



Welcome
Directors' and Trustees College
2024



You've Identified
Redlining Risk...
Now What?
2024 Directors College
Fair Lending



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Agenda

- Define Redlining
- The Board's Role in Preventing Redlining
- Reasonably Expected Market Area (REMA)
- Redlining Risks Identified
- Case Study
- Resources

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Redlining

- Redlining: Illegal disparate treatment in which a lender provides unequal access to credit, or unequal terms of credit, because of the race, color, national origin, or other prohibited characteristic(s) of the residents of the area in which the credit seeker resides or will reside or in which the residential property to be mortgaged is located.
- Focused on geographies, not individuals.
- Not income based.

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Board Governance

Board and Management Oversight

- Establish oversight of the fair lending program
- Communication between Board/Board level committees and senior management
- Delegation of separate lending authorities
- Establish a marketing plan
- Review monitoring findings and audit reports

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Reasonably Expected Market Area

REMA Definition – FFIEC Fair Lending Examination Procedures define REMA as:

- Where an institution actually marketed and provided credit, and where it could reasonably be expected to have marketed and provided credit
- The REMA may be beyond or otherwise different from a bank's CRA assessment area

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Reasonably Expected Market Area

- Identify the CRA assessment area and majority-minority census tracts inside and immediately outside the CRA assessment area.
- Review branch locations.
- Review the bank's marketing area and marketing efforts.
- Consider lending activity.
- Review lending relationships .
- Consider loan officer outreach.
- Analyze demand for credit.
- Hold discussions with bank management involved in lending.

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Monitoring Redlining Risks

- Monitor home mortgage loan applications and originations in:
 - majority-minority census tracts
 - majority-Black census tracts
 - majority-Hispanic census tracts
 - majority-Asian census tracts.
- Compare to adjusted aggregate data in your REMA.

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Review Monitoring Results

What do you do if monitoring results show:

- Origination or application penetration in any of the four applicable majority-minority areas is statistically significantly lower than adjusted aggregate
- A lending gap in majority-minority areas

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Next Steps and Other Considerations

- How does the bank offer its products?
- Where are the bank's branches located and what are the hours?
- How does the bank market its products?
- Has the bank conducted outreach?
- Does the bank engage with community organizations that serve MMTs?

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Responding to Redlining Risks

- Tailor your response to specific risks identified
 - Conduct or expand community outreach
 - Engage with community organizations, brokers, realtors in these areas
 - Conduct target marketing to majority-minority areas
 - Hire loan officers familiar with the community
 - Provide incentives to loan officers for originating loans in these areas
 - Consider offering loan products that would particularly benefit these areas

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REDLINING CASE STUDY

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Case Study: Background

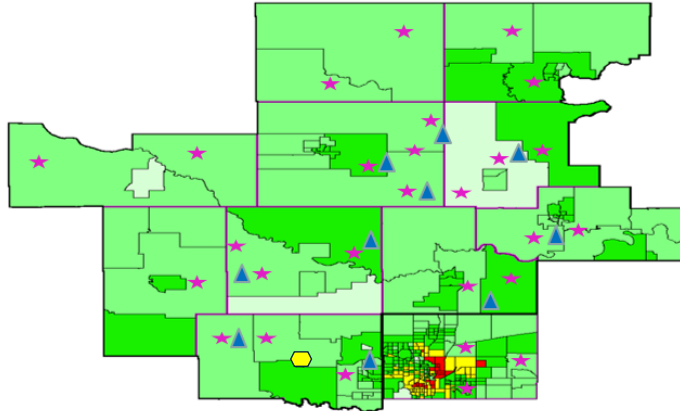
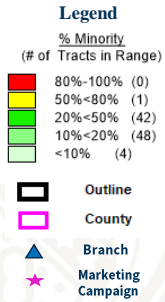
Bank Information and Background

- The bank relies on loan officers that are not located in branches to bring in customers
- The loan officers have relationships with builders and realtors who specialize in serving the area in which they operate
- The bank conducted a targeted marketing campaign that reached certain cities through social media
- The bank has a seasoned compliance staff

