

ABILITY-TO-REPAY RULE

The Ability-to-Repay rule establishes that most new mortgages must comply with basic requirements that protect consumers from taking on loans they do not have the financial means to pay back.

ALLOWANCE FOR LOAN AND LEASE LOSSES (ALLL)

An estimate of credit losses, which in turn reduces the book value of loans and leases.

ANNUAL INCENTIVES

A feature built into an employee’s annual compensation plan that provides them with an agreed upon financial reward, usually in cash but sometimes in stock options or restricted stock, when certain specified performance goals have been attained.

ANTI-MONEY LAUNDERING (AML)

Refers primarily to the Bank Secrecy Act, which requires financial institutions in the United States to monitor and report suspicious financial transactions to the federal government.

ASSET/LIABILITY MANAGEMENT

Asset/liability management addresses the risks associated with a mismatch between assets and liabilities, due to a change in interest rates or other factors. The asset/liability committee (ALCO) monitors interest rate risk and makes recommendations to the board regarding mitigation of this risk.

ASSET SENSITIVE

A bank is asset sensitive when its balance sheet is structured so its assets—primarily loans—reprice faster than its liabilities—primarily, its deposits. In general, asset-sensitive banks benefit in a rising rate environment.

AUTOMATED CLEARING HOUSE (ACH)

The ACH is an electronic network for financial transactions, including debit and credit transactions and direct deposits.

BANK OWNED LIFE INSURANCE (BOLI)

A form of life insurance that is used as a tax-free funding scheme for employee benefits. The policy is purchased by the bank and the bank is both the beneficiary and the owner. All premiums paid into the fund, as well as all capital appreciation, are tax free for the bank and the bank can use the policies to fund employee benefits on a tax-free basis.

BANK SECRECY ACT (BSA)

Enacted in 1970, BSA requires financial institutions in the United States to monitor and report suspicious financial transactions to the federal government. It is an important tool that the government uses to combat money laundering activity related to terrorism, organized crime and the international drug trade.

BANKING ACT OF 1933

Also referred to as the Glass-Steagall Act, this Depression-era law created a federal system of bank deposit insurance through the creation of the Federal Deposit Insurance Corp., and also prohibited banks from engaging in both commercial and investment banking.

BASEL III

A global regulatory standard for bank capitalization that is being implemented in the United States and will require all insured depository institutions to meet higher capitalization requirements and reduce their leverage. Named after the Basel Committee on Banking Supervision at the Bank for International Settlements, which developed the standard.

BAYESIAN IMPROVED SURNAME GEOCODING (BISG)

The use of U.S. Census Bureau data on an individual's surname and residence to create proxies for race and ethnicity. This method is used by the CFPB to determine whether a lender is complying with fair lending laws.

BITCOIN

Bitcoin is a popular form of digital currency, or cryptocurrency. It was created in 2009. Bitcoin balances are kept on a public ledger, the blockchain. A public key, similar to a bank account number, serves as an address to which others may send bitcoin. A private key is used to authorize bitcoin transactions. See: blockchain; cryptocurrency

BLOCKCHAIN

A blockchain is a public ledger of bitcoin transactions, which are entered chronologically. Venture capital firms, technology companies and traditional financial services firms see potential value in blockchain, independent of bitcoin.

BOTNETS

A number of networked computers that perform repetitive tasks and objectives to send spam email or to overload a targeted server to prevent it from servicing legitimate requests.

**BUSINESS JUDGMENT
RULE**

An important aspect of U.S. corporate law, the rule holds that if directors have acted in good faith and as any reasonable person would have acted in the same circumstances, they are not liable for bad outcomes.

CALL REPORTS

All regulated financial institutions must file a detailed quarterly report on their financial condition with their primary regulator. Known officially as the Report of Condition and Income, the filing must be made no later than 30 days after each quarter ends.

CAMELS RATING SYSTEM

A rating system that bank regulatory agencies use to evaluate and classify an institution's safety and soundness. The acronym CAMELS stands for Capital adequacy, Asset quality, Management capability, Earnings, Liquidity and Sensitivity. Institutions receive a one through five rating in each individual category, and also an overall composite score, with one being the highest and five being the lowest.

