



# DEPARTMENT of SAVINGS & MORTGAGE LENDING

8TH ANNUAL

## THRIFT INDUSTRY DAY

THURSDAY, SEPTEMBER 17, 2015

12:30 – 1:00 Registration

1:00 – 1:15 Welcome Comments

*Caroline C. Jones, Commissioner*

1:15 – 1:45 News from the Capitol

*Special Guest Speaker Representative William Metcalf*

1:45 – 2:30 Cybersecurity Risk Assessment Tool

*Mary Beth Quist, CSBS Senior Vice President- Supervisory Processes*

2:30 – 2:50 Legislative Update

*Ernest C. Garcia, General Counsel/Legislative Liaison, TDSML*

2:50 – 3:10 Spotlight on the Industry

*Jonathan Finley, Chief Supervisory Analyst, TDSML*

3:10 – 3:25 Break

3:25 – 3:45 New Examination Process

*Aaron Brock, CEIC, Thrift Examiner, TDSML*

3:45 – 4:05 Capital Update

*Byron Friedrich, CPA, CEIC, Thrift Examiner, TDSML*

4:05 – 4:25 CECL

*Stephany Trotti, CPA, Senior Supervisory Examiner, TDSML*

4:25 – 4:45 Hot Topics from the Regulators

*Patsy Smith, CPA, Deputy Commissioner and Chief Examiner*

4:45 – 5:00 Open Forum / Questions and Answers

*TDSML Management and Staff*



# DEPARTMENT of SAVINGS & MORTGAGE LENDING

## 8TH ANNUAL THRIFT INDUSTRY DAY THURSDAY, SEPTEMBER 17, 2015 FEATURED GUEST SPEAKERS

***The Honorable Will Metcalf  
House Representative, 16th District  
Texas House of Representatives***

Representative Metcalf is a sixth generation resident of Montgomery County and an accomplished business leader. He has devoted his life to the people of his community, and continues this service as the state representative from House District 16. Representative Metcalf's experience in the financial sector gives him the skills to be a knowledgeable and conservative voice on behalf of the people of Montgomery County. As a state representative, he works hard to protect Montgomery County values, keeping Texas a shining example for business and job creation. Metcalf brings a new generation of conservative leadership to the state legislature, and continues to be an active member of the Montgomery County community.

Representative Metcalf has worked his way through the local banking industry, helping Montgomery County families and small businesses achieve their financial goals. Currently, he serves as Vice President and Director of Business Development at Spirit of Texas Bank, where he assists in leading in the bank's commercial lending division. Representative Metcalf is active in the development of north Montgomery County area as well, through involvement in the real estate market where he manages investments in Montgomery County and the surrounding areas. Metcalf also serves on several local organizations including, the board of the Conroe Industrial Development Corporation, the Greater Conroe Economic Development Council, the Conroe Family YMCA, and the Montgomery County Fair Association. He is also a lifetime member of the NRA, the 100 Club, a member of the Conroe Noon Lions Club, and a member of the Friends of Conroe.

***Mary Beth Quist  
Senior Vice President – Bank Supervision  
Conference of State Bank Supervisors***

Mary Beth Quist is the Senior Vice President for Bank Supervision at the Conference of State Bank Supervisors (CSBS) and is responsible for bank supervisory matters and federal coordination. Her current responsibilities are focused on state supervisory best practices; cybersecurity, BSA and Technology Service Provider supervision; and the modernization of Examination Tools.

Prior to joining CSBS in January 2001, Mary Beth worked for the Federal Reserve Bank of Richmond as a commissioned bank examiner for seven years. In this capacity she performed examinations of state member banks and holding companies. She served as a Federal Reserve System project manager for the development of an interagency examination tool.

Mary Beth is a graduate of Randolph-Macon College in Ashland, Virginia.



# **Cybersecurity & the FFIEC Assessment Tool**

**September 17, 2015**

**Texas Department Of Saving & Mortgage Lending  
Thrift Industry Day**

# Agenda

- **Risk Trends**
- **FFIEC Cybersecurity Efforts**
- **Cybersecurity Assessment Tool**
- **CSBS Cyber 101 & Best Practices**

# FFIEC Assessment Tool

## Cyber Risk Trends

# Risk Trends

- **Existing vulnerabilities continue to be exploited.**
- **New platforms create new ways to exploit Financial Institutions and customers.**
- **Lines between cyber actors are blurring as tools are commercialized.**

# Risk Trends

- **Use of social networking enables more effective and targeted attacks**
- **Malware continues to evolve and now includes data destruction and encryption**
- **Global unrest results in US symbols, including financial institutions being targeted**

# Risk Trends

## Potential Impacts

- Financial
- Operational
- Legal
- Reputational

# FFIEC Assessment Tool

## FFIEC Cybersecurity Efforts

# FFIEC Cybersecurity Efforts

- **Cybersecurity and Critical Infrastructure Working Group**
- **Joint statements and alerts**
- **Cybersecurity awareness website and CEO webinar**
- **Cybersecurity assessment of community institutions**

# FFIEC Cybersecurity Priorities

- **Issue a Cybersecurity Assessment Tool**
- Enhance incident analysis
- Align, update and test crisis management protocols
- Develop training programs for staff
- Update and supplement the *Information Technology Examination Handbook*
- **Enhance focus on Technology Service Providers**
- Collaborate with law enforcement and intelligence agencies

# FFIEC Assessment Tool

## Overview FFIEC Cybersecurity Assessment Tool

# FFIEC Cybersecurity Assessment Tool

## Objective

- To help institutions identify their risks and determine their cybersecurity maturity.
- The Assessment provides institutions with a repeatable and measurable process for management of cyber threats.

# FFIEC Cybersecurity Assessment Tool

## Consistent with the principles in

- *FFIEC Information Technology Examination Handbook (IT Handbook)*
- National Institute of Standards and Technology (NIST) Cybersecurity Framework
- Industry accepted cybersecurity practices

# FFIEC Cybersecurity Assessment Tool

## Consists of two parts

Part One: Inherent Risk Profile

Part Two: Cybersecurity Maturity

# FFIEC Cybersecurity Assessment Tool

## Inherent Risk Profile Categories

1. Technologies and Connection Types
2. Delivery Channels
3. Online/Mobile Products and Technology Services
4. Organizational Characteristics
5. External Threats

# FFIEC Cybersecurity Assessment Tool

## Inherent Risk Profile Risk Levels



Type, volume, and complexity of operations and threats directed at the institution

# FFIEC Cybersecurity Assessment Tool

## Inherent Risk Profile Excerpt

Activity, Service or Product

Risk Levels

Category: Technologies and Connection Types	Risk Levels				
	Least	Minimal	Moderate	Significant	Most
Total number of internet service provider (ISP) connections (including branch connections)	No connections	Minimal complexity (1–20 connections)	Moderate complexity (21–100 connections)	Significant complexity (101–200 connections)	Substantial complexity (>200 connections)
Unsecured external connections, number of connections not users (e.g., file transfer protocol (FTP), Telnet, rlogin)	None	Few instances of unsecured connections (1–5)	Several instances of unsecured connections (6–10)	Significant instances of unsecured connections (11–25)	Substantial instances of unsecured connections (>25)

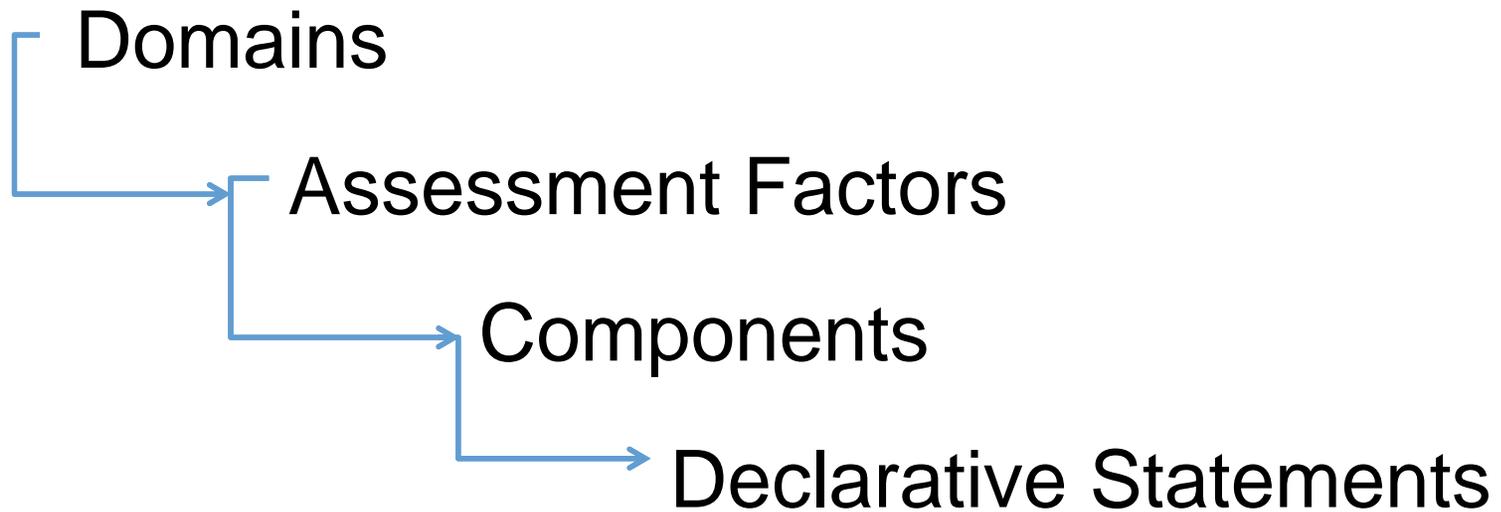
# FFIEC Cybersecurity Assessment Tool

## Cybersecurity Maturity Domains

1. Cyber Risk Management and Oversight
2. Threat Intelligence and Collaboration
3. Cybersecurity Controls
4. External Dependency Management
5. Cyber Incident Management and Resilience

# FFIEC Cybersecurity Assessment Tool

## Cybersecurity Maturity

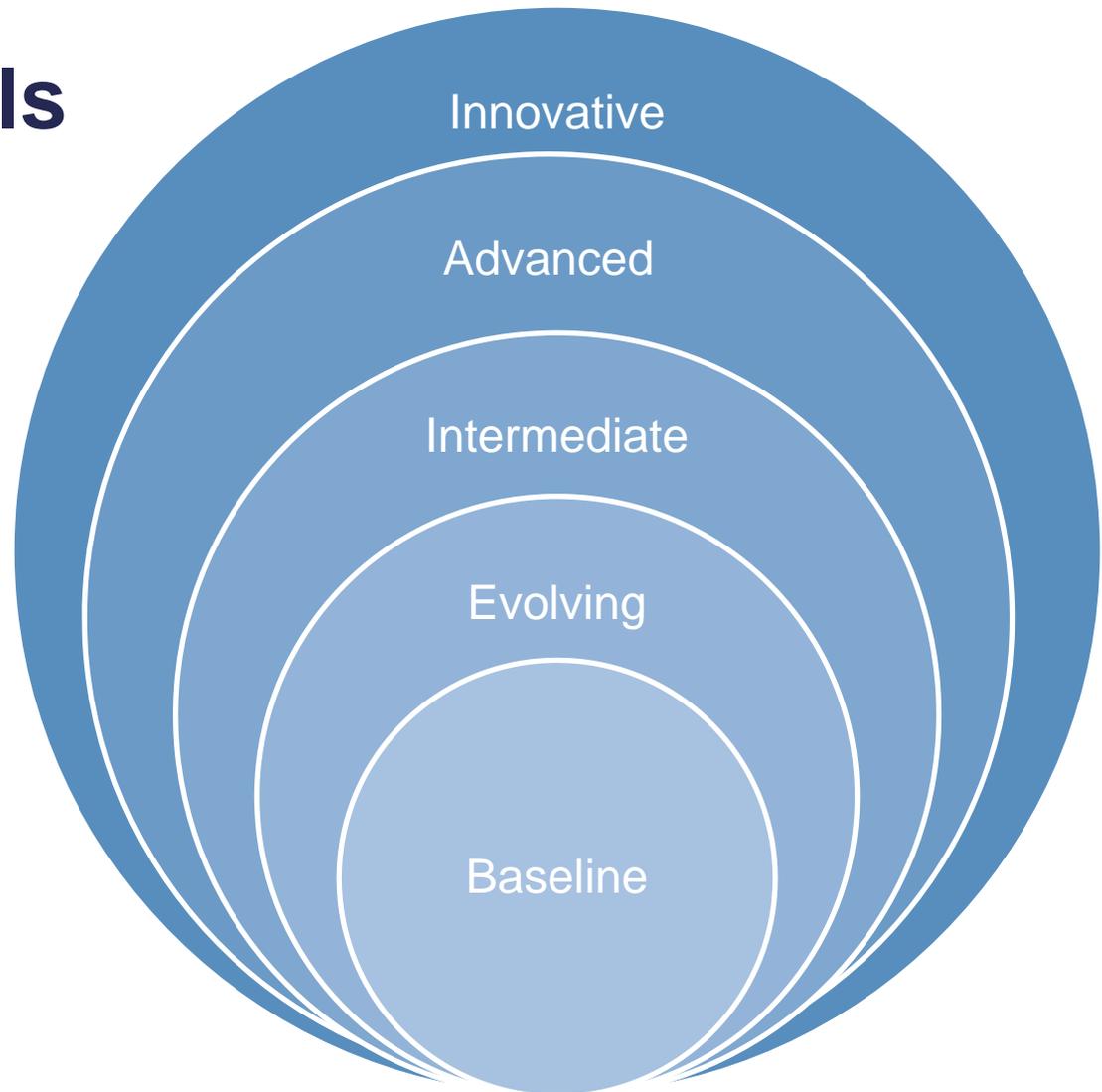


# FFIEC Cybersecurity Assessment Tool

Domain	Assessment Factors
<b>1 Cyber Risk Management &amp; Oversight</b>	<ul style="list-style-type: none"><li>• Governance</li><li>• Risk Management</li><li>• Resources</li><li>• Training and Culture</li></ul>
<b>2 Threat Intelligence &amp; Collaboration</b>	<ul style="list-style-type: none"><li>• Intelligence Sourcing</li><li>• Monitoring and Analyzing</li><li>• Information Sharing</li></ul>
<b>3 Cybersecurity Controls</b>	<ul style="list-style-type: none"><li>• Preventative Controls</li><li>• Detective Controls</li><li>• Corrective Controls</li></ul>
<b>4 External Dependency Management</b>	<ul style="list-style-type: none"><li>• Connections</li><li>• Relationships Management</li></ul>
<b>5 Cyber Incident Management &amp; Resilience</b>	<ul style="list-style-type: none"><li>• Incident Resilience Planning and Strategy</li><li>• Detection, Response and Mitigation</li><li>• Escalation and Reporting</li></ul>

# FFIEC Cybersecurity Assessment Tool

## Maturity Levels



# FFIEC Cybersecurity Assessment Tool

## Cybersecurity Maturity Excerpt

			<b>Domain</b>	<b>Domain 1: Cyber Risk Management and Oversight</b>	<b>Declarative Statement</b>
<b>Assessment Factor</b>				<b>Assessment Factor: Governance</b>	
		Y, N			
<b>Maturity Level</b>	Baseline			<p>Designated members of management are held accountable by the board or an appropriate board committee for implementing and managing the information security and business continuity programs.</p> <p>Information security risks are discussed in management meetings when prompted by highly visible cyber events or regulatory alerts.</p> <p>Management provides a written report on the overall status of the information security and business continuity programs with the board or an appropriate committee of the board at least annually.</p> <p>Budgeting process includes information security related expenses and tools.</p> <p>Management considers the risks posed by other critical infrastructures (e.g., telecom, energy) to the institution.</p>	
<b>Component</b>	OVERSIGHT				

# FFIEC Cybersecurity Assessment Tool

		Inherent Risk Levels				
		Least	Minimal	Moderate	Significant	Most
Cybersecurity Maturity Level for Each Domain	Innovative					
	Advanced					
	Intermediate					
	Evolving					
	Baseline					

# FFIEC Cybersecurity Assessment Tool

## Supporting Materials

- **User's Guide**
- **Overview for CEOs and Boards of Directors**
- **Appendix A: Mapping Baseline Statements to *FFIEC IT Handbook***
- **Appendix B: Mapping Cybersecurity Assessment Tool to the NIST Cybersecurity Framework**
- **Appendix C: Glossary**

# FFIEC Cybersecurity Assessment Tool

## Benefits to Institutions

- Identifying factors contributing to and determining the institution's overall cyber risk.
- Assessing the institution's cybersecurity preparedness.
- Evaluating whether the institution's cybersecurity preparedness is aligned with its risks.
- Determining changes that could be taken to achieve the institution's desired state of cyber preparedness.
- Informing risk management strategies.

# CSBS Cyber 101



A Resource Guide for **BANK EXECUTIVES**  
**Executive Leadership of Cybersecurity**

# CYBER RISK MANAGEMENT PROCESS

“Bank CEOs should strive to create and implement an effective and resilient risk–management process to enable proper oversight and to ensure that you are effectively managing cybersecurity risks. Key elements of a risk–management process should include the initial assessment of new threats; identifying and prioritizing gaps in current policies, procedures, and controls; and updating and testing policies, procedures, and controls as necessary.”-CSBS

# Best Practices

**The CEO (with support from management) should:**

- **Develop** a plan to conduct the Assessment
- **Lead** employee efforts during the Assessment to facilitate timely responses from across the institution
- **Set** the target state of cybersecurity preparedness that best aligns to the board's stated risk appetite

# Best Practices

**The CEO (with support from management) should:**

- **Review, approve, and support** plans to address risk management and control weakness
- **Analyze and present** results for executive oversight, including key stakeholders and the board of directors or an appropriate board committee
- **Oversee** the performance of ongoing monitoring to remain nimble and agile in addressing evolving areas of cybersecurity risk
- **Oversee** changes to maintain or increase the desired cybersecurity preparedness

# Best Practices

## **Commit to developing a corporate cybersecurity culture**

- Review how much time you spend valuing cybersecurity
- Instill a culture to make certain **ALL** employees have buy-in for brand protection and risk reduction
- Ensure cybersecurity is included in on-going training programs

# Best Practices

## **Implement enhanced management oversight practices**

- Build in and demonstrate fluidity in risk assessment and incident response processes
- Regularly monitor various channels for threat updates and effectively communicate them to the organization

## **Carry the message beyond the bank**

- Community outreach will enhance customer awareness and strengthen relationships

# Cybersecurity Culture

**...”A SOCIETAL ISSUE FACING ALL INDUSTRIES...THE RISE IN FREQUENCY AND SOPHISTICATION OF CYBER-ATTACKS NOW REQUIRES A SHIFT IN THINKING...NOT SIMPLY AN IT ISSUE, BUT A CEO AND BOARD OF DIRECTORS ISSUE.”**

**CSBS**



**Thank you**



# DEPARTMENT of SAVINGS & MORTGAGE LENDING

## Texas Legislative Update

Ernest C. Garcia  
egarcia@sml.texas.gov

There were approximately 6,000 bills filed during each of the 2011, 2013 and 2015 legislative sessions. The percentage range of bills actually passed compared to the total of bills filed has been between 20-24%.

Bill Statistics for the 2015 84 <sup>th</sup> Texas Legislative Session					
Bill Type	Range	Democrat		Republican	
		Filed	Passed	Filed	Passed
House Bills	HB 1 - HB 4215	1,710	280	2,497	539
House Concurrent Resolutions	HCR 26 - HCR 149	34	16	88	52
House Joint Resolutions	HJR 8 - HJR 146	52	0	81	2
Senate Bills	SB 1 - SB 2075	944	213	1,125	291
Senate Concurrent Resolutions	SCR 1 - SCR 52	23	17	29	15
Senate Joint Resolutions	SJR 1 - SJR 68	22	0	45	5

Source: telicon.com

HB 705 Representative Jessica Farrar, Houston (D)  
Relating to access to a financial institution account of a person who dies intestate.

- Allows court to order a financial institution to release balance information to an interested person, when an account holder dies intestate.

HB 831 Representative Helen Giddings, DeSoto (D)  
Relating to disclosure of home mortgage information to a surviving spouse.

- Mortgage servicers are required to provide information (that mortgagor would have received in a standard monthly statement) within 30 days of receiving a request from a surviving spouse.
- Surviving spouse must be residing in the property as their primary residence.
- Servicer is not liable to the mortgagor's estate for providing info to surviving spouse.

HB 1454 Representative John Raney, Bryan (R)  
Relating to notice, reporting and records requirements for holders of certain personal property presumed abandoned.

- Effective September 1, 2017.
- Allows a mutual fund / safety deposit box account holder to designate a financial representative for the financial institution to contact should an account be presumed abandoned due to inactivity.

