TO: THE CHIEF EXECUTIVE OR MANAGING OFFICER OF ALL LOUISIANA STATE-CHARTERED BANKS AND THRIFTS

FROM: SID SEYMOUR, CHIEF EXAMINER

DATE: September 16, 2011

RE: LOUISIANA OFFICE OF FINANCIAL INSTITUTIONS (OFI) UPDATE

FINANCIAL PERFORMANCE

As of 6-30-11, there were 153 banks and thrifts domiciled in the State of Louisiana, of which, 126 or approximately 82 percent were state-chartered institutions. As of that date, state-chartered institutions held $58.2 billion, or 88.55%, of the TAs of Louisiana-domiciled institutions. While the return on average assets was below the national average, Louisiana-domiciled banks and thrifts reported the fifth lowest percentage of unprofitable institutions at 5.88%, compared to 15.61% nationwide. Overall, improvement was also noted in asset quality and capital ratios.

Banks - For Louisiana-domiciled banks, there was a moderate increase in total assets, total deposits, and Tier 1 (core) capital on a year-over-year basis. Core deposits, as a percent of total deposits and borrowed money, reflected a modest increase in a year's time as core and total deposits increased while borrowed money declined. For the first six months ending 6-30-11, net income increased by approximately 12 percent on a year-over-year basis primarily because of a decrease in loan loss provisions. Although above the same time period in 2010, the return on average assets is now below the national average.

The ratio of net loans to deposits declined over a year's time as deposits grew at a faster rate than net loans. At this time, this ratio is above the national average, which declined with growth in deposits and a decline in net loans. The core capital (leverage) ratio and Tier 1 risk-based capital ratios increased, while the total risk-based capital ratio decreased over the period. Two of the three capital ratios, the exception being the total risk-based ratio, remained above the national average with the gap between one lessening and between the other widening. Capital ratios (for most Louisiana-domiciled banks) remain well above national averages.

Non-current loans and nonperforming assets both decreased causing the ratios to total loans and total assets, respectively, to also decrease. The ratio of non-current loans is below the national average while the ratio of nonperforming assets is above the national average -- similar to a year ago. As of 6-30-11, the dollar volume of net charge-offs decreased substantially from 6-30-10. As a result, the net charge-off ratio decreased over the year and remained well below the national average, although the gap decreased during that time. {As noted previously, non-current loans and nonperforming assets continue to reflect the impact of four failed bank acquisitions in the second and third quarter of 2009 as well as the acquisition of a fifth failed bank during the third quarter of 2010.}

The **following chart** provides a comparison of key financial ratios for banks domiciled in the State of Louisiana and eleven (11) surrounding states as of 6-30-11. As you will see, Louisiana-domiciled banks continue to compare favorably with banks domiciled in neighboring states in most areas.

06/30/2011 UBPR State Averages
Commercial Banks Only

State (FDIC Region)	ROA	Rank *	Sub S ROA	Rank *	Net C/Os	Rank *	Tier 1 Cap	Rank *	Non-Cur Lns	Rank *
Arkansas (Memphis)	0.92%	5	0.83%	4	0.36%	4	10.38%	3	2.68%	7
Colorado (Dallas)	0.39%	10	0.32%	10	0.76%	9	9.50%	10	3.58%	10
Louisiana (Memphis/Dallas)	1.02%	3	0.85%	3	0.23%	1	10.27%	4	1.89%	4
Mississippi (Memphis)	0.77%	7	0.68%	7	0.42%	7	10.20%	5	1.55%	2
New Mexico (Dallas)	1.09%	2	0.87%	2	0.38%	6	10.00%	7	1.91%	5
Oklahoma (Dallas)	1.21%	1	0.93%	1	0.24%	3	9.85%	8	1.78%	3
Tennessee (Memphis)	0.52%	9	0.49%	9	0.62%	8	9.72%	9	3.12%	9
Texas (Dallas)	0.94%	4	0.78%	5	0.23%	1	10.05%	6	1.13%	1
Alabama (Atlanta)	0.57%	8	0.52%	8	0.80%	10	10.71%	1	2.99%	8
Florida (Atlanta)	-0.36%	12	-0.38%	12	1.57%	12	8.71%	12	5.49%	11
Georgia (Atlanta)	-0.04%	11	-0.09%	11	1.14%	11	8.90%	11	6.15%	12
Kentucky (Chicago)	0.86%	6	0.76%	6	0.36%	5	10.62%	2	2.05%	6
Nationwide	0.70%		0.61%		0.49%		9.98%		2.30%	