**CEO PAY-RATIO
DISCLOSURE**

The CEO pay-ratio disclosure is mandated by the Dodd-Frank Act. Beginning January 2018 for the fiscal year 2017, publicly traded companies are required to disclose the median total annual compensation of all employees, the annual total compensation of the chief executive, and the ratio of the two.

**CHANGE-IN-CONTROL
AGREEMENTS**

An agreement that is used to secure rights to compensation for an employee in exchange for their continued employment when a company changes ownership. The agreement provides a contingency plan in case the company changes ownership resulting in the employee being laid off without cause or quitting following this change of control. When this happens the agreement ensures that the employer will pay out a severance package of some kind to the employee.

**CHIEF INFORMATION
OFFICER (CIO)**

The chief information officer ensures that technology meets the strategic goals of an organization. Depending on the size of the organization, the role may be similar to that of a chief technology officer (CTO). See also: chief technology officer (CTO).

CHIEF TECHNOLOGY OFFICER (CTO)

The chief technology officer tends to be responsible for the development and implementation of new technology. Depending on the size of the organization, the role may be similar to that of a chief information officer (CIO). See also: chief information officer (CIO).

CHIEF INFORMATION SECURITY OFFICER (CISO)

The chief information security officer oversees cybersecurity within an organization.

CIVIL MONEY PENALTIES

A fine imposed by a court or regulatory agency on an organization or individual for the purpose of punishing illegal behavior.

CLAWBACK

A provision included in some performance-based pay plans that allows the employer to take back some or all of an employee's compensation contingent on certain events, such as a misstatement of a business' financial results either through a reporting error or fraud.

CLOUD

The cloud refers to a network of servers that can remotely store the data belonging to a company or individual. A private cloud is used by a single organization, while a public cloud is available to the public.

COLLAR

A type of price protection in an M&A transaction that protects the buyer by limiting the number of shares of stock it will be required to issue if its stock price declines between signing and closing. The collar also limits the reduction of shares the buyer will issue to the selling shareholders if its stock price rises between signing and closing.

COMMODITIES FUTURES TRADING COMMISSION (CFTC)

An independent agency of the United States government that regulates futures and option markets. The stated mission of the CFTC is to protect market users and the public from fraud, manipulation, and abusive practices related to the sale of commodity and financial futures and options, and to foster open, competitive, and financially sound futures and option markets.

**COMMUNITY BANK
LEVERAGE RATIO**

Under development by federal regulators following passage of the Economic Growth, Regulatory Relief and Consumer Protection Act, the ratio determines capital adequacy by dividing a bank's equity capital by its total consolidated assets. Banks exceeding the threshold established by regulators will be deemed well-capitalized.

**COMMUNITY
REINVESTMENT ACT (CRA)**

A federal law that is designed to encourage commercial banks and thrifts to meet the needs of borrowers in all segments of their communities, including low- and moderate-income neighborhoods.

**COMPENSATION
DISCUSSION & ANALYSIS
(CD&A)**

A required part of a company's annual proxy statement whose purpose is to provide material information about the compensation objectives and policies for named executive officers, and put into perspective for investors the numbers and narrative that follow it. The named executive officers are the company's CEO and the four most highly compensated executive officers as of the end of the last completed fiscal year.

**CONSUMER FINANCIAL
PROTECTION BUREAU
(CFPB)**

An independent federal agency housed within the Federal Reserve Board that is responsible for overseeing consumer protection in the financial services industry, including banking. The Bureau was created by the Dodd-Frank Act.

**CONSUMER PRODUCT
SAFETY COMMISSION
(CPSC)**

The Consumer Product Safety Commission is an independent agency of the U.S. government created to protect the public from unreasonable risks of injury or death from many types of consumer products. It was established in 1972 under the Consumer Product Safety Act.

CORE PROCESSOR

A bank's core processor is the back-end technology that processes all of an institution's transactions.

