



CERTIFICATION NEWS

REGULATORY

What Compliance Changes will 2019 Bring?

By Mary Thorson Wright

Although compliance rules for 2019 look scarcer than in previous years, community banks will have more than enough challenges digesting long-awaited regulatory relief efforts, monitoring the effectiveness of compliance systems and practices, and managing the final vestiges of the Dodd-Frank Act and other previously ratified rules. Not surprisingly, the steps community banks have taken and should be taking now to meet those objectives are the hallmarks of successful compliance performance.

Changes to data reporting under HMDA

The Home Mortgage Disclosure Act (HMDA) is the gift that keeps on giving. The HMDA Rule, issued on Oct. 15, 2015, requires covered institutions to collect 110 unique data fields on most

residential mortgage loan applications, unless the institution qualifies for the partial exemption provided in the Economic Growth, Regulatory Relief, and Consumer Protection Act (S.2155). Collection of the new data points began on Jan. 1, 2018, and they must be reported by March 1, 2019. Jan. 1, 2019, marked the effective date for changes to enforcement provisions and additional amendments to reporting provisions; however, there is an interagency agreement to not assess penalties for errors in HMDA data collected in 2018 and reported in 2019, with no resubmission required for that period unless errors are found to be material. One of the best resources for HMDA data collection and reporting continues to be the Federal Financial Institutions Examination Council's *A Guide to HMDA Reporting: Getting It Right!*

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PROFESSIONAL PROFILE

Get to Know James Severson, an ICBA-Certified Banker in Minnesota

By Shirley Ringhand

James Severson is senior vice president at Foresight Bank in Plainview, Minn. James holds four ICBA certifications. He became a Certified Community Bank Compliance Officer in 1999, a Certified Community Bank Technology Officer in 2006, a Certified BSA/AML Professional in 2007, and a Certified Community Bank Security Officer in 2007.

Fact Check

Foresight Bank

Headquarters: Plainview, MN

Retail offices: Two

Bank asset size: \$240 million

Number of bank employees: 40

Number of staff in auditing and BSA/AML: Two

Website: www.Foresight.Bank

Taglines/Motto: We work to foster wise financial decisions and trusted relationships. We provide customized, efficient service with foresight, friendliness, and enthusiasm. We will help our customers fulfill their goals through value-added products, services, and relationships.

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2019 CERTIFICATION CALENDAR

Audit Institute

- Apr. 28-May 3; Dallas, TX
- Sept. 8-13; Minneapolis, MN

Annual Current Issues/Certification Conference

- Sept. 23-26; Minneapolis, MN
- Oct. 7-10; Charlotte, NC

Bank Security Institute

- Sept. 15-18; Minneapolis, MN

BSA/AML Institute

- May 14-16; Minneapolis, MN
- Aug. 5-7; Denver, CO
- Nov. 13-15; Dallas, TX

Compliance Institute

- Feb. 24-Mar. 1; Dallas, TX
- June 9-14; Minneapolis, MN
- Sept. 29-Oct. 4; Nashville, TN

Commercial Lending Institute

- Aug. 11-16; Minneapolis, MN

Consumer Lending Institute

- Sept. 8-11; Minneapolis, MN

Credit Analyst Institute

- Mar. 31-Apr. 3; Orlando, FL
- Oct. 27-30; Minneapolis, MN

IT Institute

- Aug. 5-9; Minneapolis, MN

Risk Management Institute

- Oct. 28-30; Minneapolis, MN

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The Consumer Financial Protection Bureau (CFPB) adopted a new safe harbor provision to protect financial institutions that satisfy certain conditions from liability for HMDA and Regulation C violations for errors and omissions in submitted data. If a financial institution makes a good-faith effort to record all required data fully and accurately within 30 calendar days after the end of each calendar quarter, and some data are nevertheless inaccurate or incomplete, the inaccuracy or omission is not a violation provided that the institution corrects or completes the data prior to submitting its annual loan application register.

