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Inside

Alternatives to Consultants:
Meeting Regulatory Expectations
with Internal Resources

Matters Requiring Board Attention



Supervisory Insights

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Issue at a Glance

Volume 11, Issue 1

Summer 2014

Letter from the Director 2

Articles

Alternatives to Consultants: Meeting Regulatory Expectations with Internal Resources 3

This article highlights the resources available from the FDIC that may assist community banks in understanding and meeting regulatory expectations, and identifies ways banks may be able to conduct required independent reviews of key bank functions using internal resources. By making use of the available resources and maintaining open communication with the FDIC to clarify regulatory expectations, banks may be able to avoid potentially unnecessary consultant expenses.

Supervisory Trends: “Matters Requiring Board Attention” Highlight Evolving Risks in Banking 7

The Matters Requiring Board Attention (MRBA) page within the Risk Management Report of Examination is used to focus the attention of management and the directorate on material issues and recommendations requiring immediate consideration. This article describes the MRBA categories cited most often at satisfactorily rated institutions and highlights trends in these categories since 2010.

Regular Features

Regulatory and Supervisory Roundup 16

This feature provides an overview of recently released regulations and supervisory guidance.

The FDIC understands the critical importance of smaller banking institutions to communities and local economies across the country. As the primary federal regulator for the nation's community banks, the FDIC makes it a priority to provide support and technical assistance to these institutions through outreach activities and the development of instructional tools on key risk management and consumer compliance topics. Supervisory Insights is intended to provide timely and useful information and insights on financial institution regulatory issues for bankers, examiners, and supervisors.

“Alternatives to Consultants: Meeting Regulatory Expectations with Internal Resources” highlights tools and information available from the FDIC to assist community banks in managing their regulatory compliance and risk management responsibilities. This article describes how making use of technical assistance and maintaining an open dialogue with FDIC field and regional staff can help banks clarify regulatory expectations and may help economize on the use of outside consulting services. The FDIC believes the institutions we supervise often can use internal resources to maintain a sound risk management framework.

The FDIC Report of Examination includes “Matters Requiring Board Attention” (MRBAs) to highlight material issues and recommendations requiring prompt or immediate action by the directorate. “Supervisory Trends: ‘Matters Requiring Board Attention’ Highlight Evolving Risks in Banking” describes the MRBA categories cited most often during examinations of satisfactorily rated institutions and highlights trends in these categories since 2010.

We hope you take the time to read these articles and find them to be valuable resources. We encourage our readers to provide feedback on the articles and suggestions for topics in future issues. Please e-mail your comments and suggestions to SupervisoryJournal@fdic.gov.

Doreen R. Eberley
Director
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Alternatives to Consultants: Meeting Regulatory Expectations with Internal Resources

As the primary federal regulator for most community banks, the FDIC appreciates the challenges these institutions face as they often have limited staff and resources. Community banks, particularly those with tight profit margins, need to be certain that every dollar is well spent. Accordingly, as part of its Community Banking Initiative, the FDIC recently shared an Information Package¹ with its supervised institutions that provides details about resources and technical assistance that the FDIC offers on a variety of supervisory matters. This article furthers these efforts to support community banks by highlighting the resources made available by the FDIC and how they may assist institutions in understanding and fulfilling regulatory expectations without seeking outside help from consulting services. The FDIC is committed to open communication with its supervised institutions and encourages bankers to check with their FDIC contact (case manager, field supervisor, or onsite examiner-in-charge) to clarify regulatory expectations first to avoid potentially unnecessary consultant expenses.

Multiple factors influence the decision to work with consultants

According to insights provided by community bankers, factors prompting institutions to hire consultants vary. For some banks, hiring consultants is a proactive strategy to obtain specific expertise to address new or complex areas for which the bank lacks depth or proficiency. Consultants may be particularly helpful in managing risks and regulatory compliance in more technical and evolving areas such as IT. Bankers also may believe contracting periodically for certain services with an outside firm is more cost effective than hiring and training additional full-time equivalent staff, or there may be a lack of qualified, affordable resources in a small or rural bank's employment market.

Bankers also face a large volume of marketing solicitations from vendors offering services to ensure institutions keep pace with regulatory expectations. When there is a question as to whether a vendor's proposed product

Understanding regulatory expectations

As an example of the importance of understanding regulatory expectations before committing to a significant consulting expenditure, consider this scenario. A state nonmember bank is approached by a vendor who is attempting to market a comprehensive enterprise risk management model. The vendor suggests to the bank that "this is what your regulator is going to expect," perhaps at the next examination, and certainly at some point in the future.

As related by bankers to FDIC officials, this scenario is becoming increasingly common. It is therefore important for bankers to know that the FDIC does not have this expectation, nor does it impose a one-size-fits-all supervisory process on large and small banks. The FDIC's expectations for the safe and sound operation of a community bank can be found in the Risk Management Manual of Examination Policies, Compliance Examination Manual, and related supervisory guidance available on the FDIC website (www.fdic.gov). Additionally, bankers are encouraged to contact their field or regional offices to clarify regulatory expectations before buying a service or product that is marketed as being required to meet regulatory expectations.

¹ See <http://www.fdic.gov/regulations/resources/cbi/infopackage.html>

and service is consistent with regulatory expectations, institutions are encouraged to discuss the proposal with their FDIC regional or field office contacts.

Technical Assistance Available from the FDIC

FDIC-produced technical assistance videos address a variety of issues that community banks face as part of regulatory and examination processes. They range in length from several minutes to over an hour (broken into sections), depending upon the complexity of the material and the depth of treatment provided in each video. The training provided in these videos may help institutions economize on the need for consultants or other contractors as personnel learn to perform the functions themselves. The videos in the program are grouped into sections as follows:²

- **Virtual Technical Assistance Program:** These videos provide technical training for bank officers and employees on a range of regulatory issues, including Interest Rate Risk, the Allowance for Loan and Lease Losses, Troubled Debt Restructurings, Flood Insurance, Managing Fair Lending Risk, Appraisals and Evaluations and Evaluation of Municipal Securities.
- **Rulemaking Videos:** These videos provide an overview of complex rulemakings, including the “Regulatory Capital Interim Final Rule.”
- **New Director Education Videos:** These videos provide information to new bank directors about their fiduciary role and responsi-

bilities as well as an overview of the FDIC’s risk management and compliance examination processes.

- **Virtual Directors’ College Program:** These videos are a virtual version of the Directors’ College Program that FDIC regional offices deliver to bank directors and executive officers throughout the year.

The videos are a relatively new resource first introduced in the spring of 2013. The FDIC has received positive feedback from members of its Advisory Committee on Community Banking. Members described the videos as a good resource for training bank directors and management, and noted the informational value of receiving detailed presentations of regulatory and supervisory expectations directly from the FDIC.⁴

Independent Reviews

It is important to distinguish the use of third-party consultants as described above with independent reviews of processes that are part of a sound risk management framework. Some FDIC and interagency policies and guidance do require such reviews. For example, an independent review is a critical component of the control processes for BSA/AML, interest rate risk (IRR) and liquidity risk management, and ALLL methodology. Also, the FDIC Compliance Examination Manual requires banks to conduct compliance audits, which are independent reviews of institutions’ compliance with consumer protection laws and regulations and adherence to internal policies and procedures. The FDIC’s expectations for independent reviews

² The Technical Assistance Videos can be found on the Directors’ Resource Center webpage at <http://www.fdic.gov/regulations/resources/director/video.html>. They are also available on the FDIC’s YouTube channel.

Alternatives to Consultants

continued from pg. 4

are not new; most have been in place for many years.

FDIC and interagency policies and guidance state that independent reviews will vary substantially in form and scope for institutions depending on business model and complexity of operations, and generally may be conducted by any of the following: an institution's staff or board member, so long as the individual is qualified and independent of the function under review; the institution's internal audit section, as applicable; or a third party such as the institution's external audit firm. For example, guidance regarding BSA/AML compliance indicates "Independent testing of the BSA/AML Compliance Program should be conducted by the internal audit department, outside auditors, consultants, or other qualified persons that are independent of the BSA/AML function." As discussed previously, smaller community banks often face resource constraints and may not have sufficient qualified and independent staff to conduct independent reviews. In such cases, bankers and examiners should discuss regulatory expectations for independent reviews so institutions can assess their options and potentially avoid contracting for costly and unnecessary services.