HB 1626 Representative Eric Johnson, Dallas (D)  
Relating to the designation of certain areas as banking development districts to encourage branches in those areas.

- Seeks to encourage bank branches to be established in areas which have a need for banking services.
- Texas Finance Commission to administer and monitor program.
- Local governmental body may designate a financial institution located in the district as a district depository and may deposit funds there.

HB 2063 Representative René Oliveira, Brownsville (D)  
Relating to recording and effective date of certain documents relating to nonjudicial foreclosure sales.

- Trustee's foreclosure deed or affidavit, may have certain documents as attachments and filed with the county clerk's office.
- Appointment of trustee or substitute may occur in the notice of sale.

HB 2066 Representative René Oliveira, Brownsville (D)  
Relating to the rescission of nonjudicial foreclosure sales.

- Allows a foreclosure sale to be rescinded – under certain circumstances - within 15 days after the foreclosure sale.
- Requires notice and filing.

HB 2067 Representative René Oliveira, Brownsville (D)  
Relating to the rescission or waiver of an acceleration of the maturity date of certain debt secured by a lien on real property.

- Became effective as of June 17, 2015.
- Allows mortgage loan servicers and lienholders to rescind an accelerated maturity date of a loan.
- Seeks to allow for loss mitigation and extended payment options to be explored.

- HB 2394 Representative Drew Darby, San Angelo (R)  
Relating to the compelled production of certain customer records by a financial institution.
- Requires a party requesting documents from a financial institution to pay the costs or to post a bond, before the financial institution can be required to produce them.
- HB 2590 Representative Eric Johnson, Dallas (D)  
Relating to providing a remedy for fraud committed in certain real estate and stock transactions.
- Intended to decrease fraudulent real estate transactions.
  - Applies to acts occurring after September 1, 2015.
  - Fraud involving “transfer of title” in addition to being fraudulent under B&C Code will also constitute a false, misleading or deceptive practice under the Texas Deceptive Trade Practices Act (allowing for treble – economic - damages).
  - When city attorneys, district or county attorneys bring the action 75% of the recovery is to be deposited in the general fund for the municipality or county.
- HB 3316 Representative Doug Miller, New Braunfels (R)  
Relating to the provision clarifying the timing in the Probate Code regarding durable powers of attorney.
- Allows durable powers of attorney for certain real estate transactions (occurring after September 1, 2015) to be filed with the county clerk, up to 30 days after a real estate transaction takes place.
- SB 462 Senator Joan Huffman, Houston (R)  
Relating to a revocable deed that transfers real property at the transferor’s death.
- Authorizes an individual to transfer the individual's interest in real property to one or more beneficiaries, effective at the transferor's death by a transfer on death (TOD) deed.
  - Applies to a TOD deed executed and acknowledged on or after September 1, 2015, by a transferor who dies on or after September 1, 2015.
  - The TOD deed is revocable regardless of whether the deed or another instrument contains a contrary provision.
  - It prohibits a will from revoking or superseding a TOD deed.

SB 1203 Senator José Rodríguez, El Paso (D)  
Relating to an exemption from the Texas SAFE Act.

- Provides that a 501(c)(3) nonprofit organization, originating residential mortgage loans for self-help housing borrowers who have provided at least 200 labor hours or 65% of the labor to construct a dwelling, are exempt from the Residential Mortgage Loan Originator licensing requirements.

SB 1457 Senator Robert Nichols, Jacksonville (R)  
Relating to bad faith claims of patent infringement; providing a civil penalty.

- Defines bad faith claims of patent infringement as: false communication about a lawsuit having been filed, a claim which is objectively baseless, or a communication likely to materially mislead the end user.
- Allows Tex. Atty. Gen. to seek an injunction or other relief, including a penalty of \$50k per violation.
- Does not create a private cause of action.

SB 1791 Senator Rodney Ellis, Houston (D)  
Relating to disclosures on selection or modification of an account by a customer of a financial institution.

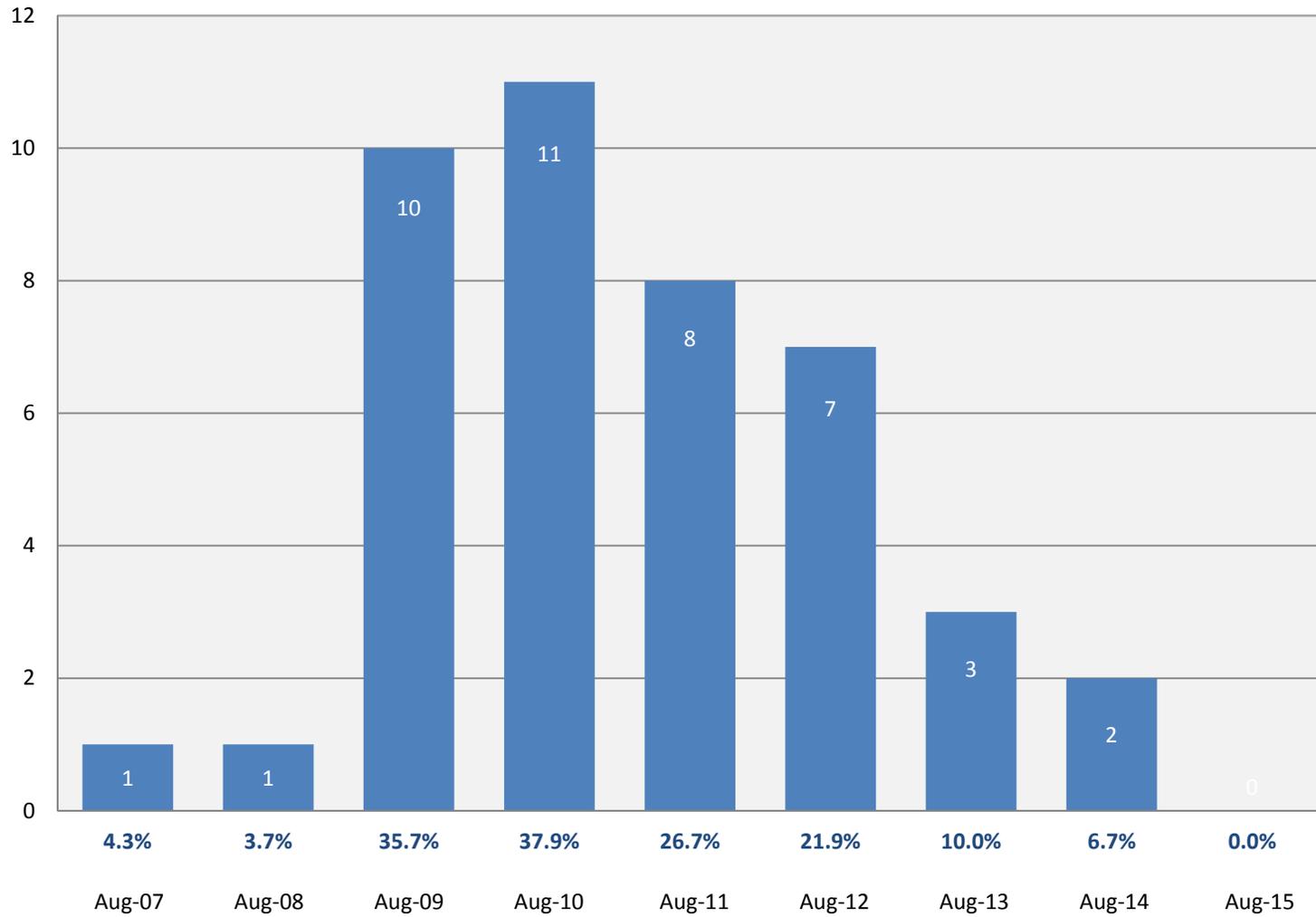
- Seeks to notify customer of account type selected (to improve disclosure of payable on death accounts).
- Refers to the “Uniform Single-Party or Multiple Party Account Selection Form Notice” and requires customer when selecting their account type on such Form, to place their initials to the right of each paragraph on the form.
- In the alternative, if the financial institution varies or does not use the “Uniform Single-Party or Multiple Party Account Selection Form Notice”, then prior to account selection, separate from the account information in 14 point bold face font, the financial institution is to disclose and provide information on the account type including POD accounts.



# Spotlight on the Industry

Jonathan D. Finley  
Chief Supervisory Analyst

### 3, 4, or 5 CAMELS Ratings



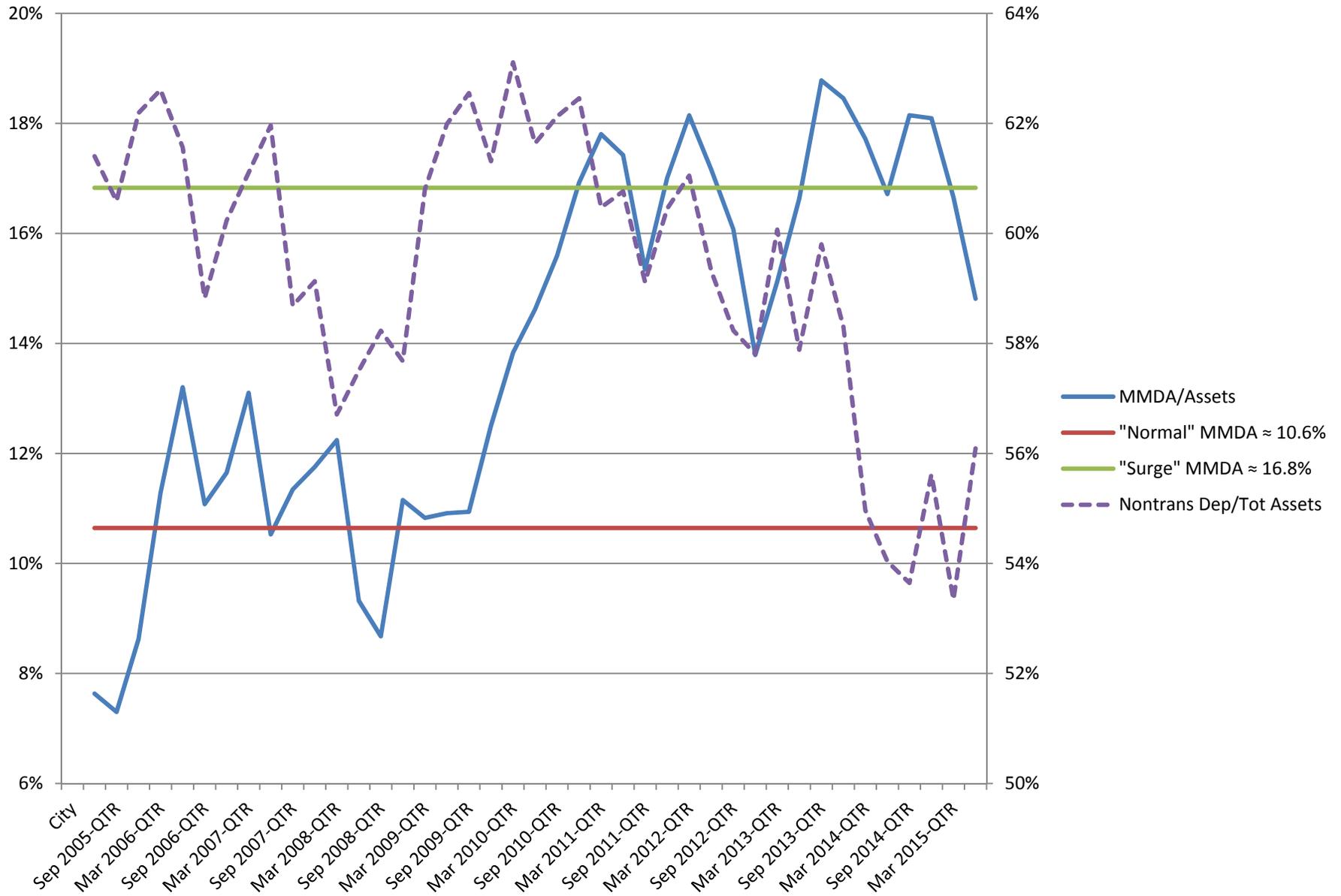
# Stand Out Issues Q2, 2015

- Fairly Consistent Across Industry
  - Interest Rate Risk
  - Efficiency
  - Net Interest Margin
- Isolated to a Few Charters
  - Asset Growth
  - CRE Concentration
  - Construction Concentration
  - Commercial/Industrial Concentrations

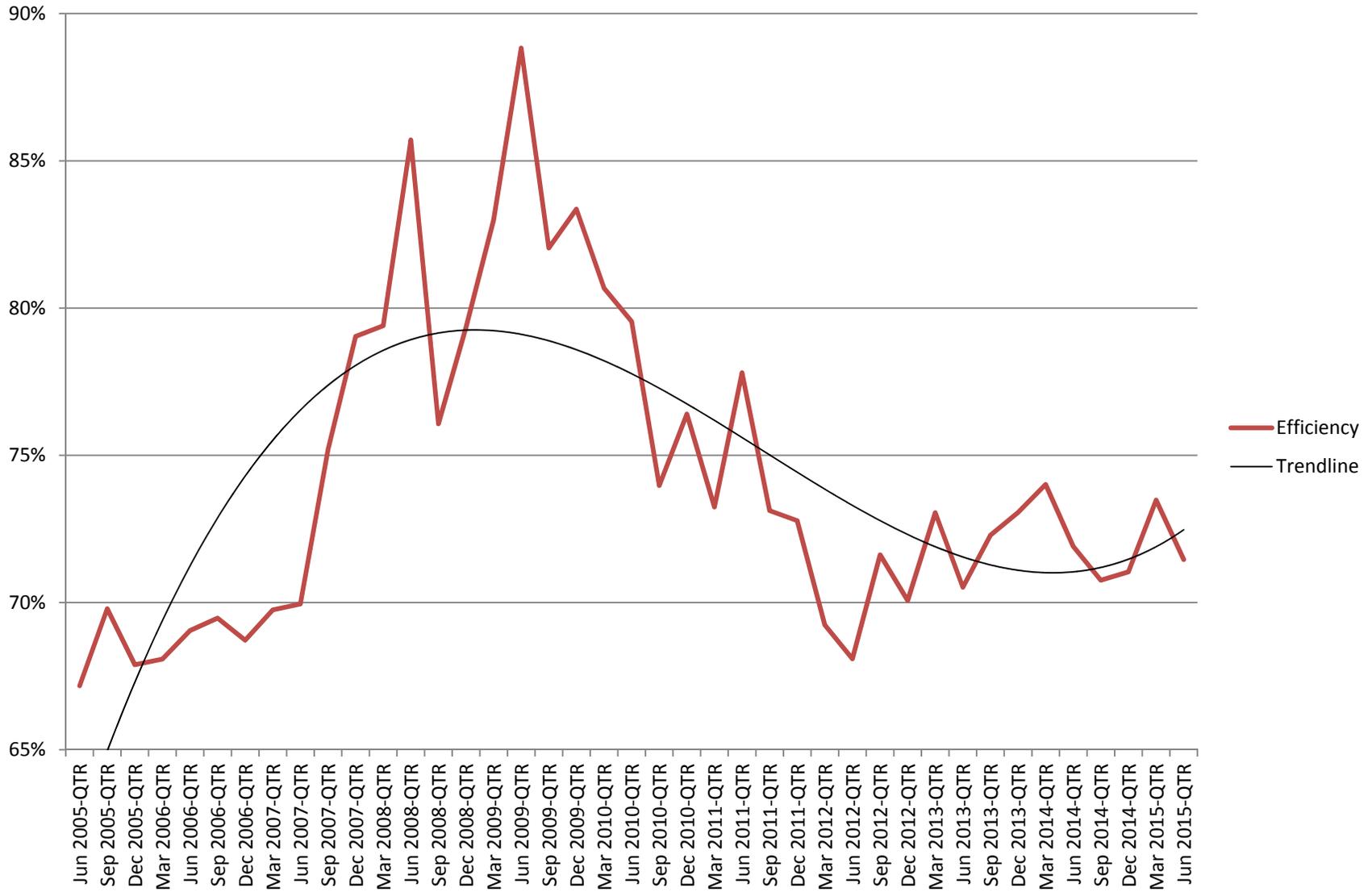
# Median Texas SSB; Stretching to Maintain



