



Federal Reserve Bank of Boston

Serving Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island and Vermont

CONSUMER AFFAIRS SUPERVISION PROGRAM

Introduction and Overview

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SCOPE

- SMB Supervision Methodology
- CA Impact on BHC Supervision

SMB Supervision Methodology

- Examinations
- Interim Monitoring & Outreach
- Consumer Complaint Investigation

SMB Supervision Methodology - Examinations

- Objective: To effectively and efficiently ensure SMB compliance with consumer protection laws and regulations by conducting regular, timely, and consistent risk-focused examinations
- Risk-focused examinations - direct examination resources to areas within bank that carry the greatest compliance risk

SMB Supervision Methodology - Examinations

- Compliance Risk is determined, generally, by the following factors:
 - Type, variety, and volume of loan and deposit products
 - The nature of risk posed by applicable regulations, considering complexity and potential liability of non-compliance
 - The effectiveness of the bank's compliance management processes in identifying, monitoring, and managing compliance risk

SMB Supervision Methodology - Interim Monitoring

- Interim Monitoring
 - Goal of monitoring is to ensure, from a top-down perspective, that the compliance rating has not changed.
 - Conducted at mid-point of exam cycle, focus on changes to bank's compliance risk profile since the last examination. This includes documenting changes to market, product offerings, and risk management processes.
 - More robust review for small banks (<\$250 Million in Assets), because of examination frequency

SMB Supervision Methodology - Interim Monitoring

- Interim Monitoring - continued
 - Interim Monitoring is intended to be flexible and conducted within the institution's context
 - Under rare circumstances, Interim Monitoring can lead to a full examination
 - For most institutions, monitoring is conducted offsite and through telephone conversations with the bank

SMB Supervision Methodology - Outreach

- Purpose:
 - To promote stronger compliance in a setting separate from the supervisory process; improve the bank's self-compliance and monitoring processes and thereby reduce the risk of regulatory violations

SMB Supervision Methodology - Outreach

- Open forum for bank management and Reserve Bank to discuss any regulatory issues or concern
- Can take any form ranging from a high-level regulatory overviews with senior management to regulatory training of business line personnel
- Conducted on an as needed basis as determined by bank, but typically will be offered once a year

SMB Supervision Methodology - Consumer Complaint Investigation

- Federal Reserve System has statutory responsibilities to investigate consumer complaints against SMBs
- Complaints can be valuable in identifying regulatory violations, although this rarely occurs.
- The Reserve Bank is not an advocate, nor does it take sides - past experience has shown that the Reserve Bank primary role is ensuring that the SMB provide a reasonable and timely response to complainant.

CA Impact on BHC Supervision

- FRB BHC Inspections
- BHC Applications
- Regulation P and Beyond

CA Impact on BHC Supervision- FRB BHC Inspections

- Depository Institution CA Ratings
 - reviewed for every BHC Inspection/BHC Risk Assessment
 - Less than satisfactory compliance ratings (“3” or lower) or other significant compliance issues may be addressed as part of the BHC inspection
 - FRB CA Examiners advise EIC of BHC Inspection regarding CA issues; assist in determining the extent CA issues are addressed as part of the BHC inspection.
 - Less than satisfactory compliance ratings can impact the management component of BHC ratings.

CA Impact on BHC Supervision- BHC Applications

- Applications pursuant to Section 3 of BHCA
 - Generally, compliance becomes a factor in the application process under two circumstances:
 - Less than satisfactory compliance or CRA ratings at depository institution subsidiaries
 - Protests involving compliance or CRA
 - Under either scenario, approval of the application may be delayed until all issues are addressed
 - In some instances, may result in denial of application.

CA Impact on BHC Supervision- BHC Applications

- FHC Certification under Section 4 of BHCA
 - Less than Satisfactory CRA ratings at any depository institution subsidiary precludes approval of FHC Certification or result in revocation of FHC Certification

CA Impact on BHC Supervision- BHC Applications

- Compliance or CRA Application Issues
 - FRB CA staff reviews the issues, including
 - Discussions with primary regulator
 - Nature and extent of problems
 - Sufficiency of the institution's response to the problem
 - Discussions with the institution
 - Institution response to the problem
 - FRB CA staff provides a memorandum to Application specialist, detailing significance of issues and including any recommendations.

CA Impact on BHC Supervision- Regulation P and Beyond

- Regulation P Supervision Program
 - Regulation P implements privacy provisions of GLBA
 - Regulation P applies to SMBs, BHCs and nonbank subsidiaries of BHCs
 - Board is in the process of adopting a program of reviewing for privacy compliance at the BHC level
 - Most likely will only cover BHCs with nonbank subsidiaries
 - May result in a “privacy risk” rating assigned to BHC
 - In certain circumstances FRB CA Examiners may be required to conduct onsite reviews at the BHC and nonbank subsidiary

CA Impact on BHC Supervision- Regulation P and Beyond

- Compliance risk has a direct impact on reputation, operational, and legal risk
- Ongoing Debate: Extent of monitoring compliance risk at the holding company level
 - how much is necessary?
 - what is the role of the FRB, as the regulator of BHCs for reviewing for compliance?
 - Should consumer compliance be a component of BHC Inspection?

CA Impact on BHC Supervision- Regulation P and Beyond

- Impacting the debate:
 - privacy
 - predatory lending
 - FRB role as umbrella supervisor
- Moral: Compliance is a key component of a BHC's risk management program; as such, it is increasingly becoming an important component of the FRB's supervision program for BHCs.

Contact Information

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Questions?

- Questions and Comments