

San Francisco Region Bankers' Forum: Consumer Protection Hot Topics

October 2, 2013

Agenda

- Opening Comments
 - Regional Director Stan Ivie
- Compliance Risk Assessments
 - Examiner Julie Evans
- CRA Self Assessments
 - Review Examiner Rolin Thomas
- Questions and Answers

Compliance Risk Assessments

Julie Evans
Examiner

Compliance Risk Assessment Defined

- Framework to determine compliance risk exposure
- Proactively identify, measure, mitigate, monitor, and control risk
- Design and tailor to the size and complexity of the institution

Constructing the Compliance Risk Assessment

Key Components of a Risk Assessment:

- Product, Service, Regulation, Business Units
- Area Impacted
- Inherent Risk
- Mitigating Factors
- Residual Risk

Constructing the Compliance Risk Assessment (cont.)

- Select a preferred method to begin formatting and documenting the risk assessment

Product	Regulation
Rewards Checking	Reg DD

Constructing the Compliance Risk Assessment (cont.)

- Identify all delivery channels or areas impacted by the product and regulation

Product	Regulation	Area Impacted
Rewards Checking	Reg DD	All branches

Inherent Risk – Examples

Bank 1

- New product
- Complicated eligibility requirements
- Offered through a third-party relationship

Product	Regulation	Area Impacted	Inherent Risk
Rewards Checking	Reg DD	All branches	Risk Rating ??

Inherent Risk – Examples (cont.)

Bank 2

- Offered product for 5 years
- Straight-forward eligibility requirements
- Bank-developed product

Product	Regulation	Area Impacted	Inherent Risk
Rewards Checking	Reg DD	All branches	Risk Rating ??

Mitigating Factors – Examples

Bank 1

- Determined controls by identifying and measuring actual practices in each impacted area to mitigate inherent risk

Product	Regulation	Area Impacted	Inherent Risk	Mitigating Factors
Rewards Checking	Reg DD	All branches	Risk rating ??	Risk rating ??

Mitigating Factors – Examples (cont.)

Bank 2

- Determined controls by identifying and measuring actual practices in each impacted area to mitigate inherent risk

Product	Regulation	Area Impacted	Inherent Risk	Mitigating Factors
Rewards Checking	Reg DD	All branches	Risk rating ??	Risk rating ??

Residual Risk – Examples

Bank 1

- Implemented an action plan to monitor and control residual risk

Product	Regulation	Area Impacted	Inherent Risk	Mitigating Factors	Residual Risk
Rewards Checking	Reg DD	All branches	Risk rating ??	Risk rating ??	Risk rating ??

Residual Risk – Examples (cont.)

Bank 2

- Implemented an action plan to monitor and control residual risk

Product	Regulation	Area Impacted	Inherent Risk	Mitigating Factors	Residual Risk
Rewards Checking	Reg DD	All branches	Risk rating ??	Risk rating ??	Risk rating ??

Business Unit Format Example

Mortgage Department Business Unit

- Will begin offering mortgage loans January 1, 2014
- What is the inherent risk, mitigating factors, and residual risk?

Business Unit	Products	Inherent Risk	Mitigating Factors	Residual Risk
Central Mortgage Loan Dept	Residential Mortgages	Risk rating ??	Risk rating ??	Risk rating ??

Other Considerations

- Other Components
- Effectiveness of Controls
- Gap Analysis
- Risk Indicators
- Risk Trends
- Benefits

CRA Self Assessments

Rolin Thomas
Review Examiner

Self-Assessment - Benefits

- Develop Performance Context
- Gauge the Bank's Performance
- Identify Areas of Concern
- Identify Assessment Area Needs

What is Performance Context?



