RMA OVERVIEW OF DODD-FRANK LEGISLATION

Office of the Comptroller of the Currency

National Risk Committee

November 3, 2010

Enterprise Risk Management:

Credit Risk

Operational Risk

Market Risk

THE RISK MANAGEMENT ASSOCIATION

- The National Risk Committee requested that The Risk Management Association ("RMA") discuss the strategic challenges and proposed solutions facing institutions in light of Dodd-Frank, as well as other regulatory and policy initiatives either under consideration or recently adopted.

- RMA is a 501(c)(6) not-for-profit member-driven professional association whose sole purpose is to advance the use of sound risk principles in the financial services industry.

- RMA does **not** lobby.

- RMA has approximately 3,000 institutional members that include banks of all sizes, as well as non-bank financial institutions. They are represented in the Association by 18,000 risk management professionals.

INITIAL ACTIVITIES CONDUCTED BY RMA REGARDING DODD-FRANK

- RMA held calls with the Regulatory Relations Council and Community Bank Council in order to identify the strategic challenges facing members.

- RMA distributed a survey to members of both Councils to capture their specific concerns and proposed regulatory solutions to the stated challenges.

- RMA received a number of responses and the preliminary findings are described further in this presentation.

- Due to the recent passage of Dodd-Frank, RMA's members are in the early stages of determining the likely effect of the legislation and forthcoming regulations. As a consequence, the opinions expressed herein may be subject to change.

INITIAL ACTIVITIES -- Continued

- The Regulatory Relations Council and Community Bank Council are each responsible for building and maintaining effective communications between RMA and senior officials in federal government agencies and other policy makers, and for enhancing the risk management capabilities of RMA member institutions.

- Members represented in the Regulatory Relations Council include: Morgan Stanley, Huntington Bancshares, SunTrust, Bank of America, KeyCorp, Wells Fargo, US Bank, Fannie Mae, Capital One, TD Bank, BB&T, and PNC.

- Members represented in the Community Bank Council include: First Bank & Trust Company, Bank of North Dakota, Anchor Bank, State Bank of Georgia, Security Business Bank of San Diego, OceanFirst Bank, Heartland Community Bank, American National Bank, Bank of North Carolina, Bank of Nevada, Univest, TIB Bank, and Willamette Community Bank.

- The views represented in this presentation are not necessarily representative of any one institution.

GENERAL BACKGROUND COMMENTS FROM RMA MEMBERS REGARDING DODD-FRANK

1. RMA's members, regardless of bank size, uniformly cite as challenges that they are operating in an uncertain global economic and regulatory environment. Many provisions of Dodd-Frank are vague and will be defined through rule writing by the regulators:
    - (a) 240 rule-makings required
    - (b) 70 Studies
    - (c) 11 regulatory authorities involved

2. There is general concern that Dodd-Frank and other initiatives will result in increased costs due to data requirements, litigation, regulatory examinations and general compliance requirements, as well as negatively impact banks' business models and revenues.

3. There is general concern among community bankers that one of the unwritten goals of Dodd-Frank is to significantly shrink the number of community banks in the U.S.

4. There is a need to think "Customer First." Change the operating model of the consumer bank by moving from penalty pricing to an upfront, transparent value exchange with consumers.

RMA'S OBSERVATIONS

1. Institutions will need to adopt risk appetite policy statements that are clearly communicated throughout the institution and are linked to compensation in order to drive sustainable, less volatile results and that are capital efficient.

2. Institutions will also need to engage in comprehensive reviews of lines of business to tie in with their risk appetites and to understand the revenue/cost implications of Dodd-Frank in order to make necessary adjustments to business model credit and fee charges.

3. In light of the enormity, complexity and general uncertainty surrounding Dodd-Frank, it is important for RMA to continue to foster an open and honest dialogue between our members and regulators through the rule-making and implementation process. This is a brave new world for everyone.

STRATEGIC CHALLENGES

- Technology capacity /expenditures associated with regulatory and reporting requirements.

- Hiring more compliance and legal professionals in the short-term to meet increased regulatory and compliance demands.

- Digesting the scope and complexity of Dodd-Frank and the forthcoming regulations as they are issued and appropriately educating and training employees in a short time frame.

