

# 90 Day Note

September 2011 Vol. 25, No. 2

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## Stressing Capital

By: Gary J. Young, CEO  
John Fahrendorf, Executive VP, Western Region

Everyone knows of the need to stress the loan portfolio, and the need to stress the interest-rate risk. Recently a third stress test was added with a Financial Institution Letter regarding stressing liquidity. This article relates to a fourth stress test that most banks should perform in this uncertain economic environment – stressing capital. This should be done even though it is not a requirement.

The definition of a well-capitalized bank is clear for most banks – 5% tier-1 capital, and 10% total risk-based capital. There are other factors, but this fits the definition for the average under \$1 billion bank. Confusion can occur since the regulators can demand a higher level based on their opinion of bank risk. This brings to mind the real definition of FDIC – *Forever Demanding Increased Capital*. But, we must understand that as the economy improves, the pressure is on increasing capital ratios not decreasing them. Chairman Bernanke added to this opinion when he mentioned that banks need to increase capital in good times so that they have it for the bad times. While I don't believe the definition for well-capitalized will change, I do think regulators will push banks to increase capital levels.

Projecting future capital and its implications are a critical component of strategic planning. If a bank has too much capital, shareholder value is reduced. If a bank has too little capital, the bank takes on undue risk. The strategic part of the discussion is to decide the appropriate amount of capital at your bank, or how you define capital adequacy.

It is relatively easy to project the future tier-1 capital ratio. It is a function of profitability, asset growth, dividends, and other one-time events on capital such as a stock repurchase. When you have the projections completed, it is suggested that you stress capital by assuming a drop in income. It doesn't matter what the cause. How does your bank look with respect to capital adequacy under a stress to capital? Further, what are contingencies that will be implemented if the bank does not maintain capital adequacy? It is always best to consider these issues prior to an event that causes the problem. This should become a part of your strategic plan.

In the relatively simple case below, Community Bank is in relatively good shape with capital in the Base Case scenario. Capital remains above 7.5 percent, and earnings are positive, although weak. However, when capital is stressed with an additional \$4.0 drop in net profit in 2011, a \$3.0 drop in 2012, and a \$2.0 drop in 2013, the tier-1 leverage ratio drops quickly. If Community Bank defined capital adequacy as a 7.5% tier-1 capital ratio, the stress creates a problem. The contingency would be implemented if the stress condition becomes reality. While Community Bank is in no danger of a catastrophe, the bank would realize heightened regulatory oversight. The capital component would be downgraded; the earnings component would be downgraded; if the loss was due to asset quality, that component would be downgraded; and the management and liquidity component could also be downgraded. It is best to establish an effective contingency prior to this possible event. As an example, dividends could be reduced or eliminated, asset growth could be reduced, or additional capital alternatives could be analyzed.

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Community Bank - Base Case (in millions)			
	2011	2012	2013
Assets	\$643.9	\$682.5	\$723.5
Capital	\$49.5	\$51.9	\$55.5
Profit	\$2.9	\$4.1	\$5.4
Dividend	\$1.6	\$1.7	\$1.8
ROA	0.45%	0.60%	0.75%
Tier-1 Capital	7.69%	7.60%	7.67%
Asset Growth	6.0%	6.0%	6.0%
Additional Losses	\$0.0	\$0.0	\$0.0

Community Bank - Stressed (in millions)			
	2011	2012	2013
Assets	\$643.9	\$682.5	\$723.5
Capital	\$49.5	\$45.9	\$45.5
Profit	-\$1.1	\$1.1	\$3.4
Dividend	\$1.6	\$1.7	\$1.8
ROA	-0.17%	0.16%	0.47%
Tier-1 Capital	7.69%	6.72%	6.29%
Asset Growth	6.0%	6.0%	6.0%
Additional Losses	\$4.0	\$3.0	\$2.0

### Capital Stress Testing Model.

Young & Associates, Inc. offers a Capital Stress Testing Model. for more information, see page 11.

