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Inside

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Supervisory Insights

Supervisory Insights is published by the Division of Risk Management Supervision of the Federal Deposit Insurance Corporation to promote sound principles and practices for bank supervision.

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Issue at a Glance

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Letter from the Director

With this issue, ***Supervisory Insights*** begins its tenth year of publication. The financial services industry has witnessed unprecedented change during the past decade, and this is reflected in the broad range of topics we have addressed in the journal. This edition of ***Supervisory Insights*** looks at diverse issues of interest to examiners, bankers, and supervisors – credit-risk due diligence of investment securities portfolios, bank information technology examination programs, and consumer compliance issues that should be considered as part of the merger- and acquisition-planning process.

As the result of the enactment of the Dodd-Frank Act, the federal banking agencies' regulations can no longer reference external credit ratings. In response to this development, the Office of the Comptroller of the Currency and FDIC have exercised their responsibility under the Act to establish new permissible investment regulations for insured institutions. "Credit Risk Assessment of Bank Investment Portfolios" discusses supervisory expectations for credit risk analysis of the investment portfolio and related risk management practices, and provides examples for conducting due diligence on municipal and corporate bonds.

Banks' expanding use of technology and the increasing incidence of cyber threats and attacks continue to highlight the important role of information technology (IT) examinations in promoting effective IT risk management practices by depository institutions and service providers. "The Evolution of Bank Information Technology Examinations" reviews the history of IT examinations, discusses today's IT examination goals and processes, and offers suggestions for strategies banks can adopt to design an effective and layered approach to information security.

And finally, this issue of ***Supervisory Insights*** highlights critical consumer compliance issues banks should consider when planning a merger or acquisition. "Mergers and Acquisitions: A Compliance Perspective" reviews key components of a comprehensive due diligence process that considers all applicable consumer protection rules and regulations.

We hope you take time to read all the articles in this issue and that you find them timely and useful. We welcome your feedback on the articles as well as suggestions for topics for future issues. Please e-mail your comments and suggestions to SupervisoryJournal@fdic.gov.

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Credit Risk Assessment of Bank Investment Portfolios

The recent financial crisis exposed deficiencies in credit ratings assigned by nationally recognized statistical rating organizations (NRSRO) for certain fixed-income securities, especially structured products that were tied to the residential real estate market. These and other securities depreciated rapidly when the residential real estate market collapsed, causing severe losses to insured depository institutions and contributing to some bank failures. Problems were pronounced in many bonds that were assigned strong credit ratings at the time of issuance (i.e., AAA-rated securities), but suffered significant credit deterioration and were subsequently downgraded.

In response, the *Dodd-Frank Wall Street Reform and Consumer Protection Act* (the Dodd-Frank Act) addressed this situation by directing all federal agencies to remove language in banking regulations that called for reliance on external credit ratings to form judgments about a fixed-income obligor's repayment capacity.[1] The federal agencies were directed to draft rules that replaced external credit ratings with uniform standards of creditworthiness. The new rules pertaining to permissible investments went into effect on January 1, 2013.[2]

Since their issuance, bankers have asked for clarification on how the regulators will interpret the rules. This article discusses why the new investment-grade standard is not a paradigm shift from previous supervisory guidance, how the rule permits flexibility in how banks assess credit risk, and how examiners will work with banks in their effort to comply with the rule. The heart of this article discusses supervisory expectations for the credit analysis of fixed-income securities, gives examples of due diligence, and ends with a list of questions that examiners may consider when reviewing a bank's risk management practices related to due diligence.

Background

Investors' overreliance on credit ratings in the period leading up to the financial crisis contributed to the widespread underestimation of credit risk in certain fixed-income securities. Some banks did not adequately understand or independently assess the risk characteristics of a bond's obligor, the underlying collateral, or the payment structure of individual securities. Inadequate due diligence led to purchases of what were believed to be "investment-grade" bonds, but were not, as initial credit ratings failed to identify the inherent repayment risks and weaknesses that were exposed when the economy, real estate, and bond markets deteriorated. The severity and magnitude of the financial crisis triggered credit impairment in investment portfolios, resulting in significant principal write-downs that affected earnings and capital.

The reliance on credit ratings and subsequent problems prompted Congress to enact Section 939A of the Dodd-Frank Act, which restricted refer-

[1] Dodd-Frank Wall Street Reform and Consumer Protection Act, Section 939A (July 21, 2010).

[2] 77 Fed. Reg. 43151, 43153 (July 24, 2012) (amending 12 C.F.R. §§ 362.9 and 362.11).

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ences to credit ratings in banking regulations. In response, the Office of the Comptroller of the Currency (OCC) issued a rule on June 13, 2012, *Alternatives to the Use of External Credit Ratings in the Regulations of the OCC,* and accompanying guidance that established an investment-grade standard in lieu of credit ratings.[3]

The OCC's rule requires banks to verify that their investment securities - with some limited exceptions discussed below - meet this standard at purchase. The rule defines "investment grade" as a security with a low risk of default and where full and timely payment of principal and interest is expected. Although the OCC rule was directed to nationally chartered financial institutions, state-chartered institutions should also adhere to the rule and guidance since state banks are generally prohibited from engaging in an investment activity not permissible for a national bank.[4]

The Dodd-Frank Act required the FDIC to issue a rule and guidance directed to savings associations and their investments in corporate bonds.[5] Thus, thrift investments in corporate bonds will be subject to credit standards and due diligence guidance that are consistent with those issued by the OCC. The FDIC's authority to issue such rules to national and state savings associations is based in the Federal Deposit Insurance Corporation Improvement Act of 1991 in response to the savings and loan crisis.

Supervisory Due Diligence Requirements Have Not Changed, but the Focus Has Shifted

From a bond analysis and investment due diligence perspective, the need to look beyond the credit rating is not a new supervisory expectation. Before the financial crisis, existing guidance stipulated that banks were expected to have in place a robust credit risk management framework for securities which entailed appropriate pre-purchase and ongoing monitoring by a qualified staff that graded a security's credit risk based upon an analysis of the repayment capacity of the issuer and the structure and features of the security.[6]

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[3] *Alternatives to the Use of External Credit Ratings in the Regulations of the OCC*, 77 Fed. Reg. 35253 (June 13, 2012) (amending 12 C.F.R Parts 1, 16, 28, and 160 to remove references to credit ratings and nationally recognized statistical rating organizations (NRSROs) and replacing references to credit ratings with non-ratings based standards of creditworthiness where appropriate). Final rule available at http://www.gpo.gov/fdsys/pkg/FR-2012-06-13/pdf/2012-14169.pdf. The OCC concurrently published guidance with the final rule, *Guidance on Due Diligence Requirements in Determining Whether Securities Are Eligible for Investment,* which is available at http://www.gpo.gov/fdsys/pkg/FR-2012-06-13/pdf/2012-14168.pdf.

[4] Part 362 of FDIC Rules and Regulations, *Activities of Insured State Banks and Insured Savings Associations,* implements Section 24 of the Federal Deposit Insurance Act, which generally prohibits insured state banks and their subsidiaries from engaging in activities and investments not permissible for national banks and their subsidiaries unless the FDIC determines that the activity would pose no significant risk to the Deposit Insurance Fund.

[5] *See Permissible Investments for Federal and State Savings Associations: Corporate Debt Securities,* 77 Fed. Reg. 43151 (July 24, 2012) available at http://www.gpo.gov/fdsys/pkg/FR-2012-07-24/pdf/2012-17860.pdf. The FDIC also concurrently published guidance with the final rule, *Guidance on Due Diligence: Requirements for Savings Associations in Determining Whether a Corporate Debt Security Is Eligible for Investment,* available at http://www.gpo.gov/fdsys/pkg/FR-2012-07-24/pdf/2012-17854.pdf.

[6] See Financial Institution Letter (FIL)-70-2004, *Uniform Agreement on the Classification of Assets and Appraisal of Securities Held by Banks and Thrifts*, issued June 15, 2004, at https://www.fdic.gov/news/inactive-financial-institution-letters/2004/fil7004a.html.

Therefore, removal of references to credit ratings from regulations has not substantively changed the standards institutions should consider when evaluating a fixed-income instrument's creditworthiness, permissibility, and adverse classification. However, the supervisors' emphasis has shifted with the Dodd-Frank Act and issuance of the corresponding OCC regulation. As a result, examiners will focus less on credit ratings and more on the adequacy of pre-purchase analysis, integration of various credit factors other than credit ratings, and monitoring procedures.

The Dodd-Frank Act does not require states to change their laws on permissible investments. Therefore, it is likely there will be circumstances where a state law requires that an investment meet a credit rating threshold (typically, at the NRSRO's lowest investment-grade rating band such as BBB-). In these cases, banks will need to demonstrate that the external credit ratings meet the state criteria and still conduct the due diligence required to meet the new OCC regulation's investment-grade or safety and soundness standards.

Three general points about due diligence are worth emphasizing. First, the OCC and FDIC regulations are not envisioned to significantly change the scope of permissible investments.[7] Second, the Dodd-Frank Act does not prohibit institutions from considering credit ratings as part of their due diligence and ongoing review of securities. And finally, the depth of due diligence that examiners expect will depend in part on the size, complexity, and risk characteristics of the securities portfolio. Thus, for example, institutions with high concentrations of particular types of securities relative to capital would be expected to perform more comprehensive due diligence and ongoing monitoring.

