

OCC Update

IBANYS Compliance Conference

April 9th – New York

OCC Mission and Vision

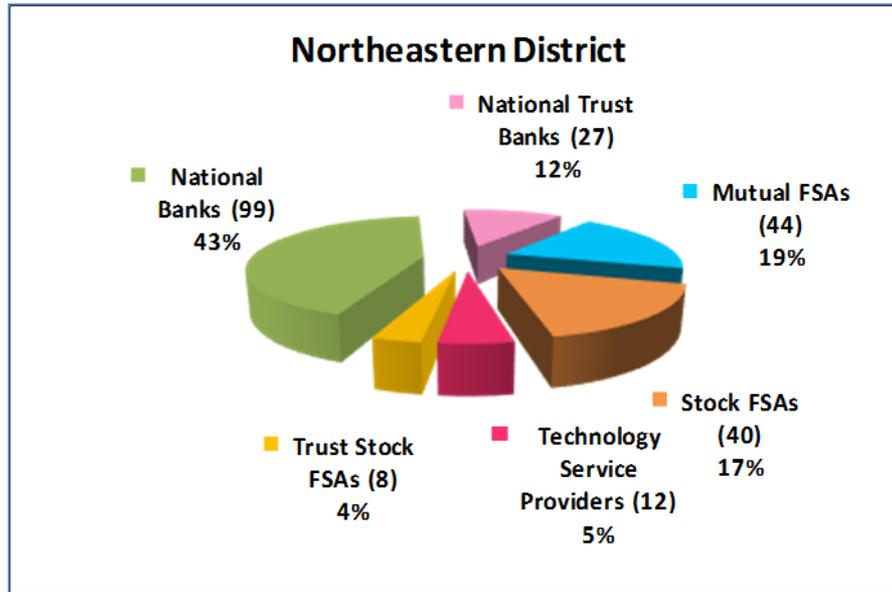
- **Mission** – To ensure that national banks and federal savings associations operate in a safe and sound manner, provide fair access to financial services, treat customers fairly, and comply with applicable laws and regulations.
- **Vision** – The OCC is the preeminent prudential supervisor that
 - adds value through proactive and risk-based supervision;
 - is sought after as a source of knowledge and expertise; and
 - promotes a vibrant and diverse banking system that benefits consumers, communities, businesses, and the U.S. economy.

OCC Supervisory Priorities

- The OCC provides information to supervised institutions so they can manage emerging risks and meet supervisory expectations.
 - The OCC is transparent about its supervisory priorities and publishes its bank supervision operating plan each year.
 - Supervisory strategies for FY 2019 focus on
 - cybersecurity and operational resiliency.
 - commercial and retail credit loan underwriting, concentration risk management, and the allowance for loan and lease losses.
 - Bank Secrecy Act/anti-money laundering (BSA/AML) compliance management.
 - compliance-related change management to address regulatory requirements.
 - internal controls and end-to-end processes necessary for product and service delivery.
 - The OCC's Semiannual Risk Perspective promotes awareness of risks in the banking system. (OCC News Release 2018-131)