You are encouraged to add capital stress and a capital contingency to your next strategic plan. It will provide increased oversight for the board, a plan for management, and positive points from regulators. We recently completed a strategic plan for a smaller community bank in the Midwest that included a capital stress. That bank received a positive comment from the regulators for being proactive in exploring future capital needs. While banks will receive positive comments now, it will soon be a requirement.

Stressing capital provides a look at the bank in a worst-case scenario. When a capital contingency is built around this capital stress, your bank will have a realistic plan for dealing with the unknown.

For more information, contact Gary J. Young at 330.283.4121 (cell) or by e-mail [gyoung@younginc.com](mailto:gyoung@younginc.com). □

## Capital Market Commentary Mid-Year Review

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

### Market Highlights

#### *Political*

- The focus of the world turned to Washington, D.C., as legislators and the Administration haggled over increasing the debt ceiling. August 2, 2011 was acknowledged as the deadline for the government to reach a point where it

could not pay all of its financial obligations. A number of proposals were debated related to how much to raise the debt ceiling, identification of future spending cuts, and potential tax increases. At the eleventh hour, Congress and the Administration reached a compromise that resolved the impasse. Despite the agreement, S&P downgraded its rating on U.S. debt. This action surprised many and shook up the credit markets.

- The recent euro-zone countries' plan to provide a \$157 billion bailout to Greece appears to provide a solution to the debt crisis that has weighed on the financial markets for some time.
- The U.S. involvement in Iraq, Afghanistan, and Libya continues to strain military resources and impact the deficit. It appears that the planned December 31 withdrawal deadline for fighting forces in Iraq remains in place. In Afghanistan, 33,000 "surge" forces are scheduled to be withdrawn over the next twelve months.
- The race among Republican presidential candidates seeking to challenge President Obama in the fall of 2012 has begun. Candidates are traveling the country building support and raising funds for their campaigns.

### *Economic*

- The Institute for Supply Management's gauge of manufacturing activity slipped to its lowest level in two years in July. Auto sales recorded soft months in May and June.
- Consumer confidence edged higher in July as jitters over the outlook eased, though consumers remained gloomy about their current situations, according to a private sector report. The Conference Board, an industry group, said its index of consumer attitudes rose to 59.5 from a downwardly revised 57.6 for June.
- The Fed, meeting in late June, downgraded its assessment of the U.S. economy's performance, but gave no indication that it intends to take new steps to boost economic growth and jobs. Instead, officials said they are sticking with plans to end quantitative easing which resulted in the purchase of \$600 billion in U.S. Treasuries and to keep short-term interest rates near zero.
- Oil prices have moved upward to nearly \$100 a barrel.
- The Case-Shiller report indicates that home price declines are moderating. Another index, CoreLogic Inc., evaluates home prices including and excluding distressed sales (bank-owned foreclosures). This analysis indicates that non-distressed home sales are not reporting price declines and that home price data may be highly skewed by the high level of distressed sales.
- The U.S. Labor Department reported a rise in unemployment for June to 9.2% from 9.1%.

### *Business*

- While the U.S. economy has been weak this year, earnings at companies are strong. Preliminary analysis of second quarter earnings releases indicates that corporate profits will be the highest in four years.
- The general stock market has been strong this year:
  - The Dow Jones Industrial Average was up 7.2% for the six months ending June 30, 2011.
  - The NASDAQ composite index has risen 4.5%.
  - Bank prices, as measured by the NASDAQ Bank Index, were down 4.8%.
- Deposit growth for U.S. banks recorded an annual growth of 11% in the second quarter. This growth is the highest in over two years.
- It was recently announced that the Obama administration is evaluating plans



