Training and Events; Compliance and Risk - How Much in Bank Fines?

By: Rob Chrisman | Thu, Sep 8 2016, 9:58 AM

50 years since Star Trek debuted on TV? Holy smokes. Salaries were lower back then. How much do NFL referees earn in a year? The average NFL referee salary was $173,000 in 2013, and it is set to rise to $201,000 by 2019. Note that the NFL season only lasts about half the year, and for most NFL referees, refereeing is not their only job. The salaries of different college football referees vary depending on the region, their years of experience and the size of the school. On average, college football referees get paid $3,000 per game, as of 2014.

Bank news? Sure there is. On the acquisition front in New Jersey United Roosevelt Savings Bank ($98mm) will acquire Wawel Bank ($73mm) for about $4.4mm in cash. In California AltaPacific Bank ($354mm) will acquire Commerce Bank of Temecula Valley ($71mm) for about $15.9mm in cash (50%) and stock (50%), and Suncrest Bank ($317mm) will acquire Security First Bank ($105mm) for about $18.1mm in cash and stock or roughly 1.10x tangible book.

Banks are concerned about Basel, especially any banks that have a servicing portfolio: Basel impacts capital requirements, the same capital that banks need to hold servicing. The Federal Reserve's net stable funding proposal for financial institutions in the US is seriously flawed because it is based on a standard adopted by the Basel Committee on Banking Supervision that has major shortcomings, two major financial industry groups said. The groups are calling for a reappraisal of the Basel standard.

Plenty of lenders had great Augusts (and most believe we're in for a slight slowdown in September), and plenty of lenders had very profitable 2nd quarters. How have banks been doing? **FDIC records indicate that while US banks earned $700B in profits between 2007 and 2014, they paid $150B in fines, settlements and other penalties.** While a big chunk of those payments were hefty fines and settlements paid by big banks, community banks have certainly seen their share of penalties.

In many ways, it can be **more challenging** for community banks to keep up with new and more demanding regulations, so they can easily get hit with stricter enforcement. More rigorous enforcement of BSA/AML in particular, has prompted big banks to become much more diligent about compliance and to fire more customers. Regulators say one result is that when big banks terminate relationships with suspicious clients, those clients seek to move their accounts to smaller banks with less experience managing BSA/AML risk. A community bank without a robust compliance function that can effectively spot and report suspicious activity - as defined under regulations and heightened standards - could wind up with major problems and nasty fines.

But **when you talk to a bank's compliance officer, BSA/AML issues are just one type of compliance risk facing community banks**. Consider that fair lending rules require close monitoring of how consumer credit is handled. Often, banks outsource development, implementation and fulfillment of consumer credit products, but that has risks. After all, banks are still responsible for compliance with fair lending rules, no matter how the product is designed or delivered. Regulators say one result of the rise in outsourcing here is also an increase in compliance risk.

Steve Brown with PCBB writes that, "Some banks that have offered credit to active military personnel and their dependents have seen **additional fines** and regulatory issues. These could relate to the recently amended Military Lending Act (MLA), which sets certain rules and disclosures designed to protect active military from unfair lending practices. That sounds good at face value, but to ensure compliance, banks need to review loan products to make sure whether or not these new MLA rules apply and then take any and all necessary steps to meet requirements."

Global consulting firm McKinsey took a run at the issue of compliance. It suggested that to be the most effective, bankers should **fully integrate** compliance into their overall operational risk function. This will often mean elevating compliance functions within the bank, putting it under audit or the legal department, perhaps. In this environment, banks face such heightened regulatory risks, it is important to take a close look at things to avoid compliance lapses.

Jonathan Foxx writes, "We have a vibrant vendor management firm, **Vendors Compliance Group.** The difference between VCG and the other companies is that our system is far more than a compilation service with ratings. Our approach is hands-on, with direct contact to clients and vendors, helping them to make vendor decisions that reflect their tolerance for risk. Our analysts actually review all documentation and information and product reports, using research from the best due diligence resources in the country. We have actually encountered regulators who do not accept compilation approaches and believe that the lender has a primary obligation to either do 'hands-on' themselves or retain a firm such as VCG to conduct hands-on, active, and deep review analytics. In one instance, the regulator fully accepted our findings because of the fact that the method of due diligence was such a deep dive, direct, and individually reviewed by our analysts. Previously, that client's vendor findings were rejected by the regulator as being no more than an outsourced compilation service.

Remember, **the lender cannot pass on the liability of vendor review to a third party**. That is why we do what we do. It is accepted by regulators as state of the art as well as responsible due diligence."

Speaking of compliance, with HMDA rules changing, January 1st 2018 is not too far off to begin preparing. **Wells Fargo** is suggesting Lenders review and understand the HMDA final rule. Study the changes and begin preparation activities in order to be in compliance when the rule goes into effect. Consult your internal counsel and compliance teams on any operational changes necessary to support the final rule, and penalties for failing to do so. Identify all third-party vendors who will provide support for your organization's compliance with the rule. Establish regular touch points with vendors to facilitate communication and ensure change readiness. Obtain confirmation from each vendor regarding how the rule will be supported and the dates such support will begin. Watch for future Wells Fargo Funding communications later in the year and throughout 2017.

