



Guidance for New Directors

2018 Director's College

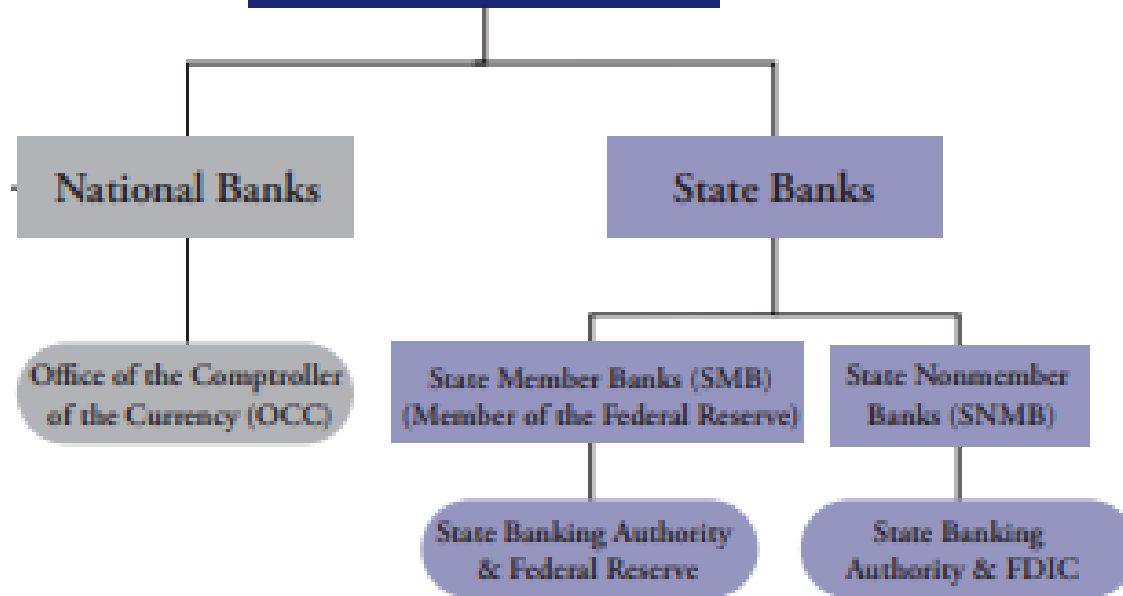


Objectives

- **Examination/Regulatory Oversight**
- **Director Roles & Responsibilities**
- **Monitoring Tools**
- **Answer Your Questions**

TYPES OF BANKS

Dual Banking System





FDIC Structure – Supervision

- **Division of Risk Management Supervision (RMS)**
- **Division of Depositor and Consumer Protection (DCP)**



Examination/Regulatory Oversight

- **New York Regional Office / Boston Area Office**
- **Field Offices throughout the Region**
- **Primary Contacts are located in both the Regional/Area Offices and Field Offices**
 - ◆ Examiner-in-Charge
 - ◆ Field Supervisor, Case Manager, Review Examiner, Specialists



Examination Program

- **Types**
- **Frequency**
- **Scope**
- **Examination Process**
 - ◆ **Pre-exam, Onsite Examination**
 - ◆ **Exit Meeting, Board Meeting**
 - ◆ **Report of Examination**

Risk Management Ratings: “CAMELS”

- **Capital**
- **Asset Quality**
- **Management**
- **Earnings**
- **Liquidity**
- **Sensitivity to Market Risk**





Consumer Compliance

- **Board and Management Oversight**
- **Compliance Program**
- **Violations of Law and Consumer Harm**



Community Reinvestment Act (CRA)

- **Lending Performance**
- **Investment Performance**
- **Service Performance**



Examination Follow Up:

- **Supervisory Recommendations**
- **Matters Requiring Board Attention**
- **Board Resolution**
- **Memorandum of Understanding**
- **Consent Order**



Corporate Governance:

- **Strategic Plan**
- **Processes**
- **Relationships**
- **Control Structure**



Provide for Competent Management

- **Effective performance evaluation process**
- **Consider audit and examination findings**
- **Reward with appropriate compensation**
- **Address performance concerns**
- **Maintain management succession plan**
- **Consider a performance evaluation program for yourselves as directors**