Rank *: Represents rankings from 1 to 12 or best to worst.
Note: Ratios are as of the date shown. However, ratios may change subsquently because of Call Report Amendments.

The **following chart** shows the ratio of noncurrent loans to the ALLL from the Uniform Bank Performance Report (UBPR) for each quarter from year-end 2008 through year-end 2010. The ratio shown is an average for commercial banks in the State of Louisiana and nationwide and a comparison of the two for each period.

Noncurrent Loans / ALLL

Date	All LA-Domiciled	Nationwide	Diff (LA vs NW)
6/30/2011	133.83%	122.53%	11.30%
3/31/2011	131.10%	124.74%	6.36%
12/31/2010	143.92%	126.80%	17.12%
9/30/2010	152.39%	132.46%	19.93%
6/30/2010	160.33%	134.21%	26.12%
3/31/2010	154.47%	135.38%	19.09%
12/31/2009	149.92%	132.18%	17.74%
9/30/2009	130.89%	137.45%	-6.56%
6/30/2009	127.15%	134.67%	-7.52%
3/31/2009	120.48%	128.47%	-7.99%
12/31/2008	113.34%	112.97%	0.37%

Note: A complete summary and analysis of 6-30-11 financial information for all banks and thrifts domiciled in the State of Louisiana will be posted shortly at http://www.ofi.la.gov/ on the main page or under Banks or Thrifts - OFI Financial Reports.

Thrifts - For Louisiana-domiciled thrifts, there was a moderate decline in total assets and total deposits and a modest increase in Tier 1 (core) capital on a year-over-year basis. Core deposits, as a percent of total deposits and borrowed money, increased modestly although core deposits, total deposits, and borrowed money all declined. For the first six months ending 6-30-11, net income decreased by approximately $9 million from the prior year primarily because of a decline in interest and noninterest income. As a result, the average ROAA decreased in a year's time and was 28 basis points below the national average, which was only minimally above the ratio for the prior year.

The Tier 1 (core) and risk-based capital ratio increased from the prior year and remain well above the national average with the gap from the prior year widening. Although non-current loans and nonperforming assets decreased modestly, the ratios to total loans and total assets, respectively, stayed the same and declined slightly and remained at manageable levels and well below national averages. While net charge-offs decreased substantially over the prior year, the ratio of net charge-offs to total loans only decreased slightly and remains well below the national average. The ratio of net loans to deposits declined as net loans decreased at a faster rate than total deposits. The ratio is now below the national average compared to a year ago when it exceeded the national average.

Note: During the second quarter of 2011, the conversion of a federally-chartered thrift converted to a state-chartered bank had an impact on some of the changes noted in the separate comments for banks and thrifts.

OTHER TOPICS OF INTEREST

HURRICANE PREPAREDNESS

Since the 2011 hurricane season has already begun, we are again linking OFI's Emergency Preparedness Guide and regulator script that were distributed at the Hurricane Preparation Meetings hosted by the Louisiana Bankers Association (LBA) at various locations throughout the State of Louisiana. You should have received a summary of the key topics of discussion and other hand-outs distributed at these meetings from the LBA. If you have any questions, please contact me directly at 225/925-4675 or sseymour@ofi.la.gov.

