

NEW DIRECTOR GUIDANCE



TODAY'S OBJECTIVES

- **Examination/Regulatory Oversight**
- **Director Roles & Responsibilities**
- **Insider Rules and Other Regulations**
- **Monitoring Tools**
- **Answer Your Questions**



EXAMINATION AND REGULATORY OVERSIGHT

Examination Process

- **Exam Types**
- **Exam Frequency**
- **Exam Scope**
- **Exam Review Process**
- **Examiner – Friend or Foe?**



EXAMINATION AND REGULATORY OVERSIGHT

“CAMELS” Rating

- **Capital**
- **Asset Quality**
- **Management**
- **Earnings**
- **Liquidity**
- **Sensitivity to Market Risk**



DIRECTOR ROLES AND RESPONSIBILITIES

Corporate Governance is a function of:

- **Strategic Mission**
- **Processes**
- **Relationships**
- **Control Structure**



DIRECTOR ROLES AND RESPONSIBILITIES

Board Members are accountable to:

- **Bank Management?**
- **Other Board Members?**
- **Shareholders**
- **Depositors**
- **Regulators**
- **Community**



DIRECTOR ROLES AND RESPONSIBILITIES

Directors owe their Institution:

- **DUTY of CARE**

Maintain reasonable supervision over the activities and affairs of the bank.

- **DUTY of LOYALTY**

Ensure decisions are not governed by self-interest.



DIRECTOR ROLES AND RESPONSIBILITIES

Provide for Competent Management

- **Effective performance evaluation process**
- **Consider audit and examination findings**
- **Reward with appropriate compensation**
- **Address performance concerns**
- **Maintain management succession plan**
- **Consider a performance evaluation program for yourselves as directors**



DIRECTOR ROLES AND RESPONSIBILITIES

Participate in Board meetings

- **Take part in deliberations**
- **Ask the tough questions**
- **Don't "rubber stamp"**
- **Review minutes for accuracy and completeness**



DIRECTOR ROLES AND RESPONSIBILITIES

Plan for the Bank

- **Set long term strategic direction and goals**
- **Identify resources to meet goals (financial, personnel, technology)**
- **Determine whether short-term decisions are in line with long term goals**
- **Plan for contingencies (fire, technology failure, etc.)**
- **Periodically measure performance vs. plan, and adapt**



DIRECTOR ROLES AND RESPONSIBILITIES

Establish Policies and Controls

- **Loan, Investment, A/L Management, Ethics, etc.**
- **Policy exceptions**
- **Board committee structure (Audit, Executive, Corporate Governance, Loan, Investment, ALCO, Compliance, etc.)**
- **Audit**



DIRECTOR ROLES AND RESPONSIBILITIES

Know where the Bank Stands

- **Get Board packets in advance**
- **Understand the material**
- **How much information is enough?**
- **How much is too much?**



DIRECTOR ROLES AND RESPONSIBILITIES

Serve the Needs of the Community

- **Vital source of credit**
- **Engine of economic growth**
- **Unbiased service to the entire community**



DIRECTOR ROLES AND RESPONSIBILITIES

When things go bad...

- **Asset quality problems**
- **Earnings problems**
- **Enforcement action**
- **Management problems**
- **Capital problems**
- **Board retention problems**



INSIDER RULES AND OTHER REGS

Directors May be Held Personally Liable for:

- **Breach of Trust**
- **Negligence**
- **Ultra Vires Acts (in excess of powers)**
- **Fraud**
- **Misappropriation of Bank Assets**



INSIDER RULES AND OTHER REGS

Civil Money Penalties

Existence of violations and any one of the following:

- **Substantial financial loss**
- **Willful, flagrant, or in bad faith**
- **Insider or insider associate has substantially benefited**
- **Previous supervisory means have not been effective**



INSIDER RULES AND OTHER REGS

Federal Reserve Bank Regulation O

- **Credit extended to any insider of the bank or insider of its affiliates must be made on substantially the same terms (including interest rate, fees, and collateral) as, and follow credit underwriting procedures, that are as stringent as those prevailing at the time.**



INSIDER RULES AND OTHER REGS

Regulation O concerns

- **Preferential treatment**
- **Approval Process**
 - **Prior to funding**
 - **Sufficient information for informed decision**
- **Overdrafts**



Monitoring Tools

Directors Dozen

- Tier One Capital / Total Assets
- Asset Growth Rate
- ALLL / Total Loans
- Non-Current Loans / Gross Loans
- Net Charge-offs / Total Loans
- Provision ALLL / Total Assets
- Earnings Coverage of Net Loss
- Net Income / Total Assets (ROA)
- Net Interest Income / Earning Assets (NIM)
- Net Non-Core Funding Dependence
- Short-Term Investments / Total Assets
- Net Long-Term Position / Total Assets



Monitoring Tools

Ratio Analysis – Questions to Ask

- What is the level?
- What is the trend?
- Why?
- Any unusual activity?



Monitoring Tools

Board Packages

- Financial Statements
- Key Ratios
 - Bank/Peer (UBPR)
- Financial Performance
 - Budget Comparisons
 - Income
 - Expenses
- New Business Activities
- Investment Activity
- Insider Transactions
- Audit Reports
- Compliance Reports
- Regulatory Reports
- Overdrafts
- Loan Activity
 - New, renewed and extended
 - Concentrations of Credit
 - Nonperforming
 - Policy Exceptions
 - Watch List/ALLL Review



Monitoring Tools



RED FLAGS!

- **Insufficient Information from Senior Management**
- **Reluctance to Allow Director Involvement**
- **Recurring Audit and Exam Deficiencies**
- **Numerous Policy Contraventions**
- **Alarming Financial Trends**
- **Failure to File Suspicious Activity Reports**

Monitoring Tools

Resources

- **FDIC's Director's Corner**

<http://www.fdic.gov/regulations/resources/directorscorner/index.html>

- **Uniform Bank Performance Report**

<http://www.ffiec.gov/ubpr.htm>

- **Information about Bank Examinations**

<http://www.fdic.gov/regulations/examinations/>



QUESTIONS?

