Supervisory Insights

Devoted to Advancing the Practice of Bank Supervision

Vol. 13, Issue 1 Summer 2016

Inside

FDIC

Supervisory Insights

Supervisory Insights is published by the Division of Risk Management Supervision of the Federal Deposit Insurance Corporation to promote sound principles and practices for bank supervision.

Supervisory Insights is available on-line by visiting the FDIC's Web site at www.fdic.gov. To provide comments or suggestions for future articles, request permission to reprint individual articles, or request print copies, send an e-mail to SupervisoryJournal@fdic.gov.

Issue at a Glance

Volume 13, Issue 1 Summer 2016

Articles

The FDIC continues to support the formation of new financial institutions and welcomes applications for deposit insurance. This article provides an overview of trends in *de novo* formation; the process by which the FDIC reviews applications for deposit insurance; the supervisory process for *de novo* institutions; and steps the FDIC is taking to support *de novo* formations.

The Matters Requiring Board Attention (MRBA) page within the Risk Management Report of Examination is used to focus the attention of bank management and the directorate on potential problems that, if addressed early, will reduce the likelihood that those institutions will experience serious adverse effects. As a means of communicating to bankers what FDIC examiners are observing in the field, this article summarizes the types of issues identified in risk management examinations as reflected by MRBAs from 2011 through 2015, focusing primarily on activities recorded in the last two years.

Regular Features

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

Letter from the Director

The FDIC continues to support the formation of new financial institutions and welcomes applications for deposit insurance. The entry of new institutions helps to preserve the vitality of the banking sector, fill critical gaps in local banking markets, and provide credit services to communities that may not currently have a local financial institution.

"*De Novo* Banks: Economic Trends and Supervisory Framework" provides an overview of trends in *de novo* formation; the process by which the FDIC reviews applications for deposit insurance; the supervisory process for *de novo* institutions; and steps the FDIC is taking to support *de novo* formations. The information provided in this article reinforces the FDIC's desire to promote a dialog with individuals and groups interested in forming a new bank.

As the primary federal regulator for the nation's community banks, the FDIC recognizes the importance of identifying and addressing emerging risks in the banking industry in a timely manner. Promptly communicating these risks to bank management and the board of directors, often in the form of Matters Requiring Board Attention (MRBA), is critical to these efforts. This article provides an overview of the most commonly cited MRBA in Reports of Examination and identifies trends in these categories that may provide an overview of risks developing within the industry.

This issue of *Supervisory Insights* also includes our regular summary of recently released regulations and supervisory guidance.

We hope you find the articles in this issue to be informative and useful. We encourage our readers to provide feedback and suggest topics for future issues. Please email your comments and suggestions to SupervisoryJournal@fdic.gov.

Doreen R. Eberley
Director
Division of Risk Management Supervision

De Novo Banks: Economic Trends and Supervisory Framework

The entry of new institutions helps to preserve the vitality of the community banking sector, fill important gaps in local banking markets, and provide credit services to communities that may be overlooked by other financial institutions.

The FDIC is supportive of the formation of new financial institutions and welcomes applications for deposit insurance. To help promote understanding of the *de novo* application and supervisory process, this article provides an overview of trends in *de novo* formation; the process by which the FDIC reviews applications for deposit insurance; the supervisory process for *de novo* institutions; and steps the FDIC is taking to support *de novo* formations.

Trends in *De Novo* Formation

Recent FDIC research on new bank formation since 2000 highlights both the economic benefits of *de novo* banks and their vulnerability to economic shocks.[1] Of the more than 1,000 new banks formed between 2000 and 2008, 634 institutions were still operating as of September 2015, holding $214 billion in total loans and leases. FDIC researchers also found that the failure rate of banks established between 2000 and 2008 was more than twice that of small established banks—consistent with previous research that found *de novo* banks to be susceptible to failure under adverse economic conditions. These findings underscore the importance of promoting the formation of new banks and establishing an effective application process and supervisory program that will ensure new banks adopt appropriate risk-management practices and enhance their prospects for long-term success.

De novo formation has always been cyclical. A drop in *de novo* activity also occurred after the last financial crisis in the 1980s and early 1990s, when *de novo* bank formation declined to historically low levels before recovering as economic conditions improved. Notable surges in *de novo* activity occurred during economic upswings in the early 1960s, early 1970s and early 1980s. Following the banking crisis of the 1980s and early 1990s, *de novo* activity surged again in the mid-1990s and the early 2000s.

Even with the recovery in community bank earnings following the recent financial crisis, low interest rates and narrow net interest margins have kept bank profitability ratios (return on assets and return on equity) well below pre-crisis levels, making it relatively unattractive to start new banks. Recent research by economists at the Federal Reserve suggests that economic factors alone—including a long period of zero interest rates—explain at least three-

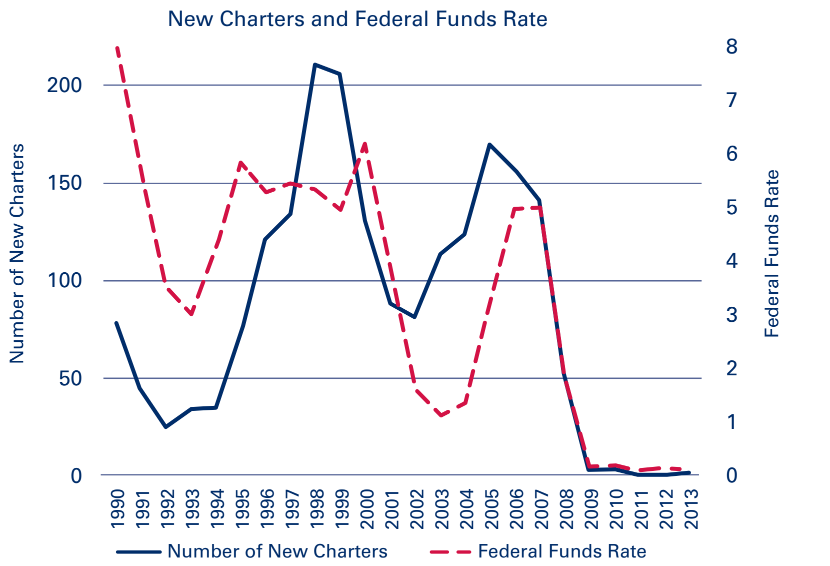
[1] Lee, Yan and Chiwon Yom, "The Entry, Performance, and Risk Profile of *De Novo* Banks," FDIC Center for Financial Research Working Paper 2016-03, April 2016. https://www.fdic.gov/analysis/cfr/2016/wp2016/2016-03.pdf

continued from pg. 3

quarters of the post-crisis decline in new charters, as illustrated in Chart 1.[2] If this model is accurate, one would expect the rate of new charters to rise as interest rates normalize.

Yet there may be tentative signs of an uptick in interest in forming *de novos* even though interest rates remain at historically low levels. Over the past several quarters, the FDIC has seen indications of increased interest from prospective organizing groups in filing applications for new insured depository institutions.

Chart 1



Source: Adams, Robert M. and Jacob P. Gramlich, "Where Are All the New Banks? The Role of Regulatory Burden in New Charter Creation," Finance and Economics Discussion Series 2014-113, Divisions of Research & Statistics and Monetary Affairs, Federal Reserve Board, Washington, D.C.

Application Process for Deposit Insurance

Section 5 of the Federal Deposit Insurance Act (FDI Act) requires any proposed depository institution seeking Federal deposit insurance to file an application with the FDIC. Before filing an application, the FDIC encourages organizing groups for proposed new depository institutions to participate in a pre-filing meeting. This meeting frequently occurs with staff in the FDIC regional office that will receive the application. During a pre-filing meeting, FDIC staff explains the application process, including general timelines for application processing as well as any special information needs and other matters unique to the proposal. The goal is to inform applicants about the necessary information for their filing to facilitate the review process.

Application Requirements

FDIC rules and regulations describe the application requirements in detail.[3] Proposed new depository institutions apply for Federal deposit insurance by filing an *Interagency Charter and Federal Deposit Insurance Application* form (Application) with the appropriate FDIC regional office.[4] The Application collects information that the chartering authority and the FDIC will need to evaluate the charter and insurance applications, respectively. The Application requests information on seven main topics: an overview of the proposed institution's operations;

[2] Adams, Robert M. and Jacob P. Gramlich, "Where Are All the New Banks? The Role of Regulatory Burden in New Charter Creation," Finance and Economics Discussion Series 2014-113, Divisions of Research & Statistics and Monetary Affairs, Federal Reserve Board, Washington, D.C. http://www.federalreserve.gov/econresdata/feds/2014/files/2014113pap.pdf

[3] The procedures governing the administrative processing of an application for deposit insurance are contained in part 303, subpart B, of the FDIC's rules and regulations (12 CFR part 303).

