S&R PERSPECTIVES

The Latest Fifth District Supervision and Regulation News & Events

Winter Issue 08

> I hope you will find this newsletter to be an important tool to better understand the evolving financial markets.
>
> – Mac Alfriend

In The News

Partnership for Progress: A Program for Minority-Owned and *De Novo* Institutions

by Rhiannon Liker

The Federal Reserve Bank of Richmond currently supervises several de novo institutions. Banks that are designated *de novo* – the Latin word for "new" – are start-up banks that have many characteristics of a small business. For instance, to stay viable, they have to compete against established institutions by finding a niche. Some new banks are choosing to focus on a minority market because of the growing minority population. In 2008, a few minority-owned institutions exist in the Fifth District, along with many *de novo* banks. The Federal Reserve System serves many of the approximately 200 minority-owned banks in the country.

Banks designated as minority-owned are institutions in which minorities – hold a simple majority of stock. They are important because they serve the financial needs of underserved communities and growing populations of minorities. However, their

continued on page 2

Emerging Risks

Electronic Payments Strategy – A Foundation for Managing Risk

by Richard Simpson

Many banks - large, regional, and community - are adopting a wide range of new electronic payment products, including mobile banking and remote deposit capture. Financial institutions use these payment products to retain existing customers and to create revenue streams from new product offerings.

Several major trends are driving changes in electronic payments:

- Increasing use and dependency on Internet-based applications;
- Growing complexity of interconnected networks, including wireless and Internet connections;
- Improved functionality of high-capacity, high-resolution digital imaging devices;
- Portable consumer payment tools, such as cell phones equipped with Internet browser access and communications chips;
- Aggressive promotion of electronic payments services by third-party providers;

continued on page 2

Mac's World at the Fed

Welcome to the first edition of S&R Perspectives, a product of the Federal Reserve Bank of Richmond, Banking Supervision and Regulation department. I hope you will find this newsletter to be an important tool to better understand the evolving financial markets. Quarterly, you can expect the latest supervisory news and events in the Fifth District. This newsletter is intended to provide you with a regulatory perspective on current Fifth District market conditions. As our economy becomes increasingly dynamic, clear communication of emerging trends is critical. Market conditions will continue to place emphasis on asset quality, maintaining liquidity, and preserving capital. Articles in this and future editions will discuss these important elements as well as innovative perspectives on other emerging issues. We want to hear from you; as bankers and leaders in the Fifth District, trends you see everyday are the leading indicators of market change. If there is an emerging trend that you would like more information on, please send your story ideas to BKSRCommunications.RICH@rich.frb.org. I look forward to hearing from you.

– Mac Alfriend, Senior Vice President, Banking Supervision and Regulation

In The News · Partnership for Progress: A Program for Minority-Owned and *De Novo* Insitutions (continued from Page 1)

specialization does not always result in profit. As a result, the Financial Institutions, Reform, Recovery, and Enforcement Act of 1989 established goals for regulatory support efforts.

- Preserve the number of minority depository institutions;
- Preserve the minority character in cases of merger or acquisition;
- Provide technical assistance to prevent insolvency of institutions not now insolvent;
- Promote and encourage creation of new minority depository institutions; and
- Provide for training, technical assistance, and educational programs.

The Federal Reserve is committed to helping to ensure the success of minority-owned institutions. In 2008, the Federal Reserve Board of Governors launched the Partnership for Progress program to help promote and preserve minority banks. Through this program, the Fed seeks to increase its direct contact with minority banks, deliver support and guidance, and provide access to electronic tools and resources. To learn more about the Partnership for Progress, visit www.fedpartnership.gov. The Web site has information and guidance on many banking topics organized by the life cycle of a bank; demographic data from the census bureau; minority peer data, arranged by group and asset size; forms, guidance and resources from the Federal Reserve, and an interactive Minority Banking Timeline; along with two videos – an introduction by Fed Chairman Ben Bernanke and a "how-to" for the timeline.
The Fed also seeks to continue to increase its understanding of minority banks, their challenges and the role they play in their communities. As a result, District Coordinators are responsible for ongoing dialogue with District minority-owned institutions to determine their needs and goals, participation in local interagency conferences and workshops, and identification of potential enhancements to the Partnership for Progress program. To contact the Richmond Federal Reserve Partnership for Progress team, email rich.fedpartnership@rich.frb.org or call the District Coordinator, Vice President Gene Johnson, at (804) 697-8228.