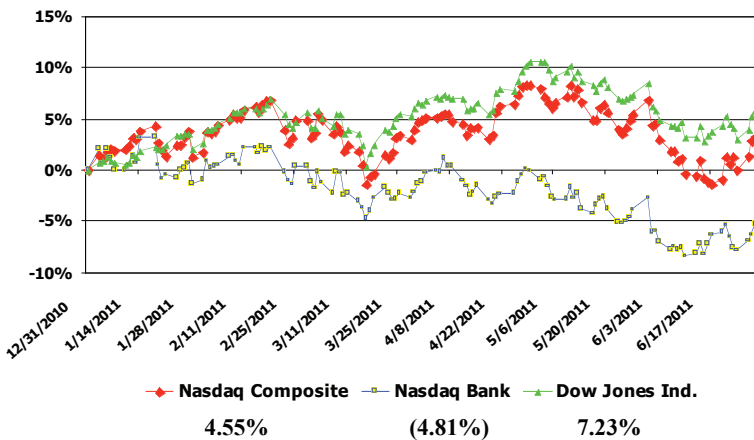
to rent government-controlled residential properties (particularly FHLMC and FNMA) rather than continue foreclosures in an effort to stabilize the housing market. While in the early stages of evaluation, such a shift in policy could have significant implications to the housing and rental markets.

In summary, economic conditions remain weak and unemployment remains a concern. There is no political appetite to provide additional government stimulus as deficit concerns dominate political discussions. The Fed appears to have exhausted its tools to promote economic growth. We expect the second half of the year to see a modest improvement in the economy as world economic conditions improve.

### Market Update

Short-term interest rates decreased slightly through mid-year with the 3-month T-Bill ending at 0.03%, compared to 0.12% as of December 31, 2010. Longer-term rates have also declined modestly and the 10-year T-Note ended the June quarter at 3.18% compared to 3.30% at December 31, 2010.

Price History – Nasdaq Bank Index Compared to General Market Indexes



As mentioned above, the banking sector has failed to follow the general stock market upward in 2011. Bank pricing has been impacted by a variety of issues. Analysts have repeatedly expressed concerns about future bank profitability. They are concerned about the declining revenues and anticipated higher operating costs. Concerns about litigation regarding loan servicing and past mortgage securitizations also have depressed the banking sector. The chart on the left provides market pricing history for the banking industry compared to selected general stock market indices for the first half of 2011.

### Merger and Acquisition Activity

Consolidation in the banking industry continues at a historically slow pace. Year to date as of June 30, 2011, there were 79 announced bank and thrift mergers. Approximately 80% of the mergers were bank sellers with only 15 of the transactions involving thrift sellers. The median price to book for transactions involving bank sellers was 108%.

### Capital Market Services

Young & Associates, Inc. has a proven record of working with our bank clients in the development and implementation of capital strategies. Through our affiliate, Capital Market Securities, Inc., we have assisted clients in a variety of capital market activities including strategic and capital planning, valuations, buyback programs, the purchase and sale of branches, and merger and acquisition activities. For more information on our capital market services, please contact Stephen Clinton at 1.800.376.8662 or [scClinton@younginc.com](mailto:scClinton@younginc.com). □

## Bank Investor Notes

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

The June 2011 quarter earnings announcements for public banks were mostly positive. Most of the larger banks exceeded their earnings forecasts. We noted a number of positive trends for the banking industry:

### Young & Associates, Inc. Hires Kyle Curtis to Serve in Western U.S.

We are pleased to announce that Young & Associates, Inc. has hired Kyle Curtis, Senior Consultant, to expand and enhance business in the western U.S. Kyle has more than 25 years of diverse banking experience in financial reporting, lending, credit administration, and senior executive management positions, including President and CEO, with several mid-sized community banks. He served on the board and was Chairman of the Arizona Bankers Association. He has also served on the board of Banker's Bank of the West in Denver, CO, and the American Bankers Association Community Bankers Group. At Young & Associates, Inc. Kyle's time is shared between the lending review and management consulting divisions, as well as regulatory compliance and policy development. He assists banks under regulatory enforcement agreements and performs management and board of director assessments, loan review and ALLL analysis, and policy implementation.

Please join us in welcoming Kyle to Young & Associates, Inc. He can be reached at 1.800.525.9775 or [kcurtis@younginc.com](mailto:kcurtis@younginc.com). □

- The profitability of the sector continues to improve.
- The level of problem assets held continues to decline.
- Net charge-offs are decreasing.

