



Supervisory Update News Summary

AS OF SEPTEMBER 15, 2016

| TITLE | TYPE/DATE | DESCRIPTION | SOURCE |
|--|---|--|--------|
| Consumer Financial Protection Bureau Fines Wells Fargo \$100 Million for Widespread Illegal Practice of Secretly Opening Unauthorized Accounts | Press Release Sept. 8, 2016 | The CFPB fined Wells Fargo Bank, N.A. \$100 million for the widespread illegal practice of secretly opening unauthorized deposit and credit card accounts. Spurred by sales targets and compensation incentives, employees boosted sales figures by covertly opening accounts and funding them by transferring funds from consumers' authorized accounts without their knowledge or consent, often racking up fees or other charges. According to the bank's own analysis, employees opened more than two million deposit and credit card accounts that may not have been authorized by consumers. Wells Fargo will pay full restitution to all victims and a \$100 million fine to the CFPB's Civil Penalty Fund. The bank will also pay an additional \$35 million penalty to the OCC, and another \$50 million to the City and County of Los Angeles. | CFPB |
| White Paper Discusses Opportunities for Community Banks to Collaborate | Press Release Sept. 12, 2016 | A new white paper released by the CSBS describes the benefits of collaboration among community banks by pooling human, technological, or compliance resources in order to reduce costs, increase operational efficiencies, and leverage specialized expertise. The white paper, " Shared Resource Arrangements: An Alternative to Consolidation ," identifies a number of ways two or more financial institutions have successfully shared resources to either improve compliance, increase efficiency, or both. | CSBS |
| Governor Abbott Appoints Puente to Finance Commission of Texas | Press Release Aug. 25, 2016 | Governor Greg Abbott has appointed Vince E. Puente, Sr. of Fort Worth to the Finance Commission of Texas for a term set to expire February 1, 2018. Vince E. Puente, Sr. is co-owner and president of marketing and sales for Southwest Office Systems, Inc. He will serve as a public member. The FC is responsible for overseeing and coordinating the TDB, the Department of Savings and Mortgage Lending, and the Office of the Consumer Credit Commissioner and serves as the primary point of accountability for ensuring that state depository and lending institutions function as a system, considering the broad scope of the financial services industry. | TXGov |

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| Banking Department Industry Notice: FFIEC – Banking Regulators Seek Comment on Proposed Small Institution “Call Report” | Industry Notice 2016-08 Aug. 16, 2016 | On August 5, 2016, state and federal banking agencies, as members of the FFIEC, issued a press release seeking comment on the proposed new and streamlined Call Report for small financial institutions. The Department issued Industry Notice 2016-08 to encourage bankers to review this proposal closely and take time to submit comments via the Federal Register for the agencies to consider as part of the process. The agencies request comments on the proposed changes no later than 60 days after the date of their publication in the Federal Register. | TDB |
| Banking Department Industry Notice: Guidance on CFPB Amendments to the Mortgage Rule | Industry Notice 2016-09 Sept. 2, 2016 | <p>The TDB issued Industry Notice 2016-09 to notify bankers of the resources available from the CFPB related to recent mortgage rule changes.</p> <p>The Industry Notice includes a copy of a letter from CFPB Director Cordray recapping the results of a meeting in April with TDB Commissioner and CSBS Chairman Charles G. Cooper and members of the Texas banking community to discuss recurring questions among bankers about the CFPB's mortgage rules. (This letter is included in the Industry Notice.)</p> <p>During the April meeting, the CFPB was asked to provide a letter to CSBS to provide clarity about the mortgage rules, similar to a letter the CFPB sent to the state industry trade associations. This letter is included in the Industry Notice.</p> <p>The CFPB has made several resources available to help navigate through the changes to the mortgage rule, including a factsheet, an executive summary of the interim final rule that was issued in March, and a qualified mortgage flow chart designed for small creditors. All of which are included in the Industry Notice.</p> | TDB |
| Texas Administrative Code Amended – Title 7, Part 2, Chapter 11 Regarding Consumer Complaint Notices | Rule Amendment 7 TAC §11.37 Sept. 8, 2016 | The FC, on behalf of the TDB, adopted an amendment to §11.37, concerning the form of consumer complaint notices. The amendment allows consumer complaint notices to be in a form that is substantially similar to the current required notice. Currently, §11.37(b) provides a form consumer complaint notice that must be duplicated exactly when the notice is required to be communicated to consumers. The amendment to §11.37(b) states that this consumer complaint notice must only substantially conform to the form complaint notice that is currently provided by §11.37(b). This allows an entity that is required to communicate the notice to make non-substantive changes to the notice, as might be necessary by the context or formatting in which it is being provided. | TDB |