Communication between bankers and examiners regarding independent reviews

As described in the Summer 2012 Supervisory Insights article "The Risk Management Examination and Your Community Bank," the FDIC is committed to open communication with community banks, recognizing this is critical to administering an effective supervisory process.³ A key component of this communication is ensuring bankers understand exami-

nation procedures and regulatory expectations.

Examiners and bankers often share and discuss emerging issues and industry practices during examinations. Common questions involve bankers asking examiners "how can my bank do better?" and "what general trends are you seeing in other banks and in the market?" In such discussions, it is possible that an examiner might cite the use of a third party to perform certain functions as a tool some other

Conducting Independent Reviews with Internal Resources

Every bank is unique, and there is no one-size-fits-all set of internal review procedures. To be effective, individuals directing or performing the independent reviews must not be responsible for managing or operating the functions or controls under review. Applying basic internal control principles, such as segregation of duties, can help smaller, non-complex institutions to ensure the independence of internal reviews. For example:

- Appraisal reviews may be done by an outside board member with expertise in real estate development or valuation as long as the individual does not participate directly in the institution's real estate lending or appraisal function.
- One or more outside directors or staff independent of the loan function may perform loan reviews if they do not participate directly in the credit approval process.
- An accounting or finance officer could review and validate the ALLL methodology if they are independent of the credit approval and ALLL estimation process.
- An outside board member could audit compliance with HMDA regulations if the director does not participate in the lending function under review.
- Independent testing for BSA/AML compliance may be conducted by internal audit or a qualified staff person or director not involved in the BSA/AML compliance program.
- Lending staff may review liquidity risk management, or interest rate risk measurement and reporting (including back testing), in institutions with non-complex balance sheets.

³ The FDIC Board of Directors approved establishing the FDIC Advisory Committee on Community Banking in 2009 to provide the FDIC with advice and guidance on a broad range of important policy issues impacting small community banks throughout the country, as well as the local communities they serve, with a focus on rural areas. The 15-member board generally meets three times per year.

⁴ Minutes from the Advisory Committee on Community Banking meeting on July 25, 2013 and April 9, 2014, accessed at <http://www.fdic.gov/communitybanking/>

⁵ See, for example, "Interagency Policy Statement on Allowance for Loan and Lease Losses" (*Interagency Policy Statement on the Allowance for Loan and Lease Losses (2006)*); "Financial Institution Management of Interest Rate Risk" (*Financial Institution Management of Interest Rate Risk (FIL-2-2010)*); "Bank Secrecy Act: Provision for Independent Testing for BSA/AML" (*Bank Secrecy Act Provision for Independent Testing for BSA/AML Compliance (FIL-38-2008)*). This is not an exhaustive list of risk management guidance that address independent reviews, but rather examples that reflect FDIC's expectations in this area.

⁶ See <http://www.fdic.gov/regulations/compliance/manual/>.

⁷ *Supra*, footnote 7, "Bank Secrecy Act: Provision for Independent Testing for BSA/AML Compliance."

⁸ See <https://www.fdic.gov/regulations/examinations/supervisory/insights/sisum12/sisummer12-article1.pdf>.

Alternatives to Consultants

continued from pg. 5

banks have found helpful. This sharing of a particular practice should not be misinterpreted as a regulatory requirement. Explicit requirements and directions from the FDIC to banks are provided in the FDIC Report of Examination and written correspondence between the bank and the FDIC. Bankers are encouraged to follow up with their examiner-in-charge, field supervisor or assistant regional director before hiring consultants, if they have any questions or concerns about FDIC expectations.

FDIC guidance on banks' use of consultants

The FDIC only requires institutions it supervises to hire consultants in certain, limited circumstances, for example as part of an enforcement action or to address a severe operational deficiency. In these cases, which amounted to fewer than two percent of all risk and consumer protection/CRA examinations in 2013, the FDIC incorporated provisions into formal and informal enforcement actions requiring institutions to obtain independent third-party reviews where significant violations or operational deficiencies existed, or to verify that restitution had been paid to consumers. Examinations that result in this type of enforcement action provision are uncommon. When such a provision is used, the FDIC reviews the consultant's engagement letter to ensure the appropriateness of the proposed scope of the work and the final work product to ensure the completeness of the response and that it has sufficiently addressed the noted deficiency. The FDIC provides written guidance to examiners relative to requiring the hiring of a consultant as

part of an enforcement action in the FDIC's *Risk Management Manual of Examination Policies*.⁹ Such a recommendation requires multiple levels of review before approval.

Conclusion

Some community banks note a growing use of consultants associated with regulatory compliance requirements. This may be due, in part, to a misunderstanding of regulatory expectations. There are often cost-effective alternatives to working with consultants, including drawing on the expertise of board or staff members who possess the requisite skills and independence. The FDIC believes that its supervised institutions can frequently manage regulatory and compliance responsibilities using internal resources, and continues to develop resources to assist institutions in understanding FDIC's regulatory and supervisory expectations. Bankers are encouraged to access technical assistance and clarification by FDIC field and regional office staff to determine whether internal or external resources are necessary to maintain a sound and compliant risk management framework.

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⁹ See "Formal Enforcement Actions" (Section 15.1), "Management" (Section 4.1) and "Internal Routine and Controls" (Section 4.2). See <http://www.fdic.gov/regulations/safety/manual/>.

Supervisory Trends: “Matters Requiring Board Attention” Highlight Evolving Risks in Banking

The purpose of the FDIC Report of Examination (ROE) is to summarize examination findings in order to inform bank management and directors of undue risks and provide recommendations for improvement. To focus the attention of management and the directorate on material issues and recommendations requiring immediate consideration, examination reports include, as warranted, a discussion of Matters Requiring Board Attention (MRBA). When bank management promptly responds to concerns detailed in MRBAs, problems can be addressed early and reduce the overall risk to the institutions. This article summarizes the trends and types of issues identified by safety-and-soundness examiners in the aftermath of the financial crisis, as reflected by MRBAs contained in FDIC Reports of Examination.¹ These trends provide one view of the “hot button” issues that most frequently concern FDIC examiners and how these have changed over time as risks facing the banking industry have evolved.

The MRBA page was added to the beginning of the ROE in 1993. The addition of this page was instituted in conjunction with the *Interagency Policy Statement on the Uniform Common Core Report of Examination* released by the four federal banking agencies.² The policy statement

detailed common pages that each agency’s ROE could include, allowing for flexibility to accommodate the different agency data requirements while ensuring a consistent minimum standard of information. When MRBAs are cited in an FDIC examination report,³ the letter transmitting the report to the institution must note any identified MRBAs and request a response from the board that addresses affirmative steps that will be taken to correct noted deficiencies.

Since 2010, the FDIC has employed an MRBA tracking system to detail examination recommendations, document responses from bank management, and facilitate follow-up by regional office or field staff. During the four years since the tracking system was implemented, more than 3,400 FDIC Risk Management ROEs cited MRBAs; about 85 percent of these were at institutions with composite ratings of “1” or “2” under the Uniform Financial Institutions Rating System. MRBAs are more commonly cited for these institutions because those rated “3” or worse are usually under an informal or formal enforcement action, such as a Memorandum of Understanding or Consent Order, that impose similar but more formal reporting requirements on management to submit Progress Reports that detail corrective actions undertaken to address deficiencies.

¹ Unless otherwise noted, the analysis in this article is for FDIC-supervised institutions rated “1” or “2” as defined by the Uniform Financial Institutions Rating System, FIL-105-96, “Adoption of Revised FFIEC Policy Statement on Uniform Financial Institutions Rating System,” December 26, 1996. <http://www.fdic.gov/news/news/financial/1996/fil96105.html>.

