

# Table of Contents

---

<b>About the Editors</b> .....	v
<b>About the Contributors</b> .....	vii
<b>Table of Chapters</b> .....	xiii
<b>Table of Contents</b> .....	xv
<b>Introduction</b> .....	li

## Chapter 1 Regulatory Structure and Charter Choice

*Richard A. Schaberg & Sara C. Lenet*

<b>Organization and Charters</b> .....	1-3
Q 1.1 What is an IDI? .....	1-3
Q 1.2 Is a financial institution the same as an IDI? .....	1-3
Q 1.2.1 What is the “business of banking”? .....	1-3
Q 1.2.2 Why is the business of banking highly regulated in the United States? .....	1-4
Q 1.3 What is a charter? .....	1-4
Q 1.3.1 What different types of charters are available? .....	1-4
Q 1.3.2 What factors are involved in choosing one type of charter over another? .....	1-5
<b>Banks</b> .....	1-5
Q 1.4 What is a bank? .....	1-5
Q 1.5 What are CEBA banks? .....	1-6
Q 1.6 What are the types of CEBA banks? .....	1-6
<b>National Banks</b> .....	1-8
<i>Basics of National Banks</i> .....	1-8
Q 1.7 What is a national bank? .....	1-8
Q 1.8 Who regulates national banks? .....	1-8
Q 1.9 Do national bank activities enjoy preemption from state law? .....	1-8
<i>National Bank Activities</i> .....	1-9
Q 1.10 What activities are permissible for national banks to engage in directly? .....	1-9

## FINANCIAL INSTITUTIONS ANSWER BOOK 2022

---

Q 1.11	What activities may national banks engage in through a subsidiary?.....	1-9
Q 1.12	In what activities may a national bank's financial subsidiary engage?.....	1-10
Q 1.13	What types of investments may national banks make?.....	1-11
<b>State (Member and Nonmember) Banks</b> .....		1-12
Q 1.14	What types of IDIs may be state chartered? .....	1-12
Q 1.15	What is a state member bank?.....	1-12
Q 1.16	What is the Federal Reserve System?.....	1-12
Q 1.17	Who regulates state member banks?.....	1-12
Q 1.18	Can a national bank be a member of the Federal Reserve System?.....	1-12
Q 1.19	What is a state nonmember bank?.....	1-12
Q 1.20	Who regulates state nonmember banks? .....	1-13
Q 1.21	Why would a bank choose (not) to be a member of the Federal Reserve System?.....	1-13
Q 1.22	What activities are permissible for state banks? .....	1-13
<b>Bank Service Companies</b> .....		1-13
Q 1.23	What is a bank service company?.....	1-13
Q 1.24	Are bank service companies regulated and examined like IDIs?.....	1-14
Q 1.25	Are companies that perform these same services for banks subject to regulation and examination?.....	1-14
<b>Bank Holding Companies</b> .....		1-15
<i>Basics of Bank Holding Companies</i> .....		1-15
Q 1.26	What is a bank holding company? .....	1-15
Q 1.27	What is a "company"?.....	1-15
Q 1.28	Can a natural person be a BHC? .....	1-15
Q 1.29	What is "control" for purposes of the BHC Act? .....	1-15
Q 1.30	Who regulates BHCs?.....	1-16
Q 1.30.1	What does it mean for a BHC to serve as a "source of strength" to its IDI subsidiaries? .....	1-16
Q 1.30.2	What happens if a BHC fails to serve as a source of strength?.....	1-16
<i>Bank Holding Company Activities</i> .....		1-16
Q 1.31	What types of activities are permissible for a BHC?.....	1-16

## Table of Contents

---

Q 1.31.1	Which activities are considered to be “so closely related to banking as to be a proper incident thereto”? .....	1-17
Q 1.32	Is a bank holding company permitted to own a thrift as well as a bank? .....	1-18
<i>Financial Holding Companies</i> .....		1-19
Q 1.33	What is a financial holding company? .....	1-19
Q 1.34	What benefits does FHC status provide a BHC? .....	1-19
Q 1.35	What steps must a BHC take in order to qualify as a FHC? .....	1-19
Q 1.36	Who regulates FHCs? .....	1-20
Q 1.37	What are the consequences of a FHC failing to meet the well capitalized and well managed standards? .....	1-20
Q 1.38	What are the consequences of a subsidiary IDI failing to maintain the required CRA rating? .....	1-21
Q 1.39	Are there any downsides to being a FHC? .....	1-21
<i>Financial Holding Company Activities</i> .....		1-21
Q 1.40	What types of activities can FHCs engage in that other BHCs cannot? .....	1-21
Q 1.40.1	What activities are “financial in nature”? .....	1-22
Q 1.40.2	Can additional activities be added to the list of activities that are “financial in nature”? .....	1-22
Q 1.40.3	What activities are complementary to a financial activity? .....	1-22
<b>Thrifts</b> .....		1-23
<i>Basics of Thrifts</i> .....		1-23
Q 1.41	What is a thrift? .....	1-23
Q 1.42	Can a thrift be federally chartered or state chartered? .....	1-24
Q 1.43	Who regulates thrifts? .....	1-24
Q 1.44	Why choose to be a thrift versus a bank? .....	1-24
<i>Thrift Activities</i> .....		1-25
Q 1.45	What types of activities are permissible for thrifts? .....	1-25
<b>Savings and Loan Holding Companies</b> .....		1-27
<i>Basics of Savings and Loan Holding Companies</i> .....		1-27
Q 1.46	What is a savings and loan holding company? .....	1-27
Q 1.46.1	What is a “company” under the HOLA? .....	1-27
Q 1.46.2	What is “control” under the HOLA? .....	1-27

## FINANCIAL INSTITUTIONS ANSWER BOOK 2022

---

Q 1.47	Will a holding company that owns both a bank and a thrift be considered a BHC or a SLHC? .....	1-28
Q 1.48	Who regulates SLHCs? .....	1-28
Q 1.49	What is the practical difference between a BHC and a SLHC?.....	1-28
Q 1.50	What is the 10(I) election?.....	1-28
<i>Savings and Loan Holding Company Activities</i> .....		1-29
Q 1.51	What types of activities are permissible for SLHCs? .....	1-29
<b>Foreign Banking Organizations</b> .....		1-30
Q 1.52	What is a foreign banking organization? .....	1-30
Q 1.53	Who regulates FBOs? .....	1-30
Q 1.54	What is a qualifying foreign banking organization? .....	1-30
<b>International Activities of Domestic Banks</b> .....		1-31
Q 1.55	Are domestic IDIs permitted to operate internationally? .....	1-31
Q 1.56	Can domestic IDIs engage in the same activities internationally as they can domestically?.....	1-31
Q 1.57	Who regulates the international activities of domestic IDIs? .....	1-33
<b>Charter Conversions</b> .....		1-34
Q 1.58	What is the process for one type of IDI to convert to another type? .....	1-34
Q 1.59	How does a credit union convert to a bank? .....	1-34
Q 1.59.1	Can a bank or thrift convert to a credit union? .....	1-34
Q 1.59.2	Why would an IDI want to convert to a credit union? .....	1-35
Q 1.60	What is a mutual-to-stock conversion? .....	1-35
Q 1.60.1	Why choose a mutual-to-stock conversion? .....	1-35
Q 1.61	What is a minority stock mutual holding company conversion? .....	1-36
Q 1.61.1	Why choose a minority stock MHC conversion? .....	1-36
Q 1.61.2	What is a second-step conversion?.....	1-37
Q 1.61.3	What is a no-stock MHC reorganization? .....	1-37

## Chapter 2 Branching

*Sara C. Lenet*

<b>Basics of Branching</b> .....		2-2
Q 2.1	What is a branch?.....	2-2
Q 2.2	What is considered a “branch” of a national bank? .....	2-2

## Table of Contents

---

Q 2.3	What is considered a “branch” of a federal savings association?.....	2-2
Q 2.4	What is considered a “branch” of a state chartered insured depository institution? .....	2-3
<b>Intrastate and Interstate Branching</b> .....		2-4
Q 2.5	Where are national banks allowed to branch? .....	2-4
Q 2.6	Where are state member banks allowed to branch? .....	2-5
Q 2.7	Where are state nonmember banks allowed to branch?.....	2-5
Q 2.8	Where are federal savings associations allowed to branch?.....	2-6
<b>Regulatory Considerations When Opening, Moving, or Closing a Branch</b> .....		2-6
Q 2.9	Is regulatory approval required before opening a branch? .....	2-6
Q 2.10	Is regulatory approval required before moving a branch? .....	2-7
Q 2.11	Is regulatory approval required before closing a branch?.....	2-7
<b>Trade Names</b> .....		2-7
Q 2.12	Can branches operate under trade names?.....	2-7

