



Exam Scoping Panel : There's a Story Behind the Numbers



Moderator:
Yolanda Thomas
Senior Financial Analyst
Division of Insurance & Research
FDIC



John Quartironi
Senior Examiner Large Financial
Institutions
Risk Management Supervision
FDIC



Tiajuana (Tia) Smith
Supervisory Examiner / Case
Manager
Risk Management Supervision
FDIC



Zrinka Dusevic
Complex Financial Institution Specialist
Division of Complex Institution Supervision &
Resolution
FDIC



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Pamela Freeman
Chief, Fair Lending & CRA Examination Section
Depositor and Consumer Protection
FDIC



Stacy Meisel
Chief, Consumer Compliance & UDAP
Depositor and Consumer Protection
FDIC



John Penkala
Acting Chief, Fair Lending & CRA Section
Depositor and Consumer Protection
FDIC

Exam Scoping Panel: All About CREs



Zrinka Dusevic
Complex Financial Institution Specialist

Exam Scoping Panel: All About CREs



PRESENTATION

CONTENT

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Community Banking Challenges

Let's address the Elephant in the Room

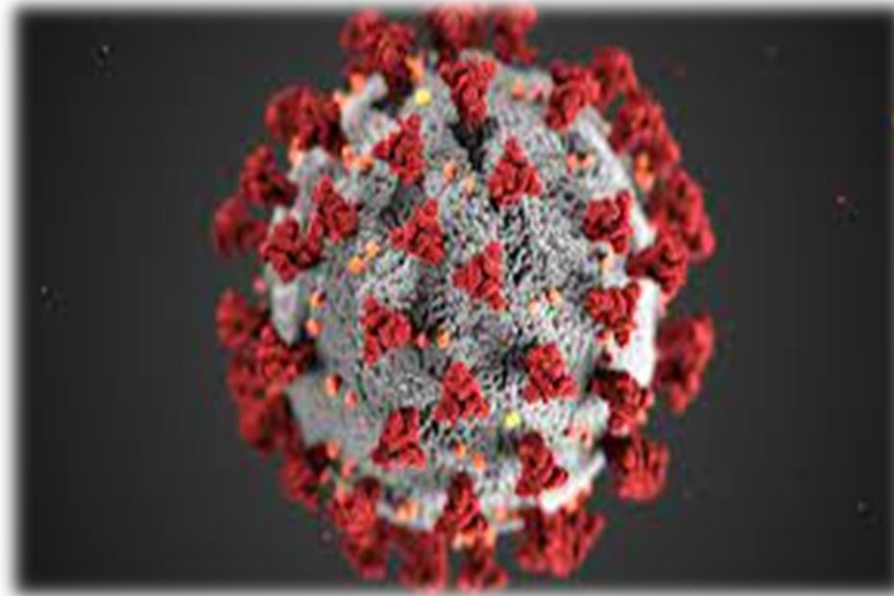


Tiajuana (Tia) Smith
Supervisory Examiner / Case Manager

External Events

Economic Shutdown

Increase in Loan
Modifications



Government Stimulus

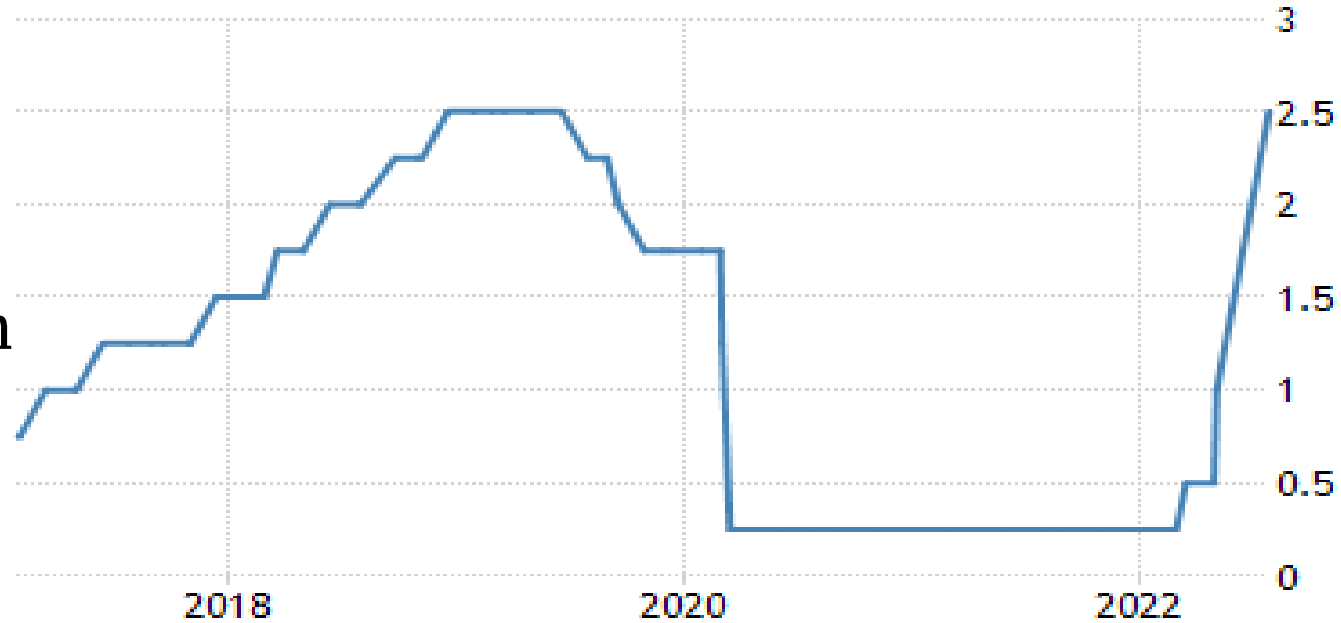
Changes in Balance Sheet
Composition

Mergers & Acquisitions

Economic Factors

Variable
Short Term
Net Interest Margin

Fixed
Long Term
Earnings



Federal Funds Rate

Other Variables

Retaining Qualified Staff



Recession

Loan Growth

CECL Implementation

Deterioration in Credit Quality

CRE Stress Testing

Inflation

Borrower Cash flow