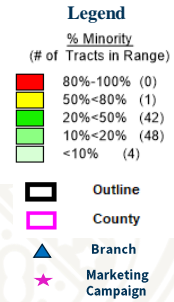
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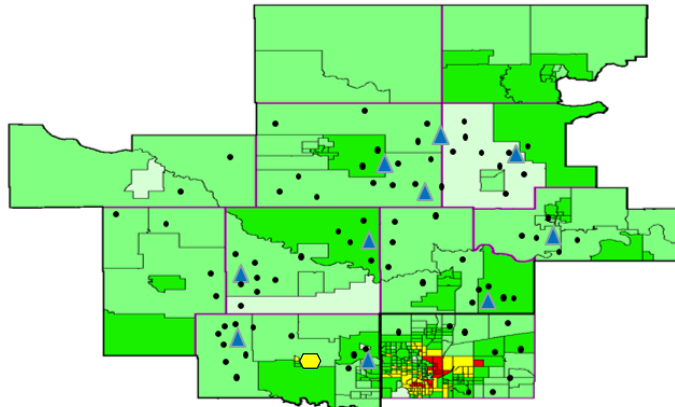
Case Study: Marketing Efforts (Map 1)



Case Study: Plotting HMDA Loans (Map 2)



1 dot = 1 Loan Origination



Case Study: Redlining Risk Report (Year 1)

Significantly Higher: ■

Significantly Lower: ■

Control Group: ■

Minority Concentration	Total Applications	Originated Count	Originated %	Total Housing Units	Owner Occupied Households	Owner Occupied %
< 10%	107	76	71.00%	53,971	36,330	67.31%
10% - 19%	298	160	54.00%	240,817	184,393	76.57%
20% - 49%	224	86	38.00%	220,243	142,072	64.51%
50% - 79%	41	9	22.00%	64,875	25,956	40.01%
80% - 100%	17	1	6.00%	26,026	6,941	26.67%
Not Available	11	0	0.00%	0	0	0.00%
Total	698	332	47.56%	605,932	395,692	65.30%

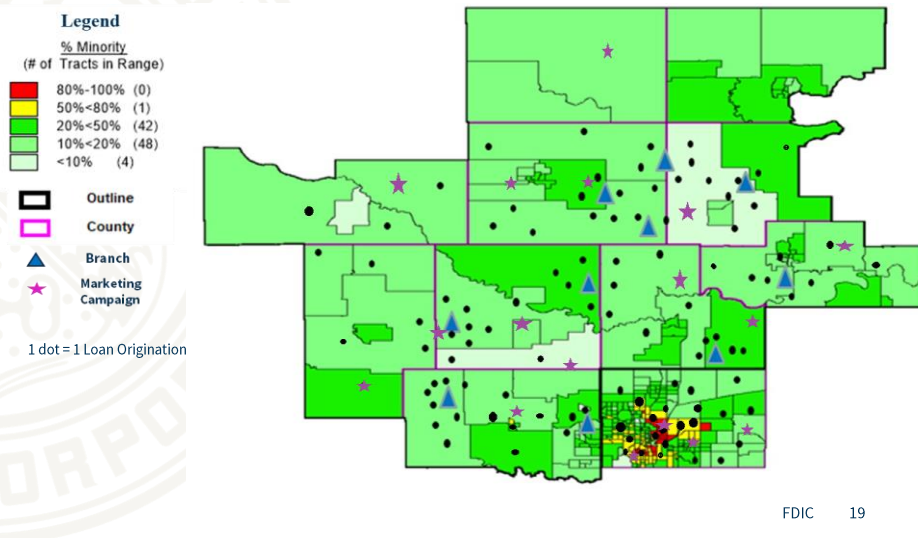
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Case Study: Next Steps

- What steps would you take after reviewing the two maps and redlining risk report?
- Document your discussions and planned actions in minutes.
- Regularly monitor the impact of actions.

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Case Study: Marketing and Lending (Map 3)



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Case Study: Redlining Risk Report (Year 2)

Significantly Higher: ■

Significantly Lower: ■

Control Group: ■

Minority Concentration	Total Applications	Originated Count	Originated %	Total Housing Units	Owner Occupied Households	Owner Occupied %
< 10%	126	94	75.00%	70,829	43,407	61.28%
10% - 19%	326	225	69.00%	202,472	145,811	72.02%
20% - 49%	341	243	71.00%	190,690	122,738	64.37%
50% - 79%	66	40	61.00%	52,287	18,484	35.35%
80% - 100%	26	11	42.00%	2,366	482	20.37%
Not Available	5	1	20.00%	0	0	0.00%
Total	890	614	68.99%	518,644	330,922	63.81%

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Summary

- Periodically monitor application and lending activities
- Make adjustments to your process
- Document your discussions and decisions
- Continue to evaluate

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QUESTIONS?

