

FDIC'S COMMUNITY BANK STUDY TACKLES COMPLIANCE

"Data-driven" study defaults to interviews due to dearth of data

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In December, FDIC published its Community Bank Study, which explores some of the major issues facing community banks today, including structural changes, capital formation, and financial performance. It was also a fundamental component of the study to tackle the definition of "community bank" itself. A community bank is not simply a bank with assets below a certain threshold. FDIC's definition of community bank is much more complex than that; too complex to go into in this brief blog, but worth exploring.

What I really wanted to talk about this week was the portion of the study that focused on the costs of regulatory compliance. As part of the study, the FDIC interviewed a group of nine community bankers to get a better understanding about the impact of regulatory compliance costs on community banks.

While the rest of the Community Bank Study was primarily data-driven, the regulatory compliance costs segment relied on interviews with this small group.

The dearth of data about regulatory compliance costs is evident.

None of the nine bankers interviewed tracks the cost of compliance to their institutions beyond the direct costs such as compliance department expenses. They said that it would be too time consuming and too costly to track all compliance expenses because they reach so many facets of banking operations.

Cumulative effect of years of regulations

One of the universal agreements among the bankers interviewed was that there was no single regulation or compliance requirement that they could point to as having had the most significant effect on their institutions. Instead, it was the cumulative effect of all of the regulations that had built up over the years that has created the burden.

Many of the bankers in the group reported that they had both increased compliance staff to accommodate the increased compliance burden in the past ten years and found that all employees in their institutions spent more time on compliance-related duties.

There were a few laws that were highlighted as particularly helping to drive up compliance costs at their banks:

- • Home Mortgage Disclosure Act (HMDA)
- • UDAP (now evolving into UDAAP)
- • Fair Lending
- • Bank Secrecy Act

- • USA Patriot Act
- • Privacy Act notices
- • Electronic Funds Transfer Act

A little (a lot of) help

Most of the bankers interviewed said that they would like to see additional outreach by FDIC in helping banks with the compliance burden. FDIC should assist banks it supervises to gain a better understanding of the new and changing regulations and how to maintain a satisfactory level of compliance.

However, a majority of the bankers reported that their banks are increasingly relying on consultants and third-party service providers for help with regulatory compliance.

Consultants are increasingly being called upon to help banks interpret and implement new or changing laws and regulations, particularly when time is of the essence. Third-party service providers are being used to a greater extent to provide compliance-related products and automated systems to help reduce the person-hours spent on compliance tasks.

The bankers expressed concerns about increased reliance on these third parties.

Assessing customer impact

The FDIC's report noted that the majority of interview participants stated that they had not discontinued offering products or services because of regulatory compliance.

That is, with two notable exceptions: overdraft protection and high risk mortgage products.

If you remove the FDIC's positive spin on this fact, it appears that some banks, even in this small group, have discontinued offering products or services because of regulatory compliance (beyond the two notable exceptions of overdraft protection and high-risk mortgage products).

Pinning down the cost factor

What the study ultimately underscores is this: Banks know they are spending much more on compliance, but accurately measuring the total impact on expenses with specificity is difficult.

What is needed is more information about the costs of compliance.

Easy to say and hard to quantify.

About Nancy Derr-Castiglione

“Lucy and Nancy’s Common Sense Compliance” is blogged by both Lucy Griffin and Nancy Derr-Castiglione, both ABA Banking Journal contributing editors on compliance.

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Previously, Nancy held compliance positions with Bank One Corporation and with United Banks of Colorado.

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