Nearly every day, to the tune of billions every week, the NY Federal Reserve Bank is in the market buying agency mortgage-backed securities. The money it uses to do this comes from mortgages it already owns paying off early, thus keeping their holdings relatively constant. Many traders and analysts wonder when it will stop buying. After all, aside from raising the Fed Funds rate, the Fed could also nudge rates higher by cutting purchases (think supply and demand). Pre-quantitative easing the Fed's balance sheet stood at roughly $800 billion in assets. Today, it is about $4.5 trillion. Although the Fed intends to eventually return its balance sheet to pre-2008 levels, ex-Fed Chairman Ben Bernanke (remember him?) argues that the Fed should maintain its balance sheet at current levels for the long term.

For now, however, the markets and interest rates seem quite content where they are, and yesterday was no exception as U.S. Treasuries ended little-changed after a session very light on U.S. economic data. Of perhaps more interest are the statements by various Federal Reserve officials. Kansas City Fed President George (FOMC voter) said that she believes "we are at or near full employment." Richmond Fed President Lacker, who does not vote on the FOMC until 2018, said that the case for a rate increase in September is strong and that the Fed needs to make up ground on hikes. And SF Fed President John Williams believes the Fed should hike rates "sooner rather than later," because the U.S. economy is at full employment.

Today doesn't hold much more promise for economic news to bump us out of this range. Ahead of today's New York open the ECB (European Central Bank) will release its policy decision with overnight rates and the asset purchase target expected to remain unchanged. ECB President Draghi's press conference will follow starting at 8:30am. In this country we'll have Initial Jobless Claims, and... well, I guess that's about it for anything of consequence. We wrapped up Wednesday with the 10-year risk free T-Note yielding 1.54%.

Training and Events

We all know how hard it is to recruit these days. That's why **Sierra Pacific Mortgage is hosting a free webinar on developing your employees**. The key to building growth within your organization is the retention of good, solid employees. As part of their ongoing Market Power series, Sierra Pacific invited Kate Raetsch, VP of National Training at Radian Guaranty Inc. to address this important issue on September 13th. **Sign up today** and reserve your virtual seat.

Mortgage News Network and **nmpU** Head Coach Ron Vaimberg will be doing something that is a first in the mortgage profession. On Tuesday, September 20th at 1PM EDT, via a live interactive streaming video from MNN Studios in New York, Ron will be teaching originators across the country exactly **"How to Quickly Locate, Target and Win Top Agent Relationships."** This is an exclusive private training class only for registered attendees. Only 100 seats will be sold for this 2-hour program. Go to www.nmpULive.com for complete event details. Use discount code "NMPU" and save $100 off the regular $199 fee. Your entire office can attend for one price!

The **2016 Kentucky Affordable Housing Conference** is scheduled for October 18-19 at the Crowne Plaza Louisville Airport Expo Center.

Arch MI has trainings all September long... Register for one or all available topics.

Our very own government's FHA has free online webinars: September 13th Lenders Recertification Process. September 16th Trainings and Tips for FHA Resource Center.

If you are in Minneapolis or would like to visit, **FHA's** is offering free, 1-day trainings: Appraisal requirements September 20th or September 21st. Underwriting procedures September 22nd or September 23rd.

Jobs and Announcements

While we're on jobs, **Compass Analytics is seeking candidates with secondary market experience to fill account management and pricing positions in its Irvine, CA office.** Successful candidates will have secondary, hedging, lock desk, pricing engine or guideline experience and be technically savvy. "Compass Analytics is a growing provider of financial technology services and workflow automation to the mortgage industry - including lenders, servicers and investors. Compass offers a unique opportunity for growth and experience, with a casual-yet-focused, fast-paced work environment including an outstanding compensation and benefits package." Interested candidates should email a cover letter with resume to Marketing Manager Sarah Slagle.

Summer's not over yet, as an opportunity is heating up in third party originations. **Stonegate Mortgage continues to grow and is seeking a proven sales leader to manage and expand its Southwest territory as Regional Manager.** This is a unique opportunity to sell products in all three TPO channels: broker, non-delegated, and correspondent (including bulk mandatory). As a publicly-traded company (NYSE:SGM) Stonegate Mortgage has been committed to making the dream of homeownership a reality and providing its associates the resources they need to succeed. Qualified candidates should email their resumes to Adrienne Camarata.

For something a little different, "Attention entrepreneurial mortgage company owners/principals and/or regional or national bank executives. **A HECM and mortgage industry veteran/expert is available for hire to start-up a new Reverse Mortgage division** for the right bank or mortgage company committed to growth. "Something to consider: Roughly 10,000 American's turn 62 each day (age to qualify for Reverse Mortgage) and will for the next several years. If you do not market FHA's Reverse Mortgage product (HECM- Home Equity Conversion Mortgage) you are not only missing out on a significant financial windfall for your organization, but you are not serving your customers, referral partners and loan officer's needs and are walking away from business each day. Realtors love the product and gives you a leg up on competition as you can buy a home using a reverse with as little as 40-50% down and no house payment ever. Be more relevant to you Realtor partners. Principals should send a note of interest to me for forwarding to the individual.

And **a national mortgage lender is searching for a Branch Retail Production Manager** to lead existing retail, realtor based $200M per year ($17M per month) team in the Seattle / Bellevue, Washington marketswhose role will be to lead and support existing loan officers and act as a conduit between sales and ops/fulfillment. Compensation is a base plus override on existing production plus growth bonuses. The ideal candidate will have a $3-$5M/month branch to possibly merge with existing retail team to make one large fulfillment platform. There are strong growth goals for the Seattle market to reach $1B in 2017. Interested candidates should respond to me for forwarding - please specify opportunity.

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