Of concern, however, is the decline in net interest income for many. Factors causing the decline include shrinking balance sheets, lower loans-to-assets ratios, and lower net interest margins. The poor economic conditions make finding quality loans difficult for banks. The intense competition for loans provides businesses and consumers the opportunity to reduce their loan rates at the expense of lenders. Also, low yields on securities provide dismal returns on "excess" funds. Some banks are beginning to pursue merger and acquisition activity to improve net interest income.

A recent Federal Appeals Court ruling that overturned a SEC rule that would have allowed shareholders to use a proxy ballot to place a nominee to the board with as little as 3% share control is probably a good thing. The courts ruled that the SEC did not meet a procedural requirement that mandates a cost-benefit analysis and that the lower court failed to take into account the rule's impact on competition and capital. In banking, we have seen too much distraction of management by dissident shareholders seeking to flip shares and earn a quick return.

We are optimistic that bank prices will trend upward now that the nation's debt ceiling debate has been resolved. We think that the discounts being applied by the market to banks are overly conservative. We think too much emphasis has been placed on the loss of interchange fee income and heightened regulatory costs. Our experience indicates that banks are innovative and creative and will overcome these concerns and provide investors who purchase strong bank stocks at current levels an above-average return on their investments. □

## Who Is the Client? Where Is My Attorney?

*By: Robert J. Novak, Member, Jennings, Strouss & Salmon*

Community banks are often founded by local talent, usually a banker who, with prior experience and support of family, friends, and the community, sets the wheels in motion. The birth of a bank involves a series of key, sometimes challenging, processes, including creating the structure, requesting and receiving regulatory approval, selling stock, raising capital, electing a board of directors, and hiring officers and staff. If all goes well, the bank opens to serve the community.

At the officer level, a community bank is often managed by individuals with prior banking experience; however, this may not be the case for all of the board of directors. The directors of a community bank often come from a variety of industries and have diverse knowledge and business experience. For those individuals, knowledge and experience specific to the banking business may be gleaned over time.

Starting a bank can be a challenge; however, it is not uncommon for a community bank and its directors to experience a period of growth and manageable loss during the first few years it is open. Loans are often limited to customers who are well vetted or are known personally to someone at the bank and, with a modest start-up, there is little to focus on other than drawing new clients and their deposits to the bank.

Throughout the process of establishing a new community bank, attorneys may assist with developing the bank's structure, working with regulators, and creat-



ing policies. During this time, attorneys may develop close relationships with some or all of the bank's officers and directors. Once the bank is operational, the attorneys who provided advice during the development stage are engaged to assist with a variety of other legal matters. By providing these legal services, those attorneys, either by written agreement or by practice, have established an attorney-client relationship with the bank itself. What officers and directors often fail to recognize (and attorneys often fail to make clear) is that those attorneys represent the bank as a separate corporate entity and do not represent the directors and officers personally. In other words, the attorney's primary duty of care and loyalty is to the bank as a separate entity and not to the institution's individual directors and officers.

The current economic upheaval, resulting in an unprecedented number of bank failures and investigations by the FDIC and other federal and state regulatory agencies, has forced community bank officers and directors to realize that the attorneys they often relied upon for advice, some of whom they considered friends, were never their personal attorneys. One significant ramification of such relationships is that the officers and directors, who believed communications with their banks' attorneys were privileged, learn that the privilege belongs to the bank, not to them. As a result, if regulators take over the bank, the privilege belongs to the regulators, who can then review all such communications. This concept of who the attorneys represent must be understood by all involved at the formation of the bank, and should not first be discovered when regulatory issues arise. The proper understanding of the relationship between a bank and its attorneys (and the proper role of such attorneys) helps mitigate risk on the front end, and helps reduce disputes over the attorney-client privilege in the event of unforeseen circumstances down the road.