[4] www.fdic.gov/formsdocuments/f6200-05.pdf

its business plan and proposed policies; details on its management team, including its board of directors; a description of the type and amount of capital to be raised, including any plans for employee stock ownership plans or stock incentives; how the institution will meet the convenience and needs of the community to be served; a description of the premises and fixed assets at inception; a description of the information systems to be used by the institution; and any other relevant information.

Applicants must answer all questions in the form and provide supporting information setting forth the basis for the applicant's conclusions. In cases where information is not available at filing time, the FDIC will determine whether the information is necessary to begin the evaluation of the application. If additional information is needed, the FDIC will send the applicant a written request identifying the items needed. If not, the FDIC will deem the application substantially complete and begin its review and evaluation of the proposal.

Statutory Conditions

Since 1935, governing statutes have required that the FDIC consider specific factors when evaluating applications for deposit insurance. The current statutory factors, set forth in Section 6 of the FDI Act, include:

- The institution's financial history and condition;
- The adequacy of its capital structure;
- Its future earnings prospects;
- The general character and fitness of its management;
- The risk presented by the institution to the Deposit Insurance Fund;
- The convenience and needs of the community to be served by the institution; and
- Whether the institution's corporate powers are consistent with the purposes of the FDI Act.[5]

Evaluation of the Application

While these statutory factors serve as the foundation of the Application, the FDIC *Statement of Policy on Applications for Deposit Insurance* provides guidance to FDIC staff and the industry about the FDIC Board's expectations for staff's evaluation of the statutory factors.[6] Evaluation of the Application is carried out at both the field office level and regional office level, and is coordinated by a regional office case manager, who is assigned responsibility for the ongoing supervision and monitoring of the institution once it opens for business.

At the field office level, an examiner from the local area will review the Application and then meet with the organizers and proposed directors to ascertain their understanding of the responsibilities they are taking on as directors, their abilities to execute the business plan, and their commitment to the proposed bank. The examiner documents the findings relative to each of the statutory factors and opines as to whether the criteria under each area has been met. The examiner submits this report to the assigned case manager.

[5] 12 U.S.C. § 1816.

[6] *63 Fed. Reg. 44756, August 20, 1998, effective October 1, 1998; amended at 67 Fed. Reg. 79278, December 27, 2002.*

continued from pg. 5

At the regional office level, the case manager reviews the examiner's report for accuracy and consistency with FDIC policy. The case manager prepares a summary of the major findings of the examiner's report as it relates to each of the statutory factors, and concludes with a recommendation for action: conditional approval or denial. The recommendation is considered by regional management in consultation with management of the FDIC's Division of Risk Management Supervision in Washington (the division), and it is acted upon by the region, the division or the FDIC Board of Directors, depending upon the application characteristics.[7]

Conditions of Approval

The FDIC imposes certain standard conditions on all institutions that are granted Federal deposit insurance.[8] These conditions include such items as minimum initial capital, minimum ongoing capital requirements for the three-year *de novo* period, minimum fidelity bond insurance coverage, and financial statement audit requirements during the *de novo* period.

The FDIC may also impose non-standard or prudential conditions on a case-by-case basis. Typically, nonstandard conditions are used when the FDIC determines, through the examiner's review and the case manager's summary, that additional controls are appropriate or necessary to either mitigate risks that are unique to the proposal or to ensure that actions or activities in process at the time of approval are completed before insurance becomes effective. The most common nonstandard conditions require FDIC approval of business plan changes, employment agreements and stock option plans, bank policies, and additional directors or officers.

The majority of nonstandard conditions are in effect only during the three-year *de novo* period. However, nonstandard conditions may be imposed for any length of time that is deemed necessary to mitigate the relevant risk. For example, certain monoline institutions are subject to heightened supervisory expectations to mitigate risks associated with engaging in a single line of business.

Supervisory Approach to *De Novos*

The FDIC's *Risk Management Manual of Examination Policies* describes the supervision program for *de novo* institutions. The Manual states that newly chartered and insured institutions are to have a limited scope examination (visitation) within the first six months of operation and a full scope examination within the first twelve months of operation. Subsequent to the first examination and through the third year of operation, at least one examination is to be performed each year. The goal of the close supervisory attention in an institution's formative years is to help ensure its success.

[7] For example, authority to act is retained by the FDIC Board of Directors on applications for institutions that are more than 25 percent foreign-owned or controlled, institutions that share common ownership with a foreign institution without a common parent company, institutions organized as industrial loan companies, and institutions that would raise unique or unprecedented policy matters.

[8] These standard conditions are contained in a Resolution of the FDIC Board of Directors dated December 2, 2002, delegating authority for action on certain application matters, including applications for Federal deposit insurance. See https://www.fdic.gov/regulations/laws/matrix/

In August 2009, the FDIC imposed nonstandard conditions in extending from three to seven years the period during which *de novo* state nonmember banks were subject to higher capital maintenance requirements and more frequent examinations. The FDIC also required *de novo* state nonmember banks to obtain prior approval from the FDIC for material changes in business plans (FIL 50-2009). These nonstandard conditions were put into place at that time because institutions insured less than seven years were overrepresented among the bank failures that began in 2008, with many of the failures occurring during the fourth through seventh years. Out of 1,042 *de novo* institutions chartered between 2000 and 2008, 133 (12.8 percent) failed, representing more than double the failure rate of 4.9 percent for established small banks.[9] Moreover, a number of *de novo* institutions pursued business plan changes during the first few years that led to increased risk and financial problems while failing to have adequate controls and risk management practices. Given the ongoing improvement in post-crisis industry performance, the FDIC recently rescinded this policy, returning to a three-year *de novo* period in April 2016.

FDIC Actions To Support the Formation of New Institutions

The FDIC continues to monitor developments with respect to the formation of new banking institutions and recently announced a number of initiatives to support the efforts of viable organizing groups. These initiatives, which began in 2014, support the development, submission, and review of proposals to organize new institutions.

In November 2014, the FDIC issued Deposit Insurance "Questions and Answers" (Q&As) to help applicants develop proposals to obtain Federal deposit insurance. In issuing the Q&As, the FDIC addressed concerns raised by commenters through the decennial regulatory review process required by the *Economic Growth and Regulatory Paperwork Reduction Act* (EGRPRA). The Q&As provide additional transparency to the application process and augment the FDIC's *Statement of Policy on Applications for Deposit Insurance*. Topics addressed in the Q&As include pre-filing meetings, processing timelines, capitalization, and initial business plans.

In March 2015, the FDIC provided an overview of the deposit insurance application process during a conference of state bank supervisory agencies. This session was followed by an interagency training conference hosted by the FDIC in September 2015 to promote coordination among state and Federal regulatory agencies in the review of charter and deposit insurance applications. Supervisory participants in the conference included the FDIC, state banking agencies, the Federal Reserve System, and the Office of the Comptroller of the Currency.

As mentioned earlier, on April 6, 2016, the FDIC reduced from seven years to three years the period of enhanced supervisory monitoring of newly insured depository institutions. The FDIC had established the seven-year period during the financial crisis in response to the disproportionate number of newly insured institutions that were experiencing difficulties or

[9] Lee and Yom. April 2016

continued from pg. 7

failing. In the current environment, and in light of strengthened, forward-looking supervision, the FDIC determined it was appropriate to return to the three-year period.

Also, in April 2016, the FDIC supplemented its previously issued Deposit Insurance Q&As to address multiple issues related to business plans. The FDIC intends to issue additional Q&As as needed to help organizing groups understand specific aspects of the deposit insurance application process.

The FDIC is preparing a publication designed to serve as a practical guide for organizing groups from the initial concept through the application process; it also will include post-approval considerations. The publication will focus on those issues that frequently have been identified as obstacles to the FDIC's ability to favorably resolve the statutory factors enumerated in Section 6 of the FDI Act that are applicable to the FDIC's approval of Federal deposit insurance applications. This resource will address topics such as developing a sound business plan, raising financial resources, and recruiting competent leadership, each of which helps to ensure that every new institution is positioned to succeed. The FDIC plans to have this publication available later this year.

