# 90 DAY NOTE

July 2023 Vol. 36, No. 2

A Young & Associates, Inc. Publication

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## Inside This Issue:



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# Meet the Upcoming Fannie Mae Prefunding Deadline on 9/1/23

Are you prepared for the upcoming Fannie Mae prefunding deadline on 9/1/23? On March 1, 2023, Fannie Mae announced changes to its selling guide that will take effect on **September 1, 2023.** These changes were made to improve overall loan quality and reduce the number of loans requiring remediation by lenders.

## What's Changing?

As part of these changes, lenders are now required to conduct a minimum number of prefunding reviews each month. The total number of loans reviewed must meet the lesser of the following criteria:

- 10% of the prior month's total number of closings, or
- 750 loans

Lenders are encouraged to implement these changes immediately, but they must be in full compliance by September 1.

**Note:** The 10% loan population in the September 1 - September 30 cycle will be based on the total number of loans closed in August.

## How Young & Associates Can Assist with Your Pre-Closing QC Reviews

At Young & Associates, we understand the importance of staying ahead of the curve. With today's downturn in mortgage loan volume and high origination costs, our independent pre-closing QC reviews may be a viable option for your organization. Let us help you navigate these changes seamlessly and mitigate the risk of noncompliance.

By conducting pre-closing Quality Control reviews, we can:

- Provide important and timely information to origination staff prior to closing a loan.
- Test residential mortgage loans and origination sources to identify and address loan defects prior to closing.
- Verify that loans conform to your organization's policies and meet insurer and guarantor requirements.
- Mitigate the risk of noncompliance.
- Alleviate the time and staffing issues you may be facing in today's volatile market.
- Control your costs by eliminating the need to maintain someone in-house to perform this work.

## Why use Y&A? Superior Results at a Lower Cost

Young & Associates, Inc. is an industry leader and provider of QC services for over 45 years and provides mortgage quality control services to meet government-sponsored enterprise and agency requirements.

For more information about us and how we can assist you with your pre-closing QC reviews, contact us by phone at 330.422.3482 or email at mgerbick@younginc.com. We look forward to working with you. ❑

# Assess, Plan, and Effectively Respond to Today's Market Challenges

*By: Jerry Sutherin, President & CEO*

In today's dynamic market, some of the biggest challenges faced by our clients include but are not limited to interest rate risk management, liquidity, capital adequacy, and commercial loan underwriting. These issues are magnified by the ability of our clients to locate, hire, and retain quality human capital to operate effectively and efficiently.

## Interest Rate Risk Management

Rising or fluctuating interest rates impact your financial institution's growth prospects in both the short and long term. Not only do interest rates pose a risk to a financial institution's balance sheet, but they also impede the ability to effectively produce reliable financial statement forecasts. A financial institution's Net Interest Margin (NIM) is a key component of each income statement. Being able to adequately forecast interest income as well as internal cost of funds allows an institution to produce a reliable budget. To overcome this, financial institutions must identify, measure, monitor, and control interest rate risks to meet the requirements of the Joint Policy Statement on Interest Rate Risk (IRR) and the IRR regulatory guidance. Effective control of the interest rate risk will require conducting annual independent reviews of the asset liability management (ALM) function and validating your risk measurement systems to ensure their integrity, accuracy, and reasonableness. This will also involve internal controls of loan and deposit pricing. Establishing and maintaining these controls should begin at the board level and flow through management.

## Credit Risk Management

Rising interest rates have also had a profound impact on credit quality of commercial lending, one of the primary drivers of revenue for most financial institutions. The change in credit quality results in the tightening of credit standards throughout the industry and by the regulators. Being able to effectively underwrite loans and mitigate risks within a commercial loan portfolio is a function of having seasoned staff to manage these processes. Lack of quality credit talent exposes financial institutions to otherwise preventable credit risks. The dilemma for most financial institutions is finding, hiring, and maintaining experienced personnel. In some instances, this has resulted in inadequate credit presentations being prepared by unqualified individuals or loan officers underwriting their own credits for approval. The increasing burden of inflation and wages adds another layer of complexity to the mix. Many community-focused institutions are not willing or able to pay top rate for talent, which is understandable given the need and focus to remain competitive among the larger regional and national banks that continue to acquire and/or out-compete them.

