

# B&B REVIEW

## *Financial Services and Transactions*

### “LADIES AND GENTLEMEN, THIS IS A BANK”

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#### INTRODUCTION

“Ladies and Gentlemen, This is a Bank” is the introduction to a valuable new online resource called the Bank Directors Desktop. The site is aimed at the directors of community banks, and was developed by the Federal Reserve Bank of Kansas City. The free resource is available online at <http://www.bankdirectorsdesktop.org>.

The web site does not suggest that bank directors are not knowledgeable. Rather, it notes that the late Vince Lombardi would start each Green Bay Packers training camp with the phrase, “Gentlemen, this is a football,” even if the team had just completed a championship season.

The Bank Directors Desktop reminds its readers that the key to being an effective director is to draw upon their own non-banking experiences, such as:

- basic management experience and skills
- an inquisitive attitude
- a willingness to commit time and energy to bank matters

According to the Desktop, “The only thing that may be missing for most directors is a basic knowledge of banking and what to consider in overseeing a bank.” The Desktop provides easily accessible training and other helpful resources and reference tools addressing these fundamentals of serving as a bank director. For example, links leading to many helpful resources are conveniently available at the *Resources for Bank Directors* page.

#### NAVIGATING THE DESKTOP

The online Desktop training is designed to be completed in one to three hours. Users may delve into the details of specific topics and skip those areas in which they have greater knowledge. Some or all of the material can be printed, and the complete “Basics for Bank Directors” manual is available for download.

Each section of the Desktop contains a summary and a series of questions titled “Test Your Knowledge.”

#### WHAT IS A BANK?

The first section of the Desktop, titled “What is a Bank,” covers corporate governance and risk management.

The corporate governance section addresses the various roles of a bank director, including general responsibilities such as preparing for meetings, attending meetings, as well as more specialized roles such as the following:

- Representing shareholder interests
- Setting risk limits through policies and procedures
- Identifying, measuring, controlling and monitoring risk to achieve profitability
- Ensuring that the bank serves the community's credit needs
- Promoting an ethical, positive culture

The risk management section contains a helpful sample policy that may be a useful tool for directors to familiarize themselves with the basics of risk management. The

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example policy might also be used by management to compare against its own policy for best practices.

### **REGULATORY COMPLIANCE**

Perhaps in recognition that banking is likely more regulated than the industries in which bank directors customarily work, the Desktop devotes a section to the role of directors in overseeing regulatory compliance.

For example, to “test your knowledge” for this topic, the Desktop asks whether a director knows the difference between the source of these two requirements: (1) to notify loan applicants of action taken within 30 days of application being taken (Equal Credit Opportunity Act) and (2) to “not arbitrarily exclude low or moderate income areas” (Community Reinvestment Act).

### **BANK SAFETY AND SOUNDNESS**

The safety and soundness module of the Desktop is based on the CAMELS system (Capital, Assets, Management, Earnings, Liquidity and Sensitivity to market risk). Each of these components of safety and soundness is explored in the training. As noted in a recent *B&B Review*, examiners are expecting interest rates to soon rise, and they are scrutinizing the risk management at banks for interest rate risk in particular.

A “test your knowledge” question for interest rate risk is as follows: “True or False, the largest source of market rate risk comes from the bank’s trading activities.” The correct answer is “False”, because the largest source of such risk actually comes from the effect of a bank’s balance sheet structure on its earnings and capital, according to the Desktop.

### **WHEN THINGS GO WRONG**

Significantly, the final portion of the Desktop describes the range of supervisory actions that regulators may take to address problems or deficiencies at a bank. It notes that these actions may be taken against the bank, bank management, directors, employees or “institution-affiliated parties” (see definition below). This emphasis on regulatory problems highlights the significant increase in regulatory actions in recent years across the country.

The primary purpose of this portion of the Desktop is to remind directors that they are responsible for management’s successful navigation through supervisory actions. It does not dwell on the significant power that regulatory agencies have to dismiss and otherwise penalize directors of banks experiencing supervisory problems.

The Desktop defines the term “institution-affiliated parties” to convey to directors that not only they can be the subject of supervisory actions but so can consultants, attorneys, accountants, appraisers and others who knowingly or recklessly participate in regulatory violations.

The Desktop explains the difference between a “formal” regulatory action, such as a written agreement and an “informal” action such as a Memorandum of Understanding.

### **HOW SHOULD MANAGEMENT USE THE BANK DIRECTOR DESKTOP?**

Promoting continuing director education is a long-term priority in bank supervision. Bank examiners will be asking more and more what bank management has done to ensure that their board members are capable of fulfilling their fiduciary duties to the bank. Promoting continuing director education is a long-term priority in bank supervision. Bank examiners will be asking more and more what bank management has done to ensure that their board members are capable of fulfilling their fiduciary duties to the bank. The Desktop is a free and helpful resource that banks should consider integrating into their existing director education programs to meet that regulatory expectation.