

DON'T LOOK NOW, YOU'RE BEING UNDERESTIMATED

By government guesses, you're actually underemployed!

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Those of you out there who are bank compliance officers will be relieved to know that it takes you only one hour per year to comply with the federal flood insurance regulations, plus, of course, three minutes per loan to obtain the determination; fill out the paperwork; provide borrower notices; and document the file for examiners and auditors.

At least, that's according to FDIC's estimate of regulatory burden for the flood insurance regulations. OCC's estimate of regulatory burden is a bit higher at 25.5 hours per year for everything related to flood insurance compliance.

Is that how much time a bank typically spends on flood compliance? Hardly. It would most likely take more time than that just to read and understand the regulations—and the various changes, interpretations, and new Q&As. The compliance officer would have to use up more than that one hour each year just preparing and delivering the annual flood insurance training program to lenders and loan staff.

Back in 2007 (the agencies don't publish these burden estimates every year) OCC determined that an average national bank spends 1,966 hours per year to comply with Regulations B, C, E, M, Z, CC, and DD. If you figure that there are about 2,000 working hours in a year (allowing for a two-week vacation), that is the equivalent of one individual per national bank. That may be feasible if you are just calculating the compliance officer's time relating to those regulations. However, if you also factor in the amount of time spent by every new accounts representative, lender, loan administrator, operations staffer, branch manager, marketing officer, and so on, the total amount of time a typical bank spends on complying with these main consumer regulations is much greater than 1,966 hours per year.

The agencies also estimate that it only takes an institution one hour to comply with the requirement to file a Suspicious Activity Report. That could be true if you only consider the amount of time it takes to fill out and submit the form. But there is a lot more work that goes into getting to the final stage of SAR filing. Someone has to identify the suspicious activity and make a determination that a SAR needs to be filed. Research has to be done on the suspect and the related transactions. A detailed narrative about the activity has to be written that explains the who, what, where, when, how, and why about the activity or transaction.

And it doesn't end there. At least one other person has to review and approve what the first person decided to put in the SAR. Documentation has to be created and retained for each SAR. The SAR has to be reported to the board of directors. And, then there is all the time and work that goes into research, reviewing, and documenting the "SARs-Not-Filed," for which no burden hours are assigned.

The estimated regulatory burdens that are published in the Federal Register don't even begin to take into consideration the upfront implementation burden when a new regulation is first introduced or when there are changes to an existing requirement. Can you imagine what the burden hour estimate would be for just Regulation Z in 2009?

The point is that the regulatory agencies are conducting this exercise of estimating the regulatory burden of "information collections," and it appears that they are woefully underestimating the actual burden that these compliance regulations generate.

They are required to do this by the Paperwork Reduction Act of 1995, so they do it. There is no evidence of paperwork reduction taking place as a result.

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.

Nancy, a Certified Regulatory Compliance Manager, is owner of D-C Compliance Services, an independent regulatory compliance consulting services business that has provided expertise in compliance training, monitoring, risk assessment, and policies and procedures to financial institutions since 2002.

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

In addition to serving as a Contributing Editor of ABA Banking Journal, Nancy has served on the ABA Compliance Executive Committee; National and Graduate Compliance Schools board; conference planning committees, and the

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