8th Annual Risk Conference
Panel 2: Regulatory Policy

Moderator

- **Lamont Black**, Assistant Professor of Finance, Driehaus College of Business, DePaul University

Panelists

- **Anthony Gibbs**, Midwest Regional Director, Consumer Financial Protection Bureau
- **Jame Sloan**, Director, Promontory Financial Group
- **Leonard Wiatr**, Executive Managing Director & Chief Risk Officer, PrivateBank
- **Connie Horsley**, Assistant Director, Bank Supervision & Regulations, Board of Governors of the Federal Reserve System

Panel 2: Regulatory Policy
Lamont Black

- “Reaffirming ***Our*** Foundations:
  Risk & ***Regulation***, Culture & ***Governance***”
- A mix of regulators, consultants, & bankers
- Major focus in the post-crisis era
  - Safety and soundness
  - Consumer compliance

Regulatory Policy

- "Reaffirming ***Our*** Foundations:
  Risk & ***Regulation***, Culture & ***Governance***"

- A mix of regulators, consultants, & bankers

- Major focus in the post-crisis era
  - Safety and soundness
  - Consumer compliance

Regulatory Policy

1. Capital	Ratios	vs.	Stress Tests
2. Consumers	Bright Lines	vs.	Judgment
3. Rules	Simplicity	vs.	Complexity
4. Bank Size	Uniformity	vs.	Diversity

PrivateBancorp, Inc.

REGULATORY CHANGE MANAGEMENT

Prepared for Federal Reserve Bank Annual Risk Conference

MARCH 31, 2015

Leonard Wiatr, Chief Risk Officer

The PrivateBank and Trust Company

PrivateBancorp, Inc.

- $15.6B Illinois state chartered non-member bank regulated by the Federal Deposit Insurance Corporation (FDIC) and Illinois Department of Financial and Professional Regulation (IDFPR)
- Holding company is regulated by the Federal Reserve Bank of Chicago
- Commercial Bank with 33 strategically located offices primarily in the Midwest serving the greater Atlanta, Chicago, Cleveland, Denver, Des Moines, Detroit, Grand Rapids, Kansas City, Milwaukee, Minneapolis and St. Louis metropolitan areas
- Specialized lending to middle-market commercial clients with niche areas including healthcare, security alarm finance, commercial and industrial, and asset-based lending

Speaker Biography

PrivateBancorp, Inc.

Len Wiatr joined The PrivateBank and Trust Company in 2008. He serves as the Bank's Chief Risk Officer, overseeing Compliance and Operational Risk as well as Credit Review. Prior to joining The PrivateBank, Len was the executive vice president and chief compliance officer at LaSalle Bank Corporation and executive vice president and deputy chief compliance officer at ABN AMRO North America.

Mr. Wiatr began his banking career in 1969 as a national bank examiner with the Comptroller of the Currency. He left the regulatory agency in 1981 to join the former First National Bank, Chicago (now JP Morgan Chase) as senior lending officer for Latin America responsible for managing the Bank's Latin American loan portfolio. Mr. Wiatr returned to the Comptrollers office in 1984, rising through the ranks to become examiner-in-charge in the large bank supervision division. He left in 2004 to join LaSalle.

Mr. Wiatr earned his B.S. in business and administration from St. Joseph's College. He is also a graduate of the Graduate School of Banking, University of Wisconsin, Madison.

Regulatory Change: State of Play

PrivateBancorp, Inc.

Key Discussion Points

- Regulatory Driving Factors
- Managing Change
- Dodd Frank Implementation
- Challenges
- Best Practices

History of Regulatory Change

PrivateBancorp, Inc.

Banking regulations tend to follow, in a reactive fashion, socio-economic events and often ensue periods of de-regulation and/or fundamental shifts in market discipline at both the institutional and investor levels.

