ComplianceAction

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What's INSIDE

ComplianceAction

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Flood Tide Rising

by Patti Blenden

The tides ebb and flow, constantly. Feels like our ocean of regulatory responsibilities is all rise, no ebb. The Federal Reserve, Farm Credit Administration, FDIC, NCUA and OCC (the Agencies) published joint final regulations July 21, 2015, applicable to loans secured by properties located in special flood hazard areas. The final rule implements and clarifies important provisions of the Homeowner Flood Insurance Affordability Act of 2014 (HFIAA) and the Biggert-Waters Flood Insurance Reform Act of 2012 (BW-12).

Institutions remain prohibited from **M**aking, **I**ncreasing, **R**enewing, or **E**xtending (MIRE) any loan secured by an insurable structure and any personal property unless the designated loan is covered by sufficient flood insurance for the loan term. These "triggering events" are when banks' responsibilities begin. The definition of a "designated loan" remains a loan secured by a building or mobile home that is located or to be located in a special flood hazard area in which flood insurance is available under the Act.

The July 2015 rule doesn't address the private flood insurance provisions in BW-12. That will be addressed later in separate rulemaking. The Agencies' final rule does cover three key provisions:

- Exemption for detached structures from the mandatory flood insurance purchase requirement;
- Escrow of flood insurance premiums and fees; and
- Force-placed flood insurance.

(continued on next page)

ActionSteps

- ✔ **Update your flood insurance policy and procedures to reflect new rules and clarifications.**
- ✔ **Monitor your asset size to identify potential changes in exemption from mandatory escrow.**
- ✔ **If you must escrow beginning 1/1/16, test your escrow systems as soon as possible to ensure compliance.**
- ✔ **Identify covered loans expected to be on your books as of 1/1/16 requiring notice of the option to escrow. Existing customer notice must be provided before 7/1/16.**
- ✔ **Determine if your bank can afford the risk of using NFIP MPPP for force-placement policies or should go the private force-placement route to eliminate the 30-day waiting periods enforced for MPPP policies.**

Exempt Detached Nonresidential Structures

The Agencies' final rules clarify HFIAA's March 2014 flood insurance purchase exemption only for "a structure that is part of a residential property," but is completely detached from the primary **residential structure** and not currently used as a residence. Banks are not **forced** to exclude the detached structures, but are given the choice. Lenders may still require flood insurance on the detached structures, even if the statute does not require it, to protect the lender and borrower's mortgaged collateral. Remarkably, this discretionary exclusion applies to both consumer and business purpose loans secured by a residential structure. The Agencies acknowledged that, with respect to flood insurance, the purpose of the loan may be immaterial to the borrower when his or her residence secures the loan. They agreed that the detached structure exemption should be available for consumer purpose loans as well as loans made for business, commercial or agricultural purposes if the loan is secured by a residence. The Agencies stressed their belief that detached structures used for commercial, agricultural, or other business purposes should be adequately protected by flood insurance, and are not included in the exemption.

A new **definition** of "a structure that is part of a residential property" allows lenders to determine in good faith whether it is used or intended to be used as a residence effective October 1, 2015. The Agencies' rules are based on IRS regulations indicating residences must include sleeping, bathroom and kitchen facilities. The Agencies intentionally gave our industry more latitude and state if one of these features is missing, that structure is not automatically disqualified as a residence. It's up to the lender to decide based on each transaction's facts. Fortunately, the Agencies declined to require monitoring of residence status throughout the loan, only at future triggering events. Be cautious! As with any credit discretion, be sure to establish clear parameters when the structures may be excluded to mitigate the risk of fair lending problems.

HFIAA's Mandatory Escrow

Beginning January 1, 2016, a MIRE event triggers the requirement to escrow flood insurance premiums and fees secured by residential improved real estate or mobile homes, unless an exemption based on asset size or transaction type applies. HFIAA created a "small lender exception" for banks with assets less than $1 billion as of December 31 of either of the two prior calendar years ***if*** the bank was not required to escrow on or before July 6, 2012, **<u>and</u>** the bank didn't regularly require escrow as a general policy. If the bank's asset size crosses the threshold, the regulation gives institutions six months to begin mandatory escrow. The Agencies noted that statutory authority for this $1 billion threshold does not include an annual adjustment based on CPI as do many other asset-based thresholds.

