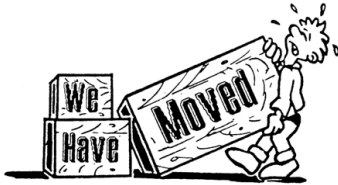




Partners in Business
 Our Approach is simple...
PARTNERSHIP in business
QUALITY in product
 and **INTEGRITY** in people

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Newsletter 2nd Quarter 2012 Issue No. 2012-002



RLR has moved!

It is official – we have moved into our new office building in Palm Desert. With the help of our team, we were unpacked and fully functional within a week! Please note the change of address and phone number. Come on by and visit us!



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Managing Vendor Risk

“What happens if your Bank is notified by the regulators of concerns they might have with one of your Bank’s vendors? What steps should the Bank take to understand the situation and why take these steps?”



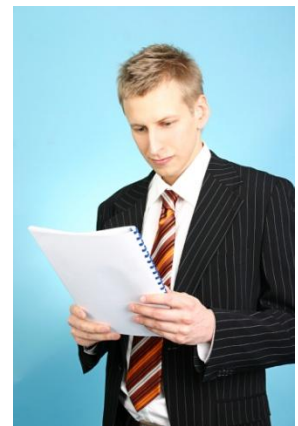
Of late, vendors have received criticism from the regulators and have been issued directives to improve on certain areas within their organizations. Financial institutions have been asking, “What should we do when our vendors are put “on notice”? What are the associated risks and how can we protect our Bank?” In this article we will discuss the steps a financial institution should take to respond to this type of situation, as well as discuss lessons learned for the financial institution’s vendor management program and ongoing contract negotiations with their vendors.

Service providers are required to safeguard customer information. To this end, certain service providers will supply a SSAE16 (that replaces the traditional SAS70). In addition to this review, Regulators can conduct a review of a service provider and will publish a report based on its findings. As a client, you are entitled to receive a copy of these reports. You can, and should, always check with your primary regulator to see if they have conducted a review of a certain vendor and if a report is available. When a service provider behaves badly, the regulators will reach out to the financial institutions and advise them of their concerns about the vendor. Now, however, it becomes the Bank’s responsibility to track the resolution of the vendor’s issues per the regulators.

What You Should Do

Upon receipt of a report, or any correspondence from the service provider or the regulators, review it carefully and document your review of the information (provide evidence of review). If you become aware of a vendor “situation” and have not received correspondence from the service provider, notify them in writing that you have become aware of a “situation” and request their response in writing.

Typically, the service provider will supply a plan of action to rectify the situation. The Bank should develop a tracking plan for your financial institution that documents the plan of action, and assign target dates. When developing your plan, ensure that the service provider has committed to target dates to have the item(s) resolved. Each actionable commitment must have a target date!



Your financial institution must monitor the plan, at a minimum, on a monthly basis and require the service provider to report its status to you in writing! In addition to providing the status, ask the vendor to provide evidence that the finding has been resolved.



Additionally, your service provider's lack of regulatory compliance could constitute a breach of contract. Review your existing contract to determine if the situation constitutes such; then decide whether or not you wish to terminate the contract. Regardless of your decision, notify the service provider, in writing, that the situation has constituted a breach of your contract. Most of the contracts that RLR has reviewed do not include a reference to this type of circumstance. As such, consider including additional verbiage when re-negotiating the contract that addresses what should happen if a vendor is put on notice by the regulators and what actions are to be taken by the Bank.

It would also be prudent to consider identifying alternative service providers in the event of worst case scenario. Obviously, no one wants to go through a conversion, but take the time to investigate what your options would be in such a scenario. And be prepared to change service providers in the event that a vendor does not satisfactorily provide the corrective action required by the regulators.

Finally, report the situation to the Board, provide regular updates and document these activities in the Board and IT Committee meeting minutes.

RLR recommends that you review your Vendor Management Program to determine if it addresses what to do when a vendor is put on notice. If it does not currently do so, then it is time to revise the program.

Ruth L. Razook
CEO and Founder
RLR Management Consulting, Inc.

In Memoriam:

Dave Haden, a long time banker passed away May 28, 2012. We met Dave when he was CEO of South Bay Bank in the early 1990's. We continued our relationship with Dave when he was a vital part of Community Bankers of California until he retired. He was a great man and a great friend. He truly will be missed. Our thoughts are with the entire Haden family and all those who knew him.