## Chapter 3 Corporate Governance

*Richard A. Schaberg & Sara C. Lenet*

<b>Federal and State Corporate Governance Requirements</b> .....		3-2
Q 3.1	What corporate governance requirements apply to an IDI or its holding company?.....	3-2
Q 3.2	Can an IDI or IDI holding company organize in the state whose corporate laws it wants to use? .....	3-4
Q 3.3	Are IDIs or IDI holding companies subject to the Sarbanes-Oxley Act of 2002? .....	3-4
<b>Directors and Officers</b> .....		3-5
Q 3.4	Is there a required number of directors or officers an IDI or holding company must have?.....	3-5
Q 3.5	Do new directors or officers need to be approved by regulators?.....	3-6
Q 3.6	Do regulators need to be notified whenever a director or officer resigns?.....	3-6

Q 3.7	What does it mean for a director to be “independent”? .....	3-7
Q 3.7.1	Is there a requirement that a certain number of directors be “independent” directors?.....	3-8
Q 3.8	Are there certain board policies or practices regulators look for when examining an IDI?.....	3-8
Q 3.9	What potential liability does a director or officer of a failed IDI face? .....	3-8
Q 3.10	Are there specific regulatory functions the board of directors of an IDI are required to complete?.....	3-9
Q 3.11	Are there specific areas of risk an IDI’s board of directors should focus on and adopt policies and procedures to address?.....	3-10
<b>Management Interlocks</b> .....		3-10
Q 3.12	Are there prohibitions against management officials serving at more than one IDI or IDI holding company?.....	3-10
Q 3.12.1	What is a “management official” for purposes of the DIMIA? .....	3-11
Q 3.13	Are there exemptions from the prohibition against interlocks? .....	3-11

## **Chapter 4 Executive Compensation**

*Margaret R. McIntyre*

<b>Restrictions on Compensation Paid to Executives by Insured Depository Institutions (IDIs) and Their Holding Companies</b> .....		4-3
Q 4.1	What restrictions apply to compensation paid to executives by insured depository institutions?.....	4-3
Q 4.2	What restrictions apply to compensation paid to executives by IDI holding companies? .....	4-4
<b>Restrictions on Severance Benefits for Executives by IDIs and Their Holding Companies</b> .....		4-5
Q 4.3	What restrictions apply to severance benefits paid by IDIs to executives?.....	4-5
Q 4.4	What restrictions apply to severance benefits paid by IDI holding companies to executives? .....	4-5

## Table of Contents

---

<b>Interagency Guidelines Establishing Standards for Safety and Soundness</b> .....	4-6
Q 4.5 What are the Interagency Guidelines Establishing Standards for Safety and Soundness? .....	4-6
Q 4.6 What institutions must comply with the executive compensation provisions of the Interagency Guidelines? .....	4-6
Q 4.7 What safeguards should institutions subject to the Interagency Guidelines establish and maintain regarding compensation, fees, and benefits? .....	4-7
Q 4.8 When is compensation considered excessive? .....	4-7
Q 4.8.1 What institutions are considered comparable institutions? .....	4-8
Q 4.9 What additional considerations should institutions consider regarding postemployment benefits? .....	4-8
<b>Interagency Guidance on Sound Incentive Compensation Policies</b> .....	4-9
<i>Basics of Restrictions on Incentive Compensation Policies</i> .....	4-9
Q 4.10 What restrictions apply to incentive compensation arrangements at banking organizations? .....	4-9
Q 4.11 What incentive compensation arrangements are subject to the Guidance on Sound Incentive Compensation Policies? .....	4-9
<i>Internal Reviews</i> .....	4-10
Q 4.12 What internal reviews should banking organizations perform to ensure compliance with the Guidance on Sound Incentive Compensation Policies? .....	4-10
Q 4.13 What role will findings regarding incentive compensation play in a banking organization’s supervisory and examination process? .....	4-11
<i>Risk-Taking Initiatives</i> .....	4-11
Q 4.14 What factors should be considered in determining whether incentive compensation arrangements balance risk-taking incentives? .....	4-11
Q 4.15 Under what circumstances is an incentive compensation arrangement considered to have balanced risk and financial results? .....	4-12
Q 4.16 What risks should a banking organization consider in assessing whether compensation arrangements are balanced? .....	4-13

## FINANCIAL INSTITUTIONS ANSWER BOOK 2022

---

<i>Balanced Arrangements</i> .....	4-13
Q 4.17 How can an unbalanced incentive compensation arrangement be moved toward balance? .....	4-13
Q 4.18 How should banking organizations account for the differences between Covered Employees within a banking organization and at different banking organizations? .....	4-14
Q 4.19 What factors should banking organizations consider regarding the potential for “golden parachutes” and the vesting arrangements for deferred compensation to affect the risk-taking behavior of Covered Employees? .....	4-15
Q 4.20 How should a banking organization’s risk management processes and internal controls reinforce and support the development and maintenance of balanced incentive arrangements? .....	4-15
<b>Oversight</b> .....	4-16
Q 4.21 How should banking organizations document their controls for establishing and monitoring incentive compensation arrangements? .....	4-16
Q 4.22 What steps should banking organizations take to ensure that they have strong corporate governance? .....	4-17
Q 4.23 What role should the board of directors of a banking organization play in monitoring the banking organization’s incentive compensation arrangements? .....	4-17
Q 4.24 What disclosure practices support safe and sound incentive compensation arrangements? .....	4-18
<b>Dodd-Frank Wall Street Reform and Consumer Protection Act</b> .....	4-18
<i>Basics</i> .....	4-18
Q 4.25 How does the Dodd-Frank Wall Street Reform and Consumer Protection Act impact executive compensation at financial institutions? .....	4-18
Q 4.26 What types of compensation are subject to a shareholder vote under the Dodd-Frank Act? .....	4-19
Q 4.27 What requirements are applicable to shareholder votes regarding executive compensation? .....	4-19
Q 4.28 What requirements are applicable to shareholder votes regarding golden parachutes? .....	4-20



## Table of Contents

---

<b>Say-on-Pay</b> .....	4-21
Q 4.29 Are companies required to disclose the results of the non-binding shareholder votes provided for under the Dodd-Frank Act? .....	4-21
Q 4.30 Where and under what circumstances must companies disclose the results of say-on-pay votes? .....	4-21
Q 4.31 Where and under what circumstances must companies disclose the results of say-on-frequency votes? .....	4-21
Q 4.32 Are the shareholder votes required by the Dodd-Frank Act binding on the company or its board of directors? .....	4-22
<b>Disclosure of Pay Versus Performance</b> .....	4-23
Q 4.33 What disclosure is required regarding the relationship between executive compensation actually paid by a public company and the financial performance of the public company? .....	4-23
<b>Disclosure of Pay Ratio</b> .....	4-26
Q 4.34 What disclosure is required regarding the ratio of the compensation of a public company's chief executive officer to the median compensation of the public company's employees? .....	4-26
<b>Clawbacks</b> .....	4-30
Q 4.35 What policies must public companies develop with respect to the recovery of erroneously awarded compensation ("clawbacks")? .....	4-30
<i>Disclosure of Employee and Director Hedging</i> .....	4-34
Q 4.36 What disclosure is required regarding hedging activity by public company employees and directors? .....	4-34
<i>Compensation Committee Independence</i> .....	4-37
Q 4.37 Under what circumstances will a public company compensation committee be considered independent? .....	4-37
<i>Independence of Compensation Consultants or Other Compensation Committee Advisers</i> .....	4-39
Q 4.38 Does the Dodd-Frank Act require that public companies retain independent compensation consultants or other compensation committee advisers? .....	4-39