1920s – Great Depression

- Glass-Steagall Act
- Creation of Federal Deposit Insurance Corporation (FDIC)

1980s-1990s – Savings & Loan Crisis

- Financial Institutions Reform, Recovery and Enforcement Act (FIRREA)
- Federal Depository Insurance Corporation Improvement Act (FDICIA)
- Creation of OTS

September 11, 2001

- United and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA PATRIOT Act)

2007-2011 – Financial Recession

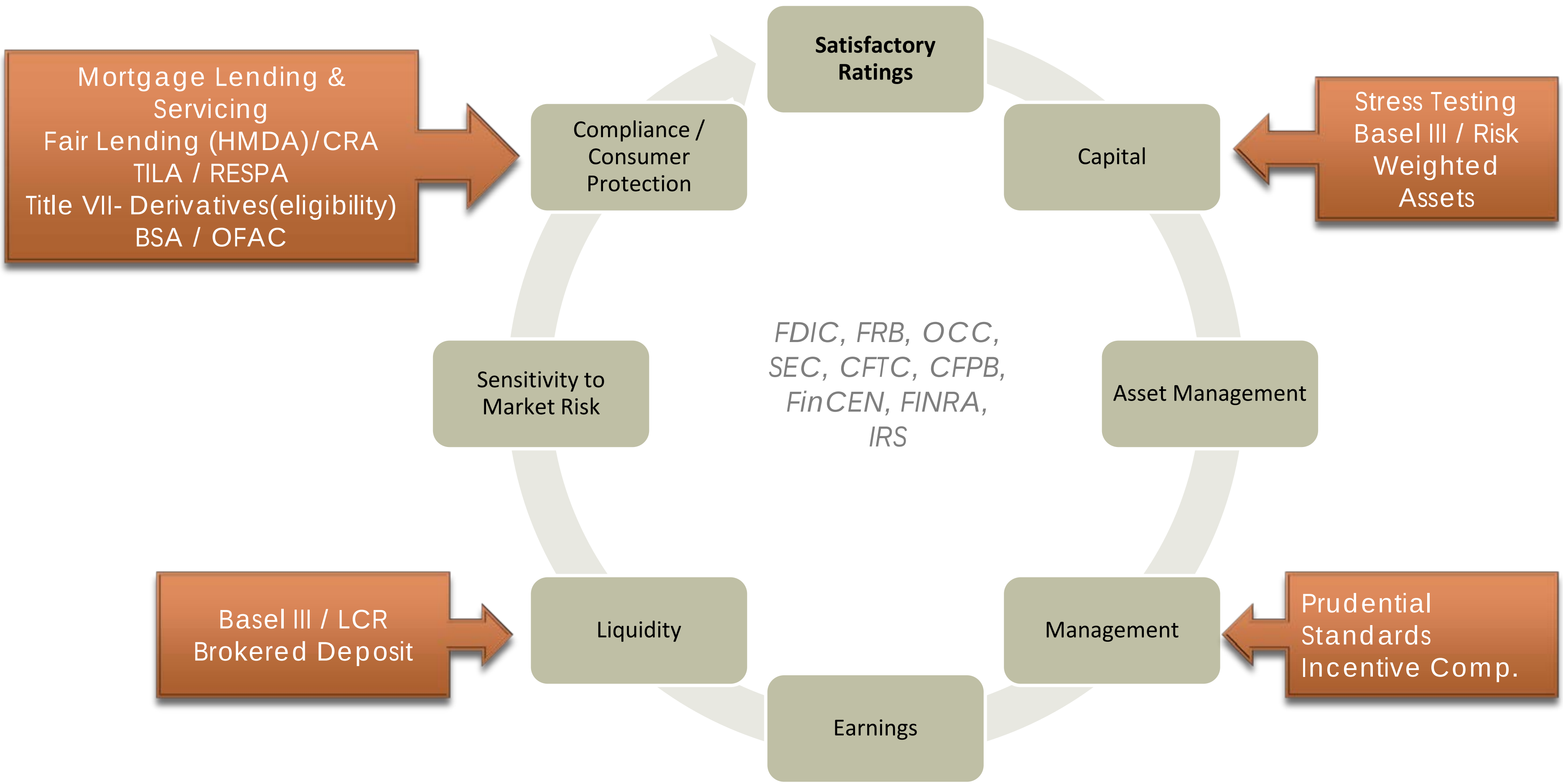
- Dodd Frank Wall Street Reform and Consumer Protection Act (~395 rulemaking requirements; appx. 231 finalized*)
- Creation of Consumer Financial Protection Bureau (CFPB)

*As of December 31, 2014. Source: DavidPolk

Landscape

PrivateBancorp, Inc.

