OSC
a Breckenridge Company

Compliance Insights

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Compliance: More than Just Regulations

The all so famous retail cliché of "the customer is always right" is driving a movement by consumer advocates that is affecting all consumer touchpoints in the financial services industry. Regulators and consumers are wanting much more from their financial service providers. While consumer regulatory guidelines speak one specific language, consumers using social media outlets often use more blunt language ranting about one specific common denominator: improving the customer experience.

Over the last 25 years, the financial services industry has seen significant change not only in the types of products available, but also how these products are delivered. More focus of the product delivery is on consumer protection. Falling short of delivering the expected customer experience is costly – from press headlines about compliance penalties to the migration of unhappy consumers from one institution to another. But, in today's environment focusing on improving the customer experience is rewarding. Financial service providers that do it well automatically create an early warning system for compliance risk exposure through robust complaint management programs. But equally important, and even more so with shareholders, happy consumers translate into improved market share, profitability, and customer loyalty.

Consumer Centric Focus

It has often been said, building relationships is the key to success. This holds true despite regulatory pressure and the soaring costs of implementing new consumer compliance regulations. The central theme around the plethora of consumer protection laws ushered in by Dodd-Frank has been around remedying alleged bad customer experiences. In fact, the importance to avoid reputational damage over violations of consumer protection laws builds on the very need to focus energy on improving a customer's experience. Financial service providers should be continually focusing on and assessing their customer satisfaction. Knowledge to this end is key to building processes that deliver best in class customer experience leading to successful and profitable business models that will be trusted by our very own regulators.

{Continued on Page 2}

Top Regulatory Trends for 2016 in Banking

Deloitte's Center for Regulatory Strategies issued their annual top regulatory trends for 2016 in banking. According to Deloitte, while the industry in 2015 focused on change and reaction to Dodd-Frank regulations, the new focus is on transformation supported by strong ethics, culture, and related accountabilities at every level of the banking organization. Deloitte has identified twelve key regulatory trends in banking for 2016:

1. Governance and risk management
2. Culture and ethics
3. Capital planning and stress testing
4. Recovery and resolution planning
5. Enhanced prudential standard for foreign banking organizations
6. Consumer protection
7. Cyber threats
8. Data quality, analytics, and reporting
9. Model risk management
10. Credit quality concerns
11. New risks from financial innovation and migration activities
12. Linking regulatory strategy to business strategy

Read more about these trends throughout this issue wherever you see the magnifying glass.

INSIDE

A value-added newsletter for clients and friends of OSC.

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For a demonstration of our next generation IrisX multi-collateral risk management tracking system, contact Michael Randall at mrandall@oscis.com | 803.237.5428

[COMPLIANCE CONTINUED FROM PAGE 1]

From a customer's viewpoint, there are five key takeaways and requests that will guide a financial service provider in helping enhance customer experience. These requests include:

Treat me fairly

Understand me and show it

Make this fast, easy, and secure

Don't interrupt me unnecessarily

Assist and reward me

Let's take a look briefly at each of these requests:

"TREAT ME FAIRLY"

Inconsistent treatment of customers can create mountains of complaints and regulatory actions that can cost millions of dollars in fines and restitution. When push comes to shove, consumers just want fair and consistent treatment. Policies and procedures should be reviewed that support equitable treatment across the customer base even in situations where new customers are being offered discounted pricing to the pricing of current customers.

Customers pay attention to the regulatory actions against financial service providers and how they treat their customers. Likewise, regulators pay attention to what consumers say about financial service providers through a variety of public complaint portals. So, by making operations more consumer-focused, financial service companies can help preserve their reputation in the financial marketplace and avoid increased regulatory scrutiny.

"UNDERSTAND ME AND SHOW IT"

Consumers want to be heard and understood when communicating with financial service providers. When speaking with service providers, consumers want to be understood on the context of what they are trying to accomplish and not anything else. This especially holds true in customer call center situations where consumers are trying to resolve issues. Financial service providers can rise above their competition by truly listening to the consumer and anticipating exactly what the consumer needs from them and following through to completion. Consumers do not appreciate being subjected to uncoordinated attempts to transfer calls to other associates or providing dismissive information so that consumers will end the call. True consumer happiness is following through to meaningful resolution using emotional intelligence.