On 5-5-11, we faxed each financial institution a request to update their contact information. Subsequently, we have compiled primary and secondary emergency contact information for your disaster recovery team that will only be used in the event that we have to deal with another wide-area disaster. The disaster recovery team is expected to maintain emergency contact information for the board and senior management. If you have any questions, please contact Executive Staff Officer Donna Montagnino at 225/922-2627, or dmontagnino@ofi.la.gov.

We would again encourage all financial institutions to consider registering with the Louisiana Business Emergency Operations Center (LABEOC). For more information about the LABEOC, please visit their website at www.LABEOC.org. In order for the LABEOC to have a significant impact in supporting the private sector, all businesses are urged to register in order to begin participating in the state's preparedness, response, and recovery efforts. You may also want to review the "Lessons Learned from Katrina Booklet" that can be found on FFIEC website at http://www.ffiec.gov/katrina_lessons.htm. If you have any questions, please contact me directly at 225/925-4675 or sseymour@ofi.la.gov.

THE SECURE AND FAIR ENFORCEMENT FOR MORTGAGE LICENSING (SAFE) ACT

As addressed within the FDIC and FRB Rules regarding the SAFE Act, the initial registration period for mortgage loan originators (MLO) at all federally-regulated institutions ended July 29, 2011. As the Rules state, the institution must prohibit any employee who is subject to the registration requirements from acting as an MLO until they complete all of the registration requirements. The Rules define the annual renewal period for registered MLOs as between November 1st through December 31st of each year.

The following is contained in the National Mortgage Licensing System (NMLS) Resource Center FAQs at http://mortgage.nationwidelicensingsystem.org/fedreg/Pages/FedRegFAQ.aspx:

"All initial registrations completed before July 1 must be renewed by the end of 2011, whereas initial registrations completed on or after July 1 are not required to be renewed by the end of 2011. All registrations must be renewed on an annual basis in years following, regardless of the initial registration date. The exact process for renewing registrations has not been finalized. Information regarding the renewal process will be posted to the Resource Center as it becomes available." On 8-2-11, CSBS issued the following Press Release in this regard: http://csbs.informz.net/csbs/data/images/communications/finalnmlsconsumeraccesspressrelease.pdf. If you have any questions, please contact Review Examiner Tim Robichaux at 225-922-0878 or trobichaux@ofi.la.gov.

LEGISLATION

The two bills sponsored by OFI during the 2011 Legislative Fiscal Session were signed by Governor Jindal and became effective on 8-15-11. **Act No. 136** (previously SB 87) authorizes the Commissioner to disclose records concerning any person subject to the jurisdiction of this Office when such records are requested by another state or federal agency having authority to license or investigate such entity or person. **Act No. 10** (previously HB 144) authorizes the Commissioner to take any action that he deems necessary and appropriate regarding the utilization of an electronic database licensing system with respect to persons subject to licensure by this Office. This definition excludes financial institutions as defined in LSA - R. S. 6:2(8). These new Acts can be found at the Legislatures website at www.legis.la.gov. If you have any questions, please contact General Counsel Sue Rouprich at 225/922-1028 or srouprich@ofi.la.gov.

REDEFINING CORE AND BROKERED DEPOSITS

As mentioned in my previous CEO Letter, the Dodd-Frank Act required the FDIC to study the definitions of "core" and "brokered" deposits to bring the definitions more in line with today's deposit products. The "Study" was completed and sent to Congress on 7-8-11, and can be found on the FDIC's website at www.fdic.gov . The FDIC recommended NO amendments to the "core" and "brokered" deposit definitions at this time. The following includes a Summary of the Recommendations, Conclusions, and Overview of the "Study."

Summary of Recommendations:

• The FDIC recommended no amendments to the brokered deposit statute, 12 U.S.C. §1831f, which imposes restrictions on accepting, renewing, and rolling over brokered deposits when a bank is less than well capitalized.

• Based on some of the comment letters received from the industry prior to completion of the study, the FDIC found that it may be beneficial for the FDIC to issue a financial institution letter that consolidates all of the sources of liquidity guidance. In doing so, this should alleviate any possible confusion about the treatment of deposits for supervisory purposes.

