



**Community Bankers Regulatory
Compliance Conference
March 30 and 31, 2016**

**Independent Bankers Association of
New York State, Inc.**

Welcome

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Agenda

- **Compliance Management System (CMS)**
 - Components of a Successful CMS
- **Flood Insurance**
 - Awareness and Updates
- **Hot Topics**



Components of a Successful Compliance Management System

Compliance Management System (CMS)

Characteristics of an Effective CMS

- Consumer Compliance is
 - Engrained in the corporate culture
 - Integrated into the bank's business strategy, operations and decision making
 - Considered during new product and service development and when selecting third party service providers
 - Communicated throughout the institution

Compliance Management System (CMS)

Characteristics of an Effective CMS

- Incorporates regulatory changes
- Consists of strong risk-focused monitoring and audit programs
- Establishes a comprehensive training program based on employee responsibilities and focuses on developing compliance expertise
- Includes a review of consumer complaints
- Identifies, addresses and mitigates consumer harm



Flood Insurance Awareness and Updates

Flood Insurance Requirements

General Compliance Requirements

- Flood hazard determination
- Required notice
- Force placement of lapsed coverage
- Amount of coverage

Overview of Coverage Requirements

- At a minimum, Flood Insurance must cover the lesser of:
 - The outstanding principal balance of the loan; or
 - The maximum amount of coverage allowed for the *type of property* under the National Flood Insurance Program (NFIP)

Coverage under the NFIP is generally limited to the replacement cost value (insurable value) of the property securing the loan.

Flood Insurance Coverage Example

- Bank makes a \$400,000 loan secured by a 1-4 family residential property (no contents taken)
- Property in a standard flood hazard area (SFHA)
- Per appraisal, land value is \$100,000, appraised value (AV) is \$500,000
- \$200,000 replacement cost value (RCV) per hazard insurance policy

How much insurance is needed?

Highlights of the Joint Final Rule

- Escrowing flood insurance premiums and fees
- Treatment of detached properties
- Force-placement
- Notifications

Compliance Management System Considerations

- Policies and Procedures
- Training
- Loan Platform Systems
- Audit and Monitoring Procedures
- Third-Party Oversight
- Compliance Resources

Flood Scenario # 1

A commercial loan is presented to the Board for review and approval:

- Collateral includes warehouse and its contents (inventory);
- The warehouse is located within a SFHA;
- Lender also takes a subordinate lien on the business owner's principal dwelling as an abundance of caution;
- Flood insurance policy only covers the warehouse; and
- Previous compliance reports remitted to the Board indicate a small number of commercial loans require flood insurance.

Any concerns and/or considerations?

Common Flood Insurance Issues

- Insufficient coverage or no coverage
- Force Placement
- Notice to Borrower

Flood Scenario # 2

Loan audit report exceptions:

- Flood Insurance Policy expired;
- Bank force placed coverage in an amount equal to the principal balance of the loan;
- The replacement cost value of the covered property is less than the principal balance of the loan; and
- Bank didn't notify the borrower that they force placed the coverage.

Any concerns?

Flood Insurance Resources

Final Rule on Loans in Areas Having Special Flood Hazards

https://www.fdic.gov/news/board/2015/2015-06-16_notice_sum_c_fr.pdf

Financial Institution Letter (FIL) 32-2015: <https://www.fdic.gov/news/news/financial/2015/fil15032.html>

Homeowners Flood Insurance Affordability Act of 2014

<http://www.gpo.gov/fdsys/pkg/PLAW-113publ89/pdf/PLAW-113publ89.pdf>

Loans in Areas Having Special Flood Hazards; Interagency Questions and Answers Regarding Flood Insurance

http://www.fema.gov/media-library-data/20130726-1742-25045-5644/interagency_q_as.pdf

Biggert-Waters Flood Insurance Reform Act of 2012

<http://www.gpo.gov/fdsys/pkg/BILLS-112hr4348enr/pdf/BILLS-112hr4348enr.pdf>

Financial Institution Letter (FIL) 14-2013 <https://www.fdic.gov/news/news/financial/2013/fil13014.html>

FDIC Technical Assistance Flood Insurance Video

<https://www.fdic.gov/regulations/resources/director/technical/flood.html>



Hot Topics

Hot Topics

■ Unfair and Deceptive Acts or Practices (UDAP)

- FDIC: [Unfair or Deceptive Acts or Practices by State Chartered Banks/FIL 26-2004](#)

■ Social Media

- FFIEC: [Social Media: Consumer Compliance Risk Management Guidance](#)
- Federal Reserve: [Consumers and Mobile Financial Services Report](#)

■ Home Mortgage Disclosure Act (HMDA)

- <http://www.consumerfinance.gov/regulatory-implementation/hmda/>

■ Overdraft Protection

■ Pre-paid cards

Questions?



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