## Liquidity Risk Management

Another impact of a higher interest rate environment and inflation is the disintermediation of funds or liquidity from financial institutions to other financial intermediaries. Sound liquidity management is crucial for controlling your organization's liquidity risk and managing cash flow to meet expected and unexpected cash flow needs without adversely affecting daily operations. Your financial institution should assess the range of possible outcomes of contemplated business strategies, maintain contingency funding plans, position for new opportunities, and ensure regulatory compliance and the adequacy of your risk management practices.

## Capital Planning

Both interest rate risk management and liquidity management have a direct impact on the capital adequacy of all financial institutions. Capital contingency planning will ensure that your financial institution maintains the required level of capital through any realistic stress event. Periodic review of minimum capital requirements and stress tests can provide valuable insights and will maintain your standing with the regulators.

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### The Importance of Strategic Planning

So far, this article has only discussed the challenges faced by the financial institution industry. These obstacles are not just management issues. They are also issues that boards of directors must navigate as well.

Are there solutions? Absolutely - yes there are. Boards of directors and management must be aligned on all strategic initiatives. These objectives need to be derived and adopted by the board and conveyed to management. The most common approach is through a focused strategic planning session involving the board and management. The outcome of such a retreat will enable the board to identify goals and risks faced by the organization while also deciding on how the goals will be accomplished and the risks mitigated. This could be through the utilization of qualified internal staff or engaging outside experts to assist with each objective. An effective strategic plan will incorporate all these pieces to help guide your organization as you navigate the changing industry landscape.

### Partner With Us for Success

For 45 years, Young & Associates, Inc. has partnered with banks and credit unions across the country to provide consulting, outsourcing, and educational services to minimize their risk and maximize their success. Our services cover areas such as interest rate risk analysis, liquidity planning, assessment of capital adequacy strategic planning, regulatory assistance, internal audit, independent loan review, IT audits and penetration testing, and regulatory compliance assessment, outsourcing and training. Our team of consultants boasts an unmatched level of industry experience and is comprised of former banking executives, compliance regulators, and tenured finance professionals who have personally experienced many of the same issues you face at your organization.

For commercial credit needs, Y&A Credit Services is a full-service provider of outsourced underwriting services and credit analysis. An independent entity, Y&A Credit Services offers the same exceptional service, expertise, and integrity you've learned to expect from Young & Associates, Inc., and provides commercial credit underwriting and credit approval presentations, annual underwriting reviews, financial statement spreading and analysis, and approval and underwriting package reviews. We'll work with you to improve the quality, speed, and accuracy of your lending with a solid focus on minimizing your credit risk. Our team members are experts in credit services and the financial industry and include former chief credit officers and senior credit analysts from both community and regional banks and provide full outsourced credit department services to our clients, keeping their costs low so they can remain competitive in their markets. Our seasoned credit professionals boast a combined 100+ years of experience in credit administration which helps mitigate risks while assisting our clients with safe and sound underwriting processes.

We look forward to assisting your bank or credit union in meeting these challenges head on. Find out more about the many services we provide at www.younginc.com (Young & Associates, Inc.) and www.yacreditservices.com (Y&A Credit Services). Or contact us directly by emailing Jerry Sutherin, President & CEO, at jsutherin@younginc.com or calling him directly at 330.422.3474. ❑

## Ensuring Compliance in a BSA/AML Compliance Program: Independent Testing

*By: Edward Pugh, AAP, CAMS, CAMs-Audit, CFE*

One of the key components of a financial institution's compliance with BSA/AML regulatory requirements is independent testing of the BSA/AML Program. Independent testing may be performed by an institution's internal audit department, outside auditors, consultants, or other qualified independent parties. There is no regulatory requirement establishing the frequency of BSA/AML independent testing; rather, the frequency should be commensurate with the money laundering/terrorism financing risk profile of the institution.

