

Curry also points out that as customer financials have improved over time, "banks have made a conscious decision to increase their risk appetite and take on additional credit risk." In and of itself that is not a problem, but the compounding factor that is surfacing is more a byproduct of competition. Here, it seems regulators are seeing more banks go after less creditworthy customers and offer "easier (loan) terms and conditions" given extreme competition for loan growth, market share and revenue.

The result of all of this is that regulators will be looking much more closely at credit underwriting standards and exceptions, along with loan concentrations. Other red flags include: weak or nonexistent covenants; longer loan maturities; more exposure to riskier loan types (like energy); and rising concentrations in commercial real estate, construction, multifamily housing and loans to non-depository financial institutions.

As such, Curry is urging banks to take a close look at their risk concentrations, pay particularly close attention to loan loss reserves and have an effective capital planning process. On the loan loss reserve front, Curry reminds bankers to not only look to the previous 3Ys of historical experience, but to adjust for qualitative factors (such as changes in underwriting, changes in loan growth and credit concentration).

As your bank competes for customers within a very difficult operating environment in general, being prepared and understanding in particular where the regulators are focused should help. As you ponder our discussion this morning and prepare to clean your office, our advice is to focus your efforts on simplification of everything in the coming year. After all, consider that PwC research finds the average organization spends $20 in labor to file each document it keeps and ends up losing 1 in every 20 documents anyway.

BANK NEWS

M&A Activity

1) CharterBank ($1.0B, GA) will acquire Community Bank of the South ($369mm, GA) for about $58.8mm or roughly 2.3x tangible book. 2) Busey Bank ($3.8B, IL) will acquire Pulaski Bank ($1.5B, MO) for about $210.7mm in stock.

Helpful Hopeful

Community banks cheered comments last Thursday by Fed Chair Yellen who said, "Small community banks really are suffering from regulatory overload" and regulators are working to tailor regulations to "make life better for community banks, especially those that are well managed and have adequate capital." Help cannot come soon enough, as community bankers nationwide continue to struggle to boost profitability and reduce regulatory burden.

Colleague Warning

Harvard research finds employees who criticize others, or who are otherwise considered toxic (bad behavior) cost companies about $12,500 each.

Risk View

A survey of more than 150 executives from major companies around the world finds risks cited as being of the most concern in the next 3Ys are: the pace of innovation (30%), regulatory (30%), talent (25%), and reputation (24%).

Cash Bundle

JPMorgan reports non-financial companies in the S&P 500 had $2.1T in cash on hand at the end of Oct, up 6% YOY.

Cyber Readiness

A survey by The Economist on cyber incident readiness by businesses finds: 67% of executives say that responding effectively to an incident can enhance their firm's reputation and more than 60% of organizations have an incident response team and plan in place.

Fined

The CFPB has fined payday lender and other subprime credit reporting company Clarity Services (FL) $8mm for mishandling customer information and failing to take action to investigate consumer disputes.

Small Biz

A JD Power study finds women business owners are happier than male counterparts with their banking experiences (766 out of 1,000 points vs. 746, respectively). Meanwhile, 73% of women business owners said they were optimistic vs. only 69% of male business owners.

Payments

The Fed reports 33% of consumers and 75% of businesses want real-time payments. The payments task force, made up of hundreds of market players, is working to deliver just that, with a modernization project due in 6Ys (by 2021).