² The four federal banking agencies in 1993 were the Office of the Comptroller of the Currency, Federal Deposit Insurance Corporation, Federal Reserve Board, and Office of Thrift Supervision. <https://www.occ.gov/static/rescinded-bulletins/bulletin-2019-11.pdf>

³ FDIC examiners have the option of including in the ROE a separate MRBA page, or addressing these matters on the Examination Conclusions and Comments page.

Matters Requiring Board Attention

continued from pg. x

On average, during the past four years, about 48 percent of ROEs at satisfactorily rated FDIC-supervised institutions have had at least one MRBA cited. The percentage of institutions with MRBAs has declined during the past two years, reflecting overall improvement in the financial condition of the banking industry (see Chart 1).

This article summarizes data from the FDIC tracking system for MRBAs cited in satisfactorily rated institutions from 2010 through 2013, describes the categories of MRBAs cited most often, and highlights trends in these categories since 2010.

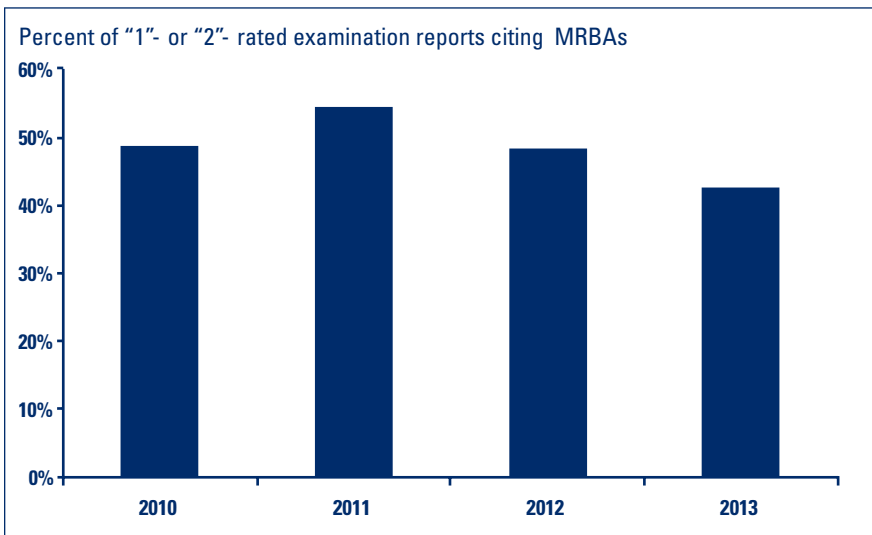
Most Commonly Cited MRBA Categories

During the past four years, MRBAs have most often addressed deficiencies in two categories: Loans (approximately 69 percent of all ROEs with MRBAs cited) and Board/Management (approximately 45 percent of all ROEs with MRBAs cited) (see Chart 2). Within the broad category of Loans, over three-quarters of the MRBAs were related to credit administration (see Chart 3). These MRBAs included the need to improve appraisal review, loan review, and the loan grading system; reduce credit data or collateral documentation exceptions; prepare cash flow analyses on loans; and properly account for troubled debt restructurings.

Approximately 41 percent of the loan-related MRBAs addressed elevated volumes of problem assets. MRBAs in this category included the need to reduce the volume of criticized assets, nonperforming loans, nonaccruals, and past dues; update detailed workout plans on classified assets; and implement risk reduction strategies for all criticized assets in excess of a specified dollar amount.

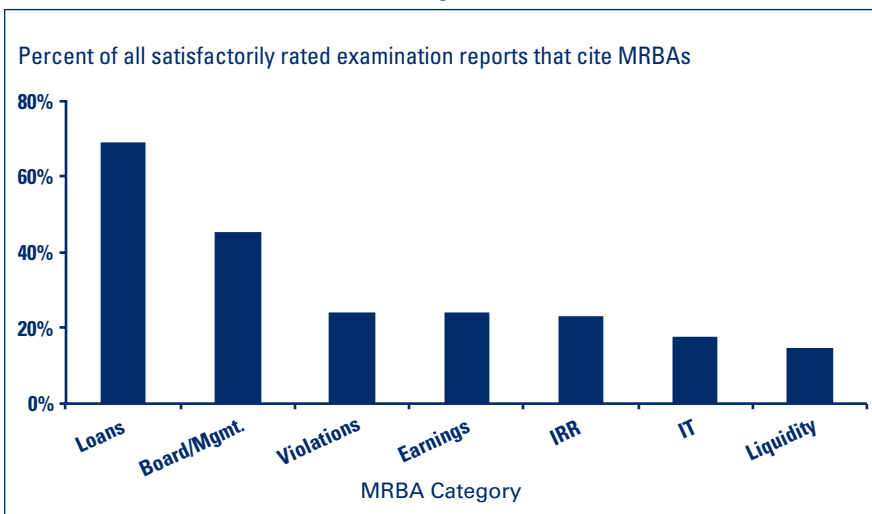
Additionally, about 28 percent of the loan-related MRBAs involved the need to correct deficiencies in the Allowance for Loan and Lease Losses (ALLL) methodology or the need for additional provisions to the institution's ALLL to restore it to an appropriate level. The last significant sub-category represents approximately

Chart 1: Examinations with MRBAs cited have declined in the last two years



Source: FDIC ViSION Database

Chart 2: Most MRBAs address banks' lending function



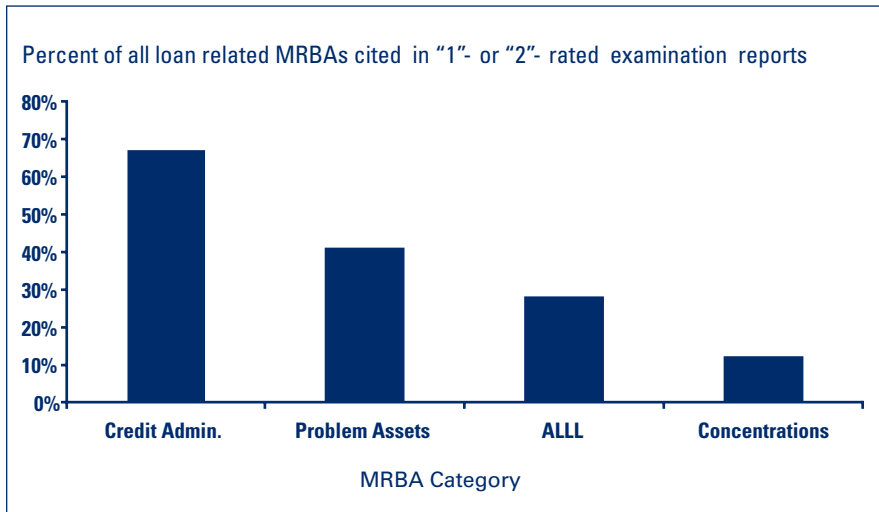
Source: FDIC ViSION Database – January 1, 2010 to December 31, 2013
Note: MRBAs in more than one category can be cited in a ROE.

12 percent of loan-related MRBAs and reflects the need for increased monitoring and oversight of concentrations in commercial real estate, agricultural, and small-business loans.

Board/Management is the second largest category, noted in approximately 45 percent of all ROEs with MRBAs cited. The category addresses several areas (see Chart 4), including the need for management to revise and comply with Board-approved policies (approximately 49 percent of Board/Management-related MRBAs cited). Audit is also included in this category and comprises approximately 27 percent of Board/Management-related MRBAs cited. Audit recommendations range from the need for the development of an Audit Plan that reflects the institution's risk profile to the need for increased board or management oversight of the Audit function. Other Board/Management-related MRBAs include the need to improve strategic planning, succession planning, risk management practices, and overall oversight; address operational weaknesses; conduct a position review of employees; ensure appropriate staffing and training; and increase oversight of insider transactions.