“Nonetheless, we’re not done with HMDA,” cautions Barbara Boccia, senior director of advisory services and regulatory relations at Wolters Kluwer. “The CFPB will still need to decide what data will be public. Acting director Mick Mulvaney has signaled the bureau will also revisit all of the 2015 changes in 2019.”

S.2155 included some changes to HMDA reporting, most notably a reduction in the data that smaller

financial institutions must collect and report. Because banks began preparations for the expanded HMDA reporting following the 2015 rule, many financial institutions wish the passage of the regulatory relief legislation mid-2018 would have come sooner.

“It will be interesting to see how banks that do not have to implement the new data fields will handle the change,” says Julia De France, a director at RSM US LLP. “We’ll also need to see how the loan software vendors deal with it. They may have to have two products, one for banks required to collect and report all the data, and one for banks that are not required to report all the data and desire reduced data collection.”

De France encourages community banks to fully evaluate the changes. How will this affect banks to undo just part, but not all, of what was changed for 2018? Regulatory guidance and its timing will be key factors. Depending on the timeliness, could the political landscape have changed before the reforms can be effectuated? From a change management and operational standpoint, how many times can a community bank change direction on its staff and keep their confidence level and technical abilities up to par?

De France also observes that, from a fair lending standpoint, there could now be two sets of industry data. How might that affect data analysis and peer comparisons when you don’t have apples to apples anymore?

TILA threshold adjustments

The CFPB is required to annually calculate the inflation-adjusted dollar amounts for several provisions in Regulation Z, which implements the Truth in Lending Act (TILA). On Aug. 27, 2018, it published a final rule amending Regulation Z under the Credit Card Accountability Responsibility and Disclosure Act of 2009 (CARD Act), the Home Ownership and Equity Protection Act of 1994 (HOEPA) and

the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). The adjustments are based on the annual percentage change reflected in the Consumer Price Index (CPI) in effect on June 1, 2018, and are effective Jan. 1, 2019.

Prepaid accounts under EFTA and TILA

The rule primarily amended Regulation E, which implements the Electronic Fund Transfer Act (EFTA), and made a minor modification to Regulation Z (TILA) for accounts with an overdraft feature. While the original rule was effective on Oct. 1, 2017, it has been extended twice, which brings the effective date to April 1, 2019. The CFPB is finalizing modifications to several aspects of that rule, including error resolution and limitations on liability for prepaid accounts where the financial institution has not successfully completed its consumer identification and verification process; application of the rule’s credit-related provisions to digital wallets that are capable of storing funds; certain other clarifications and minor adjustments; technical corrections; and the extension of the overall effective date to April 1, 2019. The agency released an unofficial redline of the 2018 amendments to assist industry and other stakeholders in reviewing the changes the final rule makes to its 2016 Prepaid Accounts Final Rule.

Compliance with the prepaid rule applied to prepaid accounts beginning Oct. 1, 2017, and prepaid account issuers were required to submit all their prepaid account agreements to the CFPB beginning Oct. 1, 2018. The scope of examinations in 2019 should begin to cover the requirements.

With S.2155 passed, what next?

The bipartisan financial regulatory relief bill was signed into law May 24, 2018. Some of its provisions were written to take effect immediately, while others have later specified effective dates or are open-ended, to be determined by rule-making. Financial institutions

Keep your foot on the gas

Both Julia De France of RSM US LLP and Barbara Boccia of Wolters Kluwer agree that a robust approach to compliance in 2019 will benefit community banks:

- This is not the time to back off, regulatory reform or not.
- Focus on CMS soundness, policies, training, change management and board involvement.
- Look for parity among regulatory requirements, bank policies and procedures, and actual practices.
- Watch for additional guidance on HMDA, and a review and possible realignment of the Community Reinvestment Act (CRA).
- Sort out S.2155. What applies? Ask yourself, “What must we do for compliance and beyond?”

should carefully review it in its entirety, which includes compliance and much more. ICBA published a comprehensive matrix to track implementation of S.2155 provisions that affect community banks. (Visit the Advocacy section of ICBA's website and locate Plan for Prosperity and S.2144 in the navigation menu to locate the matrix).