# Surge Deposits

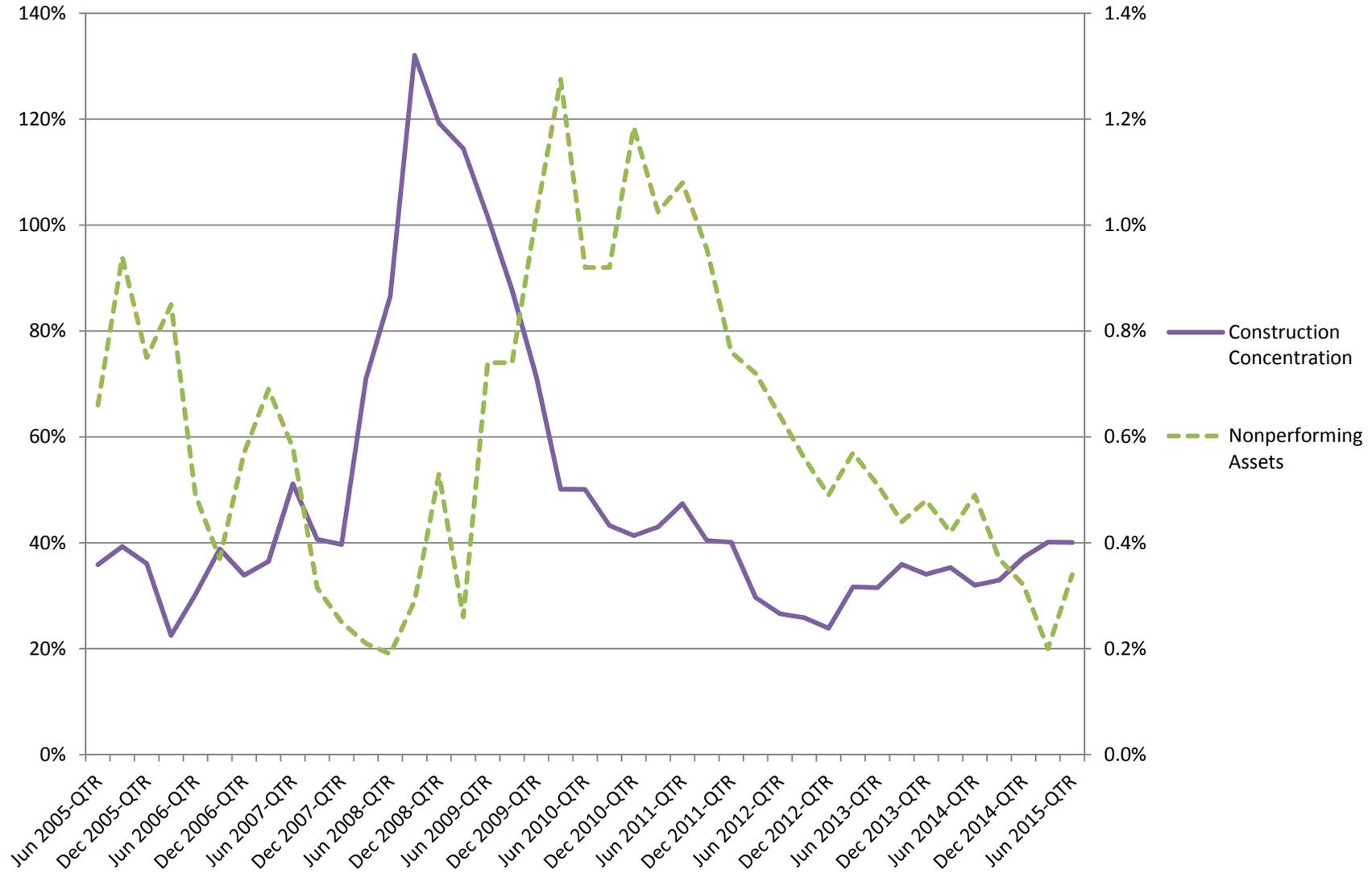


# Efficiency



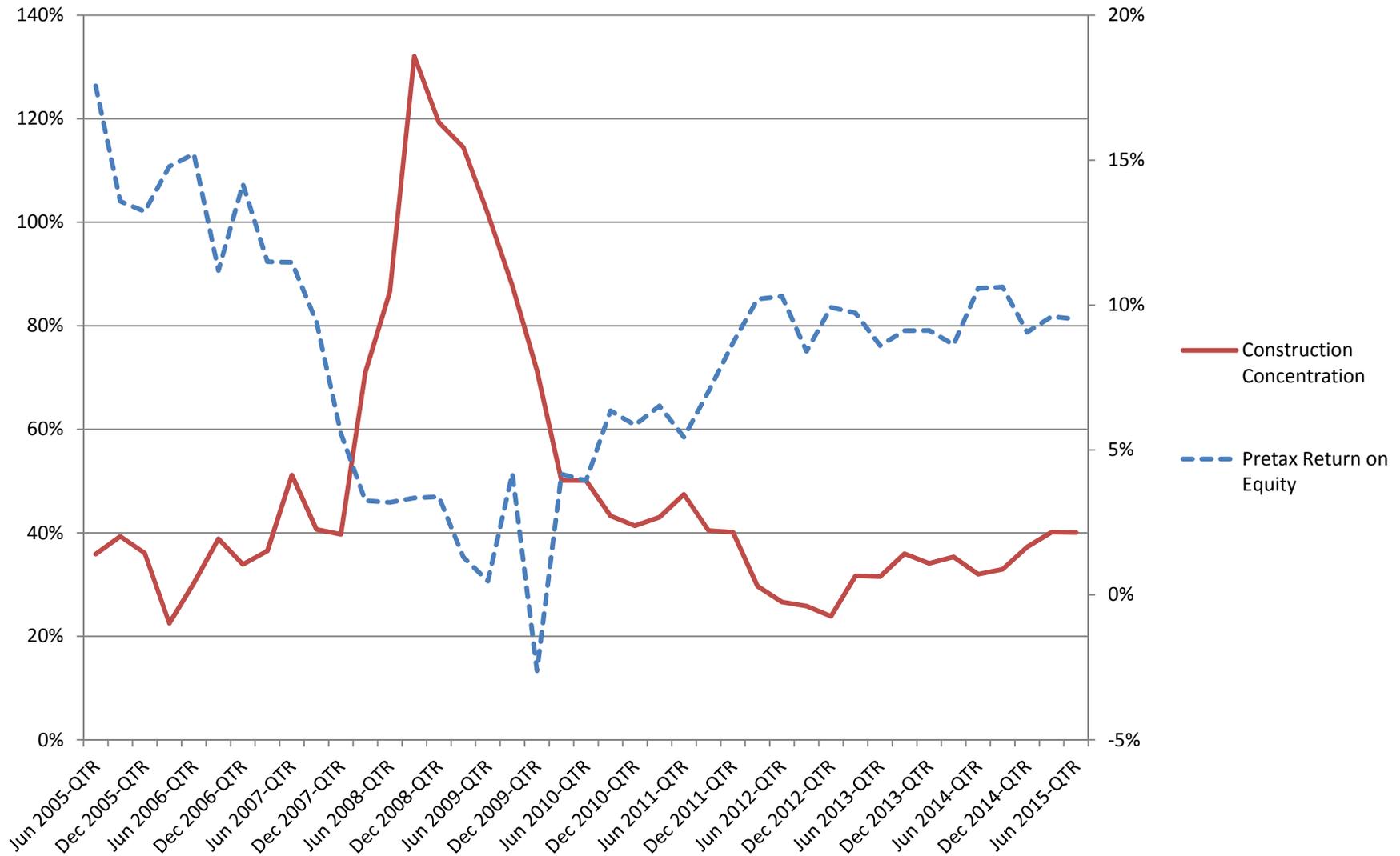
# Construction Concentrations

## What Regulators See

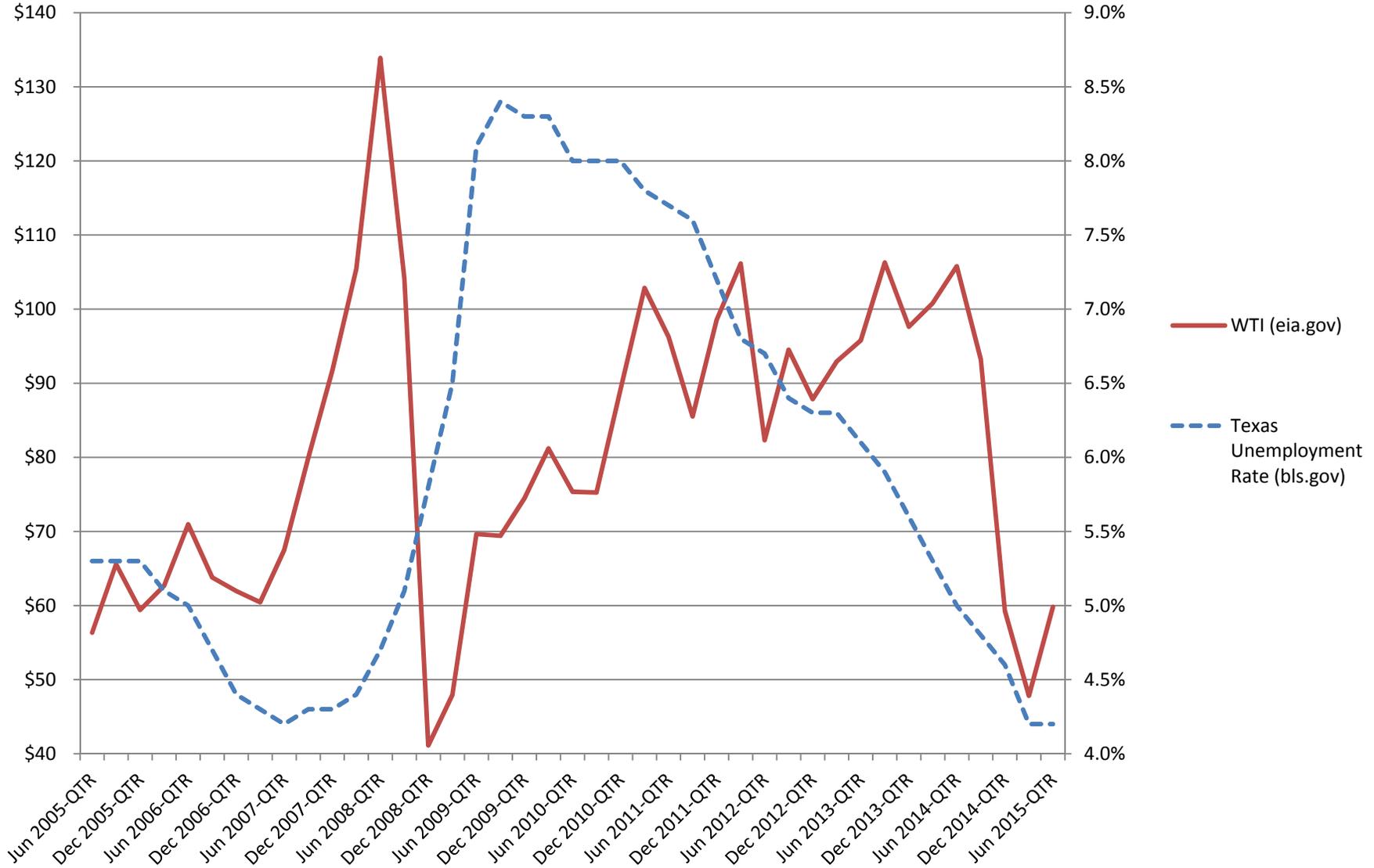


# Construction Concentrations

## What Your Shareholders Should Know

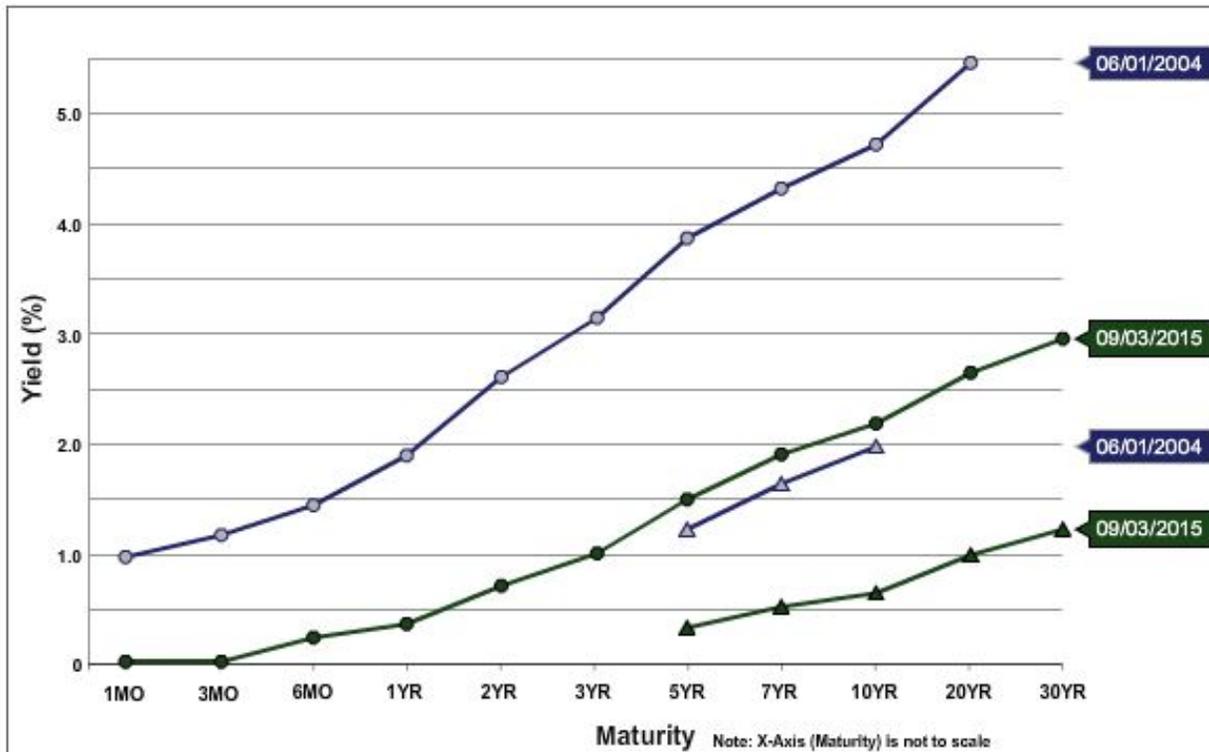


# Oil and the Texas Economy; How Much Correlation?



# Treasury Yield Curve

June 1, 2004

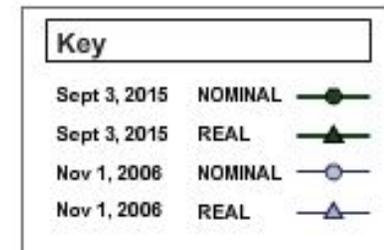
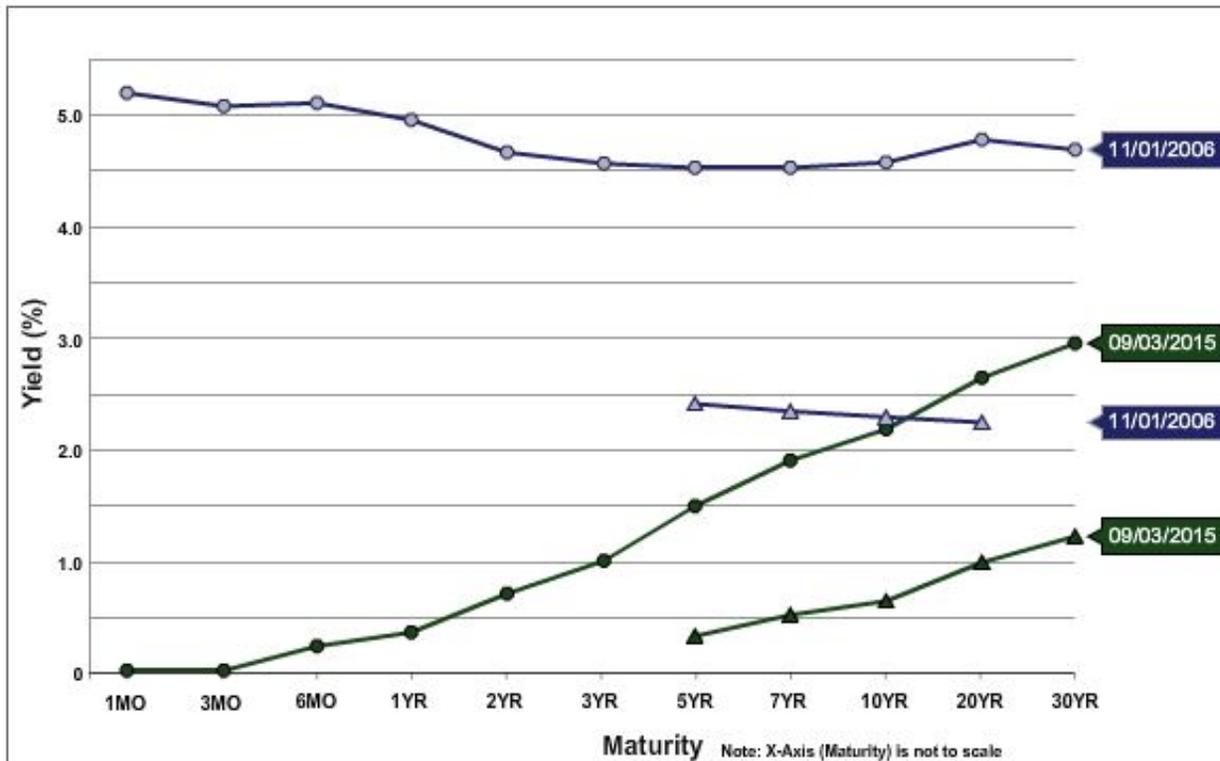


Key	
Sept 3, 2015	NOMINAL ●
Sept 3, 2015	REAL ▲
June 1, 2004	NOMINAL ○
June 1, 2004	REAL △

Source: [www.treasury.gov](http://www.treasury.gov)

# Treasury Yield Curve

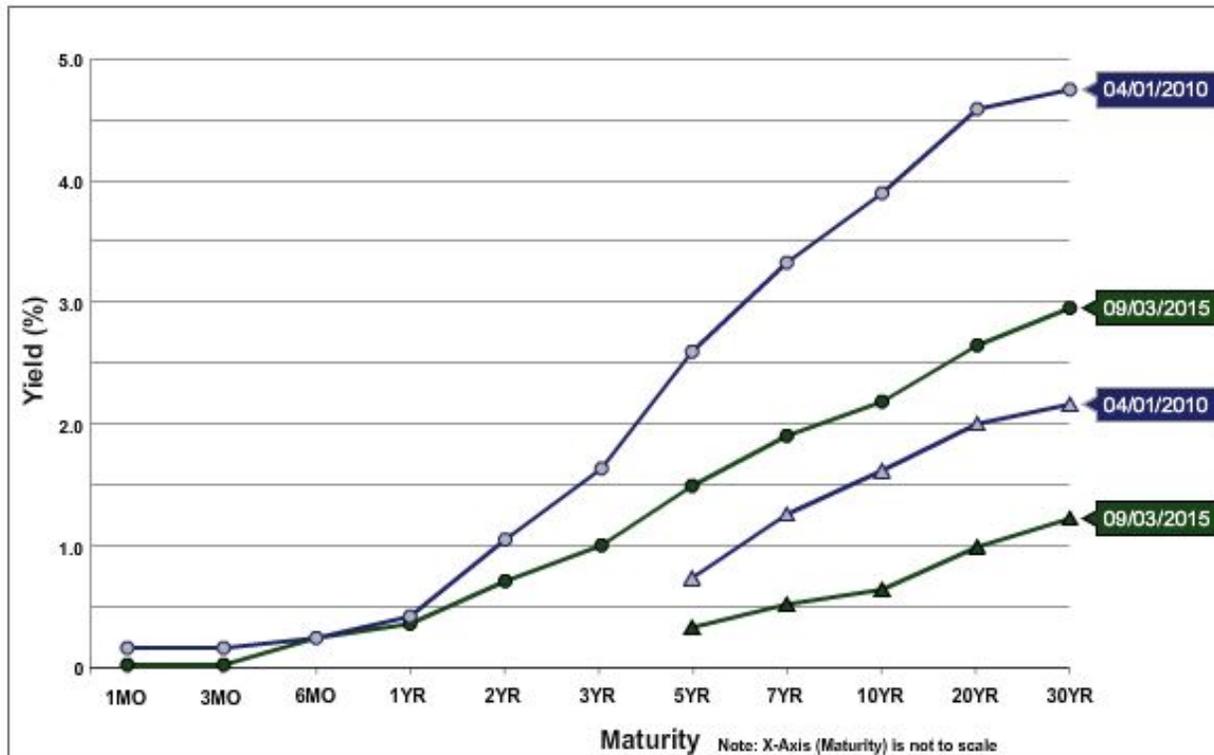
November 1, 2006



Source: [www.treasury.gov](http://www.treasury.gov)

# Treasury Yield Curve

April 1, 2010

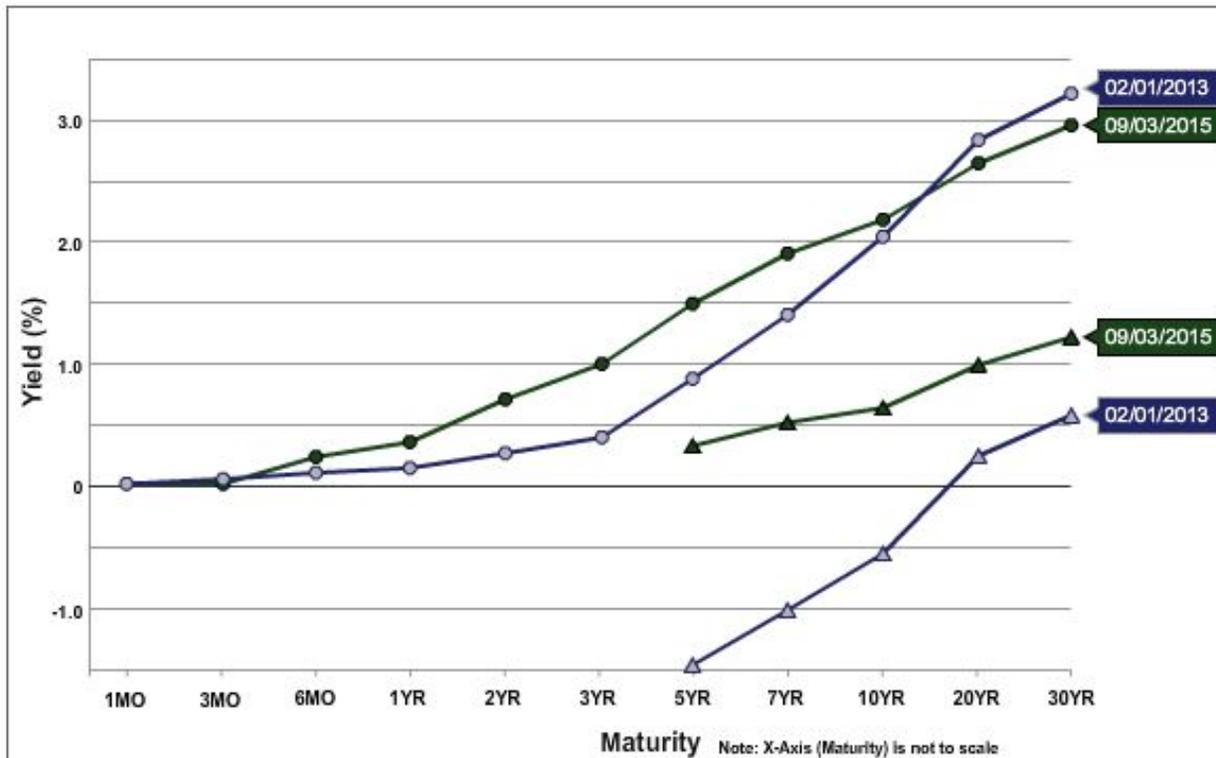


Key	
Sept 3, 2015	NOMINAL ●
Sept 3, 2015	REAL ▲
April 1, 2010	NOMINAL ○
April 1, 2010	REAL ▲

Source: [www.treasury.gov](http://www.treasury.gov)

