Raising Teenagers And Capital

risk management strategic planning

Summary: Community banks may want to fund mergers, acquisitions, and other expansions in 2018. Some ways to raise capital from institutional investors.

As parents can attest, teenagers are often difficult to reach - especially when parents are trying to get them to do something. Well, as research now shows, this may not just be due to their teenager's developing sense of independence, but more specifically how their brains are organizing information. The prefrontal cortex, which is in charge of decision-making, is the last part of the brain to be organized. This means teenagers find themselves defaulting to more risky, impulsive behavior, driven by the back of their brains, while the logic pieces form fully around age 25. Parents may not like hearing this, but it may be more complicated to properly discipline your teenager than simply "grounding" him/her.

Community banks may want to take a page from this parent lesson book to methodically and patiently review some of the options to raise capital. While investor demand may be robust right now, you'll need a clear strategy for using the capital and providing investor return.

A plan is critical for any capital raised, supporting such activities as funding mergers, acquisitions, and other expansions. It can also be beneficial to provide "dry powder" in the event of an eventual economic downturn, but that comes at a cost so care must be taken and the analysis needs to work too.

For investors, their appetite for private stock and debt placements is decent right now, driven by increased bank consolidation, higher interest rates, and regulatory and tax relief.

These factors, plus the arrival of specialized ratings agencies, are fueling demand for debt issues as small as $5mm.

To raise funds through either debt or stock issue, a specific, clearly articulated plan will be needed, of course, for employing the capital and providing investors with a return, as well as a plan for increasing core deposits.

Risk-sensitive, forward-looking capital planning is a vital part of any good risk-management plan. It begins with identifying and measuring (or evaluating) material risks, including credit, market, interest rate, legal, operational, liquidity, and reputational, as well as risks from off-balance-sheet exposures (and associated liabilities), vendor and other third-party relationships, and regional and macroeconomic factors.

Community banks obviously aren't subject to the stress-testing requirements of Dodd-Frank, but it's still smart to think about what might happen under different scenarios before raising capital. Imagine extreme, yet possible future scenarios and apply sensitivity and scenario analyses to your what-ifs.

Capital planning and strategic planning should also be linked. Consider your initiatives, such as new businesses, services, growth plans, or markets, in addition to determining the amount of capital needed to support risks.

Your stress testing and risk management program should help you determine whether it makes sense to raise capital or if it makes more sense to just adjust the strategic plan.

You may not be thinking about the need to raise capital from institutional investors right now, but starting to plan out things like this is a good thing to do now and again anyway. This helps support your strategic plan and incorporates what could happen in the future using stress testing, so you are not caught off guard. Who knows - after doing your homework, you may find the answers that work best for you.

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