Exemptions, Flexibility, and Learning Curves

Banks have processes and procedures in place to effectively evaluate credit risk in their loan portfolios. Similar processes and procedures could be adopted for securities, which would save bankers from creating a credit risk framework from scratch. In addition, the OCC rule's exemption of many bonds from the investment-grade standard may also reduce burden. That is, banks may purchase obligations of the U.S. government or its agencies and general obligations of states and political subdivisions without having to make an investment-grade determination. This exemption also applies to revenue bonds that are held by well-capitalized banks.

Therefore, U.S. Treasury securities and federal agency bonds will not require credit analysis. Most municipal bonds will also not require credit analysis to determine if the investment-grade standard has been satisfied. However, the supervisors will expect banks to have a sufficient understanding of the credit risk of municipals to ensure standards for safety and soundness are observed and maintained. And, as has always been the case, management should fully understand safety and soundness standards related to interest rate risk, operational risk, liquidity risk, etc.[8]

[7] See FIL-48-2012, *Revised Standards of Creditworthiness for Investment Securities,* issued November 16, 2012, at http://www.fdic.gov/news/news/financial/2012/fil12048.html.

[8] Part 364 of the FDIC's Rules and Regulations establishes safety and soundness standards for all insured state nonmember banks related to asset quality, credit risk, interest rate risk, and other types of risk.

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The OCC purposely did not issue prescriptive guidance that detailed procedures for every instrument or situation. By keeping the guidance broad, bankers have greater flexibility to develop due diligence methodologies that are suitable to their institutions' respective risk tolerance and unique situation.

Methods for measuring and monitoring credit risk in the investment portfolio will evolve, and best practices will emerge, as bankers, regulators, and investment advisors identify more effective credit review techniques. As a result, the supervisory agencies expect the transition away from reliance on credit ratings to entail a learning curve for both bankers and examiners. As long as management demonstrates that it has made good-faith progress to comply with the OCC rule, FDIC examiners, at their initial examination reviews, will work with banks as they transition away from a ratings-centric bond selection and monitoring process. Examiners may offer constructive recommendations or suggestions on due diligence efforts, as appropriate.

Due Diligence

The OCC's regulation was issued with accompanying guidance that listed a matrix of factors to consider as part of a credit risk assessment to meet the investment-grade standard or the safety and soundness standard. Bankers should benefit from reviewing this matrix as well as the following section, which shows examples of methodologies for analyzing a municipal bond and a corporate bond. The examples that follow are for informational purposes; banks are free, but not required, to use these due diligence templates. Individual securities may require different or a varying degree of analysis. Further, bank management has the flexibility and responsibility to design its own due diligence processes, techniques, and models that are best suited for their institution while meeting the OCC rule's requirements.

The first example presents a framework that may satisfy the credit risk safety-and-soundness standard for a municipal bond. General obligation municipal bonds, and also revenue bonds held by well-capitalized banks, will not require an investment-grade determination, but they will need an initial credit assessment and ongoing reviews to ensure they satisfy safety and soundness standards. The corporate bond example in the second text box is a description of a framework that might be used to determine whether a corporate bond satisfies the investment-grade standard.

Municipal Bonds

Many municipal bonds held in bank portfolios share two characteristics with the majority of loans held in portfolio: they are not actively traded or publicly rated. That is, neither municipal bonds nor loans benefit from an efficient secondary market that provides timely price discovery (fair value) and independent, ongoing third-party credit surveillance. Even for many rated municipal bonds, surveillance and the reassessment of assigned credit ratings are often not conducted on a timely basis.

Given these characteristics, it is important that management's due diligence and monitoring process identify bonds with higher risk characteristics at the time of investment and during the holding period. Higher-risk bonds have characteristics that could potentially cause them to not meet credit quality safety-and-soundness standards. Examples of characteristics that have the potential for higher risk include:

- Municipal category or type that has incurred historically high default rates, e.g., community development district bonds, Mello-Roos bonds (an alternative way for local municipalities in California to finance public improvements, including streets, sewer systems, and other infrastructure projects), sanitary improvement district bonds - all colloquially known as "dirt bonds"
- Location in a state or geographic region suffering serious economic stress or stagnation
- Poor vintage performance
- Chronic budget issues
- Illiquidity of the municipal obligor
- Repeated late filings of financial statements or qualified audits
- Unusually wide credit spreads (when there is an active secondary market)

Once a potentially higher-risk bond is identified, whether through monitoring of the existing portfolio or the pre-purchase review of a contemplated bond investment, management can apply more rigorous credit analysis and financial statement analysis as appropriate to develop a conclusion about its risk and suitability.

The table below depicts a straightforward example for measuring risk and determining if a general obligation bond has met its safety-and-soundness credit risk benchmark. A bank may find it beneficial to grade the bond as it grades commercial loans by assessing and scoring various factors. Cumulative scores could be generated by adding the specific scores given to each assessment factor.

XYZ MUNICIPALITY	
Credit Factor	**Factor Score (1-5)**
Health of Local Economy (Per Capita Income, Population Growth, Unemployment Rate, etc.)	
Location in Low-Risk State or Region	
Current Financial Statements	
Budget Performance	
Degree of Tax Burden	
Level of Debt and Unfunded Liabilities	
Payment Performance	
Credit Enhancement	
Spreads Comparable to Similar Bonds	
NRSRO Rating	
Cumulative Score	

Management could create a grading scale and identify the grading band where "Pass" bonds reside, that is, bonds that would satisfy-safety-and-soundness standards. Scoring systems could be made more robust by weighting each factor and including qualitative factors, e.g., scoring for the reputation and operating performance of the municipality's management. (A similar scoring system could be designed for securities requiring an investment-grade determination. Bonds with cumulative scores at or above a certain threshold would be deemed investment grade, thus permissible for purchase.)

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Corporate Bonds

The credit analysis of corporate bonds is similar to the assessment of commercial term loans, as both instruments are paid from the obligor's cash flow and can have repayment periods extending beyond one operating cycle. Such credit analysis attempts to determine the repayment capacity of the borrower; in other words, the potential for default risk. This approach is convenient given the new rule defines investment grade, in part, as a security where default risk is low. Therefore, it is anticipated that the due diligence and monitoring process for corporate bonds will be similar to the underwriting and monitoring of commercial loans. Plus, most banks have a lending staff that understands business financial statements, underwrites and assesses default risk using business financial statements, and is experienced in monitoring commercial entities.

Corporate bond analysis (as with all bond analysis) begins with understanding the terms of the bond. Examiners will expect bank management to be familiar with the indenture and prospectus which explains the bond's characteristics including rate information, maturity, call or convertibility options, amortization or sinking fund features, and collateral information, if applicable. These documents should be part of the security due diligence documentation and available for examiner review.

Financial analysis of the corporate borrowing entity also considers ratio analysis that measures the level and trend of debt service coverage, liquidity, cash flow, leverage, and operating efficiency. Profitability, earnings prospects, and return on equity analyses can also provide longer-term analytical insight. Peer comparison can also add perspective to the comprehensive ratio analysis.

Management can further enhance the corporate bond review by performing an industry analysis. This requires an understanding of the industry's outlook, life cycle, competitiveness, and other issues that could affect the corporation under review.

Finally, management will need to tie the analysis together to determine whether the credit risk profile of the obligor is suitable as an investment and meets the standards established by the investment policy. This process could mean using a scoring system similar to commercial loan grading, the municipal bond scoring matrix shown previously, or another methodology that is sufficiently robust and well documented.

Risk Management Practices

In addition to verifying the adequacy of bond due diligence and the progress in satisfying the OCC rule, examiners will also likely focus on related risk management practices. Examiners may seek answers to the following questions:

- Are the bank's revised policies consistent with the requirements of the new regulation?
- Given the rule's definition of the investment-grade standard, do bank policies establish criteria or benchmarks (by security type) that must be met to satisfy the investment-grade standard?
- Are the due diligence procedures specified in the investment policy sufficiently comprehensive for the identification, measurement, and monitoring of credit risk?
- Are credit risk limits reasonable?

- Does management have sufficient in-house expertise to manage the investment portfolio's credit risk?
- Does management devote sufficient resources to managing the portfolio's credit risk?
- Do minutes of the investment committee or board meetings indicate that the directorate and management review and monitor portfolio credit risk?
- Is credit risk accurately reported to the board?
- Do the board and senior management understand the investment portfolio's credit risk?
- Are third-party relationships properly managed? Does management understand the third party's credit risk methodology, confirm the third party's methodology is sufficiently comprehensive, not permit the delegation of decision-making to the third party, and ensure the third party is independent from the securities dealer?
- If the bank uses credit ratings by a NRSRO as one factor in determining whether prudential credit risk standards are being met, does management have a basic understanding of the methodologies the rating agencies use and the limitations of those methodologies?

Written policies should provide guidance on several of the issues raised by these questions. The depth and detail of the policies that guide credit risk management in the investment portfolio will vary among banks, contingent on the nature, scope, and complexity of the instruments held.

Conclusion

Financial institutions should have a process for determining whether their investment securities meet creditworthiness standards. This process cannot rely exclusively on credit agency ratings. The new rules became applicable for all existing and future bond holdings on January 1, 2013. Supervisors anticipate there will be a learning curve as bankers develop, modify, and enhance due diligence methodologies to meet regulatory expectations. Examiners will expect to see evidence of progress toward compliance with the rules during initial examination reviews.

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Mergers and Acquisitions: A Compliance Perspective

Successful execution of mergers and acquisitions among financial institutions requires significant attention to detail, to ensure that the systems of the surviving institution function in a way that is consistent with laws, regulations, and safe-and-sound banking practice. A successful merger results in an integration of systems encompassing risk management, information technology, Bank Secrecy Act/anti-money laundering, and compliance with consumer protection laws and the Community Reinvestment Act.