Today's regulatory changes are not only designed to protect the safety and soundness of banks and the financial system, but are also intended to protect the end-user consumer.



Managing Change Effectively

PrivateBancorp, Inc.

The breadth and scope of regulatory change can be daunting, especially when a bank is subject to regulatory oversight from multiple agencies. Establishing and maintaining an effective Compliance Risk Management Program is imperative to the success of a Bank in this regulatory environment:

- Establish and communicate Board and management ***risk appetite***
- Integrate compliance into day-to-day line of business processes
- Assign clear ***accountability*** for new and existing regulations
- Establish and continually reinforce ***compliance culture***
- Resolve compliance issues effectively and expeditiously
- Implement an effective compliance training program to build awareness
- Establish open line of communication with examination team
- Provide senior management and the Board with frequent and effective ***reporting and risk assessments***
- Appoint knowledgeable and competent compliance professionals independent of the line of business and provide tools and support for effective oversight of regulatory change
- Implement ***Internal Audit*** and Compliance Testing

Managing Change Effectively

PrivateBancorp, Inc.

While a Bank's Compliance, Risk, and Legal departments may play a critical role in interpreting and implementing regulatory change, accountability for compliance risk must be clearly articulated:

First Line of Defense (Business Unit)

- Identify regulatory change impacting business and implement necessary changes to policy, procedures and control
- Identify, monitor, manage and mitigate risks resulting from new regulation
- Promote compliance culture and ensure adherence through compensation and consistent messaging

Second Line of Defense (Compliance)

- Track and monitor pending regulatory changes
- Coordinate change management with the business unit
- Provide testing to validate the effectiveness of changes and the sustainability of compliance initiatives
- Identify deficiencies and work with senior management to mitigate/remediate
- Liaison with regulatory agencies

Third Line of Defense (Independent Audit)

- Ensure regulatory changes have been identified and incorporated into business
- Monitor ongoing compliance

Bank's Role with Implementation

PrivateBancorp, Inc.

Banks don't just play a back-seat role in regulatory change. It is critically important for financial institutions to not only monitor regulatory change, but also to participate in the development and refinement of rules.

- Actively participate in industry groups
- Review proposed rules and provide comment letters
- Engage prudential regulators
- Seek clarification through formal and informal channels
- Benchmark with other financial institutions

Dodd Frank – Consumer Protection

PrivateBancorp, Inc.

In process

Truth in Lending Act/Real Estate Settlement Procedures Act (TILA/RESPA) Integrated Disclosure

- Combined multiple early disclosures into one form as well as multiple closing disclosures into one form

Technical calculations, impact to tolerance thresholds, reliance on third-parties for accurate fees, reliance on "best estimate"

Implemented

Regulation E - Remittance Transfer

- Pre- and post-transaction disclosure requirements; error resolution and cancellation rights

Technology impact, vendor engaged, increased cost for compliance, disclosures

Implemented

Regulation Z - Ability to Repay (ATR) and Qualified Mortgage (QM)

- Prescriptive underwriting standards; imposition of consumer foreclosure and recovery rights and bank penalties

Refined product offering, changed underwriting process, client impact (extensive support and documentation), HELOC to HELO challenges, secondary market repurchase risk

Dodd Frank – Consumer Protection

PrivateBancorp, Inc.

