

BANK OF ANYTOWN REPORT

OVERVIEW

The following is a sample examination report completed using the Instructions for Compliance Report of Examination.

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BANK OF ANYTOWN
ANYTOWN ANY COUNTY ANYSTATE

Region: ANY Certificate Number: 00000
Examiner in Charge: Ima Workman
Examination Date: March 9, 19XX

Examiner's Comments and Conclusions**00000****SCOPE OF EXAMINATION**

On March 9, 19XX, an examination of compliance with applicable consumer protection and fair lending laws and regulations was conducted at the main office of Bank of Anytown, Anytown, Anystate. The branch facility was not visited during the examination. The examination primarily focused on lending-related regulations, which included an extended review of Fair Housing and Equal Credit Opportunity. The examination procedures included a review of consumer installment and residential loan files, policies, procedures, training, and interviews with management and personnel. Compliance laws and regulations pertaining to the institution's deposit operations were reviewed as part of off-site pre-examination planning procedures. In addition, Federal Reserve Board (FRB) Regulation AA (Credit Practices Rule) and Part 328 of the FDIC Rules and Regulations (Advertisement of Membership) were reviewed during the off-site pre-examination procedures. The financial institution's performance under the Community Reinvestment Act was also evaluated using the "small bank" CRA examination procedures.

CONSUMER COMPLIANCE RATING

A Consumer Compliance Rating of "3" is assigned. Generally, an institution in this category is in a less than satisfactory compliance position.

COMMUNITY REINVESTMENT ACT RATING

A CRA rating of "Satisfactory" is assigned. An institution in this group has a satisfactory record of helping to meet the credit needs of its entire assessment area, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

COMPLIANCE WITH BOARD RESOLUTION

The FDIC's previous Compliance Examination dated February 8, 19XX, identified the institution's compliance posture as unsatisfactory. In response to examination findings, the institution's Board of Directors adopted a Board Resolution on April 22, 19XX, to correct the identified weaknesses and deficiencies. Detailed below are the provisions of the Board Resolution, as well as an assessment of the financial institution's performance with respect to each.

- 1. Appoint a Compliance Officer to oversee and coordinate the financial institution's overall compliance efforts. The Compliance Officer shall be responsible for training and supervising all affected personnel in compliance related matters and shall be given necessary authority to implement appropriate compliance procedures. The Compliance Officer shall also be given sufficient time and resources to carry out their duties.**

Examiner's Comments and Conclusions (Continued)**00000****COMPLIANCE WITH BOARD RESOLUTION (Continued)**

The Board of Directors voted on January 21, 19XX to appoint Executive Vice President Joseph Doitall as the institution's Compliance Officer, as well as CRA, Bank Secrecy, and Security Officer. While the financial institution has met the initial requirement of the above provision by appointing Executive Vice President Doitall as Compliance Officer, management's responsiveness toward compliance with the remaining conditions of this provision is not evident.

While Mr. Doitall holds the official title of Compliance Officer, he exercises minimal oversight of the institution's compliance activities. He has conducted no training of personnel, and may not have sufficient authority to correct problem areas when they are identified, as indicated by the serious violations of TIL, RESPA, and Flood Insurance cited in this report. Mr. Doitall clearly has insufficient time to accomplish his duties. His responsibilities as a full time lender, and CRA, Bank Secrecy, and Security Officer, provide him nominal time to concentrate on any single area. As a result of this, all areas have suffered.

2. Adopt a written compliance program that establishes effective operating and monitoring procedures consistent with the goals and objectives of consumer protection laws and regulations.

This task was assigned to Executive Vice President Doitall shortly after his appointment as Compliance Officer. However, because of his numerous other responsibilities, Mr. Doitall has only produced a few draft pages of such a program. President Doe maintained that the strength of the institution's compliance posture should not be contingent upon the formulation and direction of a written policy. Instead, management chose to address compliance-related issues by periodically authorizing select individuals to attend training seminars conducted by outside consultants. The information obtained from these training seminars, however, has not been consistently or effectively disseminated to the remainder of the institution's personnel, as evidenced by the number of violations attributable to training deficiencies.

3. Direct management to correct all violations listed in the Compliance Report of Examination dated February 8, 19XX, and institute appropriate procedures to prevent their recurrence.

The financial institution has taken corrective action on some of the violations cited in the last Compliance Report dated February 8, 19XX. However, repeat violations under TIL and RESPA were cited at the current examination. Management has not established effective operating and monitoring procedures to ensure that regulatory requirements are being implemented in a manner consistent with the goals and objectives of consumer protection laws and regulations.

4. Require the Compliance Officer to prepare a schedule of requirements for each consumer regulation (such as the type and timing of disclosures), so that employees will be informed of the requirements that relate to their duties.

Examiner's Comments and Conclusions**00000****COMPLIANCE WITH BOARD RESOLUTION (Continued)**

In response to this provision, the institution's external auditor has prepared written documents which detail the requirements of various consumer based regulations. Included in these documents is a review of the following areas: Truth in Lending, Equal Credit Opportunity, Fair Housing, and Real Estate Settlement Procedures. The audit documents have been made available to appropriate employees at staff meetings, based on job requirement and need. However, with the absence of training, this information has not been consistently or effectively utilized among personnel as evidenced by the number of violations cited at this examination.