By June 30, 2016, non-exempt banks must notify all borrowers with loans secured by flood-insured residential property on the books as of January 1, 2016 of the option to escrow. In addition to the asset size exemption for small lenders, five loan categories are exempt from mandatory escrow for all banks.

Escrow Exemptions by Loan Category

All institutions, large or small, are eligible to exempt certain transactions from mandatory escrow. Remember, this doesn't eliminate the need to purchase flood insurance, just mandatory escrow. To avoid unnecessary work and customer confusion, it's important to identify the following exemptions as soon as possible:

1. Loans primarily for business, commercial or agricultural purposes
2. Loans secured by junior liens if the borrower has obtained flood insurance;
3. Loans for which flood insurance is collectively provided by a condo association, cooperative, homeowners association or similar group;
4. Home equity lines of credit (HELOC);
5. Nonperforming loans; or
6. Loans with a repayment term of 12 months or less.

When a regulated lender or servicer determines an exception no longer applies, flood insurance must be escrowed. The final rule includes new sample notice forms and clauses to assist in implementing the mandatory escrow requirement and the option to escrow for existing loans. These items include a revised "Sample Form of Notice of Special Flood Hazards and Availability of the Federal Disaster Relief Assistance" and a new clause, "Sample Clause for Option to Escrow for Outstanding Loans," to facilitate compliance with the new requirements.

Flood Insurance Force-Placement

The Agencies' clarified that the bank or servicer may charge borrowers for force-placement insurance coverage beginning on the date the borrower's policy lapsed (policy's expiration date) or was determined insufficient. The welcome news resolves a dispute between the industry and regulators questioning whether borrowers could be charged before the end of the 45-day notice period when force-placement premiums can be collected from the borrower. Clearly stated, the borrower can be **assessed** the full force-placement premium from date of new coverage, but the premium cannot be **collected** until Day 46, the day after 45-day notice period expiration.

The Agencies found that most force-placed policies are through private insurers rather than through NFIP's Mortgage Portfolio Protection Program (MPPP). Their research indicated that most private force-placed flood insurance policies generally do not have a 30-day waiting period and would prevent a lapse in coverage as would occur if the lender uses a MPPP policy. Either private or NFIP force-placed policies are allowed and lenders should weigh the risk of a regular 30-day waiting period if they have a large volume (dollars or number of loans) of high risk properties in special flood hazard areas.

Within 30 days of confirmation

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Compliance Management

Lines of Defense

There was much discussion of the "three lines of defense" at ABA's 2015 Regulatory Compliance Conference. Although many are talking about this as a new way of thinking about risk management, the three lines of defense are really nothing more than a way of describing a healthy compliance program. Just as when risk management was "discovered," compliance managers' first reaction to the concept was "where has everyone been?"

There isn't really anything new in the three lines of defense concept, but compliance managers can make good use of the fact that the topic is popular right now. It provides a way of presenting or describing a program and program needs with the help of a third party authority. It is a perverse law of nature that third party authorities are so much more persuasive to management than recommendations of mere staff. There are lots of articles describing the three lines of defense. Use them. Just Google "three lines of defense" and you will find lots of resources to use in shaping your presentation – or budget request.

The First Line

The first line of defense is risk control in business operations. It makes sense to consider this as the first line because this is where the action is. Because of this, line managers are in the best position to identify risk – whether caused by inadequate resources, changing economics, or new product lines. Placing this responsibility on line managers also enables the institution to identify risk issues early and develop and implement responses swiftly. Speed is critical to reduce the amount of exposure to violations or other risks. Let's face it – violations happen. The faster the response, the less the damage.

Line manager responsibilities are active and interactional. Simply stating that the line managers are the first line of defense is an understatement. The first line of defense includes many and varied activities ranging from identifying risk and developing responses to reporting and correcting any problems identified.

Line managers should be responsible for establishing a risk control environment for day to day functions, including risk identification, risk assessments and designing and placing risk controls. As job descriptions go, this means that the first line, the line managers, are responsible for risk management and compliance as well as for delivery of products or performance of a business function. In short, both risk management and compliance are part of the line manager's job along with products and delivery.