Rhiannon Liker is an examiner in the Richmond office. She can be contacted at rhiannon.liker@rich.frb.org.

Emerging Risks · Electronic Payments Strategy – A Foundation for Managing Risk (continued from Page 1)

- Rapid adoption of new technology by banks to achieve expense reductions.

Based on the speed of change and increasing role of non-banks, new payment products are also introducing new risks. Implementation of new products and services should be part of a carefully planned electronic payments strategy. Financial institutions need to take a structured and strategic view of their overall electronic payments program. Consideration must be given to the business, operations, and compliance components of an effective management plan. Successful deployment of new electronic payment products requires the effective use of four operational management processes:

- Consideration of new electronic payments products should be part of a broader payments strategy aligned closely with the bank's technology strategy.
- Execution of the new payment product should involve the bank's technology department, business lines, operations, compliance, and audit functions.
- Strong vendor management is required because of reliance on third party services for underlying technologies used in the emerging payment products.
- All payments channels – check or debit card, ACH, credit card, and online – need to share fraud and risk controls in order to minimize the potential for cross-channel payments fraud.

The payments business contributes significantly to the revenue of most financial institutions. Electronic payments products are a growing part of the retail payments services that banks are very effective in delivering. A well-planned and executed strategy for delivering and controlling all electronic payments provides a foundation for managing risk.

Richard Simpson is a senior IT risk coordinator in the Charlotte office. He can be reached at richard.simpson@rich.frb.org.

In The News

FRB, Bankers Launch Bank Secrecy Act Coalition

by Elaine Yancey

Bankers and regulators from around the Fifth District have joined together to discuss and debate issues related to the Bank Secrecy Act and anti-money laundering efforts. The Bank Secrecy Act Coalition was established to provide a forum to discuss these topics and to seek solutions to common problems. The mission of the BSA Coalition, which held its first meeting in June at the Richmond Federal Reserve Bank (FRB), is to create *consistency* in the application of regulations and guidance surrounding the BSA and anti-money laundering programs, to promote *cooperation* in suggesting changes or improvements to regulations and guidance, and to ensure *communication* of what is developed.

The June meeting featured remarks by Vice Presidents James Barnes and Eugene Johnson of the FRB's Banking Supervision and Regulation Department about the importance of the group's mission. Assistant Vice President Barbara Moss followed with a description of the department's BSA/Fraud Unit and the advisory services it can provide to bankers. Meeting topics ranged from the group's mission statement and goals to BSA issues including stored value cards, money services businesses, and risk assessments.

The second BSA Coalition meeting was held in September in Raleigh, N.C., and featured Susan Vega, a BSA specialist with the Internal Revenue Service. She discussed the challenges facing both banking money service businesses and those of her regulatory agency. Other topics included mobile banking and a regulatory update from the Office of Thrift Supervision. A prototype of the BSA Coalition Web site was also demonstrated. The primary purposes of the web site are to facilitate communication among Coalition members, to publicize upcoming meetings and training opportunities, and to provide contact information for members. The web site will also be available to the public.

The BSA Coalition Advisory Board consists of 10 bankers from institutions with assets of $1 billion or greater. The BSA Coalition Network, which does not require any specific asset size, is also in place and currently has 35 members. Network members will be kept apprised of Advisory Board happenings and events through the BSA Coalition Newsletter. The first two editions of the newsletter were distributed to the group and the Network in August and December and featured the group's purpose, helpful links, information on how to join the Network, as well as several topical articles.

Banker membership in the BSA Coalition is managed by Donna Kitchen, senior executive vice president of Gateway Bank and Trust, and sponsor of the group. As a supervisory examiner with the Richmond FRB, I serve as the BSA Coalition advisor and have been involved in securing regulator membership. Regulators currently represented include those from the Federal Deposit Insurance Corporation, the Office of Thrift Supervision, the Virginia State Corporation Commission, and the North Carolina Commission of Banks. Meetings will be held quarterly and an annual forum is planned for June 17, 2009 at the Richmond FRB for the Advisory Board, Network members, and industry leadership. Information about future meetings and the BSA Coalition annual forum will be published as the events are scheduled. The forum is open to all depository institutions operating within the FRB's Fifth District and will feature speakers from the banking industry and regulatory community.