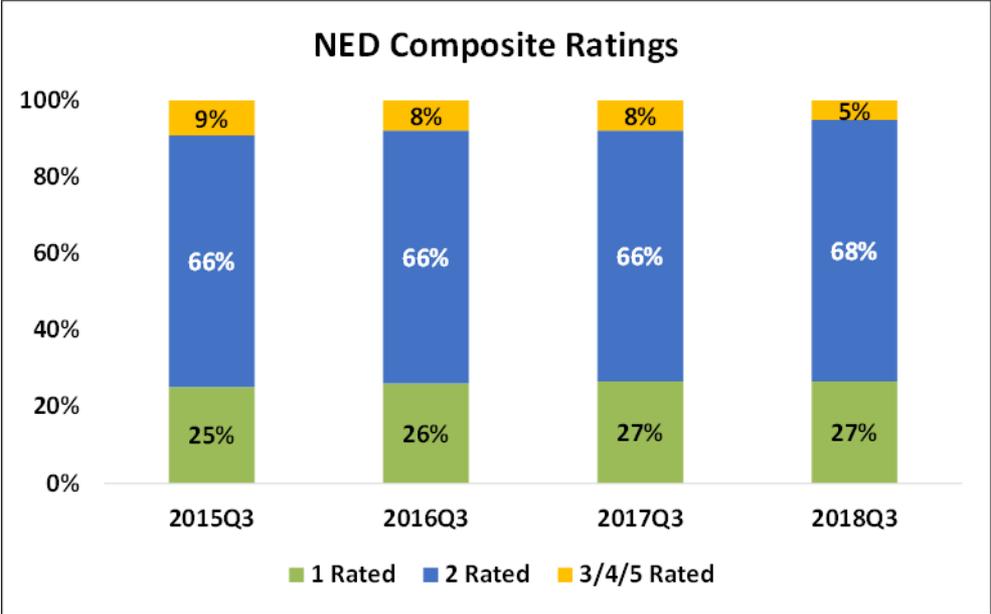
Northeastern District

- The NED is responsible for the supervision of 230 institutions with \$180 billion in assets as of September 30, 2018.



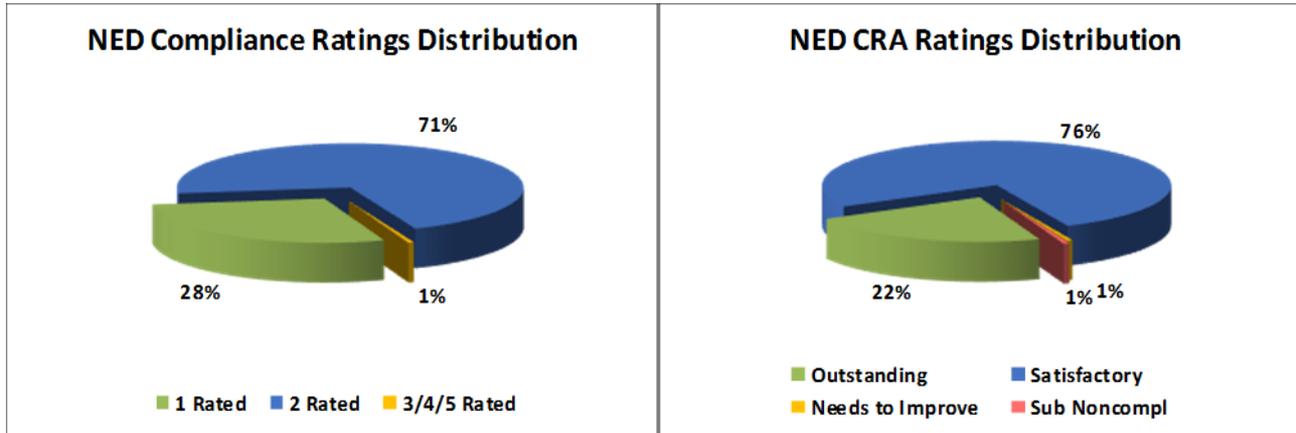
Northeastern District

- The majority of institutions in the district have an overall composite rating of 1 or 2



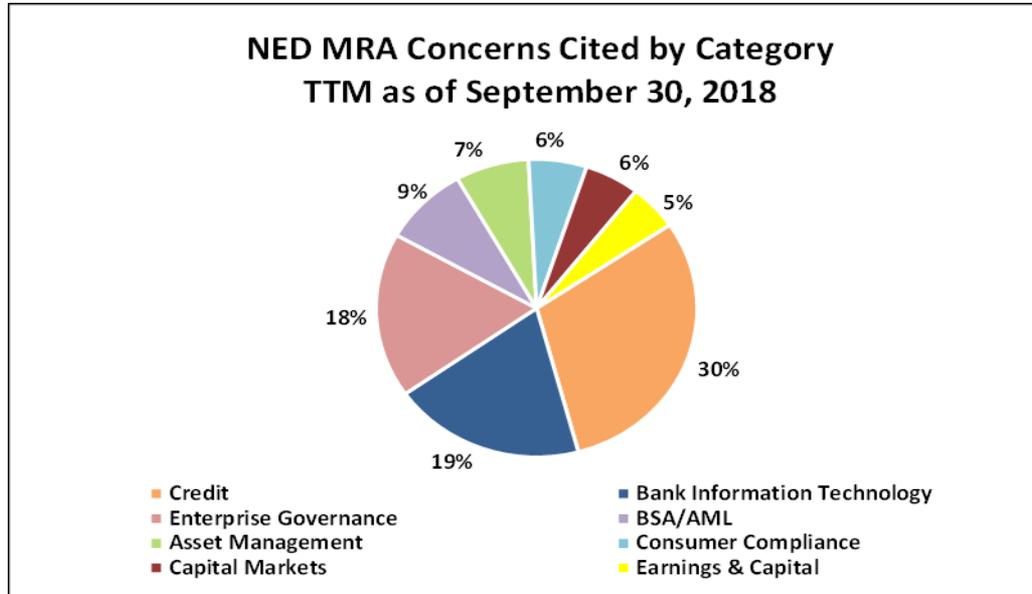
Northeastern District

- The majority of institutions in the district have a compliance component rating and a CRA component rating of 1 or 2