The Second Line

Oversight of business functions is the second line of defense. This begins with policies and procedures – the directions to staff and the standards for conduct that are the bones of the compliance program. In fact, the second line comprises what is usually thought of as the compliance program. It has compliance and risk management at the center.

The second line of defense is responsible for designing the framework, from policies to oversight of functions. The oversight function is critical for the second line of defense. This puts the second line in the odd position of first designing policies and procedures and then overseeing compliance with them – a sort of front-end/back-end function.

There are several measures of the second line. One measure is how well the institution performs. Another is the amount and usefulness of information provided to senior management and the board. The second line is responsible for acquiring information from the first line, analyzing and reporting that information and then identifying any needed responses or changes.

Clearly, neither the first nor second line of defense can be effective without continuous cooperation. Each of these lines depends on the other for success. Thinking of these lines as separate functions can be dangerous. The critical factor is making certain that responsibility is clear and both lines take the initiative.

The Third Line

Independent reviews, whether in-house or third party, comprise the third line of defense. This is the audit function. Think of the audit function as the last chance to catch and correct.

One key element of the third line of defense is independence. The audit function must be independent from the first two lines. However, to conduct effective audits, the auditors must be familiar with the goals and measurements of the first two lines of defense. An audit in isolation from the policies and institutional targets may miss something important or hit on something that is not significant to the program.

More Lines

Some thinkers have expanded beyond the three lines. Protiviti has published a bulletin in which they describe the five lines of defense. The five line approach adds two important steps: setting the tone of the organization and risk oversight by the board and executive management.

(continued on page 8)

ActionSteps

- ✔ **Google "three lines of defense" and download or print several articles.**
- ✔ **Consider how your institution's compliance program and overall risk management measures up under the lines of defense analysis.**
- ✔ **Refer to the lines of defense when talking with examiners – just to show that you are up on the latest fad.**

Sandbags to Strengthen Your Flood Insurance Program

by Patti Blenden

The Agencies' July 2015 final rule implements and clarifies three important provisions of the Homeowner Flood Insurance Affordability Act of 2014 (HFIAA) and the Biggert-Waters Flood Insurance Reform Act of 2012 (BW-12). Institutions remain prohibited from **M**aking, **I**ncreasing, **R**enewing, or **E**xtending (MIRE) any designated loan unless the building or permanently attached mobile home and any personal property collateral is covered by sufficient flood insurance for the loan term. These triggering events (MIRE) activate critical bank and servicer responsibilities.

Exempt Detached Nonresidential Structures	Effective March 21, 2014 (HFIAA)
Exemption Option	In addition to existing mandatory purchase exemptions, the final rule clarified this flood insurance purchase exemption is only for a completely detached "structure that is part of a residential property" and is not currently used or intended to be used as a residence. Lenders or servicers are not **forced** to exclude detached structures, but are given the choice.
Covered Loans: Consumer and Business	This discretionary exclusion applies to both consumer and business purpose loans secured by a primarily residential property. The Agencies acknowledge that the purpose of a loan may be immaterial to the borrower when using his or her residence to secure a loan.
Clarification	No requirement to monitor for changes in residential use in between MIRE events.

Flood Insurance Force-Placement	Effective July 6, 2012 (BW-12)
Designated Loans	Loans secured by a building or mobile home that is located or to be located in a special flood hazard area in which flood insurance is available.
Clarification	The lender or servicer may **charge** borrowers for force-placement insurance coverage from the date the borrower's policy lapsed or was insufficient. The full premium cannot be **collected** from the borrower until after 45-day notice period expiration.
Borrower's Proof of Coverage	Lender or servicer must accept from the borrower an insurance policy declarations page that includes the existing flood insurance policy number and identity of, and contact information for the insurance company or its agent.