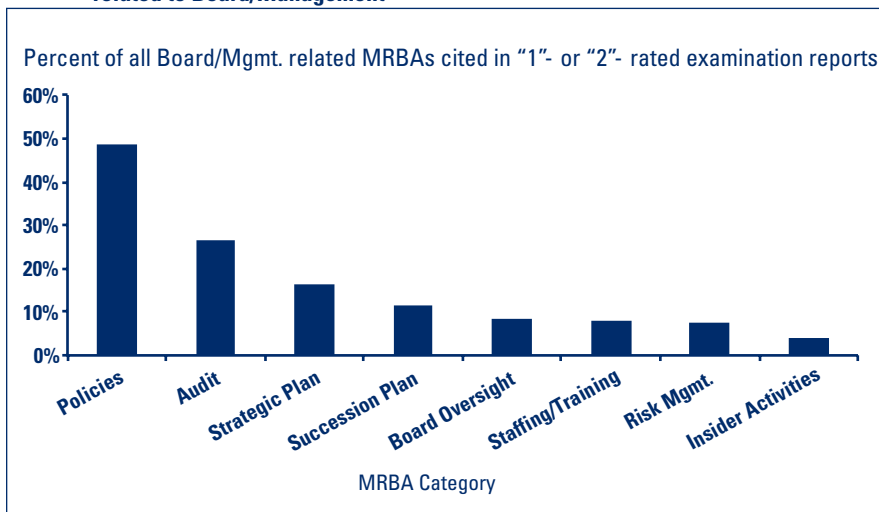
Violations, Earnings, and Interest Rate Risk (IRR) each comprise about 24 percent of all ROEs with MRBAs cited from 2010 through 2013. MRBAs in the Violations category focused on the board of directors' need to correct the apparent violations cited in the ROE and ensure these violations do not recur. Part 323 of the FDIC Rules and Regulations addressing real estate appraisals and the Federal Reserve Board's Regulation O governing loans to executive officers, directors, and principal shareholders were two examples of apparent violations commonly noted within these MRBAs.

Chart 3: Credit administration is the most commonly cited MRBA related to loans



Source: FDIC VISION Database – January 1, 2010 to December 31, 2013
 Note: MRBAs in more than one category can be cited in a ROE.

Chart 4: Attention to Policies is the most commonly cited MRBA related to Board/Management



Source: FDIC VISION Database – January 1, 2010 to December 31, 2013
 Note: MRBAs in more than one category can be cited in a ROE.

Matters Requiring Board Attention

continued from pg. x

MRBAs cited related to Earnings included the need to identify strategies to improve earnings to an acceptable level without relying on extraordinary items or increasing the risk to the institution. The MRBA may have also directed management to develop budgeting and profit-planning strategies. IRR MRBAs focused on the need to develop strategies to improve monitoring and control of this area, such as establishing risk tolerance parameters for IRR model results, enhance models to capture the risk inherent in the institution's balance sheet, and increase board oversight and understanding of the institution's models.

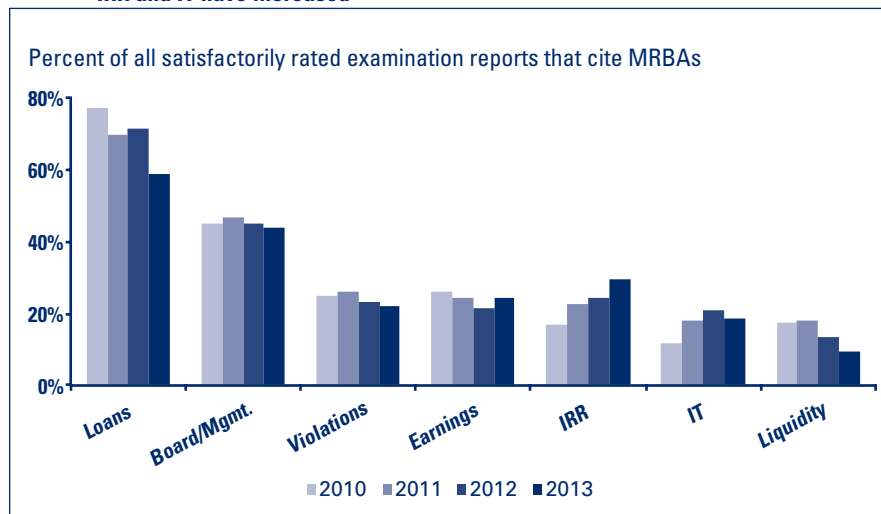
Trends in MRBA Categories

MRBAs cited at examinations reflect changes in risks faced by the institutions during the past four years, as the financial environment for institutions has changed. A comparison of the categories cited in the MRBAs on a year-to-year basis from 2010 through 2013 indicates the emergence of certain noteworthy trends (see Chart 5).

MRBAs in the Loans category continue to be the most commonly cited at examinations; however, the proportion of loan-related MRBAs has declined over time consistent with the ongoing improvement in loan quality. The noncurrent loan rate and the quarterly net charge-off rate have both declined and are trending down a similar path.⁴

MRBAs related to Liquidity have also declined during the past four years from more than 17 percent to less than 10 percent of all ROEs with MRBAs cited. The decline in MRBAs in the Liquidity category may be attributed in part to the actions that management and boards of directors have taken in response to regulatory guidance, along with overall substantial improvement of liquidity in the banking industry since 2010. The federal banking agencies issued guidance in April 2010 on sound practices for managing funding and liquidity risk and strengthening liquidity risk management practices.⁵ This guidance emphasizes the importance of cash-flow projections, diversified funding sources, stress testing, a cushion

Chart 5: MRBAs related to loans have declined while those related to IRR and IT have increased



Source: FDIC ViSION Database

Note: MRBAs in more than one category can be cited in a ROE.

⁴ FDIC Chairman Martin J. Gruenberg, Opening Statement on the Fourth Quarter 2013 *Quarterly Banking Profile*, February 26, 2014. <http://www.fdic.gov/news/news/speeches/spfeb2614.html>.

⁵ FIL-13-2010, "Funding and Liquidity Risk Management Interagency Guidance," April 5, 2010. <http://www.fdic.gov/news/news/financial/2010/fil10013.html>.

of liquid assets, and a formal, well-developed contingency funding plan as essential tools for measuring and managing liquidity risk.

In contrast, a significant increase has occurred in MRBAs cited in the IRR category. During 2010, MRBAs in this category were cited in approximately 17 percent of all ROEs with MRBAs. Each subsequent year the percentage increased, reaching approximately 30 percent in 2013. Given the sustained low interest-rate environment and the resulting shifts in banks' asset and liability structures, it has become increasingly important for financial institutions to actively manage IRR.⁶

During the past four years, the FDIC has released industry guidance regarding IRR management.⁷ The most recent guidance, released on October 8, 2013, titled "Managing Sensitivity to Market Risk in a Challenging Interest Rate Environment," discusses the importance of prudent IRR oversight and management to help prepare institutions for a period of rising interest rates. The FDIC also released a series of videos in 2013, including an IRR module in a virtual version of the FDIC's Directors' College Program⁸ and a technical assistance video series

on IRR specifically for use by community bank management and individuals who are directly involved in the IRR management function.⁹ Many of the issues described in the IRR MRBAs are discussed in the guidance provided by the FILs and in the videos.

Until recently, MRBAs in the Information Technology (IT) category were cited less often than the categories discussed above. IT MRBAs were cited in 12 percent of all ROEs with MRBAs cited in 2010; MRBAs in this category increased to approximately 21 percent in 2012 before falling slightly to 18 percent in 2013. MRBAs in the IT category include the need for management to strengthen IT risk assessment programs, information security programs, and/or vendor management programs. The increase in MRBAs in this category could be attributed to the ever-changing and challenging risk in the IT environment, which make board and management oversight increasingly complex and difficult. In response, the FDIC developed a video as part of the virtual version of the FDIC's Directors' College Program that explains IT governance programs, discusses emerging and significant IT risks, and provides relevant questions to consider at the directorate level.¹⁰

⁶ See Andrew D. Carayiannis, "Interest-Rate Risk Management," *Supervisory Insights*, Winter 2013 <http://www.fdic.gov/regulations/examinations/supervisory/insights/siwin13/siwinter13-article1.pdf>.