## FINANCIAL INSTITUTIONS ANSWER BOOK 2022

---

Q 4.39	What factors regarding independence must a public company compensation committee consider in choosing to retain a compensation consultant, legal counsel, or other advisers?.....	4-40
Q 4.40	Does a public company compensation committee's retention of a compensation consultant, legal counsel, or other advisers subject it to any disclosure requirements? .....	4-42
<i>Additional Requirements</i> .....		4-42
Q 4.41	Are certain financial institutions subject to additional requirements under the Dodd-Frank Act?.....	4-42
Q 4.42	What additional requirements does section 956 of the Dodd-Frank Act impose on all covered financial institutions? .....	4-43
Q 4.43	What are the key terms and concepts under the Proposed Rule?.....	4-44
Q 4.43.1	What is a "Covered Institution"? .....	4-44
Q 4.43.2	Who is a "Covered Person"? .....	4-45
Q 4.43.3	What is "Incentive Compensation"?.....	4-45
Q 4.43.4	What is "Excessive Compensation"?.....	4-45
Q 4.43.5	What is "Material Financial Loss"? .....	4-46
Q 4.43.6	Who is a "Senior Executive Officer"? .....	4-46
Q 4.43.7	Who is a "Significant Risk-Taker"?.....	4-46
Q 4.43.8	What is the "Relative Compensation Test"? .....	4-46
Q 4.43.9	What is the "Exposure Test"? .....	4-47
Q 4.43.10	What are the three levels of Covered Institutions?.....	4-47
Q 4.44	To whom does the Proposed Rule apply?.....	4-47
Q 4.45	What requirements does the Proposed Rule impose on all Covered Institutions?.....	4-47
Q 4.46	What additional requirements does the Proposed Rule impose on Level 1 and Level 2 Covered Institutions? .....	4-48
Q 4.47	Can an Agency subject a Covered Institution deemed to be Level 2 or Level 3 to follow the more stringent requirements for either Level 1 or Level 2 Covered Institutions? .....	4-52
<i>Sarbanes-Oxley Act</i> .....		4-53
Q 4.48	What restrictions on IDI and holding company executive compensation are imposed by the Sarbanes-Oxley Act?.....	4-53
Q 4.49	What personal loans and extensions of credit from public companies to executive officers and directors are prohibited under the Sarbanes-Oxley Act? .....	4-53

## Table of Contents

---

Q 4.50	What “clawbacks” are required under the Sarbanes-Oxley Act?.....	4-54
<b>Indemnifying Directors and Officers of IDIs and Their Holding Companies</b> .....		4-54
Q 4.51	What restrictions are imposed by the banking regulators on the indemnification of directors and officers of IDIs and their holding companies?.....	4-54
Q 4.51.1	What indemnification payments may IDIs and their holding companies make or agree to make?.....	4-55
<b>Office of the Comptroller of the Currency “Unsafe and Unsound” Compensation Practices</b> .....		4-57
<i>Basics</i> .....		4-57
Q 4.52	What federal bank regulatory agencies impose restrictions on savings associations’ compensation practices? .....	4-57
Q 4.53	What restrictions does the OCC currently impose on savings associations looking to enter into employment agreements or other compensation arrangements with officers or employees?.....	4-57
Q 4.54	Do these OCC restrictions apply to compensation arrangements between a holding company and a holding company executive? .....	4-58
<i>Terms of Employment Agreements</i> .....		4-59
Q 4.55	What terms of employment agreements are presumed “unsafe and unsound” compensation practices by the OCC? .....	4-59
Q 4.55.1	What compensation arrangements are generally considered to provide incentives contrary to the safe and sound operation of a savings association?.....	4-60
Q 4.55.2	How are total compensation and average annual compensation calculated for purposes of the general presumption that total compensation paid out upon the departure of an employee should not exceed three times the employee’s average annual compensation? .....	4-60
Q 4.56	What is the most executive-friendly manner in which the term of an employment contract may be structured under OCC restrictions and what practical steps must institutions take to comply with this structure?.....	4-61

## FINANCIAL INSTITUTIONS ANSWER BOOK 2022

---

Q 4.57	Are any provisions required to be included in employment contracts subject to OCC jurisdiction? .....	4-61
	<i>Independent Directors</i> .....	4-63
Q 4.58	What compensation programs for independent directors are considered not to be commensurate with the duties of an independent director or are considered to jeopardize the independence of an independent director? .....	4-63
	<i>Mergers, Consolidations, Transfers of Assets, or Assumptions of Liabilities</i> .....	4-64
Q 4.59	Is OCC approval required prior to an OCC regulated savings institution entering into a merger, consolidation, transfer of assets, or assumption of liabilities and, if so, what information must be provided to the OCC? .....	4-64
Q 4.60	How will compensation of officers, directors, and controlling persons of the disappearing savings institution by the resulting savings institution or an affiliate be reviewed for purposes of the application for a merger, consolidation, transfer of assets, or assumption of liabilities? .....	4-64
Q 4.61	How will compensation of members of an advisory board of the resulting savings association that consists of officers, directors, or controlling persons of the disappearing institution be reviewed for purposes of the application for a merger, consolidation, transfer of assets, or assumption of liabilities? .....	4-65
	<b>FDIC Restrictions Applicable to Stock Benefit Plans at De Novo Institutions</b> .....	4-66
Q 4.62	What federal regulatory agency reviews stock benefit plans of de novo institutions and what types of benefit plans does it examine? .....	4-66
Q 4.63	Will the FDIC review stock benefit plans of a de novo holding company? .....	4-67
Q 4.64	How must stock benefit plans be disclosed to potential subscribers and the FDIC? .....	4-67
Q 4.65	Are stock benefit plans that include a cash payment to the recipient based directly on the market value of the depository institution's stock permissible? .....	4-67
Q 4.66	What other FDIC restrictions apply to stock benefit plans at de novo institutions? .....	4-67

## Table of Contents

---

Q 4.67	What rights are generally considered to encourage the recipient to remain involved in the proposed depository institution? .....	4-68
Q 4.68	Who can participate in stock benefit plans of de novo institutions? .....	4-68
Q 4.69	Does the FDIC look more closely at stock benefit plans that provide benefits to incorporators? .....	4-69
Q 4.69.1	Are these standards applied differently if the incorporator has placed funds at risk or rendered professional services? .....	4-70
Q 4.69.2	Are these standards applied differently if the incorporator has guaranteed a loan to finance the institution's organization? .....	4-70
<b>Troubled Asset Relief Program Recipients</b> .....		4-70
<i>Basics</i> .....		4-70
Q 4.70	What entities are subject to Troubled Asset Relief Program restrictions? .....	4-70
Q 4.71	What entities related to a TARP recipient are subject to TARP restrictions? .....	4-71
Q 4.72	What about entities that acquire a TARP recipient? .....	4-71
<i>Length of TARP Restrictions</i> .....		4-71
Q 4.73	How long are TARP restrictions in place? .....	4-71
<i>Basics of TARP Restrictions on Executive Compensation and Corporate Governance</i> .....		4-72
Q 4.74	What executive compensation and corporate governance restrictions apply to TARP recipients? .....	4-72
Q 4.75	Which employees of a TARP recipient are subject to the executive compensation limits? .....	4-73
Q 4.76	Who are a TARP recipient's senior executive officers? .....	4-73
Q 4.77	Who are a TARP recipient's most highly compensated employees? .....	4-74
<i>Compensation Committee</i> .....		4-74
Q 4.78	What rules govern the formation, structure, and duties of the compensation committee? .....	4-74
Q 4.79	What steps must the compensation committee take to limit compensation plan features that create unnecessary or excessive risk? .....	4-75