Mandatory Escrow of Certain Designated Loans	Effective January 1, 2016 (HFIAA)
New Loans	Beginning 1/1/16, a MIRE event triggers the requirement to escrow flood insurance premiums and fees secured by residential improved real estate or mobile homes, unless an exemption based on lender's asset size or loan type applies.
Existing Loans	For existing designated loans as of 1/1/16, banks must notify the borrowers of his or her right to request optional escrow of the loan's flood insurance premiums by 6/30/16.
Small Lender/Servicer Exemption	Lenders with assets less than $1 billion as of December 31 of either of the 2 prior calendar years are exempt from mandatory escrow **if** the bank was not required to escrow on or before 7/6/12, **and** didn't regularly require escrow as a general policy. If the bank's asset size crosses the threshold, the regulation allows six months to begin mandatory escrow.
Mandatory Escrow Loan Exemptions	**Loans primarily for business, commercial or agricultural purposes**: The Agencies stated they rely on TILA's Regulation Z (§1026.3(a)) to determine consumer purpose.
	Loans secured by subordinate liens if the borrower has flood insurance: HFIAA explicitly states this is only available for subordinate loans secured by flood-insured property. As noted in Q&A 36, lenders must ensure sufficient flood insurance coverage for the combined transactions when they MIRE a subordinate lien loan. Monitor for change in lien position and begin escrow when this lien becomes a first lien.
	Loans for which flood insurance is collectively provided by a condo associations, cooperative, homeowners association or similar group: The policy for a collateral property must be sufficient in amount for the transaction and the premium paid by the group as a common expense. If not, a separate policy may be required to cover the deficiency for your loan's individual condo unit.
	Home equity lines of credit (HELOC): Refer to Reg Z for open-end credit definitions.
	Nonperforming loans: The Agencies clarified that a nonperforming loan is a loan that is 90 or more days past due and remains nonperforming until it is permanently modified or until the entire past due amount is collected or otherwise discharged in full.
	Loans with a repayment term of 12 months or less: The regs permit the exception to apply to extended or renewed loan if the extended or renewed term is 12 months or less.

Compliance Notes

Loan-to-Deposit Ratios

The new loan to deposit ratios for host states were released on July 2, 2015. These ratios must be compared to the statewide ratio for each state in which the bank has branches and not the main office. Designed to prevent opening branches simply to draw deposits, the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 requires banks branching out of their home state to maintain an acceptable level of loans relative to deposits.

FinCEN's Latest GTO

FinCEN has issued a Geographic Targeting Order (GTO) for South Florida in an effort to reduce stolen identity tax refund fraud. South Florida is an area where tax refund fraud is particularly active. The order requires check cashers to obtain additional identification information on individuals attempting to cash tax refund checks. During the period of the GTO, check cashers will be collecting copies of government-issued IDs, a digital photograph of the customer taken when the transaction occurred, the customer's phone number and thumbprint.

The time frame for compliance is interesting. It begins on August 3, 2015 and runs through January 30, 2016. This time frame was chosen with an eye to minimizing compliance burden. The time period chosen should be one of light traffic for government-issued checks but also a time period when persons committing fraud assume that check cashers will be less vigilant.

Payment System Review

The Federal Reserve has established two task forces to review specific issues in the payment system and assembled two steering committees to advise the task forces. The members are drawn from a wide variety of participants in the payments system, including bankers, retailers and a few regulators. The Faster Payments Task Force Steering Committee includes one member from the CFPB. Since the CFPB has issued a policy statement on what it expects this review to produce, there could be some interesting discussions.

Compliance Calendar

July, 2015

* The CFPB has published its analysis of consumer complaints. Check it out for issues that could affect your institution.

August, 2015

* Good News! The CFPB has delayed the implementation date for TRID, moving it to October 3, 2015. Not enough mortgage lenders could be ready in time.

* August 10 is the effective date for the joint agency rule requiring state regulation for any non-federally regulated Appraisal Management Company (AMC) in order to provide appraisal management services for federally-related transactions.

* The prudential agencies are holding a meeting on regulatory burden reduction in Kansas City, MO on August 4, 2015. This is an opportunity to suggest regulatory changes that would make your life easier.

September, 2015

* Comments offering suggestions for regulatory burden reduction are due to the bank regulatory agencies by September 3, 2015. This is your chance to make a difference.

October, 2015

* Be ready for TRID. The new implementation date is October 3, 2015 and it won't be moved again!

January, 2016

* The Agencies' new mandatory escrow rules take effect for covered designated flood-insured loans made, increased, renewed or extended on or after this date.

