

Your Compliance Management System

Time for Change?

Compliance **O**utourcing **P**artnership **S**olutions

The Karen I. Martino Group

“COPS”

A Partner Only Firm

Specializing in:

- Compliance Audits
- Compliance Management Consulting
- Loan Review
- BSA Independent Third Party Audits
- BSA Consulting

About Us

Karen I. Martino

- Certified Regulatory Compliance Manager (CRCM)
- Former EVP-Director of Audit, Compliance & Security, reporting directly to the Audit Committee of the Board of Directors.
- Member of the Executive Management Team; participating in strategic planning and new product/services development.
- Designed and implemented the Bank's Customer Identification Program, Bank Secrecy and Anti-Money Laundering Programs.
- Created a highly successful Risk Assessment Plan and an Operations Enhancement Program to further minimize risk and evaluate internal controls.
- Certified Internal Auditor and past President of the NY/NJ Chapter of the Financial Managers Society.
- Member of the NJ Bankers Compliance Sub-Committee.

Mary Marley

- Certified Regulatory Compliance Manager (CRCM)
- Former VP Loan Servicing and former VP Controller.
- Prepared monthly financials, cost reports and regulatory reports.
- Instituted a loss mitigation policy for troubled debt; reducing losses and increasing performing loans.
- Developed operational procedures for lending and accounting.
- Chaired the Mortgage Servicing Committee of the NJ League of Community Bankers.
- Member of the NJ Bankers Audit Sub-Committee.

Compliance Management System (CMS)

- ✓ Board and Management Oversight
- ✓ Compliance Program
- ✓ Consumer Complaint Process
- ✓ Independent Review

Successful Compliance Culture:

- ❖ Leadership
- ❖ Proactivity
- ❖ People focus
- ❖ Efficiency
- ❖ Results

Compliance is a system that includes:

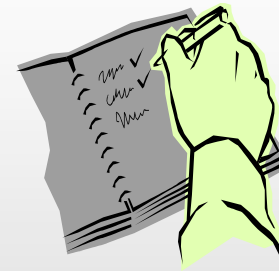
❖ *Information*

❖ *Documentation*

❖ *Communication*

Consumer Compliance Issues

- **Keeping informed of regulatory changes and your Bank's products and services**
- **Knowing your teams strengths and weaknesses**
- **Lack of ownership...cost of compliance**
- **Advertising and Social Media**



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"Whoa! — Adam and Eve are
way out of compliance!"

The Expectations:

- The **Board** is responsible and makes the necessary resources available.
- **Management** oversees day-to-day implementations and holds all staff responsible in their own areas.
- The **Compliance Committee** establishes systems, processes, disclosures, etc.
- The **Compliance Officer** provides expertise and management of the CMS.
- Compliance is **Every Employee's** responsibility every day!.

Board Oversight

- **Allocating resources for staffing, training and technology.**
- **Formal and periodic reporting process on the status of the CMS.**

Compliance Program

- **Risk Assessment**
- **Testing**
- **Change Control Process**
- **Vendor Management**
- **Compliance Accountability**

Consumer Complaint Process

- **Tracking**
- **Analysis**
- **Response**

Other Potential Concerns:

- UDAAP Issues
- Fair Lending Issues
- Indications of Poor Customer Service
- Weaknesses in Staff Training

Independent Review

- **Sufficient “Independence”**
- **Sufficient Expertise**
- **Reporting**
- **Review Coverage**
- **Corrective Action**

Bring it Home!

Promoting the Culture

- **Policies and Procedures**
- **Job Descriptions**
- **Performance Evaluations**
- **Management Development Program**
- **Training**

Formal Change Control Process

A process to manage compliance changes for:

- **New or Revised Regulations**
- **New or Revised Products or Services**
- **Delivery Channels**

For Instance

You have been reading about a change in a regulation that will become effective in a short time. The industry seems to think it's a fairly big deal. What do you need to do to make sure that it is implemented correctly?

Example - Project Implementation Form Tool

#2013-1

Date: 4/1/13

Initiated By: Jane Smith

Project/Product/Service: Lending Division

Detailed Description:

- Bureau of Consumer Financial Protection —12 CFR Chapter X - Part 1026 — Truth in Lending (Regulation Z) - Subpart E—Special Rules for Certain Home Mortgage Transactions § 1026.35 Prohibited acts or practices in connection with higher-priced mortgage loans. The effective date of these amendments is June 1, 2013.

The following should be addressed

requirements; IT requirements; Financial/budgetary constraints; Compliance; Audit controls; Training; Marketing Plan; Operational Efficiency; Impact to customer service.

Project Coordinator:

Est. Completion Date:

Preliminary Approval:

Division

CEO

Project Implementation Form

Area	Sign Off / Date	Comments
Department Manager		
Division Head		
Finance		
Audit		
Compliance		
Human Resources		
Marketing		
IT		
Legal		
Board Policy		



Example - Advertising / Disclosures Approval

ADVERTISEMENT :

FORMS/DISCLOSURE:

DATE:

INITIATED BY:

BUSINESS UNIT: Retail

PURPOSE: Privacy disclosure form updated to reflect opt-out as a result of our new program with a third party

EFFECTIVE DATE: 1/1/09

Forms / Disclosures Approval

Area	Signer Date	Comments
Department Managers		
Division Head		
Compliance		
Marketing		
Executive		
Legal		

Third Party Vendors

Common third party arrangements include, but are not limited to:

- **Credit card programs (e.g., cash-secured, affinity)**
- **Payday lending and other alternative credit programs**
- **Debit card programs;**
- **Rewards programs**
- **Deposit taking or affinity relationships;**
- **Overdraft payment programs**
- **Refund anticipation loans,**
- **Audit programs of third party relationships,**
- **Broker-dealer relationships for brokerage services,**
- **Mortgage brokerage services,**
- **Automobile dealer relationships,**
- **Flood determination services, and**
- **Reverse mortgage program**

Third Party Vendors - Compliance risk

- **Arises from violations of laws, rules, or regulations, or from noncompliance with internal policies or procedures or with institution's business standards**
- **Exists when the products or activities of a third party are not consistent with governing laws, rules, regulations, policies, or ethical standards**
- **Liability could potentially extend to institution**
- **Exacerbated when inadequate oversight, monitoring or audit functions**

Monitoring - Auditing

- **Periodic Risk Based Reviews**
- **Detailed Scope**
- **Formalized Reports**
- **Senior Management and the Board**

Effective Corrective Action

An action plan:

- **Identify the Issue(s)**
 - ✓ Violation of regulations?
 - ✓ Exception to policy?
 - ✓ Internal Control Weakness?
 - ✓ Isolated or systemic?
- **Fixing the Root Cause**
 - Minimize the potential for recurrence
- **Validate the Actions taken are Effective**

Be Prepared

- **Deluge of new and revised regulations**
- **Keep Management and the Board apprised**

Resources

Resources:

- **Regulations**
- **Subscriptions**
- **Peer Groups**
- **Seminar and Workshops**



Q & A

THE KAREN I. MARTINO GROUP LLC

C **O** **P** **S**
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