The Board Resolution has not proven to be an effective tool for correcting the weaknesses and deficiencies identified at the previous examination. The financial institution's compliance posture continues to reflect an unsatisfactory condition due to management's ineffectiveness in complying with the Board Resolution. Therefore, a Memorandum of Understanding is being recommended to the Regional Office.

SIGNIFICANT EXAMINATION FINDINGS

Significant violations were identified regarding FRB Regulation Z (Truth in Lending), FRB Regulation C (Home Mortgage Disclosure), FRB Regulation B (Equal Credit Opportunity), Department of Housing and Urban Development (HUD) Regulation X (Real Estate Settlement Procedures), and Part 339 of FDIC Rules and Regulations (Flood Insurance). The significant violations pertained to the following:

- Truth in Lending regarding the inaccurate disclosure of the annual percentage rate (APR) and finance charge, and failure to provide estimates of the disclosures required in a residential mortgage transaction;
- Home Mortgage Disclosure regarding inaccurate collection and maintenance of the HMDA Loan Application Register (LAR);
- Real Estate Settlement Procedures regarding the failure to provide the good faith estimate within the prescribed time period;
- Flood Insurance regarding the origination of loans in a flood hazard area without flood insurance and inaccurate completion of the Standard Flood Hazard Determination form;
- Equal Credit Opportunity regarding the improper collection of monitoring information.

These violations were attributable to the absence of a formal compliance program, unfamiliarity with regulatory requirements, inadequate internal operating and monitoring procedures, and the absence of accountability and training. Violations of Truth in Lending and Real Estate Settlement Procedures were also cited at the last examination. Refer to Significant Violations beginning on page 10 for complete details regarding all cited violations.

Examiner's Comments and Conclusions (Continued)**00000****REIMBURSABLE TRUTH IN LENDING VIOLATIONS**

A pattern of reimbursable Truth in Lending violations was identified during the examination. These violations are the result of management's failure to accurately disclose the APR and finance charge incurred on residential real estate loans with private mortgage insurance. The institution failed to include the cost of private mortgage insurance premiums in the payment stream and calculation of the finance charge. This resulted in an understated finance charge and APR. Under the provisions of Section 108 of the Truth in Lending Act, these loans are subject to reimbursement. The financial institution must make appropriate monetary adjustments based on the greater of the understated APR or finance charge on those loans in which the understatement exceeds the permitted tolerance.

During the examination, management conducted a file search to determine the number of affected loans and the amount of reimbursement. Reimbursement was estimated to affect 15 loans totaling \$10,000. Refer to pages 10, 11, 17.a.1 and 17.a.2 for complete details regarding these violations.

INACCURATE MORTGAGE LOAN DATA REPORTING

Violations of FRB Regulation C were noted regarding numerous inaccuracies on the financial institution's HMDA LAR. These violations involve the inaccurate reporting of race, income, type of application, purpose of the application, and owner occupancy status of the dwelling for home loan applications in 19XX.

These violations are a major concern since the financial institution's LAR and HMDA Disclosure Statements are fundamental tools used by examiners and the public to assess the institution's CRA and fair lending performance. Management should correct the 19XX LAR and resubmit it to the Federal Reserve Board as soon as possible. Management is reminded that civil money penalties may be imposed for HMDA errors.

FLOOD INSURANCE

Part 339 of the FDIC's Rules and Regulations prohibits the institution from making or renewing loans secured by a building or a mobile home and any personal property located in a designated flood hazard area without the acquisition of flood insurance. Violations, beginning on page 15, concern a failure of the financial institution to comply with Part 339 regarding loans originated and refinanced for residential properties located in designated flood hazard areas. A file search conducted by the institution during the examination identified 20 loans extended and secured by residences located in Flood Zone A. The financial institution must notify borrowers in accordance with flood insurance regulation requirements and ensure that borrowers purchase the minimum amount of flood insurance as required by Federal regulations. Management should be aware that civil money penalties may be imposed for failure to require flood insurance on the aforementioned residential properties.

Examiner's Comments and Conclusions (Continued)**00000****LACK OF ADEQUATE COMPLIANCE PROGRAM**

Management has not developed or implemented a written compliance program. The volume, severity, and cause of violations cited in this Report of Examination further exemplifies management's complacency in administering an effective compliance program.

During the January 21, 19XX Annual Board Meeting, Executive Vice President Joseph Doitall was elected to serve as the institution's Compliance Officer. This designation, however, bears no responsibility for the administration of a compliance program. Rather, the title has been designated as a formality. Furthermore, as the institution's senior commercial lender, Executive Vice President Doitall does not have the time or resources necessary to review policies and procedures for compliance with regulatory requirements, train employees, or coordinate communication of compliance-related issues among the institution's employees.

Management has failed to establish effective operating and monitoring procedures. Prior to this examination, compliance-related issues were not presented to or discussed with the Board of Directors. According to President Doe, such a discussion was not deemed necessary. President John Doe maintained that the strength of the institution's compliance posture did not warrant Board oversight. Instead, management chose to address compliance-related issues by periodically authorizing select individuals to attend training seminars conducted by outside consultants. The information obtained from these training seminars, however, has not been consistently or effectively disseminated to the remainder of the institution's personnel, as evidenced by the number of violations attributable to training deficiencies.