• The FDIC may also incorporate the analysis of deposit types completed for the study in future refinements of the assessment system, for example, by possibly including high rate deposits in the brokered deposit adjustment and adjusted brokered deposit ratio and possibly excluding some or all sweeps from affiliates and some or all referrals from affiliates (and agents) from the adjusted brokered deposit ratio. Doing so, however, would require additional (and, in some cases, extensive) reporting and rulemaking (including notice and comments).

Conclusions and Overview:

• The study concludes that the brokered deposit statute (which dovetails with the prompt corrective action requirements) has served a useful purpose during the most recent crisis.

• The statute has, in large measure, prevented troubled and failing banks from increasing their brokered deposits and, therefore, from taking on greater risk in an effort to grow out of trouble and prevented greater FDIC losses when banks fail.

• In completing the study, the FDIC undertook extensive statistical analysis and reviewed existing literature and found that, on average, increasing levels of brokered deposits are associated with a higher probability of failure and higher losses to the FDIC in the event of failure.

• The analysis also showed increasing levels of brokered deposits are associated with lower core deposit ratios, more rapid growth, and riskier underwriting standards, each of which is correlated with a higher probability of failure.
• Conversely, banks' increasing reliance on core deposits reduces the chance of failure and reduces losses when banks fail.

• According to material loss reviews for certain banks that failed in 2008-2010, aggressive growth strategies were pursued, fueled by noncore funding, including brokered deposits, prior to suffering losses on high-risk assets.

>> *The Study identifies three potential problems posed by deposits:*

> Rapid/Risky Growth: If a bank can acquire deposits too easily, the bank may gather more funds than it can prudently invest.

> Deposit Volatility: If the depositor is likely to leave a bank, the bank may encounter liquidity problems.

> Lower Franchise Value: If a bank fails, some types of deposits are more attractive to potential acquires than other types of deposits.

>>*In regard to whether a deposit is likely to produce any of the problems identified above, the FDIC identifies:*

> Interest rates.

> Whether the deposits can be gathered quickly in large quantities.

> The relationship between the depositor and the bank (or bank's affiliate). o Whether the deposits are fully insured.

> Remaining time to maturity.

>>*In the case of reciprocal, swept, and referred deposits, the Study concludes that these deposits may not present all of the problems posed by traditional brokered deposits but nonetheless should continue to be classified as brokered due to the existence of certain problems such as the bank's dependence on a third party.*

>>*In the case of deposits gathered from passive listing services, the deposits are not classified as brokered even though the deposits can present all the potential problems posed by deposits. Until additional data is gathered, the FDIC does not think that the classification of these deposits should be changed.*

>>*In the case of high rate deposits, the statute does not restrict the acceptance of the deposits unless the bank is well capitalized. In any event, the FDIC concludes that high-rate deposits present all of the potential problems posed deposits, as outlined above.*

>>*Legal History of Brokered Deposits:*
>The Study outlined the most common legal issues relating to brokered deposits:
. When should a listing service be classified as a deposit broker?
. When should companies or organizations that merely provide marketing for banks or merely refer customers or members to banks be classified as deposit brokers?
. Should investment companies or brokerage firms that place deposits at banks always qualify as deposit brokers?
. In regard to deposits placed by brokers, when do the deposits qualify for "pass through" insurance coverage?
. Should deposits placed using bank networks (such as CDARS) qualify as brokered deposits?
. Should deposits underlying prepaid products be classified as brokered deposits?

