



Supervisory Update News Summary

AS OF JULY 15, 2017

TITLE	TYPE/DATE	DESCRIPTION	SOURCE
CFPB Issues Rule to Ban Companies from Using Arbitration Clauses to Deny Groups of People Their Day in Court	News Release July 10, 2017	<p>The CFPB announced a new rule to ban companies from using mandatory arbitration clauses to deny groups of people their day in court. Many consumer financial products like credit cards and bank accounts have arbitration clauses in their contracts that prevent consumers from joining together to sue their bank or financial company for wrongdoing. By forcing consumers to give up or go it alone – usually over small amounts – companies can sidestep the court system, avoid big refunds, and continue harmful practices. The CFPB’s new rule will deter wrongdoing by restoring consumers’ right to join together to pursue justice and relief through group lawsuits.</p> <p>The Dodd-Frank Act required the CFPB to study the use of mandatory arbitration clauses in consumer financial markets. Congress also authorized the Bureau to issue regulations that are in the public interest, that are for the protection of consumers, and which are based on findings that are consistent with the Bureau’s study of arbitration.</p>	CFPB

SUPERVISORY UPDATE NEWS SUMMARY

TITLE	TYPE/DATE	DESCRIPTION	SOURCE
CFPB Announces New Advisory Board and Council Members	News Release July 7, 2017	<p>The CFPB announced the appointment of new consumer experts from outside the federal government to the Consumer Advisory Board, Community Bank Advisory Council, Credit Union Advisory Council, and Academic Research Council. The four bodies provide advice to CFPB leadership on a broad range of consumer financial issues and emerging market trends.</p> <p>The newly appointed advisory group members include experts in consumer protection, financial services, community development, fair lending, civil rights, consumer financial products or services, representatives of community banks and credit unions, and scholars with relevant methodological and subject matter experience. The expertise and institutional-size diversity among advisory group members reflects the range of issues under the Bureau’s jurisdiction as well as the racial, ethnic and geographic diversity of U.S. consumers. New members to the Consumer Advisory Board and Academic Research Council will serve three-year terms and new members to the Community Bank and Credit Union Advisory Councils will serve two-year terms. The new members to the Community Bank Advisory Council Members are:</p> <ul style="list-style-type: none"> • Richard H. Harvey, Jr., Senior Vice President and Chief Compliance Officer, Colonial Savings F.A., Fort Worth, Texas • Max S. Yates, Senior Executive Vice President and Chief Risk Officer, Bank Plus, Ridgeland, Miss. 	CFPB

SUPERVISORY UPDATE NEWS SUMMARY

TITLE	TYPE/DATE	DESCRIPTION	SOURCE
<p>State Regulators Call for an End to One-Size-Fits-All Bank Regulation</p>	<p>Press Release June 22, 2017</p>	<p>Given the important role community banks perform in the U.S. economy, state regulators recommended regulatory reforms that are appropriate for smaller, less complex banks that do not pose systemic risk.</p> <p>At a hearing of the U.S. Senate Committee on Banking, Housing and Urban Affairs, Charles G. Cooper, commissioner of the Texas Banking Department and immediate past chairman of the CSBS, provided testimony which included recommendations for four key changes:</p> <ul style="list-style-type: none"> • Adopting an activities-based definition for community banks, which lawmakers and regulators can use to exempt smaller banks from regulations aimed at larger banks • Reducing the complexity of capital rules for smaller banks • Exempting from certain regulations community banks that retain mortgages in portfolio • Improving the transparency and timeliness of fair lending <p>Speaking on behalf of state regulators who oversee 78 percent of U.S. banks, Cooper called on Congress to abandon a one-size-fits-all approach to bank regulation and, instead, tailor regulations to different kinds of banks supervision.</p>	<p>CSBS</p>