"MAKE THIS FAST, EASY AND SECURE"

Speed up service delivery in step with the mobile generation! Consumers expect "Amazon" service and immediate information to make quick decisions. Technology systems need to be able to handle data and other decision inputs and make them available to processes across platforms to speed up customer deliverables. Also, financial service providers must be vigilant that how they interact with customers across all channels, as well as how they store information from these interactions, complies with security regulations.

"DON'T INTERRUPT ME UNNECESSARILY"

While relevant contact from financial service providers improves customer experience, contacts that lack purpose, or occur too frequently, are counterproductive. In many cases, they add friction to a relationship that should be running smooth and providing value.

{Continued on Page 3}

trends to watch

GOVERNANCE AND RISK MANAGEMENT

"Many bank managers continue to face challenges in implementing a comprehensive enterprise-wide governance program that meets regulatory expectations. These expectations are outlined by the Federal Reserve Board (FRB) in its Enhanced Prudential Standards (EPS) rule, and by the Office of Comptroller of the Currency (OCC) in its Heightened Standards (HS) formal guidelines, as well as by other sources including the FRB's Supplemental Policy Statement on Internal Audit, regulatory speeches, and direct communications with the banks. Regulatory agencies are calling for well-defined roles and responsibilities for three lines of defense: front-line units, independent risk management (which includes compliance), and internal audit."

CULTURE AND ETHICS

"Many of the problems and failures during and after the financial downturn – some of them criminal – were rooted in poor cultural foundations. In response, US Banking regulators, the Financial Stability Board, and the Basel Committee on Banking Supervision are increasingly focused on the importance of culture at banking institutions. This culture should not be viewed as a compliance exercise or a standalone work stream or project. Rather, it must be a fundamental firm-wide mindset. The question should not be 'is this legal?'. Rather, they should be asking 'is it consistent with our values for treating our customers and the community?'."

CAPITAL PLANNING AND STRESS TESTING

"In the wake of the financial downturn, regulators having been pushing banks to formalize their capital-planning and stress testing processes to help ensure their ability to weather future sever downturns while continuing to lend. Banks' ongoing efforts to develop and integrate these critical processes into day-to-day operations have significantly influenced their key decisions and business strategies."

RECOVERY AND RESOLUTION PLANNING

"Large financial institutions are focusing intensely on recovery and resolution planning. The purpose of such plans is to help those firms respond quickly to stress events and, in cases where a firm's response ultimately proved inadequate, to help the business be resolved in an orderly manner. FDIC Chairman Martin Gruenberg has stated that for regulatory agencies, there is no higher priority coming out of the prior financial downturn. Firms are expected to move beyond identifying theoretical plans to demonstrating their preparedness to be resolved."

OSC Compliance Conference Round Up

The 18th OSC Compliance Conference: "Mitigating Risk, Maximizing Growth" held March 8-10th in Kennesaw, Georgia was our best attended conference to date. Thank you to all who joined us and those who presented on panels and individually to share your knowledge with the group. The agenda covered everything from an entertaining economic outlook to portfolio exposures and three partners—LRES, Lereta, and Mueller Reports—who can help protect your interests and customer relationships, to the nuances of managing compliance and customer care within an increasingly complex regulatory environment.

The group also enjoyed an inspired keynote presentation by the accomplished William R. Berkley, Founder and Chairman of W.R Berkley Corp. (pictured above) who covered world economic and political affairs and our need to participate in a compelling fashion. Before we wrapped up, all gained an understanding of the role of the newer CFPB Ombudsman office, how to participate in advocacy for our industry, and comprehensive flood compliance training. We look forward to future opportunities to connect and provide continued thought leadership based on your needs. Please let us know what we can do to be of further support.

[COMPLIANCE CONTINUED FROM PAGE 2]

More and more financial service providers are using analytics to pinpoint the right messages and timing to build rapport with customers. These analytics are usually coordinated across product lines and platforms. More and more consumers prefer mobile messages that are relevant, timely, and within the context of the services being offered to that consumer and not merely a sales offer. Steps at improving the relevant communication add efficiencies and cost savings to financial service providers as well as reduced annoyance for customers.