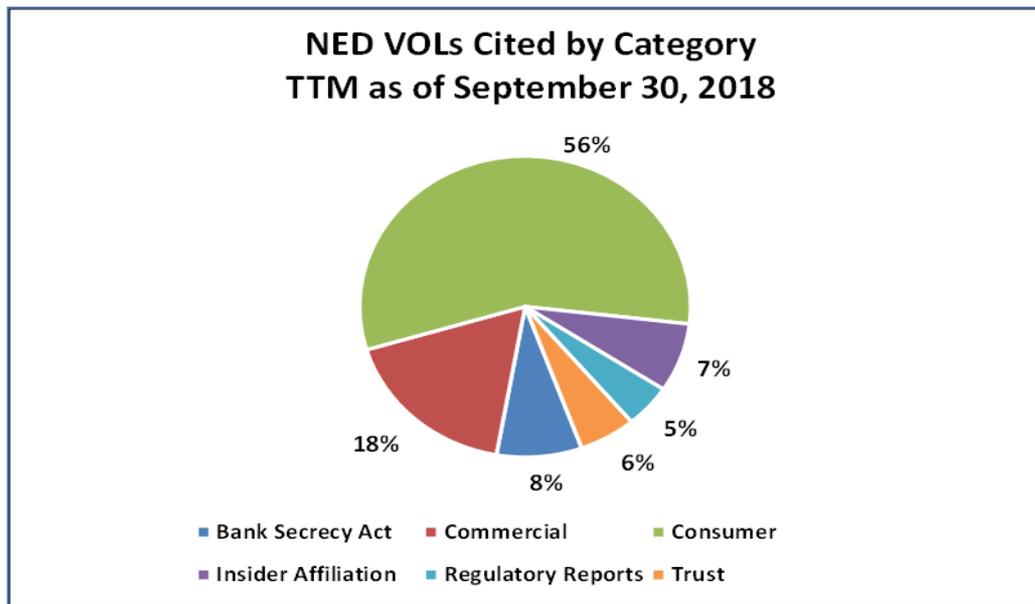
Northeastern District

- The majority of Matters Requiring Attention (MRAs), 30%, are credit related. BSA/AML and compliance related MRAs represent 9% and 6% of the total over the trailing twelve months.