July, 2016

* The revised flood regulations require non-exempt (assets > $1 billion) regulated institutions must have offered the option to escrow to flood-insured borrowers with covered designated loans on the books as of January 1, 2016 by July 1, 2016 .

In the editor's *Opinion*

Disparate Impact Isn't New

Most players in the housing market have been raising a ruckus about applying the disparate impact test to identify whether discrimination has occurred that violates the Fair Housing Act. The fear is that applying a disparate impact test to fair housing situations would expose the housing and housing finance industry to serious risk – risk that is difficult to anticipate.

Ever since the effects test was first applied to lending discrimination, lenders have been vocal in expressing concerns. Disparate impact is a scary concept. It is only visible after the fact, when decisions have been made and cannot be recalled. Even with the best intentions and products and services, it is possible to find differences in result when looking back. And at that point, the lending institution is a sitting duck.

Looking back is how examiners work. If examiners find disparate impact, having a fair lending program – no matter how stellar– is not enough to stop the questions. When examiners ask questions, especially about fair lending, things can get pretty tense. It begins to feel as though discrimination is a matter of opinion and the opinion is the examiner's.

Using hindsight for enforcement is scary. So the parties that were or could be subject to a disparate impact analysis challenged the concept. They argued that the Fair Housing Act language does not support the use of a disparate impact analysis. However, the Supreme Court of the United States disagreed, concluding that discrimination measured by disparate impact is indeed prohibited by the Fair Housing Act.

While the Supreme Court's decision may seem like a setback for fair lending programs, it is really nothing new. Disparate impact has been in place for decades. It used to be called the effects test and it is a necessary tool to ensure fair lending.

Lending discrimination can be addressed in several ways. There are occasions – fortunately few and far between – when an individual or an institution purposefully refuses to lend to applicants because of a prohibited basis. Those cases are easy.

There are also situations where a lending policy or requirement is used to conceal an unwillingness to lend to certain groups or in certain neighborhoods. Redlining falls into this category.

And then there are situations where a lending practice has the effect of making the product unavailable to a protected group. In these situations, the policy or product or marketing plan may have been developed with good intentions – and absolutely no intention to discriminate. But the development process failed to look far enough and deep enough into the probable impact. Designing a product without adequate attention to the market can result in disparate impact. Scary.

But there is a line of defense: a fair lending program. The fair lending program is the ultimate in risk management. The risk is known, but unquantifiable. So the program is designed to anticipate what could go wrong. Managing for disparate impact risk, this means knowing the institution's market. It means looking beyond the profitability of a product. It means looking at who will be interested, who will qualify and what the product distribution is likely to be. Then it means revising any factors that could cause a disparate impact.

When this process is followed, the risk of disparate impact is significantly reduced. It also means that the institution has already done the analysis necessary to defend against challenges based on disparate impact. Now it's not quite so scary.

Compliance *Notes*

More UDAP for Citi

Together, the OCC and the CFPB found that certain marketing and billing practices of Citibank, N.A. violate UDAP. Each agency issued an enforcement order imposing penalties and requiring restitution. Citi sold an identity theft protection product to cardholders but the cardholders did not receive the full benefit of the product. Citi also marketed a debt protection product, but promised protections in marketing materials that were not actually available. The enforcement orders reach back to sales made between March 2000 and February 2013. The OCC's order requires improved governance of third party vendors, a risk management program for add-on products, and increased internal reviews of the products and their marketing.

Oops!

As is often the case with any new agency, there can be problems in complying with all the federal rules and requirements. Regulations, anyone? The CFPB has had difficulties complying with a number of procedural rules and the latest glitch affected the pending TRID effective date. Defined major rules, which includes TRID, must be submitted for Congressional review at least 60 days before taking effect. The CFPB recently discovered that it had inadvertently neglected to submit the rule for Congressional review. Oops. This was discovered and corrected less than 60 days before August 1, 2015 so the soonest the rule could take effect would have been August 15, 2015. This slip-up was neatly concealed by extending the effective date based on lack of readiness in many parts of the mortgage lending industry.

FDIC's Consumer Newsletter

The spring 2015 issue of FDIC's quarterly consumer newsletter contains useful articles for guiding parents in teaching their children about money and on computer security tips. You can find the newsletter at **www.fdic.gov/consumernews**.