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Resources

- [FDIC Banker Resources – Fair Lending](#)
- [FDIC Technical Assistance Videos – Fair Lending](#)
- [FDIC – Identifying and Mitigating Potential Redlining Risks](#)
- [Interagency Fair Lending Examination Procedures](#)
- [Consumer Compliance Supervisory Highlights](#)
- [Guidance for Managing Third-Party Risk](#)
- <https://pave.hud.gov/>
- <https://pave.hud.gov/actionplanhttps://pave.hud.gov/sites/pave.hud.gov/files/documents/PAVEActionPlan.pdf>

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Contact Information

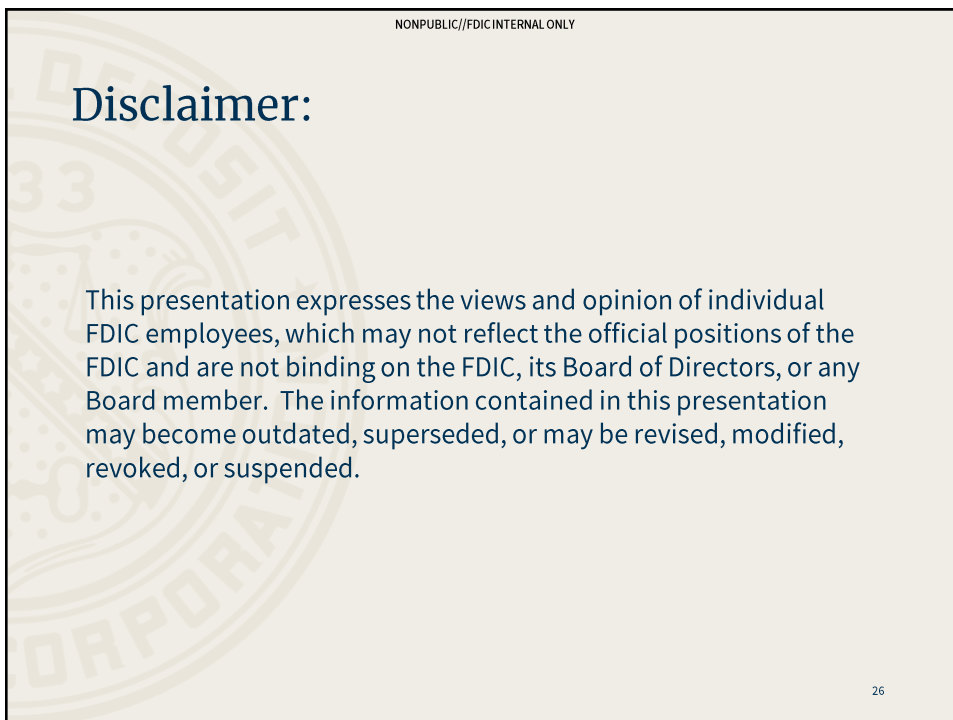
Dominick Sciame Jr.
Regional Examination Specialist
dsciame@fdic.gov

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Agenda

- Board Oversight
- Components of an effective Contingency Funding Plan (CFP)
- Liquidity Risk Mitigation
- Liquidity Tabletop Exercise

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Board Oversight of Liquidity

- Establishes an ALCO Committee
- Establishes executive-level lines of authority and responsibility for managing liquidity risk
- Provides appropriate resources to management
- Understands the liquidity risks and reviews information to maintain understanding
- Understands and periodically reviews the liquidity position and contingency funding plan

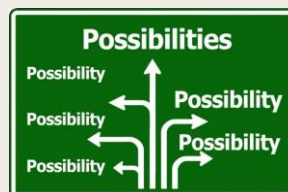


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Contingency Funding Plans

- Identify Liquidity Event Management,
- Establish a monitoring framework,
- Identify Stress Events,
- Require Stress testing,
- Identify Potential Funding Sources, and
- Require periodic testing of the CFP framework



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Liquidity Event Management

- Crisis Management Team, Administrative Structure, and Action Plans
- Lines of Authority and Reporting Structure
- Communication and Reporting Frequency
- Event Categorization



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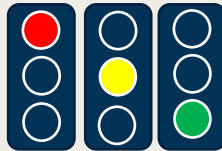
Establishing Monitoring Framework- Early Warning Indicators/Triggers

Systemic

- Negative trend in economic or industry conditions
- Rapid increase in market interest rates
- Increase in credit spreads
- Decreased liquidity in certain asset classes