The FDIC has designated professional staff within each regional office to serve as subject matter experts for deposit insurance applications. These individuals are points of contact to FDIC staff, other banking agencies, industry professionals, and prospective organizing groups. They serve as an important industry resource to address the FDIC's processes, generally, and to respond to specific proposals.

Finally, the FDIC is planning outreach meetings in several regions around the country to ensure that industry participants are well informed about the FDIC's application review processes and the tools and resources available to assist organizing groups.

Conclusion

In conclusion, the current economic environment with narrow net interest margins and modest overall economic growth remains challenging for U.S. banks and the establishment of *de novo* institutions. The FDIC is committed to working with and providing support to groups with an interest in organizing a bank. As outlined earlier, the FDIC continues its efforts to provide interested organizing groups with a clear path to forming a new insured depository institution.

Applications staff in the Division of Risk Management Supervision

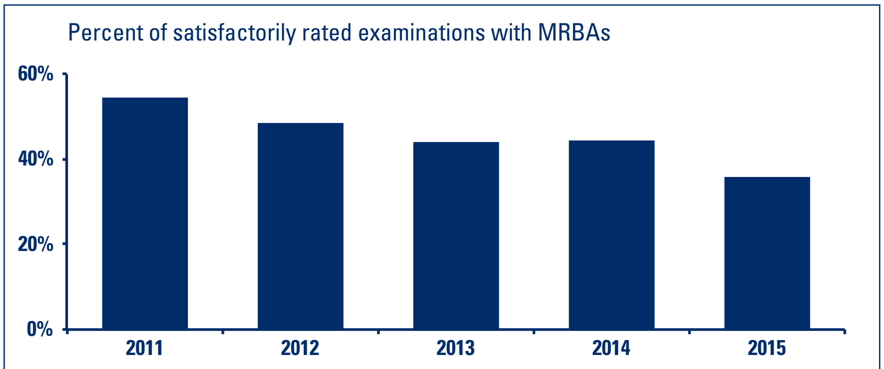
"Matters Requiring Board Attention" Underscore Evolving Risks in Banking

On-site bank examinations play a key role in the supervisory process. The written report of examination (ROE) is the principal document of record by which examination findings and conclusions are communicated to banks. The vast majority of institutions, encompassing a wide range of business models, activities, and risk profiles, receive satisfactory examination ratings. For these satisfactorily rated institutions, examinations can provide an early warning of operational issues that need improvement. Significant recommended improvements are communicated in the ROE as Matters Requiring Board Attention (MRBA).[1] When bank management promptly takes action to address concerns detailed in MRBAs, potential problems can be fixed early, before they become more difficult to address.

Analyzed collectively, MRBA trends can provide a picture of risks that may be developing within the industry. Many bankers are interested in hearing about issues and risks that examiners are observing in the field to proactively address weaknesses in their institutions. In that spirit, this article summarizes the types of issues identified by risk management examiners as reflected by MRBAs listed in FDIC ROEs from 2011 through 2015, focusing primarily on activities reported in the last two years.[2]

An important initial observation is that the percentage of FDIC risk management examinations resulting in MRBAs is on the decline. In 2015, 36 percent of examinations of satisfactorily rated institutions resulted in MRBAs, down substantially from 55 percent in 2011 (see Chart 1). Moreover, the types of issues identified in MRBAs have not been static and to some extent mirror changes in the risks facing the banking industry. The remainder of this article describes MRBA trends at a high level in relation to banking-industry risks, provides

Chart 1: Examinations with MRBAs have declined since 2011



Source: FDIC supervisory data – January 1, 2011 to December 31, 2015

[1] The MRBA page was added to the Report of Examination in 1993 in conjunction with the *Interagency Policy Statement of the Uniform Common Core Report of Examination* released by the four federal banking agencies. These agencies in 1993 were the Office of the Comptroller of the Currency, FDIC, Federal Reserve Board, and Office of Thrift Supervision.

[2] The analysis in this article reflects data collected from 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. https://www.fdic.gov/news/news/financial/1996/fil96105.html.

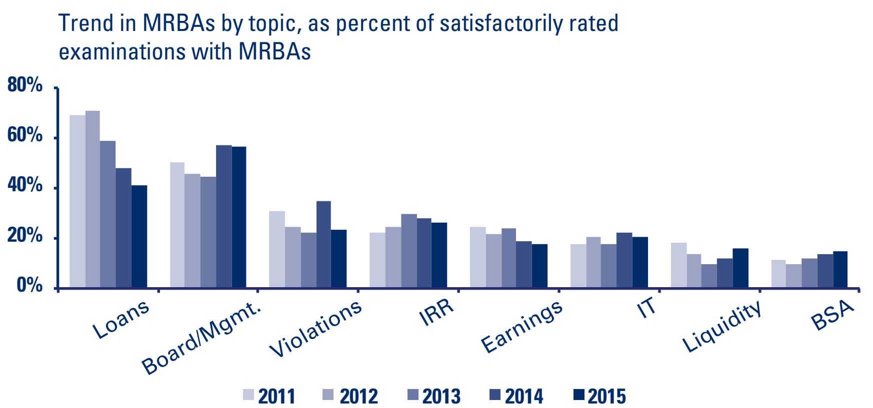
continued from pg. 9

more detail about selected MRBA categories highlighted in ROEs, and notes the satisfactory response by most bankers to addressing issues identified in MRBAs.[3]

MRBA Trends and Banking Industry Risks

By a wide margin, loans and management-related issues have been the most frequently cited categories of MRBAs at satisfactorily rated banks during the five-year period reviewed for this article (see Chart 2). As indicated in Chart 2, MRBAs cited in the board/management category increased and represent most of the MRBAs reported in 2014 and 2015. Most deficiencies cited relate to policies and procedures or the audit function, highlighting the need for enhancements to corporate governance. Corporate governance requires close cooperation between a bank's board and senior management and an awareness and understanding of the bank's risk profile. Failure to identify, measure, monitor, and control areas of risk can lead to unnecessary exposure to loss. Evaluating a bank's risk profile includes assessing the business model for risk; determining how those risks and growth plans will be managed; and considering the potential impact external threats could have on the bank's operating environment. The FDIC published a special corporate governance edition of *Supervisory Insights* in April 2016, which highlights key governance concepts, roles, and responsibilities of directors and senior management and provides a list of resources to help bank directors fulfill their duties.[4]

Chart 2: MRBAs related to lending have declined while the number of board/management, liquidity, and BSA MRBAs has increased



Source: FDIC supervisory data – January 1, 2011 to December 31, 2015
Note: MRBAs cited in a ROE may include more than one category. The Violations category also includes contraventions to interagency statements of policy or nonconformance with regulatory guidance.

As credit quality improves in the banking industry, the frequency of MRBAs in the loans category has steadily declined. However, trends within loan subcategories indicate that an increasing proportion of loan-related MRBAs are addressing concentration risk management. Since community banks typically serve a relatively small market area and generally specialize in a limited number of loan types, concentration risks are a part of doing business. Consequently, the way these banks manage their concentration risk is important. In 2014, approximately 12 percent of loan-related MRBAs addressed concerns with the risk management practices governing concentrated loan exposures; in 2015, credit concentration-related MRBAs rose to 22 percent. Recommendations related to credit concentration risk

[3] A similar article analyzing MRBA trends between 2010 and 2013 was published in a previous *Supervisory Insights* issue. Goni, Catherine H., Vigil, Paul S., Von Arb, Larry R., and Weber, Kenneth A. "Supervisory Trends: 'Matters Requiring Board Attention' Highlight Evolving Risks in Banking," *Supervisory Insights*, Volume 11, Issue 1, Summer 2014. https://www.fdic.gov/regulations/examinations/supervisory/insights/sisum14/sisum14.pdf

[4] Miller, Rae-Ann, Newbury, Laura B., Gross, Judy E., and Sen, Surge. "A Community Bank Director's Guide to Corporate Governance: 21st Century Reflections on the FDIC Pocket Guide for Directors," *Supervisory Insights*, April 2016 https://www.fdic.gov/regulations/examinations/supervisory/insights/sise16/si-se2016.pdf.