For copies of the newsletters, or for information about joining the BSA Coalition Network, at no cost, please contact Donna Kitchen at (252) 384-6900 or *donnakitchen@gwfh.com*.

Elaine Yancey is a supervisory examiner in the Fed's Richmond office. She can be contacted at elaine.yancey@rich.frb.org.

Regulatory Resources

Everything Old is New Again? Can covered bonds unlock US mortgage markets?

by Robert E. Carpenter

Falling home prices have led to a stampede of investors away from private-label mortgage-backed securities (MBS). The housing crisis has now imperiled Fannie Mae and Freddie Mac, two mortgage finance giants. These two events have the potential to create a serious funding crunch for mortgage originating banks and prospective home buyers. Can a popular European financing vehicle, covered bonds, reignite a stalled market?

What's a covered bond?

Covered bonds are a type of on-balance-sheet securitization, but with very different features than their more common MBS cousins. The bonds are backed by a specific pool of mortgages ("the cover pool") which, unlike traditional securitizations, is retained on the institution's balance sheet. Instead of receiving the principal and interest payments passed through a trustee, as in a traditional securitization, the coupon payments on a covered bond come from the issuer's general cash flows.

Declining home values and defaulting homeowners have much different effects on covered bonds than on standard MBS. The pool of collateral in a standard MBS is largely fixed. Losses due to default lead to a reduction in the value of the security. In contrast, collateral backing a covered bond must be managed by the issuer. Non-performing assets must be replaced. Investors in MBS also are exposed to prepayment risk when a homeowner refinances or sells. When this happens to a property in a cover pool, the prepaid mortgage is replaced.

If an issuer defaults on a covered bond, investors first have recourse to the cover pool. Should the cover pool be insufficient to satisfy covered bondholders claims, they then become unsecured creditors, a provision sometimes referred to as "dual recourse."

A not-so-new financial innovation

The history of covered bonds dates back to 18th century Prussia, where they were used to finance agriculture. More than 20 countries have regulatory frameworks in place for covered bonds, and Germany continues to be their largest issuer, accounting for roughly 42 percent of outstanding bonds , which amount to approximately € 2.1 trillion. There has not been a default on a covered bond in more than a century.

Infrastructure, and the lack of it, may explain the relative popularity of covered bonds as a mortgage financing vehicle in Europe. More than 20 European countries have a regulatory framework in place for issuing covered bonds. While the Treasury and FDIC have recently developed preliminary policies and best practices, the absence of a U.S. framework increases the costs of a domestic covered bond issue and may have inhibited their use here.

In addition, the existence of several subsidized government sponsored entities (Ginnie Mae, Fannie Mae, Freddie Mac, and the Federal Home Loan Banks) helped to establish a well developed market for the securitization of mortgages, which took the U.S. down a different financial path.

A snapshot of the US covered bond market

Bank of America and Washington Mutual are currently the only two U.S. issuers of covered bonds. Most of the approximately $20 billion outstanding is denominated in Euros, no doubt to take advantage of a highly developed European market.

Available information indicates that the mortgages in cover pools are relatively high quality at the time of issuance. Bank of America's cover pool for their third issuance have loan to value ratios of roughly 70 percent, and FICO scores of 740. More than 80 percent are primary residences, and two-thirds have more than one year's seasoning.[1] These characteristics are consistent with the "originate and hold" model of a covered bond, where issuers retain the credit risk associated with the mortgage.

Some observers have suggested that the U.S. covered bond market may grow to $1 trillion. The Treasury, however, has issued a best practices document which states that covered bonds should account for no more than four percent of an issuer's liabilities. Given the slightly more than $12 trillion in total bank liabilities, this limits the U.S. covered bond market's size to roughly $500 billion.

The new push for covered bonds

There is a strong policy push to develop a covered bond market. Treasury Secretary Henry Paulson, among others, believes that they have the potential to increase mortgage financing. Bank of America, Citigroup, J.P. Morgan Chase, and Wells Fargo all have indicated that they would issue covered bonds. What are their merits?