Bank-Specific

- Bank approaching borrowing limit
- Decrease in liquid asset levels
- Increase in delinquencies
- Increase in deposit fluctuations
- Negative press/social media communications



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Identify Stress Events- Common Weaknesses

- Deposits “walk” rather than “run”
- Deposit growth offsets runoff
- Loans are not funded or renewed
- Unsecured funding lines fully available
- Secured funding lines lend immediately to full availability
- Brokered deposits utilized

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Stress Testing – Time Buckets

30-day Bucket

Stressed Cash Flow		0-30 day
On Balance Sheet Liquidity		
Cash	5,000	
Unencumbered Securities	25,000	
Starting On Balance Sheet Liquidity 30,000		
Expected Cash Outflows		
Deposit Outflows	(10,000)	
Total Periodic Outflows (10,000)		
Expected Cash Inflow		
New Deposit Growth	-	
Asset Maturities/pmts/prepay	3,000	
Total Periodic Inflows 3,000		
Ending On Balance Sheet Liquidity 23,000		

Daily Buckets

Stressed Cash Flow		Day 1	Day 2	Day 3-30
On Balance Sheet Liquidity				
Cash	5,000	-	-	
Unencumbered Securities		25,000	21,200	
Starting On Balance Sheet Liquidity 5,000 25,000 21,200				
Expected Cash Outflows				
Deposit Outflows	(7,000)	2,000	1,000	
Total Periodic Outflows (7,000) 2,000 1,000				
Expected Cash Inflow				
New Deposit Growth	-	-	-	
Asset Maturities/pmts/prepay	100	100	2,800	
Total Periodic Inflows 100 100 2,800				
Ending On Balance Sheet Liquidity (1,900) 21,200 23,000				

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Stress Testing – Time Buckets

30/60-day Buckets

Stressed Cash Flow		0-30 Day	31-60 Day
On Balance Sheet Liquidity			
Cash	5,000	-	
Unencumbered Securities	5,000	-	
Starting On Balance Sheet Liquidity 10,000 -			
Expected Cash Outflows			
Deposit Outflows	(20,000)	-	
Discount Window Payback		(10,000)	
Total Periodic Outflows (20,000) (10,000)			
Expected Cash Inflow			
New Deposit Growth	-	-	
Asset Maturities/pmts/prepay	3,000	3,000	
Total Periodic Inflows 3,000 3,000			
Ending On Balance Sheet Liquidity (7,000) (4,000)			
Mitigating Actions			
FHLB Borrowing	-		
Federal Reserve Discount Window	10,000		
Loan Sales			10,000
Cumulative Total Surplus/(Deficit) 3,000 6,000			

31-day Bucket

Stressed Cash Flow		0-30 Day	Day 31	Day 32-60
On Balance Sheet Liquidity				
Cash	5,000	-	-	
Unencumbered Securities	5,000	-	-	
Starting On Balance Sheet Liquidity 10,000 - -				
Expected Cash Outflows				
Deposit Outflows	(20,000)	-	-	
Discount Window Payback		(10,000)	-	
Total Periodic Outflows (20,000) (10,000) -				
Expected Cash Inflow				
New Deposit Growth	-	-	-	
Asset Maturities/pmts/prepay	3,000	100	2,900	
Total Periodic Inflows 3,000 100 2,900				
Ending On Balance Sheet Liquidity (7,000) (6,900) (4,000)				
Mitigating Actions				
FHLB Borrowing	-			
Federal Reserve Discount Window	10,000			
Loan Sales				10,000
Cumulative Total Surplus/(Deficit) 3,000 (6,900) 6,000				

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Director Considerations

- Are scenarios stressful enough?
- Are scenarios appropriate for my bank?
- Are assumptions reasonable and supportable?
- Are mitigating actions obvious, explained, and defensible?
- Am I comfortable with the results?



