90 Day Note

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Inside This Issue:

Is Credit Risk Rising?

Loan Review Observations and Recommendations for Effective Risk Management

By: Tommy Troyer, Executive Vice President

Over the recent past, there have been a number of public assertions, warnings, or observations that credit risk is rising in the banking industry. These statements have come in many forms, and while we do not intend to present an exhaustive review of such statements here, it is easy to present a brief list showing the various forms and messengers:

- *Public Comments by Regulatory Officials:* Thomas Curry, the Comptroller of the Currency, devoted his speech to the RMA Annual Risk Management Conference in November of last year to evidence that credit risk was rising and to the need for the industry to respond with appropriate risk management tools and ALLL decisions. Similarly, at the Ohio Bankers League's CEO Symposium in May, Julie Blake, Assistant Deputy Comptroller, shared with attendees that credit risk had moved to the top of the OCC's risk priorities and provided some evidence of increases in risk appetite over recent years.
- *Formal Regulatory Publications:* This category includes issuances of regulatory guidance, such as the December 2015 CRE guidance (discussed in a previous *90-Day Note*) that was issued not to provide new guidance to banks but simply to highlight what regulators believed to be increasing risk in the CRE space and to remind banks of risk management expectations. This category also includes more informational publications, such as the OCC's *Semiannual Risk Perspective*, which has been highlighting some increases in credit risk recently.
- *Private Sector Commentary:* Any bankers who may be inclined to brush off such regulatory comments as simply arising from regulatory conservatism should pay special attention to comments about credit risk originating from bankers themselves. The July-August edition of the Risk Management Association's *RMA Journal* includes an article written by a banker and quoting numerous other private sector risk executives about their feelings that credit risk has likely increased and that heightened diligence on the part of banks is needed to appropriately manage that risk.

Ultimately, all of these comments are based on observations that underwriting standards have loosened and concentrations of credit may be increasing. Unlike typical asset quality measures that provide lagging indicators of credit risk (such as nonaccrual or charge-off rates), underwriting standards can provide a leading indicator of changes in credit risk.

Loan Review Observations

Given these industry-wide observations, what does the situation look like for community banks? Our contribution to this topic is primarily anecdotal, and is based on observations gleaned from the independent loan reviews we perform for community banks. While it must be acknowledged that the diversity of community bank practices and circumstances means that no generalization will apply to all community banks, our anecdotal observations would seem to support the belief that credit risk has risen in recent years. For our community bank clients, the loosening of credit standards is actually less evident in changes to formal underwriting standards (in part because community banks often do not employ as detailed of a set of underwriting standards as larger banks) and more evident in the decisions banks are making on what might be described as "borderline" credits. In other words, our clients have not slashed their

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required minimum debt service coverage ratios or FICO scores as much as they have begun saying "yes" a little more often on deals that could go either way. Healthy debate in credit committees is important and should be encouraged. One interesting piece of information for banks to consider is whether more deals have recently been approved in credit committee by a split vote rather than unanimously, which may indicate that banks are saying yes to a few more "on-the-fence" deals than they have historically.

Closely related to the concept of approving the borderline deal, and an issue commonly discussed by regulators, is the increase in loans approved with one or more exceptions to loan policy. Making commercial loans on a non-recourse basis is perhaps the classic community bank commercial credit policy exception, and these types of deals may well be increasing.

Other examples of increasing risk include an increased willingness to finance start-up ventures or significant expansions of current businesses and, in some cases, a reflection of the eased CRE terms referred to in the aforementioned 2015 regulatory guidance, such as longer interest-only payment periods. Especially in more urban markets or markets where larger banks are active, competition is undoubtedly a major factor in some of these developments, as banks unwilling to make any concessions on terms or price today can quite quickly find themselves with a shrinking loan portfolio.

> ". . . an increase in risk appetite is not necessarily a bad thing. However, an increase in risk appetite that is not matched by a corresponding increase in risk management is a bad thing."

What Should Community Banks Do?