Mortgages are removed from financial institutions balance sheets when they are securitized and sold to investors. This "originate to distribute" model provides issuers of mortgage-backed securities with poor incentives to monitor the credit quality of borrowers, and appears to have contributed to the current high rates of delinquencies and foreclosures. In contrast, mortgages and the credit risk associated with them remain on the balance sheet of a covered bond issuer, creating better incentives to monitor credit risk.

Covered bonds also may be attractive to investors who would like exposure to mortgages, but have lost some of their appetite for risk in this sector. The managed cover pool combined with the dual recourse provision of covered bonds reduces credit risk relative to mortgage-backed securities.

Finally, the infrastructure that has supported traditional securitization in the U.S. is currently strained. Covered bonds may provide a source of contingent

(continued on Page 5)

Regulatory Resources · Everything Old is New Again? Can covered bonds unlock US mortgage markets?

(continued from Page 4)

funding for home mortgages if private-label MBS markets continue to be frozen and Fannie and Freddie's ability to finance mortgages becomes impaired as a result of their current difficulties.

Covered bonds have a built-in incentive structure that might have helped to prevent the current mortgage crisis. Looking forward, they have the ability to help broaden banks' funding sources for mortgages. In time, they may account for a meaningful proportion of over $1.5 trillion in annual domestic mortgage financing. The current best practices limit of four percent of liabilities will likely prevent covered bonds from becoming the dominant source of mortgage financing. More importantly, the usefulness of covered bonds in helping to unfreeze U.S. mortgage markets depends heavily on investors' demand for an unfamiliar instrument and their desire to expose themselves to a sector where many have been burned badly, a sector where the subsidized government sponsored enterprises are strained, but still functioning. Whether they have that appetite remains an unanswered question.

---

*Robert E. Carpenter is a lead financial economist in the Richmond FRB's Banking Supervision and Regulation Department and an economics professor at the University of Maryland, Baltimore County. He can be reached at **robert.carpenter@rich.frb.org**. FRB Richmond intern David Gearheart assisted with the preparation of this article.*

[1] "BA Covered Bond Issuer (Bank of America's Covered Bond Program)" Standard and Poor's Structured Finance. Information dated May 21, 2007.

> "We want to hear from you; as bankers and leaders in the Fifth District, trends you see everyday are the leading indicators of market change."
>
> – Mac Alfriend

Emerging Risks

Remote Deposit Capture – New Services / New Risks

by Richard Simpson

Financial institutions are rapidly deploying remote deposit capture services. Remote deposit capture – or RDC – refers to the process of electronically capturing check images and data, transmitting that information for deposit and clearing, and truncating the original paper checks. RDC enables commercial customers to scan their own paper checks and transfer their deposit and check image electronically to their banking partner. Businesses gain earlier access to deposited funds; banks reduce operating costs and gain service fees.

More than 4,000 U.S. banks have implemented some level of remote deposit capture. Surveys indicate that 75 percent of U.S. banks will have deployed RDC by 2010. The scope of RDC is evolving to include additional payment types (merchant, corporate, consumer) and capture sites (branch, ATM, customer premise, third party services). The technology used for image capture and storage is also evolving quickly.

Deployment of RDC creates several specific areas of risk accountability for financial institutions offering the services:

- **Contracts** - A comprehensive contract is needed between the bank and its RDC customers covering legal liability and responsibilities of each party. Provisions should be included in the contract for assigning liability, image quality, eligible items, receipt of files, deposit and file limits, deadlines, retention of electronic and physical checks, availability of funds, confidentiality, and termination of services.
- **Fraud** - There are different types of fraud to consider with RDC, whether internal or external. Examples include item replication, data or document altercation, duplicate files, retention of paper check ID theft, and forged endorsements.
- **Fraud mitigation** – Customer selection is an important step in minimizing fraud. Know Your Customer information guidelines should be followed. Other important areas of focus are software/processor selection, fraud filters (pre-transaction, post deposit), and deposit review (deposit monitoring, deposit limits).
- **Information security** – The financial institution is responsible for making certain that the process is secure and protects the information being transferred from unauthorized usage.
- **Controls** – Information technology skills are required to implement, secure and control deployment and operations. Even if a third party supplier provides RDC services the financial institution is accountable to ensure that controls are in place and that technology coordination and training are properly managed.