FUN AT THE US OPEN....AND A LESSON LEARNED

I was very privileged this month to attend the 112th United States Open Golf Championship at the Olympic Club in San Francisco. The US Open is like the Super Bowl or World Series. Even if you don't follow the sport, most everyone checks out the US Open. And what a tremendous week it was. Not so much for the golf that was played, but for the golf course it was played on, and the conditions the golfers faced.



Sure, it was great to see Tiger, Phil, and Bubba tee it off and play together for a couple of days; fantastic to see Jim Furyk come so close; and see an up and coming superstar, Webb Simpson win the tournament. But most of us golfers can relate to how unbelievably difficult the course was, and what fantastic condition it was in. Television did not do it justice. To see a 670 yard hole with a 25 yard wide fairway and a postage stamp for a green was quite overwhelming. To understand the difficulty of a golf course that has no water hazards and only one fairway sand trap is hugely intimidating. And frankly it was a breath of fresh air to see the players were overwhelmed as well! When the world's number one player shoots 11 over par in two days, it

make us duffers feel real good! It was the way golf was meant to be played, regardless of the golf ball's compression, size of the club head, driver adjustability or make-up of the club's shaft. This US Open provided a true sense of tradition.

Tradition is something we seem to lose sight of these days. What happened to those days where the "customer was always right"? A traditional thought! What happened to the traditional Sunday night family dinner? In fact, when was the last time tradition took a front row seat other than Thanksgiving or Christmas? It is interesting to note that other words used in place of the word **Traditional** include **Time Honored**,

Classic, **Historic**, and **Orthodox** while words used to convey the opposite of Traditional include Fresh, New and Unusual. In today's world there is nothing wrong in my book with traditional! Traditional lending practices, traditional family values, traditional approach to solving unique business issues. One could argue over the last decade that we sought to move away from tradition – with fresh, new and unusual approaches to lending, to business models, to accounting and financial principles, to investments, and to education, just to name a few. Of course there is nothing wrong with taking fresh or new approaches to things. If this did not take place we would have never seen such unbelievable inventions as the iPhone or iPad. But to **ONLY** consider fresh and new as a way of doing and being should not be a way of life. Remember how things used to be and appreciate why.



I was thrilled to see a sense of tradition restored by the United States Golf Association with its set-up of the Olympic Club and the true test it offered to the world's best. It instilled a sense of history and timelessness, and made at least me feel like we should never abandon, but embrace tradition. After all, at the end of the day, fresh, new and unusual will generally not stand the test of time; however the very definition of traditional is standing the test of time!

Mitch Razook

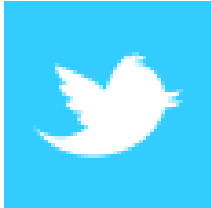
President and COO

RLR Management Consulting, Inc.

DFI Information Technology Survey Results

Social Media – Part 1

The DFI recently completed an Information Technology Survey. For this month, the DFI published some information on Social Media – read on!



The Survey had three questions related to this topic: (1) **Do you have a social media plan?** – 96 financial institutions or 28 percent responded “Yes” and 245 financial institutions or 72 percent responded “No”; (2) **Do you have a social media policy?** – 140 institutions or 41 percent responded “Yes” and 202 institutions or 59 percent responded “No” and (3) **Does someone look at public websites, e.g. Yelp, Twitter, Google search, etc., for reviews and postings on your financial institution?** – 133 institutions or 39 percent responded “Yes”, 85 institutions or 25 percent responded “No” and 124 institutions or 36 percent responded “Not Applicable”. This month’s issue will discuss what social media involves, and in subsequent issues of the **Monthly Bulletin**, we will cover the three questions in further detail.

Social media is a method used by many people around the world to communicate either in private or public forums. According to Wikipedia, the term social media refers to the use of web-based and mobile technologies to turn communication into an interactive dialogue. Depending on how your financial institution will be using social media, there are many items to consider in order to be compliant with federal regulations. For example, Facebook is the most prevalent form of social media used today by financial institutions to contact and/or advertise their products to customers and potential clientele. This form of social media requires the consideration of many federal compliance regulations, particularly those involving advertisement of FI (financial institution) products.



Presently, there is no formal guidance by the Federal Financial Institutions Examination Council (FFIEC); however, the FFIEC has a task force working on developing and implementing social media guidance in 2012. At this time, the only published information for social media guidance can be found at the Financial Industry Regulatory Association (FINRA) website www.finra.org. FINRA is an independent regulator for all security firms doing business in the United States and has issued two documents that provide some good, basic information to consider when establishing social media activities at your financial institution. These documents are referenced as Regulatory Notices: (1) [10-06 Social Media Websites](#) (PDF), and (2) [11-39 Social Media Websites and use of Personal Devices for Business Communications](#) (PDF).