In the past several years, if nothing else, those who are involved in the areas touched by financial issues have learned the value of thoughtful, practical, and experienced legal advice. Jennings, Strouss & Salmon, PLC. is a dynamic law firm with the talent and insight to address a wide range of business legal issues and has offices in Phoenix, AZ, Peoria, AZ, and Washington, D.C. Mr. Novak actively assists public and private bank officers, directors, and shareholders with such issues as regulatory compliance, dispute resolution, deal structures, bankruptcy, and related matters. For more information on how he can assist you and your bank, contact John Fahrendorf at [jfahrendorf@younginc.com](mailto:jfahrendorf@younginc.com). For more information on Jennings, Strouss & Salmon, visit [www.jsslaw.com](http://www.jsslaw.com). □

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## The Impact of Dodd-Frank on Community Bank Incentive Compensation Programs on Its One-Year Anniversary

*By: Ted Ginsberg, Skoda Minotti, CPAs, Business & Financial Advisors*

We are all aware that the public and the regulators are focusing on executive and incentive compensation at financial institutions. The Dodd-Frank Act (the "Act"), which was signed into law on July 21, 2010, covered a wide range of topics that impacted financial institutions, including executive and incentive pay – with the overall concept that incentive compensation programs should not encourage employees to take unjustified risk. On April 14, 2011, proposed rules were issued to implement the Act's provisions related to incentive compensation. These rules are now being applied and are having a tremendous impact on the design of executive and incentive compensation programs.

### Why Should a Community Bank be Concerned With This Issue?

There are many reasons for all financial institutions (large and small) to be concerned with the incentive compensation guidelines contained in the Act and the proposed rules.

"... this is clearly on the regulatory agenda for institutions of all sizes. We feel that regulators would take a hard look at an institution which said, "We don't worry about the area of incentive pay because we are too small."

- Our clients inform us that regulators are actively seeking information on this area from institutions with assets of less than \$1 billion; this is clearly on the regulatory agenda for institutions of all sizes. We feel that regulators would take a hard look at an institution which said, "We don't worry about the area of incentive pay because we are too small."
- Incentive compensation is more than a commission for closing a loan or opening a new account; it impacts executives who receive a bonus based on the institution's overall performance, no matter what the goal is. It has a very broad impact.
- Community banks that cross the \$1 billion threshold through growth or consolidation will need to comply with these provisions.
- Monitoring incentive compensation for risk is good business practice. The argument that oversight of these programs is not needed until an asset threshold is passed does not make sense. An institution that has made a decision to pay no incentive compensation will have a difficult time attracting and retaining talent in a market in which these types of programs are typical.

### What Actions Should Community Banks Take Now?

The first step would be to review all compensation programs maintained by the institution that do not involve base salary. Those programs must then be reviewed, on an annual basis, in light of Sound Incentive Compensation Policies (SICP), which are contained in regulations that were finalized in June 2010. SICP applies to all institutions, regardless of size. SICP forces the institutions to review incentive compensation arrangements in light of the following:

- Every incentive compensation program has to balance risk and financial rewards by using some mechanism that makes sure that payments are not being made until it is clear that the "risk" has passed – perhaps by deferring payments or making awards based on longer-term actions (more than one year).
- Incentive programs need to be tailored to each participant to reflect that person's activities and the impact of that person on the financial institution. The institution should be aware of other compensation program restrictions that exist in the industry, such as those relating to employees involved in mortgage-related transactions.
- These programs must be compatible with effective controls and risk management. Appropriate policies and procedures to promote compliance and accountability with these rules must be established. Risk management personnel should be involved in the design and administration of the programs and should be independent (from an internal reporting standpoint) of the employees who benefit under the program.

A second step would be to make sure that this review process has strong corporate support and governance. The board of directors must be involved, monitoring and reporting of program results needs to be conducted on a regular basis, and procedures and reports should be documented. Having this type of documentation available for review will be helpful during the examination.

We would also suggest that the institution's commitment to this process be communicated to employees, investors, and the general public. This practice should instill greater confidence in the management and stability of the institution, as well as demonstrate to the regulators that the institution is paying attention to this important issue.