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Many institutions conduct independent testing every 12 to 18 months, increasing frequency if there are any significant changes in the risk profile, such as changes in systems, compliance staff, products, mergers/acquisitions, or an institution's size. Significant errors or deficiencies may also warrant more frequent independent testing to validate mitigating or remedial measures.

Often, the need for a truly independent assessment, combined with limitations in staffing capacity, prompts institutions to engage an external entity to conduct a comprehensive evaluation of their BSA/AML program compliance. Thus, it is critical to ensure that the independent review provides an unbiased assessment of an institution's BSA/AML compliance efforts, identifies potential risks or weaknesses, and offers recommendations for improvement. Some key components of a satisfactory BSA/AML independent program audit or testing include the following:

- **Scoping and Planning:** The scope of the review should be based on a risk assessment of the institution's products, services, customers, and geographic locations. The scoping and planning phase often relies on the institution's own BSA/AML risk assessment, but if it is inadequate, the external auditor may determine the scope. Additionally, any changes in the business or regulatory environment, as well as any issues identified in previous audits or examinations, should be taken into account.
- **Independence:** The audit/testing should be conducted by individuals who are independent of the BSA/AML compliance program. While internal auditors may be acceptable, a BSA Officer or assistant would not be. This ensures that any findings are objective and unbiased.
- **Qualifications and Training of Auditors:** Persons conducting the independent testing should have sufficient knowledge and understanding of the BSA, AML, and related regulations. They should be trained in auditing principles and procedures and understand the various risks financial institutions face.
- **Review of the BSA/AML Compliance Program**: The audit should include a comprehensive review of the BSA/AML Compliance Program, including its policies and procedures, risk assessment, internal controls, training programs, and the role and performance of the BSA Officer.
- **Transaction Testing:** Thorough transaction testing should be conducted to verify compliance with BSA/AML requirements, such as customer identification, suspicious activity reporting, customer due diligence, currency transaction reporting, and record keeping requirements.
- **Assessment of Training Programs:** The institution's BSA/AML training programs should be reviewed to ensure they are adequate, up-to-date, and effective in educating employees about the BSA/AML responsibilities. The Board of Directors training should also be reviewed.
- **Reporting:** An audit report should be produced that clearly communicates findings, including any weaknesses or deficiencies in the compliance program. Appropriate recommendations for improvement should also be provided where necessary.

A comprehensive and effective BSA/AML independent program audit is essential for financial institutions to ensure compliance with the various laws and regulations pertaining to BSA/AML. Some issues pertaining to independent testing that are frequently found in Reports of Examination include lack of independence on the part of the auditor (tester), insufficient scope, and insufficient transaction testing. A comprehensive and independent audit of an institution's BSA/AML compliance program not only facilitates regulatory adherence, but also pinpoints and highlights any existing program deficiencies.

**Additional Resources:** FFIEC BSA/AML Assessing the BSA/AML Compliance Program - BSA/AML Independent Testing

Young & Associates works with financial institutions of all sizes to help them avoid regulatory pitfalls and develop strong BSA/AML compliance programs. For more information, contact me at epugh@younginc.com or 330.422.3475. ❑

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# The Role of Loan Review in the Credit Risk Management System

*By: David Reno, Director of Loan Review & Lending Services*

Loans, especially non-consumer loans, typically represent the greatest level of risk on your balance sheet. Therefore, effective commercial loan portfolio management is crucial to control credit risk. It can serve as an early indicator of emerging credit risk related to lending to individual borrowers, aggregate credit exposure to related borrowers, and the overall credit risk associated with a loan portfolio. It serves as an integral part of an institution's credit risk management system that is a continuum comprised of the following stages:

- Well-formulated lending policies, procedures, and practices that are consistently applied, well-known to all credit and lending staff, and compliant with regulatory guidance
- The collection and accurate credit analysis of financial and other underwriting information
- Assignment of an accurate risk grade
- Proper and qualified approval authorities and risk-based process
- Correct and thorough documentation
- Pre-closing preparation and loan closing
- Post-closing credit administration
- Internal annual loan review
- External/independent loan review
- Timely problem loan identification and management
- Proper calculation of the ALLL
- Collection and loss mitigation

Effective and efficient loan reviews can help an institution better understand its loan portfolio and identify potential risk exposures to contribute to the formulation of a risk-based lending and loan administration strategy.