It is imperative that management formulate a written compliance program to ensure that regulatory requirements are being implemented in a manner consistent with the goals and objectives of consumer protection laws and regulations. Such a program will help organize the bank's operating procedures and monitoring controls. It will also provide a source of information and reference for the institution's employees. Elements of an effective compliance program include:

- written policies and procedures;
- monitoring procedures for periodic proactive review, including the institution's lending policies;
- education/training of appropriate personnel;
- nondiscriminatory lending criteria;
- loan application procedures;
- periodic review of standard forms;
- a compliance audit program; and
- procedures to handle consumer complaints.

Examiner's Comments and Conclusions (Continued)**00000****LACK OF ADEQUATE COMPLIANCE PROGRAM (Continued)**

A vital component of the compliance program is the designation of a compliance officer. The Board of Directors is reminded that the appointed compliance officer should be responsible for:

- reviewing policies and procedures for compliance;
- training all employees in consumer laws and regulations;
- coordinating consumer complaints; and
- providing periodic reports to the Board regarding the effectiveness of the program and recommendations for any improvements.

In addition, the designated compliance officer should be given the authority and resources necessary to effectuate these responsibilities. This authority, as well as the contents and requirements of the institution's compliance program, must then be communicated to all personnel responsible for maintaining adherence to the various compliance-related regulations.

Management should ensure that the compliance officer receives comprehensive ongoing training. It is critical that the designated compliance officer maintain a strong knowledge of all consumer protection and fair lending laws and regulations and be able to provide training to applicable employees. Training weaknesses appear to be the primary cause for the majority of the cited violations.

The Board of Directors must establish a system by which they can supervise the institution's compliance program, as they are ultimately responsible for the institution's adherence to all regulatory requirements.

COMMUNITY REINVESTMENT

The institution's lending performance demonstrates an acceptable responsiveness to assessment area credit needs as indicated by a loan-to-deposit ratio of 75 percent. A substantial majority of the institution's loans were originated in the assessment area, and the lending distribution to individuals of different income levels, including low- and moderate-income borrowers, reflects a reasonable performance. The distribution of business loans exhibits a satisfactory responsiveness to businesses of different sizes, particularly very small businesses. The absent concentration of loan activity in any particular geography is primarily attributable to the price and availability of housing stock, population levels, and competition from other area financial institutions. Yet, despite these constraints, the bank's overall geographic distribution of loans reflects adequate dispersion throughout the assessment area. Refer to the CRA Public Evaluation for complete discussion of the bank's CRA performance.

Examiner's Comments and Conclusions (Continued)**00000****MEETING WITH MANAGEMENT**

A meeting was held on March 20, 19XX with President and Chief Executive Officer John Doe, Executive Vice President and Compliance Officer Joseph Doitall, and Senior Vice President Johnny Doe. The FDIC was represented by Field Office Supervisor Mark Jones, Compliance Examiner Joseph Goodway and the Examiner in Charge Ima Workman. All findings of the compliance examination, including the outstanding Board Resolution, and the CRA evaluation were discussed with management. Management was advised of the recommendation that the financial institution reimburse applicable customers for inaccurate disclosures regarding the cost of private mortgage insurance premiums and calculation of the annual percentage rate and finance charge. Management was also advised of potential civil money penalties imposed under the Flood Insurance Act for failure to require flood insurance, and the Home Mortgage Disclosure Act for inaccurate reporting of mortgage loan data on the financial institution's loan application register.

Executive Vice President Doitall maintains that the Truth in Lending disclosures provided on the loans cited for reimbursable violations are accurate based on the institution's practice of terminating private mortgage insurance once the outstanding balance of the loan represents 80 percent or less of the appraised value of the collateral.

President Doe assured that all violations, with the exception of Truth in Lending reimbursements, would be corrected by April 1, 19XX. President Doe contested the Truth in Lending violations and deferred his commitment regarding the reimbursements until the meeting with the Board. Mr. Doe also stated that Executive Vice President Doitall will no longer be designated as the institution's Compliance Officer. Instead, this responsibility will be designated to a Compliance Committee consisting of Bookkeeping Supervisor Kathy Doe, Vice President and Cashier Karen Doe, and Assistant Vice President Kenny Doe. Furthermore, President Doe stated that Gary Doe, an independent auditor, will be employed to review all of the violations cited during the examination to ensure corrective and preventive procedures have been implemented. A formal compliance program will be developed and implemented by April 1, 19XX. A copy of Appendix B from the FDIC's Compliance Examination Manual titled "Institution Compliance Programs" was provided to management during the exit meeting to assist in the development of a comprehensive and effective compliance program.

At the conclusion of the exit meeting, management was informed of the tentative ratings for compliance and the CRA evaluation, and that these ratings were subject to Regional Office review. Management was also informed of the recommended enforcement action of a Memorandum of Understanding as a result of the financial institution's overall compliance condition.