FDIC'S 2010 INTEREST RATE RISK ADVISORY

The FDIC's 2010 Advisory on Interest Rate Risk implies that a 200bp shock will not be sufficient for most banks. In discussing the Advisory with representatives of the FDIC, we understand that this is particularly true if a bank has a material amount of embedded options such as structured notes, mortgage-related assets, caps/floors on commercial loans, and callable/puttable funding features. When, and if, a bank should go beyond 300 bp, up to 400bp or beyond, would be a function of where the material option risk for that bank is triggered. If the optionality isn't captured at 300bp, then the bank should do more severe (up or down depending on the option) shocks to ensure the impact of the option is measured. One good example would be a bank with interest rate floors (or caps) on loans. If the strike price is not triggered at 300bp, then the bank needs to increase the shocks to show what happens after the cap or floors are hit. This is the pertinent excerpt from the Advisory:

"When conducting scenario analyses, institutions should assess a range of alternative future interest rate scenarios in evaluating IRR exposure. This range should be sufficiently meaningful to fully identify basis risk, yield curve risk and the risks of embedded options. In many cases, static interest rate shocks consisting of parallel shifts in the yield curve of plus and minus 200 basis points may not be sufficient to adequately assess an institutions IRR exposure. As a result, institutions should regularly assess IRR exposures beyond typical industry conventions, including changes in rates of greater magnitude (e.g., up and down 300 and 400 basis points) across different tenors to reflect changing slopes and twists of the yield curve. Institutions should ensure their scenarios are severe but plausible in light of the existing level of rates and the interest rate cycle. For example, in low-rate environments, scenarios involving significant declines in market rates can be deemphasized in favor of increasing the number and size of alternative rising-rate scenarios."

SMALL BUSINESS LENDING FUND (SBLF)

Previously, a number of Louisiana state-chartered banks and/or holding companies submitted applications under the SBLF program which was created by the Small Business Jobs Act of 2010. The SBLF program makes available up to $30 billion of capital to small community banks (<$10 billion in TAs) with incentives to increase small business lending. State-chartered financial institutions are required to apply directly to Treasury, since it will be making the final investment decision. Treasury provided us with a copy of the applications along with a request for comments.

PROGRAM UPDATE @ 9-6-11:

> 932 applications were received for the program
> Treasury has approved $4.3 billion for 382 financial institutions
> Approximately $1.8 billion in funding has been distributed to 130 financial institutions
> 4 LA-domiciled financial institutions have received funding -- and another has been approved
> Treasury has a 9-27-11 deadline for distributing what it intends to distribute
> Program updates, including a list of financial institutions that have received funding, can be viewed at the following website: http://www.treasury.gov/resource-center/sb-programs/Pages/sblf_transactions.aspx.

ATM/NIGHT DEPOSITORY CUSTOMER SAFETY ACT OF 1996

While this section of the Louisiana Banking Law is not new and has been around for a number of years, we rarely receive any questions and/or comments. Recently, LBA General Counsel David Boneno and I met with representatives of a company that provides monitoring services to institutions in order to ensure compliance with the Act. We discussed the purpose and intent of the legislation along with the apparent meaning of a number of terms used within the Act. At the conclusion of the meeting, it was clear that it may be time to provide some clarity and guidance with respect to several of the provisions within the Act. As a result, Mr. Boneno agreed to do some research and write an article that will appear in a future edition of The Louisiana Banker. In the meantime, you are encouraged to review the Act (LSA- R. S. 6:1361-1367) and make every effort to ensure compliance with the provisions contained therein. If you have any questions, please contact me directly at 225/925-4675 or sseymour@ofi.la.gov.

ATM SECURITY CONTROL

For many years, the primary security control for ATMs was simply triple data encryption standard (DES). Typically, anti-virus/antispyware protections weren't needed because most ATMs were proprietary systems. Now, and in the near future, most ATMs will operate on an open Internet Protocol network because it's a low cost solution. If that's the case, then security protection is a must!! We understand that a certain vendor recently began offering security services as part of their ATM network systems (for an additional cost, of course).
At a minimum, institutions should consider doing the following:

1) Conduct a risk assessment to determine the threats for their ATMs.
2) Determine the most effective controls based on the identified threats.
3) Discuss their solutions based on a comprehensive due diligence process.
4) Determine the audit scope and frequency of the ATM network based on the results of their Risk Assessment.
5) Document the discussions/approval in the IT Committee and Board minutes.

If you have any questions, please contact me directly at 225/925-4675 or sseymour@ofi.la.gov.