### Contact Us

All financial institutions need to be concerned with this issue. For more information on how Young & Associates, Inc. can assist your bank regarding its incentive compensation program, contact Mike Lehr, HR Consultant, at [mlehr@younginc.com](mailto:mlehr@younginc.com) or 1.800.525.9775. We would be pleased to meet with you to discuss your institution's progress in this area compared to what is occurring in the marketplace. □

Skoda Minotti is a CPA, business and financial advisory firm that is focused on assisting clients grow their businesses. Clients of the firm range from closely-held businesses to public companies, including financial institutions. Skoda Minotti is an independent member of the BDO Seidman Alliance which offers resources and technical expertise to clients through over 360 locations across the United States and over 600 locations internationally. For more information, visit their website at [www.skodaminotti.com](http://www.skodaminotti.com) or call 1.888.201.4484. □

## Dodd-Frank Compliance Challenges

*By: Bill Elliott, Senior Consultant and Manager of Compliance*

One of the many Dodd-Frank compliance challenges will be the speed at which bankers will have to react to regulatory changes. This article provides two examples of regulatory requirements in which a quick response will be required. These regulations were issued about July 6, 2011, with a legal start date of July 21, 2011 (courtesy of Dodd Frank), and a regulatory start date of August 14, 2011. Full compliance was virtually impossible for banks, due to the timing of the final rules. Everyone hopes that regulators allow bankers a little room regarding these compliance deadlines.

### Fair Credit Reporting Risk-Based Pricing Regulations

The Board of Governors of the Federal Reserve System (Board) and Federal Trade Commission (Commission) published final rules to implement the risk-based pricing provisions in section 311 of the Fair and Accurate Credit Transactions Act of 2003 (FACT Act), which amended the Fair Credit Reporting Act (FCRA). The rules require a creditor to provide a risk-based pricing notice to a consumer when the creditor uses a consumer report to grant or extend credit to the consumer on material terms that are materially less favorable than the most favorable terms available to a substantial proportion of consumers from or through that creditor.

The Board and the Commission amended their respective risk-based pricing rules to require disclosure of credit scores and information relating to credit scores in risk-based pricing notices if a credit score of the consumer is used in setting the material terms of credit.

### Effect on Banks

If your bank has been giving all customers their credit scores using H-3 (notice to home loan applicant /real estate), H-4 (notice to all applicants for non-real estate loans), or H-5 (notice to applicants with no credit scores), then this pronouncement did not have any measurable impact upon your bank.

This rule essentially amends Appendix Examples H-1 and H-2 of the risk-based pricing rule. Most banks are not using H-2, as that is only used if the bank is reevaluating a credit card interest rate based on the customer's current credit scores. However, many banks are using H-1, which is the document that is used whenever the bank employs the risk-based pricing methods of the 40%/60% splits methods.

If you use a credit score to set material terms, the customer will need to receive H-6 rather than H-1. H-6 has all of the information that is on H-1, plus additional credit score information.

### FCRA/Regulation B: Adverse Action Notice

On July 6, 2011, the Board of Governors of the Federal Reserve System (Board) issued a final rule regarding adverse action notices.

Section 615(a) of the Fair Credit Reporting Act (FCRA) requires a creditor to provide a notice when the creditor takes an adverse action against a consumer



based in whole or in part on information in a consumer report. Certain model notices in Regulation B include the content required by both the ECOA and the FCRA adverse action provisions, so that creditors can use the model notices to comply with the adverse action requirements of both statutes. The Board amended these model notices in Regulation B to include the disclosure of credit scores and related information if a credit score is used in taking adverse action. The revised model notices reflect the new content requirements in section 615(a) of the FCRA as amended by the Dodd-Frank Wall Street Reform and Consumer Protection Act.

### ***Effect on Banks***

The final rule included almost no changes from the proposal. Many forms companies had already published new adverse action notices based on the proposal, and will have to make almost no modifications.

If your bank uses electronic-based forms, your forms companies should have been able to quickly respond. If your bank uses paper-based forms, you need to order new adverse action notices immediately. Be prepared (regardless of the format) for these documents to be much longer.

The adverse action notice will now provide information almost identical to the risk-based pricing notices. However, the bank will not be able to use the risk-based pricing notice to provide the new information to the denied applicant.

### **Conclusion**

While these changes were not extensive, many banks struggled due to the time-tables for implementation. While other portions of the changes are likely to allow more time for implementation, banks will discover that the time for implementation will seem very short. Banks will have to work on methods to implement changes more quickly, or face being buried by the regulatory avalanche.

