

# THE ROAD AHEAD — WHERE ARE WE GOING

Success in a Post  
Dodd-Frank World

<sup>2011</sup>  
*Regulatory Update*  
— SEMINAR —

*Federal Reserve Bank of Kansas City*

# Agenda

- Managing the New Normal
  - capital rules
  - funds management
  - interest rate risk management
  - what now?
- Other Issues on the Horizon
- Impact of the Dodd-Frank Act on Community Banks

# Managing the New Normal

- Capital
  - PCA “Well Capitalized” is Not the Standard
  - Capital Policy/Plan are Crucial
    - identification of risk factors and clear risk assessment process
    - risk limits and acceptable ranges for ratios
    - targeted range of dividend payouts
    - sources of capital, their likely availability, and trigger points for when more capital is needed
    - larger/complex banks incorporate stress testing results and more robust documentation

# Managing the New Normal

- Capital (continued)
  - SR 09-04: Applying Supervisory Guidance and Regulations on the Payment of Dividends, Stock Redemptions, and Stock Repurchases at Bank Holding Companies

# Managing the New Normal

- Funds Management
  - Interagency Policy Statement on Funding and Liquidity Risk Management
  - Contingency Funding Plans
    - stakeholders and responsible parties
    - reporting requirements to the board
    - risk limits and corresponding formulas
    - primary and secondary sources of funding and their likely availability
    - balance sheet projections and stress testing

# Managing the New Normal

- Interest Rate Risk Management
  - Interagency Advisory on Interest Rate Risk Management
    - Earnings-at-Risk and Economic Value of Equity simulations
    - stress testing that includes interest rate shocks and ramps of 300-400 basis points
    - board and senior management involvement

# Managing the New Normal

- What Now?
  - understand layering of risks
  - comprehensive risk management – the key to success
    - interdependency of control activities
    - appropriate incentives
    - strong board reports and management information systems



# Other Issues on the Horizon

- Municipal Securities
  - credit risk
  - insurer and disclosure issues
  - unrated bonds
  - geographic concentrations
  - sector concentrations

# Other Issues on the Horizon

- Agricultural Lending
  - sustainability of land prices
  - wide swings in input costs
  - wide swings in market prices for commodities



# Impact of the Dodd-Frank Act on Community Banks

- Benefits
  - improves competitive position relative to larger banks and nonbank lenders
  - deposit insurance improvements
  - de novo interstate branching
  - capital provisions
  - reaffirmation of the dual banking system



# Impact of the Dodd-Frank Act on Community Banks

- Costs
  - compliance provisions
  - reduced fees
- Business Model
  - consolidation
  - new revenue sources and efficiencies

# The Road Ahead – Where are we Going

Questions?

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FEDERAL RESERVE BANK OF KANSAS CITY