Managing risk will be as important, if not more important than ever. Despite the bill's name, community banks need to be in sync with the focus on risk management while staying the course on technical compliance, and it appears most have no false illusions. In late 2018, Wolters Kluwer conducted a survey of 582 banks and credit unions. Despite the passage of S.2155,

62 percent of respondents indicated they don't anticipate a likely reduction in regulatory burden.

"Consistent with the new examination rating system," De France forecasts, "expect more compliance management system (CMS) focus from regulators as they move from examinations less concentrated on technical data and more on the change management process, implementation plans, oversight sufficiency, training and the testing/retesting process."

Boccia emphasizes that enforcement actions have not diminished, and community banks need to keep internal controls strong for fair lending; Unfair, Deceptive, or Abusive Acts or

Practices Act (UDAAP); cybersecurity; vendor management; complaints; and TILA-RESPA Integrated Disclosure (TRID) management. She encourages compliance officers to communicate in all directions and to develop efficient, effective, clear and simple tools, such as dashboards to enhance communications with lines of business and the board of directors. Policies, procedures, training and reporting must be institution-specific, customized to products, services and the bank's business model.

Mary Thorson Wright, a former Federal Reserve examiner, is a financial writer in Virginia. This article originally appeared in the January 2019 issue of Independent Banker magazine.

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What makes a community bank different from the larger banks?

Community banks share common goals with their customers. Their response to concerns and questions are from a different point of view. They will work longer when customers are having difficulties.

What makes you most proud about your bank? My bank has a very long history of family, with that you have employees and owners with a point of view of "do what is right and fair for all concerned."

How did you find your way into banking? After college, I landed a job with a large bank. During my four years there, I had a manager that strongly suggested I would enjoy and be more successful working for a community bank. He was right.

Tell us your biggest and best accomplishment. I have worked for four different banks during my career, and was in management for three of the banks. However, I worked nine years in Plainview, left for 10 years and now have been back with Foresight Bank in Plainview for 16 years.

What do you like best about the work you do? I have always enjoyed both the people I work with and the people I work for. With every job the tasks are different, but the people make the job

What is your bank's customer service philosophy?

1. We work to enable our customers to succeed.
2. We value relationships, and we work to be trustworthy, knowledgeable, and accountable
3. We seek opportunities to support the communities we serve.
4. We seek to make every encounter a positive experience for our customers.
5. We consistently look for opportunities to provide value to our customers.
6. We are respectful of people's time.
7. We seek solutions and paths forward.
8. We value learning opportunities and recognize there is always room for us to improve.
9. We work to enable employees to grow with the bank and have rewarding, long-term careers in order to ensure continuity and promote

long-term relationships within the bank and with customers.

What's your best advice to a new bank employee? Make sure you are always ready for change, and when change comes, take charge.

Why did you choose to become certified? In 1999, I was going to take on the compliance officer position and believed this would be the fastest track to increase my knowledge on compliance. With each certification, I have increased my knowledge in different areas of the bank. Certification programs give the incentive to complete continued education. I've noticed over the last few years that federal regulators are interested to see that I have an ICBA certification.

How has earning your certification designation helped your career as a banker? Along with increased knowledge, I have a good network of bankers who can be called on for help.

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CERTIFICATION NEWS

CPE Requirements for Certified BSA/AML Professional Designation

The continuing professional education (CPE) requirement for a Certified BSA/AML Professional (CBAP) designation has changed from 15 to 20 CPE credits effective with all certification cycles beginning on Jan. 1, 2019.

Regulatory expectations, strict examiner scrutiny and heightened financial trends continue to increase since 2007, when the BSA/AML Certification Program was first introduced. To ensure all individuals maintaining the CBAP designation remain on the pulse of industry issues and emerging trends, the ICBA Certification Board recommended and approved an increase to 20 CPE credits.

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