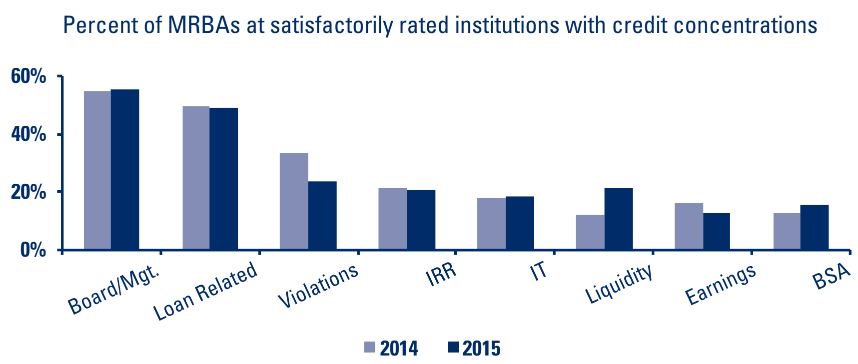
management practices frequently addressed the need to establish risk limits, implement or improve internal monitoring and board reporting, or enhance practices for evaluating the sensitivity of the concentration to stressed conditions, including the regular validation of assumptions.

The trend in concentration-related MRBAs is consistent with Call Report data showing the percentage of banks with elevated concentrations and high growth has significantly increased during the past few years. From 2013 to 2015, roughly one-third of all banks reported a total CRE or total agriculture concentration over 300 percent of total capital. Of these banks, the percentage with a three-year growth rate in excess of 50 percent in either portfolio increased from 23 percent at year-end 2013 to 34 percent at year-end 2015; this percentage increased to 39 percent in the first quarter of 2016. For banks with unusually rapid loan growth or heightened concentrations, effective risk management and responsiveness to MRBAs, as applicable, can reduce the likelihood of future problems.

Approximately 38 percent of the satisfactorily rated institutions with MRBAs reported in 2014 and 2015 also reported concentration levels in total CRE, ADC, or agriculture.[5] The most frequently cited MRBA categories for this group of concentrated institutions, like other banks, are board/management and loans. For the concentrated banks, however, there has been a recent increase in the frequency of MRBAs related to liquidity risk (see Chart 3). The increase in liquidity-related MRBAs among credit-concentrated institutions is generally consistent with Call Report data indicating that the proportion of liquid assets to total assets held by smaller banks has been trending downward. At concentrated institutions with total assets less than $1 billion, one measure of highly liquid interest-bearing assets decreased from 9.1 percent of total assets in 2013 to 6.6 percent of total assets as of March 31, 2016.[6] As the economy continues to expand and credit volumes increase, the board of directors and bank management should ensure strong risk management policies are in place, effective risk limits are established and monitored, and suitable audit practices are implemented.

Liquidity issues cited in MRBAs are focused in asset liability management weaknesses followed by corporate governance deficiencies related to contingency funding plans. The federal banking regulatory agencies

Chart 3: MRBAs reflect rise in liquidity issues for institutions with credit concentrations



Source: FDIC supervisory data and RIS data – January 1, 2014 to December 31, 2015
Note: MRBAs cited in a ROE may include more than one category. The Violations category also includes contraventions to interagency statements of policy or nonconformance with regulatory guidance.

---

[5] Concentration thresholds for purposes of this article are total CRE to total capital over 300 percent, ADC to total capital greater than 100 percent, or agriculture to total capital over 300 percent. These figures are not supervisory limits on exposures.

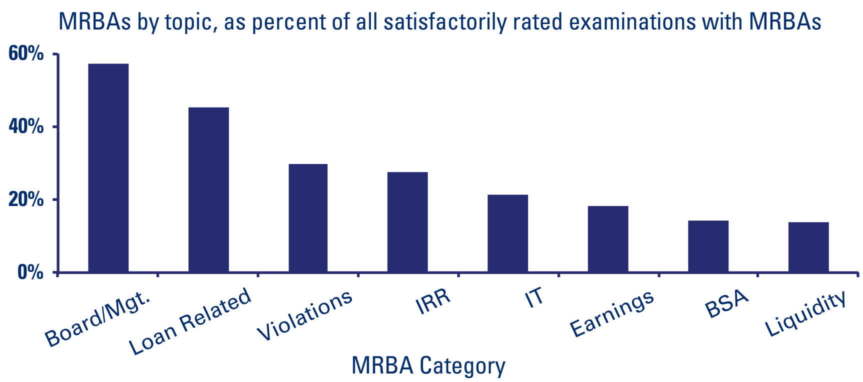
[6] Highly liquid interest-bearing assets as measured by interest-bearing balances from depository institutions, Federal funds sold, and securities purchased under agreements to resell.

continued from pg. 11

issued guidance in April 2010 on sound practices for managing funding and liquidity risk and strengthening liquidity risk management practices.[7] This guidance emphasizes the importance of cash-flow projections, diversified funding sources, stress testing, a cushion of liquid assets, and contingency funding plans as essential tools for measuring and managing liquidity risk. The guidance also indicates that the agencies expect each financial institution to manage funding and liquidity risk using processes and systems that are commensurate with the institution's complexity, risk profile, and scope of operations.

Finally, the information technology (IT) environment remains a challenging area of business risk and warrants bank management's oversight and continuing due diligence. In a recently published *Supervisory Insights* article, the FDIC provided an overview of threats in the cybersecurity area and discussed how financial institutions' information security programs can be enhanced to address evolving cybersecurity risk.[8] In addition, the FDIC has produced a series of videos on cybersecurity awareness designed to help bank directors understand cybersecurity risks and evaluate related risk management programs.[9] IT was cited in approximately 22 percent of the satisfactorily rated institutions with MRBAs during the past two years; this level of MRBAs indicates that IT and cybersecurity should be an area of increasing focus by bank management and boards. MRBAs in the IT area include the need for management to strengthen the Information Security Program, risk assessments, vendor management, and disaster recovery and business continuity plans.

Chart 4: Most ROEs with MRBAs include items related to board/management oversight



Source: FDIC supervisory data – January 1, 2014 to December 31, 2015
Note: MRBAs cited in a ROE may include more than one category. The Violations category also includes contraventions to interagency statements of policy or nonconformance with regulatory guidance.

Issues Identified by Examiners within Selected MRBA Categories

As noted earlier, among the decreasing proportion of institutions that have MRBAs, an increasing proportion of those MRBAs relate to board and management issues. In 2014-2015, board/management issues were listed more frequently than any other MRBA category. Board/management issues were cited in 57 percent of all ROEs with MRBAs listed compared to approximately 45 percent addressing lending deficiencies (see Chart 4).

Within the broad category of board/management, almost half the MRBAs

[7] FIL-13-2010, "Funding and Liquidity Risk Management Interagency Guidance," April 5, 2010. https://www.fdic.gov/news/news/financial/2010/fil10013.html.

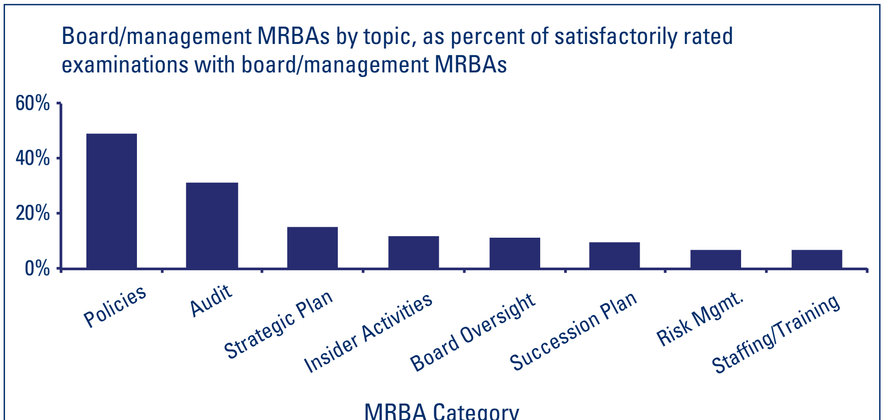
[8] Benardo, Michael B. and Weatherby, Kathryn M. "A Framework for Cybersecurity," *Supervisory Insights*, Winter 2015 https://www.fdic.gov/regulations/examinations/supervisory/insights/siwin15/siwinter15-article1.pdf.

[9] Cybersecurity Awareness videos, Directors' Resource Center, Technical Assistance Video Program https://www.fdic.gov/regulations/resources/director/technical/cybersecurity.html.

were related to corporate governance issues attributable to incomplete or ineffective policies (see Chart 5). Corporate governance issues include revising or expanding policies to provide a clear governance framework; ensuring those policies incorporate sound objectives, procedures, and risk limits; and monitoring bank officer and employee compliance with those policies, banking laws, and regulations.