Young & Associates recognizes, as do most community banks, that an increase in risk appetite is not necessarily a bad thing. However, an increase in risk appetite that is not matched by a corresponding increase in risk management is a bad thing. So how should community banks ensure that any loosening credit standards now do not result in major issues later? The following actions are a good start:

- Monitor and report to the board forward-looking measures of asset quality. If a bank's appetite for credit risk is increasing, it should be because of a conscious decision of the board. It should not be something the board discovers several years later when asset quality problems begin to manifest. Forward-looking measures are key to monitoring changes in credit risk before it is too late. Such measures include reporting on the rate of policy exceptions (including loans with multiple exceptions); tracking loan performance by vintage, which can provide an early warning when the performance of a recent vintage early in its time on book is notably weaker than that of previous vintages; and even a measure as simple as monitoring the rate of loan growth compared to peers.
- Enhance risk management practices. At a time when credit risk may be increasing, banks should be sure that risk management practices are also heightened. In such a situation, it may be appropriate to increase the scope of independent loan review so that a greater percentage of credits, and especially new originations, are reviewed. Steps to quantify risk, such as stress testing higher-risk portfolios or portfolios that represent concentrations, are even more important at times of increased risk. And personnel should not be overlooked: increased volumes of higher-risk loans without a corresponding increase in the credit staff's capacity may be a recipe for trouble.
- Ensure that capital planning factors in any increases in risk. As noted, a measured and controlled increase in the credit risk a bank is willing to accept can be a positive for its shareholders and community. For this to be true over the long term, however, the bank's capital planning process must appropriately account for this increase in risk. Regulatory minimum capital ratios are but a small part of capital planning, and capital planning can only be effective when it is sensitive to changes in a bank's risk profile. Banks must ensure that their capital planning process accounts for changes in risk across the bank and that they are able to effectively identify such changes.

Conclusion

We have not seen from our clients (nor do we expect to see) the type of extremely risky loans that people write books and movies about in the aftermath of a credit crisis. However, there is anecdotal evidence to support the widely-held belief that credit risk in the banking sector is higher than it was a few years ago. It is crucial that banks effectively identify and manage any such increases.

Young & Associates, Inc. can assist banks in both identifying and managing credit risk. Contact Tommy Troyer at ttroyer@younginc.com or 1.800.525.9775 to discuss loan review, stress testing, or capital planning services. ❑

Strategic Planning – 8 Lessons from the Facilitator

By: Gary J. Young, President and CEO

For 30 years, I have had the pleasure of working with community banks across the country in developing a strategic plan. Yes, my first strategic planning engagement was in 1986. I recently completed a strategic plan for a great bank in Alaska, the first one in that state. There are two banks in Ohio that I have been facilitating strategic plans for since the mid-1980s. And there is another bank in New Mexico in which I am approaching 20 years. Many others are new clients. I certainly feel that I have helped those banks succeed in the way they define success. I also have learned from all of my strategic planning clients. Those main items are the subject of this article. Regardless of how you approach strategic planning, I believe these concepts will help make your plan meaningful to the management team and the board of directors.

The following are the 8 lessons learned from the facilitator:

1. *There is no value in a strategic plan*. I know this is a strange thought coming from a strategic plan facilitator. But, I have learned that value is achieved only when the plan is implemented to the benefit of the bank. It is absolutely critical to build consensus and buy-in. If participants believe the plan is from the facilitator, you have lost. The facilitator is there to achieve consensus on the bank's plan, then write that management and the board want to implement for success.

2. *A strategic plan is not about predicting the future, but making the future.* Nobody can predict the future. But, that's not what strategic planning is about. An effective strategic plan is about making the future not predicting it. That's why I often ask plan participants, "If you could envision the perfect future for your bank, what would it look like, or be like in five years?" The goal is to then build strategies and tactics to deliver the consensus of that perfect future. Of course, there will be deviations from which a change-in-course will be made. We call that good management.

3. *There is no one best plan.* I have seen successful banks run in an extremely conservative manner and successful banks run in an extremely aggressive manner. There is never one best way. Whatever the strategy, I can give you an example of a successful bank that took a different position. The key is to have a consensus in strategy that exists between the board of directors and senior management. I don't mean there needs to always be agreement on issues, but agreement on the basic core values that lead to direction.

4. *Every good community bank needs to __fill in the blank__ .* However you might define this statement, it is wrong. Community banks are incredibly unique. While Bank A may have 80% of things in common with Bank B, they are still incredibly different. To the facilitator, keep your EYES WIDE OPEN. Only in that way, will you see the nuances that make the job of facilitating a strategic plan rewarding and down-right fun.