Remote deposit capture services provide financial institutions an opportunity to reduce costs and generate new revenue. Appropriate management of risk is an essential step to fully achieving potential benefits.

---

*Richard Simpson is a senior IT risk coordinator in the Charlotte office. He can be reached at **richard.simpson@rich.frb.org**.*

Stemming the Financial Crisis

by Donna Thompson and Matthew Soniat

Numerous government initiatives have been undertaken in recent months in response to the unprecedented market disruptions and the severe conditions affecting the entire financial system. The goal of these efforts is to prevent or mitigate serious adverse effects on economic and financial stability and to maintain confidence in the nation's financial institutions and in global financial markets. A blueprint exists which authorizes such actions by the federal government in circumstances involving these types of systemic risks under Section 141 of the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) .

Congress passed the Emergency Economic Stabilization Act of 2008 on Oct. 3, giving the U.S. Treasury the authority to establish a $700 billion Troubled Asset Relief Program (TARP). While legislation granted the Treasury considerable autonomy regarding the allocation of these funds, the original intent was the purchase of illiquid mortgage assets from financial institutions. Also, as part of the Emergency Economic Stablization Act, Congress temporarily raised deposit insurance limits to $250,000 through Dec. 31, 2009. On Oct. 14, the federal government took further actions to strengthen market stability. The secretary of the Treasury announced the Capital Purchase Program, a program within the TARP, to provide capital to eligible institutions. Also, the FDIC issued interim regulations temporarily guaranteeing certain newly-issued senior unsecured debt and fully insuring noninterest bearing transaction accounts. The Federal Reserve announced additional details about its Commercial Paper Funding Facility, allowing the purchase of three-month commercial paper from high-quality issuers. While there were numerous other initiatives undertaken by the federal banking regulatory agencies to address the current disruption, this article will focus on the Treasury's Capital Purchase Plan and the FDIC's Temporary Liquidity Guarantee Program.

TARP Capital Purchase Plan

The TARP Capital Purchase Program was established to encourage eligible U.S. financial institutions to build capital and provide credit to businesses and consumers. Under this voluntary program, the Treasury agreed to purchase up to $250 billion (of the $700 billion TARP) of senior preferred shares from qualifying financial institutions. Within days of the plan's establishment, the aggregate purchase of preferred shares from the nine largest U.S. financial institutions totaled $125 billion and payment has been authorized for several additional applicants. The list of such applicants may be found on the Treasury's Web site at: ***www.treas.gov/initiatives/eesa/transactions.shtml***.

The Treasury altered its strategic direction on Nov. 12, when officials announced that the TARP would no longer be used to purchase troubled assets. This method was judged to be insufficient to overcome the significant challenges posed by a weakening economy and sluggish credit markets. Instead, it was determined that the most timely and effective approach to improving the credit markets was to purchase equity stakes in banks and other non-bank financial institutions, as had been done through the existing Capital Purchase Program. Treasury also announced the exploration of adopting additional programs as well, including the possible matching of private capital flows by the Treasury in an attempt to leverage the impact of a TARP investment.

The deadline for public banks to apply to participate in the Capital Purchase Program expired Nov. 14, while the deadline for private banks was extended to Dec. 8. Participation by other institutions such as S-Corporations and mutual-owned institutions continues to be considered by the Treasury.

FDIC's Temporary Liquidity Guarantee Program

The FDIC's Temporary Liquidity Guarantee Program (TLG) was announced on Oct. 14. This program was designed to preserve confidence and encourage liquidity in the banking system. The program consists of two basic components. One is a temporary guarantee of newly-issued senior unsecured debt (**the Debt Guarantee Program**) and the other is a temporary unlimited guarantee of funds in noninterest-bearing transaction accounts (**the Transaction Account Guarantee Program**) at eligible entities.[1] Eligible institutions had until Dec. 5 to inform the FDIC (via FDIC*connect*) of a decision to opt out of the TLG Program. Institutions could elect to opt out of either the Debt Guarantee Program or the Transaction Account Guarantee Program, or both components of the TLG Program.