SUPERVISORY UPDATE NEWS SUMMARY

TITLE	TYPE/DATE	DESCRIPTION	SOURCE
<p>State Regulators and U.S. Secret Service Issue Industry Best Practices for Combating Cyber Crime</p>	<p>Press Release June 28, 2017</p>	<p>State bank regulators, jointly with the U.S. Secret Service, released banker best practices for managing risks related to certain cyber threats. The best practices were developed by the Bankers Electronic Crimes Task Force, which includes bank CEOs and executive officers from banks across the U.S. In the best practices, the bankers identified four cyber threats that warrant continued attention by banks. These include:</p> <ul style="list-style-type: none"> • Large-Value Funds Transfers – unauthorized wire transfers (SWIFT-like thefts) of millions to billions in funds; • Ransomware – a form of extortion that uses malicious software to encrypt a device or data, and demand payment for access; • Distributed Denial-of-Service (DDoS) – an attempt to prevent users from accessing information or services, such as overloading the capacity of a bank’s website; and • ATM Jackpotting/ Cash-Out – an illegitimate attempt to dispense cash from an ATM. <p>The Bankers Electronic Crimes Task Force was modeled after the U.S. Secret Service’s Electronic Crimes Task Force but developed exclusively for the community banking industry. Texas and Massachusetts state banking departments, working with the CSBS and 11 other banking departments, facilitated this initiative. However, the Bankers Electronic Crime Task Force, identified the threats and developed the best practices. Members of the Bankers Electronic Crimes Task Force include community banks that range from \$90 million in total assets to \$7.8 billion. Happy State Bank, Happy and Texas Bank & Trust, Longview and are members of this task force.</p>	<p>CSBS</p>

SUPERVISORY UPDATE NEWS SUMMARY

TITLE	TYPE/DATE	DESCRIPTION	SOURCE
Texas Town Hall Meetings 2017	Industry Notice-2017-07 June 6, 2017	<p>The TDB will be hosting four town hall meetings to give each community banker an open forum to discuss issues affecting community banks. Topics discussed will help support the 5th Annual Community Banking in the 21st Century Conference to be held in early October.</p> <p>Space is limited to 50 seats per location. Although there is no charge to attend, participants are asked to register.</p> <p>Town hall meetings will be held in the following cities/dates:</p> <p>Dallas - Monday, July 10, 2017 San Antonio - Tuesday, August 1, 2017 Bryan/College Station - Wednesday, August 2, 2017 Lubbock - Wednesday, August 16, 2017</p>	TDB
Agencies Issue Host State Loan-to-Deposit Ratios	PR-47-2017 June 21, 2017	<p>The FRB, the FDIC, and the OCC issued the host state loan-to-deposit ratios that they will use to determine compliance with section 109 of the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994. These ratios replace the prior year's ratios, which were released on June 17, 2016.</p> <p>In general, section 109 prohibits a bank from establishing or acquiring a branch or branches outside of its home state primarily for the purpose of deposit production. Section 109 also prohibits branches of banks controlled by out-of-state bank holding companies from operating primarily for the purpose of deposit production.</p>	FDIC FRB OCC
Agencies Release List of Distressed or Underserved Nonmetropolitan Middle-Income Geographies	PR-48-2017 June 21, 2017	<p>The FRB, the FDIC, and the OCC announced the availability of the 2017 list of distressed or underserved nonmetropolitan middle-income geographies, where revitalization or stabilization activities are eligible to receive CRA consideration under the community development definition.</p>	FDIC FRB OCC