5. *Banking is about risk.* Without risk there is no bank. This relates to 3 and 4 above. But, it is critical that the facilitator help define the risk appetite of the directors. This will then help define capital adequacy which ultimately is at the heart of every strategic plan. Management and the board of directors need to understand there is no right answer. Your risk appetite is all that matters. But, I will tell you one thing that is absolutely wrong: taking risk that is beyond your appetite and that you don't fully understand. Please, never do that.

6. *Define your target or goal for capital*. This is a part of 5 above, but it is critical. Let's assume that capital adequacy based on risk is 7.5%, but the board wants to maintain 9.5%. This is certainly OK, but understand there is a cost to the excess capital. Excess capital could be viewed as an insurance policy against potential losses. Many banks that had excess capital during the Great Recession were certainly happy they did. Excess capital could also be used as opportunity capital in

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case it is needed for a branch purchase, bank purchase, etc. But also remember, as the tier-1 leverage ratio increases, the return on equity decreases, all other things being equal. A decrease in return on equity is a drag on shareholder value.

7. *Asset quality can kill you.* Discussing asset quality is not as exciting as many other issues. But, nothing will derail a bank's plans quicker and more completely than problems in asset quality. Even though loan growth drives asset growth, which is a key component of bank success, we must remember to aggressively seek and conservatively underwrite, and thoroughly understand the risk associated with the loan growth.

8. *A facilitator will never know your bank or your market like you do.* I am like most other facilitators. I have had the experience of working with hundreds of community banks and seeing how things work positively and negatively. That is my perspective and it is good to have that voice at the retreat. But, I always remind new clients that while I have an experienced perspective, just because I share an opinion does not make it right for your bank in your market. It might be right for 95% of other banks, but that doesn't mean that it is right for your bank.

"Discussing asset quality is not as exciting as many other issues. But, nothing will derail a bank's plans quicker and more completely than problems in asset quality."

I hope that you will consider these concepts as you complete your next strategic plan. And, if you are considering a facilitator, I hope you consider Young & Associates, Inc. If you would like to discuss this article or strategic planning, please call me at 330.283.4121 or send an email to gyoung@younginc.com. ❑

Capital Market Commentary

By: Stephen Clinton, President, Capital Market Securities, Inc.

Market Update

The economy continued to move forward into the seventh year of post-recession recovery. The first quarter growth in the U.S. economy was 1.1%. The following summarizes certain issues we think are worth watching:

- Brexit shook the markets in June. Britain's vote to leave the European Union has caused the market additional concern about world-wide economic growth prospects. This adds to the existing concerns about growth potential in the world's second largest economy, China.
- The Federal Reserve is in a holding pattern as we approach its late September policy meeting. Most believe that the Fed wants to continue to move interest rates upward, but they are being cautious.
- June's job growth report indicated a renewed momentum in the labor market. After a dismal report in May, the job growth in June exceeded most analysts' expectations. Unemployment was reported at 4.9%. This falls within the Fed's normal long-run employment target of between 4.5% and 5%.
- The tightening job market has put upward pressure on wages as employers are in competition to find workers. The average hourly earnings for private-sector employees was estimated to have increased 2.6% in the last year. This is the highest growth in wages since 2009. Since 2000, median household income (adjusted for inflation) has dropped 7%. Thus rising wages is a positive sign for future consumer spending.
- The global issues have caused the U.S. dollar to gain value. The dollar has increased in value almost 10% over the last year. This increase makes U.S. exports more expensive.
- Business investment has been slowing. Companies have been hesitant to invest in machines, technology, and inventory. The level of business investment in capital goods has declined nearly 12% since 2014.
- Oil prices continue to remain well below historical levels. This has impacted the market in a variety of ways. Consumers and businesses have benefited from lower gasoline prices. However, the oil production firms have been hard hit and banks are being forced to strengthen their loan loss reserves for struggling oil-related firms.

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- After years of volatility, home prices have grown at an annual rate of approximately 5% since early 2015. Increasing home prices and low mortgage rates have made the housing market one of the strongest sectors in the U.S. economy in recent months.
- We are now approximately three months from electing a new President. The differences between the two candidates appear to be dramatic. The uncertainty surrounding the election will impact the markets until after the election.

Short-term interest rates remain historically low with the 3-month T-Bill ending June at 0.26%. The 10-Year T-Note ended June at 1.49%, down 78 basis points from year-end 2015. This has led to a significant reduction in the slope of the yield curve.