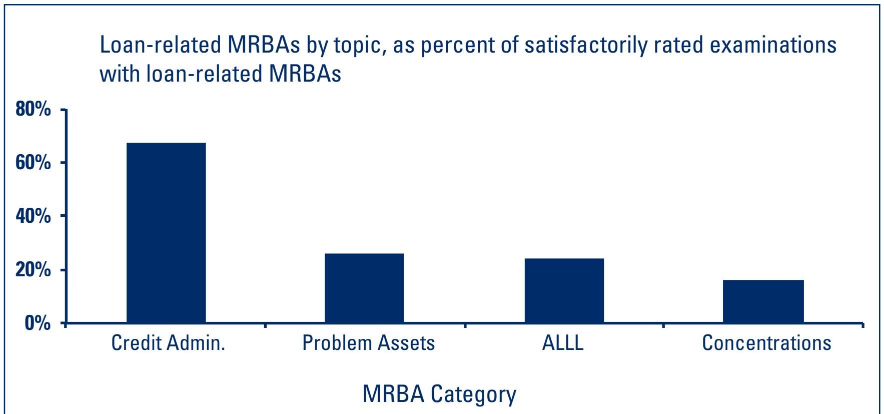
About 31 percent of the board/management-related MRBAs addressed audit concerns. Audit recommendations included the need for improvements to audit plans so that such plans can better address an institution's risk profile, as well as the need for increased board or management oversight of the audit function. Although not counted in the audit total under the board/management category, MRBAs regarding independent reviews were included within several of the subject areas listed in Chart 5. About 20 percent of all MRBAs reported among satisfactorily rated banks in 2014 and 2015 cited matters relating to independent review.[10] Other board/management-related MRBAs included strategic planning, matters related to insider or affiliate activities, succession planning, appropriate staffing or training, risk management practices, and overall board oversight.

Chart 5: Corporate governance concerns are the most commonly cited issue among board/management MRBAs



Source: FDIC supervisory data – January 1, 2014 to December 31, 2015
Note: MRBAs cited in a ROE may include more than one category.

Chart 6: Credit administration is the most commonly cited deficiency within the lending function



Source: FDIC supervisory data – January 1, 2014 to December 31, 2015
Note: MRBAs cited in a ROE may include more than one category.

The second most commonly cited category for 2014 and 2015 was the lending function with more than two-thirds of those MRBAs relating to credit administration (see Chart 6). These MRBAs include the need to improve loan review and the loan grading system; prepare global cash flow analysis; and reduce technical credit data or collateral documentation exceptions.

[10] An independent review includes those reviews performed by a competent, objective, and independent party that may include verifying or validating important risk management programs or systems within the bank. Independent reviews need not be conducted by outside parties; such reviews can often be conducted by bank personnel with sufficient expertise and independence of the area being reviewed. MRBAs cited for independent review weaknesses were included in interest rate risk (IRR), allowance for loan and lease losses (ALLL), Bank Secrecy Act (BSA), or IT categories.

Matters Requiring Board Attention

continued from pg. 13

About one-fourth of loan-related MRBAs addressed elevated volumes in problem assets, and a similar percentage focused on the ALLL. MRBAs directed at problem assets included the need to reduce the level of criticized assets, nonperforming loans, nonaccruals, and past dues; implement risk reduction plans for criticized assets above a defined dollar threshold; and update or improve work out plans on adversely classified assets. Matters related to the ALLL typically involved the need to correct deficiencies identified with the methodology, improve qualitative or quantitative factors used to support calculations, or provide for additional provisions to restore the institution's ALLL to an appropriate level.

The remaining noteworthy sub-category in lending-related MRBAs pertains to concentrations of credit. Concentrations are identified by common characteristics such as collateral, geographic area, industry, product line, or some other commonly shared distinction. Roughly 16 percent of loan-related MRBAs in 2014 and 2015 addressed rising concentration risk, reflecting the need for increased monitoring and oversight of concentrations of commercial real estate (CRE), agriculture, commercial and industrial (C&I), and acquisition, development, and construction (ADC) loans.

After board/management issues and loans, the next most frequently cited MRBA category in 2014 and 2015 was apparent violations of laws or regulations or contraventions of statements of policy and nonconformance with regulatory guidance. This category was reported in approximately 30 percent of all ROEs with MRBAs listed. MRBAs in the violations category focused on a board of directors' need to correct apparent violations of banking laws or regulations, resolve contraventions of statements of policy, and to reduce such instances in the future.[11]

The next most commonly recorded MRBA category was interest rate risk (IRR) concerns, reported in more than 27 percent of the ROEs that contained MRBAs. IRR matters frequently focused on the need to develop strategies that more effectively monitor, measure, and control IRR, including establishing risk tolerance parameters for IRR model results; enhance models to better address risks present in the institution's balance sheet; and improve board oversight of models that measure and monitor IRR.[12]

MRBAs addressing IT concerns were identified in about 22 percent of ROEs followed by MRBAs associated with earnings-related matters in approximately 18 percent of ROEs in 2014 and 2015. MRBAs in the IT

[11] Examples of apparent violations of laws and regulations and contraventions of FDIC statements of policy cited in MRBAs include 12 CFR 337.3 (limits on extensions of credit to executive officers, directors, and principal shareholders of insured nonmember banks); 12 U.S.C. 1828(j) (restrictions on transactions with affiliates, which apply the restrictions in sections 23A and 23B of the *Federal Reserve Act* to state nonmember banks); 12 CFR Part 323 (appraisals); 12 CFR Part 326 (minimum security devices and procedures and *Bank Secrecy Act* compliance); 12 CFR Part 353 (Suspicious Activity Reports); *Interagency Policy Statements on Interest Rate Risk Management, Appraisal and Evaluation Guidelines, Allowance for Loan and Lease Losses, and Guidance on Concentrations in Commercial Real Estate Lending* and *Sound Risk Management Practices.*

[12] Refer to www.fdic.gov for IRR resources including directors' resource videos on IRR at http://www.fdic.gov/regulations/resources/director/technical/irr.html, Financial Institution Letter FIL 2-2010 - *Financial Institution Management of Interest Rate Risk* https://www.fdic.gov/news/news/financial/2010/fil10002.html, and Financial Institution Letter FIL 46-2013 - *Managing Sensitivity to Market Risk in a Challenging Interest Rate Environment https://www.fdic.gov/news/news/financial/2013/fil13046.html.*

area focused on improvements needed in information security programs, including the need for expanded risk assessments, independent reviews of controls and systems in place, vendor management programs, data and physical security, and business continuity plans. Earnings MRBAs were centered on the need to improve earnings to a satisfactory level by developing and implementing budgeting or profit planning strategies to improve core earnings.

Bank Management Response to MRBAs

Bank management is generally responsive to addressing weaknesses identified in the MRBAs. In about 70 percent of the MRBAs reported in 2014 and 2015 examinations, bank management sufficiently addressed problem areas in the first response. This is somewhat less than the first-response resolution rate of over 80 percent for MRBAs cited during examinations from 2010 to 2013, but still reflects a satisfactory response by most bankers to resolve issues identified in MBRAs. The FDIC continues to request additional information from bank management on any outstanding MRBA until the issue is satisfactorily resolved. This may be the case, for example, when management's responses are general in nature and lack sufficient details about how management addressed or planned to address the MRBA. Management's and the board's willingness to effectively address weaknesses in a timely manner is essential for mitigating potential risks and fostering long-term financial bank stability.

Conclusion

The MRBA trends discussed in this article emphasize the need for strong risk management policies and practices, particularly as credit volumes continue to increase during this current economic expansion. MRBAs identified at examinations over the past two years have often called for a heightened management focus on corporate governance practices, credit administration, and rising credit concentrations, with attention also warranted in the areas of IT and liquidity. How banks address weaknesses and risks identified during examinations can be of critical importance to their long-term financial health. The FDIC continues to use MRBAs to highlight areas of potential risk that, if addressed timely and effectively by bank boards of directors and senior management, can reduce the likelihood those institutions will experience serious negative financial effects.

