

Risk Management Track

Lessons from the Recent Banking Crisis

CBA Banker's Summit

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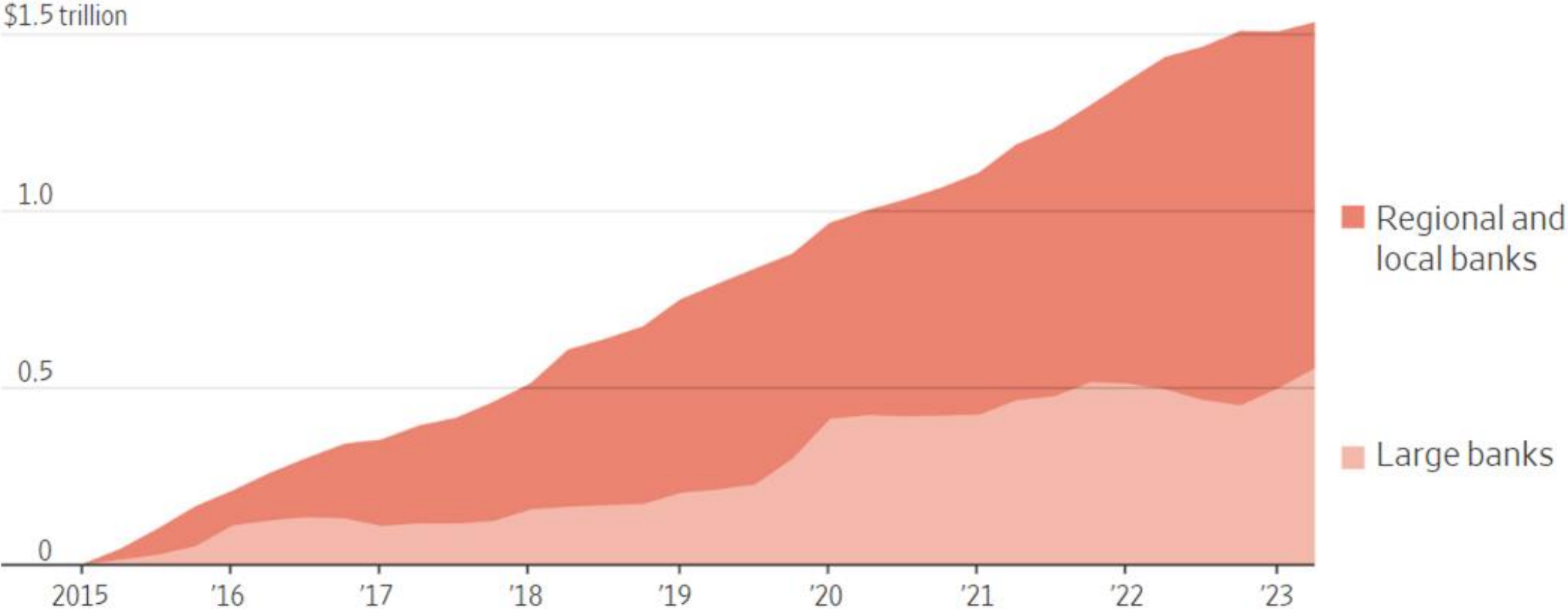
Summary

- Managing Commercial Real Estate Risk
- Balance Sheet/ ALCO Challenges
- New Capital Rules/Living Will Requirements for Regional Banks
- Novel Bank Activities
- Financial Crime/BSA/AML Challenges

Managing Commercial Real Estate Risk

- Banks have \$3.6T exposure of CRE – 20% of their deposits (WSJ)
- Small and mid-sized banks ¾ of all CRE loans as of Q2
- “Doom Loop” – If remote work patterns continue – depressing office prices
- 22.6% reduction in retail space by 2030-online shopping (McKinsey, July 2023)
- Shift from Urban to Suburban “Donut Effect” – varies by neighborhood & city
- Three hundred (300) plus banks could see Tier 1 capital wiped out (CBRE)
- Maturing loans - \$270 billion bank held mortgages this year
- Banks extend lines of credit to nonbank lenders
- Federal Reserve Senior Loan Officer Opinion Survey on Bank Lending Practices for
- Tighter standards & weaker demand – C&I and CRE loans (July 2023)
- Proactive, stress tests, “Break the Bank” outlying scenarios, holistic view
- Examination preparation

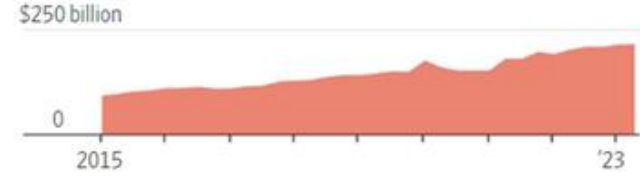
Cumulative change in commercial real-estate exposure since March 2015, by bank size



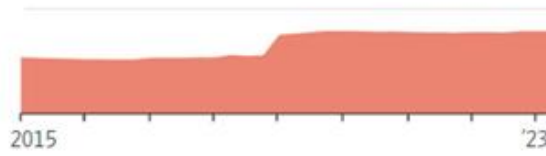
Source: Wall Street Journal analysis of FDIC data