In this article, we focus on the importance of planning for the surviving institution's compliance with consumer protection regulations and the Community Reinvestment Act (CRA). Compliance problems can ensue, for example, if management is unfamiliar with the regulatory requirements associated with some of the activities of the surviving institution, or if the surviving institution crosses any of a number of compliance reporting thresholds as a result of the merger. The seriousness that regulators attach to such issues is evidenced by the fact that some mergers are not approved because of concerns about the quality of these compliance systems at one or more of the potential merger partners.

Proactively addressing consumer compliance risks will help bank management avoid violations and maintain the institution's Compliance Management System (CMS), which is the framework through which an institution oversees its compliance responsibilities and incorporates applicable requirements into its business practices. This article reviews how compliance with consumer protection laws and regulations plays a critical role after a merger or acquisition is approved, and identifies issues to consider when planning for a merger or acquisition or when conducting post-merger or acquisition compliance-focused due diligence. The discussion is structured around a sample template for due diligence and a case study of the merger of two hypothetical banks.

The Importance of Effective Due Diligence

Due diligence is the primary responsibility of the Board and senior management. However, the depth and scope require the involvement of key personnel, including the Compliance Officer, auditors, and department supervisors throughout the merger or acquisition process. An effective merger due diligence process helps ensure the surviving institution's consumer compliance posture is maintained during and after a merger or acquisition, as it gives the Board and senior management the information it needs to allocate personnel resources in compliance and operational areas. The Board and senior management's ability to establish and maintain the surviving institution's CMS[1] will be evaluated by examiners at the next examination through a risk-focused review and transactional testing. An inadequate CMS can lead to violations and adversely affect the bank's Consumer Compliance Rating.[2]

Management should also determine the legal and technological risks associated with mergers or acquisitions.

[1] Section II.3-1 of the FDIC Compliance Examination Manual describes the components of the Compliance Management System. https://www.fdic.gov/resources/supervision-and-examinations/consumer-compliance-examination-manual/documents/2/ii-3-1.pdf.

[2] Section II.13-1 of the FDIC Compliance Examination Manual outlines the Consumer Compliance Rating System. https://www.fdic.gov/resources/supervision-and-examinations/consumer-compliance-examination-manual/documents/2/ii-13-1.pdf.

For example, will the surviving institution have the technological infrastructure or framework in place to handle the merger, or has the surviving institution considered all legal risks that may surface from combining products and services?

Regulatory Concerns

Consumer compliance issues, such as those relating to fair lending, Unfair or Deceptive Acts or Practices (UDAP), CRA, or the Servicemembers Civil Relief Act (SCRA), among others, can result in legal and reputational risks for the institution. Understanding early in the transaction how consumer protection rules and regulations apply will strengthen efforts to maintain the integrity of the institution's operations and the CMS. Table 1 lists due diligence considerations from consumer protection laws, rules, and regulations that may apply to and should be considered during and after a merger or acquisition.

Table 1: Due Diligence Considerations as Part of the Merger- and Acquisition-Planning Process

Lending Regulations	
Regulation	**Due Diligence Considerations**
Truth in Lending – Regulation Z [3]	▪ Determine whether loan product features will change in a manner that adversely affects consumers, such as revisions to payment processing or payment structure, and provide applicable notices. ▪ Continue periodic statements for all open-end products and consider regulatory statement format requirements, particularly when using custom formats. ▪ Ensure proper notification for variable-rate adjustments on adjustable-rate mortgages. ▪ Determine whether purchased-dwelling-secured loans require notices to affected consumers in accordance with *Helping Families Save Their Homes Act of 2009*. ▪ Determine if the acquired institution had loans subject to the Higher Education Act to ensure proper administration. ▪ Determine if the acquired institution offered credit cards to ensure effective processes are in place to maintain credit card functions and characteristics, as prescribed by the *Credit CARD Act of 2009*. ▪ Ensure the integrity of a consumer's right to rescind applicable transactions. The FDIC's evaluation of a bank's CRA performance is adversely affected by evidence of illegal credit practices, including violations regarding a consumer's right of rescission.
Real Estate Settlement Procedures (RESPA) – Regulation X [4]	▪ Provide the appropriate Servicing Transfer notice. ▪ Maintain escrow account administration, including annual analysis and notification(s). ▪ Consider any existing secondary market and other referral arrangements.

[3] 15 U.S.C. 1601 *et seq.*, Truth in Lending – Regulation Z: http://www.fdic.gov/regulations/laws/rules/6500-1400.html#fdic6500part226tilregz.

[4] 12 U.S.C. 2601 *et seq.*; 42 U.S.C. 3535(d), Real Estate Settlement Procedures – HUD's Regulation X: http://www.fdic.gov/regulations/laws/rules/6500-2520.html#fdic6500part3500.

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Lending Regulations	
Flood Insurance [5]	▪ Identify covered loans and ensure adequate insurance coverage. ▪ Notify the Federal Emergency Management Agency (FEMA) of change in servicer. ▪ Determine if the previous lender required escrow and consider the impact for escrowed loans requiring flood insurance. ▪ Notify the third party responsible for life-of-loan monitoring of the new lien holder.
Home Mortgage Disclosure Act (HMDA) – Regulation C [6]	▪ Determine the impact on HMDA reporting for the surviving institution.
Homeowners Protection Act (Private Mortgage Insurance) [7]	▪ Maintain private mortgage insurance administration tasks, including annual notices and other subsequent notification requirements.
Protecting Tenants at Foreclosure Act [8]	▪ Determine if any foreclosure proceedings are in process, or if foreclosure is necessary after the transaction. Provide required notices to "qualified tenants."
Fair Credit Reporting Act (FCRA)/Fair and Accurate Credit Transactions Act [9]	▪ Provide updated Negative Information notice disclosures, when necessary. ▪ Ensure written policies and procedures adhere to all applicable provisions of FCRA and its implementing rules, such as the Affiliate Marketing Rule, Medical Information Rule, and Furnisher Rule.
Secure and Fair Enforcement for Mortgage Licensing Act (SAFE Act)[10]	▪ Identify Mortgage Loan Originators. ▪ Update employer/employee information in registry within 60 days of change.

[5] 42 U.S.C. 4012a, 4104a, 4104b, 4106, and 4128, Part 339 of FDIC Rules and Regulations – Loans in Areas Having Special Flood Hazards: http://www.fdic.gov/regulations/laws/rules/2000-6100.html#fdic2000part339.

[6] 12 U.S.C. 2801—2810, Home Mortgage Disclosure Act – Regulation C: http://www.fdic.gov/regulations/laws/rules/6500-3020.html#fdic6500part203regc.

[7] 12 U.S.C. 4901, *Homeowners Protection Act of 1998*: http://www.fdic.gov/news/news/inactivefinancial/1999/useftp.pdf.

[8] 12 U.S.C. 5201 and 5220, Protecting Tenants at Foreclosure Act: http://www.fdic.gov/news/news/financial/2009/fil09056a.pdf.

[9] 12 U.S.C. 1818 1819 (Tenth) and 1831p—1; 15 U.S.C. 1681a, 1681b, 1681c, 1681m, 1681s, 1681s—3, 1681t, 1681w, 6801 and 6805, Pub. L. 108—159, 117 Stat. 1952, Part 334 of FDIC Rules and Regulations – Fair Credit Reporting: http://www.fdic.gov/regulations/laws/rules/2000-5650.html#fdic2000part334.

[10] 12 CFR Part 34, 208, 211, et al., SAFE Act: http://www.fdic.gov/news/news/press/2010/pr10170a.pdf.

Lending Regulations	
Fair Lending Regulations [11]	▪ Conduct a comprehensive Fair Lending review to ensure the acquired loans reflect: consistency in pricing and underwriting; no impermissible redlining or steering practices; fair marketing practices; and a strong CMS as it relates to Fair Lending. ▪ Analyze the assessment area and determine if any newly acquired loan(s) could adversely affect the Fair Lending posture of the surviving institution. Any material inconsistency(ies) between the provisions of an acquired loan and the surviving institution's policies should be identified and monitored to ensure the loan is administered in a manner that is consistent with all applicable Fair Lending laws and regulations. ▪ Note the applicability of regulations related to Fair Lending (such as the *Equal Credit Opportunity Act, Fair Housing Act*, HMDA, and FCRA).
Deposit Regulations	
Regulation	**Due Diligence Considerations**
Truth in Savings-Regulation DD [12]	▪ Determine whether terms / features will change and provide applicable Change in Terms notices. ▪ Continue to provide periodic statements with accurate customized information (if applicable).
Electronic Fund Transfers-Regulation E [13]	▪ Identify changes in terms and provide notification within regulatory timeframes. ▪ Consider overdraft payment opt-in requirements for newly acquired customers.
Expedited Funds Availability Act (EFAA)-Regulation CC [14]	▪ Identify changes in funds availability policies and ensure compliance with Regulation CC. ▪ Ensure transaction processing cut-off timeframes are properly disclosed, if different at various branch locations.

[11] Fair Lending Laws and Regulations – FDIC Compliance Examination Manual: http://www.fdic.gov/resources/supervision-and-examinations/consumer-compliance-examination-manual/documents/4/iv-1-1.pdf.

[12] 12 U.S.C. 4301 *et seq.,* Truth in Savings – Regulation DD: http://www.fdic.gov/regulations/laws/rules/6500-3250.html#fdic6500part230regdd.

[13] 15 U.S.C. 1693b., Electronic Fund Transfers – Regulation E: http://www.fdic.gov/regulations/laws/rules/6500-3100.html#fdic6500part205rege.