## FINANCIAL INSTITUTIONS ANSWER BOOK 2022

---

Q 4.80	What steps must the compensation committee take to limit compensation plan features that encourage the manipulation of reported earnings?.....	4-76
Q 4.81	How does the compensation committee comply with the certification and disclosure requirements? .....	4-76
<i>Excessive or Luxury Expenditures</i> .....		4-77
Q 4.82	What rules govern the definition and implementation of the excessive or luxury expenditures policy? .....	4-77
<i>Shareholder Votes</i> .....		4-78
Q 4.83	What rules govern the shareholder vote on executive compensation?.....	4-78
<i>Bonus Payments</i> .....		4-78
Q 4.84	What bonus payments must a TARP recipient prohibit? .....	4-78
Q 4.85	Which officers and employees are subject to the prohibition on bonus payments? .....	4-78
Q 4.86	When is a bonus payment accrued? .....	4-79
Q 4.87	Can an employee currently not prohibited from receiving a bonus payment receive such a payment based on services performed or compensation received while he or she was a CEO or a most highly compensated employee prohibited from receiving a bonus payment?.....	4-79
Q 4.88	What is a bonus? .....	4-80
Q 4.89	What is incentive compensation? .....	4-80
Q 4.90	What is a retention award?.....	4-81
Q 4.91	What commission compensation, excluding commission compensation earned in connection with financial products or similar services, is not considered a bonus payment?.....	4-82
Q 4.92	What commission compensation earned in connection with financial products or similar services is not considered a bonus payment? .....	4-83
Q 4.93	What exception to the bonus payment prohibition exists for awards of long-term restricted stock? .....	4-84
Q 4.93.1	How is annual compensation calculated for the purpose of an award of long-term restricted stock?.....	4-84
Q 4.93.2	What vesting schedule and restrictions on transferability must apply to the long-term restricted stock?.....	4-85
Q 4.94	What exception to the bonus payment prohibition exists for bonus payments required under certain pre-existing employment contracts?.....	4-85

## Table of Contents

---

Q 4.95	How does a TARP recipient comply with the requirement that it institute a “clawback” provision for bonus payments?.....	4-86
Q 4.95.1	What are material inaccuracies?.....	4-86
<i>Golden Parachutes</i> .....		4-86
Q 4.96	What golden parachute payments must a TARP recipient prohibit?.....	4-86
Q 4.97	What payments are not considered golden parachutes?.....	4-87
Q 4.97.1	When is a payment considered for services performed or benefits accrued?.....	4-87
Q 4.97.2	What payments made pursuant to benefit plans and deferred compensation plans are not considered golden parachute payments?.....	4-88
<i>Gross-Ups</i> .....		4-89
Q 4.98	What gross-ups must a TARP recipient prohibit?.....	4-89
<i>Perquisites</i> .....		4-89
Q 4.99	What perquisites must a TARP recipient disclose?.....	4-89
<i>Compliance</i> .....		4-89
Q 4.100	How does the Treasury Department review compliance with these restrictions?.....	4-89
Q 4.101	What reviews does the Special Master conduct?.....	4-90
Q 4.102	How does the Special Master determine compatibility with the principles of the restrictions and the public interest generally?.....	4-90
Q 4.103	Which TARP recipient executives must certify compliance with these restrictions and how do they do so?.....	4-91
Q 4.103.1	What deadlines apply to the certifications?.....	4-91
Q 4.103.2	What other rules govern the certifications?.....	4-92
Q 4.103.3	What are the penalties for an inaccurate certification?.....	4-92
<b>Bank-Owned Life Insurance</b> .....		4-92
<i>Basics</i> .....		4-92
Q 4.104	What is bank-owned life insurance?.....	4-92
Q 4.105	What banking institutions are subject to regulations regarding BOLI?.....	4-93
Q 4.106	When and under what circumstances are institutions permitted to purchase BOLI?.....	4-93
Q 4.107	When and under what circumstances are institutions not permitted to purchase BOLI?.....	4-94

## FINANCIAL INSTITUTIONS ANSWER BOOK 2022

---

Q 4.108	How is BOLI used to finance employee benefit liabilities? .....	4-94
Q 4.109	What should a banking institution do before entering into a BOLI contract? .....	4-95
<i>Management and Oversight</i> .....		4-96
Q 4.110	How do senior management and the board of directors effectively oversee a BOLI policy? .....	4-96
Q 4.111	What policies and procedures should be implemented as part of a comprehensive risk management procedure?.....	4-96
<i>Pre-Purchase Analysis</i> .....		4-97
Q 4.112	What actions should be part of a thorough pre-purchase analysis of BOLI products?.....	4-97
Q 4.113	How should management determine and quantify the need for BOLI? .....	4-98
Q 4.114	What factors should management consider in assessing vendor qualifications? .....	4-98
Q 4.115	How should an institution review the characteristics of the available insurance products?.....	4-99
Q 4.116	How should an institution select a carrier? .....	4-99
Q 4.117	What factors should an institution consider in determining the reasonableness of compensation provided to the insured employee if the insurance results in additional compensation?.....	4-99
Q 4.118	What other steps should be included in an institution's pre-purchase analysis? .....	4-100
Q 4.119	What steps should an institution take to manage risk associated with BOLI?.....	4-100
Q 4.120	What is liquidity risk? .....	4-101
Q 4.121	What is transaction/operational risk? .....	4-102
Q 4.122	What is reputation risk? .....	4-102
Q 4.123	What is credit risk? .....	4-103
Q 4.124	What is interest rate risk? .....	4-103
Q 4.125	What is compliance/legal risk? .....	4-104
Q 4.126	What is price risk? .....	4-104
Q 4.127	What are the tax and insurable interest implications of BOLI and how should institutions comply with these requirements? .....	4-106
Q 4.128	How should institutions determine the risk weight of their claim on the insurance company for risk-based capital purposes? .....	4-106



## Chapter 5 Change in Bank Control

*Sara C. Lenet & Richard A. Schaberg*

<b>Control</b> .....	5-2
Q 5.1 What is the Change in Bank Control Act of 1978? .....	5-2
Q 5.2 What is control?.....	5-2
Q 5.3 What is “acting in concert” and what is its significance?.....	5-3
Q 5.3.1 What are anti-association commitments?.....	5-3
Q 5.3.2 Under what circumstances is there a presumption of concerted action and what is required if one is identified? .....	5-4
Q 5.4 What is a presumption of control?.....	5-5
Q 5.4.1 How can the presumption of control be rebutted?.....	5-5
Q 5.4.2 What are passivity commitments? .....	5-5
<b>Exemptions from CBC Act Notice Requirements</b> .....	5-6
Q 5.5 What actions are specifically exempted from the requirements to file a CBC Act notice? .....	5-6
<b>Change in Control Notice Process</b> .....	5-7
Q 5.6 What is required to obtain a nonobjection for a change in control? .....	5-7
Q 5.7 What factors do the federal banking agencies consider when evaluating a change in control notice? .....	5-8
<b>State Change in Control Processes</b> .....	5-9
Q 5.8 Do state laws have change in bank control statutes or policies? .....	5-9

## Chapter 6 Mergers and Acquisitions

*Richard A. Schaberg & Sara C. Lenet*

<b>IDI Mergers</b> .....	6-2
Q 6.1 What is the regulatory process for the merger of IDIs? .....	6-2
Q 6.2 Are other types of transactions covered by the BMA?.....	6-3
Q 6.3 Which federal agency or agencies must approve an IDI merger transaction? .....	6-3
Q 6.4 What is the application process for obtaining approval for an IDI-level merger?.....	6-4

Q 6.5	What is the time frame for agency approval of an IDI-level merger? .....	6-5
Q 6.5.1	Is an expedited process available for “emergency” situations? .....	6-5
Q 6.6	What factors will the federal banking agencies consider in evaluating a transaction under the BMA?.....	6-6

**Bank Holding Company and Savings and Loan Holding Company Mergers and Acquisitions** .....

Q 6.7	What is the process for obtaining approval for a bank holding company-level merger or acquisition? .....	6-6
Q 6.8	What types of BHC transactions do not require prior notice or approval? .....	6-7
Q 6.9	What factors will the Federal Reserve consider in evaluating an application for a BHC transaction?.....	6-8
Q 6.10	Are there additional interstate banking factors the Federal Reserve must consider? .....	6-8
Q 6.11	What is the process for obtaining approval for a savings and loan holding company-level merger or acquisition?.....	6-9
Q 6.12	What factors will the Federal Reserve consider in evaluating an application for a SLHC transaction? .....	6-9
Q 6.13	Are there additional interstate banking factors the Federal Reserve must consider? .....	6-10
Q 6.14	What types of SLHC transactions do not require prior approval or notice? .....	6-10
Q 6.15	What is the “multistate multiples” prohibition?.....	6-11
Q 6.16	Do states have their own BHC or SLHC merger or acquisition requirements?.....	6-11
Q 6.17	Can a company that is not already a BHC, SLHC, or IDI acquire an IDI? .....	6-11
Q 6.18	If the merger or acquisition is at the holding company level, does a separate application for approval need to be filed with the federal banking agencies of the IDI subsidiaries under the BMA? .....	6-12