Angela M. Herrboldt
Senior Examination Specialist
Division of Risk Management Supervision
aherrboldt@fdic.gov

Kenneth A. Weber
Senior Quantitative Risk Analyst
Division of Risk Management Supervision
kweber@fdic.gov

continued from pg. 16

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
Consolidated Reports of Condition and Income (FIL-45-2016, July 6, 2016)	As part of its community bank Call Report burden-reduction initiative, the FFIEC has approved a number of burden-reducing changes to the Call Report, as well as certain new and revised data items and instructional revisions. Subject to approval by the U.S. Office of Management and Budget, these Call Report revisions will take effect on either September 30, 2016, or March 31, 2017, depending on the change. See https://www.fdic.gov/news/inactive-financial-institution-letters/2016/fil16045.html
Information Technology Risk Examination (InTREx) Program (FIL-43-2016, June 30, 2016)	The FDIC updated its information technology and operations risk (IT) examination procedures to provide a more efficient, risk-focused approach. The InTREx Program also provides a cybersecurity preparedness assessment and discloses more detailed examination results using component ratings. See https://fdic.gov/news/news/financial/2016/fil16043.html
Frequently Asked Questions on Identifying, Accepting and Reporting Brokered Deposits (FIL-42-2016, June 30, 2016)	The FDIC is finalizing updates to its Frequently Asked Questions (FAQs) regarding identifying, accepting and reporting brokered deposits. The FDIC released proposed updates for comment in November 2015. After consideration of the comments received, the FDIC retained a majority of the proposed updates, with certain clarifications and new FAQs. This Financial Institution Letter supersedes FIL-2-2015 and FIL-51-2015. See https://fdic.gov/news/news/financial/2016/fil16042.html

Subject	Summary
FDIC Initiates Small Business Lending Survey (PR-54-2016, June 28, 2016)	The FDIC announced the launch of a survey of banks regarding their small business lending practices. The web-based survey of roughly 2,000 randomly selected FDIC-insured banks will begin in late June and will be administered by the U.S. Census Bureau on behalf of the FDIC. The Small Business Lending Survey (SBLS) will collect data that provide additional insight into many aspects of small business lending, including nationally representative information on the general characteristics of banks' small business borrowers, the types of credit offered to small businesses, and the relative importance of commercial lending for banks of different sizes and business models. See https://fdic.gov/news/news/press/2016/pr16054.html
Proposed Rulemaking to Remove References to Credit Ratings from the FDIC'S International Banking Regulations (FIL-40-2016, June 22, 2016)	The FDIC adopted the *Notice of Proposed Rulemaking* (NPR) and request for comment, which would amend the FDIC's international banking regulations related to permissible investment activities and the pledging of assets. The proposed rule would remove references to external credit ratings and replace them with appropriate standards of creditworthiness. Comments will be solicited on this NPR for 60 days following publication in the *Federal Register*. See https://fdic.gov/news/news/financial/2016/fil16040.html
Agencies Issue Host State Loan-to-Deposit Ratios (PR-52-2016, June 17, 2016)	The federal bank regulatory agencies issued the host state loan-to-deposit ratios they will use to determine compliance with Section 109 of the *Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994*. These ratios replace the prior year's ratios, which were released on June 29, 2015. In general, Section 109 prohibits a bank from establishing or acquiring a branch or branches outside its home state primarily for the purpose of deposit production. Section 109 also prohibits branches of banks controlled by out-of-state bank holding companies from operating primarily for the purpose of deposit production. See https://fdic.gov/news/news/press/2016/pr16052.html
Joint Statement on the New Accounting Standard on Financial Instruments – Credit Losses (FIL-39-2016, PR-51-2016, June 17, 2016)	The federal financial institution regulatory agencies have issued a Joint Statement on the *New Accounting Standard on Financial Instruments – Credit Losses* regarding the Financial Accounting Standards Board's new standard, which introduces the current expected credit losses methodology (CECL) for estimating allowances for credit losses. This statement also provides initial supervisory views regarding the implementation of the new accounting standard. See https://fdic.gov/news/news/financial/2016/fil16039.html
FFIEC Joint Statement on Cybersecurity of Interbank Messaging and Wholesale Payment Networks (FIL-37-2016, June 7, 2016)	The FDIC, working with the FFIEC, issued a statement advising financial institutions to actively manage the risks associated with interbank messaging and wholesale payment networks. This guidance was issued in response to recent cyberattacks targeting interbank messaging and wholesale payment networks, resulting in large-dollar fraud at several foreign institutions. See https://fdic.gov/news/news/financial/2016/fil16037.html

Regulatory and Supervisory Roundup

continued from pg. 18

Subject	Summary
FDIC Report Shows Mobile Banking Can Help Underserved Consumers (PR-42-2016, May 25, 2016)	The FDIC released a report documenting how mobile banking can help underserved consumers obtain more control over their finances and increase access to mainstream banking. The report was released at a meeting of the FDIC's Advisory Committee on Economic Inclusion (ComE-IN), which focused on Mobile Financial Services (MFS). The report, *Opportunities for Mobile Financial Services to Engage Underserved Consumers*, identifies a set of strategies for banks to consider to better position them to meet underserved consumers' needs. See https://www.fdic.gov/news/news/press/2016/pr16042.html
Interagency Guidance: Deposit-Reconciliation Practices (FIL-35-2016, May 18, 2016)	The federal financial institution regulatory agencies issued guidance to ensure financial institutions are aware of agencies' supervisory expectations regarding deposit-reconciliation practices that may be detrimental to customers. This guidance addresses a set of situations in which customers make deposits to accounts and the dollar amount that the financial institution credits to that account differs from the total of the items deposited. This guidance also highlights the various laws and regulations relevant to deposit-reconciliation practices. See https://fdic.gov/news/news/financial/2016/fil16035.html
Interagency Notice of Proposed Rulemaking: Incentive-Based Compensation Arrangements (FIL-34-2016, PR-39-2016, May 16, 2016)	The FDIC approved a second joint NPR to implement Section 956 of the *Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act).* The NPR seeks to strengthen the incentive-based compensation practices at covered institutions by better aligning the financial rewards for covered persons with an institution's long-term safety and soundness. This NPR was published in the *Federal Register* on June 10, 2016, with a public comment period to close on July 22, 2016. See https://fdic.gov/news/news/financial/2016/fil16034.html
Net Stable Funding Ratio: Proposed Rule (FIL-33-2016, PR-35-2016, May 6, 2016)	The federal bank regulatory agencies issued a proposed rule that would implement a liquidity requirement consistent with the net stable funding ratio (NSFR) agreed to by the Basel Committee on Banking Supervision. The NSFR would reduce the likelihood that disruptions to a banking organization's regular sources of funding would compromise its liquidity position. See https://www.fdic.gov/news/news/financial/2016/fil16033.html
FDIC Highlights Resources on Banking for Small Businesses During National Small Business Week (PR-37-2016, May 6, 2016)	The FDIC highlighted the agency's resources to help small businesses get the most from their banking relationships. The information is being emphasized to coincide with National Small Business Week, May 1-7. FDIC provides *Money Smart for Small Business*, a practical introduction to topics related to starting and managing a business, as a free educational tool. See https://www.fdic.gov/news/news/press/2016/pr16037.html

Subject	Summary
Request for Comments on Mobile Financial Services Strategies and Participation in Economic Inclusion Demonstrations (FIL-32-2016, May 3, 2016)	The FDIC is seeking input from financial institutions, consumer groups, and other stakeholders on its plans for exploring the economic inclusion potential of mobile financial services (MFS). The FDIC is interested in demonstrating how MFS can be successfully leveraged to promote and support underserved consumers' banking relationships. See https://www.fdic.gov/news/inactive-financial-institution-letters/2016/fil16032.html
Mobile Financial Services: Update to FFIEC IT Examination Handbook Series (FIL-31-2016, April 29, 2016)	The FFIEC issued a new appendix, *Mobile Financial Services*, to the Retail Payment Systems booklet of the *FFIEC Information Technology Handbook*. The appendix provides guidance to assist examiners in evaluating the risks associated with mobile financial services. See hhttps://www.fdic.gov/news/inactive-financial-institution-letters/2016/fil16031.html
Updated Financial Institution Employee's Guide to Deposit Insurance (FIL-30-2016, April 27, 2016)	The FDIC updated the *Financial Institution Employee's Guide to Deposit Insurance*. The *Guide* is designed primarily as a resource for bank employees to understand the FDIC's rules and requirements for deposit insurance coverage so they can assist depositors in understanding FDIC deposit insurance coverage. See https://www.fdic.gov/news/news/financial/2016/fil16030.html
Small Bank Pricing – Final Rule (FIL-28-2016, PR-32-2016, April 26, 2016)	The FDIC approved the final rule to improve the deposit insurance assessment system for established small insured depository institutions (generally, those banks with less than $10 billion in total assets that have been insured for at least five years). The final rule is revenue neutral, allows for deposit insurance premiums to decrease once the Deposit Insurance Fund reserve ratio reaches 1.15 percent, and does not require additional reporting by the banks. The final rule is effective July 1, 2016. See https://www.fdic.gov/news/news/financial/2016/fil16028.html
National Financial Capability Month and Free Financial Education Tools from FDIC (PR-29-2016, April 8, 2016)	The FDIC marked National Financial Capability Month in April by highlighting educational opportunities for adults and young people to build their financial knowledge and skills. The FDIC's *Money Smart* program includes a comprehensive financial education curriculum designed to help low- and moderate-income individuals outside the financial mainstream enhance their financial skills. See https://www.fdic.gov/news/news/press/2016/pr16029.html
Supplemental Guidance Related to the FDIC Statement of Policy on Applications for Deposit Insurance (FIL-24-2016, April 6, 2016)	The FDIC issued guidance in the form of supplemental "Questions and Answers" (Q&As) to aid applicants in developing proposals for deposit insurance. The supplemental Q&As, which address business planning, provide additional transparency to the application process and supplement the guidance issued November 20, 2014, through Financial Institution Letter FIL-56-2014. See https://www.fdic.gov/news/news/financial/2016/fil16024.html