"ASSIST ME AND REWARD ME"

In today's financial environment, it's no longer acceptable to expect customer loyalty from a single act of kindness by a financial service provider. Rather, customer trust, repeat business, and loyalty are earned over time by delivering one excellent customer experience after another while ultimately assisting the customer in achieving his/her ultimate financial goal.

Financial service providers can learn much about the concerns of their customers and their expectations. Robust complaint management programs that collect data and perform trend analyses provide valuable information about customer issues and can serve as a catalyst of prescribing proactive process improvements to deliver exceptional services. Consumer protection regulators such as the Consumer Finance Protection Board require consumer financial service providers to have such programs in place, and use them accordingly to alert firms of consumer problems or issues.

Another helpful strategy that financial firms are employing is studying behavior analyses by looking at customer demographic and transaction data. The goal is to segment customers by characteristics and be able to justify different treatment of customers based on customer characteristics.

Summary

Consumer advocates and the financial services regulatory agenda have put a great deal of emphasis on delivering services that provide the customer with a positive experience. Consumers expect to be treated with the highest respect and fiduciary care.

We know that driving a customer centric business model that provides services with a high degree of customer care will help satisfy our regulators. But equally and perhaps more importantly, the extra due diligence in how we treat our customers will drive profitability. And, the icing on the cake is that happy customers often lead to avoiding financial and reputational costs of noncompliance.

Diversity and Inclusion in the Financial Sector

Diversity is integral to innovation and advancement. It matters to both teams and companies. Indeed, research continues to show the difference diversity makes when it comes to delivering returns on equity, sales, and invested capital. Research conducted at McKinsey, for example, found that companies ranking in the top quartile of executive-board diversity had 53 percent higher returns on equity than those in the bottom quartile.[1] A 2007 Catalyst study also found that Fortune 500 companies with the highest representation of women board directors outperformed those with the least by 53 percent in returns on equity, 42 percent in returns on sales, and by 66 percent in returns on invested capital.[2]

Yet despite all the proven advantages of a diverse workplace, it is well documented that the financial services sector is not very diverse. In April 2013, the United States Government Accountability Office issued a report stating that between 2007 and 2011 there have been no substantial changes in the number of minorities and women in management. In financial firms, women represent approximately 30 percent of senior management and 36 percent at financial regulators. The representation of minorities in senior management is even lower. Minorities at financial firms represent 11 percent of senior management positions and 17 percent at financial regulators.[3]

In an effort to foster more diversity, regulators enacted provisions in the Dodd-Frank Act ("Act") to increase gender and racial balances at both financial firms and regulatory agencies. The Act, for instance, requires that federal agencies create an Office of Minority and Women Inclusion ("OMWI"). The OMWI was intended to oversee all matters relating to diversity in management, employment and business activities. Six agencies ("Agencies") went further and in October 2013, drafted an interagency statement for assessing diversity policies and practices of the entities regulated by them. The six Agencies again joined forces and issued final standards for assessing diversity in June 2015 ("Standards"). The Standards are intended to serve as a framework for financial firms to create and strengthen its diversity policies and practices.[4]

"No, this is not Mel's secretary. This is Mel."

The Standards include, in part, the following recommendations for entities in the financial industry:

1. Account for diversity in recruiting, hiring, retention and promotion and make this part of the strategic plan of the entity.
2. Create a diversity and inclusion policy approved and supported by senior leadership, including senior management and the board of directors.
3. Provide regular progress reports to board and senior management.
4. Regularly conduct training and provide educational opportunities on equal employment opportunity and diversity and inclusion.
5. Retain senior management level official responsible for overseeing and directing the entity's diversity and inclusion efforts.
6. Take proactive steps to promote women and minorities in hiring, recruiting, retention and promotion as well as in the selection of board members and senior leadership positions.