SUPERVISORY UPDATE NEWS SUMMARY

TITLE	TYPE/DATE	DESCRIPTION	SOURCE
FDIC Issues List of Banks Examined for CRA Compliance	PR-50-2017 July 5, 2017	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 April 2017. Three state-chartered banks in Texas were evaluated during this period and received Satisfactory ratings.	FDIC
FDIC Releases and Seeks Comment on Manual for Processing Deposit Insurance Applications	PR-52-2017 July 10, 2017	<p>The FDIC is releasing and seeking public comment on a procedures manual developed to assist FDIC staff as they evaluate and process deposit insurance applications. The manual addresses each stage of the insurance application process: from prefiling activities to application acceptance, review, and processing; reopening activities; and postopening considerations.</p> <p>The FDIC is seeking public comment on the manual, specifically on how well the manual helps bank organizers understand the FDIC's application process. The 60-day comment period ends on September 8, 2017.</p>	FDIC
FDIC Announces Meeting of Advisory Committee on Community Banking	PR-53-2017 July 10, 2017	<p>The FDIC held a meeting of the Advisory Committee on Community Banking on Wednesday, July 12. Senior staff discussed and provided updates on supervisory issues such as liquidity risk, de novo applications, appraisals, Call Reports, capital and examination processes. There were also presentations on post-crisis community bank performance and outlook, as well as supervision policy issues, including the implementation of the Home Mortgage Disclosure Act rule and flood insurance.</p> <p>The agenda for the meeting and a link to the archived webcast are available at FDIC's Advisory Committee on Community Banking website. There are 15 members on the Advisory Committee on Community Banking, including Asif Dakri, Vice Chairman & CEO, Wallis State Bank, Houston, Texas.</p>	FDIC
Former Bank President Sentenced to Five Years for Bank Fraud Scheme	Press Release June 29, 2017	Anthony J. Atkins, 51, of Eufaula, Alabama, was sentenced to 63 months in prison and ordered to pay more than \$2.4 million in restitution for conspiracy to commit bank fraud, four counts of false statements to a federally insured financial institution, bank fraud, and mail fraud affecting a financial institution. Atkins was convicted by a jury on March 10, 2017.	FDIC-OIG

SUPERVISORY UPDATE NEWS SUMMARY

TITLE	TYPE/DATE	DESCRIPTION	SOURCE
<p>California Payment Processing Company President and Part-Owner Sentenced to Prison for Fraud Scheme</p>	<p>Press Release July 6, 2017</p>	<p>Neil Godfrey, 79, of Santa Ana, California was sentenced to serve 15 months in prison, followed by one year of supervised release as well as ordered to pay a \$50,000 fine and a \$100,000 forfeiture money judgment for his role in processing unauthorized withdrawals of millions of dollars from consumer bank accounts, the Justice Department announced.</p> <p>Godfrey used a Santa Ana processing company named Check Site Inc. to assist at least two fraudulent merchants. The merchants operated or worked with websites that purportedly offered subscriptions, clubs, sweepstakes or payday loans. But in many cases, the websites were a ruse to harvest consumers' bank account information. Instead of providing consumers with payday loans or other services advertised, the merchants operating the websites used the bank information provided by the consumers to withdraw money from the consumers' bank accounts. Using Check Site, Godfrey knowingly processed the merchants' fraudulent withdrawals and provided the merchants with access to the banking system.</p>	<p>FDIC-OIG</p>
<p>FFIEC Proposes Additional Revisions to Streamline "Call Report" for Small Institutions</p>	<p>Press Release June 20, 2017</p>	<p>Continuing their efforts to reduce data reporting and other burdens for small financial institutions, the three federal banking agencies, as members of the FFIEC, are proposing additional revisions to streamline several "Call Report" schedules.</p> <p>The latest proposal from the FRB, the FDIC, and the OCC will remove, raise the reporting threshold for, or reduce the reporting frequency of approximately seven percent of the data items on the Call Report for small institutions, and make other burden-reducing changes for larger institutions, while continuing to provide the agencies with the information needed to supervise the industry. The proposal also includes revisions in response to changes in the accounting for equity securities and an instructional revision for determining past due status.</p> <p>The Call Report for small institutions is applicable to financial institutions with domestic offices only and less than \$1 billion in total assets, which represents approximately 90 percent of all institutions required to file Call Reports.</p> <p>Comments on the proposed revisions will be accepted for 60 days after the date of their publication in the Federal Register. The proposed effective date for the Call Report revisions is March 31, 2018.</p>	<p>FFIEC</p>