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Sources of Liquidity Stress Remediation

Faster



Slower

- Cash
- Federal Reserve Bank
- FHLB (overnight/term)
- Federal Funds Purchased
- Unencumbered Securities
- Brokered Deposits/Listing Service
- Sale of Loans

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Liquidity Risk Mitigation



Diversified Funding Sources

- Assets – cash/due from, investments, asset sales
- Liabilities – retail deposits and wholesale funds



Cushion of Highly-Liquid Assets

- Readily available
- Free from impediments

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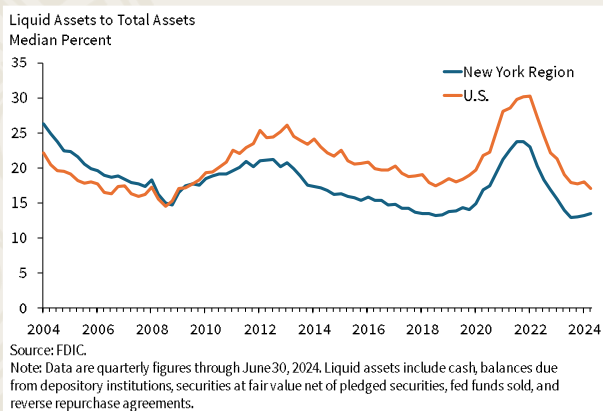
Periodic Testing of the CFP Framework

- Roles and responsibilities are up to date and appropriate,
- Legal and operational documents are current and appropriate,
- Cash and collateral can be moved where and when needed, and
- Contingent liquidity lines are available

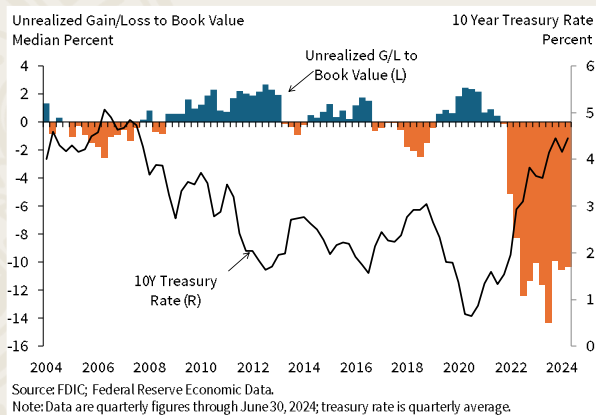
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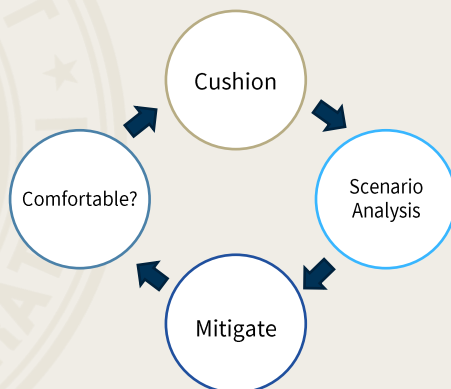
Liquidity Trends



Investment Portfolio- Unrealized Losses



Cushion and Stress Scenario Analysis Relationship



Cushion and Stress Scenario Analysis Relationship

Liquidity	Actual Quarter-End	Moderate Stress Scenario
Cash	\$15,000	\$15,000
Scenario Impact	-	(\$45,000)
Remaining Cash	\$15,000	(\$30,000)
Unencumbered Securities*	\$35,000	\$35,000
Total Liquid Assets	\$50,000	\$5,000
Total Assets	\$500,000	\$500,000
Liquidity Cushion	10.00%	1.00%

*Market Value ≥ Cost Basis

Liquidity Tabletop Exercise



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Bank of Anytown

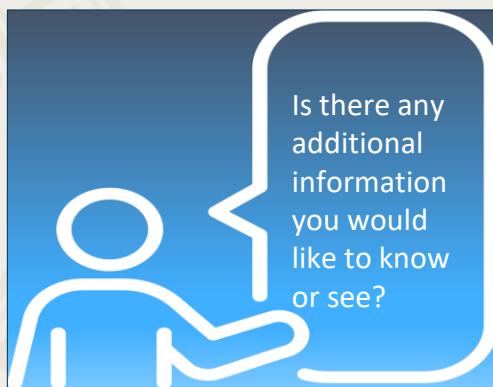
Liquidity Event Details

- Slower prepayments
- Difficulty increasing deposit volumes
- Increased line of credit usage
- Large depositor withdrawal
- Emergence of reputational risk

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Tabletop Exercise- Question #1



Tabletop Exercise- Question #2



Tabletop Exercise- Question #3



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Tabletop Exercise Takeaways

CFP Activation

Evaluating Alternatives

Data

Internal and external communications

- The Board, senior management, and staff
- Regulatory agencies
- Stockholders and customers
- Media