Implemented

Servicing Amendments under TILA and RESPA

- New periodic statement; prescriptive notice of error and request for information response timeframe

Implemented as best practice, notwithstanding small servicer exemption; ongoing monitoring of portfolio size, centralized workflow

Implemented

Appraisal Requirements & Risks

- Reg B – impacts all first liens on single family dwellings. Requires disclosure at application and delivery of appraisal promptly upon completion.
- Reg Z – requires appraisal for Higher priced mortgage loans and second appraisal for "flipped" properties

Applies to consumer **and** commercial loans; disclosures, and appraisal risk processes impacted

Implemented

Loan Originator Compensation

- Amends Mortgage Loan Originator (MLO) compensation restrictions; prohibits payment based on terms of transaction; restricts compensation based on activity

Can say/can't say training and awareness, compensation impact (HR), challenge to maintain central "relationship" model

PVTB Approach – Dodd Frank

PrivateBancorp, Inc.

- Dodd Frank Supervisory Panel and Cross-Departmental Collaborative Workstreams
- Third-party vendor engaged to facilitate re-design of processes and formalizing procedures to demonstrate compliance
- Applicability – Regulation *vs* Examination
  - Even when regulations provide technical carve-outs or volume-based exceptions, it is a best practice to review the regulation and adopt, to the extent applicable, consumer protections
    - ***Presumption of applicability***
    - Examples - Remittance Transfer and Servicing
- Quality Assurance
  - Given some of the more technical components of Dodd Frank and implementing regulations, the Bank created multiple layers of quality assurance (1st, 2nd and 3rd lines of defense) to ensure sustainable and ongoing compliance

Challenges

PrivateBancorp, Inc.

- While many traditional A-Z regulations generally apply equally across banking organizations, many of the new regulations under Dodd Frank vary based on the composition of the Bank:
  - Complexity of the organization, products and services, interconnectedness, criticality of functions
  - Asset Size
    - Varied terminology to apply rules and exemptions: >$50B, small banks (<$10B), systemically important financial institution (SIFI), too big to fail, community banking, large bank (>$10B), market maker, etc.
  - Regulatory Uncertainty
    - Innovation can be stifled when regulations are unclear or applied inconsistently
  - Regulator Matters
  - Personal Accountability & Impact on Talent Pool

Cost of Compliance

PrivateBancorp, Inc.

- System Expenses
  - Changes to existing systems or required implementation of a new system
  - Data needs
- Third Party Risk Management
  - Applies to consultants and vendors
  - Information Technology, complaint management, customer impact
- Headcount
  - Development of new/revised policies and procedures
  - Ongoing compliance requirements
  - Quality assurance and validation of new controls
- Customer/Employee Training and Awareness
- Customer notification
- Required Regulatory Filings
- Legal Expense

Best Practices

PrivateBancorp, Inc.

In order to address challenges associated with regulatory change, it is important to proactively address your implementation model, and ensure appropriate parties are accountable for understanding and implementing the changes.

Select an **implementation model** that fits your organization

- Who leads change management (compliance, business unit, legal, project manager, consultant)?
- Are you an early adopter?
- Does the new compliance cost erode or outweigh profitability?
- Evaluation of head count?
- Does the new/evolving risk impact risk appetite?

Establish **auditable process**

- Process should include appropriate controls, checks and balances.
- Ensure training and awareness to impacted staff.
- Update policies, procedures and processes.
- Where necessary, establish management and Board reporting.
- Update risk assessments.

Perform **ongoing monitoring**

- Where applicable, implement Compliance testing.
- Monitor for advisory opinions, FILs, and other guidance that may clarify regulatory change.
- Track and evaluate ongoing cost of compliance.

Be prepared to **demonstrate compliance**

- Independent Audit
- Regulatory Examinations
- SOX and financial reporting
- Board and Senior Management Reporting (where applicable)

PrivateBancorp, Inc.

Regulatory Policy

1. Capital	Ratios	vs.	Stress Tests
2. Consumers	Bright Lines	vs.	Judgment
3. Rules	Simplicity	vs.	Complexity
4. Bank Size	Uniformity	vs.	Diversity