SUPERVISORY UPDATE NEWS SUMMARY

TITLE	TYPE/DATE	DESCRIPTION	SOURCE
Federal Reserve Board Announces \$3 Million Fine Against Bank of New York Mellon Corporation (BNY Mellon) for Unsafe and Unsound Practices	Press Release June 27, 2017	<p>The FRB announced a \$3 million fine against Bank of New York Mellon Corporation (BNY Mellon) for unsafe and unsound practices after the firm improperly assigned a lower risk weighting to a portfolio of assets, reducing the firm's risk-based capital ratios.</p> <p>In 2010, following a change in the relevant accounting rules, BNY Mellon consolidated a portfolio of collateralized loan obligations onto its balance sheet. BNY Mellon incorrectly assigned the assets a zero-risk weighting, which was improper under the rules in place at the time. As a result of its improper treatment of the portfolio BNY Mellon understated its reported risk-weighted assets and overstated its risk-based capital ratios for nearly 14 quarters.</p>	FRB
Federal Reserve Releases Results of Comprehensive Capital Analysis and Review (CCAR)	Press Release June 28, 2017	<p>The FRB announced it has completed its review of the capital planning practices of the nation's largest banks and did not object to the capital plans of all 34 bank holding companies participating in the Comprehensive Capital Analysis and Review (CCAR). Comerica Incorporated is included in the 34 BHCs participating.</p> <p>However, the Board is requiring one firm, Capital One Financial Corporation, to address weaknesses in its capital planning process and resubmit its capital plan by the end of 2017.</p>	FRB
Federal Reserve Board Announces Approval of Application by Veritex Holdings, Inc.	Press Release July 7, 2017	<p>The FRB approved the application under section 3 of the Bank Holding Company Act of 1956 by Veritex Holdings, Inc., to merge with Sovereign Bancshares, Inc., and thereby indirectly acquire Sovereign Bank, all of Dallas, Texas. The Board also approved the applications, under section 18(c) of the Federal Deposit Insurance Act and section 9 of the Federal Reserve Act, by Veritex Community Bank, Dallas, Texas, to merge with Sovereign Bank and to establish and operate branches at locations of the main office and branches of Sovereign Bank.</p>	FRB

SUPERVISORY UPDATE NEWS SUMMARY

TITLE	TYPE/DATE	DESCRIPTION	SOURCE
<p>OCC Report Highlights Risks Facing National Banks and Federal Savings Associations</p>	<p>NR 2017-78 July 7, 2017</p>	<p>The OCC reported strategic, credit, operational, and compliance risks remain top concerns for the federal banking system in its Semiannual Risk Perspective for Spring 2017.</p> <p>Highlights include:</p> <ul style="list-style-type: none"> • Strategic risk remains elevated as banks make decisions to expand into new products or services or consider new delivery channels and continue merger and acquisition activity. • Credit underwriting standards and practices across commercial and retail portfolios have loosened, showing a transition from a conservative to an increasing risk appetite as banks strive to achieve loan growth and maintain or grow market share. • Operational risk continues to challenge banks because of increasing cyber threats, reliance on concentrations in significant third-party service providers, and the need for sound governance over product service and delivery. • Compliance risk remains high as banks continue to manage money-laundering risks and implement changes to comply with the amended customer protection requirements under the Military Lending Act and integrated mortgage disclosure rules. <p>The report covers risks facing national banks and federal savings associations based on data for the 12 months ending December 31, 2016. The report presents data in four main areas: the operating environment, bank performance, trends in key risks, and regulatory actions. It focuses on issues that pose threats to those financial institutions regulated by the OCC and is intended as a resource to the industry, examiners, and the public.</p>	<p>OCC</p>

SUPERVISORY UPDATE NEWS SUMMARY

TITLE	TYPE/DATE	DESCRIPTION	SOURCE
<p>FASB Simplifies Accounting for Certain Financial Instruments with Characteristics of Liabilities and Equity</p>	<p>News Release July 13, 2017</p>	<p>The FASB issued an ASU that simplifies the accounting for certain financial instruments with down round features—a provision in an equity-linked financial instrument (or embedded feature) that provides a downward adjustment of the current exercise price based on the price of future equity offerings. Down round features are common in warrants, convertible preferred shares, and convertible debt instruments issued by private companies and development-stage public companies. The ASU is based on recommendations from the Private Company Council.</p> <p>The provisions of the new ASU related to down rounds are effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. For all other organizations, the amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted for all organizations.</p>	<p>FASB</p>
<p>IC3 Releases Annual Report Highlighting Trends in Internet Crime</p>	<p>News Release June 22, 2017</p>	<p>The FBI’s Internet Crime Complaint Center (IC3) publishes the Internet Crime Report annually to increase public awareness of current trends in Internet crime. For this report, the IC3 has also created a separate state-by-state breakdown that allows users to select their state from a dropdown menu so they can review local trends in Internet crime. The top states for reported dollar amounts lost to Internet fraud in 2016 were California (\$255 million), New York (\$106 million), and Florida (\$89 million).</p> <p>IC3 receives complaints on a variety of Internet scams and crimes, and it has received more than 3.7 million complaints since it was created in 2000. In 2016, the IC3 received a total of 298,728 complaints with reported losses in excess of \$1.3 billion. The IC3 uses the information from public complaints to refer cases to the appropriate law enforcement agencies and identify trends.</p>	<p>FBI</p>