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| <p>FDIC's <i>Supervisory Insights</i> Summer Edition Focuses on De Novo Formation</p> | <p>PR-70-2016 Aug. 22, 2016</p> | <p>The FDIC's Summer 2016 issue of Supervisory Insights includes the article, "<i>De Novo</i> Banks: Economic Trends and Supervisory Framework." The article provides an overview of trends in <i>de novo</i> formation; the process by which the FDIC reviews applications for deposit insurance; the supervisory process for <i>de novo</i> institutions; and steps the FDIC is taking to support <i>de novo</i> formations.</p> <p>Also included is the article, "'Matters Requiring Board Attention' Underscore Evolving Risks in Banking." The article discusses how the Matters Requiring Board Attention (MRBA) page within the Risk Management Report of Examination is used to focus the attention of bank management and the directors on issues and recommendations that, if addressed early, will reduce the likelihood that those institutions will experience serious adverse effects in the identified areas. The article describes the MRBA categories cited most often in 2014 and 2015, and highlights trends in these categories that can provide an overview of risks that may be developing within the industry.</p> <p>The "Regulatory and Supervisory Roundup" section provides an overview of recently released regulations and supervisory guidance.</p> | <p>FDIC</p> |
| <p>The FDIC Offers Tips on Choosing and Using the Right Bank Account</p> | <p>PR-71-2016 Aug. 22, 2016</p> | <p>The latest <i>FDIC Consumer News</i> features simple tips on how to choose and manage a checking or savings account wisely. The Summer 2016 edition also has articles on depositing a check using a smartphone or tablet, avoiding credit and debit card frauds, and preparing financially for a flood, fire or other disaster.</p> | <p>FDIC</p> |
| <p>FDIC Makes Public July Enforcement Actions</p> | <p>PR-72-2016 Aug. 26, 2016</p> | <p>The FDIC released a list of orders of administrative enforcement actions taken against banks and individuals in July. One administrative hearing is scheduled for September 2016. Actions included:</p> <p><i>Removal/Prohibition Order</i> Laurie Mayfield, D'Hanis State Bank, Hondo, TX, Issued 7/11/2016</p> <p><i>Hearing Notice</i> In the Matter of Cornelius Campbell Burgess, FDIC-14-0307(e),FDIC-14-0308(k), Herring Bank, Amarillo, Texas; Hearing Date 9/13/2016, Dallas TX</p> | <p>FDIC</p> |

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| <p>Net Income Rises to \$43.6 Billion at FDIC-Insured Institutions in Second Quarter 2016</p> | <p>PR-73-2016 Aug. 30, 2016</p> | <p>Financial results for the second quarter of 2016 are included in the FDIC’s latest <i>Quarterly Banking Profile (QBP)</i>. Of the 6,058 insured institutions reporting second quarter financial results, 60.1% reported year-over-year growth in quarterly earnings. The proportion of banks that were unprofitable in the second quarter fell to 4.5% from 5.8% a year earlier. This is the lowest percentage since the first quarter of 1998.</p> <p>Highlights from the QBP include:</p> <ul style="list-style-type: none"> • Net Income of \$43.6 Billion in the Second Quarter of 2016 Is Up \$584 Million (1.4%) From Year Earlier • Loan Loss Provisions Increased by \$3.6 billion (44.2%) Compared To Year Ago, Partly in Response to Rising Levels of Troubled Loans to Commercial and Industrial Borrowers, Particularly in the Energy Sector. • Community Banks Post Strong Growth in Lending and Revenues • Net Operating Revenue of \$179.3 Billion Is 3.3% Higher Than a Year Ago • Loan Balances Increased by \$182 Billion During the Quarter • Noncurrent Commercial and Industrial Loans Rose Again, While Total Noncurrent Loan Balances Declined During the Quarter • “Problem List” Continues to Shrink • Deposit Insurance Fund’s Reserve Ratio Surpasses 1.15% Benchmark | <p>FDIC</p> |
| <p>Almost All Community Banks' Assessment Rates Decline as Deposit Insurance Fund Surpasses Milestone</p> | <p>PR-74-2016 Aug. 30, 2016</p> | <p>More than nine out of 10 small banks are likely to pay less for deposit insurance beginning in the current quarter. The reduction in assessments will occur because the reserve ratio--the amount in the Deposit Insurance Fund (DIF) to insured deposits--reached 1.17% at the end of June. That was the highest level in more than eight years, and marks a significant milestone for the DIF, which fell into negative territory following the recent financial crisis.</p> <p>Assessment rates are expected to decline by about one-third for 93% of institutions with less than \$10 billion in assets.</p> <p>Also refer to FIL-58-2016</p> | <p>FDIC</p> |

