Quarterly Conversations with the Federal Reserve Bank of St. Louis

Live from Centennial Bank
Conway, Arkansas

February 10, 2015
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Today’s Presenters

- Julie Stackhouse, *Senior Vice President*, Federal Reserve Bank (FRB) of St. Louis
- Joe Detchemendy, * Examiner*, FRB of St. Louis
- Eddie Boerner, * Examiner*, FRB of St. Louis
- Paul Lippold, *Senior Financial Analyst*, FRB of St. Louis
Agenda

- The New Year Top 8: A Look Back at 2014’s Key Findings
- Q&A – Julie Stackhouse and presenters
#8: Mishaps in Equal Credit Opportunity

• When to collect Government Monitoring Information (GMI):
  – Credit is primarily for the purchase or refinancing of a dwelling occupied or to be occupied by the applicant as a principal residence, where the credit will be secured by the dwelling.
  – “The government doesn’t need to know that!”
  – Whoops! The customer picked up the wrong application and completed the GMI information.

• Unsecured loan applications and Adverse Action Notices:
  – Insufficient what?!?!
#7: No Rest for Real Estate Settlement Procedures Act Violations

• All about escrow!
  – Those pesky annual escrow statements
  – Inaccurate estimates
  – We’ve determined there is a surplus, now what?

• Good Faith Estimate (GFE) and settlement form (HUD):
  – GFE terms availability
  – GFE/HUD forms and adjustable rate mortgages
  – The settlement company goofed! Who’s to blame?
#6: What’s the Truth in Lending?

- Finance charges continue to cause trouble!
  - Flood determination fee versus flood life of loan fee
  - Loan processing fees and closing fees received by the bank
  - Voluntary credit insurance premiums
- Incorrectly calculated finance charges: the domino effect
  - Understated annual percentage rate (APR)
  - Understated amount financed
#5: Hmmm: Home Mortgage Disclosure Act (HMDA) Violations

• Getting it right with rate spreads
  – When rate spreads are not applicable
  – What is the lock date?
  – Using the correct APR

• Reported income and application dates
  – Which income?
  – Procedures to eliminate guessing

• Reported in error: temporary financing and HMDA
  – Intention versus contractual obligation
#4: Other Real Estate Owned (OREO): To Be or Not To Be?

OREO as a Percent of Total Assets

Source: Call Report
#3: Appraisals Versus Evaluations: Is It Worth It?

- Regulatory guidance:
  - SR Letter 10-16, Interagency Appraisal and Evaluation Guidelines
  - Regulation Y, Subpart G, Appraisal Standards for Federally Related Transactions

- Expertise and independence
- Access to appropriate information
- Third-party outsourcing
- AVM (automated valuation models)
#2: Can Two Small Banks Create a Monopoly?

- Yes, they can, if an acquisition results in two or more branches overlapping in a particular banking market.
- Market concentration in a banking market is measured by the Herfindahl-Hirschman Index (HHI).
- If the pro forma HHI is greater than 1800 and the increase is 200 or more, there is the potential for a monopoly in that banking market.
- Bankers can identify the change in the HHI by visiting [https://cassidi.stlouisfed.org/](https://cassidi.stlouisfed.org/).
- Divestitures of branches can mitigate the adverse competitive effects of a merger.
- All applications with competitive issues have to be acted on by the Board of Governors.
#1: Stop the Clock on Applications: Behind the Scenes of Why Some Applications Take So Long

- Comments require BOG’s review to ensure convenience and needs factor is consistent with approval.

- Analysis consists of reviews of HMDA data and examination reports, requests for information, discussions with regulators of the institution whose record was criticized, and targeted reviews of the institution’s fair lending or Community Reinvestment Act (CRA) performance.
#1: Stop the Clock on Applications: Behind the Scenes of Why Some Applications Take So Long (continued)

• “Close” applications are those that the BOG perceives are not likely approvable without commitments to improve the institution’s record.

• “Close” applications require extensive discussion at the BOG among various divisions to reach a consensus regarding the decision on the application and the manner in which the decision is communicated to the public.
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Questions?

You have three ways to ask a question:

1. By webinar: Type your question into the chat box
2. By phone: Press *1 to ask a live question
3. By email: rapid@stls.frb.org
Thank you!