⁷ FIL-2-2010, "Financial Institution Management of Interest Rate Risk," January 20, 2010, <http://www.fdic.gov/news/news/financial/2010/fil10002.html>, FIL-2-2012, "Interest Rate Risk Management: Frequently Asked Questions," January 12, 2012, <http://www.fdic.gov/news/news/financial/2012/fil12002.html>, and FIL-46-2013, "Managing Sensitivity to Market Risk in a Challenging Interest Rate Environment," October 8, 2013, <http://www.fdic.gov/news/news/financial/2013/fil13046.html>.

⁸ Interest Rate Risk video, Directors' Resource Center, Virtual Directors' College Program <http://www.fdic.gov/regulations/resources/director/virtual/irr.html>.

⁹ Interest Rate Risk video, Directors' Resource Center, Technical Assistance Video Program <http://www.fdic.gov/regulations/resources/director/technical/irr.html>.

¹⁰ Information Technology video, Directors' Resource Center, Virtual Directors' College Program <http://www.fdic.gov/regulations/resources/director/virtual/it.html>.

Matters Requiring Board Attention

continued from pg. x

In addition, the FDIC re-issued three documents for informational purposes that contain practical ideas for community banks to consider when they engage in technology outsourcing. These documents discuss how to select service providers, draft contract terms, and oversee multiple service providers when outsourcing for technology products and services.¹¹

Conclusion

Over 80 percent of the time, FDIC supervisory staff determined that management's first response satisfactorily addressed the MRBAs cited during examinations from 2010 through 2013. Multiple submissions were required when management's responses were general in nature and did not provide details of how management addressed or planned to address the MRBA. Management's and directorates' willingness and ability to effectively address weaknesses and risks are critical to the financial health of the institution. The FDIC will continue to use MRBAs as a

tool to focus bank management's and directorates' attention on areas that if not properly measured, monitored, and controlled, could adversely affect the institution.

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¹¹ FIL-13-2014, "Technology Outsourcing: Informational Tools for Community Bankers," April 7, 2014, <http://www.fdic.gov/news/news/financial/2014/fil14013.html>.





Overview of Selected Regulations and Supervisory Guidance

This section provides an overview of recently released regulations and supervisory guidance, arranged in reverse chronological order. Press Release (PR) and Financial Institution Letter (FIL) designations are included so the reader can obtain more information.

ACRONYMS and DEFINITIONS	
CFPB	Consumer Financial Protection Bureau
FDIC	Federal Deposit Insurance Corporation
FFIEC	Federal Financial Institutions Examination Council
FRB	Federal Reserve Board
NCUA	National Credit Union Administration
OCC	Office of the Comptroller of the Currency
Federal bank regulatory agencies	FDIC, FRB, and OCC
Federal financial institution regulatory agencies	CFPB, FDIC, FRB, NCUA, and OCC

Subject	Summary
FDIC Announces Community Affairs Webinar (FIL-27-2014, May 12, 2014)	The FDIC hosted a webinar on May 30, 2014, titled <i>Innovation at Work: Financial Empowerment Programs</i> . Leading practitioners in the growing financial capability movement discussed programs underway in communities across the country. The webinar was part of an ongoing series highlighting strategies institutions can use to promote community development and expand access to the banking system. See http://fdic.gov/news/news/financial/2014/fil14027.html .
FDIC Releases Resource Guide on Opportunities to Collaborate with Community Development Financial Institutions (FIL-26-2014, May 8, 2014)	The FDIC announced the production of a resource guide, <i>Strategies for Community Banks to Develop Partnerships with Community Development Financial Institutions</i> , to inform FDIC-supervised institutions of strategies to meet community credit and development needs and receive consideration under the Community Reinvestment Act (CRA). The guide contains information to help community banks identify and evaluate opportunities to collaborate with community development financial institutions (CDFIs) that provide financial products and services to underserved markets. It also discusses steps to consider when assessing bank/CDFI partnerships and how these activities may enhance CRA performance. See http://fdic.gov/news/news/financial/2014/fil14026.html .

Regulatory and Supervisory Roundup

continued from pg. 39

Subject	Summary
<p>Federal Banking Agencies Issue Notice of Proposed Rulemaking Revising the Definition of Eligible Guarantee (<i>Federal Register</i>, Vol. 79, No. 84, p. 24618, May 1, 2014)</p>	<p>The federal bank regulatory agencies issued a joint notice of proposed rulemaking (NPR) that would revise the definition of eligible guarantee as incorporated into the agencies' advanced approaches risk-based capital rule (Subpart E of the 2013 capital rule). The agencies had inadvertently limited the recognition of guarantees of wholesale exposures under the rule. To address this matter, the proposed rule would remove the requirement that an eligible guarantee be made by an eligible guarantor for purposes of calculating the risk-weighted assets of an exposure (other than a securitization exposure) under the advanced approaches. Comments on the proposed rule were due by June 13, 2014. See http://www.gpo.gov/fdsys/pkg/FR-2014-05-01/pdf/2014-09452.pdf.</p>
<p>Federal Banking Agencies Issue Joint Notice of Proposed Rulemaking on Supplementary Leverage Ratio (FIL-20-2014, April 25, 2014; <i>Federal Register</i>, Vol. 79, No. 84, p. 24596, May 1, 2014)</p>	<p>The federal bank regulatory agencies issued a joint NPR that would revise the denominator of the supplementary leverage ratio (total leverage exposure) under the revised regulatory capital rule adopted by the agencies in July 2013. The proposed rule would revise the treatment of on- and off-balance sheet exposures for purposes of determining total leverage exposure, and more closely align the agencies' rules on the calculation of total leverage exposure with international leverage ratio standards. The NPR would apply only to banking organizations subject to the agencies' advanced approaches risk-based capital rules (in general, a core bank with consolidated total assets of \$250 billion or more, consolidated on-balance sheet foreign exposure of \$10 billion or more, or a subsidiary of a core bank). Comments on the proposed rule were due by June 13, 2014. See http://fdic.gov/news/news/financial/2014/fil14020.html.</p>
<p>Federal Banking Agencies Issue Joint Final Capital Rule (FIL-19-2014, April 25, 2014; PR-25-2014, April 8, 2014; <i>Federal Register</i>, Vol. 79, No. 84, p. 24528, May 1, 2014)</p>	<p>The federal bank regulatory agencies issued a joint final rule that strengthens the leverage requirements applicable to the largest, most systemically important banking organizations and their subsidiary insured depository institutions. The final rule applies to U.S. top-tier bank holding companies with more than \$700 billion in consolidated total assets or more than \$10 trillion in assets under custody and their insured depository institution subsidiaries. The rule is substantively the same as the rule proposed by the banking agencies in July 2013. It is effective January 1, 2018, with reporting of the supplementary leverage ratio scheduled to begin in 2015. See http://fdic.gov/news/news/financial/2014/fil14019.html.</p>
<p>FDIC Adopts Final Capital Rule Implementing Basel III (FIL-18-2014, April 25, 2014; <i>Federal Register</i>, Vol. 79, No. 71, p. 20754, April 14, 2014)</p>	<p>The FDIC adopted as final the Basel III interim final rule that revises the risk-based and leverage capital requirements for FDIC-supervised institutions, with no substantive changes. The final rule, which was effective January 1, 2014, contains regulatory text identical to the common rule adopted by the FRB and OCC. Compliance was mandatory beginning January 1, 2014, for FDIC-supervised institutions subject to the advanced internal ratings-based approaches and will begin January 1, 2015, for all other FDIC-supervised institutions. See http://fdic.gov/news/news/financial/2014/fil14018.html.</p>
<p>FDIC Advisory Committee on Economic Inclusion Discusses Expanding Banking Access to Consumers (PR-29-2014, April 22, 2014)</p>	<p>The FDIC Advisory Committee on Economic Inclusion (ComE-IN) met on April 24, 2014, to discuss Safe Accounts, mobile financial services, financial education opportunities, and consumer demand for small-dollar loans. See http://fdic.gov/news/news/press/2014/pr14029.html.</p>