**Merger and Acquisition Competitive Factors** .....

Q 6.19	What competitive factors do federal banking agencies consider in evaluating a merger or acquisition application? .....	6-12
Q 6.20	Does the effect on competition matter if the transaction is purely an internal reorganization? .....	6-13
Q 6.21	Does the effect on competition matter if the transaction is purely intrastate? .....	6-13

## Table of Contents

---

<b>Nonbank Acquisitions by BHCs</b> .....	6-14
Q 6.22 What is required for a BHC to acquire control of a nonbank company? .....	6-14
Q 6.23 Are there expedited procedures available for nonbank acquisition transactions? .....	6-14
Q 6.24 What are the factors considered in a BHC nonbank acquisition notice? .....	6-15
Q 6.25 Are there any BHC nonbank transactions that are exempt from the notice requirements? .....	6-15
<b>Non-IDI Acquisitions by SLHCs</b> .....	6-16
Q 6.26 What is required for a SLHC to acquire control of a non-IDI company? .....	6-16
Q 6.27 When is prior notice required? .....	6-16
Q 6.27.1 What is the prior notice process? .....	6-18
Q 6.27.2 Under what circumstances might the Federal Reserve object to acquisition of a nonbank company engaged in a prescribed activity? .....	6-18
Q 6.28 When is an application for prior approval required? .....	6-19
Q 6.28.1 What is the application and prior approval process? .....	6-19
Q 6.29 May SLHCs make certain non-IDI acquisitions without prior approval or notice? .....	6-19
Q 6.30 What factors does the Federal Reserve consider in a non-IDI acquisition application? .....	6-20
Q 6.31 Are there expedited procedures available for nonbank acquisition transactions? .....	6-20
Q 6.32 Are any SLHCs exempt from the notice and application requirements? .....	6-20
<b>Hart-Scott-Rodino Act</b> .....	6-21
Q 6.33 What is the Hart-Scott-Rodino Act? .....	6-21
Q 6.34 Are the HSR premerger notification requirements applicable to BHC, SLHC and IDI transactions? .....	6-21
<b>Failed Bank Acquisitions</b> .....	6-22
Q 6.35 How are failed IDIs sold? .....	6-22
Q 6.36 Who can bid on failed IDIs? .....	6-22
Q 6.37 What additional qualifications and conditions are placed on private investors? .....	6-23
Q 6.38 What is a failed IDI purchase and assumption transaction? .....	6-24
Q 6.39 Is it possible to purchase only certain failed IDI assets rather than all assets and liabilities of the failed IDI? .....	6-25

Q 6.40	Are the qualifications different for bidding on failed IDIs as compared to purchasing assets? .....	6-25
Q 6.41	What is a pooled asset sale? .....	6-25
Q 6.42	What is an FDIC “structured transaction”? .....	6-26
Q 6.43	How do FDIC structured transactions work? .....	6-26

## **Chapter 7    Deposit Activities**

*Richard A. Schaberg & Sara C. Lenet*

<b>Basics of Deposit Activities</b> .....	7-2
Q 7.1    What is a deposit? .....	7-2
Q 7.2    What is excluded from the statutory definition of “deposit”? .....	7-3
<b>Deposit Production Office</b> .....	7-3
Q 7.3    What is a deposit production office? .....	7-3
Q 7.4    What is the prohibition on the use of interstate branches primarily for deposit production? .....	7-4
Q 7.4.1    What is the reason for this prohibition? .....	7-4
<b>Brokered Deposits</b> .....	7-5
Q 7.5    What are brokered deposits? .....	7-5
Q 7.5.1    Can an IDI be a deposit broker? .....	7-5
Q 7.6    Have regulators issued any guidance regarding brokered deposits? .....	7-7
Q 7.7    What are the limits on an IDI’s ability to accept brokered deposits? .....	7-7
Q 7.8    Are there limits on the interest rates that an IDI can pay on its brokered deposits? .....	7-7
Q 7.9    Why are federal banking regulators concerned about brokered deposits? .....	7-8
<b>Funds Availability</b> .....	7-8
Q 7.10    What dictates the time frame in which funds from a deposit must be made available to a customer? .....	7-8
Q 7.11    Can an IDI make the funds available sooner than Regulation CC requires? .....	7-9
<b>Electronic Fund Transfers</b> .....	7-9
Q 7.12    What is an electronic fund transfer? .....	7-9
Q 7.13    What is not included in the definition of EFT? .....	7-10

## Table of Contents

---

Q 7.14	What laws govern EFTs? .....	7-12
Q 7.15	What types of transfers and products are covered by the EFT rules? .....	7-13
Q 7.16	Are gift cards covered by the EFT rules? .....	7-13
Q 7.17	Are credit cards covered by the EFT rules? .....	7-13
Q 7.18	What special provisions apply to overdraft services? .....	7-14
Q 7.19	Do the EFTA and Regulation E trump NACHA Operating Rules? .....	7-15
Q 7.20	Are remittance transfers covered by the EFTA and Regulation E? .....	7-15
Q 7.20.1	What types of transfers are covered by the EFTA's remittance transfer rules? .....	7-15
Q 7.20.2	What is a remittance transfer provider? .....	7-16
<b>Reserves and Regulation D</b>	.....	7-16
Q 7.21	Why must IDIs establish reserves? .....	7-16
Q 7.22	What laws or regulations establish the amount of reserves that IDIs must hold? .....	7-16
Q 7.23	Are reserves the same as capital? .....	7-16
Q 7.24	Are reserves the same as the Allowance for Loan and Lease Losses? .....	7-17
Q 7.25	What types of accounts require reserves? .....	7-17
Q 7.26	What are transaction accounts? .....	7-17
Q 7.27	How must reserves be held? .....	7-18
Q 7.28	Must reserves be held against the full value of an IDI's transaction accounts? .....	7-18
Q 7.29	How are required reserves calculated? .....	7-18
Q 7.30	Is there a limit to the number of transactions that may occur without converting a savings account to a transaction account? .....	7-18
<b>Interest on Demand Deposits</b>	.....	7-19
Q 7.31	What is a demand deposit? .....	7-19
Q 7.31.1	Are IDIs permitted to pay interest on demand deposits? .....	7-19
<b>Consumer Compliance</b>	.....	7-19
Q 7.32	What federal consumer protection laws apply to deposit activities? .....	7-19
Q 7.33	What is required by the Truth in Savings Act? .....	7-20
Q 7.34	What is included in the APY calculation? .....	7-20

## Chapter 8 Deposit Insurance

*Sara C. Lenet & Richard A. Schaberg*

<b>Basics of Deposit Insurance</b> .....	8-2
Q 8.1 How does federal deposit insurance work? .....	8-2
Q 8.2 Does the FDIC insure deposits held by all depository institutions? .....	8-2
Q 8.3 What does federal deposit insurance cover? .....	8-3
Q 8.4 What amounts will deposit insurance cover? .....	8-3
Q 8.5 Are escrow or trust accounts covered by deposit insurance? .....	8-3
Q 8.6 What is pass-through deposit insurance coverage? .....	8-3
Q 8.6.1 What are the requirements for pass-through deposit insurance coverage? .....	8-4
Q 8.6.2 What is the amount of pass-through deposit insurance coverage? .....	8-4
Q 8.6.3 Are stored-value or prepaid cards covered by deposit insurance? .....	8-4
Q 8.7 Can a financial institution operate without deposit insurance? .....	8-5
Q 8.8 Does the fact that the FDIC insures deposits of an IDI provide the FDIC with any supervisory authority with respect to that IDI? .....	8-5
<b>Deposit Insurance Assessments</b> .....	8-6
Q 8.9 How are deposit insurance assessments calculated? .....	8-6
Q 8.10 Are Large Institutions treated differently for deposit insurance assessment purposes? .....	8-6

## Chapter 9 Insider and Affiliate Transactions

*Sara C. Lenet*

<b>Extensions of Credit to Insiders</b> .....	9-2
<i>Basics of Extensions of Credit to Insiders</i> .....	9-2
Q 9.1 What laws or regulations restrict extensions of credit to insiders? .....	9-2
Q 9.1.1 Will an IDI be in compliance with Regulation O as long as it lends to insiders on the same terms as to other borrowers? .....	9-2