The Agencies define diversity as including minorities (African Americans, Native Americans, Hispanic Americans and Asian Americans) and women. However, in the workplace, a true blend of diversity should embrace all differences including age, gender, race, religion, nationality, sexual orientation, work experience and socioeconomic background. This approach has been coined as "2-D diversity" as it appreciates both inherent and acquired diversity. According to a Harvard Business Review study, when companies apply 2-D diversity, they out-innovate and out-perform other companies. They are 45 percent more likely to report increased market share over the previous year and 70 percent are likelier to report that the company captured a new market.[5]

Organizations that truly embrace diversity not only prosper, but individuals within the organization thrive. While the government and regulatory agencies may recognize the importance of diversity in the financial services industry, it is the responsibility of industry leaders to take hold of the opportunity and truly prioritize diversity and inclusion for meaningful change to occur.

Breckenridge Insurance Group proudly co-sponsored the Women's Leadership and Career Advancement in the Insurance Industry Study Comparing the Insurance Sector to the General Economy conducted by Drake University College of Business and Public Administration. Study highlights can be found at http://www.breckgrp.com/breckenridge-proudly-funded-womens-leadership-career-advancement-insurance-sector-study/

References:

1. McKinsey Article - Is there a payoff from top-team diversity?
2. Companies With More Women Board Directors Experience Higher Financial Performance, According to Latest Catalyst Bottom Line Report
3. U.S. Accountability Office - DIVERSITY MANAGEMENT: Trends and Practices in the Financial Services Industry and Agencies after the Recent Financial Crisis
4. Final Interagency Policy Statement Establishing Joint Standards for Assessing the Diversity Policies and Practices of Entities Regulated by the Agencies
5. How Diversity and Drive Innovation

Banks Earn $40.8 Billion in Fourth Quarter 2015

FDIC-insured banks and savings institutions earned $40.8 billion in the fourth quarter; up $4.4 billion from a year earlier. The increase in earnings was mainly attributable to a $6.8 billion rise in net operating revenue and a $2.7 billion decline in noninterest expense. The reduction in noninterest expense is attributed to a drop in litigation expenses at a few large banks. More than half of the 6,182 insured institutions reported year-over-year growth in quarterly earnings.

Net income for the full year of 2015 totaled $163.7 billion, an increase of $11.4 billion over the total in 2014. Almost two out of every three banks reported higher net income in 2015.

"Revenue and income were up from the previous year, overall asset quality continued to improve, loan balances increased, and there were few banks on the problem report. However, banks are operating in challenging environment. Revenue growth continues to be held back by narrow interest margins. Many institutions are reaching for yield, given the competition for borrowers and low interest rates. And there are signs of growing credit risk, particularly among loans related to energy and agriculture," FDIC Chairman Martin Gruenberg said.

The number of FDIC-insured commercial banks and savings institutions reporting quarterly financial results declined from 6,270 to 6,182 in the fourth quarter. Mergers absorbed 81 institutions in the three months ended December 31, while two insured institutions failed. No new charters were added in the fourth quarter. Banks reported 2,033,758 full-time equivalent employees in the quarter, down from 2,038,490 in the third quarter and 2,047,945 a year ago. The number of insured institutions on the FDIC's "Problem List" declined from 203 to 183 during the quarter, and total assets of problem institutions fell from $51.1 billion to $46.8 billion .For all of 2015, there were 305 mergers of insured institutions, one new charter was added, and eight banks failed.

Understanding HOA Super Liens

For the last several years lenders and homeowners' associations have been battling over the interpretation of state laws granting limited superiority liens for HOAs to help HOAs in recovering past due amounts. In some states, litigation in this arena has resulted in homeowner's association liens receiving "super lien" status.

Generally, individuals buying a new home take out a first mortgage to purchase the property. The lending institution then secures the loan by filing a lien on the home with the appropriate records county office. The first lien to be recorded takes superiority over all other liens that may be recorded in the future. The first lien placed by the lender ensures that the lender will be the first in line to receive funds in a foreclosure sale. In certain states, however, state law eliminates the first lien held by the lending institution placing the interest of the HOA in front of the first lien.