Capital Adequacy

AOCI

Liquidity

Negative Total Equity Capital

Appraisals & Evaluations

Underwriting & Credit Administration

Other Real Estate

Large Financial Institutions > \$100B



John Quartironi
Senior Examiner Large Financial Institutions

Supervisory Process

Supervisory Plan

Annual process completed to identify risk areas and establish corresponding supervisory approach for following year

Ongoing Monitoring (OGM)

Dedicated team members complete OGM throughout the year culminating in quarterly formal report covering all risk stripes & identify key risks

Review financials, committee materials, audit reports, meetings with bank management, etc.

Focused OGM

Prioritized examination work based on OGM findings

Target Reviews

Risk-focused reviews with a larger group of examiners to evaluate certain aspects of a Business Unit, risk program, and/or key supervisory program such as capital

Regular and Ad Hoc Reporting

Respond and provide detailed information on various items as requested



Tailoring Scope

Utilize information from OGM and institutional knowledge to risk-focus examination efforts

Identify key specialty resource needs early to ensure risks are appropriately evaluated

Meetings with management during scoping process

*Ensure alignment with foundational elements of the supervisory program:
Supervisory Plan, Report of Examination, OGM Reports*

Adapt and execute as needed

Communication and Collaboration

Internal

*Regional Office and Large Bank Supervision
Other Large Bank dedicated teams
Inter-team touchpoints to connect dots
between risk stripes
Collaborate with other FDIC Divisions (CISR,
DIR)*