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| FDIC Issues List of Banks Examined for CRA Compliance | PR-76-2016 Sept. 2, 2016 | The FDIC issued its list of state nonmember banks recently evaluated for compliance with the CRA. The list covers evaluation ratings that the FDIC assigned to institutions in June 2016. All the state-chartered banks in Texas evaluated during this period received Satisfactory ratings. | FDIC |
| FDIC Announces New Members for the Advisory Committee on Community Banking | PR-77-2016 Sept. 2, 2016 | <p>The FDIC announced the selection of eight new members for its Advisory Committee on Community Banking, which has been providing advice and recommendations to the FDIC on a broad range of community bank policy and regulatory matters since it was established in 2009. The Advisory Committee members represent a cross-section of community bankers from around the country.</p> <p>One of the new members is Asif Dakri, Vice Chairman & CEO, Wallis State Bank, Houston, Texas.</p> | FDIC |
| Agencies Issue Study on Banking Activities and Investments | PR-79-2016 Sept. 8, 2016 | <p>The FRB, the FDIC, and the OCC released a report to the Congress and the Financial Stability Oversight Council on the activities and investments that banking entities may engage in under applicable law.</p> <p>Section 620 of the Dodd-Frank Act required the federal banking agencies to conduct the study and report to Congress on the types of activities and investments permissible for banking entities, the associated risks, and how banking entities mitigate those risks. For the purpose of this study, banking entities include insured depository institutions and any company that controls an insured depository institution or is treated as a bank holding company under the International Banking Act of 1978. The study also covers any affiliate or subsidiary of such companies.</p> | FDIC FRB OCC |

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| <p>FDIC Unveils Resources to Help Community Bankers Learn More about Affordable Mortgage Programs</p> | <p>PR-81-2016 Sept. 15, 2016</p> | <p>The FDIC published a guide and launched an online resource center to help community bankers learn more about single-family housing products offered by federal agencies and government-sponsored enterprises.</p> <p><i>The Affordable Mortgage Lending Guide, Part I: Federal Agencies and Government Sponsored Enterprises</i>, organizes information about single-family mortgage products from federal agencies and government sponsored enterprises and provides technical assistance for community banks on affordable mortgage credit options. Bankers can use this guide as a resource to gain an overview of a variety of program resources, to compare different products, for information on CRA implications, and to help identify the next steps for program participation.</p> <p>In addition to the publication, the FDIC launched the Affordable Mortgage Lending Center, an online resource center featuring data, fact sheets, and mortgage lending studies from the FDIC and other federal resources.</p> <p>Also refer to FIL-60-2016.</p> | <p>FDIC</p> |
| <p>Ability-to-Repay and Qualified Mortgages Rule Videos Updated</p> | <p>FIL-56-2016 Aug. 17, 2016</p> | <p>The FDIC updated technical assistance videos on the Ability-to-Repay and Qualified Mortgages Rule. The updated videos provide financial institution management, compliance officers, and staff with resources for a better understanding of the current requirements of the Ability-to-Repay and Qualified Mortgages Rule.</p> | <p>FDIC</p> |
| <p>Federal Reserve Board Announces it Will Seek \$1.2 Million Fine and Permanent Ban on Employment in the Banking Industry Against Foreign Exchange (FX) Trader</p> | <p>Press Release Aug. 29, 2016</p> | <p>The FRB will seek a \$1.2 million fine and a permanent ban on employment in the banking industry in an enforcement action against Christopher Ashton, a former FX trader at Barclays PLC. Ashton is alleged to have used electronic chat rooms to coordinate FX trading, facilitate manipulation of FX pricing benchmarks, disclose confidential customer information to traders at other organizations, and engage in other unsafe and unsound practices.</p> | <p>FRB</p> |

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| Financial Regulators Release Revised Information Security Booklet | Press Release Sept. 9, 2016 | <p>The FFIEC members issued a revised <i>Information Security</i> booklet, which is part of the <i>FFIEC Information Technology Examination Handbook</i> (IT Handbook).</p> <p>The booklet provides an overview of information security operations, including the need for effective (1) threat identification, assessment, and monitoring and (2) incident identification, assessment and response. It discusses methods to achieve and assess information security program effectiveness, including assurance and testing. It also incorporates cybersecurity concepts, such as threats, controls, and resource requirements for preparedness. The booklet contains updated examination procedures to help examiners measure the adequacy of an institution's culture, governance, information security program, security operations, and assurance processes.</p> <p>The IT Handbook is available at http://ithandbook.ffiec.gov/.</p> | FFIEC |