## Table of Contents

---

Regulation O Definitions .....	9-3
Q 9.2 What is an “extension of credit” for purposes of Regulation O? .....	9-3
Q 9.2.1 What is excluded from the definition of “extension of credit”? .....	9-4
Q 9.2.2 Is a loan participation an extension of credit? .....	9-5
Q 9.2.3 What is the Tangible Economic Benefit Rule? .....	9-5
Q 9.2.4 Will an extension of credit to an insider’s spouse or family member be counted as an extension of credit to that insider? .....	9-6
Q 9.2.5 When is an extension of credit considered to have been made? .....	9-6
Q 9.3 What is an “affiliate” for purposes of Regulation O? .....	9-6
Q 9.4 Who is an “insider”? .....	9-6
Q 9.4.1 What is a “principal shareholder”? .....	9-7
Q 9.4.2 What is an “executive officer”? .....	9-7
Q 9.4.3 What are “major policy-making functions”? .....	9-8
Q 9.4.4 Can a board resolution provide that the president is not an executive officer because she or he does not participate in policy-making functions? .....	9-9
<b>Substantive Provisions of Regulation O</b> .....	9-9
Q 9.5 What limits are there on the terms on which credit may be extended to insiders? .....	9-9
Q 9.6 How can an IDI give its employees special loan terms without violating Regulation O? .....	9-10
Q 9.7 What limits are there on the <i>amount</i> of credit that can be extended to insiders? .....	9-10
Q 9.7.1 What exceptions are there to the aggregate lending limit on loans to insiders as a group? .....	9-11
Q 9.8 What special insider lending limits apply to small institutions? .....	9-12
Q 9.9 What special restrictions apply to loans to executive officers? .....	9-12
Q 9.9.1 What restrictions are there on the amount of credit that may be extended to an IDI’s executive officers? .....	9-13
Q 9.9.2 To qualify for the “residence” exception, must the officer’s residence be a primary residence? .....	9-14
Q 9.9.3 What procedural requirements apply to loans to executive officers? .....	9-14
Q 9.10 What special rules apply to overdrafts? .....	9-14
Q 9.10.1 What makes an overdraft “inadvertent”? .....	9-15

<b>Self-Dealing and Insider Controls</b> .....	9-15
Q 9.11 What is a conflict of interest? .....	9-15
Q 9.12 What are the potential regulatory consequences of a conflict of interest?.....	9-16
Q 9.13 How should an IDI deal with potential conflicts of interest involving insiders? .....	9-16
Q 9.13.1 May an insider of an IDI accept anything of value from a person or entity doing business with the IDI, or seeking to do business with the IDI?.....	9-17
Q 9.14 Are IDIs permitted to purchase assets from or sell IDI assets to their directors, executive officers, or principal shareholders? .....	9-18
<b>Transactions with Affiliates</b> .....	9-19
Q 9.15 What laws or regulations restrict transactions with affiliates?.....	9-19
Q 9.16 What is an “affiliate” for purposes of the transactions with affiliates rules?.....	9-20
Q 9.16.1 Are exemptions possible under section 23A of the FRA?.....	9-21
Q 9.16.2 Are exemptions possible under section 23B of the FRA?.....	9-22
Q 9.17 What types of entities are <i>not</i> considered affiliates for purposes of the transactions with affiliates rules? .....	9-23
Q 9.18 Is an operating subsidiary considered an affiliate? .....	9-24
Q 9.19 To which types of transactions does section 23A apply? .....	9-24
Q 9.20 To which types of transactions does section 23B apply? .....	9-25
Q 9.20.1 What are “market terms”?.....	9-25
Q 9.21 What are the quantitative restrictions imposed by Regulation W? .....	9-26
Q 9.22 What collateral requirements apply to transactions with affiliates? .....	9-26
Q 9.22.1 What types of collateral may not be used to secure extensions of credit to affiliates?.....	9-27
Q 9.22.2 What qualifies as a segregated, earmarked deposit account? .....	9-27
Q 9.23 What asset purchases are prohibited? .....	9-27
Q 9.23.1 What is a “low-quality asset”?.....	9-28
Q 9.23.2 If an asset is not currently delinquent, can it safely be purchased from an affiliate? .....	9-28



## Table of Contents

---

Q 9.24	What transactions are exempt? .....	9-29
Q 9.25	What advertising prohibitions apply? .....	9-31
Q 9.26	What additional restrictions could there be on the ability of an IDI to transact business with an affiliate? .....	9-31

## Chapter 10 Anti-Money Laundering and U.S. Trade Sanctions

*Sara C. Lenet & Aleksandar Dukic*

<b>Anti-Money Laundering and the Bank Secrecy Act</b> .....	10-2	
<i>Basics of Anti-Money Laundering and the Bank Secrecy Act</i> .....	10-2	
Q 10.1	What anti-money laundering laws and regulations apply to IDIs? .....	10-2
Q 10.2	Who examines IDIs for BSA/AML compliance? .....	10-2
Q 10.3	What are the Bank Secrecy Act requirements? .....	10-3
<i>Customer Identification Program</i> .....	10-4	
Q 10.4	What is a Customer Identification Program? .....	10-4
Q 10.5	Can an IDI rely on information obtained by another financial institution under that other institution's CIP procedures? .....	10-5
Q 10.6	Is the CIP the same as "Know Your Customer" or customer due diligence? .....	10-6
Q 10.6.1	When are Enhanced Due Diligence procedures appropriate? .....	10-7
<b>Recordkeeping and Reporting Requirements</b> .....	10-8	
Q 10.7	What recordkeeping requirements are there under the BSA? .....	10-8
Q 10.8	What reporting requirements are there under the BSA? .....	10-8
Q 10.8.1	When must an IDI file a SAR? .....	10-10
Q 10.8.2	May an IDI disclose that it has filed a SAR? .....	10-11
Q 10.8.3	Does a CTR need to be filed for deposits that are \$9,999 in cash? .....	10-11
<b>Office of Foreign Assets Control</b> .....	10-12	
Q 10.9	What is OFAC? .....	10-12
Q 10.10	What is OFAC screening? .....	10-12
Q 10.11	How should an IDI ensure OFAC compliance? .....	10-13

## Chapter 11 Privacy and Data Security

*Timothy P. Tobin, Bret S. Cohen & Roshni Patel*

<b>Privacy Law Framework</b> .....	11-2
Q 11.1 What are the major federal laws regarding privacy applicable to IDIs? .....	11-2
Q 11.2 What special privacy laws apply to IDIs' handling of the information of minors? .....	11-4
Q 11.3 Are there state privacy laws applicable to IDIs? .....	11-5
<b>Gramm-Leach-Bliley Act Privacy</b> .....	11-6
Q 11.4 What do the GLBA privacy rules cover? .....	11-6
Q 11.4.1 If the GLBA privacy rules apply only to disclosure of information to nonaffiliates, does that mean that information can be freely shared with affiliates without restrictions? .....	11-7
Q 11.5 What are the major exceptions to the requirement for notice and opt-out? .....	11-7
Q 11.6 Is there a private right of action under GLBA? .....	11-8
<b>Credit Reporting and Consumer Report Information</b> .....	11-8
Q 11.7 What is the Fair Credit Reporting Act? .....	11-8
Q 11.8 What is a "consumer report"? .....	11-9
Q 11.8.1 Does the term "consumer reporting agency" in FCRA refer only to a credit bureau like Equifax, Experian, or TransUnion? .....	11-10
Q 11.8.2 How does the definition of "consumer reporting agency" implicate an IDI when an IDI does not engage in a business resembling that of a credit bureau? .....	11-10
Q 11.8.3 Does FCRA apply only to CRAs? .....	11-11
Q 11.8.4 Do IDIs have any responsibility for the accuracy of the information they report to credit bureaus? .....	11-11
Q 11.9 Is there a private right of action under FCRA? .....	11-11
<b>Data Security and Record Retention</b> .....	11-12
Q 11.10 What are the major federal laws applicable to IDIs regarding data security? .....	11-12
Q 11.10.1 What steps are required under the Security Guidelines? .....	11-12
Q 11.11 Are there state data security laws applicable to IDIs? .....	11-13
Q 11.12 What is the difference between the Information Security Guidelines and the GLBA Privacy Rules? .....	11-15