"The starting point is a written credit risk review policy that is updated and approved ... to evidence its support of and commitment to maintaining an effective system."

## Regulatory Background

The OCC, FRB, FDIC, and NCUA issued the *Interagency Guidance on Credit Risk Review Systems* in FIL-55-2020 dated May 8, 2020, which aligns with *Interagency Guidelines Establishing Standards for Safety and Soundness*. This guidance is relevant to all institutions supervised by the agencies and replaces Attachment 1 of the 2006 *Interagency Policy Statement on the Allowance for Loan and Lease Losses*. The final guidance details the objectives of an effective credit risk review system and discusses such topics as sound management of credit risk, a system of independent, ongoing credit review, and appropriate communication regarding the performance of the institution's loan portfolio to its management and board of directors.

## Credit Risk Rating (or Grading) Framework

The foundation for any effective credit risk review system is accurate and timely risk ratings. These risk ratings are used to assess credit quality and identify or confirm problem loans. The system generally places primary reliance on the lending staff to assign accurate, timely risk ratings and identify emerging loan problems. However, the lending personnel's assignment of risk ratings is typically subject to review by qualified and independent peers, managers, loan committee(s), internal credit review departments, or external credit review consultants that provide a more objective assessment of credit quality.

## Elements of an Effective Credit Risk Review System

The starting point is a written credit risk review policy that is updated and approved at least annually by the institution's board of directors or board committee to evidence its support of and commitment to maintaining an effective system. Effective policies include a description of the overall risk rating framework and responsibilities for loan review.

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An effective credit risk review policy addresses the following elements:

**Qualifications of Credit Risk Review Personnel.** The level of experience and expertise for credit risk review personnel is expected to be commensurate with the nature of the risk and complexity of the loan portfolio, and they should possess a proper level of education, experience, and credit training, together with knowledge of generally sound lending practices, the institution's lending guidelines, and relevant laws, regulations, and supervisory guidance.

**Independence of Credit Risk Review Personnel.** Because of their frequent contact with borrowers, loan officers, risk officers, and line staff are primarily responsible for continuous portfolio analysis and prompt identification and reporting of problem loans to proactively identify potential problems. While larger institutions may establish a separate credit review department, smaller institutions may use an independent committee of outside directors or other qualified institution staff. These individuals should not be involved in originating or approving the specific credits being assessed, and their compensation should not be influenced by the assigned risk ratings. Regardless of the approach taken, it is prudent for the credit risk review function to report directly to the institution's board of directors or a committee thereof. Senior management should be responsible for administrative functions.

The institution's board of directors may outsource the role to a third-party vendor; however, the board is ultimately responsible for maintaining a sound credit risk review system.

## Scope of Reviews

Comprehensive and effective reviews cover all segments of the loan portfolio that pose significant credit risk or concentrations. The review process should consider industry standards for credit risk review coverage, which should be consistent with the institution's size, complexity, loan types, risk profile, and risk management practices. This consideration helps to verify whether the review scope is appropriate.

An effective scope of review is risk-based and typically includes:

- Loans over a predetermined size along with a sample of smaller loans
- Loans with higher risk indicators, such as low credit scores or approved as exceptions to policy
- Segments of loan portfolios, including retail, with similar risk characteristics, such as those related to borrower risk (e.g., credit history), transaction risk (e.g., product and/or collateral type), etc.
- Segments of the loan portfolio experiencing rapid growth
- Past due, nonaccrual, renewed, and restructured loans
- Loans previously criticized or adversely classified
- Loans to insiders, affiliates, or related parties
- Loans constituting concentrations of credit risk and other loans affected by common repayment factors

## Review of Findings and Follow-Up

A discussion of credit risk review findings should be held with management, credit, and lending staff and should include noted deficiencies, identified weaknesses, and any existing or planned corrective actions and associated timelines.