[14] 12 U.S.C. 4001—4010, 12 U.S.C. 5001—5018, Expedited Funds Availability – Regulation CC: http://www.fdic.gov/regulations/laws/rules/6500-3210.html.

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Lending Regulations Other	
Regulation	**Due Diligence Considerations**
Community Reinvestment Act (CRA) [15]	▪ Consider the effect of the merger/acquisition on the demarcated CRA assessment area. Should the assessment area be expanded as a result of the transaction? ▪ Determine whether the merger will change how the surviving bank is evaluated for CRA. For example: Will an increase in asset size define the bank as an "intermediate small bank" after two consecutive years with assets above the published threshold? Will the merger result in the acquisition of branches in a separate Metropolitan Statistical Area (MSA) or a non-contiguous non-MSA? ▪ Ensure the CRA Public File at each office is updated to reflect new loan-to-deposit ratios (for institutions subject to the small bank lending test), updated assessment area(s), products and services, HMDA disclosure statement (if applicable), and branch listing. ▪ Ensure branch closing policies adhere to statute and applicable policy. [16] ▪ Consider *Interstate Banking and Branching Efficiency Act* applicability. Review impacts on how the surviving institution will be evaluated. [17] ▪ Ensure mergers between insured depository institutions (IDI) and an IDI and a noninsured institution satisfy the requirements of the *Bank Merger Act* and related *Interstate Banking and Branching Efficiency Act*.[18]
Deposit Insurance [19]	▪ Consider the impact on deposit insurance coverage for customers with deposits at both institutions. "Deposits from the assumed bank are separately insured from deposits at the assuming bank for at least six months after the merger. The grace period gives a depositor the opportunity to restructure his or her accounts, if necessary." [20]
Privacy [21]	▪ Determine impact on privacy policy provisions, including compliance with the *Gramm-Leach-Bliley Act* (GLBA) Privacy of Consumer Financial Information Rule and affiliate-sharing rules issued under FCRA. ▪ Provide applicable privacy notices to acquired customers within reasonable time.

[15] 12 U.S.C. 1814—1817, 1819—1820, 1828, 1831u and 2901—2908, 3103—3104, and 3108(a), Part 345 of FDIC Rules and Regulations. Community Reinvestment Act: http://www.fdic.gov/regulations/laws/rules/2000-6500.html#fdic2000part345.

[16] 12 U.S.C. 1831r-1, Section 42 of the Federal Deposit Insurance (FDI) Act: http://www.fdic.gov/regulations/compliance/manual/pdf/X-2.1.pdf. See also *Policy Statement of Office of the Comptroller of the Currency, Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, and Office of Thrift Supervision Concerning Branch Closing Notices and Policies*, 64 FR 34845 (June 29, 1999): http://www.fdic.gov/regulations/laws/rules/5000-3830.html.

[17] 12 U.S.C. 1811, 3104, 1835a, *Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994:* http://www.fdic.gov/regulations/laws/rules/6500-3500.html.

[18] Section 18(c), 12 USCA 1828 (c) of the Bank Merger Act: http://www.fdic.gov/regulations/laws/rules/1000-2000.html, and the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (Section 44, 12 USCA 1831u).

[19] FDIC – *Your Insured Deposits* booklet: http://www.fdic.gov/deposit/deposits/insured/print/yid_english.pdf.

[20] FDIC – *Your Insured Deposits* booklet, Question and Answer No. 5, pp. 20-21.

[21] E.g., Gramm-Leach-Bliley Act Privacy of Consumer Financial Information Rule, 12 CFR 1016. See http://www.gpo.gov/fdsys/pkg/FR-2011-12-21/pdf/2011-31729.pdf.

Lending Regulations	
Unfair or Deceptive Acts or Practices (UDAP) [22]	▪ Consider the adequacy of disclosures to consumers regarding changes to account terms. ▪ Consider the adequacy of policies in both the lending and deposit areas. ▪ Consider potential impacts on customer accounts converted to accounts without the same benefits or rewards to identify the content and timing of the notice needed to clearly inform affected customers of all material changes. ▪ Determine whether the surviving institution intends and has the capacity to maintain grandfathered products and services.
Non-Deposit Investment [23] **and Insurance** [24] **Products**	▪ Determine if either bank sells retail insurance or investment products and ensure staff member licensure and registration is current in accordance with federal and state requirements. ▪ Determine if products are offered through a broker via a third-party arrangement.
Fair Debt Collection Practices [25]	▪ Determine if the acquired bank collects debt for third parties and the scope of that function.
Servicemembers Civil Relief Act [26]	▪ Determine if the acquired institution currently services loans for covered borrowers to ensure the bank maintains and tracks relief under the regulation.

[22] 12 U.S.C. 45a, Federal Trade Commission Act, Section 5 – Unfair or Deceptive Acts or Practices: FDIC Compliance Examination Manual. https://www.fdic.gov/resources/supervision-and-examinations/consumer-compliance-examination-manual/documents/7/vii-1-1.pdf.

[23] Retail Investment Sales: https://www.fdic.gov/resources/supervision-and-examinations/consumer-compliance-examination-manual/documents/9/ix-1-1.pdf.

[24] 12 U.S.C. 1819, Part 343 of FDIC Rules and Regulations,– Consumer Protection in Sales of Insurance: http://www.fdic.gov/regulations/laws/rules/2000-6300.html.

[25] 15 U.S.C. §§ 1601 and 1692: *Fair Debt Collection Practices Act:* http://www.fdic.gov/regulations/laws/rules/6500-1300.html

[26] Servicemembers Civil Relief Act, Pub. L. 108-189 (codified *at 50 U.S.C. App. 501 et seq.)*: http://www.fdic.gov/ https://www.fdic.gov/news/inactive-financial-institution-letters/2007/fil07083.html.

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The next section presents a merger case study between Bank 123 and ABC Bank that will give perspective on the regulatory and operational impacts listed in Table 1.

Merger of Bank 123 and ABC Bank

Table 2 outlines a merger scenario between Bank 123 and ABC Bank. Bank 123 will be the surviving institution and is embarking on this merger to grow its deposit and loan base in an MSA and add consumer and residential real estate lending to its portfolio. After the merger, Bank 123 intends to close one ABC Bank branch due to low production activity. Issues identified through due diligence as well as the consumer protection regulatory impacts on Bank 123 are discussed in the section following the table.

Table 2

Merger of Bank 123 and ABC Bank		
Institution Characteristics	**Bank 123**	**ABC Bank**
Assessment Area	Several contiguous, non-MSA counties.	One large MSA (single county).
Branching	Five branches.	Two branches.
Assets	$275 million. Bank 123 will acquire the vast majority of ABC Bank's assets and liabilities.	$95 million.
Loan Products and Services	Commercial, agricultural, and consumer installment loans. Nominal residential real estate lending.	Residential real estate (home purchase, refinance, home improvement, reverse mortgages serviced by a third party, and home equity lines of credit (HELOCs)), consumer loans (including installment and personal lines of credit), and commercial loans.
Deposit Products and Services	Checking / Demand Deposit Accounts (DDA), Savings, Money Market, and Certificates of Deposit. The bank has an automated overdraft program. Due diligence indicates deposits are held by the same customers at both institutions.	Checking / DDAs, Savings, Money Market, Certificates of Deposit, and Individual Retirement Accounts. Deposit accounts include rewards features, some of which are offered and maintained by a third party. These rewards are actively marketed by the bank and the third party. The bank does not have an automated overdraft program.
Affiliates	One affiliate institution (finance company), with which the bank shares information to market products and services.	No affiliate institutions.

Due Diligence of ABC Bank Products and Services

Due diligence analysis of products and services in the loan and deposit areas revealed similarities in product types between the two institutions. ABC Bank also offers additional loan products that Bank 123 does not, such as reverse mortgages and HELOCs, and offers deposit rewards programs. As a result, Bank 123 must modify its CMS to ensure applicable regulatory provisions relating to these lending and deposit products are maintained. For example, Bank 123 management should understand:

- how these specialized products function;
- how existing policies and procedures should be enhanced or revised, including daily product administration and monitoring functions;
- how operating and platform systems can accommodate product functionality on grandfathered accounts, such as providing consistent information in periodic statements, revisions to payment processing (structure and cut-off times), and disclosure content;
- the required depth and scope of training for the Board, senior management, and applicable staff;
- the required depth, scope, and frequency of monitoring controls; and
- the required depth, scope, and frequency of the audit program, if applicable.

The analysis of products and services also identified third-party risks in the deposit and lending areas. Reverse mortgages and deposit rewards are offered and serviced by third-party vendors. Senior management should perform risk assessments on each vendor, considering reputational, strategic, and compliance risks, and conduct comprehensive reviews of vendor contracts. Adjustments to Bank 123's policies and procedures, monitoring controls, and training program should be made to accommodate the terms of agreements.

Regulatory Impacts on Bank 123

Bank management should determine how the CMS should be modified and/or expanded to reflect the risks identified through the due diligence process. For example:

Assessment Area and Branching

The addition of branches in an MSA and the closure of one branch will impact Bank 123.

- Bank 123 will become a HMDA reporter. With little residential lending experience and without the benefit of familiarity with HMDA reporting, Bank 123 should provide training to staff to ensure data integrity.
- Bank 123 management should conduct comprehensive reviews of the MSA demographic and economic characteristics to determine the impact on CRA evaluations. For example, management should consider the assessment area's demographics and how they change the institution's CRA performance context, and the effect on the institution's ability to meet the needs of the community. CRA performance evaluations will now include separate conclusions for performance in the MSA and the contiguous non-MSA area. Bank 123's prior CRA evaluations likely were focused on small-business and small-farm lending. If Bank 123 maintains residential real estate lending in the MSA, this portfolio could

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become a primary lending product, further changing the institution's CRA performance profile.