# Treasury Yield Curve

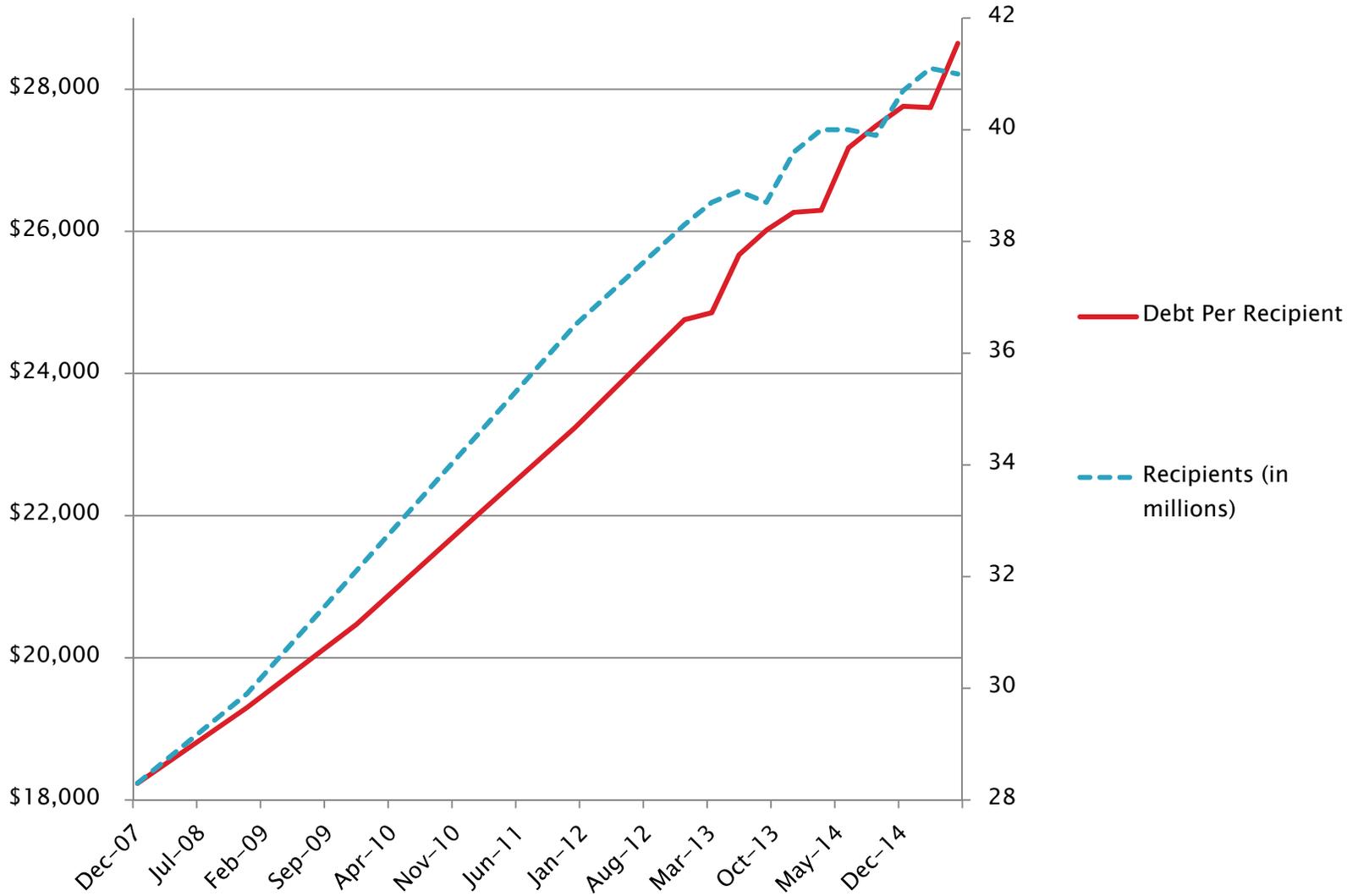
February 1, 2013



Key			
Sept 3, 2015	NOMINAL	●	—
Sept 3, 2015	REAL	▲	—
Feb 1, 2013	NOMINAL	○	—
Feb 1, 2013	REAL	△	—

Source: [www.treasury.gov](http://www.treasury.gov)

# Student Debt (ed.gov)



# Questions? Comments? Discussion?

Jonathan D. Finley

Chief Supervisory Analyst

Office (512) 475-0741

Cell (713) 254-0665

[jfinley@sml.texas.gov](mailto:jfinley@sml.texas.gov)



# New Exam Process

Thrift Industry Day  
September 17, 2015  
Aaron Brock

# Examination Tools Suite (ETS)

- FDIC has developed a new examination platform to upgrade from Genesys (released in 1996).
- FDIC acting as lead developer with significant input from CSBS as well as the Federal Reserve.
- “One-stop-shop” for asset review, operations, and report preparation.

# Examination Tools Suite Rollout

- User acceptance testing began in January and concluded in May of 2015.
- Software is currently being piloted in the New York FDIC Region.
  - New York region selected due to diversity of institution types and sizes.
  - Pilot slated to last approximately 6 months.
- Currently planned to roll out for the remaining FDIC regions (including Dallas region) in 2016.

# Examination Tools Suite Rollout

- Training
  - CSBS hosting a 1 week “train the trainer” class.
  - FDIC hosting a national training academy for some of their examiners, who will then train the remaining staff.

# Features

- Blends current Genesys report writing functionality with asset review features of ETS-ALERT.
- Improves collaboration between examiners.
- Allows for examination workpaper retention.
- Enables Supervisory Analysts and FDIC Case Managers to review and revise Reports of Examination within ETS.

# Offsite Prior to Examination

- No major changes for the bank.
- We will continue to send request lists approximately 6 weeks prior to examinations.
- Exam will be registered in FDIC's ViSION platform, enabling examiners to view the exam in ETS.
  - Will populate ETS with prior exam management information, prior ROE, Call Report, and UBPR information.
- Continue to use FDIC Connect to exchange workpapers.
  - Workpapers will be downloaded by examiners then put into ETS for examiner review.
- Utilize ETS for risk scoping and to develop Pre-Examination Planning Memos.

# Onsite Portion of Examination

- All examiner work will be performed in ETS.
- Examiners will be able to collaborate on the exam through the internet or a local network in areas with limited connectivity.
  - Secured connection – examiners will be required to login with hard tokens prior to use of ETS on internet connections.
  - Local network connections through the ARUBA Wireless RAP-109.
- As workpapers are provided through FDIC connect or onsite, they can be loaded into ETS by examiners.
  - Allow entire exam team to review documents in ETS.
  - Will hopefully reduce the number of redundant requests.

# Offsite After Examination

- ROE Development will take place within ETS.
  - EICs able to collaborate on ROE from different work locations.
  - Once complete, EICs will submit the ROE for review, allowing Supervisory Analysts and Case Managers to review/revise the Report of Exam and prepare transmittal letters.
  - Workpapers and asset review information will be exported to an encrypted archive file.

# Conclusion

- No major changes for bankers.
- ETS should expedite the examination process.
  - ETS testers able to replicate a Report of Exam within a few hours.
- There will likely be some growing pains for examiners while we acclimate to the new platform.
- Most recent updates.

# Questions or Further Information

- Aaron Brock – Certified Examiner-In-Charge
- [abrock@sml.texas.gov](mailto:abrock@sml.texas.gov)

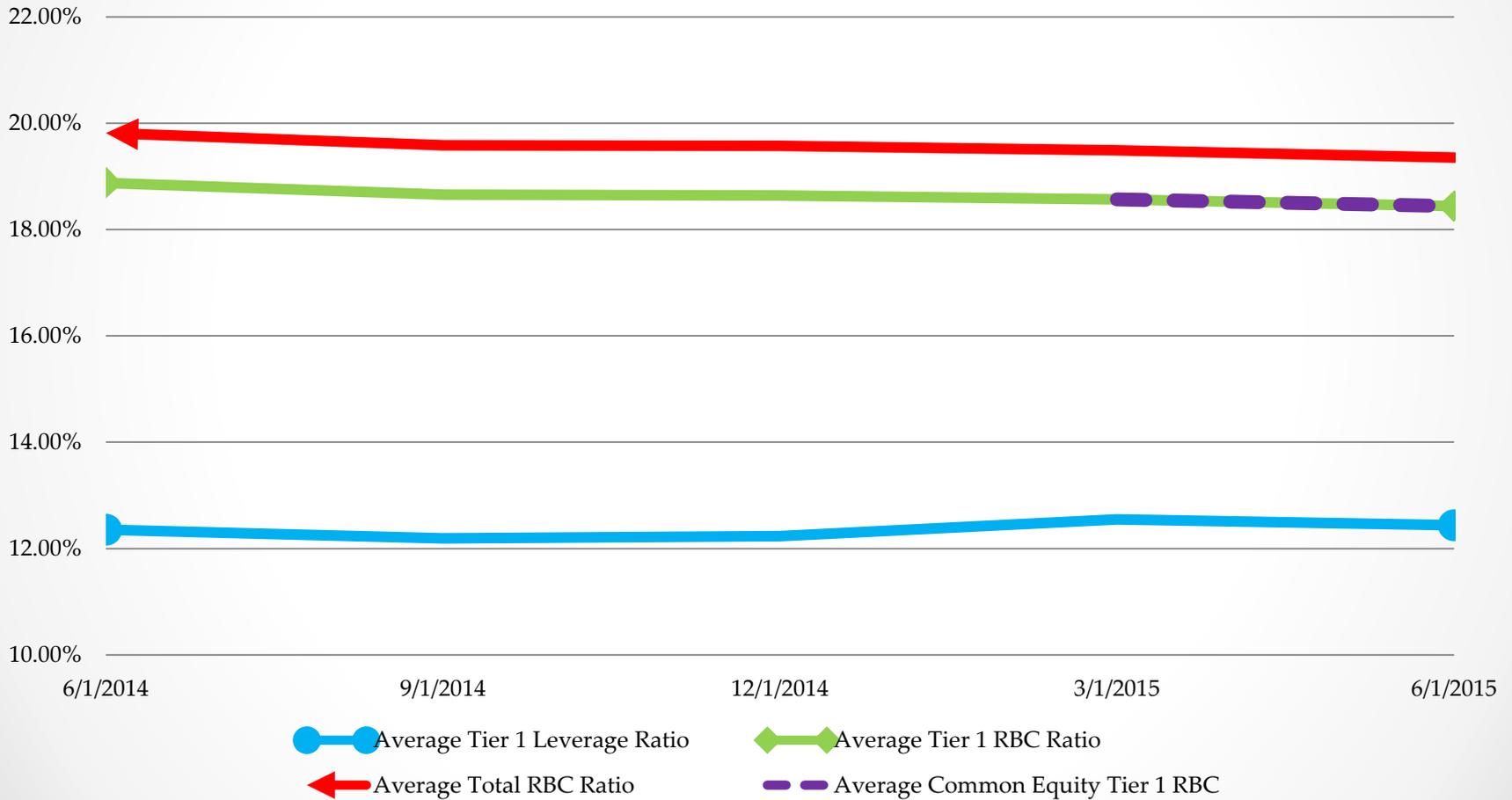
# Basel III Capital Change Results

**Byron Friedrich**

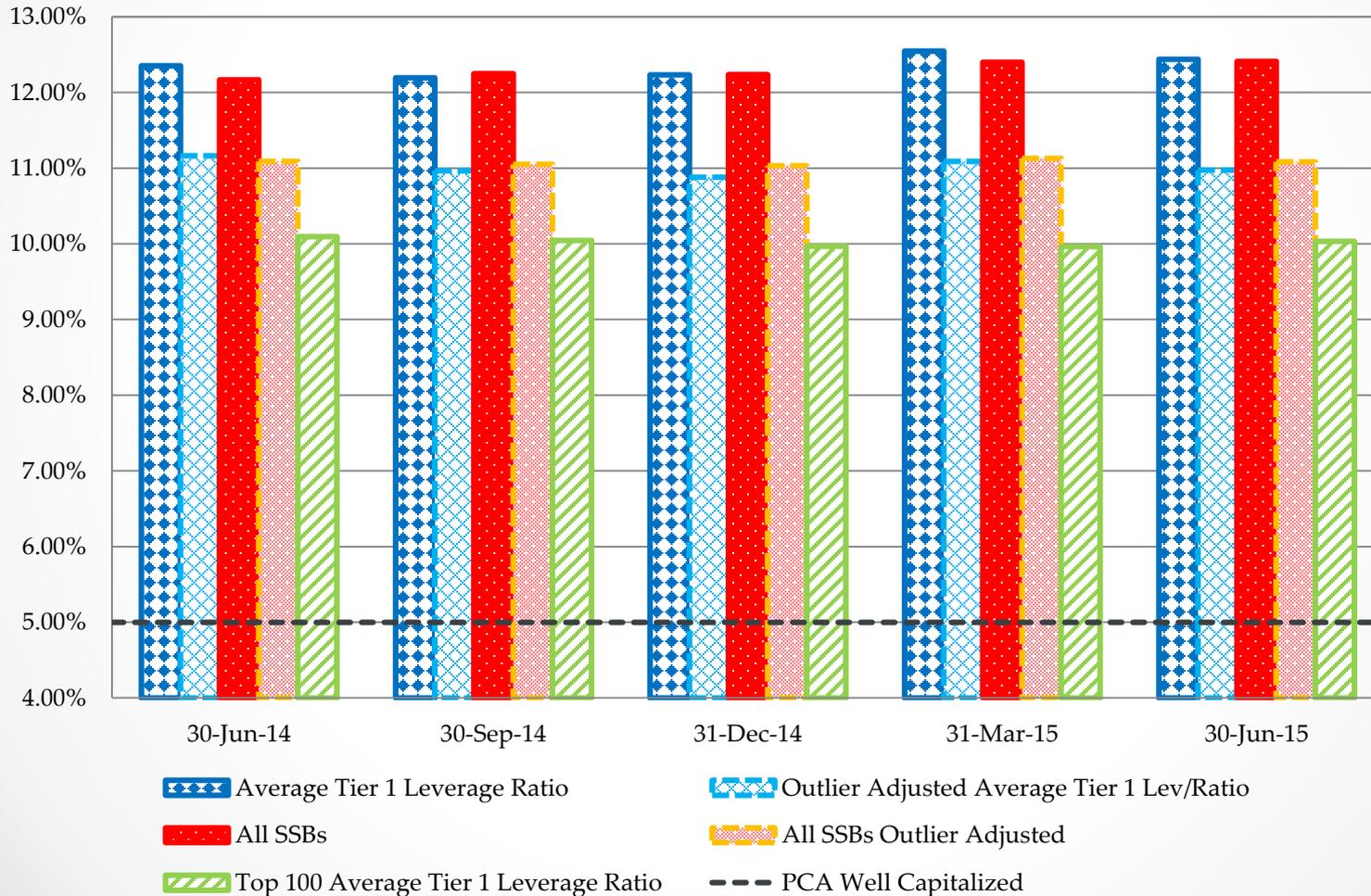
# What We Will Cover

- **Changes in Capital Ratios since implementation of Basel III**
- **How Texas SSBs compare to industry**
- **Reminder of Remaining Transitions**
- **Question and Answer**

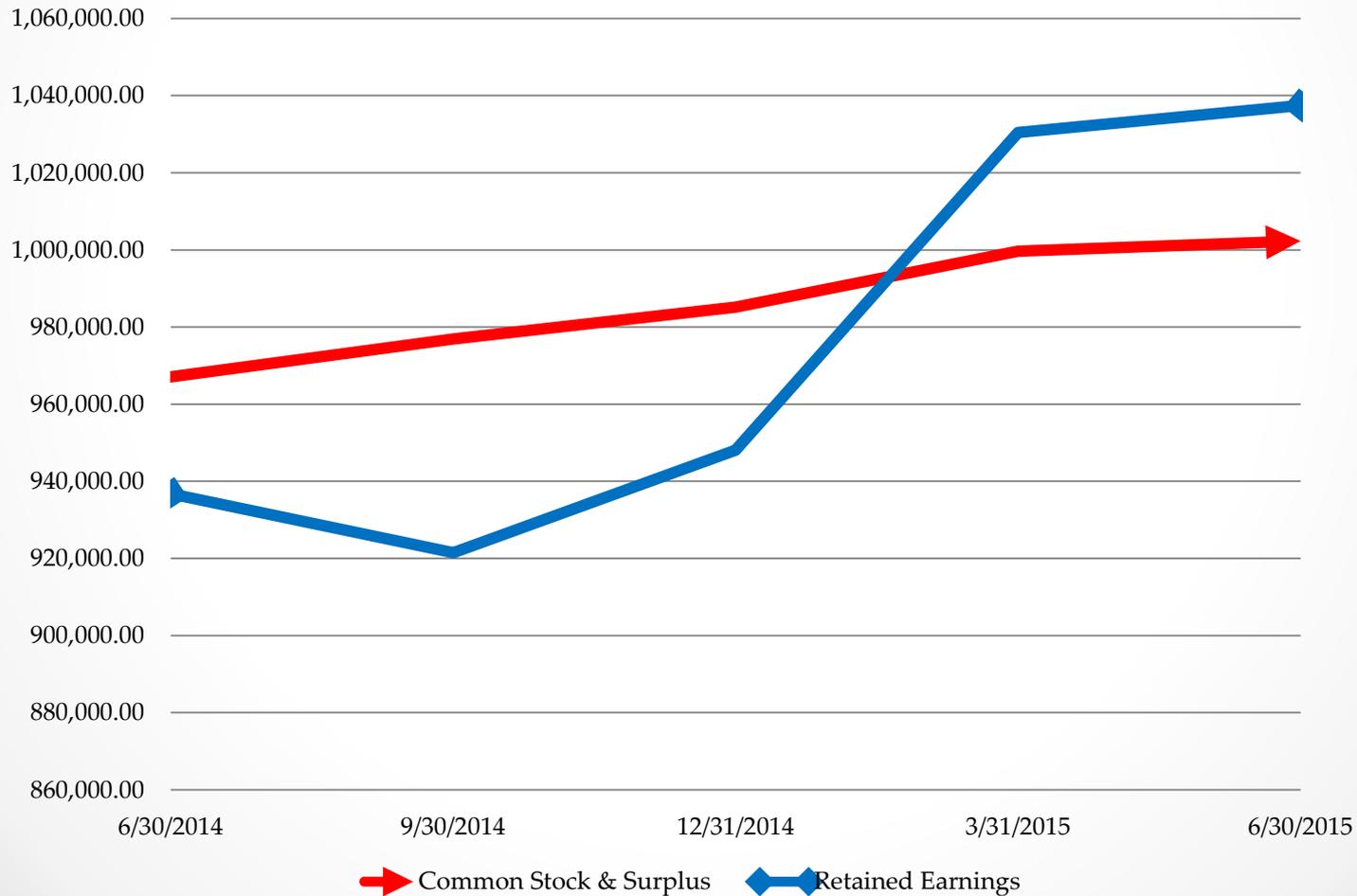
# Texas SSB Capital Ratios



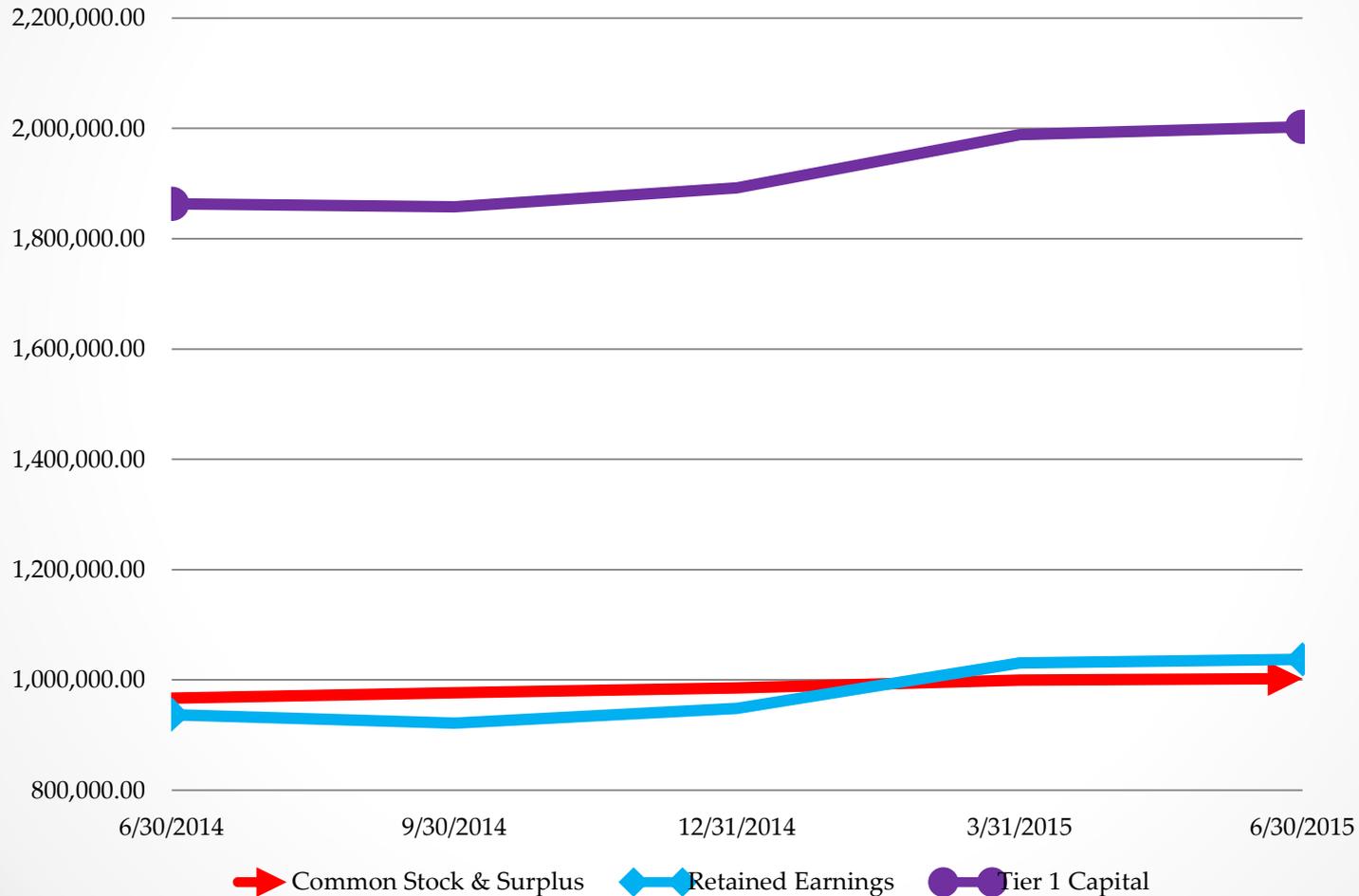
# Tier 1 Leverage Capital Ratio Comparison