In August 2014, for example, the District of Columbia Court of Appeals determined that an association's statutory "super-priority" lien for unpaid dues took priority of both position and payment over the lender's first lien. *(Chase Plaza Condominium Association, Inc. v. JPMorgan Chase Bank, N.A.)*[1]. In this case, the Court answered the question of whether (1) the HOA lien meant that the HOA had priority of payment after foreclosure, such that following payment after foreclosure to HOA the lender's lien remained, or (2) the HOA took true priority of lien, such that the HOA's foreclosure eliminates the lender's lien all together. Simply put, does the law expose a lender to the risk that the HOA has a first right to payment of foreclosure proceeds or that the lender's collateral will be lost all together? The Court of Appeals ruled that the association's lien both extinguished the lender's first lien and in addition allowed the HOA to take priority in payment from foreclosure proceeds.[2]

In September 2014, the Nevada Supreme Court also issued an opinion on this topic. Nevada's version of the Uniform Common Interest Ownership Act provides limited superiority liens for HOAs to recover past due assessments. Part of the law states that a first recorded lien has priority over an HOA lien, except for nine months of past due HOA assessments. In such cases, the HOA assessments are granted "superpriority status" over the first recorded lien. (NRS 116.3116(2)[3]. *In SFR Investments Pool 1, LLC v. U.S. Bank, N.A.,* the Nevada Supreme Court held, in part, that the applicable Nevada statute: (1) split the lien of the HOA into a "superpriority piece" and a "subpriority piece"; (2) the last nine months of unpaid HOA dues and maintenance and nuisance-abatement charges are given the superpriority status; and (3) the subpriority status is given to all other HOA fees or assessments and is subordinate to the first lien. The Nevada Supreme Court also ruled that a lender could pay the amount the HOA claims is owed to avoid foreclosure and sue for any overpaid amount later.[4]

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INTRODUCING
BRECK **PAMG**

We are very pleased to announce the formation of Breckenridge Private Asset Management Group (BreckPAMG). Known in the art world for her risk management expertise, Judith Pearson has joined Breckenridge Insurance Group as President of BreckPAMG. This new entity offers comprehensive risk management solutions for unique liability exposures for high net worth clients and the institutions who serve them. While leading ARIS, she was named as one of The Power 100 of 2015 in the art world by Blouin/Artinfo International for her role as an insurance innovator. Of note, Judith has worked with lending institutions on the nuances and risks associated with art as collateral, art lending best practices, and collaborated with valued private banking and family office clientele. She is additionally expert in art transactions and well-versed in 1031 Exchange Guidance, SEC/AML/BSA Considerations as well as distributed ledger and blockchain technologies.

For more information about BreckPAMG, visit breckpamg.com or contact Judith at jpearson@breckpamg.com or 855.936.1387.

[SUPER LIENS CONTINUED FROM PAGE 5]

The *Chase and SFR Investments* decisions have a significant impact for both lenders and associations. These decisions create a powerful vehicle for HOAs to collect overdue fees and assessments. By contrast, these decisions create more complexities for lending institutions that will most likely require modifications to underwriting and lending requirements; and new documents for HOAs requiring waivers, notices and/or opportunities for lenders to cure.

It is unclear on how the threat of extinguishment will affect the real estate markets involved. Litigants are now looking to appellate courts, both state and federal, for guidance. The Ninth Circuit has already schedule oral arguments on several HOA superpriority cases.

To help protect against these HOA portfolio risks, OSC has partnered with LRES to provide assessment, monitoring and administrative services. Please contact Michael Randall at mrandall@oscis.com or 803.237.5428 to learn more.

References:

1. Chase Plaza Condominium Association, Inc. v. JPMorgan Chase Bank, N.A.
2. D.C. Court of Appeals Extinguishes Lender's Mortgage Lien Following Association Lien Foreclosure
3. HOA Lien Extinguishes First Deed of Trust in Foreclosure, Nevada Supreme Court Holds
4. Lenders Beware: the Nevada Supreme Court Holds That Foreclosures of Homeowners' Association Liens May Extinguish First Priority Deeds of Trust

ENHANCED PRUDENTIAL STANDARDS FOR FOREIGN BANKING ORGANIZATIONS (FBO)

"Beginning July 1, 2016, every FBO with more than $50 billion in assets in non-branch US legal entities will be required to have an operating intermediate holding company (IHC) – as well as a US risk committee – to oversee its combined US operations, which includes the IHC and all branches. In this reorganized form, the FBOs will be subject to enhanced prudential standards for capital, liquidity, governance, and risk management. The good news is that creating a new organization also provides an opportunity for a firm to take a fresh look at each element of its US operations and then decide whether that element should be streamlined or perhaps discontinued if it is not creating enough value for the parent."