## Communication and Distribution of Results

The results of a credit risk review are presented in a summary analysis with detailed supporting information that substantiates the concluded risk ratings assigned to the loans reviewed. The summary analysis is then periodically presented to the board of directors or board committee to maintain accountability and drive results. Comprehensive reporting includes trend analysis regarding the overall quality of the loan portfolio, the adequacy of and adherence to internal policies and procedures, the quality of underwriting and risk identification, compliance with laws and regulations, and management's response to substantive criticisms or recommendations.

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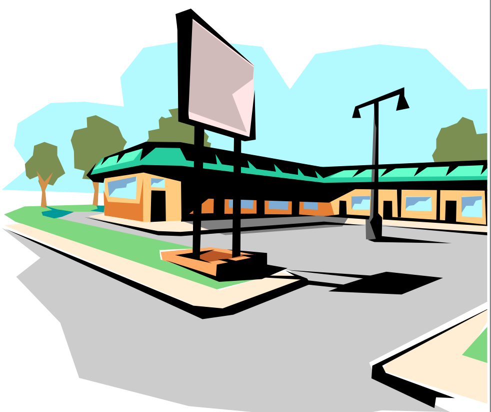
## Summary Insights

The back-testing that is performed by the loan review process is necessary to ensure that an institution has in place a comprehensive and effective credit risk management system and that an institution acknowledges and practically applies the established framework of its unique but compliant credit culture.

An effective external loan review process is not so much a traditional audit exercise as it is an advisory process that produces meaningful dialogue between the review firm and the institution that seeks to identify and interpret various aspects of credit risk to minimize risk of loss by implementing industry best practices, maintaining regulatory compliance, and supporting the institution's long-term viability in continuing to serve the needs of its customers and community.

For more information on the role of loan review in the credit risk management system, contact David Reno, Director of Loan Review & Lending Services, at dreno@younginc.com or 330.422.3455. ❑



# Lenders Covered by New 1071 Small Business Data Rule

*By: William J. Showalter, CRCM, CRP, Senior Consultant*

The Consumer Financial Protection Bureau (CFPB) has issued its final rule to implement the rule required by Congress that is intended to increase transparency in small business lending, promote economic development, and combat unlawful discrimination. This is probably the last provision of the Dodd-Frank Act of 2010 to be implemented.

The CFPB stated that it undertook significant planning to simplify the implementation of the new rule and prepare for the submission of data from thousands of lenders. Many of these lenders already report mortgage data under the Home Mortgage Disclosure Act (HMDA). The CFPB recognizes that small business lending has important differences from mortgage lending.

## Background

In 2010, Congress enacted requirements that would result in lenders making data available to the public about their small business lending activity in Section 1071 of the Consumer Financial Protection Act, as part of the Dodd-Frank Act. However, the CFPB did not issue rules to implement this requirement. The California Reinvestment Coalition sued the CFPB in 2019, leading to a court order requiring the CFPB to finalize the rule by March 31, 2023.

The CFPB has undertaken significant planning to simplify implementation and prepare for the submission of data from thousands of lenders. While many of these lenders already report mortgage data, the CFPB recognizes that small business lending has several key differences from mortgage lending. After considering a wide range of feedback and thousands of public comments, the CFPB has finalized the rule and plan for implementation.

Under the new rule, lenders will collect and report information about the small business credit applications they receive, including geographic and demographic data, lending decisions, and the price of credit. The rule will work in concert with the Community Reinvestment Act (CRA), which requires certain financial institutions to meet the needs of the communities they serve. The increased transparency is expected to benefit small businesses, family farms, financial institutions, and the broader economy.

