

PRIVACY IMPACT ASSESSMENT

Asset Valuation Review Services Houlihan Lokey Capital, Inc.

August 2016

FDIC External Services

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System Overview

The Federal Deposit Insurance Corporation (FDIC) maintains stability and public confidence in the nation's financial system by insuring deposits, examining and supervising financial institutions, and managing receiverships. The primary objective of the FDIC as receiver has been to maximize the value of failing and/or failed insured depository institutions and their assets. As such, the FDIC has an important role in disposing of these assets in the most cost-effective manner possible.

When an FDIC-insured financial institution (FI) fails, the Division of Resolutions and Receiverships (DRR) is responsible for resolving the failed FI, which involves determining its value, marketing it, soliciting bids for the sale of the institution, determining which bid is least costly to the insurance fund, accepting a bid and working with an Acquiring Institution (AI) through the closing process. The marketing and sale process relies heavily on asset valuations conducted by third-party contractors. Timely completion of valuations is critical throughout the resolution process. To accomplish this task, the FDIC has contracted the services of Houlihan Lokey Capital, Inc. (Houlihan). Houlihan assists in the valuation of portfolios of assets which may include, for example, residential, acquisition and development construction assets, and commercial and other loan assets (collectively referred to as "Loan Assets") of various FIs. Houlihan may also be asked to value the institution's owned real estate (ORE) portfolio, mortgage servicing rights (MSRs), reverse mortgages, lease financing receivables, and subsidiary-held assets.

In addition, the FDIC requires Houlihan to assist with post-failure valuations for assets held by AIs in which the FDIC has a continuing financial interest through loss share agreements (LSAs)¹. Typically, LSA assets are categorized as either single family or non-single family (commercial and all other loans). Valuation services will also be required on assets held by FDIC in its receivership or corporate capacity, including assets held by AIs under LSAs, and assets packaged for sale to potential investors.

Portfolios may be selected by the FDIC for valuation to aid in the internal calculation of the Deposit Insurance Fund (DIF) Reserve or termination of FDIC payment obligations for final disposition and resolution of the failed bank portfolio. Any ongoing valuations of failed or failing institutions may involve subsequent and/or updated valuations of loan and ORE assets at various points in time of the failure and asset marketing period. Houlihan provides the best value to the FDIC for valuing the loan assets of the institutions. Given the complex nature of the loan assets and lack of internal staff experienced with portfolio valuation skills and current market valuation pricing information among all of the noted asset types, the FDIC requires Houlihan to assist in providing a range of values for institution loan assets, given current market conditions. Houlihan also provides projected cumulative loss rates so loss-sharing arrangements may be utilized as a possible disposition strategy.

In order to execute these advisory valuations, Houlihan receives asset portfolio information from the FDIC in a secured electronic format via the FDIC's secure web-

¹ A significant number of bank failures have been resolved through the use of LSAs in which the AI assumes the liabilities of the FI and enters into LSAs for certain assets that have been purchased from FDIC as receiver for the FI. Under LSAs, the FDIC and AI will share in the losses incurred by the AI. FDIC expects to minimize losses and maximize recoveries as a result of the AI's asset management and disposition experience resulting in a less costly resolution.

based system. This information may contain asset or loan-level data with personally identifiable information (PII) about customers/borrowers of FIs.

Personally Identifiable Information (PII) – Houlihan

Houlihan collects personally identifiable information (PII) that may include: full name; date of birth; Social Security number (SSN); employment status, history or information; home address; phone number(s); email address; financial information; vehicle identifiers; and legal documents, records, or notes.

Purpose & Use of Information – Houlihan

Houlihan uses the asset portfolio information described above in order to provide the FDIC with financial valuation assessments (reports) and advice concerning failing and failed FI's loan assets. Houlihan assesses current market conditions regarding loan assets and provides a range of values and cumulative loss estimates for each class of loans in their valuation reports. These assessments are utilized by the FDIC to resolve loan assets in a manner that is most cost-effective for the DIF Reserve.

In addition to conducting valuations of loan assets, Houlihan uses the information described above to provide current market price values for FI ORE asset portfolios, in order to assist the FDIC with the holding, marketing and sale of ORE properties. As requested, Houlihan may provide additional valuations and analysis for intangible assets such as MSRs or reverse mortgages to determine their value, and to identify any contractual recourse or other servicing risk that follows with such rights, such as the obligation to repurchase loans.

Additionally, Houlihan may review AI asset data as part of LSA portfolio valuations to determine the consideration offered to the AI by the FDIC.

Sources of Information – Houlihan

Collected from the FDIC's secure web-based system and secure email:

Authorized DRR Business Information System staff uploads failing/failed bank data, which may contain some or all of the PII specified above, to an internal FDIC SharePoint site. For pre-close valuations, an FDIC/DRR Franchise and Asset Marketing Branch (FAMB)² Capital Markets contractor retrieves the data from SharePoint and uploads it to the secure web-based system for Houlihan. For loss share reviews, an FDIC/DRR Risk Sharing Asset Management (RSAM)³ representative uploads the data to Houlihan's folder in the secure web-based system.

Houlihan downloads and uses the data to generate advisory valuation assessment reports. The information is derived digitally and stored on Houlihan's respective file servers during analysis.

² The DRR FAMB supports the franchise marketing process by providing data processing services related to the failing institution.

³ RSAM specialists are DRR staff that directly monitors AI compliance with a Service Level Agreement.

In some cases, if Houlihan requests additional/supplemental valuation information, the FDIC may respond and provide the requested information via secure email directly to Houlihan without PII. PII is removed from Excel and PDF files (which contain valuation data) prior to transmission to Houlihan.

