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Contents

1. Safety and soundness

1.1 Agencies finalize rule to expand on-site examination cycle for certain small institutions

The federal bank regulatory agencies (Federal Reserve Board, Office of the Comptroller of the Currency, and Federal Deposit Insurance Corporation) have finalized, without modification, their interim final rule adopted early last year that allows certain insured depository institutions with total assets of $1 billion or less to qualify for an 18-month on-site safety and soundness examination cycle.

The final rule implements Section 83001 of the Fixing America's Surface Transportation Act (FAST Act), which raised the applicable total asset threshold from $500 million to $1 billion and permits institutions that meet the following criteria to qualify for the extended 18-month on-site examination cycle:

— Receive a CAMELS composite rating of "1" or "2"; and

— Meet certain other criteria, including being well-capitalized, well-managed, not having undergone any change in control during the previous 12-month period, and not being subject to a formal enforcement proceeding or order.

The final rule becomes effective on January 17, 2017.

[Press Statement] [Final Rule]

1.2 OCC releases Semiannual Risk Perspective report

On January 5, 2017, the Office of the Comptroller of the Currency (OCC) released the Fall 2016 issue of its "Semiannual Risk Perspective" report. The report findings highlight:

— Strategic risks, which remain high as banks consider implementing business model changes to adapt to challenges associated with maintaining and growing revenue, including the adoption of innovative products, services, and processes in response to the evolving demands for financial services and the entrance of new competitors, such as out-of-market banks and financial technology firms.

— Credit risks, which remain a concern as banks continue to ease underwriting practices to boost loan volume and gain a larger market share amongst bank and nonbank lenders. This increases risks posed to the banking system from increased loan policy exceptions, loan-to-value ratios, and weaker covenant protections.

— Operational risks, which remain a concern as banks face ongoing cybersecurity threats, increased reliance on third-party relationships, and heightened awareness of the need for sound governance over retail sales practices.

— Compliance risks, including challenges in meeting the integrated mortgage disclosure requirements and amended Military Lending Act regulatory requirements as well as the requirements of the Bank Secrecy Act and anti-money laundering rules given increasing and evolving money laundering and terror financing activities globally.

In contrast to the OCC's Spring 2016 Semiannual Risk Perspective, the Fall report added "governance over sales practices" as a key risk issue, and changed the characterization of "leveraged lending" from a key risk to an issue warranting continued monitoring. The OCC states the National Risk Committee will continue to monitor these risks and supervisory priorities closely and implement appropriate actions to address risk concerns.

[Press Statement] [Semiannual Risk Perspective for Fall 2016]

2. Enterprise and consumer compliance

2.1 CFPB updates resources for HMDA filers

The Consumer Financial Protection Bureau (CFPB or Bureau) updated its "Resources for HMDA Filers" web page to reflect the new resources published by the Federal Financial Institutions Examination Council and the United States Department of Housing and Urban Development for financial institutions required to file loan data pursuant to the Home Mortgage Disclosure Act (HMDA). HMDA requires certain financial institutions to disclose mortgage data to the public in an effort to increase transparency on whether adequate home financing is being provided to qualified applicants on reasonable terms and conditions. The resources include:

— The 2017 loan/application register (LAR) formatting tool;

— Modifications made to the Technology Preview, which provides resources for financial institutions preparing their systems to file HMDA data with the CFPB;

- A filing instructions guide for data collected in or after 2018; and
- Frequently Asked Questions.

In addition, the CFPB's Regulatory Implementation Team also reminded HMDA filers of changes made to the scope of covered financial institutions in effect between January 1, 2017 and December 31, 2017. Consistent with the CFPB's final rule issued in October 2015, a depository institution will not be subject to Regulation C, which implements the HMDA) in 2017 unless it: i) meets the current Regulation C asset-size, location, federally related, and loan activity tests, and ii) originated at least 25 home purchase loans, including re-financings of home purchase loans, (as defined in the current Regulation C) in each of the two preceding calendar years (i.e., at least 25 in 2015 and at least 25 in 2016). In this context, the CFPB also issued a 2017 HMDA institutional coverage chart to help determine whether an institution would be covered by Regulation C in 2017.