Subject	Summary
FDIC Issues Notice of Proposed Rulemaking for Regulations on Securities of State Savings Associations (<i>Federal Register</i> , Vol. 79, No. 76, p. 22063, April 21, 2014)	<p>The FDIC issued a NPR that would rescind and remove its regulations concerning securities of State savings associations (12 CFR Part 390 Subpart U) and amend its regulations relating to securities of nonmember insured banks (12 CFR Part 335), extending their applicability to State savings associations. Comments are due by June 20, 2014.</p> <p>See http://www.gpo.gov/fdsys/pkg/FR-2014-04-21/pdf/2014-08261.pdf.</p>
FDIC Announces Free Nationwide Seminars for Bank Officers and Employees (FIL-17-2014, April 18, 2014)	<p>The FDIC will conduct 12 free seminars on deposit insurance coverage for bank officers and employees between May 6 and December 4, 2014. The seminars will consist of four sessions on “Fundamentals of Deposit Insurance Coverage,” four sessions on “Deposit Insurance Coverage for Revocable Trust Accounts,” and four on “Advanced Topics in Deposit Insurance Coverage.”</p> <p>See http://fdic.gov/news/news/financial/2014/fil14017.html.</p>
FDIC Adopts Final Rule Restricting Sales of Assets of Covered Financial Institutions (<i>Federal Register</i> , Vol. 79, No. 71, p. 20762, April 14, 2014)	<p>The FDIC adopted a final rule to implement Section 210(r) of the <i>Dodd-Frank Wall Street Reform and Consumer Protection Act</i> (Dodd-Frank Act). Under that section, individuals or entities that have, or may have, contributed to the failure of a “covered financial company” cannot buy a covered financial company’s assets from the FDIC. The final rule establishes a self-certification process that is a prerequisite to the purchase of assets of a covered financial company from the FDIC. The final rule is effective July 1, 2014.</p> <p>See http://www.gpo.gov/fdsys/pkg/FR-2014-04-14/pdf/2014-08258.pdf.</p>
FDIC Issues Technology Alert: OpenSSL “Heartbleed” Vulnerability (FIL-16-2014, April 11, 2014)	<p>The FDIC issued an alert advising financial institutions of a security vulnerability in OpenSSL, a popular cryptographic library used by financial institutions in common network services such as Web servers, e-mail servers, virtual private networks, and instant messaging. A significant vulnerability has been found in OpenSSL that could allow an attacker to decrypt, spoof, or perform attacks on network communications that would otherwise be protected by encryption. The FDIC expects financial institutions to upgrade vulnerable systems as soon as possible and monitor the status of risk mitigation efforts by their third-party service providers and vendors.</p> <p>See http://fdic.gov/news/news/financial/2014/fil14016.html.</p>
FDIC Urges Financial Institutions to Utilize Available Cyber Resources (PR-28-2014, April 10, 2014)	<p>The FDIC urged financial institutions to actively use available resources to identify and help mitigate potential cyber-related risks. Financial institutions of all sizes should be aware of constantly emerging cyber threats and the government-sponsored resources available to help identify these threats on a real-time basis.</p> <p>See http://fdic.gov/news/news/press/2014/pr14028.html.</p>
FDIC Releases Research Study on Long-Term Consolidation in Banking (PR-26-2014, April 9, 2014)	<p>The FDIC released a research study on long-term consolidation in banking and its implications for community banks. Drawing from data during the past 30 years, the paper finds that community banks have remained highly resilient amid the long-term trend of banking industry consolidation. Institutions with assets between \$100 million and \$10 billion – most of which can be considered community banks – have increased in number and total assets since 1985. The study was published in the First Quarter 2014 edition of the <i>FDIC Quarterly</i>.</p> <p>See http://fdic.gov/news/news/press/2014/pr14026.html.</p>

Subject	Summary
FDIC Announces Meeting of Advisory Committee on Community Banking (PR-24-2014, April 8, 2014)	<p>The FDIC announced a meeting of the Advisory Committee on Community Banking on April 9. Topics were to include an update from staff on the FDIC's community bank initiatives and discussions about cyber security, the FDIC's ombudsman program and supervisory appeals process, customer due diligence requirements, and qualified and nonqualified mortgages. See http://fdic.gov/news/news/press/2014/pr14024.html.</p>
Federal Bank Regulatory Agencies Issue Guidance on Consolidated Reports of Condition and Income (FIL-14-2014, April 7, 2014; FIL-15-2014, April 9, 2014)	<p>The federal bank regulatory agencies reminded financial institutions to report specific new line items in accordance with revised instructions that took effect for the First Quarter 2014 Call Report. In addition, revisions to Call Report Schedule RC-R, Regulatory Capital, to reflect the revised regulatory capital rules approved by the banking agencies in July 2013, take effect in March 2014 for advanced approaches institutions and in March 2015 for all other institutions. See http://fdic.gov/news/news/financial/2014/fil14014.html.</p>
FDIC Re-issues Technology Outsourcing: Informational Tools for Community Bankers (FIL-13-2014, April 7, 2014)	<p>The FDIC re-issued three Technology Outsourcing documents as informational resources to community banks on how to select service providers, draft contract terms in service level agreements, and oversee multiple service providers when outsourcing for technology products and services. The documents, first issued on June 4, 2001, contain practical ideas for banks to consider when they engage in technology outsourcing. See http://fdic.gov/news/news/financial/2014/fil14013.html.</p>
FDIC Issues Statement on Distributed Denial of Service (DDoS) Attacks (FIL-11-2014, April 2, 2014)	<p>The FDIC issued a statement notifying institutions of the risks associated with continued distributed denial of service (DDoS) attacks on public-facing Web sites. Financial institutions that experience DDoS attacks may face a variety of risks, including operational and reputation risks. Banks are expected to address DDoS readiness as part of their ongoing business continuity and disaster recovery plans and take certain specific steps, as appropriate, to detect and mitigate such attacks. See http://fdic.gov/news/news/financial/2014/fil14011.html.</p>
FDIC Issues Statement on Cyber-attacks on ATM and Card Authorization Systems (FIL-10-2014, April 2, 2014)	<p>The FDIC issued a statement describing the risks related to recent cyber-attacks on automated teller machines (ATMs) and card authorization systems resulting in large-dollar frauds. These attacks, known as Unlimited Operations, are a category of ATM cash-out fraud in which criminals are able to extract funds beyond the cash balance in customer accounts or beyond other control limits typically applied to ATM withdrawals. The FDIC expects financial institutions to take steps to address this threat by reviewing the adequacy of their controls over their information technology (IT) networks, card issuer authorization systems, ATM parameters, and fraud detection and response processes. See http://fdic.gov/news/news/financial/2014/fil14010.html.</p>