The stock market performance in 2016 has been mixed. The Dow Jones Industrial Index closed June up 2.90% for the year. The Nasdaq Index closed down 3.29%. The Nasdaq Bank index ended June down 4.18%. Larger U.S. banks fared even worse, ending the first half of 2016 down 11.25%.

Interesting Tid-bits

- *Lost value.* Since the start of 2016, 20 of the world's largest banks have lost a quarter of their combined market value. In total, approximately $465 billion has been lost.
- *Printing money?* The Fed owns approximately $2.4 trillion in U.S. Treasury debt at the end of June. This represents approximately 20% of the total U.S. Treasury Debt.
- *The wealthy get richer.* It was recently reported that the top 20% of American families account for 48.9% of total U.S. income compared to 44.3% in 1990.

Merger and Acquisition Activity

In the first half of the year, there were 114 bank and thrift announced merger transactions. This compares to 139 deals in the first half of 2015. The median price to tangible book for transactions involving bank sellers was 131% which is down from the 141% median recorded in 2015.

Capital Market Services

Young & Associates, Inc. has been a resource for banks for over 37 years. Through our affiliate, Capital Market Securities, Inc., we have assisted clients in a variety of capital market transactions. For more information on our capital market services, please contact Stephen Clinton at 1.800.376.8662 or sclinton@younginc.com. ❑

The Department of Labor's Final Overtime Rule

On May 18, 2016, the United States Department of Labor (DOL) published some significant changes to the overtime regulations, which will have a significant impact on your business. Financial institutions with an annual gross volume of sales made or business done of $500,000 or more are covered by the FLSA, and therefore bound to the Final Overtime Rule. The effective date is **December 1, 2016**.

To help you address these changes within your institution, Young & Associates, Inc. is preparing a recorded webinar, along with a policy, to cover the new overtime rule, including wage and hour implications. Our goal is to have these products available to you no later than September 1, 2016.

If you are interested in being notified when these products are available, contact us at product@younginc.com.

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Final Overtime Rule

- **Recorded Webinar**
- **Customizable Policy**

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Employee Retirement Income Security Act (ERISA) Compliance – Important Changes

By: Sharon Jeffries, Human Resources Manager

The Employee Retirement Income Security Act (ERISA) requires plan administrators (employers) to give plan participants in writing the most important facts they need to know about their health benefit plans.

One of the most important documents participants are entitled to receive automatically when becoming a participant of an ERISA-covered health benefit plan is a summary of the plan, called the Summary Plan Description or SPD. The plan administrator is legally obligated to provide to participants, free of charge, the SPD. The summary plan description is an important document that tells participants what the plan provides and how it operates. It provides information on when an employee can begin to participate in the plan, how service and benefits are calculated, when and in what form benefits are paid, and how to file a claim for benefits. If a plan is changed, participants must be informed, either through a revised summary plan description, or in a separate document, called a Summary of Material Modifications, which also must be given to participants free of charge.

A Wrap Plan Document is designed to meet plan documentation requirements under ERISA and other federal laws and to incorporate all other welfare plans, insurance contracts, and other relevant documents into a single plan. These materials can be kept together for administrative ease. The Wrap Plan Document provides additional legal protection for the employer and plan fiduciaries and can simplify plan administration.

> "Many banks will mistakenly assume that insurance contracts, certificates of insurance, and benefit summaries fulfill the ERISA requirements . . . but they do not."

What Does That Mean?

In the past, much of the regulatory focus was on the retirement side of the ERISA legislation. However, with the implementation of the Patient Protection and Affordable Care Act (PPACA), that has changed. Much of the current government monitoring, oversight, and auditing relates to the health and welfare side of the ERISA regulation.

ERISA now requires employers who are plan administrators of their group health plans to comply with two (2) critical requirements or they will risk potential penalties and possible government audits.

Those requirements are:

- Maintain and distribute SPDs to plan participants which accurately reflect the contents of the plan and which include specific information as required under federal law.
- Group health plans must be administered in accordance with a written Plan Document which must be made available to plan participants and beneficiaries upon request.

Are You at Risk?

Yes, and the reason is this: Many banks will mistakenly assume that insurance contracts, certificates of insurance, and benefit summaries fulfill the ERISA requirements for an SPD and Plan Document, but they do not. And, the primary reason is that they do not include the required or recommended provisions that protect the plan and the employer.

