Measuring Regulatory Relief

by Steve Brown

Researchers at New York University and Michigan State University have reportedly figured out a way to easily fool fingerprints digitally by creating artificial master prints that can open up smartphones up to 65% of the time. These master keys if you will are a spooky concept because they demonstrate how bad guys might also break into biometric safeguards that are being used more and more by banks. It just goes to show that for every countermeasure there seems to be a new workaround that quickly follows in this technological world around us all.

Speaking of measures, in the banking industry the FDIC has been taking action around commercial real estate (CRE). We recently discussed the FDIC Supervisory Insights publication, which expressed concern over the high level of CRE loan balance sheet volume.

In a hefty 430-page report issued jointly by the FFIEC, on Mar 21st, regulators proposed government officials allow banks to increase the threshold for CRE appraisals from $250k to $400k. The hope is that a directive to gather further information may eventually even lead to raising the threshold to $1mm for real estate-secured business loans.

The report went on to state that regulators are seeking to amend current rules so that community banks do not have to use a blunt capital weighting of 150% but, instead could use a "more straightforward treatment" for certain loans based on acquisition, development and construction lending. Further, the report suggests simplifying the capital requirements for mortgage servicing assets, timed difference deferred tax assets and other capital instruments issues by financial firms.

Further good news from this report comes as a regulatory recommendation is made to simplify and streamline the rural property appraisal process, which already has a regulatory committee permitting temporary waivers for appraisals in rural areas under certain conditions.

Besides raising the threshold for commercial appraisals, making capital weighting more clear-cut and simplifying rural appraisals, the report also recommended other changes. These included streamlining call reports and making bank examinations less frequent for more financial institutions.

While this would all clearly benefit community banks, some pundits are urging a careful review before changing any of the existing guidelines. Even the OCC has stated that credit risk has been one of the biggest issues for regulators in Matters Requiring Attention (MRAs) at community banks over the past year. They are concerned that expanded loan growth could be partially due to a loosening of underwriting practices at some banks.

For its part, the Appraisal Institute believes that it would be prudent to keep the current guidelines, largely due to CRE market condition worries. Although community banks have strengthened lending practices since the last recession, any signs of a softening CRE market could increase concerns for some.

The industry has clearly become more diligent in lending practices over the past several years and that is generally a good thing. As regulators consider loosening some of the tight constraints, especially for community banks, we are definitely happy and so are many bankers. Unfortunately, any such loosening of restrictions and rules is never a slam dunk, so only time will tell. As such, we will be sure to keep you updated on these measures to improve the biometrics of the regulatory fabric, as things progress along.

BANK NEWS

Long Expansion

CNBC reports Goldman Sachs economists say there is a 67% chance that the economic recovery will end up being the longest one in history. The expansion sits at 95 months currently and is the 3rd longest (longest was 120 months). Goldman also said their model shows a 31% chance that a recession will occur in the next 9 quarters.

Phishing Attacks

An ISACA survey of chief information security officers finds 30% experience phishing attacks every day.

M&A Activity

1) Bank First National ($1.3B, WI) will acquire First National Bank ($479mm, WI) for about $76.3mm in cash (70%) and stock (30%) or about 1.06x tangible book.

More Work

Research by law firm Littler finds 79% of in house counsel, HR professionals and C-suite executives say changes to state and local labor laws are creating new compliance challenges. These include: updating policies and procedures (85%), offering additional employee training (54%) and conducting more internal audits (50%).

CEO Departures

PwC research that looked at the world's largest 2,500 companies as to why CEOs left their firms found: 80% were due to planned turnovers over the past 5Ys (2012 to 2016) vs. 69% for the prior 5Y period (2007 to 2011) and 20% were forced out (vs. 31%).

Wind Down

Fed Chicago President Evans says the FOMC should unwind its assets at a gradual but sufficient pace to normalize the balance sheet within 3 to 4Ys.

Password Reset

Bankers should take note that HelpNetSecurity reports 550mm username and password combinations are currently being sold on underground forums.

CECL 2017

A Fed roundtable on CECL indicates regulators expect bankers this year to be aware this is coming, to make sure the board is aware and to have read the core guidance

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