Examiner's Comments and Conclusions (Continued)**00000****MEETING WITH THE BOARD OF DIRECTORS**

FDIC Compliance Examiners Joseph Goodway, Ima Workman, and Field Office Supervisor Mark Jones met with the full Board of Directors on March 24, 19XX. Examination findings, including the outstanding Board Resolution, Truth in Lending reimbursement requirements, and potential civil money penalties under HMDA and Flood Insurance were presented to the Directorate in great detail. The Board was informed of the tentative composite ratings for compliance and CRA, and the recommended enforcement action of a Memorandum of Understanding. If the informal Memorandum of Understanding is deemed ineffective, then a more serious and formal action could be initiated. The Board was also informed that the composite ratings and the recommended enforcement action are subject to review by the Regional Office.

The Directorate was receptive to the findings and recommendations regarding the current examination. The Directorate agreed to take a proactive and assertive approach to compliance-related issues to improve the institution's overall compliance posture. Chairman of the Board Robert Gettright assured that the institution would be in full compliance with the provisions of the existing Board Resolution by May 1, 19XX. He stated the Directorate would enter into a Memorandum of Understanding if requested. Chairman Gettright promised reimbursement to applicable customers would commence upon receipt of instruction from the Any Regional Office.

Examiner (Signature)

Regional Director (Signature)

Significant Violations	00000
Violations cited below are of supervisory concern due to their serious nature, recurrent pattern, or system-wide impact. Individually or collectively, the violations reflect deficiencies requiring prompt corrective action by the financial institution.	

TRUTH IN LENDING REIMBURSABLE VIOLATIONS

Section 226.18(e) of Regulation Z requires that the annual percentage rate be accurately disclosed, as defined in Section 226.22(a). [083502]

Section 108(e)(1) of the Truth in Lending Act requires the FDIC to order creditors to make monetary adjustments to the accounts of consumers in cases where the annual percentage rate has been understated by more than the allowed tolerance. [099001]

Ten residential mortgage loans with private mortgage insurance (PMI) were reviewed which includes six originated in 19XX and four in 19XX. Five of six 19XX and one of four 19XX residential mortgages with PMI failed to include monthly PMI premium amounts in the disclosed payment streams. The exclusion of these amounts resulted in the understatement of the annual percentage rate (APR) and finance charge in excess of accuracy tolerances allowed by the Truth in Lending Act and Regulation Z for purposes of reimbursement. Failing to include PMI payments in the payment stream is considered a pattern. Management estimates that approximately 15 mortgages with PMI were granted since the previous examination.

The financial institution must make reimbursement based upon the greater of (1) the difference between the actual and understated APR or (2) the difference between the actual and understated finance charge. Management must conduct a complete file search to identify all affected loans. The file search should consist of all real estate mortgage loans with PMI that were originated since the last FDIC examination, including such loans that have since been paid in full or sold to another financial institution. The list of the six mortgage loans with reimbursable violations is reported on the following page. Refer to pages 17.a.1 and 17.a.2 for information concerning the APR and reimbursement calculation for the James Apple transaction.

Significant Violations (Continued)	00000
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TRUTH IN LENDING (Continued)

Loan Customer(s)	Loan Number	Loan Date	Loan Amount	Disclosed APR	Calculated APR
Apple, James	220002	7-28-XX	\$71,000	9.489%	9.9099%
Burks, William	229009	8-31-XX	\$67,162	8.602%	9.2644%
Carter, Cecil	340098	7-28-XX	\$66,500	9.447%	9.8675%
Johnson, Robert and Venessa	360093	7-28-XX	\$44,555	8.930%	9.3679%
Jones, Roy and Patricia	389999	7-14-XX	\$46,550	9.014%	9.5418%
Thomas, Jeffery and Barbara	229999	6-25-XX	\$137,300	7.500%	8.1358%

Management indicated that the 19XX reimbursable violations were caused by the former mortgage lender who was not aware of how the PMI amounts were to be reflected on the Truth in Lending disclosure statements.

Section 226.19(a)(1) of Regulation Z requires, in a residential mortgage transaction subject to RESPA, that the creditor make good faith estimates of the disclosures required by Section 226.18 before consummation or deliver or mail them not later than three business days after receipt of the consumer's written application, whichever is earlier. [087101]

A review of 19 approved mortgage loan files identified 11 instances in which applicants did not receive an early Truth in Lending disclosure, as required under this section. Each of the loans was handled by a new loan officer who had not received sufficient training. These exceptions represent a **repeat** violation from the last examination. The following are examples of the above violation:

Loan Customer(s)	Loan Number	Loan Date	Loan Amount	Purpose
Montes, Joseph and Mary	0404000	8-14-XX	\$25,351	Purchase Residence
Moore, Ronald and Julie	0409700	5-30-XX	\$74,100	Purchase Residence
Smith, Carltonn	0234008	9-12-XX	\$50,000	Purchase Residence
Kramer, Richard & Jaclyn	0101009	8-26-XX	\$40,756	Purchase Residence

Significant Violations (Continued)	00000
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HOME MORTGAGE DISCLOSURE (HMDA)

Section 203.4(a) of Regulation C requires a nonexempt financial institution to collect certain data on applications for, and originations, purchases and refinancings of, home purchase and home improvement loans for each calendar year. These transactions shall be recorded on a register in the format prescribed in Appendix A. The data must include the following items:

- (1) A number for the loan or loan application, and the date the application was received.**
- (2) The type and purpose of the loans (including multifamily dwellings).**
- (3) The owner-occupancy status of the property to which the loan relates.**
- (4) The amount of the loan or application.**
- (5) The type of action taken, and the date.**
- (6) The location of the property to which the loan relates, by MSA, state, county, and census tract, if the institution has a home or a branch office in that MSA.**
- (7) The race or national origin and sex of the applicant or borrower, and the gross annual income relied upon in processing the application.**
- (8) The type of entity purchasing a loan that the institution originates or purchases and then sells within the same calendar year. [370102]**

There were a total of 63 loan applications on the electronic submission of the financial institution's 19XX HMDA Loan Application Register (LAR). A comparison of 17 LAR entries with 14 approved loan files and 3 denied or incomplete files revealed numerous inaccuracies.

Of the 17 LAR lines reviewed, 10 LAR lines contained at least one error for an error rate of 59% based on a per line basis. The error rate on a data item basis is 12%. Inaccurately recorded data elements included the following: date application received, purpose of loan request, loan amount requested, action taken date, census tract of property to secure loan, and gross annual income. Of the 38 data element errors, 19 errors were attributed to one entry that should not have been included on the LAR and 4 errors were due to improper rounding of loan amounts and gross annual income.

The review also found numerous errors in two key data columns. In 7 of 17 LAR lines reviewed, gross annual income did not match what was reported on the loan applications. "NA" was reported in 3 cases, even though the applications reflected income figures. The income column error rate is 41% (7/17). In 4 of 17 LAR lines reviewed, the action taken date was incorrectly reported for an action taken column error rate of 24% (4/17).

Significant Violations (Continued)	00000
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HOME MORTGAGE DISCLOSURE (Continued)

A review of 25 HMDA reportable applications received by the financial institution revealed 8 instances where the institution failed to include the applications on the LAR. Of the 8 omissions, 3 were approved loans, 4 were denied applications, and 1 was a withdrawn application. The omission error rate is 32% (8/25).

Management was requested to re-submit the 19XX HMDA LAR and advised that HMDA errors of this magnitude may result in the imposition of civil money penalties.

Responsibility for completing the LAR has remained with the mortgage lending staff. The numerous problems in HMDA reporting are attributable to the absence of monitoring procedures, high turnover in key positions, and nominal HMDA training.

The violations were discussed in detail with Mortgage Representative Lenny Doe, Commercial Loan Officer and Compliance Officer Doitall, Loan Documentation Manager Kelly Doe, and Vice President and Cashier Karen Doe. During the examination, management initiated steps to ensure future compliance through the formulation of policy and procedures for reporting and monitoring loan applications on the HMDA LAR.

The following cities are among the violations discovered during the review of the 19XX HMDA LAR:

Loan Customer(s)	Action Taken Date	Reason for Violation
Anderson, James and Carla	8-14-XX	-Action taken date is only 10 days after application received date although type of action is "file closed for incompleteness." -Gross Annual Income amount of \$28M does not match application amount of \$34M.
Phillips, Stephen	5-21-XX	-Application date of 9-3-XX does not match the 8-21-XX date on the actual application. -Census tract number of 46.00 does not match the appraisal's census tract of 45.00. -Gross Annual Income on LAR of "NA" does not match the \$45M on the application.
Thomas, Shelly and Beverly	9-21-XX	-Application date of 2-15-XX does not match the 6-5-XX date on the actual application.

Significant Violations (Continued)	00000
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FLOOD INSURANCE

Section 339.3(a) of FDIC regulations prohibits a financial institution from making, increasing, extending, or renewing a designated loan secured by a building, a mobile home, or personal property unless the underlying security is covered by flood insurance. [150101]

A review of 19 originated residential loans secured by properties located in designated flood hazard areas revealed that the financial institution failed to obtain or require the necessary flood insurance for 15 of the loans originated. President John Doe contends that subject properties are located above the 100 year flood level as indicated by a surveyor; therefore, it was believed that the aforementioned flood hazard regulations were not applicable. However, the Standard Flood Hazard Determination forms combined with the financial institution's determination flood maps clearly indicate the properties are located in a designated flood hazard area. The following loans are representative of the aforementioned violation:

Loan Customer(s)	Loan Number	Loan Date	Loan Amount	Loan Type
Crawley, Bob and Debbie	029999	8-14-XX	\$85,000	Purchase
Deckard, Joshua	018899	5-30-XX	\$78,000	Purchase
Martin, Lawrence and Beverly	003000	8-26-XX	\$110,274	Purchase

Management conducted a file search and found a total of 20 applicable loans that originated without flood insurance.

In order to comply with the above regulation, management drafted a notice to each borrower regarding their property being located in a designated flood hazard area, and the availability of flood insurance as prescribed by the regulation in accordance with Appendix A. President Doe assures that if flood insurance is not purchased by the borrower within 45 days of notification, then the institution will purchase the flood insurance on the borrower's behalf.

