



# **DFAST DFURIOUS:**

*Guidelines for Addressing MRAs & MRIAs*

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## DFAST DFURIOUS: Guidelines for Addressing MRAs & MRIAs

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As promised, the Federal Reserve asked mid-tier banks in the \$10 billion to \$50 billion range to engage in Dodd-Frank Act Stress Testing (DFAST). The results have been tallied and notices of Matters Requiring Attention (MRAs) and Matters Requiring Immediate Attention (MRIAs) have been sent to banks. Now the question is, what does that mean for banks and how should they address any regulatory concerns?



## NOT QUITE DFAST BUT STILL SIGNIFICANT

It is important to remember that, while similar to a complete DFAST, mid-tier banks were not held to the same rigor as their larger Systemically Important Financial Institution (SIFI) counterparts. There is less concern that problems at a mid-tier bank or banks will have an outsized impact on financial markets or the economy. Further, containment of any problems should be easier and faster.

That said, 'DFAST lite' remains a federally mandated exercise for these banks and there are consequences for banks that fail to address MRAs and MRIAs properly. Similar to the original DFAST, one of the most significant issues identified by the regulators and banks alike is data. Mid-tier banks are no different from large banks in that their data acquisition,

verification and process are generally not where the Fed would like them to be. Mid-tier banks also suffer from 'acquisition data gaps' as a result of M&A activity or gaps from core banking system conversions years ago. Mergers create banks with multiple historic core banking systems that may not synch and thus require a significant technology investment or manual corrections to rectify.

Fixing the data gaps from technology or insufficient data gathering is a particularly vexing problem for mid-tier banks as their budgets are much more constrained. Given these challenges, DFAST lite could prove to be as difficult to address as DFAST.





## PREPARING A RESPONSE

Currently, mid-tier banks are reviewing MRAs (and possibly MRIAs) from regulators and plotting a strategy to address the issues that were raised. These can be complicated and time consuming. Engaging best practices from previous stress tests will help any bank ensure that process is faster and results in a better outcome. Below are a few ideas for addressing MRAs as quickly and thoroughly as possible.



### Plan for a Bank Vault Visit

DFAST-lite form FRY-16 has only 100 line items per scenario as opposed to DFAST FR Y-14A with as many as 2,500 line items per scenario for DFAST. Still, most of the 100 line items frequently request data points that are not captured regularly or consistently. Experience shows that some data is only available in the original loan documents and bankers will need to visit the vault to pull this data.

### The Model for the Test is the Model for the Bank

Regulators want to see the model banks that use for their DFAST are the same models used for their risk management and operations. The Fed will challenge firms which present their findings with a model that has been specifically created and used for stress-testing alone.

### Data Acquisition, Verification and Processing are Time Consuming

Many banks in the original DFAST tests presumed that their banks were sufficiently staffed to address data acquisition, verification and processing. For the most part that was true. Bankers are overqualified for this task, which is why they tend to be challenged by it. Bankers are much better at evaluating risk and deploying capital than having excellent data management skills. Firms which sought data management experts were much faster and better at addressing data quality requirements.

## THE TEST ONLY GETS HARDER

This year (2015) was the third year for DFAST and the feedback on the test was 'harder than 2014.' In fact, the standard has been raised every year, which is the intent of the Fed. Regulators have made it clear they do not want a complacent banking sector and have ratcheted up the standards to ensure banks monitor their capital and risk more frequently and thoroughly.

The good news is that stress testing provides invaluable

insight into a bank's loan portfolio. That insight helps with measuring risk, determining profitability and qualifying best practices.

Stress testing is a mandated exercise that can be frustrating as well as costly. However, Federal regulators are clearly in favor of more detailed testing in the near term. Mid-tier banks with MRAs or MRIAs can take a few measures to ensure their submissions are completed quickly and correctly.

## QUESTIONS?

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