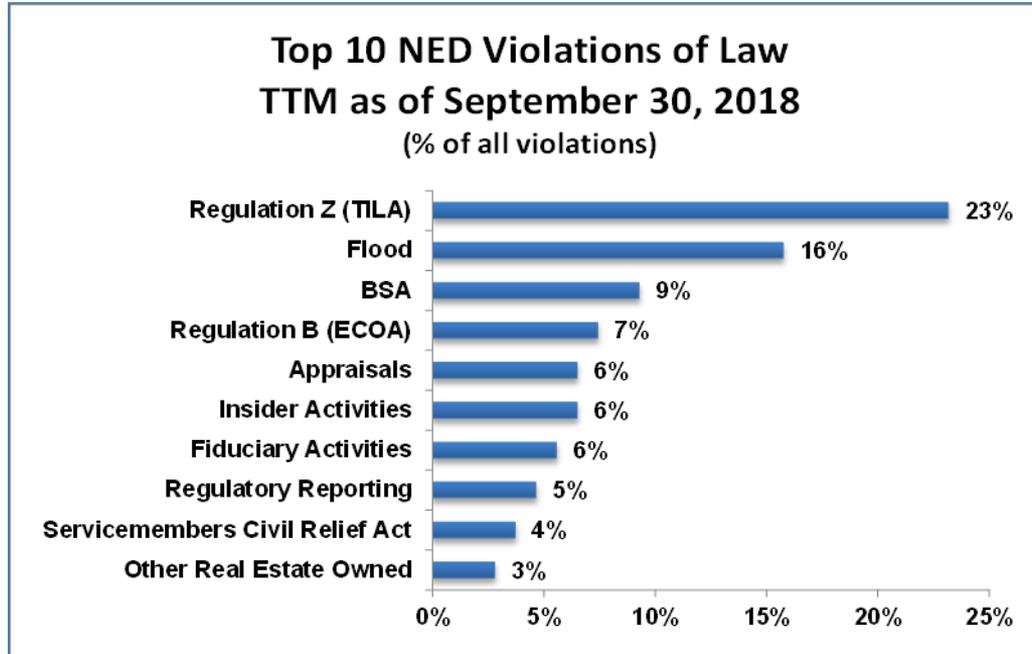
Northeastern District

- Consumer and Commercial VOLs represent the largest categories of violations cited during the TTM period ending September 30, 2018, with 56 percent and 18 percent, respectively.



Northeastern District

- Regulations Z (TILA) was the most frequently cited individual VOL at 23 percent followed by Flood at 16 percent.



Hot Topics

- **Customer Due Diligence/Beneficial Ownership Rule & Fair Credit Reporting Act**
 - Are you pulling credit reports as a verification tool? FCRA limits the purposes for which credit reporting agencies may furnish consumer reports. In cases where the beneficial owner is not also a bank customer, the bank may not have a permissible purpose for obtaining a credit report on the beneficial owner.
- **Marijuana-Related Banking**
 - Although marijuana remains illegal at the Federal level, the decision to provide financial services to customers directly or indirectly involved with marijuana-related businesses in states in which it is permitted is a bank's business decision. The OCC expects banks to assess the risks posed by individual customers on a case-by-case basis and implement appropriate controls to manage those relationships.

Hot Topics

- **Community Reinvestment Act/Fair Lending/HMDA**
 - The OCC issued an advanced notice of proposed rulemaking for CRA. The OCC also issued Bulletin 2018-23, “Revisions to Impact of Evidence of Discriminatory or Other Illegal Credit Practices on CRA Ratings” to outline the policy and framework for determining the effect of evidence of discriminatory or other illegal credit practices on CRA evaluations. In September 2018, CFPB amended certain provisions of the HMDA. The 2018 HMDA Filing Instructions Guide was revised to implement these changes and a 2019 HMDA Getting it Right Guide is now available.
- **Regulation Z**
 - Interagency Examination Procedures were issued covering Regs E/Z and prepaid cards. Includes amendments to Reg Z through April 2016, mortgage servicing amendments effective October 2017 and the Reg Z amendments regarding prepaid cards. Do NOT include 2017 TILA-RESPA rule amendments.

EXAM PROBLEM SPOTS

- **APR calculations for ARM loans**
 - Determine payment schedules for APR calculations using 12 CFR 1026.17(c)
 - Projected payments on LE/CD are worse case scenario and are not used to calculate the APR
 - Use an index current within 45 days of closing
 - LIBOR – scheduled to be phased out by end of 2021
- **Floor rates on ARM loans**
 - Do you use floor rates?? Are they properly disclosed?
 - Check Note terms
 - Check system settings
 - Audit should include ARM adjustments

EXAM PROBLEM SPOTS

- **Good Faith Estimates**
 - Don't disclose annual taxes and insurance amounts when you know those amounts aren't realistic (refinance)
 - Don't estimate high to avoid potential tolerance issues
 - Need to use "good faith estimates"
- **Total of Payments**
 - October 1, 2018 mandatory tolerance of \$100
 - Check vendor calculations – third-party due diligence required
 - Violations belong to the bank, not the vendor

EXAM PROBLEM SPOTS

- **Construction loans**
 - Some clarifications in August 2017 rule
 - Escrows
 - Construction only – no escrow
 - Construction Permanent
 - Entire first column construction only – no escrow
 - If first column contains construction and permanent, include escrow
 - TOP
 - Include interest paid during construction phase

EXAM PROBLEM SPOTS

- **New loan systems**
 - Validate the settings
 - Ensure audit tests
 - Systemic violations may require a portfolio scrub
- **Prepaid Finance Charges**
 - Reg Z 101 – make sure you understand the basics
- **Closing Disclosure – material disclosure**
 - Is your loan rescindable?

Contact Information

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