SUPERVISORY UPDATE NEWS SUMMARY

TITLE	TYPE/DATE	DESCRIPTION	SOURCE
<p>Treasury Releases First Report on Core Principles of Financial Regulation Stimulating Economic Growth, Increasing Access to Capital & Taxpayer Protection Are Top Priorities</p>	<p>News June 12, 2017</p>	<p>The U.S. Department of the Treasury issued its first in a series of reports to President Donald J. Trump examining the United States’ financial regulatory system and detailing executive actions and regulatory changes that can be immediately undertaken to provide much-needed relief.</p> <p>The report detailed the following findings:</p> <ul style="list-style-type: none"> • Community financial institutions – banks and credit unions – are critically important to serve many Americans • Capital, liquidity and leverage rules can be simplified to increase the flow of credit • We must ensure our banks are globally competitive • Improving market liquidity is critical for the U.S. economy • The Consumer Financial Protection Bureau must be reformed • Regulations need to be better tailored, more efficient, and effective • Congress should review the organization and mandates of the independent banking regulators to improve accountability. <p>Subsequent reports will be issued over the coming months and will focus on markets, liquidity, central clearing, financial products, asset management, insurance, and innovation, among other key areas.</p>	<p>TREAS</p>

SUPERVISORY UPDATE NEWS SUMMARY

INDUSTRY PUBLICATIONS
FRB 2016 Federal Reserve Payments Study – Highlights Changes in Consumer and Business Payment Choice
FRB Beige Book – July 12, 2017
FRB Dallas Eleventh District Beige Book
FRB Dallas Agricultural Survey – Second Quarter 2017
FRB Dallas Fed Energy Survey – Second Quarter 2017
FRB Dallas - Texas Economic Update - June 2017
FRB Dallas - Economic Indicators Austin, DFW, El Paso, Houston, Permian Basin, San Antonio, and Texas
FRB Dallas - Texas Business Outlook Surveys - Monthly Manufacturing and Service Sector and Retail
OCC's Quarterly Report on Bank Trading and Derivatives Activities: First Quarter 2017

SUPERVISORY UPDATE NEWS SUMMARY

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

SUPERVISORY UPDATE NEWS SUMMARY

ACRONYMS AND ABBREVIATIONS

ACRONYM/ABBREVIATION	MEANING
AML	Anti-Money Laundering
ASU	Accounting Standards Update
BIS	Bank for International Settlements
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
Dodd-Frank Act	The Dodd-Frank Wall Street Reform and Consumer Protection Act
DOJ	Department of Justice
FASB	Financial Accounting Standards Board
FC	Finance Commission of Texas
FCA	Farm Credit Administration
FDIC	Federal Deposit Insurance Corporation
FDIC-OIG	FDIC Office of Inspector General

SUPERVISORY UPDATE NEWS SUMMARY

ACRONYM/ABBREVIATION	MEANING
FFIEC	Federal Financial Institutions Examination Council
FHA	Federal Housing Authority
FHFA	Federal Housing Finance Agency
FinCEN	Financial Crimes Enforcement Network
FRB (or Fed or FR)	Federal Reserve Board
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
SDN	Specially Designated National
SEC	Securities and Exchange Commission
TDB	Texas Department of Banking
Treasury	U.S. Department of Treasury