COVERED EMPLOYEES

A key responsibility of the compensation committee is to oversee the management of risk in the bank’s compensation program, and to ensure that incentive compensation programs for all so-called covered employees are appropriately designed and have protections in place to ensure the safety and soundness of the institution. Covered employees are broadly defined and include executive officers as well as non-executive employees or groups of employees who in the aggregate could expose the bank to material financial loss. Two common examples are commercial lenders and mortgage originators, who individually may not cause significant financial loss but could have a very significant impact as a group.

CREDIBLE CHALLENGE

In standards issued in September 2014 for the boards of large and complex institutions above \$50 billion in assets, the OCC expects boards to provide a “credible challenge” to management. Bank boards should “critically evaluate management’s recommendations and decisions by questioning, challenging, and, when necessary, opposing, management’s proposed actions that could cause the bank’s risk profile to exceed its risk appetite or threaten the bank’s safety and soundness.”

CRITICAL ACTIVITIES

According to the risk management guidance on third-party relationships issued by the OCC, critical activities include significant bank functions or shared services, or other activities that could cause a bank to face significant risk, have significant impact on the customer, require a significant investment in resources or could have a major impact on bank operations.

CRYPTOCURRENCY

Cryptocurrency refers to a digital currency, where encryption is used to regulate units of currency and verify transfer of funds. Cryptocurrency operates independently of a central authority. Bitcoin is an example of cryptocurrency. See: bitcoin

CURRENCY TRANSACTION REPORTS (CTRS)

A report that financial institutions are required to file with FinCEN for each deposit, withdrawal, exchange of currency, or other payment or transfer, by, through, or to the financial institution which involves a transaction in currency of more than \$10,000. Used in this context, currency means the coin and/or paper money of any country that is designated as legal tender by the country of issuance. Currency also includes U.S. silver certificates, U.S. notes, Federal Reserve notes, and official foreign bank notes.

CURRENT EXPECTED CREDIT LOSS (CECL)

Issued by the Financial Accounting Standards Board in June 2016, CECL changes how banks estimate their allowance for loan losses through the use of historical data and current and forecasted economic conditions to estimate expected loss over the life of the loan.

DEFINED BENEFITS PLAN

A retirement plan where the employee receives a fixed retirement benefit that is determined by such factors as salary and length of employment. The employer, which is also the plan sponsor, assumes all investment risk for the plan. The traditional corporate or government pension is an example of a defined benefit plan.

DEFINED CONTRIBUTION PLAN

A retirement plan in which the employee contributes a certain percentage of their annual compensation to one or more investment funds that have been provided by the employer, generally through a third-party provider like a mutual fund company. The employee assumes all investment risk for the plan. A 401(k) plan, where the employer may match a portion of the employee's contribution up to a certain amount, is an example of a defined contribution plan.

DEPOSIT BETA

The deposit beta measures changes in deposit rates relative to interest rate changes.

DERIVATIVES

A financial instrument that derives its value from an underlying asset, index or interest rate. Interest rate swaps are a derivative that can be used to manage a bank's interest rate risk. See: Interest rate swap

DILUTION VALUE

When one bank acquires another bank and pays for that transaction in full or in part by issuing additional shares of its own stock, these new shares have the effect of reducing -- or diluting -- its reported earning per share (EPS), which is calculated by dividing its quarterly or annual profit (the numerator) by the number of average share outstanding (the denominator). The only way in which the acquiring bank can work off this dilution is by significantly increasing the profitability of the post-acquisition company -- which would boost its EPS -- or by buying back some of its stock at a future date, which would also increase EPS by reducing the number of shares outstanding and thereby lowering the denominator.

**DIRECTORS & OFFICERS
(D&O) LIABILITY
INSURANCE**

A form of insurance, typically provided by the bank, that indemnifies board members and certain senior executives against liability lawsuits filed by shareholders or by a government agency.

DODD-FRANK ACT OF 2010

Sweeping legislation that was enacted after the global financial crisis and provides for heightened regulation of the banking industry and various financial markets in the United States. The law is divided into 16 different sections or titles and addresses bank capitalization standards, the liquidation of failed banks and thrifts, consumer protection, regulation of the securitization and derivatives markets and oversight of credit rating agencies.