MOST COMMONLY CITED VIOLATIONS IN 2010 - The following narratives are intended to provide insight regarding the two most frequently cited "apparent violations" of state and/or federal laws and regulations found in OFI independent and/or joint reports for examinations in 2010.

1. State ORE Violations--6:243 (14)
   http://www.legis.state.la.us/lss/lss.asp?doc=105877

The most common reasons that this violation is cited are because a bank either failed to obtain an annual appraisal or estimate of value on a parcel of ORE, failed to obtain an **adequate** appraisal or estimate of value to book a parcel, or once the estimate of value or appraisal was obtained, the bank failed to reduce the book value of the property to the estimated or appraised value within a timely manner (6:243(B)(2)(a) and (b)). A bank may decide to mark down the value of the property by 10% per year rather than obtain annual appraisals or estimates of value, so one other cause for this violation to be cited includes the failure to take the 10% write down each year

(6:243(B)(2)(c)). A violation could also be cited when a bank decides to retain a property for longer than 10 years, but it fails to first write it down to $1 and move it to an ORE sub (6:243(D)). [NOTE: If the bank has to form an ORE sub, it must file an application with this office.]

2. Federal Appraisal Violations—Part 323 (12)
   http://www.fdic.gov/regulations/laws/rules/2000-4300.html
   Interagency Appraisal and Evaluation Guidelines
   http://www.fdic.gov/regulations/laws/rules/5000-4800.html#fdic5000interagencyaae

The most common cause for examiners citing this violation is the first one listed below, but there are numerous other reasons that this violation is cited:

a) Failure to obtain an adequate appraisal/evaluation before funding, refinancing, or renewing a loan (§ 323.3(b) and § 323.4) — When a loan is renewed, restructured, or extended, a review of the existing appraisal should be made to determine whether or not the existing appraisal/evaluation remains valid (meaning there is not any material change in market conditions or physical aspects of the property that threatens the adequacy of the institution's real estate collateral protection. Failure to perform this review to determine that the existing appraisal/evaluation remains valid as well as the failure to actually obtain an updated appraisal/evaluation if it is determined that the existing appraisal/evaluation is not valid will result in the citation of an apparent violation of this section.
b) Appraiser lacked independence (§ 323.5)
c) Failure to update the value of a troubled real estate loan or to review collateral when new monies were advanced (not excluded in § 323.3(a)(7)(ii))
d) Poor evaluation—inadequate scope of work to obtain a credible value such as lacking income approach or comparable sales (§ 323.3(b))
e) Nonconforming appraisal (§ 323.4(a))
f) Failure to review appraisal (Interagency Appraisal and Evaluation Guidelines, Section IV)
g) Failure to obtain appraisal with change in purpose (not excluded in § 323.3(a)(7)(i))
h) Failure to obtain appraisal on business loan under $1 mil but dependent on rental income from real estate or sale of real estate for resale (not excluded in § 323.3(a)(5))
i) Commercial real estate property was appraised by certified residential appraiser (§ 323.4(e))

CMP INSURANCE— An apparent violation of Section 359.0(c) of the FDIC's Rules and Regulations will be cited if an institution includes Civil Money Penalty (CMP) insurance as part of a rider to its D&O policies. In addition, the FDIC has clarified that the institution may not endorse it in any way, and the apparent violation cannot be corrected by the institution-affiliated party (IAP) reimbursing the institution for the premium. In other words, even if an IAP reimburses the Bank for the premiums, it will still be cited as an apparent violation. It would, however, be permissible for an IAP to get this type of coverage on his or her own; however, it should be distinct and separate from the bank. **[It is our understanding that this type of individual coverage is currently not available.]**

REQUIRED INSURANCE DISCLOSURES—Many of our financial institutions have a third party vendor engaged in retail sales practices, solicitations, advertising, or offering of any insurance product or annuity to a consumer **at the bank's offices**. Regardless of who is engaged in this practice, it is the bank's responsibility to ensure that the proper disclosures are given to the customer. If the vendor does not provide the disclosures, the bank should ensure that they are provided to the consumer. The disclosures and timing of the disclosures are described in Section 343.4 of the FDIC's Rules and Regulations--http://www.fdic.gov/regulations/laws/rules/2000-6300.html.