Subject	Summary
<p>Agencies Issue Proposed Rule on Minimum Requirements for Appraisal Management Companies (PR-21-2014, March 24, 2014; <i>Federal Register</i>, Vol. 79, No. 68, p. 19521, April 9, 2014)</p>	<p>The federal financial institution regulatory agencies and the Federal Housing Finance Agency jointly issued a proposed rule that would implement minimum requirements for state registration and supervision of appraisal management companies (AMCs). An AMC is an entity that serves as an intermediary between appraisers and lenders and provides appraisal management services. In accordance with Section 1124 of Title XI of the <i>Financial Institution Reform, Recovery, and Enforcement Act of 1989</i>, as added by Section 1473 of the Dodd-Frank Act, the minimum requirements in the proposed rule would apply to states that elect to establish an appraiser certifying and licensing agency with the authority to register and supervise AMCs. In states that do not establish such a regulatory structure, AMCs would be barred from providing appraisal management services for federally related transactions. Comments were due by June 9, 2014. See http://fdic.gov/news/news/press/2014/pr14021.html.</p>
<p>Bank Regulatory Agencies and CDFI Fund Sponsor National Interagency Community Reinvestment Conference (PR-20-2014, March 7, 2014)</p>	<p>The FDIC, OCC, the Federal Reserve Banks of Chicago and San Francisco, and the Department of the Treasury's CDFI Fund hosted the 2014 National Interagency Community Reinvestment Conference in Chicago from March 31 to April 2, 2014. The biennial conference offered participants the opportunity to learn about the CRA and its regulations and discuss best practices and emerging challenges in community development. See http://fdic.gov/news/news/press/2014/pr14020.html.</p>
<p>Agencies Issue Final Dodd-Frank Act Stress Test Guidance for Medium-Sized Firms (PR-19-2014, March 5, 2014; <i>Federal Register</i>, Vol. 79, No. 49, p. 14153, March 13, 2014)</p>	<p>The federal bank regulatory agencies issued final guidance describing supervisory expectations for stress tests conducted by financial companies with total consolidated assets between \$10 billion and \$50 billion. These medium-sized companies are required to conduct annual, company-run stress tests under rules issued by the agencies in October 2012 to implement a provision in the Dodd-Frank Act. The final guidance describes general supervisory expectations for these companies' stress tests and provides examples of practices that would be consistent with those expectations. The first Dodd-Frank stress tests were required by March 31, 2014. See http://fdic.gov/news/news/press/2014/pr14019.html.</p>
<p>FDIC Releases Interagency Consumer Compliance Examination Procedures for Mortgage Rules Issued Pursuant to the Dodd-Frank Act (FIL-9-2014, February 25, 2014)</p>	<p>The FDIC released revised interagency consumer compliance examination procedures for the mortgage rules issued pursuant to the Dodd-Frank Act. The release of the interagency procedures is part of the FDIC's ongoing efforts to inform supervised institutions about important bank regulatory developments, promote transparency in the FDIC's supervisory program, and help financial institutions better understand the areas the FDIC will focus on as part of the examination process. During initial examinations for compliance with the new mortgage loan regulations, FDIC examiners will expect institutions to be familiar with the requirements of the rules and have a plan for implementing them. See http://fdic.gov/news/news/financial/2014/fil14009.html.</p>

Subject	Summary
<p>FDIC Extends Public Comment Period for Single Point of Entry Resolution Strategy (PR-10-2014, February 18, 2014; <i>Federal Register</i>, Vol. 79, No. 35, p. 9899, February 21, 2014)</p>	<p>The FDIC extended the comment period for the Single Point of Entry (SPOE) Strategy for the resolution of Systemically Important Financial Institutions (SIFIs). Title II of the Dodd-Frank Act requires the FDIC to resolve SIFIs in a manner that holds accountable the owners and management responsible for the failure of the companies while maintaining the stability of the U.S. financial system. The SPOE Strategy was approved for publication in the <i>Federal Register</i> by the FDIC Board of Directors on December 10, 2013, and, as announced in PR-112-2013, comments were originally due by February 18, 2014. The extension of the comment period allowed interested persons additional time to analyze the Strategy and prepare their comments, which were due by March 20, 2014. See http://fdic.gov/news/news/press/2014/pr14010.html.</p>
<p>SEC Amends Paying Agent Notification Requirements (FIL-8-2014, February 7, 2014)</p>	<p>Effective January 23, 2014, “paying agents” were required to send a one-time notification to “unresponsive payees” stating the agent has sent a securityholder a check that has not yet been negotiated. The amendment was pursuant to a January 23, 2013 amendment by the U.S. Securities and Exchange Commission (SEC) of Exchange Act Rule 17Ad-17 to implement the requirements of Section 929W of the Dodd-Frank Act. The first potential notice to unresponsive payees is due no later than August 23, 2014. See http://fdic.gov/news/news/financial/2014/fil14008.html.</p>
<p>FDIC Approves Final Rule Establishing Uniform Recordkeeping and Confirmation Requirements for Securities Transactions (FIL-7-2014, February 4, 2014)</p>	<p>The FDIC approved a final rule on December 10, 2013, amending 12 C.F.R. Part 344 to establish uniform recordkeeping and confirmation requirements for all FDIC-supervised institutions. The final rule also lessened industry burden by increasing the transaction threshold for certain recordkeeping requirements under Part 344’s Small Transaction Exception. See http://fdic.gov/news/news/financial/2014/fil14007.html.</p>
<p>Agencies Adopt Final Rule Establishing Restrictions on Proprietary Trading and Certain Interests in, and Relationships With, Hedge Funds and Private Equity Funds (<i>Federal Register</i>, Vol. 79, No. 21, p. 5536, January 31, 2014)</p>	<p>The federal bank regulatory agencies and the SEC adopted a final rule that would implement the new Section 13 of the Bank Holding Company Act, added by Section 619 of the Dodd-Frank Act (the Volcker Rule). Section 13 contains certain prohibitions and restrictions on the ability of a banking entity and nonbank financial company supervised by the FRB to engage in proprietary trading and have certain interests in, or relationships with, a hedge fund or private equity fund. The final rule took effect April 1, 2014. See http://www.gpo.gov/fdsys/pkg/FR-2014-01-31/pdf/2013-31511.pdf.</p>
<p>SEC Issues Final Rule for Registration of Municipal Advisors (FIL-6-2014, January 31, 2014; <i>Federal Register</i>, Vol. 78, No. 218, p. 67468, November 12, 2013)</p>	<p>The SEC issued a final rule on September 20, 2013, establishing a permanent registration system for municipal advisors. Section 975 of the Dodd-Frank Act amended Section 15B(a) of the Securities Exchange Act of 1934 to make it unlawful for “municipal advisors,” as defined in the Dodd-Frank Act, to provide certain advice to or solicit municipal entities or certain other persons without registering with the SEC. Banks are generally excluded from the definition of “municipal advisor,” except for those that engage in municipal advisory activities or provide advice with respect to municipal derivatives. The final rule will take effect on July 1, 2014. See http://fdic.gov/news/news/financial/2014/fil14006.html.</p>

Subject	Summary
FFIEC Approves Revisions to Consolidated Reports of Condition and Income (FIL-3-2014, January 22, 2014)	<p>The FFIEC approved revisions to the Consolidated Reports of Condition and Income (Call Report) that will take effect March 31, 2014, and March 31, 2015. The revisions include certain reporting changes proposed by the FFIEC's member agencies in February 2013 (see FIL-8-2013, March 8, 2013). The FFIEC and the agencies also finalized changes to the regulatory capital components and ratios portion of Call Report Schedule RC-R, Regulatory Capital, and revisions to the FFIEC 101, Regulatory Capital Reporting for Institutions Subject to the Advanced Capital Adequacy Framework, which were proposed in August 2013 (see FIL-41-2013, September 24, 2013).</p> <p>See https://www.fdic.gov/news/inactive-financial-institution-letters/2014/fil14003.html.</p>
Agencies Adopt Interim Final Rule Authorizing Retention of Interests in and Sponsorship of CDOs Backed Primarily by Bank-Issued Trust Preferred Securities (PR-3-2014, January 14, 2014; <i>Federal Register</i>, Vol. 79, No. 21, p. 5223, January 31, 2014)	<p>The federal bank regulatory agencies, together with the SEC and the Commodity Futures Trading Commission (CFTC), adopted common interim final rules to permit banking entities to retain investments in certain collateralized debt obligations backed primarily by trust preferred securities (TruPS CDOs), grandfathering them from the investment prohibitions of the Volcker Rule. Under the interim final rule, the agencies will permit the retention of an interest in or sponsorship of covered funds by banking entities if certain qualifications are met. Comments on the interim final rule were due by March 3, 2014, and the rule took effect on April 1, 2014.</p> <p>See http://fdic.gov/news/news/press/2014/pr14003.html.</p>
Agencies Release Public Sections of Resolution Plans (PR-2-2014, January 10, 2014)	<p>The FRB and the FDIC made available the public portions of resolution plans for 116 institutions that submitted plans for the first time in December 2013. The Dodd-Frank Act requires bank holding companies (and foreign companies treated as bank holding companies) with total consolidated assets of \$50 billion or more and nonbank financial companies designated for enhanced prudential supervision by the Financial Stability Oversight Council to periodically submit plans for rapid and orderly resolution to the FRB and the FDIC, and include both a public and confidential section.</p> <p>See http://fdic.gov/news/news/press/2014/pr14002.html.</p>
FDIC Releases Four Technical Assistance Videos (PR-127-2013, December 31, 2013)	<p>The FDIC announced the release of four technical assistance videos in an ongoing series designed to provide useful information to bank directors, officers, and employees on regulatory issues and proposed regulatory changes. The new videos deal with municipal securities, the allowance for loan and lease losses, troubled debt restructuring, and fair lending.</p> <p>See http://fdic.gov/news/news/press/2013/pr13127.html.</p>
Agencies Reviewing Treatment of Collateralized Debt Obligations Backed by Trust Preferred Securities under Final Rules Implementing the Volcker Rule (FIL-62-2013, December 30, 2013; PR-126-2013, December 27, 2013)	<p>The federal bank regulatory agencies and the SEC issued a statement regarding the treatment of Collateralized Debt Obligations containing Trust Preferred Securities. The agencies were considering whether it would be appropriate and consistent with the Dodd-Frank Act not to subject TruPS CDOs to the investment prohibitions of the Volcker Rule.</p> <p>See http://fdic.gov/news/news/financial/2013/fil13062.html.</p>