Banks Exposure to CRE, Quarterly, 2015-23

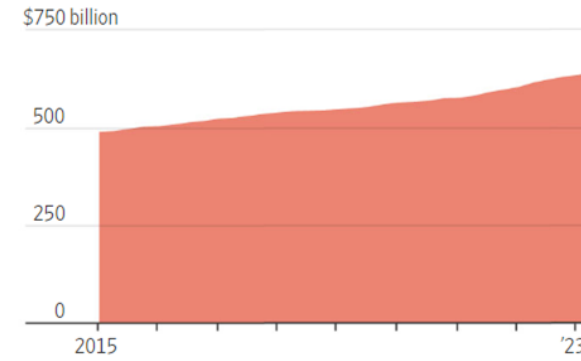
REAL-ESTATE INVESTOR LOANS



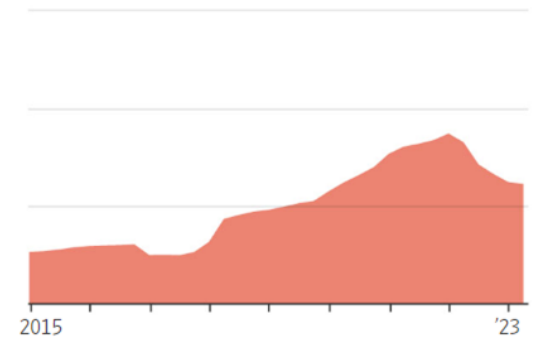
OTHER ASSETS LINKED TO COMMERCIAL PROPERTIES



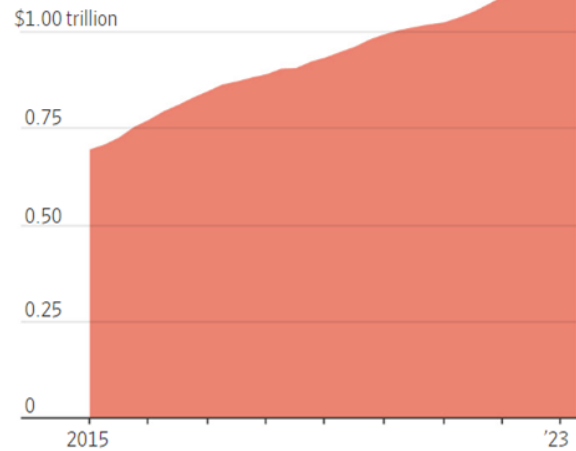
SMALL-BUSINESS LOANS



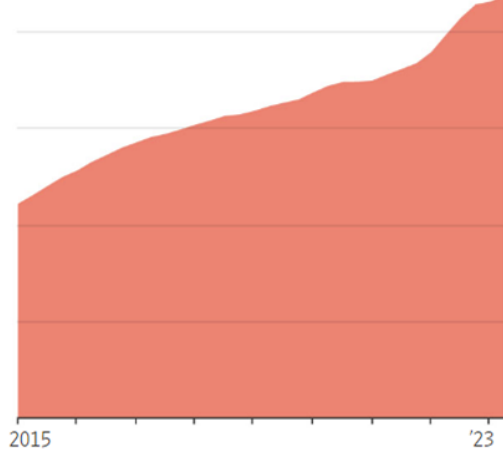
COMMERCIAL MORTGAGE-BACKED SECURITIES



OFFICE AND APARTMENT LENDING



CONSTRUCTION LOANS



Balance Sheet/ALCO Challenges

- March 2023 closures
- Governance
- Board / Management expertise
- Business models
- Growth rates
- Capital adequacy
- Liquidity risk management
 - Quality of deposits – “Core”
 - Concentrations
 - Back to basics

New Capital Rules/Living Will Requirements for Regional Banks

- August 29, 2023 – Federal banking regulators, long term debt (LTD) requirements
- “Regional Banks” – 18 larger/midsized
- \$100b or more in total assets – not GSIBS – Greater of 6% of risk weighted assets, 3.5% of average total consolidated assets, and 2.5% of total leverage ratio under the supplemental leverage ratio.
- Prior proposal – Risk-based capital and living will requirements – Bridge banks
- Up to 12 bps impact on net interest margin – regulators estimate (FDIC)
- FDIC report – Net income decreased from prior quarter/net interest margin decreased for 2nd quarter - unrealized losses increased – total deposits declined (September 2023)
- 3-year phase-in to comply – Fitch

New Capital Rules/Living Will Requirements for Regional Banks Cont'd

- Unintended consequences
- Balance sheet reductions
- Impact on credit availability – and bankers' ability to compete with nonbanks
- Increased cost of capital
- Impact on smaller banks
- Timing – phase in

Novel Bank Activities

- Novel Bank charters – defined - Fintech’s / Crypto – digital assets – access to banks
- Third – Party Risk Management (TPRM) - Final Interagency Guidance
 - Manage risks with third parties
 - Sound risk management principles – size, complexity, risk profile, risk focused and tailoring
 - Due diligence, contracts, governance, bank oversight of third-party contractors, frequency, expertise, controls, independence
 - Concentration risk
 - Back to basics - again
- OCC Enforcement Manual – Actions against banks with persistent weaknesses (May 2023)
- Capital, liquidity, growth restrictions, dividend payments, reducing operations, assets, divestitures, etc...
- BSA/AML – FinCrime

Financial Crime BSA/AML Challenges

- Increasing cost to operate BSA/AML programs
- People, processes and technology
- Staffing, program, audit, training, UBO
- Sustainable program
- Technology / AI
- Sanctions
- AMLA
- Digital Assets

Questions and Answers