## Covered Lenders

The CFPB is defining the term "financial institution," consistent with the definition in section 1071 of the Dodd-Frank Act, as any partnership, company, corporation, association (incorporated or unincorporated), trust, estate, cooperative organization, or other entity that engages in any financial activity.

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Under this definition, the requirements of the new rule apply to a variety of entities that engage in small business lending, including depository institutions (i.e., banks, savings associations, and credit unions), online lenders, platform lenders, community development financial institutions (CDFI), Farm Credit System lenders, lenders involved in equipment and vehicle financing (captive financing companies and independent financing companies), commercial finance companies, governmental lending entities, and nonprofit, non-depository lenders.

### Phased Implementation

The CFPB considered a wide range of feedback and thousands of public comments in this rulemaking process. The agency finalized the rule and planned for implementation to take a phased approach.

During its rulemaking process, the CFPB found that there were key differences in how large financial institutions would implement the rule, compared to relationship-based local lenders. The CFPB is adopting a tiered compliance date schedule because it believes that smaller and mid-sized lenders would have difficulties complying within the single 18-month compliance period in the original proposed rule. So, the final rule takes a phased approach that requires the largest lenders, which account for most of the small business lending market, to collect and report data earlier than smaller lenders.

"The new rule provides that covered financial institutions may begin collecting applicants' protected demographic information one year before their compliance date to help prepare for coming into compliance with this final rule. "

This phased schedule provides for compliance beginning as follows:

- Lenders that originate at least 2,500 small business loans annually must collect data starting October 1, 2024
- Lenders that originate at least 500 loans annually must collect data starting April 1, 2025
- Lenders that originate at least 100 loans annually must collect data starting January 1, 2026

The term "covered financial institution" is a financial institution that originated at least 100 covered credit transactions for small businesses in each of the two preceding calendar years (with compliance phased in based on the loan volumes above). Only financial institutions that meet this loan-volume threshold are required to collect and report small business lending data under the final rule.

For the phased implementation, lenders should look at their lending in 2022 and 2023 to determine their coverage. For lenders in the third tier, if the financial institution did not originate at least 100 covered credit transactions for small businesses in each of calendar years 2022 and 2023 but subsequently originates at least 100 such transactions in two consecutive calendar years, it must comply with the requirements of this rule, but in any case, no earlier than January 1, 2026.

The new rule provides that covered financial institutions may begin collecting applicants' protected demographic information one year before their compliance date to help prepare for coming into compliance with this final rule. The CFPB is also adopting a new provision to permit financial institutions that do not have ready access to sufficient information to determine their compliance tier (or whether they are covered by the rule at all) to use reasonable methods to estimate their volume of originations to small businesses for this purpose.

While the new rule requires data collection and reporting for only those that make at least 100 loans annually, the rule will cover the vast majority of bank small business lending, based on the CFPB's analysis. In addition, the CFPB notes that lenders originating less than 100 loans per year will still have to adhere to fair lending laws despite not having to report this loan data.

### Final Rule and Additional Resources

The final rule may be accessed at:
https://files.consumerfinance.gov/f/documents/cfpb_1071-final-rule.pdf.

The CFPB has also developed several resources for financial institutions, including:

- Filing Instructions Guide (FIG) for reporting the newly required data
- Small entity compliance guide

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- Frequently asked questions (FAQ)
- A set of Quick References
- Sample data collection form from the regulation
- Slide deck from a recent RegCast on the coverage of the rule

These resources are available at: https://www.consumerfinance.gov/compliance/compliance-resources/small-business-lending-resources/small-business-lending-collection-and-reporting-requirements/.

As the agency develops additional resources related to this rule, we can expect these to become available on this webpage (above).

To emphasize financial institutions' obligations to collect this important data, the CFPB is also issuing a policy statement noting that it intends to focus its supervisory and enforcement activities in connection with the new rule on ensuring that lenders do not discourage small business loan applicants from providing responsive data, including responses to the requests to provide demographic information about their ownership. This policy statement is available at: https://files.consumerfinance.gov/f/documents/cfpb_1071-enforcement-policy-statement.pdf.