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| <p>FASB Issues Accounting Standards Update 2016-15 – Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments</p> | <p>ASU 2016-15 August 2016</p> | <p>The FASB issued an ASU to reduce the diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows under Topic 230, Statement of Cash Flows, and other Topics. This Update addresses eight specific cash flow issues:</p> <ul style="list-style-type: none"> • Debt Prepayment of Debt Extinguishment Costs; • Settlement of Zero-Coupon Debt Instruments or Other Debt Instruments with Coupon Interest Rates that are Insignificant in Relation to the Effective Interest Rate of the Borrowing; • Contingent Consideration Payments Made after a Business Combination; • Proceeds from the Settlement of Insurance Claims; • Proceeds from the Settlement of Corporate-Owned Life Insurance Policies, Including Bank-Owned Life Insurance Policies; • Distributions Received from Equity Method Investees; • Beneficial Interests in Securitization Transactions; and • Separately Identifiable Cash Flows and Application of the Predominance Principle. <p>The amendments in this Update are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019.</p> | <p>FASB</p> |
| <p>FinCEN Issues Advisory to Financial Institutions on E-Mail Compromise Fraud Schemes</p> | <p>Advisory FIN-2016-A003 Sept. 6, 2016</p> | <p>FinCEN issued an advisory to help financial institutions guard against a growing number of e-mail fraud schemes in which criminals misappropriate funds by deceiving financial institutions and their customers into conducting wire transfers. This advisory also provides red flags—developed in consultation with the FBI and the U.S. Secret Service—that financial institutions may use to identify and prevent such e-mail fraud schemes. Business E-mail Compromise (BEC) and E-mail Account Compromise (EAC) schemes are among the growing trend of cyber-enabled crime adversely affecting financial institutions. Since 2013, there have been approximately 22,000 reported cases of BEC and EAC fraud involving \$3.1 billion.</p> | <p>FinCEN</p> |

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| NACHA Announces Approval of Rule that Establishes Third-Party Sender Registration Requirements | Press Release Aug. 22, 2016 | <p>The Electronic Payments Association® announced that a new rule was approved that will require Originating Depository Financial Institutions (ODFIs) to identify and register their Third-Party Sender customers. The registration process will promote consistent customer due diligence among all ODFIs, and serve as a tool to support NACHA's continuing efforts to maintain ACH Network quality.</p> <p>In the ACH Network, a Third-Party Sender is a processing intermediary between a financial institution and an end-user of ACH payments. The Third-Party Sender Registration Rule, which becomes effective Sept. 29, 2017, will require ODFIs to provide a limited set of initial, basic registration information, such as name of business and contact information, for each Third-Party Sender with which it maintains a relationship. ODFIs that do not maintain any Third-Party Sender relationships will be required to provide a statement to that effect.</p> | NACHA |
| Bank Accounting Advisory Series Updated | NR 2016-96 Aug. 18, 2016 | <p>The OCC released an update to the Bank Accounting Advisory Series (BAAS). This update includes recent answers to frequently asked questions from the industry and examiners covering areas such as contingencies, and fair value accounting.</p> <p>The BAAS does not represent official rules or regulations of the OCC. Rather, it represents the OCC's Office of the Chief Accountant's interpretations of generally accepted accounting principles and regulatory guidance based on the facts and circumstances presented.</p> | OCC |
| OCC Enforcement Actions and Terminations for August 2016 | NR 2016-97 Aug. 19, 2016 | <p>The OCC released new enforcement actions taken against national banks, federal savings associations, and individuals currently and formerly affiliated with national banks and federal savings associations. Included was one action related to an entity in Texas:</p> <p><i>Cease and Desist Orders</i> Business Bank of Texas, National Association, Austin issued 7/20/2016</p> | OCC |