If you are not sure of how to approach use of social media in your financial institution, please contact your DFI representative or your primary federal regulator.



DID YOU KNOW?

PREMIER 8.0 RELEASE – 2012

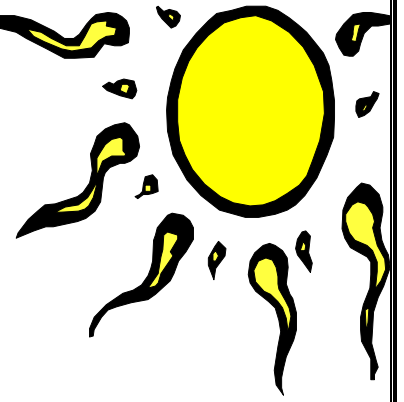
As Premier-serviced banks prepare for the implementation of the 8.0 release, RLR Management Consulting, Inc. can assist with the process. Our consultants have been trained and are available to specifically identify those areas that will be most impacted by the release. Appropriate review and recommendations will enable Premier clients to be better prepared prior to the mandatory update of 12/31/12. RLR consultants can assist with the following:

- Review specifications – particularly those effecting Portfolio retention
- Name line length options and duplication
- Review or assist in establishing standards for data input regarding names and addresses
- Assist with report writing/and or review of exception reports provided through Business Analytics or the Premier system
- Review versions of Premier Teller and Business Process Manager required prior to upgrade
- Review Owner Type Codes for duplication and value accuracy
- Review/identify invalid data in customer contact numbers
- Identify address duplication on Portfolios
- Manage overall project plan
- Assist with post-upgrade clean up

Fiserv offers three Service Packages for the upgrade to the 8.0 release. The Bronze package is free and provides Load Assistance (if applicable), a Project Plan, and a Project workbook. The Silver and Gold packages incur an undisclosed cost and provide various other reports, reviews, and recorded training sessions. RLR Management Consulting, Inc. can successfully assist with the implementation of any of the packages offered. RLR can provide onsite assistance and has the industry expertise to make your upgrade to the 8.0 release a strategic advantage for your institution, putting your institution at a competitive advantage over your competition and improving your operational efficiencies. RLR consultants average over 25 years of experience with the Premier System and the financial industry; what that means to you is that your institution will be working with knowledgeable industry consultants that have a reputation for being the best in the financial industry!

Please contact us at info@rlrmgmt.com or contact Mitch Razook, President and COO, at mitch.razook@rlrmgmt.com directly.

On the *Funny Side Up*



"I went to the bank and went over my savings. I found out I have all the money that I'll ever need... If I die tomorrow."

-- *Henny Youngman*

"[N]o matter how much the boss likes you, if you work in a bank you can't bring home samples.

-- *Eddie Cantor*

Balancing the Checkbook

Michael was supposed to be taking care of the finances and balancing the checkbook, but his wife Cindy kept having to straighten it out. Tired of having to balance his messed-up checkbook, Cindy made a deal with him; she would look at it, but only after he had spent a few hours trying to wrestle it into shape.

The following night, after spending hours poring over stubs and figures, Michael said proudly, "I've done it! I made it balance!"

Impressed, Cindy came over to take a look. "Let's see... mortgage 550.00, electricity 70.50, phone 35.00." Her brow wrinkled as she read the last entry. "It says here ESP, \$615. What the heck is that?"

"Oh," he said, "That means, Error Some Place!"

Courtesy <http://www.bankersonline.com/humor>



Where RLR will be:

Conferences & Exhibits

RLR to Exhibit:

- 9/24-9/26 **WIB Education Summit & Expo** –Hilton San Diego Bayfront, San Diego, CA

RLR to Attend:

- September **WSUG Fall Meeting** – Northern CA
- 10/2-10/5 **CBA-Annual Regulatory Compliance Conference-** Hyatt Regency Mission Bay Spa and Marina, San Diego, CA

Ruth L. Razook Speaking Engagements:

- 9/12-9/14 **CIB Bank Technology Conference** –JW Marriott Las Vegas Resort & Spa, Las Vegas, NV
- 9/24-9/26 **WIB Education Summit & Expo** –Hilton San Diego Bayfront, San Diego, CA

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