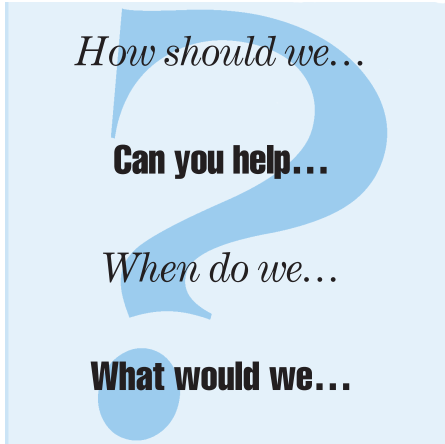
Compliance *Q&A*

Question: We are having a debate about how to report a loan on the HMDA LAR. The loan was to be secured by a multi-family building. The appraisal did not support the original loan request so we approved a loan at a slightly lower amount. The applicant was satisfied with this offer but fell into a dispute with the seller. Because of the dispute, the sale did not go through and we did not make the loan. Is this a denied counteroffer or approved-not accepted?

Answer: This is one of those murky areas where we get into discussing how many angels can dance on the head of a pin. The problem is that there are arguably two answers to the question. One would be to report this as a denial because you make a counteroffer. The flaw to this thinking, however, is that the applicant did accept the counter-offer – so technically this is not really a denial. The bank was willing to make the loan and that is what HMDA is designed to measure.

The other accurate response is to report this loan as approved-not accepted. This is the better choice because it is more accurate and reflects what HMDA is looking for: your willingness to take real property in that location as security for a loan. The key issue is that you were willing to make the loan and the applicant was satisfied with your offer. The reason the loan was not closed has nothing to do with the lender's decision. Arguably, it would be misleading to report the loan as denied, making approved-not accepted a more accurate description of what happened.

Question: According to HUD's RESPA Q&As, a "Tax Service Fee" should be disclosed in block 3 of the GFE and the ultimate recipient should be disclosed on the HUD-1. This is a fee that we require but do not retain. Until we know who the investor will be, we generally don't know what the actual amount will be or who the recipient will be.



Currently we use the "average charge" method to determine the fee amount to disclose. Under the new TRID rules, if the ultimate recipient of the tax service fee changes at or after the loan closing, would this be considered a "clerical error" and require that a corrected Closing Disclosure be provided within 60 days reflecting the actual recipient of the tax service fee?

Answer: The average pricing that is permissible today will continue to be permissible when TRID takes effect. It should be used consistently in both the Loan Estimate and the Closing Disclosure. If you are using average pricing correctly, you do not adjust the disclosed fee amount because you are literally charging the calculated average amount, usually that same amount for a period of 6 months to all borrowers. You would disclose the average pricing on the Loan Estimates and the same amount on the Closing Disclosures.

You must adjust your average amount at least every 6 months to make sure you are not profiting from the average pricing. Imposing this average charge, even if a particular customer's fee is slightly less, is considered fair. You would not adjust each transaction on the final disclosure to reflect the actual charge amount for that unique transaction. That defeats the purpose of the compliant average pricing. If proper average pricing is used to disclose and charge, the only thing that would be required to correct post-closing is the name of the actual service provider which would be a non-numeric clerical correction. Changing the name of the service provider (but not the amount of the charge) is exactly what 19(f)(2)(iv) [Changes due to clerical errors] was designed for.

Question: Our bank offers a flexible certificate of deposit. Depositors are permitted to make additional deposits during the term of the CD and are also allowed one monthly withdrawal. A customer has requested that a withdrawal be in the form of three checks, written to different payees. On our system, this shows up as three transactions. Is this a problem?

Answer: The problem here is not your compliance but your system. The customer is making a single withdrawal which is permitted. However, your system shows each check issued as a separate transaction. This does not change the customer's transaction from a single withdrawal to a multiple withdrawal. However, it is going to appear on the system as three transactions.

When an examiner looks at the situation, it will appear to be a violation. It will be up to you to demonstrate otherwise. Your system should show that what appeared to be three transactions were conducted within seconds of each other. This is "evidence" that it was actually a single transaction. It is a good idea to keep a record somewhere of the transaction so that you can quickly demonstrate that it was a single transaction.