# Tier 1 Capital Drivers (Texas SSBs)

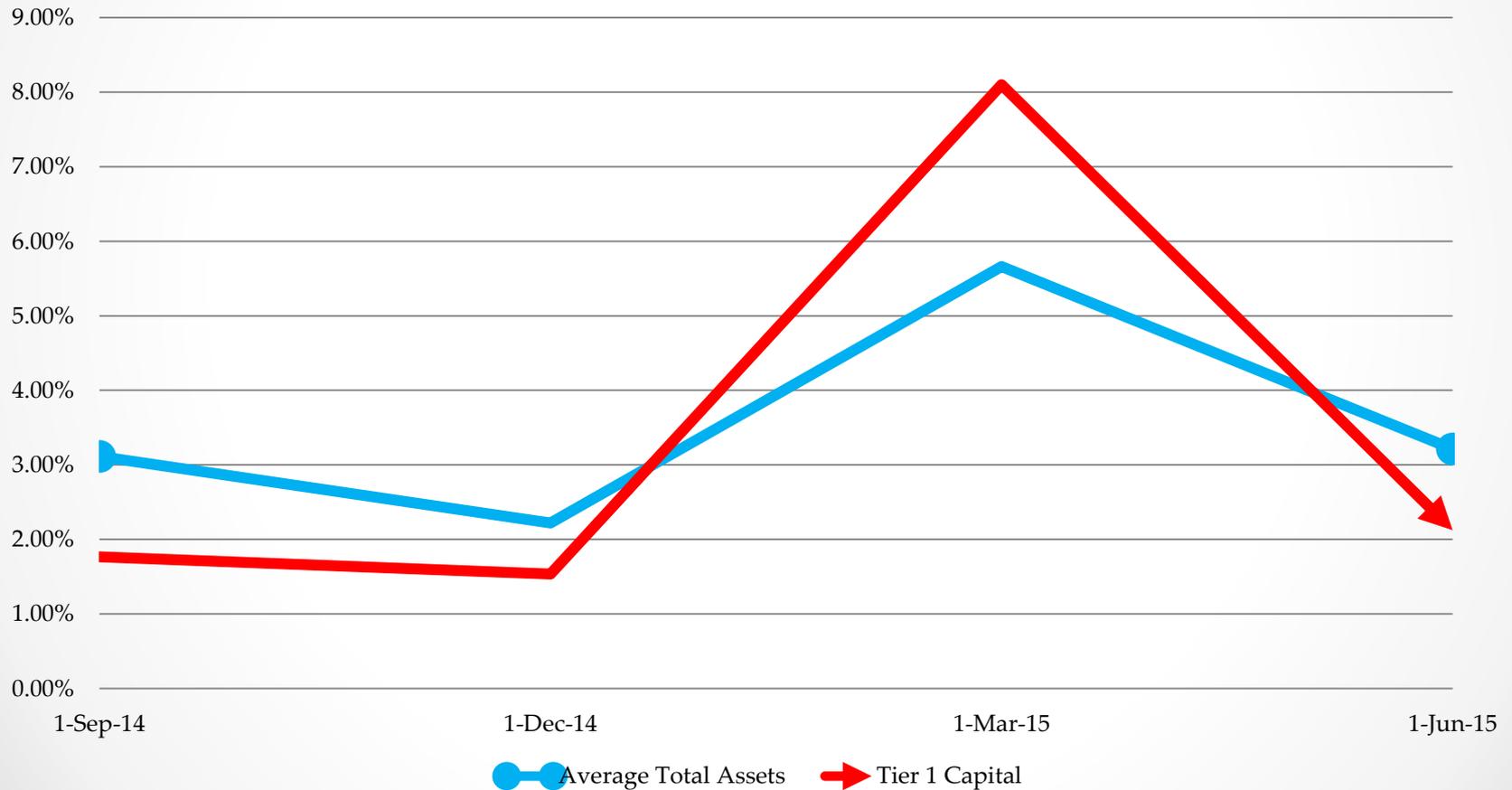


# Change in Tier 1 Capital and its Components

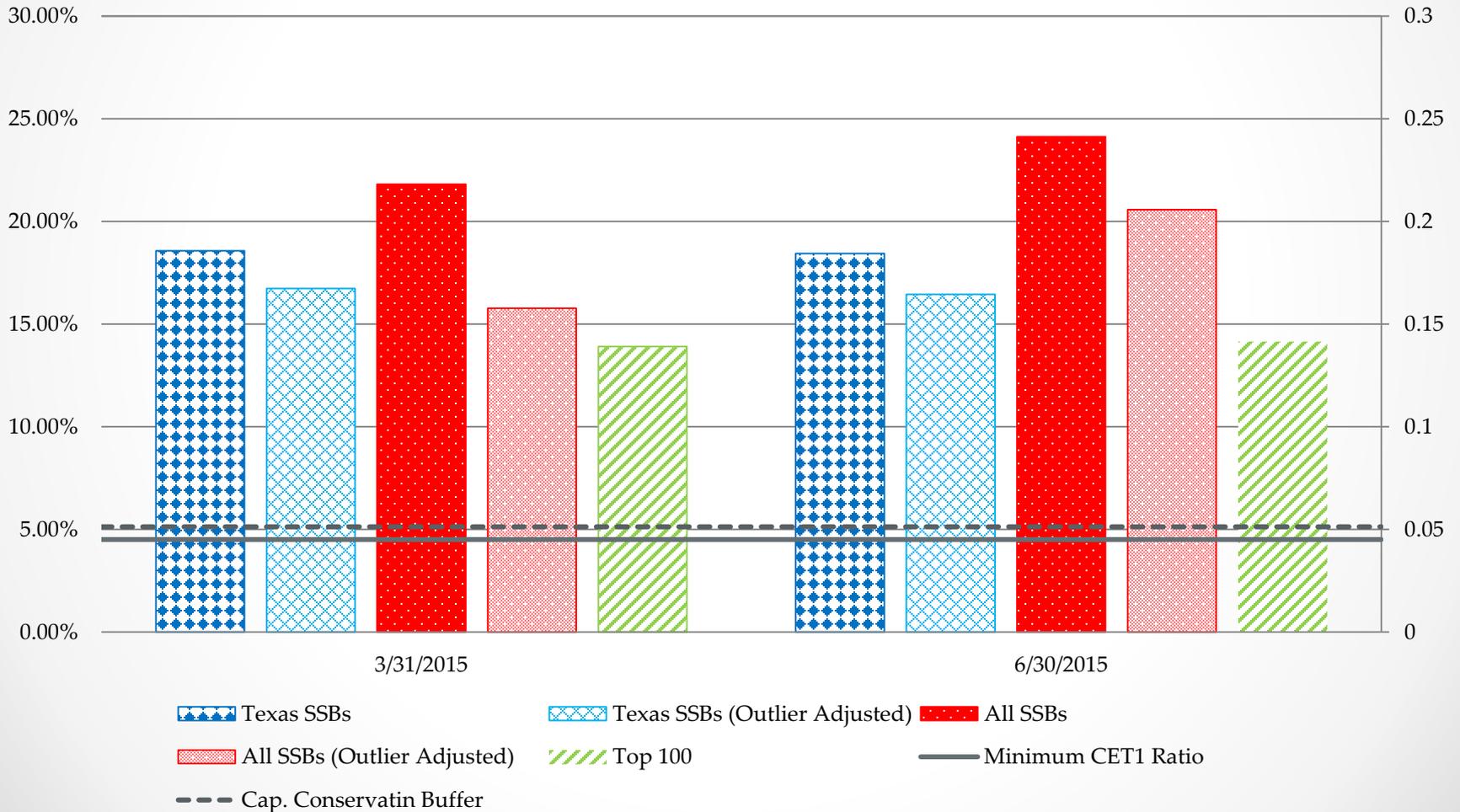


# Average Percent Change in ATA to T1LC (TSSBs)

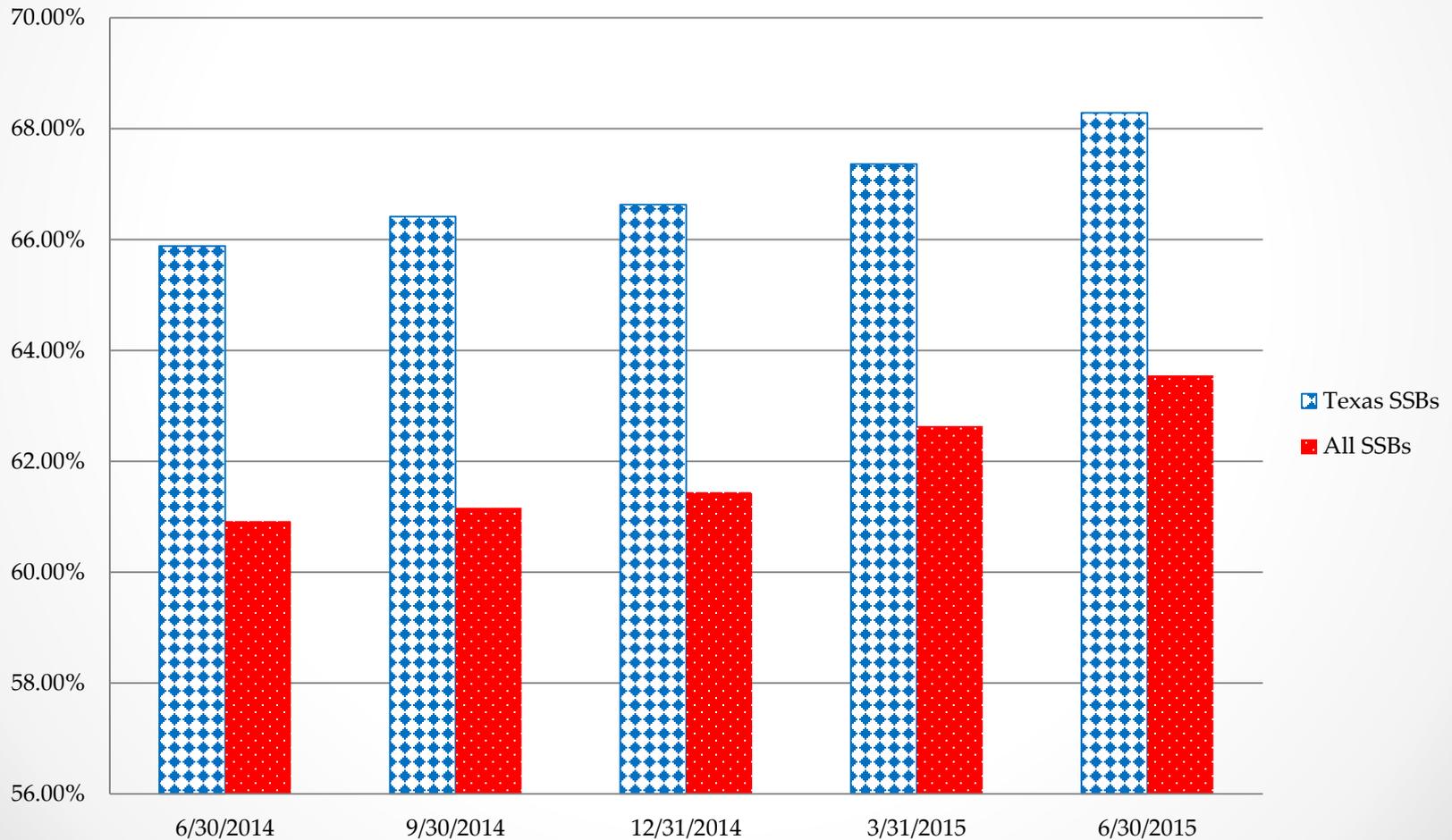
**Avg % change in ATA to T1LC**



# CET1 Capital Ratio Comparison

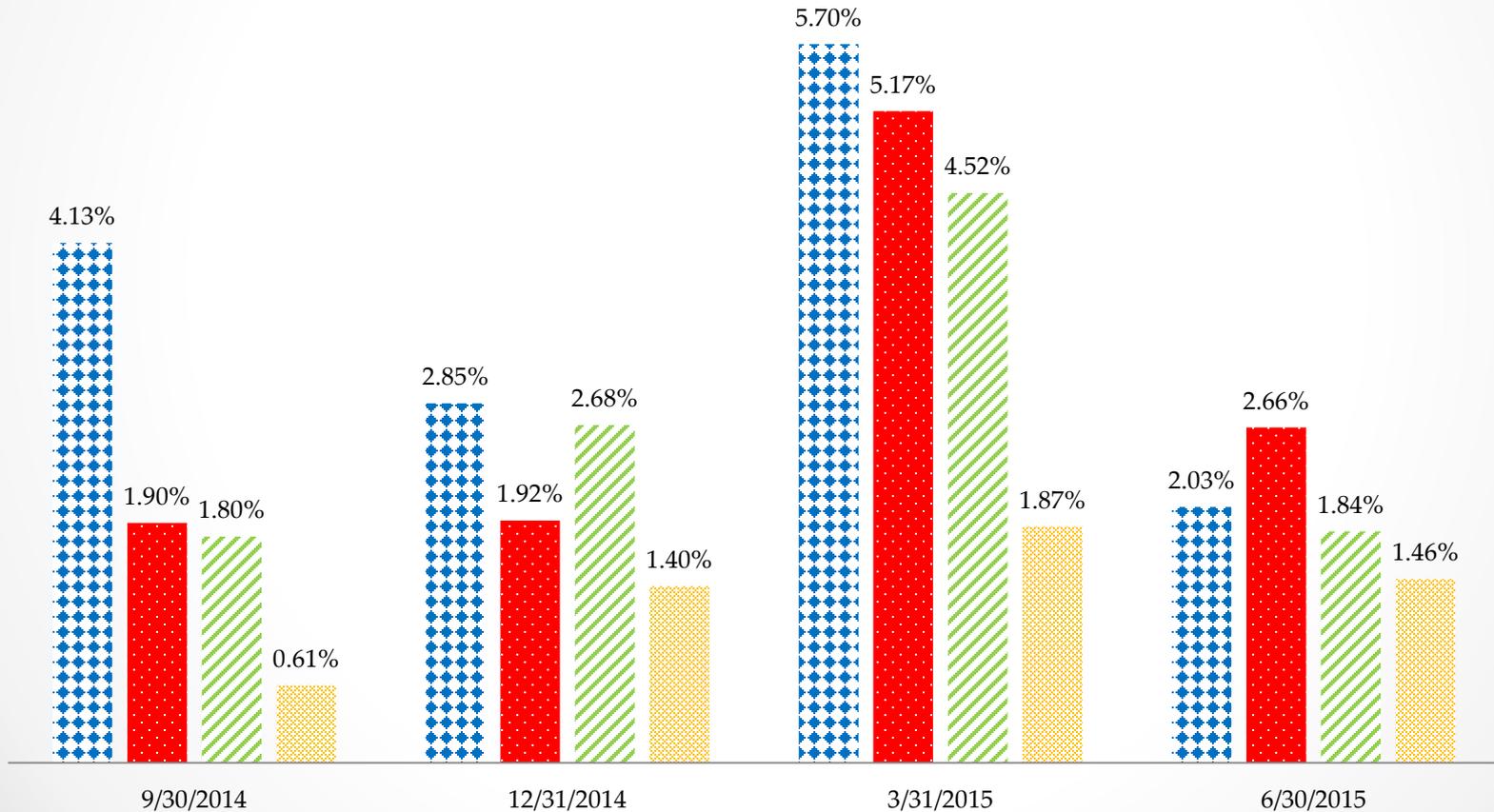


# Average Risk Weighted Assets to Total Assets

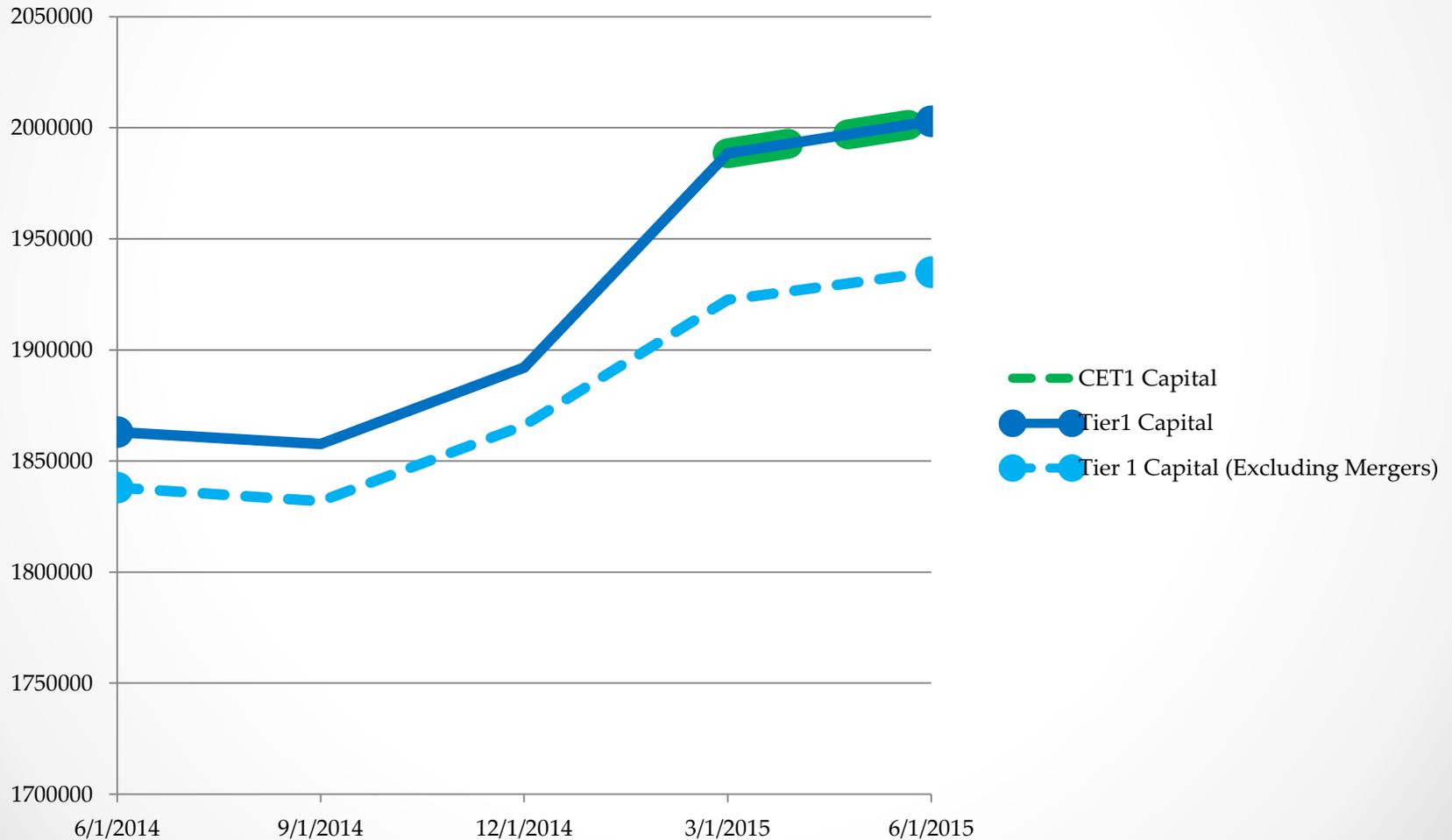


# Percent Change in RWA and TA of SSBs

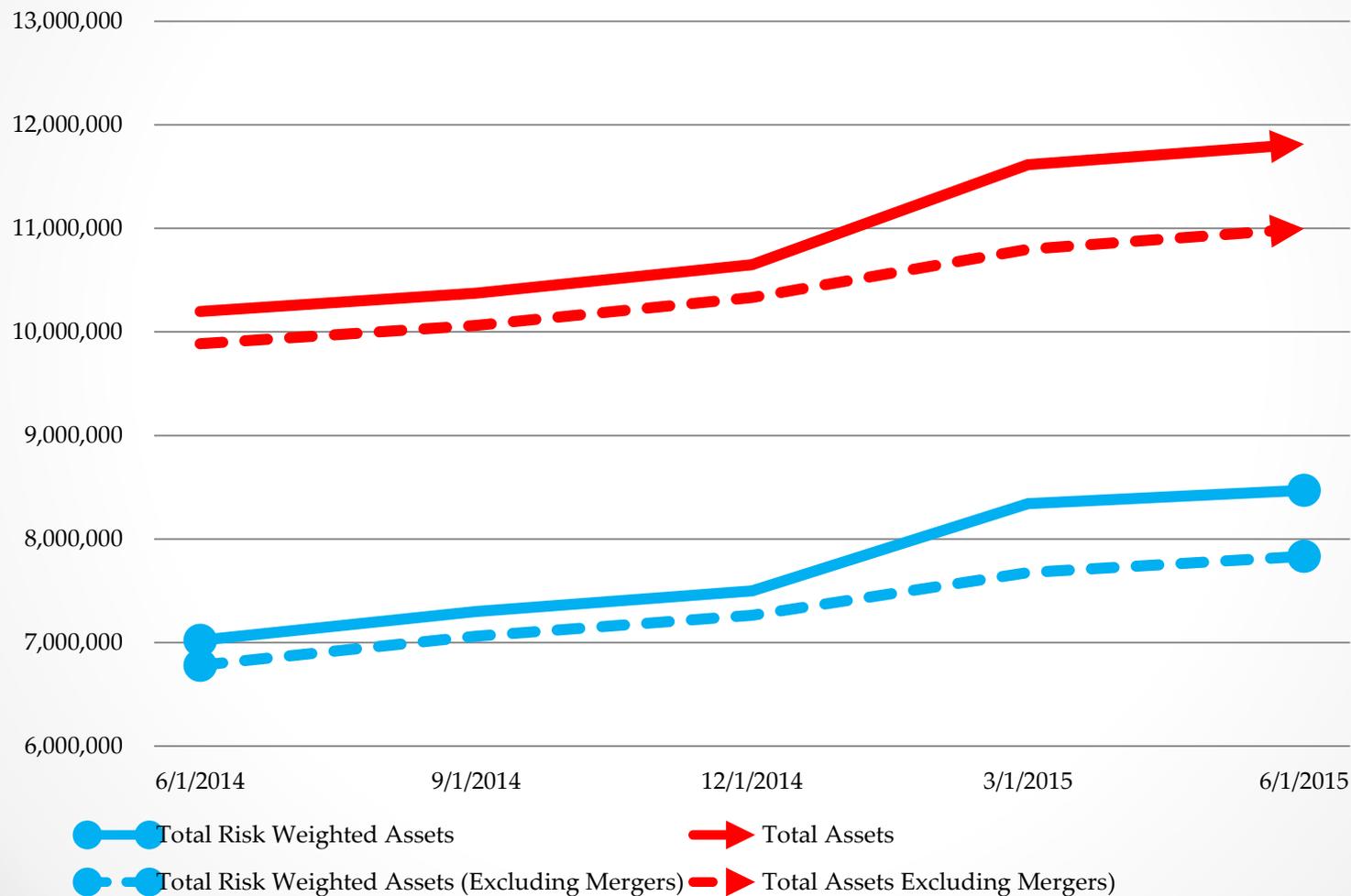
◆ Texas SSB RWA    ■ All SSB RWA    ▨ Texas SSB TA    ▩ All SSB TA



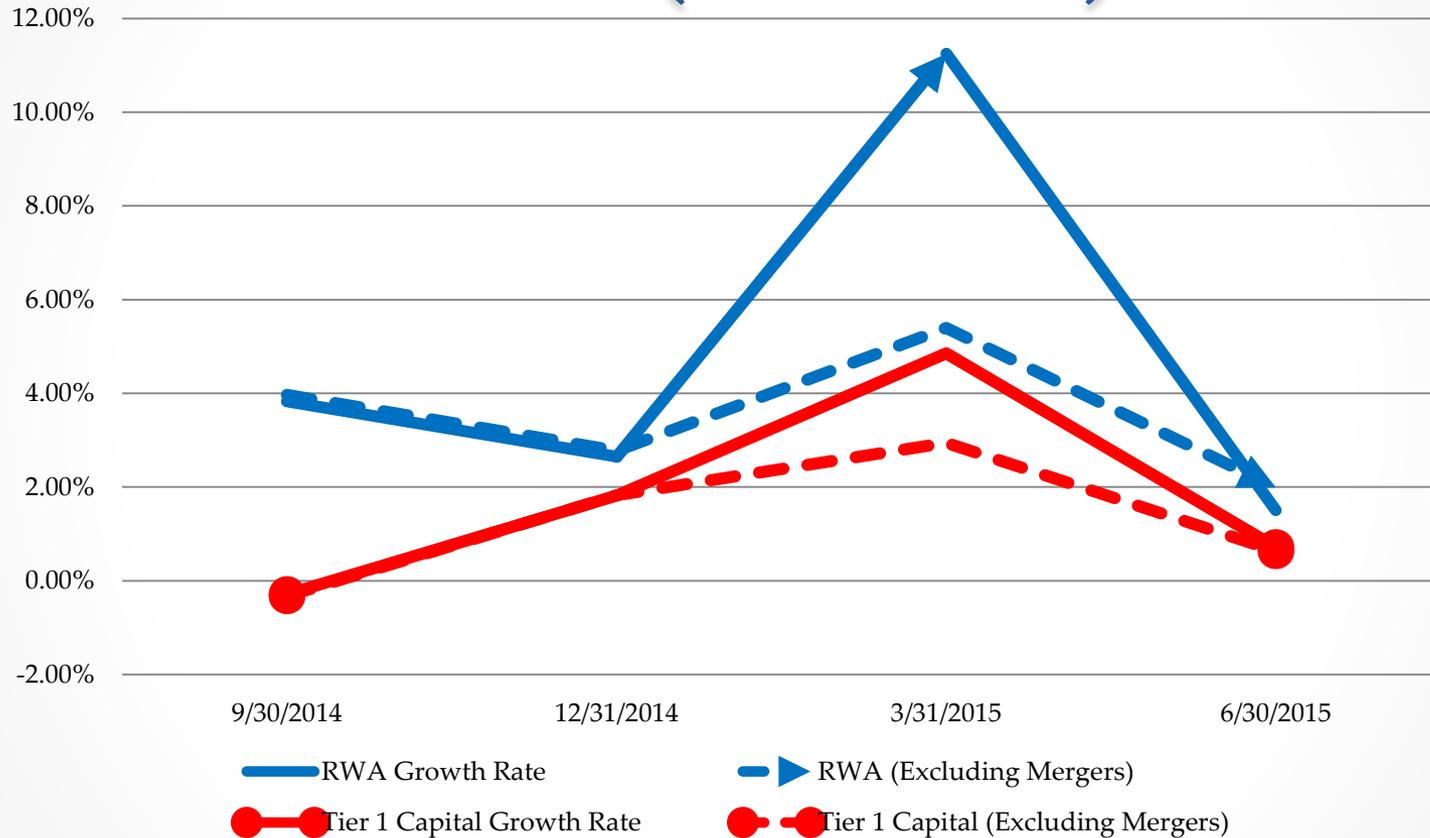
# Total CET1 and Tier 1 Capital (TSSBs)



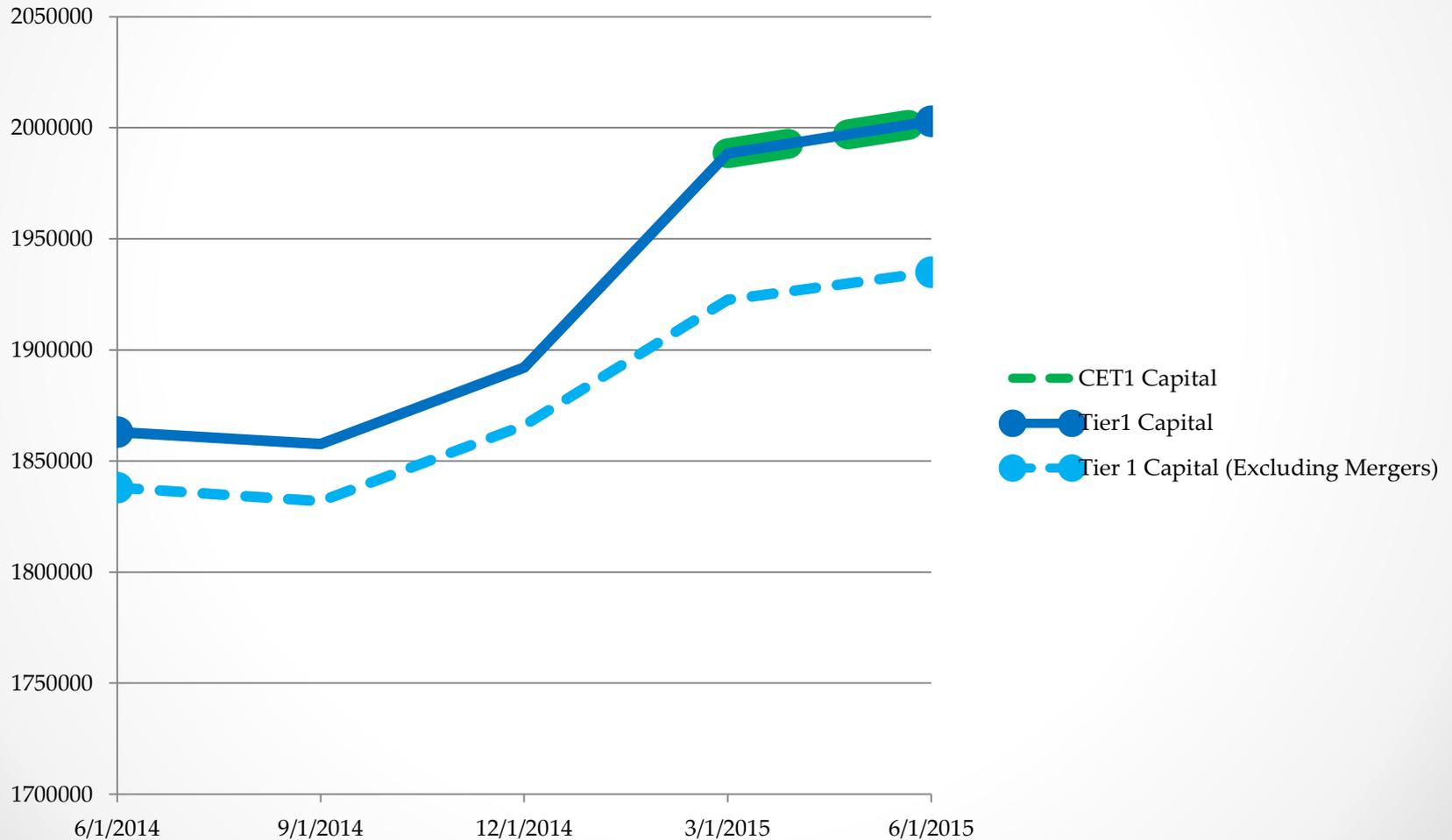
# Total RWA and Total Assets (TSSBs)



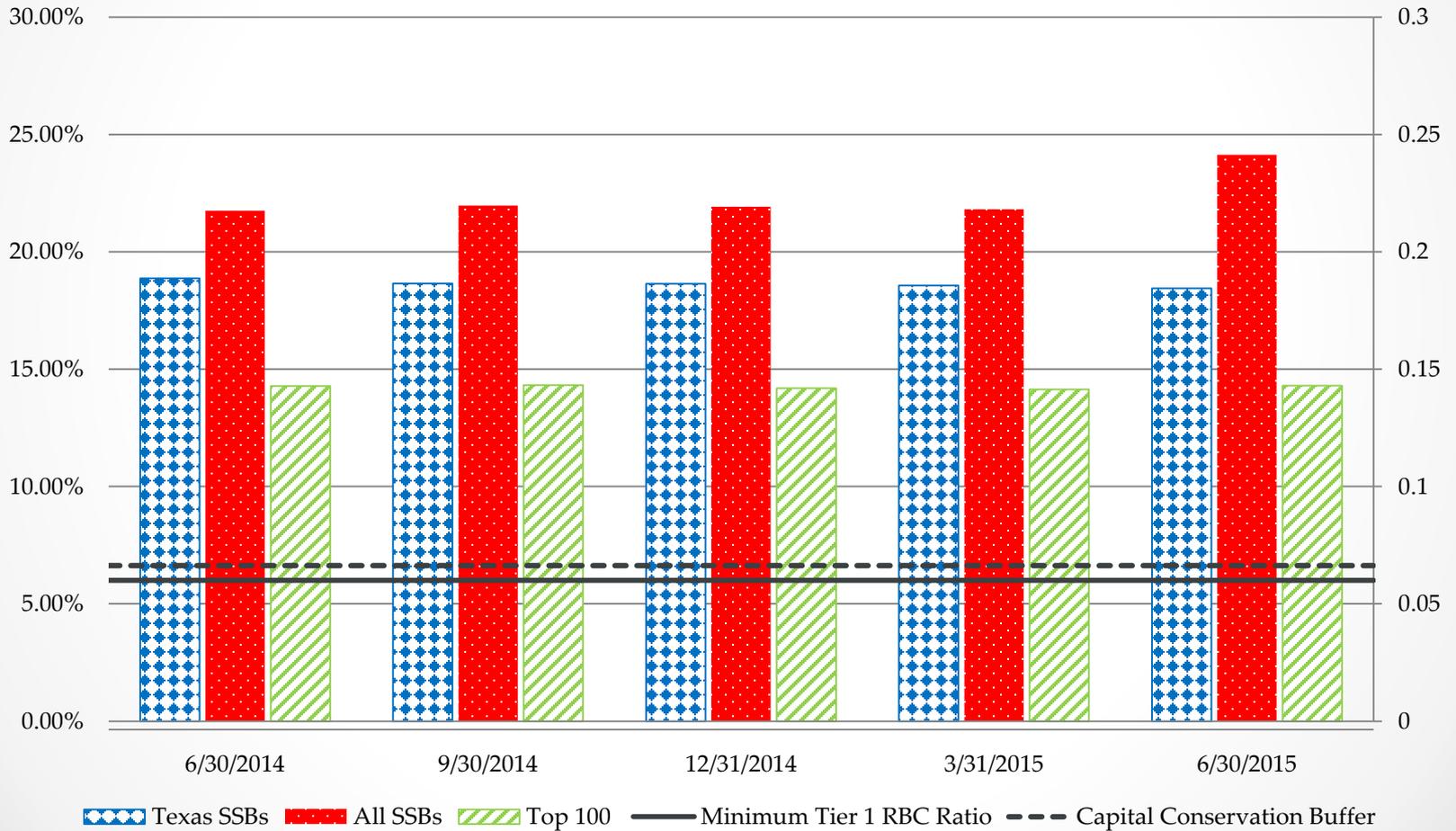
# Growth Rate of RWA to T1C (TSSBs)



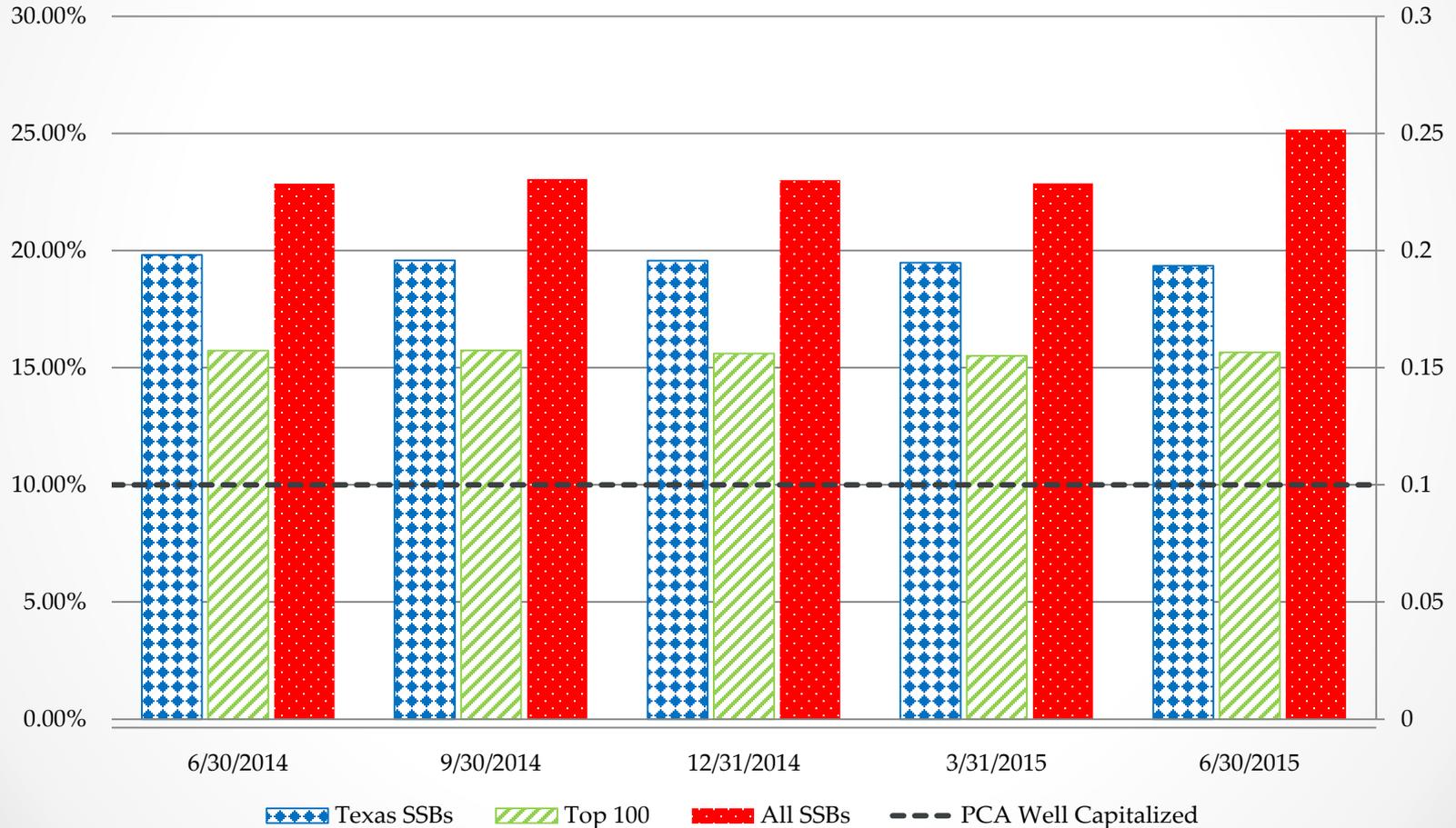
# Total CET1 and Tier 1 Capital (TSSBs)



# Tier 1 RBC Ratio Comparison



# Total Risk Based Capital Ratio



# Hot Topics in Capital

- **Transitions in schedule RC-R**
- **Risk Weighting of Structured Securities**

# Transitions

- **Capital Conservation Buffer (.0625% to 2.5% in 2019)**
- **Regulatory Capital adjustments and Deductions**
- **Non-qualifying Capital Instruments**

# Capital Conservation Buffer Transition

Transition Period	Capital Conservation Buffer Percentage
2016	.625
2017	1.25
2018	1.875
2019	2.5

# Deductions and Adjustments

Year	Phase-In
2015	40
2016	60
2017	80
2018	100

# Deductions and Adjustments

- **MSAs**
- **DTAs from Temporary Differences**
- **Intangibles other than Goodwill and MSAs**

# Phase out of non-qualifying capital instruments

Year	Percent issued prior to 2010 includable in Tier 1 or Tier 2 capital
2015	70
2016	60
2017	50
2018	40
2019	30
2020	20
2021	10
2022	0

# Risk Weighting of Securitizations

- **Gross Up**
- **Simplified Supervisory Formula Approach**
- **If unable to demonstrate satisfactory due diligence the bank will be assigned a 1,250 percent risk weight**
  - **Has to be commensurate with the complexity of the securitization and its materiality relative to capital**

# Summary

- **Texas SSBs in line with other SSBs for Tier 1 Leverage**
- **Ratios experiencing a slight decline from asset growth**
- **Many provisions are still in transition, including the Capital Conservation Buffer**

# Questions?

**My contact information:**

**[bfriedrich@sml.texas.gov](mailto:bfriedrich@sml.texas.gov)**

# Current Expected Credit Loss Model (CECL)

Stephany Trotti, CPA  