**DOUBLE-TRIGGER WALK
AWAY PROVISION**

This walk-away provisions requires not only that the buyer's stock price declines by a specified amount, but also that a group of peer bank companies' stocks decline by similar 15-20% range prior to closing.

DROPPED PACKETS

A dropped packet occurs when one or more packets of data travelling across a computer network fail to reach their destination. Packet loss is measured as a percentage of packets lost with respect to packets sent.

DUAL BANKING SYSTEM

A system of banking in which institutions can either be chartered at the state or federal level. State chartered banks are supervised by their state of domicile and either the Federal Deposit Insurance Corp. or Federal Reserve Board. Banks with national charters are supervised by the Office of the Comptroller of the Currency.

DUE DILIGENCE

In an acquisition or merger, a comprehensive investigation of the selling bank undertaken by a prospective buyer prior to entering into a definitive agreement. For third-party vendors, this refers to a review of a potential vendor's business before signing a contract.

DURBIN AMENDMENT

Named after Sen. Richard Durbin and included in the Dodd-Frank Act, the measure directed the Federal Reserve to develop a rule that would limit the transactions fees debit-card-issuing banks are permitted to charge merchants. In October 2012 the Fed issued a rule that capped these so-called interchange fees at 12 cents per transaction for banks with assets of \$10 billion or greater. Previously, the fees had averaged 44 cents per transaction. The rule does not apply to banks under the \$10 billion threshold.

EARNINGS PER SHARE (EPS)

A simple but widely used measurement of a public company's financial performance which is derived through a simple formula: Net income minus dividends on preferred stock, divided by the average number of common shares outstanding.

ECONOMETRICS

The use of statistics and mathematics to test economic hypotheses and forecast trends.

ECONOMIC GROWTH, REGULATORY RELIEF AND CONSUMER PROTECTION ACT

Signed into law in May 2018, this law introduced a more tiered approach to regulation and scaled back some of the requirements on smaller banks put into place with the Dodd-Frank Act. The law's six sections or titles address consumer access to mortgage loans, regulatory relief and protecting consumer access to credit, protections for veterans, consumers and homeowners, tailoring regulations for some bank holding companies, encouraging capital formation, and providing protections for student borrowers.

ECONOMIC VALUE OF EQUITY (EVE)

A calculation that determines the net present value of assets and liabilities. EVE-based models determine the long-term effect of changes in interest rates and how the bank's capital position will be impacted.

EMERGENCY ECONOMIC STABILIZATION ACT OF 2008

Passed in response to the subprime mortgage crisis, the law authorized the Troubled Asset Relief Program (TARP), through which the U.S. government purchased bad assets and equity from financial institutions. FDIC deposit insurance levels were also increased, from \$100,000 to \$250,000.

ENHANCED PRUDENTIAL STANDARDS

A framework developed by the Fed for the supervision and regulation of large domestic and foreign-owned financial institutions in the U.S.

**ENTERPRISE RISK
MANAGEMENT (ERM)**

A holistic approach to risk management that focuses on various categories of risk throughout the entire organization (or enterprise), with particular emphasis on how different risks might combine to raise the organization's risk profile.

**ENTIRE FAIRNESS
DOCTRINE**

A court may apply the entire fairness doctrine instead of the business judgment rule if the board's decision-making process wasn't independent, or if the board was determined to have breached its fiduciary duties. In this case, the company must prove that the process and the compensation paid to directors were fair to its shareholders.

**EQUAL CREDIT
OPPORTUNITY ACT**

Enacted in 1974, this law applies to all forms of consumer and commercial credit, and prohibits discrimination based on race or color, national origin, religion and sex, marital status, age and whether the loan applicant receives income from a public assistance program.

EQUITY AWARDS

Shares of stock which are granted to an employee as part of a performance incentive plan. Often the stock has a vesting period of three to five years before the employee can exercise full control over the shares.

**EQUITY MULTIPLIER
EFFECT**

A measurement of financial leverage that calculates the amount of assets that a bank can generate per dollar of common equity.