[CFPB Resources]

2.2 OCC publishes third quarter mortgage metrics report

According to the Office of the Comptroller of the Currency's (OCC) third quarter report on mortgage metrics released on January 4, 2017, the performance of first-lien mortgages was improved during the third quarter of 2016 compared with a year earlier, which is indicative of the improvement in the overall health of the U.S. housing market. The OCC report showed that nearly 95 percent of mortgages captured in the report were current and performing at the end of the quarter, compared with 94 percent a year earlier. Foreclosure activity also declined, with mortgage servicers reporting having initiated 47,955 new foreclosures during the third quarter of 2016 — a 25.3 percent drop from the previous year. These developments in turn reduced the need for loss mitigation activities such as mortgage modifications. Servicers reported that of the 35,642 mortgage modifications implemented in the third quarter of 2016, 88 percent included a reduction in borrowers' monthly payments.

[Press Statement] [OCC Mortgage Metrics Report]

2.3 CFPB releases report on older consumers and student loan debt

On January 5, 2017, the Consumer Financial Protection Bureau (CFPB or Bureau) released a report prepared by its Office for Older Americans and Office for Students and Young Consumers that examines complaints from student loan borrowers aged 60 or more (older borrowers) about servicing practices. The report highlights that the number of older student loan borrowers has quadrupled from about 700,000 to 2.8 million in the past 10 years and the amount of debt per older borrower has roughly doubled from $12,000 to $23,500. Many of these older borrowers are taking out student loans to finance their children's or grandchildren's college education. According to the report, older borrowers struggling to make payments complain about obstacles to enrolling in income-driven payment plans and accessing their protections as cosigners. In 2015, nearly 40 percent of federal student loan borrowers age 65 and older were in default. CFPB Director Cordray is quoted as saying the CFPB is "concerned that student loans are contributing to financial insecurity for many older Americans and that student loan servicing problems can add to their distress."

[Press Statement] [Report]

2.4 Enforcement action

The Consumer Financial Protection Bureau (CFPB or Bureau) announced that it had entered into consent orders with two credit reporting companies to address the CFPB's allegations that they each engaged in deceptive marketing practices regarding the sale of credit scores and other credit products offered to consumers. These companies are in the business of collecting credit information such as a borrower's payment history, debt load, and maximum credit limits, and generating credit reports and scores that are provided to businesses. They each also market and provide credit-related products such as credit scores, credit reports, and credit monitoring directly to consumers. The CFPB alleges these companies misstated the cost and usefulness of the credit scores and other credit products they sold to consumers and further deceived consumers into enrolling into subscription programs with recurring payments in violation of the Fair Credit Reporting Act. The consent orders require the companies to make truthful representations of the cost and value of the credit services provided by them and to obtain the express informed consent of consumers prior to enrolling them into any of their products. In addition, they were each required to make restitution to harmed consumers and to pay penalties, which together totaled $17.6 million and $5.5 million, respectively.

3. Capital markets and investment management

4.1 FINRA outlines 2017 exam priorities

The Financial Industry Regulatory Authority (FINRA) publicly released its 2017 Regulatory Examination and Priorities Letter on January 4, 2017, outlining the following issues and concerns that FINRA will address through regulatory programs in 2017:

- High risk and recidivist brokers.
- Sales practices, including i) product suitability and concentration, ii) short-term trading of long-term products, iii) registered representatives' outside business activities and private securities transactions, and iv) supervisory and records retention obligations regarding social media and other electronic communications.
- Financial risks, including i) liquidity risk, ii) financial risk management, and iii) credit risk policies, procedures and determinations.
- Operational risks, including i) cybersecurity, ii) controls testing, iii) segregation of assets, iv) Regulation SHO, v) anti-money laundering and suspicious activity reporting, and vi) municipal adviser registration.
- Market integrity, including projects around i) market manipulation, ii) best execution, iii) audit trail reporting, iv) tick size, v) market access, vi) trading examinations, and vii) fixed income securities surveillance.

The letter also acknowledges that FINRA has enhanced its risk-based surveillance and examination programs to apply a nationally consistent approach to identify and focus on material conduct at firms in each of these areas based on its assessment of the relevant risks.

FINRA will also initiate electronic, off-site reviews to supplement the traditional on-site cycle examinations for a select group of firms that are not currently scheduled for a cycle exam in 2017. Under this program, FINRA will make targeted and limited information requests to these firms and analyze responses off site.

[Exam Priorities Letter]

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