

Federal Agencies Weigh In on Training



WELCOME BACK TO THE TRAINING ROOM! At our last session, we batted around ideas for teaching what is fair (and foul) in lending. We covered our bases on being proactive in these tense economic times and discussed our star trainees and our bench strength. We also discussed how to hit home runs with fair lending training.

As we move into this session, let's consider the rules of the compliance training game. More specifically, let's think about enforcement of the rules of the game. I've invited our friends with the whistles to tell us directly about their expectations. Today's guest referees are

- from the Federal Deposit Insurance Corporation (FDIC): Luke H. Brown, associate director for compliance policy
- from the Federal Reserve: Tim Burniston, assistant director of the Division of Consumer and Community Affairs
- from the Office of the Comptroller of the Currency (OCC): Ann Jaedicke, deputy comptroller
- from the Office of Thrift Supervision (OTS): Joel Palmer, assistant regional director, Southeast Regional Office

Let's start with an easy question: Do you prefer classroom training or e-learning to fulfill compliance requirements? The FDIC stated it has no preference because "it's the results that count. The medium is not as important as its effectiveness." The Fed, OCC, and OTS agree.

How do you feel about humor? Does it have a place in compliance training? Our FDIC rep jumped in with an emphatic "No!"—and then explained he was just kidding because "humor is certainly an effective mechanism for communicating information." The Fed, OCC, and OTS agreed that humor has a place in compliance training.

Is annual compliance training on high- and medium-risk regulations sufficient, except in the case of poor exam or audit results and new or revised regulatory requirements? All

of our referees generally supported this frequency but added their own cautions. The OTS believes annual training is fine, except perhaps for statutorily required training aspects like BSA/AML/OFAC, which should be included for all employees. The OCC believes annual training could be acceptable in some circumstances. In general, it does not have standards for the frequency of training or the subject matter, both of which depend on the subject and the type of risk. The Fed also has no expectations on the frequency of compliance training. Annual training is sufficient sometimes, depending on the issue. For example, if new products are introduced or a loan program changes, the risk factor could increase. The FDIC agreed that training on high- and medium-risk areas is important, but management



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and staff should receive specific, comprehensive training in any laws, regulations, and internal policies and procedures that directly affect their jobs. An effective compliance training program is frequently updated with current, complete, and accurate information on products, services, and business operations of the institution; consumer laws and regulations; internal policies and procedures; and emerging issues in the public domain. Establishing a regular training schedule for directors, management, and staff, as well as third-party service providers, will help promote compliance.

After training employees on compliance matters comes the fun part: the test. Do your regulators have any expectations regarding testing? For example, do they expect to see a certain passing score (e.g., would employees need to score 90 percent to pass)? Are there any intricacies regulators expect to see in a scoring system, such as averaging all scores an individual receives when attempting to pass a course?

The OCC does not have a standard passing grade for bank testing

or scoring: “We would look to the bank to establish and enforce a reasonable standard.” The Fed and the OTS agreed, saying these decisions were left up to the bank. The FDIC also agreed that it did not have any predetermined passing score or other expectations around scoring. However, the FDIC also cautioned, “it would seem to make good business sense that senior management at the institution would establish standards of learning to ensure that the resources expended on training are well spent and that employees understand compliance responsibilities and obtain the knowledge and skills needed to effectively perform their duties in a manner that complies with consumer protection laws and regulations.”

Is testing out considered an acceptable alternative to compliance training? The OTS said yes, testing out is acceptable. The OCC agreed, provided the testing program is well structured. However, exceptions may exist for required training such as the Bank Secrecy Act. The FDIC also agreed, commenting that a well-planned, -implemented, and -maintained compliance training program will prevent or reduce regulatory violations, will provide cost efficiencies, and is a sound business practice. After personnel have been trained on a particular subject, management should periodically assess employees on their knowledge and comprehension of the subject matter. The Fed said it has no dictates around testing programs, but considered whether the training was reaching people and working.

