

San Francisco Region Bankers' Forum: *Detecting Compliance Risk in Products, Services, and Operations*

November 17, 2016

Agenda

- Opening Comments
- How to Detect Compliance Risks in Products and Services
- Best Practices/Considerations for Mergers/Acquisitions
- Questions and Answers

How to Detect Compliance Risks in Products and Services

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Financial Institution Examiner



Detecting Compliance Risk

- Preventing and mitigating the risk of consumer harm is a primary purpose of a Compliance Management System (CMS)
- Benefits of risk detection include:
 - Ensuring fair treatment of customers
 - Limiting potential reputational risk
 - Limiting potential financial risk
 - Limiting potential legal risk

Manage Third Parties

- Evaluate third parties' performances utilizing existing guidance
 - FIL 44-2008
 - Supervisory Insights Journal – Summer 2007
 - Risk Management Program
 - Risk Assessment
 - Due Diligence
 - Contract Structuring and Review
 - Oversight

Manage Third Parties (continued)

- Monitor marketing materials
 - Four “Ps” of Marketing
 - Prominence
 - Presentation
 - Placement
 - Proximity
- Review complaints/inquiries

Outline the Lifecycle

- Map out the steps in the lifecycle of the product or service:
 - Advertising
 - Application
 - Underwriting
 - Origination
 - Servicing

Consider the Consumer's Perspective

- Ensure that the message is:
 - Clear
 - Accurate
 - Consistent

Evaluate Systems

- Ensure that systems are:
 - Configured correctly
 - Tested for implementation
 - Compliant with state law

Review CMS Findings

- Study:
 - Complaints and inquiries
 - Results of testing
- Review the scope/strength of CMS elements

Assess Other Products/Services

- Consider the unintended effects of one product or service on other products and services

Resources

- [FDIC Compliance Manual](#)
 - Section 7: Unfair and Deceptive Practices
- [FIL-44-2008, Guidance for Managing Third-Party Risk](#)
- [Supervisory Insights Journal – Summer 2007](#)
 - Third-Party Arrangements: Elevating Risk Awareness

Best Practices and Considerations for Mergers and Acquisitions (M&A)

Aisha Holback

Senior Compliance Examiner



Integration of People and Culture

- Training/tools for changes to policy/procedure
- Sufficient compliance support staff across operational areas
- Communication
- Complaints/social media/website activity
- Monitoring

Due Diligence

- Board and senior management buy in
- Compliance function – throughout M&A process
 - Pre- and post- M&A compliance due diligence reviews
 - Allocation of sufficient resources
 - Integral part of the full M&A team

Due Diligence (continued)

- Training – compliance team
- General and specific high risk area checklists
- Planning and conducting due diligence reviews – pre- and post- M&A
- Board reporting

Other Considerations

- Risk appetite and tolerance – issues or products outside
- Compliance – legal – review due diligence results
- Documentation of pre- and post- due diligence efforts
- Customer communication
- Proactive outreach to community groups

Potential Outcomes

- M&A application – not approved
- Violations
- Adverse Consumer Compliance Rating
- Adverse Community Reinvestment Act (CRA) Rating
- Future M&A not approved
- Potential consumer remediation/restitution from violations

Compliance Considerations

- Deposit regulations/lending regulations
- CRA and HMDA data collection
- Servicemembers Civil Relief Act/Military Lending Act
- IT conversion or integration issues
- Unfair or Deceptive Acts or Practices (UDAP)
- Third-party relationships

Fair Lending Considerations

- Risk assessment, including with respect to:
 - Underwriting/pricing/marketing
 - Redlining and steering risks – including in new market area
 - Strength of CMS
- Fair lending program
- HMDA or other data analysis
- Training
- Monitoring and audit

CRA Considerations

- Formal CRA program
 - Written CRA strategy and plan (goals)
 - Needs of the communities
 - Training program
 - Monitoring reports
 - Annual self-assessments

CRA Considerations (continued)

- Potential CRA protest
- Changes in asset size – evaluation procedures
- Changes in assessment areas
- Additional states
 - CRA ratings by state
 - Interstate Banking and Branching Efficiency Act (IBBEA) requirements

Resources

- [Supervisory Insights Summer 2013 *Mergers and Acquisitions: A Compliance Perspective*](#)
- [FR 2070 Interagency Bank Merger Act Application](#)
- [FFIEC CRA Q&As July 2016](#)
- [A Guide to HMDA Reporting Getting It Right!](#)

Resources

- [Interagency Fair Lending Examination Procedures](#)
- [FDIC's Managing Fair Lending Risk Technical Assistance Video Program Series](#)

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Questions and Answers

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