What Should You Do?

Recognize that:

- Failure to provide an SPD or Plan Document within 30 days of receiving a request from a plan participant or beneficiary will result in a penalty of up to $110/day for each violation.
- Lack of an SPD could trigger a plan audit by the United States Department of Labor (DOL).
- The United States DOL has increased its audit staff and national enforcement initiatives to investigate employers' compliance with Health Care Reform, resulting in companies of all sizes being audited and being required to provide an SPD and Plan Document.

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The Solution

Do not try to create these documents in house. Allow experts in the areas of benefits and benefits regulations assist you with this monumental effort. Young & Associates, Inc. has partnered with The Alpha Group Agency, Inc. to offer our clients this unique service. The Alpha Group Agency, Inc. is a highly skilled, reputable organization involved in the management of health insurance services as well as other related subjects.

The Alpha Group Agency, Inc. has been an advisor to Young & Associates, Inc. for almost fifteen (15) years in the management of its group health insurance plans. For additional information on how you can become compliant with these critical ERISA regulations and also lower the risk of a DOL audit, contact Sean Nehlsen, The Alpha Group Agency, at 1.800.886.3315 or snehlsen@thealphaga.com. ❑

New Customer Due Diligence (CDD) Requirements for Banks

Effective DATES: The final rules are effective July 11, 2016. Banks must comply with these rules by May 11, 2018 (Applicability Date).

Summary

Banks have not been required to know the identity of the individuals who own or control their legal entity customers (also known as beneficial owners). This is viewed as a weakness of the system that they are trying to correct.

FinCEN believes that there are four core elements of CDD:

1. Customer identification and verification
2. Beneficial ownership identification and verification
3. Understanding the nature and purpose of customer relationships to develop a customer risk profile
4. On-going monitoring for reporting suspicious transactions and, on a risk-basis, maintaining and updating customer information

Banks must now identify and verify the identity of the beneficial owners of all legal entity customers (other than those that are excluded) at the time a new account is opened (other than accounts that are exempted). A bank may rely on the beneficial ownership information supplied by the customer, provided that it has no knowledge of facts that would call into question the reliability of the information. The identification and verification procedures for beneficial owners are very similar to those for individual customers under a bank's customer identification program (CIP), except that for beneficial owners, the institution may rely on copies of identity documents. Banks are required to maintain records of the beneficial ownership information they obtain, and may rely on another bank for the performance of these requirements, in each case to the same extent as under their CIP rule.

The AML program requirement for banks now explicitly includes risk-based procedures for conducting ongoing customer due diligence, to include understanding the nature and purpose of customer relationships for the purpose of developing a customer risk profile.

A customer risk profile refers to the information gathered about a customer at account opening used to develop a baseline against which customer activity is assessed for suspicious activity reporting. This may include self-evident information such as the type of customer or type of account, service, or product. The profile may, but need not, include a system of risk ratings or categories of customers.

In addition, CDD also includes conducting ongoing monitoring to identify and report suspicious transactions and to maintain and update customer information. For these purposes, customer information shall include information regarding the beneficial owners of legal entity customers. The regulation requires that banks conduct monitoring to identify and report suspicious transactions. Because this includes transactions that

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are not of the sort the customer would be normally expected to engage, the customer risk profile information is used (among other sources) to identify such transactions. This information may be integrated into the bank's automated monitoring system, and may be used after a potentially suspicious transaction has been identified, as one means of determining whether or not the identified activity is suspicious.

When a bank detects information (including a change in beneficial ownership information) about the customer in the course of its normal monitoring that is relevant to assessing or reevaluating the risk posed by the customer, it must update the customer information, including beneficial ownership information. Such information could include, e.g., a significant and unexplained change in the customer's activity, such as executing cross-border wire transfers for no apparent reason or a significant change in the volume of activity without explanation. This applies to all legal entity customers, including those existing on the Applicability Date.

This provision does not impose a categorical requirement that banks must update customer information, including beneficial ownership information, on a continuous or periodic basis. Rather, the updating requirement is event-driven, and occurs as a result of normal monitoring.