If Young & Associates, Inc. can be of any assistance in this process, please feel free to contact us at 1.800.525.9775 or by e-mail at [bille@younginc.com](mailto:bille@younginc.com). □

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## **Dodd-Frank and Force Placed Insurance**

*By: Jamey Lawrence, Director, Client Services  
Lawrence Victoria*

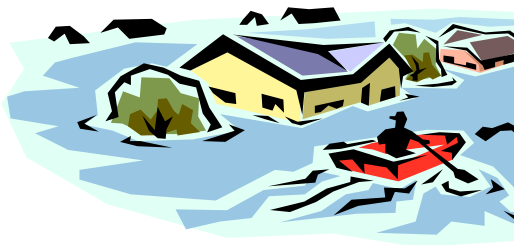
Recent regulations, in conjunction with a spike in natural disasters, have placed a renewed emphasis on banks' force placed insurance procedures. This is prompting most banks to perform a thorough evaluation of their current force placed insurance program. The primary purpose of the review is to ensure compliance with the new regulatory changes underway. An overview follows.

### **Dodd-Frank Act and Consumer Financial Protection Bureau (CFPB)**

Significant changes were made to force placed insurance practices included under Dodd-Frank and the CFPB. Standard procedures historically utilized by most banks will need to be changed in order to comply with the mandatory requirements. The CFPB will have enforcement authority with the ability to impose civil money penalties ranging from \$5,000 per day for minor infractions to \$25,000 per day for more careless violations and \$1 million per day for knowing violations.

### **Attorneys Generals' Settlement of Mortgage Servicing Practices**

Restrictions in the proposed attorneys generals' settlement of mortgage servicing practices stipulates several common force placed insurance practices currently utilized by many banks are prohibited. Furthermore, it would require the bank to take specific additional and cumbersome steps prior to force placing any borrower.



## National Association of Insurance Commissioners (NAIC Model Act)

The National Association of Insurance Commissioners Model Act is very specific in many areas related to how force placed insurance is handled. Some practices required by the Act are frequently overlooked by banks and there are also some practices the Act prohibits that are often utilized.

### Flood Insurance

With recent flooding, and the past temporary suspension of the NFIP, examiners and regulators from all agencies have been "targeting" the flood insurance area during compliance exams. Flood zone determinations, ongoing monitoring of flood zone properties, and force placed flood insurance procedures have come under increased scrutiny. In many cases, penalties have been imposed. The concern is not directed so much at proof of insurance at loan closing, but rather making sure the bank has a system in place to identify exposure at any point after loan closing.

### Force Placed Insurance Litigation

Recently, lawsuits against banks have been filed on behalf of force placed insurance borrowers. Typically, banks may avoid such litigation by utilizing a well-planned, disciplined, and professionally monitored program.

Most force placed insurance programs currently utilized by community banks that have been considered compliant and disciplined in the past will not pass scrutiny in today's environment.

With so much at stake, banks can no longer rely solely on an in-house insurance clerk and local general insurance agent for their force placed insurance protection. It has become vital to partner with a trusted specialty provider who will provide guidance through uncertainty and deliver a turn-key system that allows the bank to concentrate on their core business.

In addition to insulation from regulatory violations and uninsured losses, there are other significant enhancements available as a result of utilizing the most current technology to reduce administration and improve customer service.

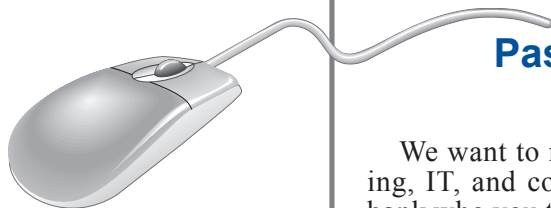
To evaluate the different solutions available and to acquire an analysis of your current force placed insurance program, please contact Jamey Lawrence at [jlawrence3@lawrencevictoria.com](mailto:jlawrence3@lawrencevictoria.com) or by phone at 1.440.349.0775, ext. 105. □

