



"Pen Precise" FDIC Guidance

by [Steve Brown](#)

A new type of "pen" produced by researchers at the University of Texas at Austin has been shown to detect cancer in 10 seconds with 96% accuracy. This amazing pen does so in lung, thyroid, breast and ovary cancer cells. It provides critical information to surgeons in real time to more accurately remove all cancer cells. Researchers say the next step in this evolution is to decrease the allowable sample size to make surgery more precise. Maybe regulators have been reading this too, because the FDIC has moved to add more precision to its instruction book.

It updated its FDIC Risk Management Manual of Examination Policies (Examination Manual) on July 26. The update primarily was done to incorporate the FDIC Board of Directors' guidance for examiners on the subject of supervisory recommendations. These include matters that necessitate board attention, as well as deviations from the principles of safety and soundness that undergird policy statements.

The update also added instructions for new report of examination (ROE) schedules and any necessary updates to existing schedules. Applicable to all financial institutions, the revised instructions implement the most recent FDIC Board of Directors' statement on developing and communicating supervisory recommendations.

Under the revised rules, supervisory recommendations must address meaningful concerns. Recommendations must be communicated clearly and in writing, via either an ROE or on official FDIC letterhead. Any recommendation must also clearly explain both the problem and the suggested correction. Given this new guidance, there should be less room for ambiguity or misunderstanding, so most bankers we talked to seem to welcome the updates and changes.

Supervisory examinations in ROE must also appear on the examination conclusion and comments (ECC), risk management assessment, or schedules for matters that require board attention, as appropriate. This extra level of detail may help banks to more clearly understand how best to remedy things.

When supervisory recommendations are related to departures from safety and soundness principles that lie beneath statements of policy, or guidelines that aren't already included as appendices to FDIC rules and regulations, those recommendations must also be summarized on the examination conclusion and comments (ECC) schedule. They must be discussed in more detail on the schedule for matters requiring board attention, as well as other board schedules, as appropriate.

The update includes revised instructions for preparing the ECC and concentrations schedules, as well as the officer's questionnaire and instructions for the information technology and operations risk assessment schedule that the FDIC added to the ROE last fall. Community banks that do not have the extensive resources of larger banks should be helped by these additional instructions and risk assessment schedule.

As you break out your own pen to test this against your bank, the new Bank of Anytown model released by the FDIC that includes the [revised ROE instructions](#) can be accessed on the regulator's

website.

BANK NEWS

M&A Activity

1) American National Bank of Texas (\$2.7B,TX) will acquire First State Bank (\$174mm,TX) for an undisclosed sum. 2) Three bank holding company Brookline Bancorp (\$6.6B,MA) will acquire First Commons Bank (MA) for about \$56mm or about 1.49x tangible book. 3) Citizens National Bank (\$1.8B,TX) will acquire Union State Bank (\$471mm,TX) for an undisclosed sum.

Happy Customers

A survey by the ABA of consumers finds 89% say their bank's service and support are "good," "very good," or "excellent and 89% also said they were satisfied with their primary bank.

Branch Closures

Community bankers should note that from the end of 2014 through the end of 2016, the number of bank branches declined by over 15% (from 94,725 to 80,227).

All Talk

While many banks believe biometrics and AI will help with data breaches and fraud through the payments system, only 27% are using AI for these purposes and only 17% have biometrics in place.

Reduce Stimulus

FOMC Chair Yellen said that unless the economy sees a "material deterioration", the Fed will continue to remove stimulus. The Fed has begun to wind down its \$4.5T balance sheet, at a starting pace of \$10B per month, ramping up quarterly until it reaches \$50B.

CIO Priorities

A Gartner report finds CIOs rank analytics, cloud services and infrastructure are top priorities for spending more often than cybersecurity. However, this is changing as the Equifax breach demonstrated the depth and breadth data breaches can take today.

SEC Hack

The SEC reports it was breached in 2016 and that the possibility of insider trading may have occurred.

US Growth

The OECD projects US GDP will be 2.1% this year and 2.4% in 2018, as solid job creation, strong consumer spending and business investments remain key drivers.

CECL Change

FASB will allow banks to apply loss mitigation efforts to individual loans when these types of losses seem plausible, under CECL. This is a compromise between loan origination loss and TDR migration as it happens and helps community banks with loss reserve calculations.

LOAN GROWTH AND FLOATING RATE ASSETS

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