Senior Supervisory Examiner

# *What year were these comments made?*

- Cyclical nature of RE markets was either ignored, unanticipated or underestimated.
- Equity from borrowers was minimal to non-existent
- Feasibility analysis on investor construction loans was inadequate or non-existent
- Appraisal analysis was inadequate
- Exit strategies either ignored and non-existent
- Inadequate evaluation of sponsor's overall financial position
- Emphasis of "LTV" in lieu of sound NOI analysis
- Lenders were fee/volume driven, not quality

1990

# *Background*

## *Weaknesses in Current Accounting*

- Delayed recognition of losses*
- Inability to consider forward-looking information*
- Multiple impairment models*

## *What is CECL?*

- **Proposed new ALL methodolgy**
- **Shift in focus from incurred loss to lifetime expected loss estimate**
- **Requires management to estimate all contractual cash flows that it does not expect to collect over the lives of loans and other debt instruments measured at amortized cost**

# *What Financial assets are included?*

## Items in Scope

- Loans
- HTM Debt Securities
- Trade and lease receivables
- Loan Commitments
- Financial guarantees that are not accounted for as insurance or at fair value through net income

## Items out of scope

- Related party loans and receivables between entities under common control
- Loans made to participants by defined contribution employee benefit plans
- Policy loan receivable of and insurance entity
- AFS Securities

# *What is the impact?*

## ***Challenges***

- Model to include historical and forward looking assumptions***
- Developing reasonable and supportable forecasts about the future***
- Represents a larger component of the financial statements***
- May require more sophisticated information systems to capture data***

## *What is gained in this new method?*

- **Will not be restrictions on the types of methodologies used to develop an estimate of expected credit loss**
- **Ability to consider forward looking information**

## *What can you do to prepare?*

- **Ensure information systems are sufficient to capture necessary information**
- **Start discussing impact this may have on the current ALLL levels**

## *What is the effective date?*

- **Has not been determined**
  - Final rule expected by end of 2015
- **Record a cumulative-effect adjustment to the statement of financial position as of the beginning of the first reporting period in which the guidance is effective**

Any questions/comments?