Section 339.6(a) of the FDIC regulations requires a financial institution to use the standard flood hazard determination form developed by the Director of FEMA when determining whether the building or mobile home offered as collateral for a loan is or will be located in a special flood hazard area in which flood insurance is available. [150401]

The Standard Flood Hazard Determination forms were incorrect and/or incomplete in 12 of 19 real estate loan files reviewed during the examination. All of the violations, except one, were attributed to the absence of a lender identification number. In one instance, the Standard Flood Hazard Determination form contained an incorrect map date.

Significant Violations (Continued)	00000
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FLOOD INSURANCE (Continued)

The institution relies entirely on Know Flood Zones, Inc. (KFZ) to provide a complete and accurate flood hazard determination; however, prior to June 19XX, management selected one of four different companies to provide flood hazard determinations. All of the incorrect and/or incomplete determination forms reviewed during the examination, with the exception of one, were provided by a company other than KFZ. The flood determination form which contained the incorrect map date was prepared by KFZ.

According to Loan Processor Manock, the flood determination forms are not reviewed by management or employees upon receipt. Instead, employees assume that the information is correct, since it is being provided by a company which specializes in flood hazard determinations.

Below are listed examples of loans which contained incorrect and/or incomplete Standard Flood Hazard Determination forms:

Loan Customer(s)	Loan Number	Loan Date	Loan Amount	Missing/Incorrect Information
Kramer, Richard and Jackie	002000	08-14-XX	\$25,351	Lender Identification Number
Scipior, Ronald/Schulz, Julie	003999	05-30-XX	\$74,100	Map Date
Thompson, Bob & Susan	005989	08-26-XX	\$40,756	Lender Identification Number

Compliance Officer Doitall and Loan Processor Manock stated that all future Standard Flood Hazard Determination forms will be reviewed for completeness and accuracy.

Significant Violations (Continued)	00000
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REAL ESTATE SETTLEMENT PROCEDURES

Section 3500.7(a) of Regulation X of the Department of Housing and Urban Development requires the lender to provide the good faith estimate to all applicants by delivery or mail not later than three business days after the application is received or prepared. (If mortgage broker is the exclusive agent of the lender, either shall provide the good faith estimate.) [130301]

Of the 19 residential real estate loan files reviewed, 11 files did not contain any evidence that good faith estimates were given to the applicants within three business days of the institution's receipt of the application. This **repeat** violation is attributed to management's failure to establish operating and monitoring procedures. The following loans are among the 11 files missing good faith estimates.

Loan Customer(s)	Loan Number	Loan Date	Loan Amount	Purpose
Brown, Michael and Susan	10000	05-29-XX	\$31,500	Purchase Residence
Cunningham, Ronald	12000	06-12-XX	\$82,081	Purchase Residence
Johnston, Linda	17000	06-09-XX	\$31,664	Refinance Residence

EQUAL CREDIT OPPORTUNITY

Section 202.5(d)(3) of Regulation B prohibits a creditor from requesting the sex of an applicant, except as required for monitoring purposes. An applicant may be requested to designate a courtesy title if the form discloses that such a designation is optional; otherwise, the form must use only terms that are neutral as to sex. [332301]

Section 202.5(d)(5) of Regulation B prohibits a creditor from requesting the race, color, religion or national origin of an applicant, except as required for monitoring purposes. [332901]

In 15 of the 20 consumer loans reviewed that were made by the bank's finance company subsidiary, Community Credit Services, Inc., a copy of the borrower's driver's license was in the file. The driver's license indicates the borrower's sex and race. President Doe assured that this practice would cease immediately. The following loans are examples of this violation.

Loan Customer(s)	Loan Number	Origination Date	Amount	Purpose
Ellis, Patricia Ann	10203001	4-16-XX	\$16,000	Purchase Auto
Hafner, Johnny and Alma	10213001	5-28-XX	\$6,445	Personal
Humphreys, Lance	10352001	12-12-XX	\$1,100	Personal

APR Disclosure Documentation

Prepared By: IMA WORKMAN
Date: 3/18/XX
Borrower's Name: JAMES APPLE
Account Number: 220002
Name of Lender: BANK OF ANYTOWN
Original Creditor: BANK OF ANYTOWN

Loan Information – Original Input

Amount Financed: \$69,641.00
Disclosed (Estimated) APR 9.4890%
Disclosed Finance Charge: \$32,813.22
Payment Frequency: Monthly (Installment Loan)

Disclosure Information – Output

Amount Financed: \$69,641.00
FINANCE CHARGE: \$34,204.67
Total of Payments: \$103,845.67
ANNUAL PERCENTAGE RATE: 9.9099%

**** VIOLATION ** APR is understated by:** 0.4209%
**** VIOLATION ** Finance Charge is understated by:** \$1,391.45

**** Truth in Lending Reimbursement Documentation ****

Adjusted APR	Prorate Factor		APR Adjustment as of Final Payment Date		
9.739%	.9933569190		(\$757.22)		
Pymt Stream	Original Payment Amount	Adjusted Payment Amount	# of Payments	Whole Unit Periods	Odd Days
1	\$600.84	\$596.85	48	1	4
2	\$571.85	\$568.05	11	49	4
3	\$68,715.00	\$68,258.5	1	60	4
		2			

Lump Sum / Payment Reduction Method: (\$72.44)

Payments 1 – 17

Lump Sum Method: (\$534.90)

Payments 1 - 60

Finance Charge Adjustment (using APR of 9.660%): (\$383.47)

**** Note ****

When both an APR and Finance Charge Adjustment appear:

Compare the life of loan APR adjustment to the life of loan Finance Charge adjustment. Reimbursement is applicable only to whichever one reflects a larger reimbursement amount.

