



### Compliance News...

#### Risk Assessment

In April, we held our annual Compliance Management seminar (by the way, it was great to see so many of you in person). One of the sections in this seminar encouraged bankers to conduct a risk assessment. Many bankers nod in agreement when they hear about a risk assessment, but few actually carry it out.

A risk assessment should not be an academic exercise. It should be the starting point of everything that happens in a bank's compliance program (training, audit, monitoring, policy, procedures, systems, etc.). In case you didn't catch that: EVERYTHING should be risk focused.

So what does this mean? It means you identify what's really important and concentrate on that. It's just as important to not give as much effort and energy to the lower risk areas.

Doesn't it make sense that your institution would:

- Monitor and audit higher risk areas in more depth and frequency?
- Spend more time training on your higher risk areas?
- Provide more thorough procedures for your higher risk areas?

Many bankers struggle with starting a risk assessment as they don't know how to begin. You can search the internet for tools, but generally you'll find complex (possibly intimidating) worksheets and articles. Conducting a risk assessment doesn't have to be a long, formal process but it needs to be specific to your institution. To get started, consider the following:

1. What keeps you awake at night? (Hopefully, you do sleep well, but I think you know what I mean);
2. What are the "hot topics" (such as BSA and Flood);
3. What requirements are more likely to have a:
  - a. Civil Money Penalty (such as Flood, HMDA and BSA);
  - b. Customer reimbursement (such as parts of Truth in Lending - APR's & finance charges); and,
  - c. Civil liability (such as Flood, Right of Rescission and HOEPA);
4. What new requirements does your institution face (like the FACT Act or HMDA if you've recently moved into a Metropolitan Statistical Area); and,
5. Your institution's problem areas (review your previous examinations and audits).

Simply write down what comes to mind when you consider the above topics. It doesn't have to be anything fancy. It's really function over formality when it comes to a risk assessment. You can always come back to your thoughts and format them to make them more presentable, if you wish.

The results of your risk assessment should allow you to "major on the majors". Not everything deserves the same level of intensity. Besides, you can't do it all. It's just as important that you need to "minor on the minors". Don't put as much emphasis on lower risk areas.

Use risk management as a defense. If an examiner asks, “Why haven’t you done X?” You can reply: “According to our risk assessment, that is not a priority.” or “We’re not as concerned with X because of our risk assessment.”

Just get started. We encourage you to discuss your bank’s risk profile. It’s something that you’ll never really finish, but even having some ideas in this area can dramatically affect how you “do” compliance. If you want more help, you can find additional articles and aids at BankersOnline.com: <http://www.bankersonline.com/risk/risk.html>

For those of you who have completed a risk assessment, we are asking you to share your ideas, worksheets, tips, etc. with other financial institutions through Banker’s Compliance Consulting. We’ll consolidate them and pass them on in a future newsletter. Send us an email with the subject line “Risk Assessment” to [consultantws@bankerscompliance.com](mailto:consultantws@bankerscompliance.com).

## **CRA Rule Finalized by OTS**

The Office of Thrift Supervision (OTS) aligned with the other federal banking agencies (FDIC, FRB and OCC) by issuing a final ruling for the Community Reinvestment Act on March 19, 2007. This rule becomes effective July 1, 2007. The new changes will apply to examinations beginning in the third quarter of 2007. The new rule will:

- Eliminate the option of alternative weights for lending, investment, and service under the large, retail savings association test;
- Define institutions with assets between \$250 million and \$1 billion as “intermediate small savings associations” subject to a new community development test;
- Index the asset threshold for “small” and “intermediate small” savings associations annually based on changes to the Consumer Price Index (CPI); and,
- Clarify the adverse impact on a savings association’s CRA rating where the OTS finds evidence of discrimination or other illegal credit practices.

You may read and download the rule at: <http://www.ots.treas.gov/docs/7/73337.pdf>

## **STOP the SAR!**

FinCEN announced a delay in the use of the SAR form on April 26, 2007. Institutions were to begin using the new SAR on June 30th, with a mandatory date of December 31, 2007; however, FinCEN will establish new dates for using the revised SAR forms in a future notice. Here’s a link to the full story from FinCEN: [http://www.fincen.gov/sar\\_fr\\_notice.pdf](http://www.fincen.gov/sar_fr_notice.pdf) (it’s only 2 pages!). We alerted you to the new SAR forms in our February 2007 newsletter: <http://www.bankerscompliance.com/images/Feb%2007.pdf>.

## **Banker’s Compliance Consulting Phone Services**

The primary purpose of Banker’s Compliance Consulting is to assist financial institutions with their compliance needs. One of the key services we provide is consultation for your daily questions (i.e. answering client questions over the telephone, by fax or email). Often bankers call us assuming we provide free consultation. Unfortunately, this just isn’t possible for us to do.

Our consultation service is available at a prorated fee. Our established clients may choose a telephone retainer. If your institution is not a client of Banker’s Compliance Consulting and you would like more information about our services and fees, please contact us toll free at (800) 847-1653 or by e-mail: [consultants@bankerscompliance.com](mailto:consultants@bankerscompliance.com).