## Table of Contents

---

Q 11.13	How long must IDIs keep consumer information? .....	11-15
Q 11.14	What is the proper way for IDIs to dispose of consumer information? .....	11-16
<b>Identity Theft</b>	.....	11-17
Q 11.15	What are the major laws and regulations applicable to IDIs regarding identity theft? .....	11-17
Q 11.16	To which entities do the Red Flags Rule apply? .....	11-18
Q 11.17	What is a “financial institution” for purposes of the Red Flags Rule? .....	11-18
Q 11.18	What is a “creditor” for purposes of the Red Flags Rule? .....	11-18
Q 11.18.1	How has the definition of “creditor” for Red Flags purposes been revised? .....	11-19
Q 11.18.2	What is a “covered account” for purposes of the Red Flags Rule? .....	11-20
Q 11.19	What are the major requirements under the Red Flags Rule? .....	11-21
Q 11.20	How should a financial institution or creditor determine which red flags should be used? .....	11-21
Q 11.21	What is the appropriate response to a red flag? .....	11-22
Q 11.22	Does a financial institution with a Customer Identification Program pursuant to the Bank Secrecy Act still need to address the Red Flags Rule? .....	11-23
Q 11.23	Should a credit card issuer be concerned by a customer’s request for a change of address? .....	11-23
<b>Right to Financial Privacy Act</b>	.....	11-24
Q 11.24	Can the government have unfettered access to IDI customer records? .....	11-24

## Chapter 12 Examination and Audit

*Sara C. Lenet & Richard A. Schaberg*

<b>Examination Process and Examination Cycle</b>	.....	12-2
<i>Basics of Examination Process and Examination Cycle</i>	.....	12-2
Q 12.1	How often are IDIs and their holding companies examined? .....	12-2
Q 12.2	What is a First Day Letter? .....	12-3
Q 12.2.1	Do examination procedures vary by agency? .....	12-4
Q 12.3	What materials and information may banking agencies access as part of an examination? .....	12-4

## FINANCIAL INSTITUTIONS ANSWER BOOK 2022

---

<i>Risks</i> .....	12-4
Q 12.4 What is the “supervision by risk” approach of the Office of the Comptroller of the Currency? .....	12-4
<i>Ratings</i> .....	12-5
Q 12.5 What are CAMELS ratings?.....	12-5
Q 12.6 Do bank holding companies receive CAMELS ratings? .....	12-6
Q 12.7 Do savings and loan holding companies receive CAMELS ratings? .....	12-7
Q 12.8 What types of ratings are given to foreign IDIs?.....	12-8
<i>Examination Reports</i> .....	12-8
Q 12.9 What is a Report of Examination? .....	12-8
Q 12.9.1 What are “Matters Requiring Attention” and “Matters Requiring Immediate Attention”?.....	12-8
Q 12.9.2 Are MRAs and MRIAs enforceable?.....	12-9
Q 12.10 Is an examination report issued after every examination?.....	12-9
Q 12.11 If an examiner cites violations during an examination, will the IDI or IDI holding company be subject to an enforcement action? .....	12-9
Q 12.12 What are the Interagency Guidelines Establishing Standards for Safety and Soundness?.....	12-10
<b>Appeals of Supervisory Actions</b> .....	12-10
Q 12.13 What recourse does an IDI have for any action an agency or its personnel may take in the course of supervision? .....	12-10
<i>Call Reports</i> .....	12-11
Q 12.14 What is a Call Report?.....	12-11
Q 12.15 What if the IDI does not have all the information needed to complete the Call Report at the time it is due? .....	12-11
<b>Internal Audit</b> .....	12-11
Q 12.16 What is the internal audit function? .....	12-11
Q 12.17 What is the difference between an internal and external audit? .....	12-12
Q 12.18 May the internal audit function be outsourced?.....	12-12
Q 12.19 What standards govern the execution of audits?.....	12-12
Q 12.20 What are the requirements for, and responsibilities of, an audit committee?.....	12-13

## Table of Contents

---

<b>Confidentiality of Supervisory Information</b> .....	12-13
Q 12.21 Which supervisory information is confidential?.....	12-13
Q 12.22 Is it possible to obtain permission to disclose confidential supervisory information?.....	12-14
Q 12.23 What should an IDI or holding company do if it is required by an agency, such as the SEC or some other party, to disclose confidential supervisory information?.....	12-14
Q 12.24 What are the consequences for unauthorized disclosure of confidential supervisory information?.....	12-15

## Chapter 13 Capital

*Sara C. Lenet & Richard A. Schaberg*

<b>Regulatory Capital Basics</b> .....	13-2
Q 13.1 What is regulatory capital?.....	13-2
Q 13.1.1 Is regulatory capital the same as reserves?.....	13-2
Q 13.2 Is regulatory capital the same as the Allowance for Loan and Lease Losses?.....	13-2
Q 13.3 What types of capital comprise regulatory capital?.....	13-3
Q 13.4 What qualifies an instrument to be eligible as regulatory capital?.....	13-4
<b>Capital Requirements</b> .....	13-6
Q 13.5 Are both IDIs and IDI holding companies subject to capital requirements?.....	13-6
Q 13.6 What types of capital measures apply to IDIs and IDI holding companies?.....	13-6
Q 13.7 Are IDIs and IDI holding companies subject to the <i>same</i> capital requirements?.....	13-8
Q 13.7.1 What are trust-preferred securities?.....	13-8
Q 13.8 Are IDI holding companies subject to capital requirements?.....	13-9
Q 13.9 What may a banking organization include as CET1?.....	13-9
Q 13.10 What may a banking organization count as Additional Tier 1 capital?.....	13-10
Q 13.11 What may a banking organization count as Tier 2 capital?.....	13-11
Q 13.12 What must be deducted from regulatory capital?.....	13-11
Q 13.12.1 What determines whether an intangible asset will have to be deducted from regulatory capital?.....	13-12

<b>Risk-Based Capital Requirements</b> .....	13-12
Q 13.13 What is risk-based capital? .....	13-12
Q 13.13.1 How does risk weighting work? .....	13-12
Q 13.13.2 What are the risk weights for equity exposures? .....	13-14
Q 13.13.3 What are the risk weights applicable to claims on foreign governments, foreign central banks, and foreign banking organizations? .....	13-14
Q 13.13.4 What if an asset fits in two different categories for purposes of risk weighting? .....	13-14
Q 13.13.5 How are off-balance sheet items treated for purposes of risk weighting? .....	13-14
<b>Capital Ratio Calculations</b> .....	13-15
Q 13.14 How is the total risk-based capital ratio calculated? .....	13-15
Q 13.14.1 How is the CET1 risk-based capital ratio calculated? .....	13-15
Q 13.14.2 How is the Tier 1 risk-based capital ratio calculated? .....	13-15
Q 13.14.3 How is the Tier 1 leverage ratio calculated? .....	13-15
Q 13.14.4 How is the Supplementary Leverage Ratio calculated? .....	13-15
Q 13.15 Do regulators have to be notified before an IDI or IDI holding company redeems its own stock or otherwise reduces its capital? .....	13-16
<b>Capital Adequacy Requirements</b> .....	13-17
Q 13.16 How do regulators evaluate whether an IDI or IDI holding company has sufficient regulatory capital? .....	13-17
Q 13.17 What specific capital levels are IDIs and IDI holding companies required to maintain? .....	13-18

## **Chapter 14 Prudential Regulator Enforcement**

*Richard A. Schaberg & Sara C. Lenet*

<b>Basic Enforcement Framework</b> .....	14-2
Q 14.1 Against which institutions can the Federal Financial Institutions Examination Council (FFIEC) agencies bring enforcement actions? .....	14-2
Q 14.2 Against which individuals can the FFIEC agencies bring enforcement actions? .....	14-2
Q 14.2.1 What is an “institution-affiliated party”? .....	14-3

