



Trouble May Be Lurking - OCC's Latest Risk Update

by [Steve Brown](#)

You may not realize it but research now finds people check their phones 47xs per day. That much touching also provides many opportunities for germs to accumulate on our phones. In fact, a new study finds phones can have 10xs as many germs as a toilet seat! Yuck. The good news is that most of these germs are not harmful, but some are. Of course, experts say keeping your hands clean is the best germ prevention. So, as you read our update on the OCC's semiannual risk report, you may want to reach for the antibacterial bottle and give it a pump or two.

Regulators aren't nearly as busy chastising troubled banks as they used to be. After the last recession, regulators issued Matters Requiring Attention notices (MRA's) at a furious pace for multiple years, reaching a peak in 2012. Since then, MRAs have been cut by 50% and in 2016 hit their lowest level since 2007. The same trend is evident in the number of enforcement actions.

However, trouble lurks behind those positive trends, according to the OCC in its [Semiannual Risk Perspective](#), released in July. They also say some of the most worrisome signs can be found in community banks.

In the report, the OCC says strategic risk remains most concentrated at mid-size and community banks. The OCC highlighted similar concerns in its last report, so bankers should be aware of this. Larger banks also exhibit elevated strategic risk levels, the OCC notes, but larger banks have so far done a better job of improving procedures and controls to manage the risk.

Strategic risk has been a topic of continuing concern to the OCC as banks face new competition from non-traditional sources like online lending platforms and as bank margins have been squeezed by long-term low interest rates. To stay competitive and bolster revenues and earnings, banks have adopted a number of strategic initiatives that can lead to elevated risks.

The OCC highlighted several areas of concern. M&A activity has been brisk among community banks and is expected to continue. As community banks engage in M&A, they can potentially increase risks. Integrating operations at merged banks can be difficult and problematic. The OCC noted difficulties are being seen in integrating management information systems, operational platforms, and internal controls. It can all lead to higher strategic, reputational, operational and compliance risks.

Another area of concern is financial innovation. Digital financial products and online competition can push banks to move too quickly into new and innovative products that are not fully understood. While the OCC didn't say community banks should go slower on innovation, the report suggests some thorough pre-work be done before making strategic decisions about innovation. Bank boards and management need to have a deep understanding of the benefits and risks of strategic moves before embarking on them. Instead of just innovating, the OCC recommends banks seek "responsible innovation" that meets the needs of their constituencies while also adhering to sound risk practices and policies.

The challenges faced by community banks won't get any easier either, as financial innovation continues to move along at a rapid pace. Further, while the Fed has increased interest rates a bit, the long-term prognosis is for a continuation of the low-interest-rate environment that community banks have found so difficult to navigate. Some measure of squeezed margins is likely to remain for a while so pressure on community banks will continue.

So far at least, strategic risks haven't risen to the level of serious issues and MRAs remain low. To keep it this way, continue prudent risk management protocols and controls. Now, all you have to worry about are the germs

on your phone.

ECONOMY & RATES

Yesterday

Yields climbed 3bp as investors anticipated this week's FOMC meeting with additional details on the Fed's balance sheet easing.

Rates As Of: 09/19/2017 12:03PM (PDT)

Treasury	Yields	MTD Chg	YTD Chg
3M	1.03	0.04	0.53
6M	1.18	0.11	0.57
1Y	1.29	0.08	0.48
2Y	1.40	0.07	0.21
5Y	1.83	0.13	-0.10
10Y	2.24	0.12	-0.21
30Y	2.81	0.08	-0.26
FF Market	FF Target	Fed Disc	
1.16	1.25	1.75	
Prime	Unemployment	Oil	
4.25	4.40	\$50	

[More Market Rates](#)

BANK NEWS

Cashless Coming

A Paysafe survey finds 14% of consumers carry very little cash and 54% expect to carry no cash by 2020.

Mobile Flexibility

Bankrate reports the New iPhone X could dramatically change how people manage their financial lives because it allows people to use their face as a password through Face ID, opens up this technology to third party apps, boosts mobile wallet opportunities, and enhances augmented reality features that could provide a visual representation of account balances and financial money movement.

Rate Update

NY Fed President Dudley said the FOMC should continue to gradually increase rates despite below desired inflationary levels. Meanwhile, Fed Cleveland President Mester said the FOMC does not need to see its policy goals met before raising rates again and that increasing rates would help sustain the economic expansion. She also indicated it will take several years for the Fed to reduce the size of its \$4.5T balance sheet, but there was no reason to delay beginning that process.

Increased Rates

The ABA Economic Advisory Committee projects the Fed will raise rates again in Dec and then 3x in 2018.

Synthetic Fraud

Bankers should be aware that the latest credit card fraud is based on criminals creating a fake identity from a variety of information rather than stealing a real one outright. The fraudsters create credit report placeholders as they attempt to open credit cards without a credit history. Eventually, one credit card application is approved, they pay the monthly charges to stay current, open more cards, max out all the cards and then dump the identity. This relatively new scam method could account for up to 20% of delinquent credit card debt according to Auriemma Consulting Group.

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