To Tell the Truth
Interest rate risk is under control, community bankers say

By Jim Reber and Dan Stimpson

You’ve heard it. From your peers, from consultants and from regulators. You’ve heard that interest rate risk (IRR) has grown, and that the community banking industry as a whole will suffer additional shrinkage in net interest margin if rates ever get around to rising.

The Office of the Comptroller of the Currency, for example, stated in its Semiannual Risk Perspective in fall 2015 that “some banks have reached for yield to boost interest income with decreasing regard for interest rate risk.” The flattening of the yield curve so far in 2016 has maybe worsened the situation for these banks, because it now takes still longer assets to achieve a given return.

Other regulators
The FDIC also mentioned IRR in its Quarterly Banking Profile dated Dec. 31, 2015. The document contained some commentary about the increase in long-term assets on community banks’ balance sheets. By its reckoning, assets with five or more years to maturity now comprise more than one-third of total assets. This is up from about 25 percent just five years ago.

Adding to this sketchy asset-liability proposition is the fact that community banks’ deposit make-up is very different today than before the financial crisis of the last decade. Core deposits are much greater than those of five to eight years ago, and the expectation is that community banks can experience some disintermediation (read: withdrawals) if and when rates begin to rise again.

You say it ain’t so
However, when we ask community bankers themselves, they tell us that they’ve got things well in hand, thank you very much. Analyses of banks using Vining Sparks’ proprietary asset-liability model indicate that the median bank in this group is well positioned for rising rates, while exposures to the unlikely falling-rate scenarios remain elevated, in many cases higher than policy limits allow.

Model simulations of rising rates as of December 2015 show lower risk in both earnings at risk (EAR) and economic value of equity (EVE) compared with risk profiles in 2013. Parallel instantaneous shock simulations up 100 basis points (1 percent) indicate median EAR year-one exposures have declined from -1.27 percent to -0.68 percent, while the aggressive up 300 basis points exposures have declined slightly from -3.46 percent to -3.43 percent. EVE medians have seen a more dramatic reduction in risk to rising rates, from liability sensitivity two years ago to asset-sensitive risk profiles today.

For example, up 100 basis points median EVE exposures have shifted from -1.75 percent to +2.54 percent, and up 300 basis points exposures have improved from -9.95 percent to a slightly positive 0.39 percent currently.

Further, community bankers are modeling lower risk to rising rates without sacrificing projected net interest margin, which for the median bank has only declined 4 basis points over two years and is projected to be 3.62 percent over the next year if rates are unchanged. Balance sheet trends over two years are stable with the exception of base case EVE values, which have declined from 126 percent of book value to 111 percent of book value. The flattening of the yield curve and lower five- to 10-year swap rates have resulted in lower deposit market values, particularly longer-duration non-maturity deposits.

Assumptions, revisited
For all the hard thought that goes into these “user inputs,” it bears mentioning that a bank’s inclination, and indeed its ability, to push through higher costs to its customers can change over time. It can actually change just within a fiscal year. The advice we would offer is to challenge frequently the assumptions your bank uses. It has been so long since interest rates were on a sustained upward
Examiners warn about rising rates, and bankers say they're ready.

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Vining Spark’s proprietary asset-liability model, Risk Manager, is being used by nearly 300 community banks. There are four different modules that are available based on the complexity of your bank’s balance sheet.

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path that most historical data for a given community bank are not useful today.

Also, third-party IRR modeling has become gradually more cost-effective for community banks. These service providers usually offer a range of versions to accommodate the myriad balance sheet structures of community banks. Customized models greatly improve an institution’s chances of correctly forecasting its exposures, while holding the line against additional fixed costs.
Lights, Action, Video

Reaching people through mobile video is easy and cost effective

By Chris Lorence

What, you might ask, does community banking and live-streaming video have in common? A lot if you consider that 55 percent of people watch videos online every day and 54 percent of senior executives share work-related videos with their colleagues at least weekly. With a little bit of fun, video could connect your bank with your current and future customers without much cost.

Are you ready for your close-up? According to a 2015 HighQ infographic, these and many other video-viewing statistics make a compelling case for community bankers to consider a closer look at video as a great communication tool. By 2017, a majority of all Web traffic is expected to consist of videos; live-streaming activities and events will certainly be a considerable share of that traffic. As our schedules become increasingly condensed and our attention spans get shorter, watching rather than reading is simply becoming more common. In a recent Forbes study involving senior corporate executives, 59 percent said if they were presented with text and a video on the same subject, they would prefer to watch the video.

So what makes interesting subject matter for a community bank created video? One thing is certain: Authenticity matters most. Real people, not actors, are preferred; perfection is not demanded, nor is it required. So consider live-streaming events at your bank such as ribbon cuttings, milestone anniversaries, employee recognition ceremonies and customer appreciation events.

Imagine the fun of capturing the excitement of elementary school children on a field trip to your bank for the first time to see what’s inside your vault. Their reactions would no doubt be priceless and scream community engagement. What about attending and live streaming the grand opening of a small business that your bank helped finance? Perhaps record a short video—running no more than one or two minutes long—that introduces your bank’s newest loan officer and gives him or her an opportunity to welcome customers to stop by and visit.

The possibilities are almost endless and don’t require a tremendous amount of equipment, budget or even experience to get started. Today’s mobile devices pack enough power to record a tremendous amount of video at the drop of a hat. Need to edit the video? Most devices have access to a plethora of apps that let you simply and easily trim, merge and connect video takes. Interested in live streaming an event? You can reach a huge audience by streaming directly to your bank’s Facebook page via Livestream (https://apps.facebook.com/livestream) for up to 30 minutes. If you prefer a Twitter live stream, use Periscope (www.periscope.tv). To reach as many millennials as possible, use Vine (https://vine.co). The best part is that these options are absolutely free!

Community banking is definitely about people. Thanks to mobile technology, reaching people through video has certainly become a whole lot more fun!

Bottom Line: Mobile video is a new but effective engagement channel.