### Implementation Note

The implementation schedule spelled out in the final rule (discussed above) may be delayed. A lawsuit has been filed petitioning the court to push the implementation dates back to allow more time for financial institutions to develop their compliance programs for this rule. So, the expected schedule may be delayed, or may not.

One thing to keep in mind is that, even if the implementation dates are pushed back, they will eventually arrive. Therefore, all financial institutions that are active in small business lending should proceed with their planning and implementation process to be ready to comply when the rule does become effective for their institution.

For more information on the new small business data rule and its implications for your financial institution, contact me at wshowalter@younginc.com or 330.422.3473. ❑

## Vendor Due Diligence Evaluations

*By: Michael Gerbick, COO*

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Do you have a due diligence packet?

Can you answer these questions for our due diligence?

Our outsourced vendor relationship manager will be reaching out to you for due diligence information.

As a trusted vendor to many clients, we receive requests/comments like these every day from our customers and it brings to light the large disparity between what is requested and what is understood from the information. We are trusted with personal, identifiable information daily, and it is our responsibility to do our best to protect that information. No one can guarantee foolproof protection as it's not "if" but "when" security breaches will occur. We can, however, adhere to industry standards that assist in reducing these risks significantly. This is important when looking internally at our own systems and processes as well as our critical vendors.

There are several areas to consider in the due diligence evaluation. I have highlighted a few of these areas below to assist you in choosing a trustworthy vendor.

### Vendor Purpose

Knowing how a vendor will be leveraged will begin to shape the risk analysis needed for the remaining due diligence areas. Think about if they will need access to your environment, if they will need access to your confidential information, and/or if they will provide a service that you could not otherwise handle without them.



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How long have they been in business? Have they declared bankruptcy? Your risk profile will start to take shape regarding strategic and reputational risk and will direct the due diligence areas you focus on going forward.

### Information Access

At a most basic level, how will your vendor access your information? Remotely from anywhere, with unbridled access to your core system? Onsite via paper documents with 24-hour oversight by your staff? Or will the service be executed in a hybrid fashion (onsite and remote)? In addition to access, will you allow the vendor to save the information outside of your environment? Will you send information electronically to the vendor and if so, how will you communicate? Vendors that do not have direct access to your core or large repositories of confidential information may still touch non-public information. You may consider a business email compromise for your vendor and its impact to your organization as a scenario when you approach sharing non-public information through either email or a secure file transfer. Thinking about how the information will be accessed, transferred, and used will help in your due diligence process and help ensure that you've done your best to get the valuable service from your vendor with a method of accessing confidential information you are most comfortable with.

### Information and System Controls

This is more than just passwords. It's about if the vendor's systems are updated frequently with the latest patching, data center security (SOC 1 and 2 reports), the encryption on devices, the MFA (Multifactor Authentication) in place at the account and device level, the antivirus, antimalware, protection from ransomware and MDR (Managed Detection and Response), where your information is accessed and that all the system controls are monitored. Every week, there are news reports of another 'hack' and ransom of individuals' sensitive information. The only constant here is that this is reality, and the protections and attacks are ever-changing and evolving. There is a lot to unpack here, and you can ask thousands of questions of your provider. Ultimately, you need to decide if the information you share with them is held in an environment that meets your expectations of safety and security. An informed and trusted IT leader on your team can help make sense of this space for your organization and identify those areas that apply to you. At a minimum a complete set of robust questions or list of requests will help you immediately highlight those vendors that can help you from those that may just introduce risk to your organization.

### Business Continuity, Incident Response Plan, and Disaster Recovery

An event will happen. Plans in place that are reviewed and tested regularly will minimize the negative impact. Ask your vendor if they have these plans and discuss with them to understand how robust they are. Gain a comfort level that the vendor cares about managing the inevitable event as much as you do. If they are a critical vendor and something happens to them, you should expect them to have a plan in place to mitigate your risk.