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Resources

- Interagency Policy Statement on Funding & Liquidity Risk Management
 - <https://www.fdic.gov/news/financial-institution-letters/2010/fil10013.html>
- Updated Guidance: Interagency Policy Statement on Funding and Liquidity Risk Management on the Importance of Contingency Funding Plans
 - <https://www.fdic.gov/news/financial-institution-letters/2023/fil23039.html>
- FDIC Risk Management Manual of Exam – Section 6
 - <https://www.fdic.gov/resources/supervision-and-examinations/examination-policies-manual/>

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Contact Information

Michael Aldrich
Capital Markets Specialist
maldrich@fdic.gov

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Break

10:20-10:35

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**Risk Assessments:
The Basics, the Benefits, and
the Pitfalls**

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Objectives

Discuss the definition and purpose of risks assessments at financial institutions.

Discuss benefits of risk assessments and consequences of inadequate risk assessment

Provide examples of areas where risk assessments are necessary.

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What is a Risk Assessment

A systematic process to identify and measure the risk inherent in the bank's business operations and to determine what control and monitoring mechanisms are in place to mitigate those risks.

Components of Risk Assessment



Identification

An effective risk assessment will identify the risk, operational area, or business line being assessed.

Examples include:

- New or existing FinTech relationship
- Fair lending compliance risk
- A new niche lending product
- A new deposit rewards product
- Bank-wide related risks (liquidity, consumer compliance, AML/CFT, Credit)

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Areas to Risk Assess

- Anti-Money Laundering and Countering the Financing of Terrorism
- Information Technology/Information Security
- Fair Lending
- UDAP
- New Products and Services
- Third Party Relationships, including key vendors, service providers, appropriate subcontractors, and FinTech relationships

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Assessing Risks

Inherent Risk: The level of risk absent mitigating controls.

Mitigating Controls: Measures put in place to reduce, minimize, or manage the impact and likelihood of identified risks. Controls can either be preventive, detective, or corrective.

Residual Risk: Residual risk is the level of risk remaining after controls or mitigation measures have been applied.

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Risk Assessment Example- Cybersecurity Risk

- Inherent Risk
- Mitigating Controls
- Residual Risk



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Risk Assessment Example- Fair Lending Risk

- Inherent Risk
- Mitigating Controls
- Residual Risk



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Regular Review and Update

- Perform an initial review for quality control
- Ensure that all risk levels are supported and align with the definitions for each risk level
- Develop proposed plans to further mitigate risks or support why certain risks may be accepted
- Present to the Board

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Responsibilities of the Board

- Oversee management's implementation of the risk assessment process
- Receive periodic information about the bank's risk assessments
- Determine whether risk is within Board risk appetite
- Review and approve strategies to mitigate risk or accept risk
- Review and approve material changes to new or existing strategy



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Determining Risk Appetite

Risk appetite is the amount of risk that the Board and management are willing to assume to achieve goals, objectives, and the operating plan.

Considerations:

- Institution specific mission, strategic goals, management/staffing
- Stress/scenario testing results
- Existing policies and risk limits



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Benefits of Risk Assessment

Comprehensively identify relevant and emerging risks

Take steps to mitigate, transfer, or accept risks

Enhance decision making

Reduce Costs associated with risks

Results in a more comprehensive risk management and compliance management systems

Allow the Board to more effectively oversee risks and determine if risks are within risk appetite

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Characteristics of Effective Risk Assessments

Includes inherent risk, mitigating controls, and residual risk in your risk assessment process

Involves comprehensive identification of risks and qualitative and quantitative analysis

All key stakeholders participate in the process

Well documented

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Ineffective Risk Assessments

Insufficient depth or scope of review

Failing to account for institutional and environmental factors

Overestimating the effectiveness of mitigating controls

Failing to regularly update and revise the risk assessment

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Ineffective Risk Assessment Example

- Inconsistent underwriting processes resulted in different levels of risk
 - Higher Charge-Off Rates
- Compliance with Part 314a of the Patriot Act was not assessed
 - FINCEN searches not performed

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Resources

- RMS Examination Manual, Section 4.2 Internal Routine and Controls
- Supervisory Insights April 2016 – Special Corporate Governance Edition
- Interagency Guidance on Third Party Relationships: Risk Management (FIL-29-2023)
- FFIEC IT Handbook booklets

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Questions?

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Contact Information

Colleen Marano
Field Supervisory (Risk Management)
comarano@fdic.gov

Josh Williams
Field Supervisor (Compliance)
joshwilliams@fdic.gov

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Conversation with the Regulators

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Economic & Banking Update