- Bank 123 will need to post and provide required notices and ensure applicable timelines are allowed to expire before closing the branch.

Assets

The increase in assets would change the institution's CRA profile from a Small Bank to an Intermediate Small Bank (ISB)[27] after two consecutive years of assets above published thresholds. The performance evaluation requirements for an ISB incorporate the Community Development Test, which requires the bank to emphasize qualified community development lending, investments, and services that help meet the needs of its community.

Deposit and Loan Products and Services

The changes in product sets and management's decision to maintain or grandfather accounts can:

- Affect and trigger changes-in-terms notifications under Truth in Savings, Truth in Lending, Electronic Fund Transfers, Expedited Funds Availability, FCRA, and Privacy.
- Affect the ongoing administration and monitoring of consumer credit. Management should determine loans that were in a flood zone, were in foreclosure (subject to the *Protecting Tenants at Foreclosure Act* and Fair Lending), had funds in escrow, if any payments were late, or had private mortgage insurance to ensure proper notifications were provided and subsequent analysis and maintenance was maintained. Management also should consider changes to servicer notifications under RESPA.
- Impact the surviving institution's product offering. For example, the addition of HELOCs to Bank 123's product set would require additional policies and procedures, appropriate training and monitoring, and enhanced product administration, such as ensuring customized disclosures and periodic statement formats are maintained after conversion.

Bank 123 did not previously originate a sufficient number of mortgage loans to require the institution and loan officers to register with the national directory as required by the SAFE Act. Management now will need to monitor activities and enforce SAFE Act procedures when necessary.

Bank 123 would need to provide Regulation E opt-in notices to newly acquired customers before charging customers for overdrafts on applicable transactions (i.e., ATM and one-time POS transactions).

Bank 123 will need to review the rewards program. If the rewards program ceases, notification requirements would be triggered. If these accounts are maintained/

[27] Intermediate Small-Bank Procedures: In addition to conducting the Lending Test for Small-Bank performance evaluations (which encompasses analysis of Net Loan-to-Deposit Ratios, Lending Area Concentration, Borrower Profile Distribution, and Geographic Distribution), examiners also conduct the Community Development Test which is comprised of evaluations of the institution's ability to meet the credit needs of its community through providing services that support Affordable Housing, Community Development, Economic Development, Revitalization and Stabilization, and attentiveness to Abandoned and Foreclosed Homes. These services are evaluated through reviews of qualified Community Development Lending, Investments, and Services.

grandfathered, management should ensure the bank can maintain the program (i.e., provide rewards when applicable), and monitor the activities of the third party to ensure it provides services as disclosed, to prevent potential Unfair or Deceptive Acts or Practices issues. Management also should consider whether to offer the rewards to new and existing depositors to ensure no portion of the financial institution's community or depositor base is omitted from receiving product benefits.

Bank 123 should provide comprehensive Fair Lending training to newly acquired loan staff that addresses the specifics of the regulations and the bank's policies and procedures.

Bank 123 should identify and monitor shared deposit customers, as these customers are allowed to restructure deposit accounts for FDIC deposit insurance purposes.

Affiliates

The sharing of information could impact ABC Bank customers from a Privacy Policy perspective. The type of information shared can be restricted by consumers if the affiliate institution will use customer information to market its products and services. Bank management must determine if information-sharing opt-out notices are warranted.

Conclusion

Effective due diligence of consumer compliance issues is critical in every merger or acquisition transaction. This process helps to ensure a smooth transition for the surviving institution and the maintenance of a satisfactory compliance posture. The information presented in this article can be used as a framework for addressing applicable consumer protection laws, rules, and regulations during the due diligence process.

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From the Examiner's Desk: The Evolution of Bank Information Technology Examinations

This regular feature focuses on developments that affect the bank examination function. We welcome ideas for future columns, and readers can e-mail suggestions to ***SupervisoryJournal@fdic.gov****.*

The Federal Deposit Insurance Corporation (FDIC) has conducted information technology (IT) examinations for more than forty years.[1] In recent years, the review of financial institutions' information security programs has taken on increased importance because of the growing incidence of denial-of-service attacks, account takeover fraud, foreign espionage, hackers, and complex technology partnerships. The escalating nature of cyber threats targeted at financial institutions and their customers makes IT security and operational controls critical to the safety and soundness of the institution. This article discusses the evolution of IT examinations of financial institutions and technology service providers (TSPs), with a focus on the current examination program goals, processes, and effective approaches to IT risk management.

Background

As part of the examination process, the FDIC and other financial regulatory agencies review and assess financial institution records. Decades ago, as financial institutions began to use computerized accounting systems, concerns increased about access to those records and the accuracy of the systems processing them.

Initially, computing systems were only available to the largest financial institutions due to their high cost. However, in 1962, the Bank Service Company Act[2] (BSCA) was enacted to enable financial institutions to invest in bank service companies, with prior regulatory approval. Bank service companies provided a vehicle for one or more smaller financial institutions to invest in an entity to provide those institutions with IT services. As a result, the use of computerized accounting systems expanded among smaller financial institutions. The BSCA also permitted institutions to contract with independent service providers, with prior notice to their primary federal regulator.

The FDIC formalized the EDP examination requirement in 1970, following a similar trend by the audit industry. All FDIC field offices selected certain examiners to complete a training course in EDP examinations. Early examinations focused on the integrity of electronic data systems, internal controls, and physical security. There was recognition at the time that reliance upon computers increased the potential for computer-based fraud or embezzlement. Major TSPs were examined to ensure the servicer did not disclose confidential financial institution data and the outsourcing of EDP was not an attempt to hide evidence of fraud or other unsafe-and-unsound conditions in the institution. The goal, whether for in-house or outsourced data processing examinations, was to ensure the data processing function could reliably provide accurate processing of transactions and records. Although these early examinations

[1] These examinations were formerly referred to as electronic data processing (EDP) and then information systems (IS).

[2] Public Law No. 87-856, 12 U.S.C. 1861 et seq. See http://ithandbook.ffiec.gov/media/27536/con-12usc1861_1867c_bank_service_company_act.pdf.

were able to identify issues with controls and other management practices that could affect the safety and soundness of these automated records, this process did not have defined standards for measuring risk.

Regulatory authority over TSPs was greatly expanded as a result of the Financial Institutions Regulatory and Interest Rate Control Act of 1978 (FIRIRCA).[3] FIRIRCA created the Federal Financial Institutions Examination Council (FFIEC). The FFIEC established standards for EDP operations by developing the EDP Examination Handbook,[4] creating an EDP examination rating system and establishing a formal program for the joint examination of service providers. The new rating system applied to bank-owned data centers and nonbank service providers. The EDP rating criteria of 1978, which addressed audit, management, systems development and programming, and computer operations, were maintained until 1999. At that time, the rating system was revised to the new Uniform Rating System for IT (URSIT), which included replacing two components[5] and revising the numerical rating definitions to conform to the rating definitions of the Uniform Financial Institutions Ratings System, commonly referred to as the CAMELS rating system.

Through an amendment to the BSCA,[6] FIRIRCA gave the FDIC and other financial institution regulators authority to examine service providers and changed the approval requirement to allow for after-the-fact notice of service provider arrangements. Prior to FIRIRCA, financial institutions were required to provide notice to, and receive permission from, their regulator before contracting with a service provider. Regulatory approvals were based, in part, on contractual agreements that permitted regulatory access to the institutions' records at the service provider. Table 1 lists other milestones in the evolution of the IT examination.

Table 1: IT Examination Milestones

Date	Milestone
1962	Bank Service Company Act allows small financial institutions to compete with large institution technology through investments in joint bank service companies.
1970	FDIC begins examinations of financial institution computer operations.
1977	First edition of Control Objectives published by Electronic Data Processing Auditing Association (EDPAA).
1978	Interagency EDP Examination, Scheduling, & Report Distribution Policy Statement published. FDIC authorizes 24 EDP examiner slots. Interagency Uniform Rating System for Data Processing Operations introduced.
1980	FFIEC EDP Examination Handbook published.
1982	Multi-Regional Data Processing Servicer Program (MDPS) founded.
1999	Uniform Rating System for Information Technology revised to conform with Uniform Financial Institution Rating System.
2002	FDIC combines e-banking, serviced bank, information security, and EDP work programs, and requires IT examinations and IT ratings of all FDIC-supervised financial institutions.
2005	FDIC issues IT Risk Management Program (IT-RMP) to implement a risk-focused approach to IT examinations and follow the requirements of the Interagency Guidelines Establishing Information Security Standards. IT-RMP was revised in 2007.
2010	FDIC requires all risk management examiners to take the IT Examination Course within 6 months of the commissioning process, as well as 3 other basic IT courses, to better prepare them for evaluating IT risks in financial institutions.

[3] Section 308 of Public Law No. 95-630.

[4] The EDP Examination Handbook has been extensively revised over the years and is published as the FFIEC IT Handbook at http://ithandbook.ffiec.gov/it-booklets.aspx.

[5] The last two components were replaced with "Development & Acquisition" and "Support & Delivery."

[6] See footnote 3.