For fixed-rate loans, the life of loan APR adjustment is the APR ADJUSTMENT AS OF FINAL PAYMENT DATE. For variable rate loans the life of loan APR adjustment is the adjustment as of the end of the first rate change period (i.e., the lump sum value from the LUMP SUM / PAYMENT REDUCTION METHOD).

The appropriate adjustment may be calculated by using either the Lump Sum or Lump Sum/Payment Reduction method.

To determine the “payment reduction” amount for a finance charge adjustment, divide the FINANCE CHARGE ADJUSTMENT by the number of payments to get the adjustment per payment.

For variable rate loans, if the rate change date has not yet occurred, the lump sum payment applicable to the entire rate change period may be calculated as of the date of adjustment (i.e., determine its present value for an APR adjustment or, if applicable, calculate the prorated share of the finance charge adjustment).

For single payment loans, adjust the payment or, if the payment has not yet been made, the creditor may calculate the adjustment as a lump sum payment as of the date of adjustment (i.e., its present value is determined).

Other Violations	00000
Violations cited below represent deficiencies of a less serious nature that neither individually or collectively represent significant concern for the financial institution, but require corrective action where appropriate.	

REAL ESTATE SETTLEMENT PROCEDURES

Section 3500.8(b) of Regulation X of the Department of Housing and Urban Development requires the settlement agent to complete the HUD-1 or HUD-1A in accordance with the instruction set forth in Appendix A. [132401]

Of the 19 residential real estate files reviewed, 3 of the loan closing statements, in which the institution was the settlement agent, did not reflect the Paid Outside of Closing (POC) amounts correctly. The seller's address was also not included on one HUD-1. The following HUD-1 settlement statements were improperly completed.

Loan Customer(s)	Loan Number	Loan Date	Reason for Violation
Collins, Albert and Nancy	0308009	05-29-XX	POC fees not shown correctly on HUD-1
Farewell, Timothy	0307001	06-12-XX	POC fees not shown correctly on HUD-1
Wilkins, Arnold and Betsy	0506006	06-09-XX	Seller's address not on HUD-1 and POC fees not shown correctly on HUD-1

EQUAL CREDIT OPPORTUNITY

Section 202.5(d)(5) of Regulation B prohibits a creditor from requesting the race, color, religion or national origin of an applicant, except as required for monitoring purposes. [332901]

One of the five closed-end home equity loans sampled requested government monitoring information when the purpose of the loan did not require collection of data.

Loan Customer(s)	Loan Number	Loan Date	Type of Loan	Purpose
Lyons, Juanita	079900	4-25-XX	Closed-end home equity	Attorney Fees

COMPLIANCE - SUPERVISORY SECTION			00000				
BANK NAME BANK OF ANYTOWN							
CITY ANYTOWN		STATE ANYSTATE		TOTAL ASSETS (000s) \$110,000			
REGION ANY	FIELD OFFICE ANYTOWN		NO. OF OFFICES 2		OFFICES EXAMINED 1		
CURRENT EXAMINATION DATE 3-09-XXXX	EXAMINATION START DATE 3-09-XXXX		EXAMINATION COMPLETE DATE 3-24-XXXX		LAST COMPLIANCE EXAMINATION DATE 2-08-XXXX		
RATINGS:							
CURRENT COMPLIANCE 3-4-3 / 3			LAST COMPLIANCE 3-3-3 / 3				
CURRENT CRA Satisfactory *			LAST CRA 2-2-2-2-1 / 2				
WORKING HOURS			GG	IN	OUT	TOTAL	
EXAMINER-IN-CHARGE:		Workman, Ima	13	68	24	92	
OTHER EXAMINATION STAFF:		Goodway, Joseph	12	40	16	56	
		Jones, Mark	14	3		3	
							0
							0
							0
TOTAL HOURS				111	40	151	

COMMENTS

* - Small Bank Procedures:

Composite Rating	Satisfactory
-Loan to deposit ratio	Meets Standards
-Assessment area concentration	Exceeds Standards
-Borrower's profile	Meets Standards
-Geographic distribution of loans	Meets Standards
-Response to CRA complaints	No CRA complaints received
 -Investments and Services	 N/A

President and Chief Executive Officer John Doe confirmed that the institution did not request that Investments and Services be reviewed during the examination.

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Compliance – Supervisory Section (Continued)**00000****Structure of Institution**

There has been no change in ownership since the previous examination. The institution is controlled by Anytown Bank Corporation, Anytown, Anystate, a one-bank holding company. The Doe family owns 67 percent of the holding company stock.