What about employees who have a difficult time taking tests? Have regulators seen a good strategy for documenting that an employee knows the content even though he

or she can't pass a test to demonstrate compliance knowledge? The OCC and FDIC were not aware of another method. The Fed stressed the importance of the results over the score—in other words, banks should consider whether the employee is doing his or her job correctly. The OTS commented, “If someone can convince me that they understand why the law was passed in the first place and how it impacts the operations of the bank on a daily basis, that would be good enough.”

Stepping back to look at a comprehensive training program, I asked the regulators to describe one of the better pieces of compliance training they've seen in terms of general content, target audience, etc. The Fed noted an interactive e-learning course where the student acted as a loan officer for fictitious applicants. The computer game walked them through asking sensible questions and even had the applicants supplying extraneous information that the loan officer needed to cut off.

The OTS found one trainer to be particularly effective because, “She adds humor to get her point across and does an excellent job explaining the rules in terms the employees understand.”

The OCC believes that the best training is tailored to the specific bank and enhanced with the bank's basic policies and procedures related to the subject matter, adding that off-the-shelf training may not be sufficient unless tailored. Training should also teach employees how to identify critical issues and resolve them, reduce internal control weaknesses, and prevent violations of law. At the OCC, trainers have found that teleconferences are a good way to reach large numbers of people about a specific topic. OCC trainers also make more use of e-learning that is coupled with a teleconference hosted by a qualified instructor. For example, the student does two days of e-learning, completes a case study, and then calls in to an instructor who




discusses the material and the case study and answers questions.

As we wrapped up our conversation, I asked the regulators whether they had any other thoughts on training that they would like to share. The OCC said that while the actual content of the training is important, its focus is more on effectiveness and whether the bank can demonstrate that the training works. OCC examiners are interested in understanding whether the training covers the essential information, is provided to the right people at the right times, and is updated and revised for new or changing requirements. The OTS wanted to remind compliance officers that it is important for them to attend formalized training such as the ABA schools.

The Training Room wishes to thank our guest referees for taking time to let us know their thoughts and concerns about compliance training. To sum up the conversation highlights, compliance officers should risk-manage all aspects of their training programs. This includes the method they use to

train, the frequency of delivering training, and how they score testing. While the regulators have not established a norm for training, it is generally considered acceptable to conduct annual training on high- and medium-risk regulations and to allow a test-out option. Exceptions apply depending on your regulator. Finally, some of the best compliance training programs use humor tailored to the audience.

That's all the time we have today. Your next Training Room session will feature a new trainer who can give you a fresh perspective on training: Maureen Carollo. Maureen developed her own training room and a training manual for tellers at her community bank and then moved on to training loan officers. When she became her bank's compliance officer, she continued training all employees in our favorite subject. I know you will enjoy working with her. Speaking of which, I have very much enjoyed working with you these last two years. Thank you for all the e-mail and comments. Keep up the good training and we'll see you back here soon. 

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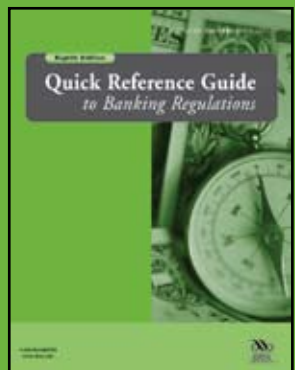
Meg Sczyrba, CRCM, CRP, is the director of global credit and regulatory support at PayPal. Prior to joining PayPal, she served as the compliance processes manager at Washington Mutual in Seattle, Wash. She has more than 15 years of experience in the banking industry and has spent a substantial amount of time building training solutions at several banks. Ms. Sczyrba is a member of the ABA Bank Compliance magazine's editorial advisory board, ABA School Board, and the California Bankers' Regulatory Compliance Committee. She is a former member of the Institute of Certified Bankers' CRCM Advisory Board and the ABA's Compliance Executive Committee. She also speaks on various topics at industry conferences. Ms. Sczyrba attended the University of Missouri-Columbia where she earned a bachelor's degree and a J.D. In a previous life, she was an attorney. Reach her via e-mail at mscopyrba@paypal.com.

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