Regulatory and Supervisory Roundup

continued from pg. 20

Subject	Summary
FDIC Rescinds *De Novo* Time Period Extension; Releases Supplemental Guidance on Business Planning (PR-27-2016, April 6, 2016)	The FDIC rescinded FIL 50-2009, *Enhanced Supervisory Procedures for Newly Insured FDIC-Supervised Depository Institutions.* The FIL extended the *de novo* period for newly organized, state nonmember institutions from three to seven years for examinations, capital maintenance, and other requirements. The FDIC also issued a supplement to its November 2014 guidance related to the *Statement of Policy on Applications for Deposit Insurance*. The guidance aids applicants who are developing proposals for deposit insurance. See https://www.fdic.gov/news/news/press/2016/pr16027.html
FDIC Announces Community Banking Conference *"Strategies for Long-Term Success"* (PR-23-2016, March 22, 2016)	The FDIC announced that it will bring together community bankers, regulators, researchers, and others for a conference on community banking on April 6 in Arlington, VA. As part of the FDIC's Community Banking Initiative, the conference will explore strategies for long-term success in the community banking sector. The conference will feature panel discussions on successful community bank business models, key regulatory developments, opportunities and challenges in managing technology, and ownership structure and succession planning. See https://www.fdic.gov/news/news/press/2016/pr16023.html
Interagency Guidance to Issuing Banks on Applying Customer Identification Program Requirements to Holders of Prepaid Cards (FIL-21-2016, PR-22, 2016, March 21, 2016)	The federal bank regulatory agencies and the Financial Crimes Enforcement Network (FinCEN) issued guidance to clarify existing Customer Identification Program (CIP) requirements for banks that issue prepaid cards. See https://www.fdic.gov/news/news/financial/2016/fil16021.html
FDIC Board Adopts Final Rule to Increase Deposit Insurance Fund to Statutorily Required Level (PR-21-2016, March 15, 2016)	The FDIC approved a final rule to increase the Deposit Insurance Fund (DIF) to the statutorily required minimum level of 1.35 percent. Congress in the *Dodd-Frank Act* increased the minimum for the DIF reserve ratio from 1.15 percent to 1.35 percent, and required that the ratio reach that level by September 30, 2020. See https://www.fdic.gov/news/news/press/2016/pr16021.html
FDIC Issues Technical Assistance Video on Outsourcing Technology Services (FIL-19-2016, March 14, 2016)	As part of the FDIC's Community Banking Initiative and Technical Assistance Video Program, the FDIC announced the release of a new video on outsourcing technology services. The video is designed to assist community bank directors and senior management in developing a comprehensive risk-assessment program for vendor management. See https://www.fdic.gov/news/inactive-financial-institution-letters/2016/fil16019.html

Subject	Summary
FDIC Updates Flood Insurance Videos (FIL-18-2016, March 10, 2016)	The FDIC released updated technical assistance videos on flood insurance. The videos provide financial institution management, compliance officers, and staff with resources for better understanding of federal flood insurance laws, regulations, and compliance responsibilities. See https://www.fdic.gov/news/inactive-financial-institution-letters/2016/fil16018.html
FDIC Publishes a Bank Customer's Guide to Cybersecurity (PR-18-2016, March 8, 2016)	The FDIC released a special edition of FDIC *Consumer News* (Winter 2016) entitled *"A Bank Customer's Guide to Cybersecurity."* This publication discusses safety precautions to take before connecting to the Internet with a personal computer, laptop, smartphone, or tablet; tips on how to avoid identity theft online; and what to know about the roles that banks and the government play in protecting customers. See https://www.fdic.gov/news/news/press/2016/pr16018.html
Joint Interim Final Rules and Request for Comments on Expanded Examination Cycle for Certain Small Insured Depository Institutions and U.S. Branches and Agencies of Foreign Banks (FIL-17-2016, March 4, 2016)	The federal financial institution regulatory agencies have jointly adopted interim final rules permitting insured depository institutions (IDIs) with up to $1 billion in total assets, and that meet certain other criteria, to qualify for an 18-month on-site examination cycle instead of a 12-month cycle. The implementation of these rules allows the agencies to better focus supervisory resources on IDIs that present capital, managerial or other issues of supervisory concern, while reducing regulatory burden on small, well-capitalized and well-managed institutions. See https://www.fdic.gov/news/news/financial/2016/fil16017.html
Federal Bank Regulatory Agencies Clarify Supervisory Expectations for Evaluations (FIL-16-2016, PR-17-2016, March 4, 2016)	The federal bank regulatory agencies issued an advisory to clarify supervisory expectations for using an evaluation for certain real estate-related transactions in response to questions arising from outreach meetings held pursuant to the *Economic Growth and Regulatory Paperwork Reduction Act (EGRPA)*. Many questions pertained to when an evaluation is permitted for a real estate-related transaction and how an evaluation can support a market value conclusion when there are few or no recent comparable sales of similar properties. See https://www.fdic.gov/news/news/financial/2016/fil16016.html
Capital Treatment for Qualifying Collateralized Debt Obligations Backed by Trust-Preferred Securities Under The Volcker Rule (FIL-15-2016, March 4, 2016)	The federal financial institution regulatory agencies have issued a Frequently Asked Question document to clarify the capital treatment of certain Collateralized Debt Obligations backed by Trust Preferred Securities (TruPS CDO) under Section 13 of the *Bank Holding Company Act*, which implements Section 619 of the *Dodd-Frank Act,* also known as the "Volcker Rule." See https://www.fdic.gov/news/news/financial/2016/fil16015.html
FDIC Clarifies Discontinuation of Foreclosure Proceedings (FIL-14-2016, March 2, 2016)	The FDIC is clarifying supervisory expectations in existing guidance for institutions' risk-management practices for decisions to discontinue foreclosure proceedings after initiating such actions, which are commonly referred to as abandoned foreclosures. Institutions should have appropriate policies and practices pertaining to decisions to discontinue foreclosure actions. See https://www.fdic.gov/news/news/financial/2016/fil16014.html

Regulatory and Supervisory Roundup

continued from pg. 22

Subject	Summary
FDIC Announces Webinar for National Consumer Protection Week 2016: Cybersecurity Resources for Financial Institution Customers (FIL-13-2016, March 2, 2016)	The FDIC will host a free webinar on March 9, 2016, from 2:00 p.m. to 3:00 p.m. (EST) titled *Cybersecurity Resources to Help Your Customers Protect Themselves*. The webinar will highlight new and enhanced consumer education resources available from the FDIC that encourage financial institution customers (consumers and businesses) to take appropriate safety precautions for using computers and the Internet. See https://www.fdic.gov/news/inactive-financial-institution-letters/2016/fil16013.html
Federal Bank Regulatory Agencies Issue Guidance on Funds Transfer Pricing Related to Funding and Contingent Liquidity Risks (FIL-12-2016, March 1, 2016)	The federal bank regulatory agencies issued guidance to clarify supervisory expectations for an effective funds transfer pricing (FTP) framework. The guidance builds on the principles of sound liquidity risk-management practices outlined in existing regulatory guidance. The guidance advises on how to effectively apply FTP to align risk-taking incentives of individual business lines with the firm's overall risk appetite. The interagency guidance describes key principles that should comprise an FTP framework and includes examples for implementing these principles. See https://www.fdic.gov/news/news/financial/2016/fil16012.html
Federal Bank Regulatory Agencies Expand Number of Banks and Savings Associations Qualifying for 18-Month Examination Cycle (PR-11-2016, February 19, 2016)	Federal bank regulatory agencies increased the number of small banks and savings associations eligible for an 18-month examination cycle rather than a 12-month cycle. The changes are intended to reduce regulatory compliance costs for smaller institutions, while maintaining safety-and-soundness protections. See https://www.fdic.gov/news/news/press/2016/pr16011.html
FDIC Board Approves Proposal on Deposit Account Recordkeeping Requirements to Facilitate Timely Access to Deposits in Large Bank Failures (PR-10-2016, February 17, 2016)	The FDIC Board approved a proposal for recordkeeping requirements for FDIC-insured institutions with a large number of deposit accounts to facilitate rapid payment of insured deposits to customers if the institutions were to fail. The proposed rule would apply to insured depository institutions with more than 2 million deposit accounts. The FDIC is not proposing or considering making these requirements applicable to smaller institutions, including community banks. See https://www.fdic.gov/news/news/press/2016/pr16010.html
FDIC Releases Economic Scenarios for 2016 Stress Testing (PR-9-2016, February 9, 2016)	The FDIC released economic scenarios that will be used by certain financial institutions with total consolidated assets of more than $10 billion for stress tests required under the *Dodd-Frank Act*. The baseline, adverse, and severely adverse scenarios include key variables that reflect economic activity, including unemployment, exchange rates, prices, income, interest rates, and other salient aspects of the economy and financial markets. See https://www.fdic.gov/news/news/press/2016/pr16009.html