CONSUMER PROTECTION

"The Consumer Financial Protection Bureau has transitioned from a new regulatory agency into a force that is transforming the landscape for consumer financial products. As such, the Bureau's actions and direction are of great importance and interest to banks and nonbanks alike. Achieving continued improvement in Compliance Management Systems will require vigilance and a compliant tone from top leadership – supported by effective policies, procedures, staffing, training, data governance, and audit. Banks and nonbanks are both generally increasing their spending on CFPB compliance; however, some continue to face challenges in meeting the Bureau's expectations."

CYBER THREATS

"Cyber security is a major issue in banking and a top priority for regulators. However, because technology threats evolve too quickly to legislate against, regulators are largely addressing the challenge by expecting banks to adhere to world-class standards from organizations such as the National Institute of Standards and Technology. Those firms that fail to do so face action from regulators, which have broad authority to ensure banks have adequate governance and risk management capabilities – including the ability to effectively manage cyber risks. In 2015, the Financial Institutions Examination Council introduced its Cybersecurity Assessment Tool, which allows banks to assess their cybersecurity capabilities against a standard framework and maturity model, helping them identify key risk areas and opportunities for improvement."

DATA QUALITY, ANALYTICS, AND REPORTING

"Expectations related to data quality, risk analytics, and regulatory reporting have risen dramatically since the financial downturn. As a minimum, regulators now expect reporting for capital, liquidity, and resolution planning to be more timely, accurate, and precise. Simply having the raw data is not enough; firms must be able to aggregate the data and perform advanced analysis in order to inform key decisions. Having more timely risk data and analytics is essential for making risk/return tradeoff decisions that maximize resiliency and shareholder returns."

MODEL RISK MANAGEMENT

trends to watch

"The use of sophisticated financial models for making key decisions in the banking industry continues to accelerate. In 2011, the Federal Reserve Board and the Office of the Comptroller of the Currency issued guidance codifying the need for firm-wide standards about how such models are developed, validated, and used – and requiring that model-related risks be well-understood. This guidance now represents the minimum of what regulators expect in the area of model risk management. An organization should take great care to determine whether its model risk management framework is well-understood throughout the organization."

CREDIT QUALITY CONCERNS

"Although credit quality indicators remain favorable overall, regulators are increasingly concerned about gradual erosion in underwriting standards. In particular, regulators have voiced specific concerns about leveraged lending and auto finance underwriting. Regulators expect a firm to be able to clearly demonstrate how its business line and portfolio level limits and standards align with its overall corporate risk appetite."

NEW RISKS FROM FINANCIAL INNOVATION AND MIGRATION OF ACTIVITIES

"As new regulatory requirements driven by the Dodd-Frank Act have gone into effect, some banks have exited markets and changed how they participate in other markets, often leading to an influx of nonbank financial companies that have tended to be less regulated. This shift is prompting regulators to examine the potential risks to overall financial system stability. What's more, it creates new risks and challenges for the banks themselves, since exiting an existing market is rarely easy or instantaneous; also, a shifting participation to another market presents a whole new set of risks. Transitioning out of a market might make sense strategically, but the practical challenges of making it happen can be significant."

LINKING REGULATORY STRATEGY TO BUSINESS STRATEGY

"When tackling regulatory change, many organizations have traditionally operated in reactive mode, only changing in response to regulatory orders, examination comments, or other types of intense regulatory pressure. However, a number of organizations have recently started shifting toward a more proactive approach to regulatory strategy by establishing a strong linkage to business strategy. The first step in this process is to clearly define and document each strategy, establishing detailed goals and action plans on how to best allocate limited resources."

For more explanation and detail around Deloitte's trends, go to Top Regulatory Trends.

NEWS *BRIEFS*

Agencies Clarify Expectations for the Use of Property Evaluations

Federal banking regulators issued an advisory to clarify expectations for the use of property evaluations by banking institutions. The advisory responds to questions raised during outreach meetings held by the agencies in 2015 pursuant to the Economic Growth and Regulatory Paperwork Reduction Act. The advisory describes the agencies' existing supervisory expectations for the use of an evaluation instead of an appraisal to estimate a property's market value. It also addresses the use of alternative valuation approaches, methods, and other information that financial institutions may use to develop an evaluation in areas with few, if any, recent comparable property sales in reasonable proximity to the subject property.