The primary purpose of the **Debt Guarantee Program** is to provide liquidity to the inter-bank lending market and promote stability in the unsecured funding market for banks. The Debt Guarantee Program will temporarily guarantee certain newly issued senior unsecured debt, including purchases of federal funds with a maturity greater than 30 days, up to prescribed limits, that is issued by participating entities from Oct. 14, 2008, to June 30, 2009. The final effective date for this liability coverage is June 30, 2012, regardless of whether the liability has matured at that time. Once an institution has reached its prescribed limit, it may not represent that any additional debt is guaranteed by the FDIC. After consultation with a participating entity's appropriate Federal banking agency, the FDIC may, at its discretion, make exceptions to an entity's debt guarantee limit which may include reducing (or exceeding) the prescribed limit and/or imposing other requirements.

On Nov.21, the FDIC adopted the final rule regarding its TLG Program. Any eligible entity that has not chosen to opt out of the debt guarantee program by Dec. 5 will be assessed fees for continued coverage based upon the maturity of the debt. Fees will range

(continued on Page 7)

(continued from Page 6)

from 50 basis points (debt issued with a maturity of 180 days or less) to 100 basis points (debt issued with a maturity of 365 days or greater). Short-term debt maturing in 30 days or less has been eliminated from the debt guarantee program. In addition, the final rule prescribes specific mandatory language for debt issued under the program for both participants and non-participants. If an institution issues debt in excess of its prescribed limit and represents that the debt is guaranteed by the FDIC, the assessment rate charged for all of its guaranteed debt will be an amount that is double the annualized assessment rate otherwise applicable to the maturity of the debt issued. In addition, the participating entity may be subject to enforcement actions including possible termination of participation and the assessment of civil money penalties, as appropriate.

The Transaction Account Guarantee Program provides a temporary full guarantee for non-interest bearing deposits held at FDIC-insured depository institutions above the existing deposit insurance limit of $250,000. Although this unlimited coverage is intended primarily to apply to transaction accounts held by businesses, it applies to all such accounts held by any depositor. In addition, under the final rule, negotiable orders of withdrawal (NOW) accounts with interest rates no higher than .50 percent as well as IOLTA accounts will be protected under the Transaction Guarantee Program. This coverage became effective on Oct. 14, and will continue through Dec. 31, 2009, assuming that the insured depository institution does not opt out of this component of the TLG Program. In addition, the FDIC requires disclosures to be made by all insured depository institutions that offer non-interest bearing transaction accounts. Beginning Dec. 5, insured depository institutions that did not opt out of the Transaction Account Guarantee Program were being assessed (on a quarterly basis) at an annualized 10 basis points on balances in noninterest-bearing transaction accounts that are not otherwise covered (i.e., exceeding the existing deposit insurance limit of $250,000). Again, the full protection for deposits in noninterest bearing transaction deposit accounts would revert back to the statutory limits on December 31, 2009.

The FDIC is pursuing limited changes to the December Call Report, for example, to include the amount and number of noninterest-bearing transaction accounts above the temporary $250,000 limit. Separate reporting will likely be necessary related to the FDIC-guarantee of senior unsecured debt and the FDIC will make those requirements known as soon as they are available.

Donna Thompson is a supervisory examiner specializing in capital markets activites. She can be reached at ***donna.thompson@rich.frb.org****. Matthew Soniat is a Senior Associate examiner.*
Link to FDIC resource: ***www.fdic.gov/regulations/resources/TLGP/index.html***

[1] Eligible entities include: FDIC-insured depository institutions, any U.S. bank holding company or financial holding company, and any U.S savings and loan holding company that either engaged only in activities permissible for financial holding companies to conduct under section (4)(k) of the Bank Holding Company Act of 1956 (BHCA) or had at least one depository institution subsidiary that was the subject of an application that was pending on October 13, 2008, pursuant to section 4©(8) of the BHCA. To be considered an "eligible entity", both bank holding companies and savings and loan holding companies are required to have at least one chartered and operating insured depository institution within their holding company structure. The FDIC will temporarily guarantee newly issued unsubordinated debt in a total amount up to 125% of the par or face value of senior unsecured debt outstanding, excluding debt extended to affiliates, as of September 30, 2008, that is scheduled to mature on or before June 30, 2009. In addition, under the final rule, the FDIC provided an alternative method for establishing a guarantee cap for insured depository institutions that either had no senior unsecured debt outstanding or only had Federal funds outstanding as of September 30th, 2008. Under this alternative method, the FDIC's debt guarantee limit is two percent of the instit tion's consolidated total liabilities as of September 30, 2008.

