

Bankers Outreach – Federal Reserve Bank of Atlanta

October 23, 2013

What's on Our Radar Screen – Perspectives on Risk

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Does one size fit all?

“My colleagues at the Federal Reserve and I understand these concerns, and we are committed to crafting supervisory policies and regulations that are appropriately scaled to banks' size and complexity”

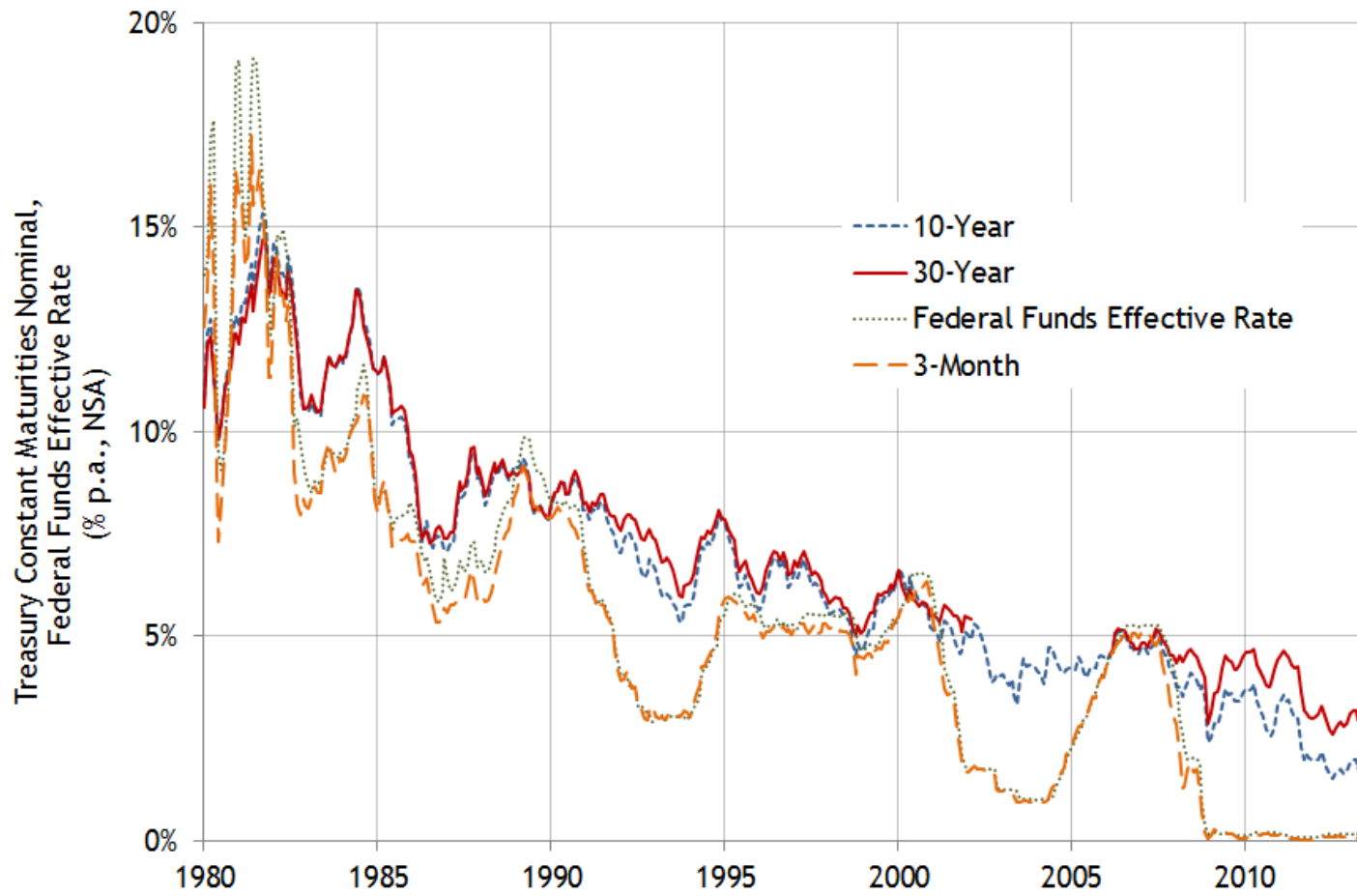
- Chairman Bernanke, October 2, 2013

The views and opinions expressed are those of the presenter and are not necessarily those of the Federal Reserve Bank of Atlanta or the Board of Governors of the Federal Reserve System



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RESERVE
BANK
of ATLANTA**

Interest Rate Trends



Note: 30-Year Treasuries not issued 2002-2006.

Source: U.S. Board of Governors of the Federal Reserve System (FRB): H.15 Selected Interest Rates

FRB Atlanta – Approach to Risk & Analysis

- **Goals:**
 - Forward looking portfolio view of existing and emerging risks
 - Risk analysis & prioritization
 - Follow-up: Balanced response, with risk mitigating actions as appropriate
- **Formal Process with Active Senior Management Support**
 - S&R Risk Council – all Division officers – research division advisors
 - Ultimate decisions on risk priority & response at Division's SLT (Executive Committee)
- **Key Components:**
 - Industry outreach & input
 - Vertical view – Risk stripes: Credit, Operational, Market & Liquidity, Compliance, etc...
 - Horizontal view - Business lines: Community, Large / Regional, International
 - System engagement and involvement – Participation in key activities & coordinated reviews (CCAR, DFAST, Recovery & Resolution, Vendor Mgmt. etc...)
 - Risk Analysis Unit – Research, surveillance, & analytical support
 - Risk group specialists / Business line examiners– Active in core supervisory work across multiple institutions-horizontal perspective



What's on Our Radar?

- **Macro Economy and Operating Environment – International, domestic and local**
 - Risky mature markets (US & EU), slowing emerging markets (BRICs), geopolitical concerns, domestic fiscal situation, impact of future monetary policy actions i.e...QE “tapering”, real estate markets – commercial & residential
- **Political/Regulatory Risks**
 - Uncertainty Implications, compliance resources and costs, guidance overload – Basel III, DFA, Compliance - CFPB, QM, Incentive compensation, stress testing, recovery and resolution
- **Bank Growth Strategies – Strategic Risk – Banking Business Model**
 - Pursuit of risky products, intense pricing competition, talent management, profitability pressures & challenges
- **Interest Rate Risk: Prolonged low interest rate environment & rising rate implications**
 - Unintended consequences in supervised institutions & multi-faceted implications, reaching for yield, margin compression, debt service pressure, risk modeling assumptions, wealth management activities
- **C&I Loan Growth**
 - Underwriting, pricing competition, fundamentals, expertise
- **Asset Quality**
 - Improving aggregate trends, lower concentrations in RE, growth in C&I and consumer sectors such as indirect auto, adding product lines - ABL
- **Liquidity**
 - Low risk perception. Funding sources seems abundant due to surge of low cost deposits, low wholesale dependence, and low aggregate loan demand, but future stability and deposit behavior is a concern
- **Operational Risks**
 - Cyber attacks, outsourcing & vendor management, accounting changes, audit and risk management resources & expertise