Management

President and CEO John Doe remains the dominant policy maker, and oversees the daily operations of the institution. As a result of the institution's unsatisfactory compliance posture identified at the last examination, the Board of Directors elected Executive Vice President Joseph Doitall to serve as the Compliance Officer. Mr. Doitall acknowledged that he does not have adequate time to handle his assigned responsibilities other than credit administration. President Doe agreed that the institution's efforts to establish proper compliance procedures for the lending area have been weak. As a result of the findings at the current examination, President Doe appears to be more compliance oriented, and promised to take a proactive approach toward compliance with consumer protection and fair lending laws and regulations.

Enforcement Actions

A Memorandum of Understanding (MOU) is recommended as a result of management's lack of progress in correcting and preventing repeat violations, and partial compliance with provisions of the Board Resolution regarding a written compliance program, personnel training, and responsibilities of the Compliance Officer. The provisions of the proposed MOU should include the provisions originally adopted under the aforementioned Board Resolution, and the following:

1. The Compliance Officer(s) shall prepare a training program and participate in the training of other officers and employees on a continuing basis;
2. The Compliance Officer(s) shall prepare written procedures for continuing follow-up and review to ensure the policies adopted are being followed on a consistent basis;
3. The Board of Directors shall provide continuing review and guidance over compliance matters and the Compliance Officer(s) through the use of periodic reports to the Board on performance of the duties and all other matters relating to compliance. These reports should be provided at least quarterly.

Compliance – Supervisory Section (Continued)**00000****Civil Money Penalties**

A separate memorandum with recommendations for Civil Money Penalties (CMPs) is being submitted with regard to the HMDA LAR violations. The HMDA LAR violations are attributed to management's failure to implement written compliance policies, monitoring procedures, periodic audits, and training. After the examiners explained the seriousness of the violations, management then developed reasonable procedures to ensure all data is accurately recorded on the LAR within the required time frame. The dollar amount of the CMPs is to be within the range of \$2,500 to \$3,500, according to the error rate on the HMDA CMP Matrix.

Civil money penalties are recommended for the institution's failure to require flood insurance on loans secured by personal residences located in designated flood hazard areas. Of a sample of 19 residential loans originated in designated flood hazard areas, 15 loans did not have the required flood insurance. This pattern of practice is attributable to management's misinterpretation of the requirements of the regulation, and somewhat lax behavior regarding the process for map amendment with the Director of FEMA. According to the CMPs matrix, the dollar amount imposed should be approximately \$2,000.

Fair Lending Review

A full review of the institution's compliance with fair lending was performed. A hypothesis was developed involving discriminatory treatment of Black applicants when applying for residential real estate loans. The hypothesis was predicated on the 30 percent denial rate among Black applicants compared to 7 percent for White applicants. The Black and White population within the institution's assessment area accounted for 25 percent and 70 percent, respectively. A comparative file analysis was utilized to compare a Target group consisting of 10 denied applications submitted by Black applicants with a Control group consisting of 20 approved loans originated to White applicants.

Upon the review of the aforementioned files, discussions with lending officers, and a review of the institution's loan policy, no evidence of illegal discrimination was discovered among the targeted Black applicants. The denials to the Black (Target group) applicants appeared to be based solely on their high debt ratios and derogatory credit performance. No approved loans to the targeted Control group members had similar debt ratios or derogatory credit performance. The higher denial ratio among Black applicants was primarily attributable to an intense marketing campaign conducted by the institution to originate residential loans to minorities. A significant increase in applications from minorities was submitted which resulted in a 30 percent increase in the institution's residential loan category. However, many applicants submitted real estate applications without the financial capacity to pay additional debt combined with historical credit problems.

A second comparative file analysis of a Target group consisting of 10 approved loans to Black applicants and a Control group of 20 approved loans to White applicants was utilized to identify possible disparate treatment on loan rates, terms, and conditions. The analysis did not reveal any inconsistencies.

Compliance – Supervisory Section (Continued)**00000****Fair Lending Review (Continued)**

A second hypothesis regarding discriminative loan pricing toward Single White Females was developed while reviewing real estate loans for compliance with Truth in Lending (TIL) and Real Estate Settlement Procedures (RESPA). It was noted that from a sample of 19 real estate loans reviewed for compliance with TIL and RESPA, 5 loans originated to Single White Females were assessed significantly higher interest rates compared to the remaining 14 loans originated to White Males. A comparative file analysis was developed to compare a Target group consisting of 5 loans originated to Single White Females, to a Control group of 20 loans to White Males.

Upon review of the aforementioned files, discussions with management, and review of lending related policies, no evidence of illegal discrimination was discovered among the targeted Single White Females. The institution has a written lending policy that establishes specific interest rates based on debt-to-income ratios and loan-to-value ratios. The high interest loan rates charged to the targeted Single White Females were consistently charged to White Males with similar high debt ratios and marginal loan-to-value ratios. Also, the interest rates assessed to the Target and Control group applicants were consistent with the interest rates established in the institution's loan pricing policy. There were no indications of any disparate treatment as a result of the institution's lending practices.

Management was encouraged to conduct a comprehensive and periodic analysis of the institution's lending practices, policies, and procedures in an effort to detect any discriminatory or disparate treatment concerning applicants or potential applicants.

Future Examinations

President and Chief Executive Officer John Doe prefers an independent examination in the future.

Community Contact

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