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Banking Risks Today

Although fraud and availability of records remain critical safety-and-soundness concerns, financial institutions and regulators must address a growing array of cyber threats to institutions and their customers. Cyber criminals are continuing to develop new means of accessing personal and institutional accounts, political activists seek attention by disrupting banking services, and foreign powers try to access corporate networks to steal proprietary business information. Vulnerability to these attacks can heighten an institution's reputational risk and diminish confidence in the overall banking system. These attacks also can affect a financial institution's liquidity and capital positions, as discussed later in this article. Bankers increasingly are asking their regulators for guidance on how to address this constant-threat environment. However, requiring institutions to develop and implement specific technical controls often lags the threat and redirects management from the development and maintenance of a robust and effective security program to focusing strictly on regulatory compliance. Bankers should understand that a security program encompasses more than technology. A security program addresses how the business operates in today's overall risk environment.

Today's IT Examination Goals

Today, most financial institutions rely on IT systems, external service providers, and Internet-connected applications to provide or enable key banking functions. IT is part of the infrastructure for all business units. Therefore, IT governance should be viewed as an important part of corporate governance more generally, and financial institutions should consider industry standards for IT governance.[7] The FDIC's IT examination philosophy has placed increasing emphasis on institutions' practices and procedures for managing IT risks, including third-party risk, protection of sensitive customer information, and reputation risk. In 2002, the FDIC combined the examination programs for IT, e-banking, serviced banks, and Gramm-Leach-Bliley Act[8] (GLBA) compliance into a single function. The combined IT examination was migrated to the safety and soundness Report of Examination to engage executive management on issues related to technology risk management. This combination emphasized that IT and operational risks can affect an institution's safety and soundness.

The FDIC examines a financial institution's IT operations because they support the overall enterprise. IT operations must protect the institution's financial health. Financial institutions ultimately fail because of inadequate liquidity or capital, not because of a broken computer. However, electronic operations can have a direct and sometimes immediate impact on liquidity or capital. Computer failures that prevent or delay the presentment and settlement of transaction items can directly affect an institution's liquidity. The longer a financial institution's systems are unable to present items to settle with correspondent banks, the higher the probability the institution may need to borrow funds or sell assets to cover account shortages. New types of cyber fraud, such as commercial account takeover fraud, may result in

[7] See COBIT: Framework for IT Governance and Control at http://www.isaca.org/resources/cobit

[8] Public Law No. 106-102. See http://www.fdic.gov/regulations/laws/rules/2000-8660.html#fdic2000appendixbtopart364.

losses that can exceed the required capital of the financial institution.

Third-party risk appears to be one of the most significant IT-related risks. This is due to the fact that externally controlled services and products, such as credit and payment products offered in conjunction with third-party non-financial providers, have been integrated into a financial institution's products and services.[9] Risk tolerance levels can easily be exceeded without an adequate level of control or expertise in these products. Even though technology makes integration easy, oversight requires a technical and a business perspective.

The regulatory emphasis on protecting customers' sensitive digital information became most apparent with the promulgation of the GLBA information security guidelines in 2001.[10] These guidelines require financial institutions to implement a comprehensive information security program to ensure the safety and confidentiality of customer information. Although these guidelines were based on established computer security principles, they expanded the regulatory focus beyond protecting the institution's information to protecting the customer's information. These guidelines do not require specific technical controls. Instead, they require the development and implementation of a broad risk management program that addresses risk identification and assessment, implementation of policies and procedures to mitigate risks, employee training, reporting, and the involvement and approval of the board of directors. Because of these new guidelines, the FDIC examination process refocused on these risk management principles. This shift was challenging for financial institutions and examiners as it relied less on prescriptive technical controls and more on governance and oversight.

In addition, reputational risk is a more difficult thing for examiners to assess. Frequent system failures, electronic account fraud, and other cyber incidents can weaken the public's confidence in a financial institution or the overall banking system. In 2005 and again in 2011, the federal banking agencies raised the level of expectations for online banking by requiring stronger authentication of customers logging into online banking systems.[11] Examiners now evaluate and assess if an institution is in conformance with supervisory guidance relating to the reliable authentication of customers using online banking systems.

Today's IT Examination Process

Today, the FDIC conducts examinations of a financial institution's risk management practices related to ensuring adequate controls for the confidentiality, integrity, and availability of sensitive and critical records, in both electronic and paper form.

[9] See "Mobile Payments: An Evolving Landscape," ***Supervisory Insights***, Winter 2012 at www.fdic.gov/regulations/examinations/supervisory/insights; "Payment Processor Relationships: Revised Guidance," FIL-3-2012, January 31, 2012 at http://www.fdic.gov/news/news/financial/2012/fil12003.html; "Third Party Risk: Guidance for Managing Third Party Risk," FIL-44-2008, June 6, 2008 at http://www.fdic.gov/news/news/financial/2008/fil08044.html; "Foreign-Based Third-Party Service Providers: Guidance in Managing Risks in These Outsourcing Relationships," FIL-52-2006, June 21, 2006 at https://www.fdic.gov/news/inactive-financial-institution-letters/2006/fil06052.html.

[10] 12 CFR 364, Appendix B.

[11] See "Federal Financial Institutions Examination Council Guidance on Authentication in an Internet Banking Environment," FIL-103-2005, October 12, 2005 at https://www.fdic.gov/news/inactive-financial-institution-letters/2005/fil10305.html; "Federal Financial Institutions Examination Council Supplement to Authentication in an Internet Banking Environment," FIL-50-2011, June 29, 2011 at https://www.fdic.gov/news/inactive-financial-institution-letters/2011/fil11050.html.

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IT examinations are conducted by examiners with specialized training in technology risk management. IT examination programs fall into two categories: financial institution examinations and TSP examinations.

The federal banking agencies have published supervisory guidance and examination work programs as part of the FFIEC IT Examination Handbook.[12] The guidance in the Handbook applies to financial institutions and TSPs. The Handbook consists of eleven booklets covering audit, business continuity planning, development and acquisition, e-banking, information security, management, operations, outsourcing technology service providers, retail payment systems, wholesale payment systems, and supervision of technology service providers. These booklets focus on an institution's or TSP's use of effective risk management practices, such as risk assessments, business impact assessments, independent audits, and vendor management.

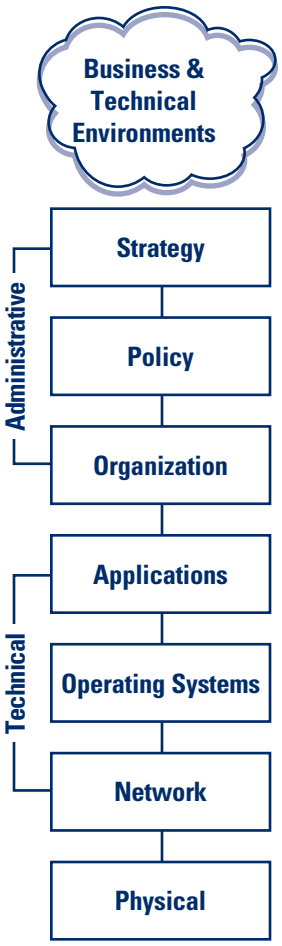
IT examinations are not "one size fits all." When determining the scope of an examination, particularly for community financial institutions, examiners will consider the size and complexity of the institution's IT operations. The FDIC's IT-RMP provides a range of examination levels. IT-RMP does not attempt to examine every institution with the full set of FFIEC IT Examination Handbook work programs. Such an effort would be overwhelming for the examiner and the institution. Instead, the examination scope is based on the complexity of the IT infrastructure, as determined by the results of the Technology Profile Script (TPS) and the financial institution's responses to the IT Officer's Questionnaire, combined with other factors that examiners consider, such as issues identified in the prior examination or cyber incidents that may have occurred since the last examination. Examiners complete the TPS, which yields an overall score reflecting the complexity of the institution's IT infrastructure. The IT Officer's Questionnaire asks a series of questions concerning the financial institution's risk management processes, which the institution answers and returns to the FDIC. These activities help the examiner determine the depth and focus of the examination.

Effective Approaches to IT Risk Management

In addition to assessing and managing risk, the GLBA information security standards provide guidelines on administrative, technical, and physical controls. These may be viewed as the basis for a layered approach to information security and can effectively link enterprise governance and technology governance. Today's Chief Executive Officer should understand how technology and supporting processes enable a financial institution to achieve its business goals. A business decision to enter a new market or offer a new product may hinge on what technology products are available (or need to be created) to achieve that goal. The following are five strategies financial institutions should consider in managing their use of information technologies.

[12] Federal Financial Institutions Examination Council: FFIEC Examination Handbook InfoBase at http://ithandbook.ffiec.gov/it-booklets.aspx.

- Think strategically. Today, it is impossible for financial institutions to implement a new product or service without technology. An institution's information security program should be integrated with its strategic goals and objectives. Security should meet the business need, and vice versa, and should be considered when establishing business cases, budgets, IT project planning, staffing, and policies. Significant events such as changes in partners, systems, or market segments may warrant a strategic review of information security.
- Guide a bank with policies. A financial institution's security strategy and technology should drive the types of policies put in place. Security policies can be written for a variety of technical or administrative subjects. Examples include acceptable-use policies, business continuity policies, information disposal policies, and server configuration policies.
- Control the organization. Organizational controls deal with people and may be thought of as the "human firewall." Whether a financial institution is establishing an information security office at the appropriate level, segregating duties or functions that could result in fraud, training staff about security risks, or conducting background checks, people are the key interface between policies and technology.
- Control the technology. Technical controls generally involve hardware, software, and networks. Finding the best technical control is a balance between security and functionality, and a critical defense against cyber threats. Perimeter security, access



control, configuration management, and intrusion detection are constantly changing. Regulators generally do not require specific technical controls as these could become outdated before they are published. Effective risk assessment should be the guide. Today, information sharing is key to the development and implementation of the most current and effective technical risk controls. Organizations such as the United States Computer Emergency Response Team (US CERT),[13] the Financial Services Information Sharing and Analysis Center

[13] US CERT is the operational arm of the Department of Homeland Security's National Cyber Security Division and leads efforts to improve the nation's cyber security posture.