Participate in Board meetings

- **Take part in deliberations**
- **Ask the tough questions**
- **Don't "rubber stamp"**
- **Review minutes for accuracy and completeness**
- **Quality Board Reporting is a critical monitoring tool**



Plan for the Bank

- **Set long- and short-term strategic direction and goals**
- **Identify resources to meet goals (financial, personnel, technology)**
- **Determine whether short-term decisions are in line with long-term goals**
- **Plan for contingencies (economic changes, weather, hazards, technology failure, etc.)**
- **Periodically measure performance vs. plan, and adapt**



Establish Policies and Controls

- **Loan, Investment, A/L Management, Compliance, Ethics, etc.**
- **Policy exceptions**
- **Board committee structure (Executive, Risk, Audit, Corporate Governance, Loan, ALCO, Technology, Compliance, etc.)**
- **Audit**



Monitor Bank Performance

- **Get Board package in advance**
- **Understand the material**
- **How much information is enough?**
- **How much is too much?**



Serve the Needs of the Community

- **Vital source of credit**
- **Engine of economic growth**
- **Unbiased service to the entire community**



■ Uniform Bank Performance Report

The screenshot shows the FFIEC website interface. At the top, there is a navigation bar with links for Home, Site Index, Disclaimer, Privacy Policy, and Accessibility. Below this is a main content area with a left sidebar containing various menu items like 'About the FFIEC', 'Contact Us', 'Search', 'Press Releases', etc. The main content area features a 'Welcome to the Federal Financial Institutions Examination Council's (FFIEC) Web Site.' section, followed by a 'FFIEC Council' section with a detailed paragraph about the Council's role. Below this, there are two columns of links: 'Consumer Compliance' and 'Reports'. The 'Reports' column contains three links: 'Reporting Forms', 'FFIEC Reports', and 'On-line Info Systems'. The 'Reporting Forms' link is circled in red. To the right of the main content area, there are several vertical panels: 'Consumer Help Center', 'Financial Institution Info', 'Examiner Education', and 'Supervisory Info'. At the bottom of the page, there is a footer with the text 'Maintained by the FFIEC. For suggestions regarding this site, Contact Us.' and 'Last Modified: 03/06/2018 10:34 AM USA.gov'.

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Monitoring Tools

- **Tier One Capital / Total Assets**
- **Asset Growth Rate**
- **ALLL / Total Loans**
- **Non-Current Loans / Gross Loans**
- **Net Charge-offs / Total Loans**
- **Provision ALLL / Total Assets**
- **Earnings Coverage of Net Loss**
- **Net Income / Total Assets (ROA)**
- **Net Interest Income / Earning Assets (NIM)**
- **Net Non-Core Funding Dependence**
- **Short-Term Investments / Total Assets**
- **Net Long-Term Position / Total Assets**

Ratio Analysis – Questions to Ask

- **What is the level?**
- **What is the trend?**
- **Why?**
- **Any unusual activity?**





Common Reports in Board Packages

- **Financial Statements**
- **Key Ratios**
 - Bank/Peer (UBPR)
- **Financial Performance**
 - Budget Comparisons
 - Income
 - Expenses
- **New Business Activities**
- **Investment Activity**
- **Insider Transactions**
- **Audit Reports**
- **Compliance/CRA Reports**
- **Regulatory Reports**
- **Funding/Interest Rate Risk**
- **Overdrafts**
- **Loan Activity**
 - New, renewed and extended
 - Concentrations of Credit
 - Nonperforming
 - Policy Exceptions
 - Watch List/ALLL Review

RED FLAGS

- **Insufficient Information from Senior Management**
- **Lack of Discussion of New Strategies**
- **Reluctance to Allow Director Involvement**
- **Recurring Audit and Exam Deficiencies**
- **Numerous Policy Exceptions**
- **Unexpected Financial Trends**
- **Failure to File Suspicious Activity Reports**





Resources

- **Directors' Resource Center**

<https://www.fdic.gov/regulations/resources/director/>

- **Uniform Bank Performance Report**

<http://www.ffiec.gov/ubpr.htm>

- **Information about Bank Examinations**

<http://www.fdic.gov/regulations/examinations/>



Questions?