Don't let an examiner try to tell you that because the customer put the withdrawn funds to three different uses it is multiple transactions. The customer could just as easily have moved the total amount to a transaction account or withdrawn in cash. The fact that the customer used multiple bank checks doesn't change this from a single withdrawal.

DOD's Final MLA Rule

The Department of Defense (DOD) issued a final rule tightening restrictions on lending to service members July 21, 2015. The rule significantly expands Military Lending Act's (MLA) restrictions from only tax refund anticipation loans, payday loans and car title loans to cover credit cards, lines of credit, installment loans and deposit advances offered to servicemembers. This is expected to greatly restrict banks' ability and increase costs to offer popular products military families need and want. Lenders will be required to screen all consumer credit applicants, except for mortgage and purchase money loans, for military status against the DOD's flawed and sometimes unreliable database instead of relying on proactive statements by the customer. The DOD's rule finalizes the 36% military APR (MAPR), an all-inclusive APR that includes all fees and charges with potentially a few exclusions. Banks must comply with the final MLA rule on October 3, 2016. Open-ended accounts, such as credit cards, are exempt from the rule until October 3, 2017. Access the new MLA rule at: **http://www.gpo.gov/fdsys/pkg/FR-2015-07-22/pdf/2015-17480.pdf**

Flood Tide Rising *(continued from page 2)*

of a borrower's reinstated flood insurance coverage, a bank or servicer is required to terminate force-placed insurance and refund all premiums paid by the borrower for force-placed coverage when the borrower's policy was in place. Lenders must accept an insurance policy declarations page that includes the existing flood insurance policy number plus the insurance company or agent's name and contact information. Borrowers must be reimbursed for any overlapping premiums from force-placed and customer placed policies.

After reviewing many industry questions and comments, the July 2015 final flood regulations confirmed that force-placement is appropriate for properties in newly re-mapped areas. The Agencies reiterated that if at any time during the life of the loan, a lender or its servicer determine that flood insurance does not exist or is not sufficient in amount, sufficient flood insurance must be placed. The borrower must be given notice and a 45-day period to place his or her own insurance just as in any other force-placement scenario.

Compliance Management: Lines of Defense *(continued from page 3)*

Both of these lines are assumed in the three line approach but the three lines cannot succeed without the other two.

Old News

These lines of defense models are fundamentally old news to compliance managers. Compliance programs have always been based on policies, procedures, controls, monitoring, audits, reporting and training. The lines of defense include policies and procedures, and audits. Better yet, they include responsibilities for line managers.

It has taken years of work to persuade management and line managers that line managers must be responsible for risk and compliance within their areas. This has always been a key part of compliance programs. Compliance staff is not out on the lines doing the job. The risk has to be managed by those who are. The three lines of defense approach makes this clear.

One More Line

The lines of defense concept brings in line manager responsibilities. But they omit several essential elements of a compliance program. It is one thing to focus on the structure of a risk management program. It is another to execute it.

No matter how the lines of defense are established, there is one line that cannot be overlooked: the front line. Anyone who has contact with customers can put the institution at risk. There is no way around the fact that execution of risk management programs happens in the very front lines with customer contact staff. Policies can be established, procedures set, controls can be built, but unless the front line is fully trained, the defenses are not complete.

Compliance*Online*

CFPB Supervisory Highlights

The CFPB released its Summer 2015 update. Focus continues on debt collection, credit bureau reporting accuracy, mortgage origination, servicing student loans and mortgages, and fair lending. Study the details at **http://files.consumerfinance.gov/f/201506_cfpb_supervisory-highlights.pdf**

Compliance*Action*

PURPOSE:

To keep your compliance, audit, and legal officers and staff up-to-date on regulatory and compliance issues and industry related techniques;

To provide guidance for implementing and managing your compliance program;

To increase your awareness and understanding of compliance developments;

To provide you with information that will be useful in communicating compliance information to bank staff; and,

To assemble all of the above in a readable, understandable, usable format that can be photocopied and distributed in-house by each subscriber.

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GEORGE B. MILNER, JR.
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Editor

LUCY GRIFFIN
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