Quarterly Conversations with the Federal Reserve Bank of St. Louis

Live from Lewisburg Banking Company
Lewisburg, Kentucky

August 13, 2014
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Agenda

• Question and answer session on appraisal /evaluation requirements
  *Sam Ciluffo*

• Cole Taylor Bank: A case study on how a third-party relationship resulted in civil money penalties and a cease and desist order
  *Cathy Kusmer*
    – Lessons learned from the Federal Reserve’s review of Centennial Bank’s campus card program
      *Andria Brady*

• Q&A
  *Julie Stackhouse and presenters*
Question and Answer Session on Appraisal/Evaluation Requirements
Presented by Sam Ciluffo
Senior Examiner, Federal Reserve Bank of St. Louis
Question 1

• How can banks improve their internally prepared evaluations?
  – Have there been trends of criticisms regarding evaluations performed internally by bank staff?
  – If so, what are they?
Question 2

• Can the use of an existing appraisal be extended for a new transaction beyond 1 year if a study is performed of the market area in which the bank generally does business, to establish market values which are stable and unchanged from the prior year?
  – Could the study be used to justify market values for all appraisals in the area which are still valid for up to 2 years?
Question 3

• Can you clarify if we are required to obtain at least an evaluation every time for loans that have one-year maturities or for 3/1 arms?
Question 4

• What is the recommended or best practices time-frame for updating appraisals on impaired (problem) loans?
  – In reality, an appraisal is not going to give a foreclosure value; therefore, the value of the property could be viewed as overstated. Has there been any thought given to using a disposition or liquidation value appraisal to determine the amount of impairment?
Question 5

• For appraisals of model homes in developments, do we have to have an appraisal for each model or will an appraisal of a 1 ½ story house be acceptable for all similar homes in the development? Also, for appraisals of models, how long are these appraisals valid? Is it the life of the development assuming the homes are still selling at the appraised range or is there a cutoff?
  – Also, for developments where the construction loans for individual homes are less than $250,000, can the bank do an evaluation of a model and use that for all construction loans of that model going forward (as allowed for appraisals) or does the bank have to do individual evaluations?
Question 6

• What documentation is required to validate an existing older appraisal or evaluation?
Question 7

• Have the regulatory agencies considered raising the evaluation threshold from $250M to, for example $500M?
Cole Taylor Bank: A case study on how a third-party relationship resulted in civil money penalties and a cease and desist order
Presented by Cathy Kusmer
Assistant Vice President, Federal Reserve Bank of St. Louis
Press Release

• July 1, 2014, Enforcement Action Press Release titled “Federal Reserve Board announces civil money penalty and issues cease and desist against Cole Taylor Bank”

• http://www.federalreserve.gov/newsevents/press/enforcement/20140701b.htm
Institution-Affiliated Party

The term "institution-affiliated party" means--

- any director, officer, employee, or controlling stockholder (other than a bank holding company or savings and loan holding company) of, or agent for, an insured depository institution;
- any other person who has filed or is required to file a change-in-control notice with the appropriate Federal banking agency under section 7(j) of the FDI Act;
- any shareholder (other than a bank holding company or savings and loan holding company), consultant, joint venture partner, and any other person as determined by the appropriate Federal banking agency (by regulation or case-by-case) who participates in the conduct of the affairs of an insured depository institution; and
- any independent contractor (including any attorney, appraiser, or accountant) who knowingly or recklessly participates in—
  A. any violation of any law or regulation;
  B. any breach of fiduciary duty; or
  C. any unsafe or unsound practice,
- which caused or is likely to cause more than a minimal financial loss to, or a significant adverse effect on, the insured depository institution.
Unfair and Deceptive Acts and Practices

• Deceptive
  • Misleads
  • Interpretation is reasonable
  • Material

• Unfair
  • Injury
  • Cannot be avoided
  • Not outweighed by benefits
Consumer Affairs Letters

• Guidance on Managing Outsourcing Risk, dated December 5, 2013 (SR 13-19/CA 13-21)

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!