Your Response

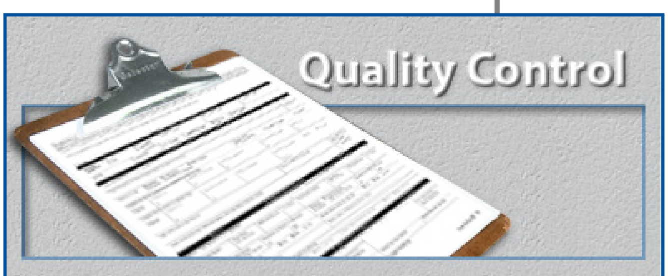
This is going to entail changes mostly in the deposit area. Your loan area probably already collects most of this information, as they require guarantees.

Also note that we stated at the beginning of this article that the mandatory date is not until 2018. It is likely that there will be changes so an immediate response to this rule does not seem reasonable. Please, however, do not lose sight of this timetable to make sure you have it in place in plenty of time before the mandatory dates.

If we can help in any way, please let us know. We will also be happy to assist in any other way to help you meet your BSA and compliance needs. This could include hands-on assistance and/or consulting assistance depending upon your needs. For more information, contact us at 1.800.525.9775 or compliance@younginc.com. ❑

Criteria for Determining Loan Defects on the Secondary Market

By: Debra Werschey, Consultant and Manager of Secondary Market Services



In determining whether there is a significant defect on a loan, the quality control reviewer must give due consideration to the severity of the defect. In addition, the defect must relate but not be limited to one of the following:

1. The underwriting of the borrower's creditworthiness and capacity. This would entail the borrower's income, credit, liabilities, and assets.
2. The borrower's eligibility and qualification. Things to consider are the area median income, first time home-buyer status, and status as lawfully present in the United States.
3. The underwriting criteria related to property or project eligibility. Is the property for residential use or condo eligible?
4. The property appraisal or the physical condition of the property. A close examination of the property appraisal is required. Are the comparable sales similar to the subject?
5. The loan and product terms and criteria. Criteria such as LTV ratio, occupancy, credit score, and loan purpose must be reviewed. The terms for ineligible transaction types, products that may require special lender approval as a prerequisite for delivery, limitations on cash out to borrowers that determines the type of refinance, and any negotiated exception or variance must be considered.
6. The requirements applicable at the time of loan purchase. This would include

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making sure that there are no defaults, all taxes and insurance premiums have been paid or escrows established, and no modification, encumbrance, subordination, or release of mortgage has occurred.

7. The existence, sufficiency, or enforceability of any required insurance or guaranty. The property must have sufficient hazard insurance coverage in place.

8. The form and/or execution of required loan documents that without which made the loan ineligible for sale or limit the enforceability of the required loan terms. The file must contain the Uniform Residential Loan Application, any power of attorney used, and any nonstandard and special purpose documents such as living trusts.

All of the above factors and more should be taken into consideration when a reviewer is completing a post-closing quality control review to identify defects. Young & Associates, Inc. is a trusted provider of mortgage quality control reviews and can assist your bank in this area. For more information on our quality control services, contact me at 1.800.525.9775 or dwerschey@younginc.com. ❑

The Value of Internal Audit Through a Fresh Set of Eyes

By: Jeanette McKeever, CCBIA, Consultant and Internal Audit Operations Manager

There is risk in every aspect of the banking industry and the regulatory environment seems to continually change. As to the governance and control functions of the banking industry, it may be refreshing to the board of directors, audit committee, and executive management to have their internal audit function re-assessed and validated though a fresh set of eyes to assure that the controls in place are functioning as intended.

A strong internal control system, including an independent and effective internal audit function, is part of sound corporate governance. The board of directors, audit committee, senior management, and supervisors must be satisfied with the effectiveness of the bank's internal audit function, that policies and practices are followed, and that management takes appropriate and timely corrective action in response to internal control weaknesses identified by internal auditors. An internal audit function provides vital assurance to a bank's board of directors (who ultimately remains responsible for the internal audit function, whether in-house or outsourced) as to the quality of the bank's internal control system. In doing so, the function helps reduce the risk of loss and reputational damage to the bank.

All internal auditors (whether in-house or outsourced) must have integrity and professional competence, including the knowledge and experience of each internal auditor and of team members collectively. This is essential to the effectiveness of the internal audit function.

We encourage bank internal auditors to comply with and to contribute to the development of national professional standards, such as those issued by the Institute of Internal Auditors, and to promote due consideration of prudent issues in the development of internal audit standards and practices.

