Are You Ready For an Examiner to Ask for Your Credit Stress Test? In Basel III Form?

In the community banking world, some uncertainty exists about stress testing and whether it applies to those institutions. While it is clear that stress testing is mandatory for all large “DFAST” banks (above $10 billion), many community banks believe they are immune from such requirements.

Unfortunately, this is just not true. Numerous regulatory missives clearly state that community banks must conduct stress testing and incorporate the results into capital planning. Even in a rare tri-agency press release (May 14, 2012), the Fed, the FDIC and the OCC all announced that community banks must conduct annual stress tests, just not using the same standards as the Dodd-Frank large-bank tests. Having read all the documents, releases and agency guidance we could find, here is our takeaway:

The Bad News:
All banks, regardless of size, must run stress tests annually.

The Good News:
The stress test should reflect a bank’s complexity and focus primarily on potential credit stress (i.e. loan losses), not enterprise-wide risk and other macro-economic risk.

7 Steps To Accomplish the Community Bank Stress Test

The OCC has provided more detail around what exactly community banks should be doing to conduct an adequate stress test. In a nutshell, this means at least seven steps:

1. Gather a substantial amount of detailed historical peer data on loan losses (perhaps the most time consuming part)
2. Create at least three loan loss stress scenarios
3. Produce three different types of pro forma impact tests
4. Once all that is in place, develop 2-year forward financial projections
5. Do a bunch of math to produce the results of all these scenarios on capital levels
6. Present everything in the new Basel III framework, with all the transitional ratios and rules
7. Finally, incorporate the results into your long-term capital planning with the board

These steps might seem daunting, but don’t have to be. Focus your bank’s efforts on the critical part—evaluating the results and strategizing over what, if anything, to do about them?
QwickAnalytics™: Automated, Online Stress Test Designed for Community Banks

Fortunately, there is an easy and affordable solution to the stress testing challenge. Accessible online, the QwickAnalytics™ Credit Stress Test automatically assesses the loan portfolio’s potential exposure to stressful events. Our bank clients report being able to quickly comply with examiner expectations without spending a great deal of time and effort.

The testing and reporting were specifically designed to ensure community banks meet regulatory requirements.

“This year we were visited by the FDIC and the California Department of Business Oversight. The examiner said our stress testing was very concise and easily understandable. We also received very positive comments during our annual third party credit review.”

– BRUCE WARNER, EVP/CFO/COO, Monterey County Bank, Monterey, CA

Bankers are relieved of the heavy lifting tied to compiling data for custom peer groups and multiple scenarios, grinding out the pro forma math, and producing user-friendly reports.

“It definitely saves us a lot of time, which is a really good value for the bank. Call report data is difficult to compile and analyze manually. QwickAnalytics downloads everything, massages the data, and puts it into a readable format, all on a very timely basis. So community banks have critical analysis and attractive summary graphics, without paying too much or doing much work.”

– JOSEPH LAU, CFO, Global Bank, New York, NY

“The ICBA has vetted and approved the QwickAnalytics Credit Stress Test as an ICBA Preferred Product.

The Credit Stress Test is fully compliant with the new Basel III ratios and restrictions, incorporating the myriad of phase-ins, phase-outs, deductions, and limitations. A built-in Basel III Capital Planning Model enables banks to run financial projections with different growth and earnings scenarios, and calculates all of the Basel III ratios for you. Incorporating different capital raises (common, Tier 2 debt, etc) into your projections also helps you tune future capital needs.

Comply with the new credit stress testing rules AND take advantage of a time-saving, proven service that has done all of the hard work for you.

Email info@qwickanalytics.com or call 800-285-8626 to learn more about our QwickAnalytics Regulatory Compliance products.