AI or Failed FI: In some cases, if Houlihan requests additional/supplemental valuation information, the AI or failed FI may provide such information directly to Houlihan without PII. PII is removed from Excel and PDF files (which contain valuation data) prior to transmission to Houlihan.

Notice & Consent

Individuals do not have the opportunity to “opt out” of providing their data and/or consenting to particular uses of their information. FDIC DRR has a primary responsibility for resolving failed FDIC insured depository institutions, including the liquidation of assets in receivership. As the sensitive PII from borrowers/customers of failed, failing and acquiring FIs is derived from bank records in FDIC receivership, individuals do not have an opportunity to opt out or provide consent for the use of the data. The data derived from bank records in FDIC receivership is necessary to help make underwriting decisions, such as whether an applicant is creditworthy and should receive a loan, as well as resolving assets in a manner that is most cost-effective for the DIF Reserve and determining the consideration offered to the AI, as applicable. Therefore, an opt-out is not provided.

Access to Data – Houlihan

Houlihan Staff, Subcontractors, and/or Systems: Authorized Houlihan staff has access to asset portfolio data, which may contain PII as specified above, in order to provide valuation assessments and advice regarding FI loan and non-loan assets. Specifically, Houlihan staff who may have access to PII include: Houlihan senior management and project managers for purposes of overseeing due diligence and portfolio valuations/assessments; financial analysts for report analysis and preparation; and administrative staff who are in charge of uploading the data to the FDIC’s secure web-based system.

Authorized subcontractors performing work on behalf of the FDIC have access to asset portfolio data, which may contain PII as specified above, in order to provide valuation assessments and advice regarding FI loan and non-loan assets. Specifically, FDIC subcontractors who may have access to PII include senior underwriters and other underwriters for purposes of making valuation decisions and helping prepare reports.

All Houlihan staff and subcontractors with access to FDIC data must sign a Confidentiality Agreement and be cleared by FDIC security prior to gaining access to the data. Access to the data is granted to Houlihan personnel and subcontractors on a “need to know” basis as part of their duties under the contract. Houlihan uses secure data recovery facilities and hosted datacenters where FDIC data is housed on secure, encrypted backup servers.

FDIC Personnel and/or FDIC Systems/Applications: FDIC DRR FAMB and RSAM staff has access to the final valuation reports and supporting data files provided by Houlihan via the FDIC’s secure web-based system. Authorized FDIC DRR personnel post the final reports in a secure FDIC DRR SharePoint site. These reports are utilized by FDIC DRR for purposes such as to resolve loan assets in a manner that is most cost-effective or determine the consideration offered to the AI by the FDIC, as applicable.

Data Sharing

Other Systems that Share or Have Access to Data in the System:

System Name	System Description	Type of Information Processed
N/A	N/A	N/A

Data Accuracy – Houlihan

Data is collected directly from the failed FIs. As such, the FDIC and its vendors rely on the FIs to provide accurate data.

As necessary, an administrator from Houlihan checks the data for completeness by reviewing the information, verifying whether or not certain documents or data is missing, and as feasible, updating this data when required.

Data Security – Houlihan

Houlihan has gone through the security review required by the FDIC’s Outsourced Information Service Provider Assessment Methodology to determine and verify its having appropriate physical, technical, and administration security measures to safeguard FDIC-provided PII and other sensitive data.

The FDIC conducts background investigations on key Houlihan personnel and other applicable personnel prior to their beginning work on the contract.

Houlihan is subject to periodic compliance reviews by FDIC. Per the contract, scheduled and unannounced inspections and assessments of Houlihan’s facilities, personnel, hardware, software, and their security and privacy practices are conducted by one of the following: the FDIC information technology staff, the FDIC Inspector General, or the U.S. General Accountability Office (GAO). These inspections may be conducted either by phone, electronically, or in-person, on both a pre-award basis and throughout the term of the contract or task order, to ensure and verify compliance with FDIC IT security and privacy requirements.

Within FDIC, Houlihan’s Program Manager/Data Owner, Technical Monitors, Oversight Manager, and Information Security Manager are collectively responsible for assuring proper use of the data. In addition, it is every FDIC user’s responsibility to abide by FDIC data protection rules which are outlined in the FDIC’s Information

Security and Privacy Awareness training course which all employees take annually and certify that they will abide by the corporation's Rules of Behavior for data protection.

Additionally, Houlihan is responsible for assuring proper use of the data. Policies and procedures have been established to delineate this responsibility, and Houlihan has designated the Managing Director to have overall accountability for ensuring the proper handling of data by Houlihan personnel who have access to the data. All Houlihan personnel with access to the data are responsible for protecting privacy and abiding by the terms of their FDIC Confidentiality and Non-Disclosure Agreements, as well as Houlihan's corporate policies for data protection. Access to certain data may be limited, depending on the nature and type of data.

Houlihan must comply with the Incident Response and Incident Monitoring contractual requirement.

System of Records Notice (SORN)

Houlihan operates under the FDIC Privacy Act SORN 30-64-0013, *Insured Financial Institution Liquidation Records*.

Contact Us

To learn more about the FDIC's Privacy Program, please visit:
<http://www.fdic.gov/about/privacy/>.

If you have a privacy-related question or request, email Privacy@fdic.gov or one of the [FDIC Privacy Program Contacts](#). You may also mail your privacy question or request to the FDIC Privacy Program at the following address: 3501 Fairfax Drive, Arlington, VA 22226.