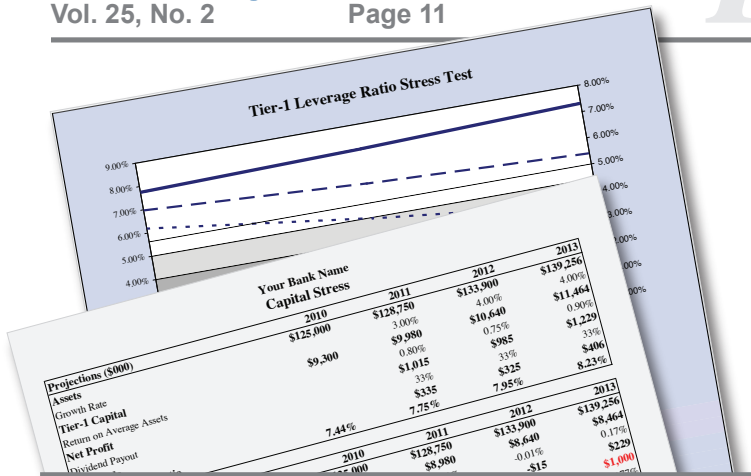
## About Lawrence Victoria

Since 1976, Lawrence Victoria is the leading provider exclusively dedicated to providing community and regional banks specialty force placed insurance and insurance tracking solutions. Whether a bank has 5 or 500 properties with force placed insurance, Lawrence Victoria can provide customized turn-key options not available elsewhere. Their plans protect all loan and collateral types while improving compliance, protection, administration, customer service, and utilization of technology.

## Pass the Word – Register to Receive the 90 Day Note by E-mail!

We want to make sure everyone at your bank gets the management, lending, IT, and compliance information they need. If there are others at your bank who you think would like to receive the *90 Day Note* by e-mail, let them know that they can sign up to receive the newsletter at [www.younginc.com/news](http://www.younginc.com/news) today. Registration is easy – just fill out the form and hit submit. There is no limit to the number of e-mail subscriptions available. We hope that your bank finds the *90 Day Note* to be a useful resource in running a profitable community bank. □





### Capital Stress Testing Model (#288) – \$149

A practical risk management tool that will assist bank management and the board in conducting effective, proactive capital planning. Easy-to-use and understand, this Microsoft® Excel-based spreadsheet allows you to create useful “what-if” scenarios to determine the impact of unexpected change in net income on the bank’s capital level over a three-year period. While not a regulatory requirement, a capital stress provides an important tool for the development of a capital contingency plan.

*System Requirements: Microsoft Excel 2002 and higher*

### Appraisals and Evaluations Policy (#124) – \$225

Young & Associates, Inc. has updated our Appraisal and Evaluations Policy to incorporate the requirements of the *Interagency Appraisal and Evaluation Guidelines* released on 12/10/10.

This customizable policy template covers:

- Appraiser and Evaluator Qualifications and Selection
- Engagement Letters
- Appraisals From Other Financial Institutions (including purchased participations)
- Third-Party Arrangements
- Useful Life of Appraisals
- Appraiser/Evaluator/Lending Staff Independence
- Appraisal/Evaluation Review
- Appraisal Audits for Loans Sold on the Secondary Market
- Reappraisals or Reevaluations of Collateral
- Representations and Warranties

### Liquidity Cash Flow Planning and Stress Testing Model (#271) – \$950\*

Perform quantitative liquidity assessments as required by the *Interagency Guidance on Funding and Liquidity Risk Management*.

- 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

*\* Includes 1 year of technical support.*

*System Requirements: Microsoft® Excel*

### Liquidity Contingency Funding Plan (#272) – \$275

Provides a written contingency funding plan as required by the *Interagency Guidance on Funding and Liquidity Risk Management*. 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.

### Liquidity Toolkit (#273) – \$1,250\*

Includes:

- Liquidity Cash Flow Planning and Stress Testing Model (above)
- Liquidity Contingency Funding Plan (above)
- Customizable Liquidity Management Policy – regularly \$175

*\* Save \$150 when you purchase the Liquidity Toolkit!*

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