Every activity (including outsourced activities) of the bank should fall within the scope of the internal audit function. The scope of the internal audit function's activities should ensure adequate coverage of matters of regulatory interest within the bank's audit plan. Regular communication by the audit committee, management, and affected personnel is crucial to identify the weaknesses and risk associated to assure that timely remedial actions are taken.

Young & Associates, Inc. can independently assess the effectiveness and efficiency of the bank's internal control, risk management, and governance systems, as well as processes to provide assurance and value that the internal control structure in place operates according to sound principles and standards.

For more information on how we might provide internal audit services specific to your bank's needs, whether it is outsourced or co-sourced, please contact me at 1.800.525.9775 or jmckeever@younginc.com. ❑

Coming SOON

The Department of Labor's Final Overtime Rule

On May 18, 2016, the United States Department of Labor (DOL) published some significant changes to the overtime regulations, which will have a significant impact on your business. Financial institutions with an annual gross volume of sales made or business done of $500,000 or more are covered by the FLSA, and therefore bound to the Final Overtime Rule. The effective date is **December 1, 2016**.

To help you address these changes within your institution, Young & Associates, Inc. is preparing a recorded webinar, along with a policy, to cover the new overtime rule, including wage and hour implications. Our goal is to have these products available to you *no later than September 1, 2016*.

If you are interested in being notified when these products are available, contact us at product@younginc.com.

Liquidity Toolkit (#273) – $1,250

Includes:

- **Liquidity Cash Flow Planning Model (#271):** Forecast funding sources, funding needs, and cash flow gaps. Monitor availability of contingent liquidity. Monitor funding concentrations and dynamic cash flow ratios. Perform liquidity stress testing and multiple-scenario what-if analyses. (*regularly $950*)
- **Liquidity Contingency Funding Plan (#272):** Delineates strategies and actions addressing potential liquidity shortfalls in emergency situations. Includes identification of stress events, stress levels, early warning indicators, parameters for liquidity stress testing, sources of funds and funding strategies, lines of responsibility and communication, as well as a detailed crisis action plan. (*regularly $275*)
- **Liquidity Management Policy (#096) :** Customizable policy designed to ensure that the bank is managed to provide an adequate level of liquidity to meet both predicted and unexpected cash needs while maintaining a planned net interest margin. (*regularly $225*)

For more information, click here.

Save $200 when you purchase the Liquidity Toolkit.

Cybersecurity Assessment Workbook (#310) – $249

Evaluate your institution's Inherent Risk Profile and identify your current Cybersecurity Maturity Level using the FFIEC's Cybersecurity Assessment Tool. Allows you complete the tool and generate the needed summaries for analysis and board reporting.

- **Inherent Risk Profile:** Includes 5 worksheets for the 5 categories of inherent risk identified in the Cybersecurity Assessment Tool. Includes a summary worksheet to identy an Overall Inherent Risk Profile.
- **Cybersecurity Maturity Level:** Includes 5 worksheets for the 5 domains identified by the Cybersecurity Assessment Tool. A summary worksheet for each of the five domains allows the reviewer to identify the maturity level for each domain.

Easy to Use and Understand

All required data entry is completed through the use of simple drop down boxes and provisions are included to allow the reviewer to enter notes and comments as needed throughout the workbook. Colorful summaries simplify analysis and can be included for board reporting.

Capital Planning System

Assess capital adequacy in relation to your bank's overall risk and develop a customized capital plan for maintaining appropriate capital levels in all economic environments.

Allows you to:

Develop a Base Case Scenario in which minimum capital adequacy standards are established.

Identify and Evaluate Risk for Your Bank. Parameters in this analysis have been field-tested in our work with banks over the years and closely resemble adequacy standards established in consent orders.

Stress Test Capital by loan classification (as recommended by the FDIC and OCC).

Perform Contingency Planning for stressed events. All assumptions are stressed to determine the amount of capital needed and possibilities for increasing capital are examined.

Generate Your Capital Plan in as Little as 1 Day! Data from the Microsoft® Excel spreadsheets can be easily transferred directly into a Word document that can be customized to fit the unique circumstances at your bank. Sample language and suggestions for changing the narrative are provided.

First Year License Fee (#304) – $1,095

Update/Annual License (#306) – $495