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(FS-ISAC),[14] and trade associations share information about the latest threats and potential fixes to those threats.

- Don't forget the physical. Physical controls are concerned with the protection of facilities and infrastructure from environmental, human, and systemic threats. These include limiting access to critical or sensitive systems, maintaining adequate inventory, properly disposing of used equipment, and ensuring facilities are resilient from physical threats.

The Future of IT Examinations

Technological innovation allows financial institutions to change the way they do business. However, effective risk management practices often lag these innovations. The FDIC continues to review and evaluate emerging technologies to determine the potential impact on an institution's IT operations.

Moreover, cyber threats are growing, with many threats coming from outside our borders. The future cyber security model for banking must address the bigger picture of how each financial institution maintains stability and security from these new threats. On February 12, 2013, President Obama issued an Executive Order entitled *Improving Critical Infrastructure Cybersecurity*[15] and Presidential Policy Directive 21, *Critical Infrastructure Security and Resilience.*[16] These orders require that a cybersecurity framework be developed for each critical infrastructure sector of the U.S. economy, including financial services, water and wastewater systems, communications, energy, and public health.

The framework developed by the federal bank regulators is an ongoing process and will continue to be evaluated and strengthened over time. In keeping with the spirit of the Executive Order, the FDIC will participate in the development of this new framework in cooperation with the National Institute for Standards and Technology. Through these and other ongoing efforts, the FDIC remains committed to ensuring that IT security standards for financial institutions promote safety and soundness, protect consumers, and continue to allow for business innovation.

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[14] FS-ISAC was established by the financial services sector in response to Presidential Directive 63 which mandated that the public and private sectors share information about physical and cyber security threats and vulnerabilities to protect U.S. critical infrastructure.

[15] The White House, February 12, 2013, http://www.whitehouse.gov/the-press-office/2013/02/12/executive-order-improving-critical-infrastructure-cybersecurity.

[16] The White House, February 12, 2013, http://www.whitehouse.gov/the-press-office/2013/02/12/presidential-policy-directive-critical-infrastructure-security-and-resil.

Overview of Selected Regulations and Supervisory Guidance

This section provides an overview of recently released regulations and supervisory guidance, arranged in reverse chronological order. Press Release (PR) and Financial Institution Letter (FIL) designations are included so the reader can obtain more information.

ACRONYMS and DEFINITIONS	
CFPB	Consumer Financial Protection Bureau
FDIC	Federal Deposit Insurance Corporation
FFIEC	Federal Financial Institutions Examination Council
FRB	Federal Reserve Board
NCUA	National Credit Union Administration
OCC	Office of the Comptroller of the Currency
Federal bank regulatory agencies	FDIC, FRB, and OCC
Federal financial institution regulatory agencies	CFPB, FDIC, FRB, NCUA, and OCC

Subject	Summary
FDIC Hosts Banker Teleconference on FASB Proposal to Change the Accounting for Credit Losses (FIL-18-2013, May 9, 2013)	The Financial Accounting Standards Board (FASB) has issued a proposed Accounting Standards Update that would change recognition and measurement of credit losses for financial and regulatory reporting purposes. The proposal is intended to require more timely recognition of credit losses and adopts an expected credit loss approach that would replace several methods currently used, including the measurement of impairment based on a probable incurred-loss model. The FASB's comment period closed May 31, 2013. The FDIC hosted a free 90-minute teleconference on May 16, 2013, to discuss the proposal with interested bankers. See https://www.fdic.gov/news/inactive-financial-institution-letters/2013/fil13018.html.
FDIC Issues Proposed Guidance on Deposit Advance Products (PR-31-2013, April 25, 2013; Federal Register, Vol. 78, No. 83, p. 25268, April 30, 2013)	The FDIC proposed supervisory guidance to financial institutions it supervises that offer or may consider offering deposit advance credit products. These products are small-dollar, short-term loans that banks make available to customers whose deposit accounts reflect recurring direct deposits. The proposal discusses supervisory expectations for the use of deposit advance products and supplements existing FDIC guidance on payday loans and subprime lending. Comments were due by May 30, 2013. See http://www.fdic.gov/news/news/press/2013/pr13031.html.

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Subject	Summary
Update of Statement of Policy on the Development and Review of Regulations and Policies (*Federal Register*, Vol. 78, No. 74, p. 22771, April 17, 2013)	The FDIC updated its Statement of Policy entitled *"Development and Review of FDIC Regulations and Policies."* The Policy Statement articulates the basic principles that guide the FDIC in its promulgation and review of regulations and written statements of policy. It is being revised to more fully reflect the FDIC's current rulemaking policies and procedures, and take into account various organizational changes since the Policy Statement was adopted in 1998. See http://www.gpo.gov/fdsys/pkg/FR-2013-04-17/pdf/2013-08986.pdf.
Agencies Provide Additional Instructions for Submission of Resolution Plans (PR-27-2013, April 15, 2013)	The FRB and the FDIC announced the release of additional guidance and clarification for the first group of institutions filing their 2013 resolution plans pursuant to the *Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010* (Dodd-Frank Act). Resolution plans were required generally from U.S. bank holding companies with $250 billion or more in total nonbank assets and foreign-based bank holding companies with at least $250 billion in total U.S. nonbank assets. See http://www.fdic.gov/news/news/press/2013/pr13027.html.
FDIC Hosts Banker Teleconference Series (FIL-17-2013, April 9, 2013)	FDIC staff is hosting a series of nationwide banker teleconferences during 2013 to maintain open lines of communication and update bankers on important regulatory and emerging issues in the compliance and consumer protection area, including significant mortgage-related final rules issued by the CFPB. The sessions are free, but registration is required. See http://www.fdic.gov/news/news/financial/2013/fil13017.html.
FDIC Releases Technical Assistance Videos (PR-24-2013, April 3, 2013)	The FDIC announced the release of the first in a series of technical assistance videos to provide information to bank directors, officers, and employees on areas of supervisory focus. The first installment is designed to help prepare new bank directors for their fiduciary role. A second installment, to be released by June 30, 2013, is a virtual version of the FDIC's Directors' College Program, while the third, to be released by year-end, will provide virtual technical training for bank officers and employees. See http://www.fdic.gov/news/news/press/2013/pr13024.html.
Consolidated Reports of Condition and Income for First Quarter 2013 (FIL-16-2013, April 4, 2013; FIL-15-2013, April 2, 2013)	The federal bank regulatory agencies reminded financial institutions to report specific line items that are collected only as of the March 31 report date each year. Institutions also were reminded that the FFIEC has added new Schedule RI-C, Disaggregated Data on the Allowance for Loan and Lease Losses, to the Call Report effective for the first quarter of 2013. The new schedule is applicable to institutions with $1 billion or more in total assets. See https://www.fdic.gov/news/inactive-financial-institution-letters/2013/fil13016.html.
Interagency Statement on the Impact of the Biggert-Waters Flood Insurance Reform Act (FIL-14-2013, March 29, 2013)	The federal bank regulatory agencies, the National Credit Union Administration, and the Farm Credit Administration issued guidance about revisions to the Flood Disaster Protection Act of 1973 (the FDPA), which was amended by the Biggert-Waters Flood Insurance Reform Act of 2012 (Biggert-Waters Act). Provisions of the Biggert-Waters Act involving force-placement of flood insurance and civil money penalties for FDPA violations became effective upon enactment, while other provisions will not become effective until agencies issue implementing regulations. See http://www.fdic.gov/news/news/financial/2013/fil13014.html.

Subject	Summary
Agencies Issue Updated Leveraged Lending Guidance (FIL-13-2013; March 27, 2013; PR-21-2013, March 21, 2013; *Federal Register*, Vol. 78, No. 56, p. 17766, March 22, 2013)	The federal bank regulatory agencies released updated supervisory guidance on leveraged lending, replacing guidance issued in April 2001. Leveraged lending, which declined during the financial crisis but has been increasing since 2009, involves transactions characterized by a borrower with a degree of financial leverage that significantly exceeds industry norms. The updated guidance addresses expectations for the content of credit policies, outlines the need for well-defined underwriting and valuation standards, and reinforces the importance of credit analytics and pipeline management. See http://www.fdic.gov/news/news/financial/2013/fil13013.html.
Electronic Loan Data Request Fields (FIL-12-2013, March 22, 2013; PR-22-2013, March 22, 2013)	To facilitate greater consistency in the data submission process, the federal bank regulatory agencies and the Conference of State Bank Supervisors (CSBS) announced an increase in the number of required loan data fields in the Interagency Loan Data Request (ILDR) from 5 to 30. The agencies had implemented the ILDR in 2002 as a voluntary standard for electronic loan information used in safety and soundness examinations. See http://www.fdic.gov/news/news/financial/2013/fil13012.html.
Agencies Release Proposed Revisions to Interagency Questions and Answers Regarding Community Reinvestment (PR-20-2013, March 18, 2013; *Federal Register*, Vol. 78, No. 52, p. 16765, March 18, 2013)	The federal bank regulatory agencies requested comment on proposed revisions to *"Interagency Questions and Answers Regarding Community Reinvestment."* The *Questions and Answers* document provides additional guidance to financial institutions and the public on the agencies' Community Reinvestment Act (CRA) regulations. The proposed revisions focus primarily on community development. Comments were due by May 17, 2013. See http://www.fdic.gov/news/news/press/2013/pr13020.html.
Appraisal Requirements for Higher-Priced Mortgage Loans and Resources Regarding Other CFPB Mortgage-Related Rulemakings (FIL-11-2013, March 18, 2013)	The FDIC announced the availability of resources addressing important changes to CFPB mortgage-related rules, including the FDIC Regulatory Calendar, the FDIC Banker Teleconference Series, and links on the CFPB Web site. On January 18, 2013, the federal financial institution regulatory agencies and the Federal Housing Finance Agency (FHFA) issued a final rule that establishes new appraisal requirements for higher-priced mortgage loans as defined by the Dodd-Frank Act. See https://www.fdic.gov/news/inactive-financial-institution-letters/2013/fil13011.html.
Proposed Revisions to Consolidated Reports of Condition and Income (Call Report) for 2013 (FIL-8-2013, March 8, 2013)	The federal bank regulatory agencies requested comment on proposed new and revised Call Report data items. The revisions include requests for information on separate deposit products for consumers compared to businesses; information on international remittance transfers; and a listing of trade names that differ from an institution's legal title. Most of the revisions would be implemented as of the June 30, 2013, report date. Some would apply only to institutions with at least $1 billion in total assets or to highly complex institutions. Comments on the proposed revisions were due by April 22, 2013. See https://www.fdic.gov/news/inactive-financial-institution-letters/2013/fil13008.html.