READ ADVISORY

Federal Banking Agencies Expand Number of Banks and Savings Associations Qualifying for 18-Month Exam Cycle

Federal banking 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 banks, while still maintaining safety and soundness protections. Qualifying well-capitalized and well-managed banks and savings associations with less than $1 billion in total assets may now be eligible for an 18-month examination cycle. Previously, firms with less than $500 million in total assets could be eligible for the extended exam cycle. Regulators consider institutions to be well-capitalized and well-managed if they have a composite rating of 1 or 2—the top ratings in the five-point scale indicating the safety and soundness of a bank or savings association.

READ RULE

NEWS BRIEFS

CFPB Issued Rule Broadening QM Coverage for Rural, Underserved Areas

On March 22, the CFPB issued an interim final rule broadening the availability of certain special provisions for small creditors operating in rural or underserved areas. The rule implements a regulatory relief measure that allows banks that made no more than 2,000 first-lien covered transactions and have less than $2 billion in assets be eligible for special Qualified Mortgage provisions. Specifically, it allows small creditors to make certain balloon payments, which are otherwise not allowed under the QM rules.

READ RULE

Supreme Court Lets Decision Stand in Missouri ECOA Case

With a 4-4 split vote following the death of Justice Antonin Scalia, the U.S. Supreme Court let stand an Eighth Circuit Court of Appeals decision finding that the Equal Credit Opportunity Act's protections apply only to loan applicants, not to those who guarantee the loans. The case involved two wives that were required to guarantee loans made to their husbands that brought suit, claiming that the guarantee requirement violated ECOA's prohibition on discrimination based on marital status.

READ MORE

Congress Extends Foreclosure Protection for Service Members

On March 21, Congress voted to renew a part of the Servicemembers Civil Relief Act that provides one-year foreclosure protection for military personnel leaving active duty through 2017. Service members will continue to be protected from foreclosure for one year following the end of their service.

READ RULE

CFPB Recommends Steps for Banks to Protect Older Americans

The CFPB released an advisory and report highlighting voluntary best practices for banks to protect seniors from financial exploitation. According to the CFPB, "Financial institutions play a vital role in preventing and responding to this type of elder abuse. Banks and credit unions are uniquely positioned to detect an elder account holder has been targeted or victimized, and to take action."

READ THE ADVISORY

Agencies Release Guidance to Issuing Banks on Applying Customer Identification Requirements to Holders of Prepaid Cards

Federal regulators issued guidance clarifying the applicability of the Customer Identification Program (CIP) rule to prepaid cards issued by banks. The guidance clarifies that a bank's CIP should apply to the holders of certain prepaid cards issued by the institution as well as holders of such prepaid cards purchased under arrangements with third-party program managers that sell, distribute, promote, or market the prepaid cards on the bank's behalf.

READ GUIDANCE

CFPB Report Highlights High Rate of Debt Collection Complaints from Servicemembers

The CFPB released an annual report from the Office of Servicemember Affairs highlighting complaints submitted in 2015 and CFPB enforcement actions that directly impacted the military community. The report found that servicemembers have been submitting debt collection complaints to the Bureau at nearly twice the rate of non-military consumers. In addition, the report highlights CFPB enforcement actions that have returned over $5 million to the pockets of servicemembers and their familites in 2015.

READ MORE

CFPB Supervision of Banks and Nonbanks Recovers $14.3 Million for Consumers

The CFPB released its latest supervisory highlights report where exams of banks and nonbanks resulted in the remediation of $14.3 million to approximately 228,000 consumers. In its examinations covering the last months of 2015, the Bureau found violations in the student loan market, including illegal automatic defaults by student loan servicers and illegal garnishment threats by debt collectors performing services for the Department of Education. Examiners also found instances of international money transfer companies violating the CFPB's new remittance rule, banks providing inaccurate information to credit reporting companies about customer checking accounts, and debt collectors illegally contacting consumers.

READ REPORT

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