### Confidential Information

In addition to specific language in your vendor contract and the methods of accessing confidential or non-public information, ask about cybersecurity-specific insurance coverage in case of an incident. If their staff is touching your information, ask about their hiring practices and the expertise of their personnel, confidentiality agreements, and background checks.

### Conclusion

There are many talented vendors out there to assist your organization. A consistent approach with a defined leader on your team will elevate the quality of the vendors your organization chooses to do business with. The few areas discussed above help manage risk when something goes wrong. The more prepared your vendor and you are for those inevitabilities, the less impact it will have on you and your customers.

If you want to find out more about vendor due diligence or need help improving or starting your vendor due diligence program, please contact Michael Gerbick at mgerbick@younginc.com or 330.422.3482. Young & Associates can help you every step of the way. ❑

## Threat Intelligence Program – $395

***Includes:***

- **Threat Intelligence Program:** Documents the requirements for the institution's threat intelligence program, including: threat intelligence sources, the monitoring process, the analysis and response process, documentation requirements, and the reporting process
- **Threat Tracking Summary Worksheet:** Microsoft® Excel-based workbook for tracking threat notifications and responses
- **Threat Tracking Detail Worksheet:** Microsoft Word-based worksheet for tracking details about the threat analysis and response process performed for each specific threat
- **Information Systems Event Management Policy:** Policy template that documents the requirements for information systems event management procedures
- **Event Management Procedures for Specific Systems Worksheet:** Excel-based workbook for documenting the event management procedures for each information system

***System Requirements: Microsoft® Excel 2007 or higher***

## Liquidity Toolkit – $1,795

***Includes:***

- **Liquidity Cash Flow Planning Model:** 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.
- **Liquidity Contingency Funding Plan:** 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 Management Policy:** 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.

***System Requirements: Microsoft® Word 2007 and Excel 2007 or higher***

## Commercial Real Estate Stress Testing Workbook – $1,095

*Available in 3 versions for Banks, Banks with an existing SNL subscription, and Credit Unions.*

Combines call report data with loan-level data characteristics that you enter about the CRE loans in your portfolio to estimate the level of CRE losses your institution might experience under two stress scenarios that you have the ability to define. Workbook output includes highlighting individual loans that may experience losses in a stress scenario as well as aggregate portfolio-level loss amounts. Provides an efficient solution for stress testing your CRE portfolio, and the results serve as important inputs into your concentration risk management, capital planning, and strategic planning processes.

***Requires Microsoft® Excel 2007 or higher.***

## I.T. Asset Lifecycle Policy – $225

Establishes lifecycles for the hardware and software that is used within the bank as defined by the manufacturer or determined by the bank, identified by the manufacturer's plans for providing technical support and developing patches to correct any identified security vulnerabilities or operability issues.

## Current Expected Credit Loss (CECL) Policy – $495

Reflects the changes required by the June 2020 Policy Statement and covers the role of the Board of Directors and Management; an overview of the allowance for credit losses; the components of the primary allowance for credit loss, including data, segmentation, contractual term, credit loss measurement, reasonable and supportable forecasts, reversion techniques, and qualitative factor adjustments; and reporting and testing.

## Marijuana/Cannabis and MRB Policy – $445

Establishes the responsibilities and requirements for conducting banking activities for legal marijuana and cannabis businesses, including those Tier 2 and Tier 3 businesses that have a secondary or tertiary relationship with marijuana-related businesses.

## Marijuana Business and MRB Lending Policy – $445

Establishes a prudent framework for financial institutions to responsibly conduct business with legal marijuana/cannabis businesses in their communities while acknowledging and mitigating the legal and regulatory risks posed by doing so. The policy can be customized to fit the institution's risk profile and line of business strategy and assures lending, compliance, and BSA/AML staff have access to necessary information that addresses the many marijuana/cannabis issues that must be understood, documented, and monitored. Includes a Due Diligence Checklist.

## Marijuana Policy Combo – $795 ***Save $95***

Buy both marijuana policies above and save.