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Subject	Summary
FDIC Approves Proposed Rule on the Definition of "Insured Deposit" at Foreign Branches of U.S. Banks (FIL-7-2013, March 1, 2013; PR-9-2013, February 12, 2013; *Federal Register*, Vol. 78, No. 33, p. 11604, February 19, 2013)	The FDIC Board of Directors approved a Notice of Proposed Rulemaking to clarify that deposits in foreign branches of U.S. banks are not eligible for deposit insurance, although they may qualify as deposits for the purpose of national depositor preference. Comments on the proposed rule were due by April 22, 2013. See http://www.fdic.gov/news/news/financial/2013/fil13007.html.
FDIC and European Commission Meet to Discuss International Resolution Initiatives (PR-13-2013, February 25, 2013)	Representatives of the FDIC and the European Commission met on February 19, 2013, to discuss issues related to the resolution of banks and systemically important financial institutions and deposit insurance regimes. This was the first of several working group sessions scheduled for 2013. See http://www.fdic.gov/news/news/press/2013/pr13013.html.
Deposit Insurance Coverage: Free Nationwide Telephone Seminars for Bank Officers and Employees (FIL-6-2013, February 21, 2013)	The FDIC will conduct 15 free telephone seminars on deposit insurance coverage for bank officers and employees between March 20 and December 3, 2013. Eleven sessions will provide an overview of the rules for determining deposit insurance coverage for all account ownership categories. Four other sessions will focus on the coverage for formal revocable trust accountholders. See http://www.fdic.gov/news/news/financial/2013/fil13006.html.
Modifications to the Statement of Policy for Section 19 of the Federal Deposit Insurance Act (FIL-3-2013, February 8, 2013; *Federal Register*, Vol. 77, No. 243, p. 74847, December 18, 2012)	The FDIC Board of Directors modified the *FDIC Statement of Policy for Section 19 of the Federal Deposit Insurance Act* in an effort to reduce regulatory burden and the number of Section 19 applications. Section 19 prohibits a person convicted of a criminal offense involving dishonesty, breach of trust, money laundering, or who has entered into a pretrial diversion program, from participating in the affairs of an FDIC-insured institution without the prior written consent of the FDIC. The amendment modifies the definition of *de minimis* offenses with respect to maximum potential fines and actual jail time served. See http://www.fdic.gov/news/news/financial/2013/fil13003.html.
FDIC Launches Community Affairs Webinar Series for Bankers (FIL-2-2013, January 24, 2013)	The FDIC launched a webinar series for community bankers. The bimonthly series will highlight strategies for institutions to consider that may complement other efforts to promote community development and expand access to the banking system. The first two webinars were held February 6 and April 18, 2013. See https://www.fdic.gov/news/inactive-financial-institution-letters/2013/fil13002.html.
Agencies Issue Final Rule on Appraisals for Higher-Priced Mortgage Loans (PR-4-2013, January 18, 2013)	The federal financial institution regulatory agencies and the FHFA issued a final rule that establishes new appraisal requirements for "higher-priced mortgage loans." The rule implements amendments to the Truth in Lending Act made by the Dodd-Frank Act, whereby mortgage loans are higher-priced if they are secured by a consumer's home and have interest rates above certain thresholds. See http://www.fdic.gov/news/news/press/2013/pr13004.html.

Subject	Summary
Release of Semiannual Regulatory Agenda (*Federal Register*, Vol. 78, No. 5, p. 1690, January 8, 2013)	The FDIC published items for the fall 2012 *Unified Agenda of Federal Regulatory and Deregulatory Actions*, which contains information about the FDIC's current and projected rulemakings, existing regulations under review, and completed rulemakings. Twice each year, the FDIC publishes an agenda of regulations to inform the public of its regulatory actions and to enhance public participation in the rulemaking process. See http://www.gpo.gov/fdsys/pkg/FR-2013-01-08/pdf/2012-31515.pdf.
Consolidated Reports of Condition and Income for Fourth Quarter 2012 (FIL-54-2012, December 28, 2012)	The federal bank regulatory agencies reminded financial institutions to report specific line items that are collected only as of the December 31 report date each year. Institutions also were reminded that the FFIEC has approved the addition to the Call Report of new Schedule RI-C, Disaggregated Data on the Allowance for Loan and Lease Losses, effective March 31, 2013. The new schedule is applicable to institutions with $1 billion or more in total assets. See https://www.fdic.gov/news/inactive-financial-institution-letters/2012/fil12054.html.
Release of Annual Community Reinvestment Act Asset-Size Threshold Adjustments for Small and Intermediate Small Institutions (FIL-53-2012, December 21, 2012; PR-149-2012, December 19, 2012; *Federal Register*, Vol. 77, No. 246, p. 75521, December 21, 2012)	The federal bank regulatory agencies announced the annual adjustment to the asset-size thresholds used to define "small bank," "small savings association," "intermediate small bank," and "intermediate small savings association" under the CRA regulations. "Small bank" or "small savings association" refers to an institution that, as of December 31 of either of the prior two calendar years, had assets of less than $1.186 billion; and "intermediate small bank" or "intermediate small savings association" refers to an institution with assets of at least $296 million as of December 31 for both of the prior two calendar years and less than $1.186 billion as of December 31 of either of the prior two calendar years. The asset-size threshold adjustments took effect January 1, 2013. See https://www.fdic.gov/news/inactive-financial-institution-letters/2012/fil12053.html.
Joint Report on Differences in Capital and Accounting Standards Among the Federal Banking Agencies (*Federal Register*, Vol. 77, No. 244, p. 75259, December 19, 2012)	The FDIC, OCC, and FRB jointly released their annual report describing differences between the capital and accounting standards used by the agencies. Section 37(c) of the Federal Deposit Insurance Act requires the agencies to submit an annual report to the House Committee on Financial Services and the Senate Committee on Banking, Housing, and Urban Affairs. See http://www.gpo.gov/fdsys/pkg/FR-2012-12-19/pdf/2012-30608.pdf.
FDIC Releases Community Banking Study and Supervisory Initiatives (PR-148-2012, December 18, 2012)	As the outcome of its year-long Community Banking Initiative (CBI), the FDIC released the results of a study of community banking in the United States and a series of supervisory and rulemaking measures relating to community banks. The CBI seeks to further the understanding of the evolution of community banks during the past 25 years. See http://www.fdic.gov/news/news/press/2012/pr12148.html.
FDIC Publishes Money Guide for Young Adults and Teens (PR-145-2012, December 14, 2012)	The FDIC published tips for young adults and teens on saving, managing money, and avoiding financial scams. "For Young Adults and Teens: Quick Tips for Managing Your Money" includes suggestions for parents and caregivers on saving for a child's future and teaching youngsters about money. See http://www.fdic.gov/news/news/press/2012/pr12145.html.

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Subject	Summary
FDIC Releases Survey on How Banks Are Working to Meet the Needs of the Unbanked and Underbanked (PR-144-2012, December 13, 2012)	The FDIC released the results of its 2011 *FDIC Survey of Banks' Efforts to Serve the Unbanked and Underbanked*. The results provide insights into the outreach, education, marketing and retail strategies banks use to meet the needs of underserved consumers. See http://www.fdic.gov/news/news/press/2012/pr12144.html.
FDIC Announces Official Launch of Regulatory Calendar for Community Banks (FIL-51-2012, December 10, 2012)	The FDIC launched an online regulatory calendar to help community banks remain current on changes in federal banking laws, regulations, and supervisory guidance. The FDIC requested feedback from the industry on ways to improve the calendar and has revised it based on a review of the comments received. The updated calendar is available at http://www.fdic.gov/regulations/resources/cbi/calendar.html. See http://www.fdic.gov/news/news/financial/2012/fil12051.html.
Interagency Statement on Section 612 of the Dodd-Frank Act: *Restrictions on Conversions of Troubled Banks* (FIL-50-2012, November 26, 2012)	The federal bank regulatory agencies and the CSBS issued the *Interagency Statement on Section 612 of the Dodd-Frank Act Restrictions on Conversions of Troubled Banks*. Section 612 imposes restrictions on conversions of certain national banks or federal savings associations to state-chartered institutions and conversions of certain state-chartered banks or savings associations to national banks or federal savings associations. The *Interagency Statement* outlines supervisory expectations for conversions covered by the Dodd-Frank Act. See http://www.fdic.gov/news/news/financial/2012/fil12050.html.

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