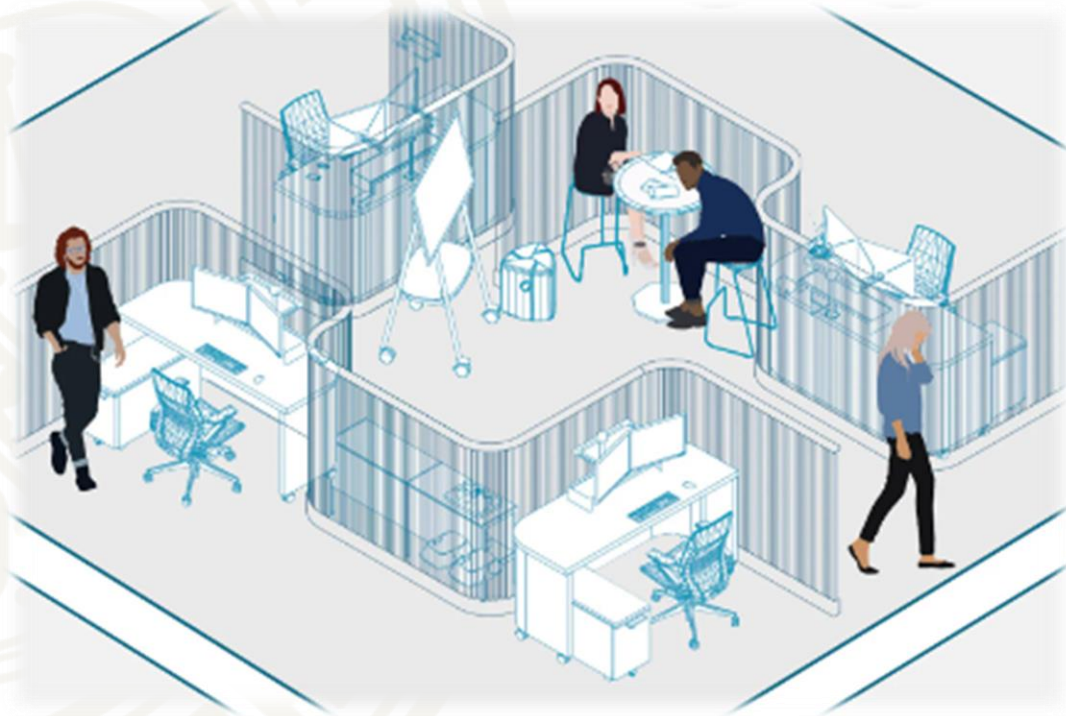
External

*Regular scheduled meetings with State and
FRB counterparts
Discussions with external accountants
Research and training
Open and transparent communication and
collaboration with bank management*



Strong and transparent communication both internally and externally are foundational to successful execution of the supervisory program