FinCEN E-FILING - FinCEN has recently released the technical E-filing specifications for the new CTR and SAR and is offering an informational webinar on Thursday, September 29, 2011, to discuss further. If you are not filing CTRs and SARs electronically, you should considering doing so. The system will alert you to any obvious omissions as an extra precaution to inadvertently sending incomplete forms. Information concerning the new specifications and the webinar may be found at http://www.fincen.gov/news_room/nr/html/20110902.html. You may also register for FinCEN updates at https://public.govdelivery.com/accounts/USFINCEN/subscriber/new?

REGULATORY U—A new benefit for any bank or thrift that is a member of the Conference of State Bank Supervisors (CSBS) is free, unlimited access (with a generic username) to the Regulatory University on-line learning modules offered through Compliance Coach. [NOTE: There is an annual cost of $20 per user to be able to track access and test scores with a maximum fee of $500 per year per organization.] The modules cover courses on safety and soundness, compliance, the Bank Secrecy Act/Anti-Money Laundering, general operations, and numerous other high-priority areas—many of which require annual training hours by law. Information regarding this service as well as the course descriptions may be obtained at http://www.csbs.org/development/Pages/RegU.aspx.

ARTICLES ON SBA LENDING—I encourage you to read the article entitled "From the Examiner's Desk:
SBA Lending: Insights for Lenders and Examiners" in the Summer 2011 issue of the FDIC's Supervisory Insights. The article starts on p. 13. A quick link to it follows: http://www.fdic.gov/regulations/examinations/supervisory/insights/sisum11/si_sum11.pdf.

If you have any questions regarding anything discussed under **"OTHER TOPICS OF INTEREST"**, please contact Deputy Chief Examiner Kerry Morris at 225/925-4201 or kmorris@ofi.la.gov. You may also contact me directly at 225/925-4675 or sseymour@ofi.la.gov if you have any questions.

ACCOUNTING ISSUES

Service Organization Control (SOC) Reports- In response to the increased demand for attestation reports over subject matter other than financial reporting, the AICPA has developed the Service Organization Control (SOC) reporting framework. The framework provides for a SOC 1 report, a SOC 2 report, and a SOC 3 report. SOC 1 and SOC 2 reports can be either Type 1 or Type 2 reports. SOC 1 reports are prepared in accordance with *Statement on Standards for Attestation Engagements (SSAE) No. 16* and are designed to meet the needs of user entities in evaluating the effect of internal controls at a service organization on the user entity's financial statements. SOC 2 and SOC 3 reports are prepared in accordance with *Attestation Standard (AT) 101* and are designed to meet the needs of user entities in evaluating the effect of internal controls at a service organization related to security, availability, processing integrity, confidentiality, and/or privacy.

At a recent Society of Louisiana Certified Public Accountants (LCPA)/Regulatory meeting, a discussion took place as to when (for which systems) a user entity should request a SOC report and which SOC report should be requested from service providers. It was suggested that user entities make a list of all processing performed by service organizations and then perform a risk assessment of each process. Risk assessments should consider the user entity's operations and customers, its understanding of the service organization, and its evaluation of its own internal controls. Type 2 reports should be obtained for processes that are assessed as high to moderate risk. Type 1 reports may be acceptable for processes that are assessed as low risk. If a process is critical to financial reporting and has critical operational and compliance issues related to security, availability, processing integrity, confidentiality, and/or privacy, both a SOC 1, Type 2 and a SOC 2, Type 2 report may need to be obtained, unless the service provider auditor can sufficiently address the needed assurance in a SOC 1, Type 2 report. However, because SOC 1 reports are prepared in accordance with *SSAE 16* and SOC 2 reports are performed in accordance with *AT 101*, two separate reports may need to be obtained. While no official regulatory guidance is available at this time, we encourage our institutions to begin discussions with their external auditors regarding the appropriate type of SOC report to obtain from each of the bank's service providers. This advanced preparation will help ensure that our institutions have appropriate SOC reports available for their external auditors at the time of audit. It will also help ensure that our institutions are prepared for upcoming regulatory IT examinations after the IT examination procedures have been updated for SOC reports. Additional information on SOC reports may be obtained on the AICPA's website at
http://www.aicpa.org/_catalogs/masterpage/Search.aspx?S=soc+2.