Reminder: FDICIA 112 Filings Due: March 31, 2009

The FDIC's Final Rule implementing FDICIA 112 Section 36, "Early Identification of the Needed Improvements in Financial Management," became effective July 2, 1993. In general, the rule applies to banks and other insured depository institutions with $500 million or more in total assets as of December 31, 2007. Institutions whose assets exceed $500 million are expected to file a limited set of documents, while those with assets of more than $1 billion have additional filing requirements.

Banks required to file must submit their annual reports to their primary regulator within 90 days of the fiscal year-end. Along with the annual reports, the submission of your CPA's attestation on internal controls and management letter is required. In certain cases, the FDIC rule allows insured depository institutions to satisfy the reporting requirements by filing their annual reports on a consolidated holding company basis. However, the rule does not address the Federal Reserve Board's responsibility as the primary regulator of bank holding companies. Thus, bank holding companies that have institutions subject to the FDIC final rule and guidelines are requested to submit one copy of the required reports to the appropriate Federal Reserve Bank. These reports should be submitted to the Reserve Bank regardless of whether the holding company submitted them on a consolidated basis for their banking subsidiaries, and regardless of the subsidiary bank charter.

Please submit the reports to Business Unit Support in care of Robert Greene at the Federal Reserve Bank of Richmond, Banking Supervision and Regulation Department, P.O. Box 27622, Richmond, Virginia, 23261, by March 31, 2009. For more information: ***www.fdic.gov/news/news/financial/2005/fil11905a.html***

Newsletter Advisory Committee Members

Mac Alfriend
Carolyn Allen
Laura Blanton
Monica Coles
Elizabeth Gress
Meg Johnson
Rhiannon Liker
Ailsa Long
Christin Patel
Winifred Patterson
Mike Riddle
Diane Rose
Richard Simpson
Jim Strader
Donna Thompson
Elaine Yancey

Outreach Calendar

Bank Supervision Community Bankers Forum

Date: March 10, 2009
Location: Greensboro, NC
For more information please email:
BKSRCommunications.rich@rich.frb.org

Credit Markets Symposium

Date: April 2-3, 2009
Location: Charlotte, NC
For more information please email:
Federal_Reserve_Credit_Markets_Symposium@rich.frb.org

New Processes

The Federal Reserve System Eases the Application Submission Process

Most bankers are familiar with the role of bank examiners in fostering a safe and sound banking system. Less well known is the world of regulatory applications in which banking organizations must notify or seek their regulator's approval to engage in new activities, expand through mergers and acquisitions, or establish new branches. These application requirements have come from a long history of banking legislation and encompass a variety of stakeholders.

The Federal Reserve is required to consider certain factors when assessing applications, including the financial condition of the applicant and the company to be acquired, the effectiveness of management, the organization's history of compliance with consumer laws, and any potential anti-competitive effects. Applications often include complex legal documents, which often must be shared with other regulators, and may be provided to the public upon request. As a result, applicants are often astounded by the number of copies and amount of paper they must provide when submitting applications.

The Federal Reserve has taken a major step forward in developing an Internet-based system for electronically submitting application documents in a secure environment. Starting in 2009, banking organizations or authorized representatives, such as law firms or consulting firms, can sign up to use E-Apps. The electronic submission of applications can provide numerous benefits, including a reduction in copying and shipping expenses, as well as a faster and more efficient way of submitting important documents to the Federal Reserve System.

Most applications currently filed by paper submission can be filed electronically including those for bank holding company mergers and acquisitions, nonbanking activities, state member bank mergers, acquisitions and branch expansions, as well as international banking applications.

Each Reserve Bank has a local expert to assist in the use of E-Apps. The Federal Reserve Bank of Richmond's expert is Adam Drimer, he can be reached at (804) 697-8980.

Quick Links

Fifth District Conferences and Events
www.richmondfed.org/conferences_and_events/

Federal Reserve Bank of Richmond
www.richmondfed.org/

Board of Governors
www.federalreserve.gov/

Supervision and Regulation
www.richmondfed.org/banking/supervision_and_regulation/

Bankers Education
www.richmondfed.org/banking/education_for_bankers/