Subject	Summary
<p>Agencies Release Annual Community Reinvestment Act Asset-Size Threshold Adjustments for Small and Intermediate Small Institutions (<i>Federal Register</i>, Vol. 78, No. 250, p. 79283, December 30, 2013)</p>	<p>The federal bank regulatory agencies announced the annual adjustment to the asset-size thresholds used to define “small bank,” “small savings association,” “intermediate small bank,” and “intermediate small savings association” under the CRA regulations. “Small bank” or “small savings association” refers to an institution that, as of December 31 of either of the prior two calendar years, had assets of less than \$1.202 billion; and “intermediate small bank” or “intermediate small savings association” refers to an institution with assets of at least \$300 million as of December 31 for both of the prior two calendar years and less than \$1.202 billion as of December 31 of either of the prior two calendar years. The asset-size threshold adjustments, which are based on the annual percentage change in the Consumer Price Index, took effect January 1, 2014.</p> <p>See http://www.gpo.gov/fdsys/pkg/FR-2013-12-30/pdf/2013-30960.pdf.</p>
<p>Agencies Issue Proposed Addendum to Interagency Policy Statement on Intercompany Income Tax Allocation Agreements (FIL-61-2013, December 20, 2013; PR-119-2013, December 19, 2013; <i>Federal Register</i>, Vol. 78, No. 244, p. 76889, December 19, 2013)</p>	<p>The federal bank regulatory agencies requested comment on a proposed addendum that would supplement and clarify the 1998 <i>Interagency Policy Statement on Income Tax Allocation in a Holding Company Structure</i>. The proposed addendum was intended to reduce confusion regarding ownership of any tax refunds between holding companies and insured depository institutions. The guidance also clarified how Sections 23A and 23B of the Federal Reserve Act, which establish certain restrictions on and requirements for transactions between depository institutions and their affiliates, apply to tax allocation agreements. Comments were due by January 21, 2014.</p> <p>See http://fdic.gov/news/news/financial/2013/fil13061.html.</p>
<p>FDIC Proposes Removal of Transferred OTS Regulation Regarding Disclosure and Reporting of CRA-Related Agreements (<i>Federal Register</i>, Vol. 78, No. 244, p. 76768, December 19, 2013)</p>	<p>The FDIC proposed to rescind and remove a regulation entitled “Disclosure and Reporting of CRA-Related Agreements,” which was included in the regulations transferred to the FDIC from the Office of Thrift Supervision in connection with the implementation of applicable provisions of Title III of the Dodd-Frank Act. The requirements for State savings associations in the rescinded regulation were substantively similar to those in an existing regulation with the same title, applicable to all insured depository institutions for which the FDIC has been designated the appropriate federal banking agency. Comments were due by February 18, 2014.</p> <p>See http://www.gpo.gov/fdsys/pkg/FR-2013-12-19/pdf/2013-29787.pdf.</p>
<p>Qualified and Non-Qualified Mortgage Loans: Agencies Issue Interagency Statement on Supervisory Approach (FIL-59-2013, December 13, 2013; PR-117-2013, December 13, 2013)</p>	<p>The federal financial institution regulatory agencies issued an interagency statement to clarify safety-and-soundness expectations and CRA considerations related to Qualified Mortgage (QM) loans and non-QM loans offered by regulated institutions. The statement is intended to guide institutions as they assess the implementation of the CFPB’s Ability-to-Repay and Qualified Mortgage Standards Rule, which took effect January 10, 2014.</p> <p>See http://fdic.gov/news/news/financial/2013/fil13059.html.</p>
<p>Agencies Issue Final Rule to Exempt Subset of Higher-Priced Mortgage Loans from Appraisal Requirements (PR-116-2013, December 12, 2013; <i>Federal Register</i>, Vol. 78, No. 248, p. 78520, December 26, 2013)</p>	<p>The federal financial institution regulatory agencies, together with the Federal Housing Finance Agency, issued a final rule that creates exemptions from certain appraisal requirements for a subset of higher-priced mortgage loans. The final rule provides that loans of \$25,000 or less and certain “streamlined” refinancings are exempt from the Dodd-Frank Act appraisal requirements, which went into effect on January 18, 2014. The exemptions are intended to save borrowers time and money while ensuring the loans are financially sound.</p> <p>See http://fdic.gov/news/news/press/2013/pr13116.html.</p>

Subject	Summary
Agencies Issue Final Rules on Proprietary Trading and Relationships with Hedge Funds and Private Equity Funds (FIL-58-2013, December 12, 2013; PR-114-2013, December 10, 2013)	<p>The federal bank regulatory agencies, along with the SEC and the CFTC, issued final rules developed jointly to implement Section 619 of the Dodd-Frank Act (the Volcker Rule). The final rules generally prohibit banking entities from engaging in short-term proprietary trading, for their own account, of certain securities, derivatives, commodity futures, and options on these instruments. The final rules also impose limits on banking entities' investments in, and other relationships with, hedge funds or private equity funds.</p> <p>See http://fdic.gov/news/news/financial/2013/fil13058.html.</p>
FFIEC Issues Consumer Compliance Guidance for Social Media Activities (FIL-56-2013, December 11, 2013)	<p>The FFIEC released final guidance on the applicability of consumer protection and compliance laws, regulations, and policies to activities conducted via social media by financial institutions and by nonbank entities supervised by the CFPB. The guidance provides considerations that financial institutions may find useful in conducting risk assessments and reviewing policies and procedures regarding social media.</p> <p>See http://fdic.gov/news/news/financial/2013/fil13056.html.</p>
FDIC Releases Technical Assistance Videos on Flood Insurance and Appraisals (PR-110-2013, December 5, 2013)	<p>The FDIC announced the release of two technical assistance videos in an ongoing series designed to provide useful information to bank directors, officers, and employees on regulatory issues and proposed regulatory changes. The new videos address regulatory requirements and questions pertaining to flood insurance and real estate appraisals and evaluations.</p> <p>See http://fdic.gov/news/news/press/2013/pr13110.html.</p>
FDIC Issues Policy Statement on the Principles for Development and Distribution of Annual Stress Test Scenarios (<i>Federal Register</i>, Vol. 78, No. 232, p. 72534, December 3, 2013)	<p>The FDIC published final guidance articulating the general processes and factors to be used by the Corporation in developing and distributing stress-test scenarios for covered banks. On October 15, 2012, the FDIC published in the <i>Federal Register</i> a final rule implementing Section 165(i) of the Dodd-Frank Act, under which FDIC-insured state nonmember banks and savings associations with total consolidated assets of more than \$10 billion are required to conduct annual stress tests using a minimum of three stress test scenarios (baseline, adverse, and severely adverse). The final guidance took effect January 2, 2014.</p> <p>See http://www.gpo.gov/fdsys/pkg/FR-2013-12-03/pdf/2013-28608.pdf.</p>





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