[strotti@sml.texas.gov](mailto:strotti@sml.texas.gov)



# **BE ON TARGET**

## **Regulatory Hot Topics**

**Patsy Smith, Deputy Commissioner  
and Chief Examiner**

# Regulatory Hot Topics



**Cybersecurity**



**Interest Rate Risk**



**Third Party Vendors**



**BSA – Suspicious Activity Report**



# Regulatory Hot Topics

 **Management/ Board Succession**

 **Concentrations**

 **Fast Growth**

 **Oil and Gas**



# Cybersecurity

- **Internal monitoring**
- **Self Assessment Tool – voluntary, but highly recommended by TDSML**
- **If not completed by bank, examiners will review the internal risk assessment**
- **Recommendations will be made based on either the completed Self Assessment Tool or internal risk assessment**



# Interest Rate Risk



- **Reliance on external independent reviews**
  - **Ensure appropriate due diligence**
  - **Annually per FIL**
- **Most Common IRR pitfalls**



# Most Common IRR Pitfalls

- **Unsupported assumptions**
- **Lack of independent reviews**
- **Inadequate policy parameters**
- **Policy exceptions not documented or approved**



# Third Party Processors

**Policies and documentation for the following at a minimum:**

- **Risk Assessment**
- **Due Diligence**
- **Contract Structure**
- **Ongoing Oversight**
- **New FDIC vendor management video coming soon**



# Bank Secrecy Act

-  Suspicious Activity Report
-  Errors and omissions
-  Ensure Appropriate Monitoring in place



# Management and Board Succession

## Succession Planning

- Continuity of the board
  - Does your bank have an adequate board succession?
- Continuity of management
- Critical positions throughout the bank
- Does your bank have an adequate management succession?
  - Chief Executive Officer
  - Chief Financial Officer
  - EVP/Senior Lending Officer



# Concentrations

- **New Concentrations ROE page**
- **Includes Assets and Funding**
- **Exam analysis remains same, has always looked at all concentrations**
- **Informational page, a reminder to continue monitoring**



# Fast Growth

- **Common characteristic in FDIC Material Loss Review**
- **Type of Growth**
  - **CRE, C& D, etc.**
- **Funding Mechanism**
  - **Non core or high deposit rates**



# Oil and Gas

-  **New Oil and Gas Examination Work program**
-  **Recent Examiner Training Seminar**
-  **Focus on Direct and Indirect**
-  **Risk focus as always – identify, measure, monitor and control**



# Other Areas of Concern

- Repeat ROE recommendations
- Non core/volatile funding concerns
- Liquidity contingency weaknesses
- Stress testing deficiencies
- Reg O, 23A and 23B violations
- Common Pitfalls



# Exam Common Pitfalls & Solutions

- **Not addressing all recommendations**
- **Untimely completion**
- **Lack of appropriate approval and/or review documentation in minutes**
- **Repeat Criticisms**
- **Waiting until the last minute to address**



# Reference Tools

➤ **FDIC website**

➤ **FFIEC**

➤ **FRB**



# Information of Interest

- 🎯 ➤ **FILs since July 2014**
- 🎯 ➤ **FDIC Resource Center –  
Technical Assistance Video  
Program**
- 🎯 ➤ **Cybersecurity 101 Handout**



# Questions and Answers

contact info: [psmith@sml.texas.gov](mailto:psmith@sml.texas.gov)





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Each depositor insured to at least \$250,000 per insured bank

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## Directors' Resource Center Technical Assistance Video Program

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The **Technical Assistance Video Program** is a series of educational videos designed to provide useful information to bank directors, officers and employees on areas of supervisory focus and regulatory changes. These videos are available on the FDIC's YouTube channel.

[FDIC Chairman Gruenberg Introduces Video Series](#) (03:29)

### New Director Education Videos

These videos provide information to new bank directors about their fiduciary role and responsibilities as well as an overview of the FDIC's risk management and compliance examination processes. Topics include:

- [Director Responsibilities](#) (09:20)
- [Fiduciary Duties](#) (05:46)
- [Acting in the Best Interest of the Bank](#) (03:56)
- [Overview of the FDIC Examination Process](#) (10:15)
- [Risk Management Examinations](#) (11:09)
- [Compliance and Community Reinvestment Act Examinations](#) (10:02)

### Virtual Directors' College Program

These videos are a virtual version of the FDIC's Directors' College Program that regional offices deliver throughout the year. Topics include:

- [Corporate Governance](#) (21:43)
- [Information Technology \(IT\)](#) (26:06)
- [Interest Rate Risk](#) (28:16)
- [The Bank Secrecy Act](#) (31:34)
- [The Community Reinvestment Act](#) (30:14)
- [Third-Party Risk](#) (29:45)

### Virtual Technical Assistance Program

These videos provide technical training to bankers on a range of regulatory issues. Topics include:

Topics include:

- [Allowance for Loan and Lease Losses \(ALLL\)](#)
- [Appraisals and Evaluations](#)
- [Cyber Challenge: A Community Bank Cyber Exercise](#)
- [Evaluation of Municipal Securities](#)
- [Flood Insurance](#)
- [Interest Rate Risk](#)
- [Managing Fair Lending Risk](#)
- Mortgage Rule Videos
  - [Ability to Repay/Qualified Mortgages](#)
  - [Loan Originator Compensation Rule](#)
  - [Small Servicers](#)
- [Troubled Debt Restructuring \(TDR\)](#)

### Rulemaking Videos

These videos provide an overview of and instructions relating to complex rulemakings. Topics Include:

- [Regulatory Capital Interim Final Rule](#)

#### **Video Downloading**

As an alternative to viewing the technical assistance videos on the FDIC's YouTube channel, videos may be downloaded on [FDICconnect](#), the secure Internet channel for FDIC-insured institutions to conduct business and exchange information with the FDIC. Once a video is downloaded, it can be viewed using a video player software program.

To download videos, you must get access by contacting your approved Coordinator to receive a log in to [FDICconnect](#). Once you have access, select "Ask and Order," then choose "FDIC Online Catalog."

FDICconnect is available only to FDIC-insured institutions and not to the general public.

Last Updated 2/13/2015

[supervision@fdic.gov](mailto:supervision@fdic.gov)

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[FDIC Office of Inspector General Freedom of Information Act \(FOIA\) Service Center](#) | [FDIC Open Government Webpage](#) | [No FEAR Act Data](#)

# Financial Institution Letters

Issued July 1, 2014 to August 17, 2015

FIL	Title	Summary	For banks < \$1B?
<b>2015</b>			
<i>August</i>			
<a href="#">35-2015</a>	<b>Regulatory Relief</b> Guidance to Help Financial Institutions and Facilitate Recovery in Areas of Kentucky	The FDIC has announced a series of steps intended to provide regulatory relief to financial institutions and to facilitate recovery in areas of Kentucky affected by severe storms, tornadoes, straight-line winds, flooding, landslides, and mudslides	Y
<a href="#">34-2015</a>	<b>Regulatory Relief</b> Guidance to Help Financial Institutions and Facilitate Recovery in Areas that Support the Oglala Sioux Tribe of the Pine Ridge Indian Reservation	The FDIC has announced a series of steps intended to provide regulatory relief to financial institutions and to facilitate recovery in areas supporting the Oglala Sioux Tribe of the Pine Ridge Indian Reservation affected by severe storms, straight-line winds, and flooding.	Y
<a href="#">33-2015</a>	<b>Regulatory Relief</b> Guidance to Help Financial Institutions and Facilitate Recovery in Areas of the Commonwealth of the Northern Mariana Islands	The FDIC has announced a series of steps intended to provide regulatory relief to financial institutions and to facilitate recovery in areas of the Commonwealth of Northern Mariana Islands affected by Typhoon Soudelor.	Y

# Financial Institution Letters

July

<a href="#">32-2015</a>	Issuance of Final Rule on Loans in Areas Having Special Flood Hazards	<p>The FDIC, the Office of the Comptroller of the Currency (OCC), the Board of Governors of the Federal Reserve System (FRB), the National Credit Union Administration (NCUA), and the Farm Credit Administration approved the issuance of a joint final rule to amend their respective regulations regarding loans in special flood hazard areas. The final rule amends the FDIC's flood insurance regulation, at Part 339 of Title 12 of the Code of Federal Regulations, to incorporate and implement certain provisions in the Biggert-Waters Flood Insurance Reform Act of 2012 (BW Act) and the Homeowner Flood Insurance Affordability Act of 2014 (HFIAA) regarding detached structures, force placement of flood insurance, and escrowing of flood insurance premiums and fees.</p> <p>The escrow and notice requirements become effective on January 1, 2016. The detached structures exemption became effective upon enactment of the HFIAA on March 21, 2014. The force-placed flood insurance provisions became effective upon enactment of the BW Act on July 6, 2012.</p>	Y
<a href="#">31-2015</a>	Consolidated Reports of Condition and Income	<p>The Consolidated Reports of Condition and Income (Call Report) for the June 30, 2015, report date must be received by Thursday, July 30, 2015. Certain institutions with foreign offices have an additional five calendar days to submit their reports. The Call Report instruction book update for June 2015 includes clarifications of the instructions for Schedule RC-R, Regulatory Capital, that were issued as of the March 31, 2015, report date when this revised schedule was fully implemented.</p>	Y
<a href="#">30-2015</a>	Consolidated Reports of Condition and Income for Second Quarter 2015	<p>Provides deadline and reminders for filing the March 31, 2015 Call Report.</p>	Y
<a href="#">29-2015</a>	<b>Banker Teleconference Series</b> Youth Savings Accounts	<p>Periodically, the FDIC's Division of Depositor and Consumer Protection (DCP) offers a series of events for bankers, including teleconferences and webinars, to maintain open lines of communication and update bank management and staff on important bank regulatory and emerging issues in the compliance and consumer protection area. The FDIC held a teleconference on July 30, 2015, that focused on youth savings programs. FDIC staff discussed ways that banks can link financial education efforts to the opening of saving accounts for school-aged children and shared early observations from the FDIC's Youth Savings Pilot. Staff also discussed the February 2015 <a href="#">Interagency Guidance to Encourage Financial Institutions' Youth Savings Programs</a> and addressed related, frequently asked questions. Presentation materials are available at: <a href="https://www.fdic.gov/news/conferences/other_events/2015-07-30-banker.html">https://www.fdic.gov/news/conferences/other_events/2015-07-30-banker.html</a></p>	Y

## Financial Institution Letters

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<a href="#">28-2015</a>	Cybersecurity Assessment Tool	The FDIC, in coordination with the other members of the Federal Financial Institutions Examination Council (FFIEC), is issuing the FFIEC Cybersecurity Assessment Tool to help institutions identify their cybersecurity risks and determine their preparedness.	Y
<i>June</i>			
<a href="#">27-2015</a>	Interagency Consumer Compliance Examination Procedures for Truth in Lending Act (Regulation Z) and Real Estate Settlement Procedures Act (Regulation X) Mortgage Rules	The FDIC has released revised interagency examination procedures for the new Truth in Lending Act (TILA) - Real Estate Settlement Procedures Act (RESPA) Integrated Disclosure Rule (TRID Rule), as well as amendments to other provisions of TILA Regulation Z and RESPA Regulation X. The Consumer Financial Protection Bureau (CFPB) issued a proposal for a TRID Rule effective date of October 3, 2015. The examination procedures should be helpful to financial institutions seeking to better understand the areas on which the FDIC will focus as part of the examination process.	Y
<a href="#">26-2015</a>	<b>Regulatory Relief</b> Guidance to Help Financial Institutions and Facilitate Recovery in areas of Arkansas	The FDIC has announced a series of steps intended to provide regulatory relief to financial institutions and to facilitate recovery in areas of Arkansas affected by severe storms, tornadoes, straight-line winds, and flooding.	Y
<a href="#">25-2015</a>	Small Bank Pricing Notice of Proposed Rulemaking	On June 16, 2015, the FDIC Board of Directors approved a Notice of Proposed Rulemaking (NPR) and request for comment on proposed refinements to the deposit insurance assessment system for small insured depository institutions (generally, those institutions with less than \$10 billion in total assets). The NPR proposes that the refinements would become operative the quarter after the reserve ratio of the Deposit Insurance Fund (DIF) reaches 1.15 percent. Comments on the NPR were due 60 days following publication of the NPR in the <i>Federal Register</i> . A calculator which estimates the new assessments can be found at: <a href="https://www.fdic.gov/deposit/insurance/calculator.html">https://www.fdic.gov/deposit/insurance/calculator.html</a> .	Y
<a href="#">24-2015</a>	Summary of Deposits Survey Filing for June 30, 2015	The Summary of Deposits (SOD) is the annual survey of branch office deposits as of June 30 for all FDIC-insured institutions, including insured U.S. branches of foreign banks. All institutions with branch offices are required to submit the survey; institutions with only a main office are exempt. All survey responses are required by July 31, 2015. No filing extensions will be granted.	Y
<a href="#">23-2015</a>	<b>Regulatory Relief</b> Guidance to Help Financial Institutions and Facilitate Recovery in Areas of Texas	The FDIC has announced a series of steps intended to provide regulatory relief to financial institutions and to facilitate recovery in areas of Texas affected by severe storms, tornadoes, straight-line winds, and flooding.	Y

## Financial Institution Letters

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May

<a href="#"><u>22-2015</u></a>	<b>Regulatory Relief</b> Guidance to Help Financial Institutions and Facilitate Recovery in Areas of Oklahoma	The FDIC has announced a series of steps intended to provide regulatory relief to financial institutions and to facilitate recovery in areas of Oklahoma affected by severe storms, tornadoes, straight-line winds, and flooding.	Y
<a href="#"><u>21-2015</u></a>	<b>Regulatory Relief</b> Guidance to Help Financial Institutions and Facilitate Recovery in Areas of Kentucky	The FDIC has announced a series of steps intended to provide regulatory relief to financial institutions and to facilitate recovery in areas of Kentucky affected by severe storms, tornadoes, flooding, landslides, and mudslides.	Y
<a href="#"><u>20-2015</u></a>	<b>Banker Teleconference Series</b> Examiner observations of CFPB Mortgage Rule Implementation	Periodically, the FDIC's DCP offers a series of events for bankers, including teleconferences and webinars, to maintain open lines of communication and update bank management and staff on important bank regulatory and emerging issues in the compliance and consumer protection area. The FDIC held a teleconference on May 21, 2015, that focused on implementation of the CFPB's mortgage rules. FDIC staff shared observations that FDIC examiners noted during initial examinations and highlighted a number of practices currently used by some institutions that might be useful to bank compliance officers. Presentation materials are available at: <a href="https://www.fdic.gov/news/conferences/other_events/2015-05-21-banker.html">https://www.fdic.gov/news/conferences/other_events/2015-05-21-banker.html</a>	Y
<i>April</i>			
<a href="#"><u>19-2015</u></a>	Minimum Requirements for Appraisal Management Companies	The agencies issued a final rule to implement the minimum requirements in the <i>Dodd-Frank Wall Street Reform and Consumer Protection Act</i> for the registration and supervision of appraisal management companies (AMCs). An AMC is an entity that meets the statutory appraiser panel threshold size and provides certain types of appraisal management services in connection with valuing a consumer's principal dwelling as security for a consumer credit transaction or incorporating such transactions into securitizations.	Y
<a href="#"><u>18-2015</u></a>	FDIC Announces Phase II of the Youth Savings Pilot Program	FDIC-insured institutions are invited to apply to participate in Phase II of the FDIC Youth Savings Pilot Program, which seeks to identify and highlight promising approaches to offering financial education tied to the opening of safe, low-cost savings accounts for school-aged children. Phase II of the program targets programs during the 2015–16 school year. Pilot participants will be connected with other participants and technical assistance resources. Applications for Phase II were due by June 18, 2015.	Y
<a href="#"><u>17-2015</u></a>	Industry Call Regarding Guidance on Identifying, Accepting, and Reporting Brokered Deposits	The FDIC hosted an informational call for FDIC-insured institutions on April 22, 2015, to discuss the Brokered Deposit Frequently Asked Questions (FAQs) issued in FIL-2-2015. The presentation materials are available at: <a href="https://www.fdic.gov/news/conferences/hq/2015-04-23.pdf">https://www.fdic.gov/news/conferences/hq/2015-04-23.pdf</a>	Y

## Financial Institution Letters

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<a href="#">16-2015</a>	<b>Regulatory Capital Rules:</b> Frequently Asked Questions	The FDIC has issued FAQs related to the revised regulatory capital rules. The FAQs are based on questions received from the banking industry, many of which came from community banks. The release of the FAQs furthers the FDIC's efforts to provide technical assistance as part of the implementation of the revised regulatory capital rules. The FAQs are available on the FDIC's Web site at: <a href="https://fdic.gov/regulations/capital/capital/faq.html">https://fdic.gov/regulations/capital/capital/faq.html</a>	Y
<a href="#">15-2015</a>	Consolidated Reports of Condition and Income	The Call Report for the March 31, 2015, report date must be received by Thursday, April 30, 2015. Certain institutions with foreign offices have an additional five calendar days to submit their reports. A revised version of Schedule RC-R, Regulatory Capital, will be implemented this quarter. In addition, certain institutions with \$1 billion or more in total assets will begin to report information on service charges on consumer deposit account products.	Y
<a href="#">14-2015</a>	Consolidated Reports of Condition and Income for First Quarter 2015	Provides deadline and reminders for filing the March 31, 2015 Call Report.	Y
<i>March</i>			
<a href="#">13-2015</a>	FFIEC Joint Statement on Destructive Malware and Compromised Credentials	The Federal Financial Institutions Examination Council (FFIEC) has issued two joint statements to alert financial institutions to specific risk mitigation techniques related to destructive malware and cyberattacks that compromise credentials. The joint statement discusses the growing trend of cyberattacks designed to obtain online credentials for theft, fraud, or business disruption and recommends risk mitigation techniques. The statement also discusses the increasing threat of cyberattacks involving destructive malware.	Y
<a href="#">12-2015</a>	<b>Regulatory Capital Rules:</b> Accumulated Other Comprehensive Income (AOCI) Opt-Out Election	The FDIC is issuing this FIL as a reminder to FDIC-supervised institutions not subject to the advanced approaches risk-based capital rules that they may elect to calculate regulatory capital using the treatment for AOCI permitted in the FDIC's general regulatory capital rules in effect prior to January 1, 2015.	Y
<i>February</i>			
<a href="#">11-2015</a>	Interagency Guidance to Encourage Financial Institution Youth Savings Programs and Address Related Frequently Asked Questions	The FRB, the FDIC, the NCUA, and the OCC, as members of the Financial Literacy and Education Commission (FLEC), together with the U.S. Department of Treasury's Financial Crimes Enforcement Network (FinCEN), are issuing guidance related to youth savings programs. The guidance uses the term "financial institution" or "institution" to refer to all federally insured depository institutions.	Y
<a href="#">10-2015</a>	Regulatory Capital Reporting Changes	The FFIEC has approved revisions to the reporting of risk-weighted assets in Part II of Schedule RC-R, Regulatory Capital, of the Call Report. These changes to Schedule RC-R, Part II, incorporate the standardized approach for calculating risk weighted assets under the banking agencies' revised regulatory capital rules. A limited change to Schedule RC-L, Derivatives and Off-Balance Sheet Items, revises the reporting of securities borrowed. Subject to approval by the U.S.	Y