Subject	Summary
FDIC Releases Updated Interest Rate Risk Videos (FIL-10-2016, February 3, 2016)	The FDIC announced the release of updated videos on interest rate risk. The new videos provide financial institution directors, management, and staff with resources for better understanding interest rate risk and how it can be prudently managed. See https://www.fdic.gov/news/inactive-financial-institution-letters/2016/fil16010.html
Notice of Proposed Rule Making on Small Bank Pricing (FIL-7-2016, PR-4-2016, January 21, 2016)	The FDIC Board approved a NPR that would refine the deposit insurance assessment system for small insured depository institutions (generally, those institutions with less than $10 billion in total assets). Under the revised NPR, refinements would become operative the quarter after the reserve ratio of the DIF reaches 1.15 percent (or the quarter after a final rule is adopted, whichever is later). The NPR will be published in the *Federal Register* on February 4, 2016. The public comment period will close on March 7, 2016. See https://www.fdic.gov/news/news/financial/2016/fil16007.html
FDIC Announces Series of Seminars on Deposit Insurance Coverage (FIL-6-2016, January 19, 2016)	The FDIC will conduct six live seminars on FDIC deposit insurance coverage for bank employees and bank officers between February 23, 2016 and December 5, 2016. The FDIC also developed three Deposit Insurance Coverage Seminars for bank officers and employees, which are now available on the FDIC's YouTube channel. The live and the YouTube deposit insurance coverage seminars will provide bank employees with an understanding of how to calculate deposit insurance coverage. See https://www.fdic.gov/news/inactive-financial-institution-letters/2016/fil16006.html
Interagency Advisory on External Audits of Internationally Active U.S. Financial Institutions (FIL-5-2016, January 15, 2016)	The federal bank regulatory agencies issued an advisory to indicate support for the principles and expectations set forth in the Basel Committee on Banking Supervision's March 2014 guidance on "External audits of banks" (BCBS external audit guidance). The advisory explains the agencies' supervisory expectations regarding how internationally active U.S. financial institutions should address differences between the standards and practices followed in the United States and the principles and expectations in the BCBS external audit guidance. See https://www.fdic.gov/news/news/financial/2016/fil16005.html
Bank Regulatory Agencies and CDFI Fund to Sponsor National Interagency Community Reinvestment Conference (PR-1-2016, January 6, 2016)	The federal bank regulatory agencies, the Federal Reserve Bank of San Francisco, and the Community Development Financial Institutions Fund will host the 2016 National Interagency Community Reinvestment Conference in Los Angeles from February 8 – 10, 2016. This biennial conference offers participants the opportunity to learn about the Community Reinvestment Act (CRA) and discuss best practices and emerging challenges in community development. See https://www.fdic.gov/news/news/press/2016/pr16001.html

Regulatory and Supervisory Roundup

continued from pg. 24

Subject	Summary
Federal Bank Regulatory Agencies Release Annual CRA Asset-Size Threshold Adjustments (PR-101-2015, December 22, 2015)	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. The annual adjustments are required by the CRA rules. See https://www.fdic.gov/news/news/press/2015/pr15101.html
Federal Bank Regulatory Agencies Issue Statement on Prudent Risk Management for CRE Lending (FIL-62-2015, PR-100-2015, December 18, 2015)	The federal bank regulatory agencies issued an interagency statement to highlight prudent risk-management practices from existing guidance that regulated financial institutions should apply in the management of their commercial real estate (CRE) lending activity. Financial institutions should implement risk-management practices and maintain capital levels commensurate with the level and nature of their CRE concentration risk. See https://www.fdic.gov/news/news/financial/2015/fil15062.html
Federal Bank Regulatory Agencies Seek Comment on Effort to Reduce Regulatory Burden (PR-98-2015, December 17, 2015)	The federal bank regulatory agencies approved a notice requesting comment on the fourth and final set of regulatory categories as part of their review to identify outdated or unnecessary regulations applied to insured depository institutions. *EGRPRA* requires the federal bank regulatory agencies to review their regulations at least every 10 years. See https://www.fdic.gov/news/news/press/2015/pr15098.html
Federal Financial Institution Regulatory Agencies Adopt Final Rule To address Margin and Capital Requirements for Covered Swap Entities (FIL-61-2015, December 16, 2015)	The federal financial institution regulatory agencies adopted a final rule to implement Sections 731 and 764 of the *Dodd-Frank Act*. These sections require the agencies to adopt rules jointly to establish capital requirements and initial and variation margin requirements for all non-cleared swaps and non-cleared security-based swaps of dealers and major participants. The capital requirements under these sections have been previously incorporated in the agencies' capital rules. See https://www.fdic.gov/news/news/financial/2015/fil15061.html
FDIC Issues Final Rule Amending the Filing Requirements and Processing Procedures for Changes in Control (FIL-60-2015, December 16, 2015)	The final rule amending the FDIC's filing requirements and processing procedures for notices filed under the *Change in Bank Control Act* consolidates and conforms the regulations of state nonmember banks, state savings associations, and certain parent companies, and makes existing FDIC practices more transparent. The final rule adopts certain provisions intended to establish consistency with the regulations of the other federal banking agencies. The final rule takes effect January 1, 2016. See https://www.fdic.gov/news/news/financial/2015/fil15060.html

Subject	Summary
Federal Bank Regulatory Agencies Issue Statement Regarding Basel Committee's Second Consultative Paper (PR-96-2015, December 10, 2015)	The Basel Committee on Banking Supervision published a consultative paper, "Revisions to the Standardized Approach for credit risk," which is the Committee's second consultative paper on the topic. These proposed revisions would apply primarily to large, internationally active banking organizations and not to community banking organizations. The federal bank regulatory agencies will consider the proposals outlined in the consultative paper with the goal of developing a stronger and more transparent risk-based capital framework for the largest institutions. See https://www.fdic.gov/news/news/press/2015/pr15096.html
FDIC Revises the Compliance Examination Manual (FIL-59-2015, December 4, 2015)	The FDIC revised the Compliance Examination Manual (Manual) to reflect recent supervisory guidance. The Manual provides guidance to FDIC examination staff for evaluating financial institutions for compliance with federal consumer protection laws and regulations. The Manual, which is available on the FDIC's website, may help institutions better understand the FDIC's consumer compliance examination process. See https://www.fdic.gov/news/inactive-financial-institution-letters/2015/fil15059.html

Federal Deposit Insurance Corporation
Washington, DC 20429-9990

OFFICIAL BUSINESS
PENALTY FOR PRIVATE USE, $300

FIRST CLASS MAIL

Postage & Fees Paid
FDIC
Permit No. G-36

Subscription Form

To obtain a subscription to ***Supervisory Insights***, please print or type the following information:

Institution Name ____________________

Contact Person ____________________

Telephone ____________________

Street Address ____________________

City, State, Zip Code ____________________

Please fax or mail this order form to: FDIC Public Information Center
3501 North Fairfax Drive, Room E-1022
Arlington, VA 22226
Fax Number (703) 562-2296

Subscription requests also may be placed by calling 1-877-ASK-FDIC or 1-877-275-3342
or go to https://service.govdelivery.com/service/multi_subscribe.html?code=USFDIC