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| OCC Releases Bank Supervision Operating Plan for Fiscal Year 2017 | NR 2016-112 Sept. 14, 2016 | <p>The OCC Operating Plan provides the foundation for policy initiatives and for supervisory strategies as applied to individual banks. OCC staff members use this plan to guide their supervisory priorities, planning, and resource allocations. The plan outlines the supervisory priorities for the National Risk Committee, Large Bank Supervision, Midsize and Community Bank Supervision, Compliance and Community Affairs, the supervision of technology service providers, and the Office of the Chief National Bank Examiner.</p> <p>Supervisory strategies for FY 2017 focus on:</p> <ul style="list-style-type: none"> • Commercial and retail loan underwriting; • Business model sustainability and viability; • Operational resiliency; • BSA/AML compliance management; and • Change management to address new regulatory requirements. | OCC |
| Treasury Releases Joint Fact Sheet on Anti-Money Laundering and Sanctions Enforcement | Press Release Aug. 30, 2015 | The U.S. Department of the Treasury released a Joint Fact Sheet on Foreign Correspondent Banking developed with the FRB, the FDIC, the NCUA, and the OCC that outlines supervisory and enforcement processes with respect to anti-money laundering and sanctions in the area of correspondent banking. | Treasury FRB FDIC OCC NCUA |

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| INDUSTRY PUBLICATIONS |
|---|
| <u>FDIC Quarterly Banking Profile</u> – Second Quarter 2016 |
| <u>FDIC State Profiles</u> – Second Quarter 2016 |
| <u>FDIC Supervisory Insights – Summer 2016</u> |
| FFIEC Reports - <u>Findings from Analysis of Nationwide Summary Statistics for 2015 Community Reinvestment Act Data Fact Sheet (August 2016)</u> Data on small business, small farm, and community development lending |
| FRB <u>Beige Book</u> – September 7, 2016 |
| FRB FedLinks Bulletin - <u>Confidential Supervisory Information</u> – August 2016 |
| <u>FRB Community Bank Connections</u> – Second Issue 2016 Examiners' View: A Fiduciary's Responsibilities for Unique and Special Assets Less Risky Business: An Overview of a New Cybersecurity Assessment Tool The Federal Reserve's Discount Window: What It Is and How It Works |
| FRB Dallas <u>Southwest Economy</u> – Third Quarter 2016 |
| FRB Dallas <u>Economic Indicators</u> – Austin, DFW, El Paso, Houston, Permian Basin, San Antonio, and Texas |

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| OTHER RESOURCES |
|---|
| Bloomberg Business and Financial News |
| Consumer Financial Protection Bureau (CFPB) |
| The Financial Forecast Center - Discount Rate Information |
| FFIEC Information Technology Handbook InfoBase |
| FFIEC BSA/AML Examination Manual InfoBase |
| Financial Accounting Standards Board (FASB) |
| Financial Action Task Force (FATF) |
| Financial Crimes Enforcement Network (FinCEN) |
| FinCEN - Money Services Businesses (MSB) |
| Office of Foreign Assets Control, U.S. Treasury (OFAC) |
| Real Estate Market Reports (Texas A&M RE Center) |
| Temporary Liquidity Guarantee Program |
| Texas Constitution and Statutes |
| The Texas Economy – Texas Comptroller |
| Texas and National Economy – Federal Reserve Bank of Dallas |
| Troubled Asset Relief Program (TARP) |
| Uniform Bank Performance Reports (UBPR) and Users Guide |

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ACRONYMS AND ABBREVIATIONS

| ACRONYM/ABBREVIATION | MEANING |
|----------------------|---|
| ASU | Accounting Standards Update |
| AML | Anti-Money Laundering |
| BSA | Bank Secrecy Act |
| CFPB | Consumer Financial Protection Bureau |
| CFR | Code of Federal Regulations |
| CRA | Community Reinvestment Act |
| CRE | Commercial Real Estate |
| CSBS | Conference of State Bank Supervisors |
| DOJ | Department of Justice |
| Dodd-Frank Act | The Dodd-Frank Wall Street Reform and Consumer Protection Act |
| FCA | Farm Credit Administration |
| FDIC | Federal Deposit Insurance Corporation |
| FRB (or Fed or FR) | Federal Reserve Board |
| FFIEC | Federal Financial Institutions Examination Council |

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| ACRONYM/ABBREVIATION | MEANING |
|-----------------------------|---|
| FHFA | Federal Housing Finance Agency |
| FHA | Federal Housing Authority |
| FC | Finance Commission of Texas |
| FASB | Financial Accounting Standards Board |
| FinCEN | Financial Crimes Enforcement Network |
| FTC | Federal Trade Commission |
| HUD | Housing and Urban Development Department |
| NCUA | National Credit Union Association |
| OCC | Office of the Comptroller of the Currency |
| OFAC | Office of Foreign Asset Control |
| OIG | Office of Inspector General |
| SEC | Securities and Exchange Commission |
| SDN | Specially Designated National |
| TDB | Texas Department of Banking |
| Treasury | U.S. Department of Treasury |