## Financial Institution Letters

		Office of Management and Budget, these Call Report changes will take effect March 31, 2015.	
<a href="#">9-2015</a>	Business Continuity Planning Booklet Appendix J Update to FFIEC IT Examination Handbook Series	The FFIEC has issued an appendix to the Business Continuity Planning booklet of the <i>FFIEC Information Technology Examination Handbook</i> entitled "Strengthening the Resilience of Outsourced Technology Services." The booklet is part of the IT Examination Handbook series and provides guidance to assist examiners in evaluating the risk management processes of financial institutions and service providers to ensure the availability of critical financial services. The appendix is available at: <a href="http://www.ffiec.gov/press/pr020615.htm">http://www.ffiec.gov/press/pr020615.htm</a>	Y
<a href="#">8-2015</a>	Regulatory Capital Reporting Changes – Teleconference Scheduled for February 25	To assist in understanding the revisions to Parts I and II of Schedule RC-R and Schedule RC-L, the banking agencies, under the auspices of the FFIEC, held a teleconference for depository institutions that file the Call Report on February 25, 2015. The agencies discussed the revisions to these two Call Report schedules and responded to questions about the regulatory capital reporting changes. Presentation materials are available at: <a href="http://www.ffiec.gov/pdf/FFIEC_forms/FFIEC031_FFIEC041_20150225_Presentation.pdf">http://www.ffiec.gov/pdf/FFIEC_forms/FFIEC031_FFIEC041_20150225_Presentation.pdf</a>	Y
<a href="#">7-2015</a>	<b>Regulatory Capital Rule:</b> Regulatory Capital Tool for Securitization Exposures	The FDIC has published a simplified supervisory formula approach (SSFA) tool as part of its continued outreach efforts to help institutions implement the revised capital rules. The SSFA is a new method banks may use under the revised capital rules to calculate capital requirements for securitization exposures. It is a formula-based approach designed to apply relatively higher capital requirements to the more risky junior tranches that are the first to absorb losses, and relatively lower requirements to the most senior tranches.	Y
<a href="#">6-2015</a>	Guidance on Private Student Loans with Graduated Repayment Terms at Origination	The agencies, in conjunction with the State Liaison Committee, have issued <i>Guidance on Private Student Loans with Graduated Repayment Terms at Loan Origination</i> (Student Loan Guidance). The Student Loan Guidance recognizes that students leaving a higher education program may prefer more flexibility with their payments as they transition into the labor market. Financial institutions that originate private student loans with graduated repayment terms should prudently underwrite the loans and provide disclosures that clearly communicate the timing and the amount of payments to facilitate a borrower's understanding of the loan's terms and features.	Y
<i>January</i>			
<a href="#">5-2015</a>	Statement on Providing Banking Services	The FDIC is issuing this statement to encourage institutions to take a risk-based approach in assessing individual customer relationships rather than declining to provide banking services to entire categories of customers.	Y
<a href="#">4-2015</a>	The FDIC Launches Web Page to Support Marketing of Failing Institutions	The FDIC recently launched a Failing Bank Acquisitions Web page on FDIC.gov. This Web page will allow institutions to better understand how the FDIC markets failing financial institutions. The webpage can be found at: <a href="https://www.fdic.gov/bank/individual/failed/">https://www.fdic.gov/bank/individual/failed/</a>	Y

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<a href="#">3-2015</a>	Consolidated Reports of Condition and Income	The Call Report for the December 31, 2014, report date must be received by Friday, January 30, 2015. Certain institutions with foreign offices have an additional five calendar days to submit their reports.	Y
<a href="#">2-2015</a>	Guidance on Identifying, Accepting, and Reporting Brokered Deposits	The FDIC is issuing guidance in the form of FAQs to promote consistency by insured depository institutions in identifying, accepting, and reporting brokered deposits.	Y
<a href="#">1-2015</a>	Consolidated Reports of Income for Fourth Quarter 2014	Provides deadline and reminders for filing the December 31, 2014 Call Report.	Y

# Financial Institution Letters

2014

December

[61-2014](#)

Supervisory Insights  
Journal Winter 2014  
Issue Now Available

The Winter 2014 issue of *Supervisory Insights* features four articles of interest to examiners, bankers, and supervisors on the topic of interest rate risk (IRR). These articles address effective governance processes for managing IRR, the development of key assumptions for analyzing IRR, the development of an in-house independent review of IRR management systems, and what to expect during an IRR review. The publication is available at:

<http://www.fdic.gov/regulations/examinations/supervisory/insights/index.html>

Y

[60-2014](#)

Bank Secrecy Act:  
Revised Bank Secrecy  
Act/Anti-Money  
Laundering  
Examination Manual

The FFIEC recently released the revised Bank Secrecy Act/Anti-Money Laundering (BSA/AML) Examination Manual. The revised manual can be accessed from the FFIEC BSA/AML Infobase at:

[http://www.ffiec.gov/bsa\\_aml\\_infobase/default.htm](http://www.ffiec.gov/bsa_aml_infobase/default.htm)

Y

November

[59-2014](#)

**Banker  
Teleconference Series**  
Statutory Changes to  
Flood Insurance  
Purchase  
Requirements

Periodically, staff from the FDIC's DCP offers a series of events for bankers, including teleconferences and webinars, to maintain open lines of communication and update bank management and staff on important banking regulatory and emerging issues in the compliance and consumer protection area. The FDIC held a teleconference on December 9, 2014, that focused on statutory changes to mandatory flood insurance purchase requirements. Presentation materials are available at:

[https://www.fdic.gov/news/conferences/other\\_events/2014-12-09.html](https://www.fdic.gov/news/conferences/other_events/2014-12-09.html)

Y

[58-2014](#)

FDIC Announces  
Upcoming Community  
Affairs Webinar:  
Helping Your  
Customers Save:  
America Saves Week  
2015

The FDIC's DCP Community Affairs Branch hosted a webinar titled *Helping Your Customers Save: America Saves Week 2015* on December 12, 2014. The webinar was held to help banks prepare for America Saves Week 2015. Guest presenters from the Consumer Federation of America and its partners discussed ways for banks to encourage customers to set and achieve savings goals through the use of insured bank accounts. Initiatives in rural markets were a particular focus of discussion. This was part of an ongoing series of webinars highlighting strategies institutions can use to promote community development and expand access to the banking system. Presentation materials are available at:

<https://mp163425.cdn.mediaplatform.com/163425/wc/mp/4000/15861/15890/43118/Lobby/default.htm?ref=ProductionTeamEmail>

Y

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<a href="#">57-2014</a>	Assessments: Final Rule	On November 18, 2014, the FDIC Board of Directors adopted the Assessments Final Rule. The Final Rule revises the FDIC's risk-based deposit insurance assessment system to reflect changes in the regulatory capital rules that go into effect in 2015 and 2018. For deposit insurance assessment purposes, the Final Rule will: (1) revise the ratios and ratio thresholds relating to capital evaluations, (2) revise the assessment base calculation for custodial banks, and (3) require that all highly complex institutions measure counterparty exposure for assessment purposes using the Basel III standardized approach in the regulatory capital rules. There are two effective dates for item (1): January 1, 2015, and January 1, 2018. The effective date for items (2) and (3) is January 1, 2015.	Y
<a href="#">56-2014</a>	Guidance Related to the FDIC Statement of Policy on Applications for Deposit Insurance	The FDIC is issuing guidance in the form of "Questions and Answers" or "Q&As" to aid applicants in developing proposals for deposit insurance and to provide transparency to the application process.	Y
<a href="#">55-2014</a>	Credit Risk Retention: Final Rule	The FDIC, the FRB, the OCC, the U.S. Securities and Exchange Commission, the Department of Housing and Urban Development, and the Federal Housing Finance Agency issued a final rule that implements the securitization risk retention requirements in the <i>Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank)</i> .	Y
<a href="#">54-2014</a>	Filing and Documentation Procedures for State Banks Engaging, Directly or Indirectly, in Activities or Investments that are not Permissible for National Banks	A State bank (or its subsidiary) engaging in activities or investments (Activities) permissible for a national bank (or its subsidiary) should establish and maintain files documenting that those Activities (as well as the organizational structure of the subsidiary) are permissible for a national bank (or its subsidiary). A State bank is not required to file an application or notice pursuant to Part 362 to engage in Activities that are permissible for a national bank if the bank maintains certain documentation.	Y
<a href="#">53-2014</a>	Interagency Guidance on Leveraged Lending: Frequently Asked Questions	The FDIC, the FRB, and the OCC are issuing responses to commonly asked questions about the <i>Interagency Guidance on Leveraged Lending (Guidance)</i> issued March 22, 2013. The Guidance is intended to help institutions strengthen risk management frameworks to ensure that leveraged lending activities do not heighten risk in the banking system through the origination and distribution of poorly underwritten and low-quality loans. The responses contained in the FAQs foster industry and examiner understanding and promote consistent application and implementation of the Guidance.	Y

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### October

<a href="#">52-2014</a>	<b>Banker Teleconference Series</b> Ability-to- Repay/Qualified Mortgage and Loan Originator Compensation CFPB Rules Q&A	Periodically, staff from the FDIC's DCP offers a series of events for bankers, including teleconferences and webinars, to maintain open lines of communication and update bank management and staff on important banking regulatory and emerging issues in the compliance and consumer protection area. The teleconference was on October 22, 2014 and focused on common questions and answers pertaining to implementation of the Ability-to-Repay/Qualified Mortgage and the Loan Originator Compensation Final Rules issued by the CFPB. Presentation materials are available at: <a href="https://www.fdic.gov/news/conferences/other_events/2014-10-22-BankerCall.html">https://www.fdic.gov/news/conferences/other_events/2014-10-22-BankerCall.html</a>	Y
<a href="#">51-2014</a>	Consolidated Reports of Condition and Income	The Call Report for the September 30, 2014, report date must be received by Thursday, October 30, 2014. Certain institutions with foreign offices have an additional five calendar days to submit their reports.	Y
<a href="#">50-2014</a>	Consolidated Reports of Condition and Income for Third Quarter 2014	Provides deadline and reminders for filing the September 30, 2014 Call Report.	Y

### September

<a href="#">49-2014</a>	Technology Alert: GNU Bourne-Again Shell (Bash) Vulnerability	The FDIC, as a member of the FFIEC, is issuing the attached alert advising financial institutions of a material security vulnerability with Linux and Unix operating systems that could allow an attacker to gain control of a bank's servers remotely. The vulnerability is commonly known as the GNU Bourne-Again Shell (Bash) or "Shellshock" vulnerability.	Y
<a href="#">48-2014</a>	<b>Regulatory Relief</b> Guidance to Help Financial Institutions and Facilitate Recovery in Areas of Michigan	The FDIC has announced a series of steps intended to provide regulatory relief to financial institutions and to facilitate recovery in areas of Michigan affected by severe storms and flooding.	Y
<a href="#">47-2014</a>	Margin and Capital Requirements for Covered Swap Entities	The FDIC, the OCC, the FRB, the Farm Credit Administration, and the Federal Housing Finance Agency (the agencies) are issuing a Notice of Proposed Rulemaking (NPR) and request for comment 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 or major participants. Comments will be solicited on this NPR for 60 days following publication in the <i>Federal Register</i> .	N

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<a href="#">46-2014</a>	Liquidity Coverage Ratio: Final Rule	The FDIC, the OCC, and the FRB are issuing a final rule that implements a quantitative liquidity requirement consistent with the liquidity coverage ratio established by the Basel Committee on Banking Supervision. The requirement is designed to improve the liquidity risk profile of international banking organizations and to strengthen the measurement and management of liquidity risk.	N
<a href="#">45-2014</a>	<b>Regulatory Capital Rules:</b> Regulatory Capital, Revisions to the Supplementary Leverage Ratio	The federal banking agencies have issued the joint final rule that revises the denominator of the supplementary leverage ratio (total leverage exposure) under the revised regulatory capital rule adopted by the agencies in July 2013 (2013 revised capital rule).	N
<i>August</i>			
<a href="#">44-2014</a>	Interagency Guidance Regarding Unfair or Deceptive Credit Practices	The FDIC, the FRB, the CFPB, the NCUA, and the OCC are issuing guidance regarding certain consumer credit practices. The authority to issue credit practice rules for banks, savings associations, and federal credit unions was repealed as a consequence of the Dodd-Frank Act; however, institutions should not construe the repeal to indicate that the unfair or deceptive practices described in these former regulations are permissible. These practices remain subject to Section 5 of the Federal Trade Commission (FTC) Act.	Y
<a href="#">43-2014</a>	FDIC Announces Youth Savings Pilot Program	FDIC-insured institutions are invited to apply and participate in the FDIC's Youth Savings Pilot Program, which seeks to identify and highlight promising approaches to offering financial education tied to the opening of safe, low-cost savings accounts for school-aged children. The first phase of the pilot is open to institutions currently working with schools or nonprofit organizations that help students open savings accounts in conjunction with financial education programs. The second phase is expected to target new programs that begin during the 2015–16 school year. Pilot participants will be connected with other participants and technical assistance resources to develop and share best practices. Upon completion of the pilot, the FDIC intends to publish a report to provide financial institutions with best practices on how to work with schools or other organizations to combine financial education with access to a savings account.	Y
<i>July</i>			
<a href="#">42-2014</a>	Summer 2014 Supervisory Insights Issue Now Available	The Summer 2014 issue of <i>Supervisory Insights</i> features two articles of interest to examiners, bankers, and supervisors. This issue discusses trends in the “Matters Requiring Board Attention” section of reports of examination as well as using internal resources as an alternative to consultants for required independent reviews.	Y

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<p><a href="#">41-2014</a></p> <p>FDIC Clarifying Supervisory Approach to Institutions Establishing Account Relationships with Third-Party Payment Processors</p>	<p>The FDIC is clarifying its supervisory approach to institutions establishing account relationships with third-party payment processors (TPPPs). As part of its regular safety and soundness examination activities, the FDIC reviews and assesses the extent to which institutions having account relationships with TPPPs follow the outstanding guidance. FDIC guidance and an informational article contained lists of examples of merchant categories that had been associated by the payments industry with higher-risk activity when the guidance and article were released. The lists of examples of merchant categories have led to misunderstandings regarding the FDIC's supervisory approach to TPPPs, creating the misperception that the listed examples of merchant categories were prohibited or discouraged. In fact, it is FDIC's policy that insured institutions that properly manage customer relationships are neither prohibited nor discouraged from providing services to any customer operating in compliance with applicable law. Accordingly, the FDIC is clarifying its guidance to reinforce this approach, and as part of this clarification, the FDIC is removing the lists of examples of merchant categories from its official guidance and informational article.</p>	<p>Y</p>
<p><a href="#">40-2014</a></p> <p>Requests from S-Corporation Banks for Dividend Exceptions to the Capital Conservation Buffer</p>	<p>This FIL describes how the FDIC will consider requests from S-corporation banks or savings associations (henceforth, "banks") to pay dividends to shareholders to cover taxes on their pass-through share of the bank's earnings, when these dividends would otherwise not be permitted under the capital conservation buffer requirements in the Basel III rule. As described in more detail in this FIL, absent significant safety-and-soundness concerns about the requesting bank, the FDIC generally would expect to approve exception requests by well-rated S-corporation banks that are limited to the payment of dividends to cover shareholders' taxes on their portion of an S-corporation's earnings.</p>	<p>Y</p>
<p><a href="#">39-2014</a></p> <p>Prudent Management of Agricultural Credits Through Economic Cycles</p>	<p>The U.S. agricultural industry has reported overall profitability for several years, which has helped strengthen the overall credit quality of many insured financial institutions that serve agricultural clients. However, the U.S. Department of Agriculture (USDA) projects a slowdown in the growth of various financial indicators for U.S. farming and livestock sectors, and the agricultural sector remains susceptible to shocks such as weather-related events, market volatility, and declining land values. This FIL reminds institutions engaged in agricultural lending to maintain sound underwriting standards, strong credit administration practices, and effective risk management strategies. When agricultural borrowers experience financial difficulties, the FDIC encourages financial institutions to work constructively with borrowers to strengthen the credit and mitigate loss.</p>	<p>Y</p>
<p><a href="#">38-2014</a></p> <p>Consolidated Reports of Condition and Income</p>	<p>The Call Report for the June 30, 2014, report date must be received by Wednesday, July 30, 2014. Certain Institutions with foreign offices have an additional five calendar days to submit their reports.</p>	<p>Y</p>

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<a href="#">37-2014</a>	Assessments: Notice of Proposed Rulemaking	On July 15, 2014, the FDIC approved the attached NPR that would revise the FDIC's risk-based deposit insurance assessment system to reflect changes in the regulatory capital rules that go into effect in 2015 and 2018. For deposit insurance assessment purposes, the NPR would (1) revise the ratios and ratio thresholds relating to capital evaluations, (2) revise the assessment base calculation for custodial banks, and (3) require that all highly complex institutions measure counterparty exposure for assessment purposes using the standardized approach in the regulatory capital rules. The NPR proposes two effective dates for item 1: January 1, 2015, and January 1, 2018. The NPR proposes an effective date of January 1, 2015, for items 2 and 3. Comments on the NPR are due 60 days following publication of the NPR in the <i>Federal Register</i> .	Y
<a href="#">36-2014</a>	Consolidated Reports of Condition and Income for Second Quarter 2014	Provides deadline and reminders for filing the June 30, 2014 Call Report.	Y
<a href="#">35-2014</a>	FDIC Announces Upcoming Community Affairs Webinar: Model Approaches to Community Bank/Community Development Financial Institution (CDFI) Partnerships	The FDIC's DCP Community Affairs Branch hosted a webinar on <i>Model Approaches to Community Bank/CDFI Partnerships</i> on July 31, 2014. FDIC staff provided an overview of a resource guide, <i>Strategies for Community Banks to Develop Partnerships with CDFIs</i> , designed to help community banks identify and evaluate opportunities to collaborate with CDFIs. The webinar also included presentations on model bank/CDFI partnerships and an overview of U.S. Department of the Treasury programs that can potentially support bank/CDFI partnerships. Presentation materials are available at: <a href="https://www.fdic.gov/consumers/community/Webinar/Modelapproach.html">https://www.fdic.gov/consumers/community/Webinar/Modelapproach.html</a>	Y
<a href="#">34-2014</a>	<b>Banker Teleconference Series</b> Interagency Q&A on Community Reinvestment and updated Large Institution CRA Exam Procedures	On an ongoing basis, staff from the FDIC's DCP offers a series of banker events, including teleconferences and webinars, to maintain open lines of communication, and update bank management and staff on important banking regulatory and emerging issues in the compliance and consumer protection area. This event occurred on July 17, 2014, and focused on the recently revised Interagency Questions and Answers regarding Community Reinvestment and the updated Interagency Large Institution Community Reinvestment Act Examination Procedures. Presentation slides are available at: <a href="https://consumercomplianceoutlook.org/outlook-live/2014/interagency-questions-answers-regarding-community-reinvestment/">https://consumercomplianceoutlook.org/outlook-live/2014/interagency-questions-answers-regarding-community-reinvestment/</a>	Y

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[33-2014](#)

Interagency Guidance  
on Home Equity Lines  
of Credit (HELOCs)  
Nearing the End-of-  
Draw Period

The *Interagency Guidance on Home Equity Lines of Credit (HELOC) Nearing their End-of-Draw Period* recognizes that some institutions and borrowers may face challenges as HELOCs near their end-of-draw period. Many borrowers will have the financial capacity to meet their contractual obligations as HELOCs transition from the draw period to an amortizing or balloon payment. However, some borrowers may have difficulty meeting higher payments resulting from principal amortization or an interest rate reset, or refinancing an existing loan due to changes in financial circumstances or declines in property values since the HELOC's origination date. The HELOC guidance provides a framework for managing HELOCs nearing their end-of draw period and communicating and prudently working with HELOC borrowers experiencing financial difficulties.

Y