## Table of Contents

---

Q 14.3	Are federally chartered IDIs immune from actions by state authorities? .....	14-3
Q 14.4	Will an enforcement action be taken only after a report of examination is finalized? .....	14-4
Q 14.5	Does self-reporting of violations decrease the chance that regulators will initiate an enforcement action? .....	14-4
<b>Types of Enforcement Actions</b> .....		14-5
<i>Formal and Informal Enforcement Actions</i> .....		14-5
Q 14.6	What is the difference between a formal and an informal enforcement action? .....	14-5
Q 14.7	What criteria do the FFIEC agencies consider when deciding whether to take a formal or informal enforcement action? .....	14-5
<i>Formal Enforcement Actions</i> .....		14-6
Q 14.8	What are the types of formal enforcement actions?.....	14-6
Q 14.9	What is a cease and desist order?.....	14-6
Q 14.9.1	What types of practices are considered “unsafe or unsound”? .....	14-7
Q 14.10	What is a temporary cease and desist order? .....	14-7
Q 14.11	What is a formal written agreement?.....	14-8
Q 14.12	What is a Prompt Corrective Action directive? .....	14-9
Q 14.13	What is a safety and soundness order?.....	14-9
Q 14.14	What is a capital directive? .....	14-9
Q 14.14.1	What is an individual minimum capital ratio and how does it differ from a capital directive?.....	14-10
Q 14.15	What is a prohibition?.....	14-10
Q 14.15.1	Under what circumstances is an IAP prohibited?.....	14-10
Q 14.15.2	Can someone who has been prohibited work for a BHC?.....	14-11
Q 14.15.3	What is a “backdoor prohibition”?.....	14-11
Q 14.15.4	If a backdoor prohibition has the same effect as a prohibition order, why not call it a prohibition order?.....	14-11
Q 14.16	What is a section 19 removal? .....	14-12
Q 14.17	What is a suspension? .....	14-12
<i>Restitution and Civil Money Penalties</i> .....		14-13
Q 14.18	When can restitution be ordered?.....	14-13
Q 14.19	When can a civil money penalty be assessed?.....	14-13

## FINANCIAL INSTITUTIONS ANSWER BOOK 2022

---

Q 14.20	What are the “tiers” of CMPs that may be assessed under section 8 of the FDI Act? .....	14-14
Q 14.20.1	Do the maximum CMP amounts in section 8 of the FDI Act mean that regulators must assess those amounts for each day the violations or practices continue? .....	14-15
Q 14.20.2	What statutory factors must the regulator consider in deciding the amount of a CMP?.....	14-15
Q 14.21	What other factors do regulators consider in deciding whether to assess a CMP?.....	14-15
Q 14.22	What is the CMP matrix? .....	14-16
<i>Informal Enforcement Actions</i> .....		14-17
Q 14.23	What are the types of informal enforcement actions?.....	14-17
Q 14.24	What is a commitment letter?.....	14-17
Q 14.25	What is a memorandum of understanding?.....	14-17
Q 14.26	What is a safety and soundness plan? .....	14-18
Q 14.27	What are supervisory letters and letters of reprimand?.....	14-18
Q 14.28	Are informal enforcement actions enforceable? .....	14-18
<i>Disclosure of Enforcement Actions</i> .....		14-18
Q 14.29	Which enforcement actions are matters of public record? .....	14-18
Q 14.30	Can an order or agreement be obtained to keep the enforcement document from being made public? .....	14-19
Q 14.31	Are there any actions that must not be disclosed? .....	14-19
<b>Restrictions on Activities</b> .....		14-19
Q 14.32	What does it mean to be in “troubled condition”?.....	14-19
Q 14.33	What are the consequences of being in “troubled condition”? .....	14-20
Q 14.33.1	What payments are subject to restrictions as golden parachutes if an institution is in troubled condition?.....	14-20
<b>Prompt Corrective Action</b> .....		14-21
Q 14.34	What is Prompt Corrective Action (PCA)?.....	14-21
Q 14.35	What are the PCA categories?.....	14-21
Q 14.36	What PCA provisions apply to all IDIs? .....	14-22
Q 14.37	What are the consequences of being only “adequately capitalized” rather than “well capitalized”?.....	14-22
Q 14.38	What are the PCA consequences of being “undercapitalized”? .....	14-23
Q 14.38.1	What is a capital restoration plan? .....	14-23



## Table of Contents

---

Q 14.39	What are the consequences of being “significantly undercapitalized”? .....	14-24
Q 14.40	Is dismissal of a director or officer under PCA a “removal” action?.....	14-25
Q 14.41	What are the consequences of being “critically undercapitalized”? .....	14-25
Q 14.42	Are there other situations where an IDI holding company must provide a guarantee to its subsidiary IDIs?.....	14-26
Q 14.42.1	Are IDI-level affiliates ever required to provide guarantees or contribute capital to each other? .....	14-26
<b>Enforcement Process and Appeals</b> .....		14-26
Q 14.43	What procedures do regulators follow for bringing formal enforcement actions?.....	14-26
Q 14.44	Are the standard Federal Rules of Civil Procedure and Federal Rules of Evidence used in this process? .....	14-27
Q 14.45	How can an informal action be appealed? .....	14-28
Q 14.45.1	Does every federal banking agency have an ombudsman?.....	14-28
Q 14.45.2	What is a “material supervisory determination”? .....	14-28
Q 14.45.3	What types of agency actions are not appealable to the ombudsman?.....	14-29
Q 14.45.4	Are appealed actions stayed pending the outcome of the appeal to the ombudsman? .....	14-29
Q 14.45.5	Are the ombudsman’s decisions binding? .....	14-30
<b>Compliance with Enforcement Actions</b> .....		14-30
Q 14.46	What is needed to be deemed in compliance with an enforcement action? .....	14-30
Q 14.47	What if an institution or IAP is found to be in noncompliance with an enforcement action?.....	14-30
Q 14.48	Can the IDI indemnify an IAP for payments he or she is required to make under an enforcement action? .....	14-30
<b>Termination of Enforcement Actions</b> .....		14-31
Q 14.49	How can an institution or IAP get an enforcement action lifted? .....	14-31
Q 14.50	Can an IDI convert charters to get the enforcement action to go away?.....	14-31
Q 14.51	Can a prohibition order be lifted? .....	14-32

## Chapter 15 Problem Banks and Failures

*Richard A. Schaberg & Sara C. Lenet*

<b>Supervision of Troubled and Problem Banks</b> .....	15-2
Q 15.1 What is a “problem bank”?.....	15-2
Q 15.2 Is being a “problem bank” the same as being “in troubled condition”? .....	15-2
Q 15.3 Is the fact that an IDI is considered a “problem bank” public information?.....	15-3
Q 15.4 What is the FDIC’s “watch list”?.....	15-3
<b>Resolution and Receivership</b> .....	15-4
Q 15.5 Who closes failing IDIs? .....	15-4
Q 15.6 What are the grounds for appointing a conservator or a receiver of an IDI at risk of failure? .....	15-4
Q 15.6.1 Must an IDI be closed if it falls under one of the PCA grounds for closure? .....	15-6
Q 15.7 Do regulators use different criteria in deciding whether to close minority IDIs?.....	15-7
Q 15.8 What is the difference between receivership and conservatorship?.....	15-8
Q 15.9 Is the FDIC always appointed receiver or conservator? .....	15-8
Q 15.10 What is the process for resolving a financial institution that is not insured? .....	15-9
Q 15.11 Is the FDIC allowed to act as receiver and oversee a receivership estate indefinitely? .....	15-9
Q 15.12 What is a bridge depository institution?.....	15-9
Q 15.13 Does the FDIC have alternatives to closing an IDI?.....	15-10
Q 15.14 How does the FDIC sell failed IDIs? .....	15-11
Q 15.14.1 What happens if the FDIC is unable to sell all assets and liabilities of a failed IDI? .....	15-11
Q 15.14.2 What is the Title II Orderly Liquidation Authority (OLA)?.....	15-12
Q 15.14.3 Can the IDI that purchases a failed IDI’s assets and liabilities change the terms of customer accounts? .....	15-12
<b>Post-Closing Enforcement Actions</b> .....	15-12
Q 15.15 What types of actions can be brought against IDI personnel after an IDI fails?.....	15-12
Q 15.16 Will regulators blame directors and/or officers for allowing an IDI to fail? .....	15-13

*Table of Contents*

---

Q 15.17	Can directors and/or officers resign in anticipation of an IDI being closed? .....	15-13
Q 15.18	Will directors or officers of a failed IDI be allowed to work in the banking industry again?.....	15-13
<b>Index</b> .....		<b>I-1</b>