Performance Context Examples

- Changes in local or national economy
- Change in bank lending focus or business plan
- Lending or investment constraints
- Community contacts
- Comparable institutions

Creating the Self Assessment

Bank Size	CRA Evaluation Tests
Small Bank	Lending
Intermediate-small Bank	Lending Community Development
Large Bank	Lending Investments Services

Lending Test

- Home Mortgage
- Small Business
- Small Farm
- Consumer



Loan-to-Deposit Ratio

- Measurement
- How to Calculate
- How to Analyze

Loan-to-Deposit Ratio – Example

- Bank – LTD Ratio 49.0%
- Comparable Bank 1 – LTD Ratio 73%
- Comparable Bank 2 – LTD Ratio 75%

Assessment Area Concentration

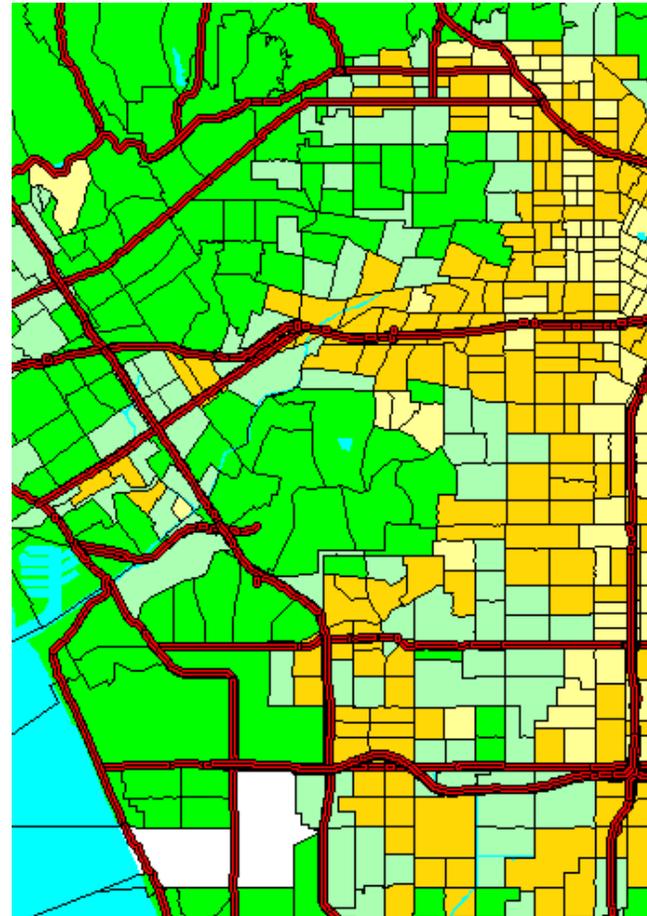
- Measurement
- How to Calculate
- How to Analyze

Assessment Area Concentration – Examples

1. 53% by number and dollar volume of small business loans were made inside the bank's assessment area
2. 42% by number and dollar volume of small business loans were made inside the bank's assessment area

Geographic Distribution

- Measurement
- How to Calculate
- How to Analyze



Geographic Distribution – Example

Bank ABC – Small Business Loan Geographic Distribution						
Census Tract Income Level	2011 D&B	2012 D&B	2011 Bank		2012 Bank	
	%	%	#	%	#	%
Low	7.5	7.9	35	3.2	21	2.7
Moderate	23.8	24.8	150	13.9	98	12.9
Middle	48.2	48.2	588	54.6	448	58.8
Upper	20.5	19.1	304	28.3	195	25.6
N/A	0.0	0.0	0.0	0.0	0.0	0.0
Total	100.0	100.0	1,077	100.0	762	100.0

Source: 2011 and 2012 D&B, Bank Records

Borrower Profile

- Measurement
- How to Calculate
- How to Analyze

CRA Comments/Complaints

- Record of Taking Action
 - Nature
 - Responsiveness
 - Resolution

Self Assessment Tools

- Create a Checklist
 - Public File
 - Public Notice
 - Assessment Area Delineation
 - Monitor Loan Information (Geocode, income, and revenue)

Resources

- [FFIEC's CRA Website:](#)
 - [Interagency CRA Examination Procedures](#)
 - [CRA Interagency Q&As](#)
 - [Geocoding/Mapping System](#)
 - [Underserved or Distressed Middle-Income Geographies](#)
 - [Census Reports](#)
- [FDIC CRA Performance Ratings](#)
- [FDIC's Community Affairs Program](#)



Questions and Answers

Press *1

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