Accounting Standards Update (ASU) No. 2010-20 (Receivables (Topic 310): Disclosures about Credit Quality of Financing Receivables and the Allowance for Credit Losses - This ASU was issued in July of 2010 and is effective for nonpublic entities for annual reporting periods ending on or after December 15, 2011. The amendments in this update require an entity to provide a greater level of disaggregated information about the credit quality of its financing receivables and its allowance for credit losses. The update also requires an entity to disclose credit quality indicators, past due information, and modifications of its financing receivables. Entities should provide comparative disclosures for those reporting periods ending after the period of initial adoption. Entities are encouraged, but not required, to provide comparative disclosures for earlier reporting periods that ended before the period of initial adoption. If management of nonpublic entities has not previously reviewed the ASU to ensure that information required to be disclosed will be able to be easily obtained from the institutions records for its annual reporting period ending on or after December 15, 2011, we encourage management to begin doing so. Disclosure guidance can be obtained from *FASB ASC 310-10-50* and *310-40-50*. Implementation guidance and illustrations can be obtained from *FASB ASC 310-10-55*. A copy of the ASU 2010-20 can be obtained from the FASB website under the "Standards" tab at http://www.fasb.org.

If you have any questions regarding anything discussed under **"ACCOUNTING ISSUES,"** please contact Staff CPA Mrs. Christine Kirkland at 225/922-0632 or ckirkland@ofi.la.gov.
FDICconnect – As mentioned previously, our email system may not be secure if your institution is not using Transport-Layer Security (TLS); therefore, all confidential information submitted

electronically to this Office should be sent through FDICconnect. If your institution is not registered, go to www.fdic.gov and click the Quick Links for Bankers. On the Quick Links for Bankers page, you should see the link for FDICconnect. Once you click on the link, the FDICconnect Business Center will open and show you a number of links. These links will provide information on using this service and registering your institution.

We have learned that an OFI employee with access to FDICconnect must first establish a session with you for you to be able to exchange information with us. Therefore, please notify your Review Examiner that you would like to send us something, and he/she will set up the session so that you may safely exchange your information with us.

Subscribe to Receive Regulatory Alerts Automatically – As mentioned previously, you may register your email address to subscribe for regular notifications of regulatory alerts at the following websites:

FDIC -- https://service.govdelivery.com
FRB -- http://www.federalreserve.gov/generalinfo/subscribe/notification.htm
OTS -- http://www.ots.treas.gov/?p=WebsiteSubscription

Information on the Conference of State Bank Supervisors' (CSBS) Website – As mentioned in previous updates, I would encourage you to periodically check out the CSBS website. Their weekly newsletter contains a great deal of useful information and will update you on the current matters affecting the state banking system. The direct link to the current newsletter is located at http://www.csbs.org/news/csbs-examiner/Pages/121710.aspx.

Their homepage, http://www.csbs.org, contains numerous helpful links.

Attached is a list of banking-related acronyms that are frequently used on a day-to-day basis by CSBS. I thought you and your staff might find it interesting and useful in communicating with state and federal regulatory agencies in the future. Click here (http://csbs.informz.net/csbs/data/images/acronyms.pdf) to view the document.

CLOSING COMMENTS

We are always looking for recommendations to improve the manner in which we conduct examinations. If you have noticed an area which needs improvement, please let me know. You can call me directly at 225/925-4675 or sseymour@ofi.la.gov.