- Dilution of preemption will complicate the product approval process and may result in certain products not being available in all states.; Cost of multi-state compliance and likelihood of increased enforcement action by state AGs will be revenue challenges.

- Simplify product offerings in anticipation of Consumer Financial Protection Bureau rules.

STRATEGIC CHALLENGES

- Change in business model and general profitability pressure arising from prudential capital/liquidity standards, regulatory burden and fee limits, which may affect bank competitiveness.
- Restoring trust in the marketplace in light of Dodd-Frank and robo-signings in residential mortgage foreclosures.
- Use of ratings from agencies.
- Living Wills – these may be contradictory at the Holding company and operating levels.

STRATEGIC CHALLENGES -- Continued

- Raising Capital via Private Placements.
- "Volcker Rule" definition of market maker vs. principle, proprietary trading vs. client driven trading.
- Derivatives. Increasingly complex clearing and reporting regime for all derivative products, including rates and currencies, will increase costs to customers and increase internal hedging costs. Amendments to 23A will exacerbate this challenge. Definitional clarity is also required: i.e. "swaps dealer", "alternative swaps execution facility."
- Consumer Protection issues --Fiduciary Duty rules as they may affect broker and investment advisor communities. Restrictions on distribution of securities underwritten by an affiliate of broker to its retail clients.

RESPONSES TO CHALLENGES

- Continued open, honest dialogue between our members and regulators through the Dodd-Frank implementation process (and thereafter).
- Regulators need to develop well-defined protocols for dealing with preemption issues.
- Regulators should allow a profit margin to be built into the interchange business when they write the rule as required by Dodd-Frank, which should include a margin for future uncertainty around costs, including fraud prevention costs.
- FASB should not expand the use of fair value accounting.
- Agency securities need to be included in the definition of liquid assets.
- More certainty/clarity from regulators on Basel capital and on compensation requirements.
- Generate clarity around stress testing for community banks.

APPENDIX

ISSUES OF CONCERN TO RMA MEMBERS

Primary Issues of Concern

- The impact of the Consumer Financial Protection Bureau generally; in addition, the Bureau has the potential to effect changes in products which may create higher costs which will have to be passed on to consumers. A move to ‘one size fits all” disclosure and “plain vanilla products” will stifle innovation and creativity and be a drag on revenue.

- Developing new strategies/products to serve customers and offset revenue growth constraints.

- Developing non-traditional fee income sources

- Growing stress testing expectations in the absence of a framework; Whether portfolio stress testing is being done correctly; i.e., will it meet regulators expectations. Will Fed instead impose a regime similar to that used on large BHCs last spring?

- The Financial Stability Oversight Council/Office of Financial Research reporting requirements have the potential to be unduly burdensome.

ISSUES OF CONCERN TO RMA MEMBERS - Continued

Regulatory Issues

- The lack of consistent Basel III definitions and implementation timelines; Basel III capital/formal and informal capital and liquidity thresholds and increasing costs to ensure compliance.

- Capital requirements increasing generally, and

  (a) Impact on capital due to stress tests

  (b) Not having access to sufficient additional capital to pursue M&A opportunities

  (c) Cost of capital increases as industry collectively accesses the market.

- Corporate governance and compensation.

- Impact of Dodd-Frank whistleblower incentives.

ISSUES OF CONCERN TO RMA MEMBERS - Continued

General Issues

- Maintaining credit discipline.
- Revenue growth constraints across the businesses generally, and
  (a) Quality loan production/generating acceptable returns
  (b) Changes to interchange may result in cost inefficiencies so that cards cannot be offered profitably to consumers.
- Problem asset resolution.
- Attracting and retaining profitable customer relationships.

ISSUES OF CONCERN TO RMA MEMBERS - Continued

General Issues – Continued

- Pricing to create steady revenue stream and reduce back-end litigation exposure.
- Improving marketing; pursuing cross-selling opportunities; developing new, value added services to provide clients/customers; and seeking the lowest possible funding costs.
- Competing with larger institutions.
- *See* Securities Lending Handout for specific concerns from that segment of RMA's membership.