Key Issues in Post-COVID Environment



Data and Model Risk

Data quality

Model accuracy

Independent oversight

Staffing Constraints and Challenges

Impacts to risks and controls

Risk acceptances

Prioritization

Strategy Shifts

Meeting customer and other stakeholder demands

Differentiating via new products/services

Aligning strategy with risk appetite

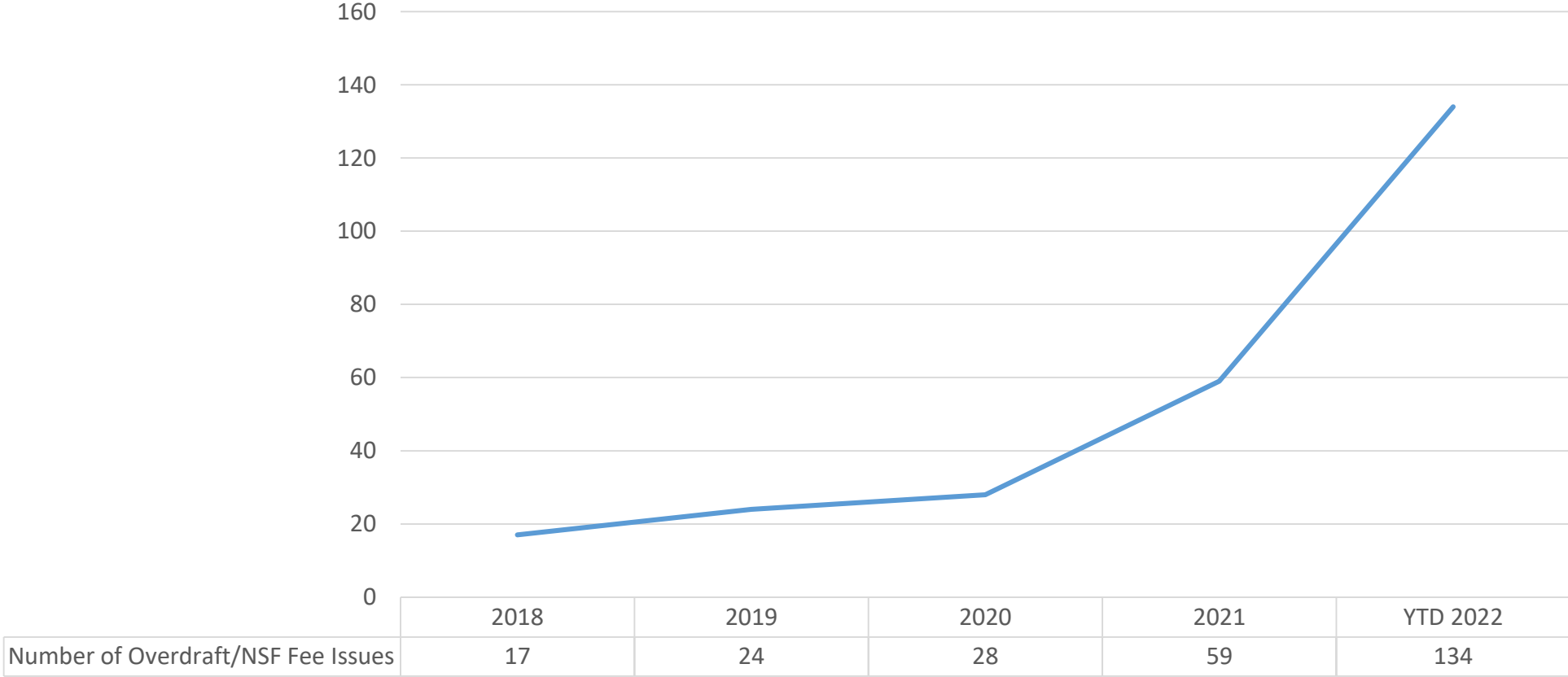


Compliance Deposit-Related Fees – Risks of Consumer Harm

Overdraft/NSF Fees and Re-presented Unpaid Transactions

Pamela Freeman
Chief, Fair Lending & CRA Examination Section

Trend Analysis: Section 5 FTC Related Issues



*Source: FDIC Compliance Consultations Report - 01/01/2018 to 08/31/2022

Overdraft NSF Fees vs. NSF/Re-presented Transactions



*Source: FDIC Compliance Consultation Report – 01/01/2020 to 08/31/2022

Remediation to Harmed Customers

- FDIC-supervised institutions in violation of a Section 5 violation of the FTC are expected to provide full corrective action, including restitution to harmed customers
- Estimated restitution to harmed customers, based on reports of examination mailed during Q1 and Q2 2022, totals approximately \$252,000 to more than 6,900 customers
- The FDIC's supervisory response will continue to focus on providing transparency, ensuring correction of deficiencies, and remediation to harmed customers when appropriate



Community Reinvestment Act (CRA) Notice of Proposed Rulemaking (NPR)

Metrics-Driven Ratings

Stacy Meisel
Chief, Consumer Compliance & UDAP

Retail Lending Test

Overview: Proposal would establish retail lending metrics, benchmarks, and performance thresholds, which would make retail lending evaluations more transparent and predictable. Metrics approach would be tailored to local opportunities and economic conditions in each assessment area.

- Proposal would establish a set of retail lending metrics to evaluate a bank's lending to low- and moderate-income borrowers, small businesses and small farms, and lending in low-income and moderate-income census tracts in its assessment areas and outside retail lending area.
- Proposal would compare a bank's distribution metrics to specific performance ranges tailored to each assessment area and product line.
- Thresholds would establish these performance ranges and would be set using a methodology that leverages local demographic and aggregate lending data.

Community Development (CD) Financing Test

Overview: CD Financing Test would evaluate how well bank meets the community development needs in a bank's facility-based assessment areas, and at the applicable state, multistate MSA, and institution levels by:

- Applying a *CD financing metric* to evaluate the dollar amount of a bank's community development financing (loans and investments) relative to its deposit base
 - Includes new originations plus outstanding balance of prior-year financing activities
- Establishing *standardized benchmarks* for evaluating a bank's CD financing metric performance
- Using an *impact review* to encourage activities that are particularly impactful or responsive

Ratings

Overview: The proposed ratings approach is intended to increase clarity, consistency, and transparency and is grounded in the bank's performance in local communities.

The proposed ratings approach would:

- Utilize a weighted average-approach to translate performance in all assessment areas into ratings, with weighting based on a hybrid share of loan and deposit dollars
- Implement a standardized and transparent process for performance test conclusions at each geographic level (state, multistate MSA, and institution)
- Provide that discriminatory or illegal practices could adversely affect CRA rating



Fair Lending

Redlining Reviews

John Penkala
Acting Chief, Fair Lending & CRA Section

Defining Redlining

The FFIEC Interagency Fair Lending Examination Procedures define redlining:

“A form of illegal disparate treatment in which a lender provides unequal access to credit, or unequal terms of credit, because of the race, color, national origin, or other prohibited characteristic(s) of the residents of the area in which the credit seeker resides or will reside or in which the residential property to be mortgaged is located. Redlining may violate both the FHAct and the ECOA.”

Redlining Review – Areas of Focus

Areas of focus to determine if a lender has redlined an area can include:

- CRA Assessment Area/Reasonably Expected Market Area
- **Statistical analyses**
- Branch locations and placement of mortgage loan originators
- Marketing and advertising

Redlining - Statistical Analysis

- Home Mortgage Disclosure Act (HMDA) data
- Aggregate data
- Demographic data



Q & A

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