ESG

An acronym for environmental, social and governance. These factors, generally related to green initiatives and climate risk (environmental), community, customer and employee relations (social), and corporate governance have grown increasingly important to investors.

EVERGREEN PROVISION

Guarantees a set amount of cash and/or equity compensation to an executive, automatically renewing every year until terminated by the company.

EXCESS BENEFIT PLAN

A plan maintained by an employer for the purpose of providing benefits for certain employees, usually highly paid senior executives, in excess of the limitations on contributions and benefits imposed by Section 415 of the Internal Revenue Code.

FAIR HOUSING ACT

Enacted as Title III of the Civil Rights Act of 1968, the Fair Housing Act prohibits discrimination on the basis of race or color, national origin, religion, sex, familial status or handicap in all aspects of real estate transactions, including making loans to buy, build, repair or improve a dwelling; selling, brokering or appraising residential real estate; or selling or renting a dwelling.

**FEDERAL DEPOSIT
INSURANCE CORPORATION
(FDIC)**

An independent federal agency that provides deposit insurance coverage of up to \$250,000 per account at banks, thrifts and savings banks. The agency also oversees state chartered banks that are not members of the Federal Reserve System, and manages the resolution process for failed institutions that have been placed in receivership.

**FEDERAL DEPOSIT
INSURANCE CORPORATION
IMPROVEMENT ACT
(FDICIA)**

This law was passed during the savings and loan crisis which allowed the FDIC to borrow directly from the Treasury department and mandated that the FDIC resolve failed banks using the least costly method available. It also ordered the FDIC to assess insurance premiums according to risk and created new capital requirements.

**FEDERAL DEPOSIT
INSURANCE SYSTEM**

Refers to the deposit insurance coverage provided by the Federal Deposit Insurance Corp.

**FEDERAL FINANCIAL
INSTITUTIONS
EXAMINATION COUNCIL
(FFIEC)**

A U.S. government interagency body that includes five banking regulators—the Federal Reserve Board of Governors (FRB), the Federal Deposit Insurance Corporation (FDIC), the National Credit Union Administration (NCUA), the Office of the Comptroller of the Currency (OCC) and the Consumer Financial Protection Bureau (CFPB).

FEDERAL FUNDS RATE

The interest rate at which banks and credit unions lend reserve balances to other depository institutions overnight. This rate impacts the level of all short and long-term interest rates in the United States.

FEDERAL HOME LOAN BANK

Created by the Federal Home Loan Bank Act of 1932, these institutions provide funding and liquidity, through loans, to member financial institutions.

FEDERAL OPEN MARKET COMMITTEE (FOMC)

This committee, part of the Federal Reserve, determines the target federal funds rate, which impacts all interest rates. The committee is also charged to make decisions about growth of the money supply in the United States. The committee meets eight times annually, and consists of 12 members: Seven members from the Board of Governors of the Federal Reserve, the president of the Federal Reserve Bank of New York, and four alternating seats that are rotated annually among the remaining Reserve Bank presidents.

FEDERAL PREEMPTION

Refers to a broad exemption that national banks once enjoyed from various state banking laws, including certain consumer protection statutes. However, these exemptions were significantly narrowed by the Dodd-Frank Act.

FEDERAL RESERVE ACT

Enacted in December 1913, it established the Federal Reserve System as an independent central banking system with authority over monetary policy.

FEDERAL RESERVE BOARD OF GOVERNORS

Refers to the main governing body of the Federal Reserve System. There are seven board members, or governors, who are nominated by the president, confirmed by the U.S. Senate and serve staggered 14-year terms. There is also a chairman and a vice chairman who likewise are selected by the president from among the current board members and confirmed by the Senate, and serve four-year terms.

FIDUCIARY

As defined by the U.S. Department of Labor, a fiduciary is an individual who exercises discretionary authority, control or administration over a retirement plan or the management of assets and renders investment advice in exchange for a fee or other form of compensation.

FIDUCIARY RESPONSIBILITY

Directors who serve on a corporate board have a legal and ethical responsibility to the company's owners to always act in the owner's best interests.

FINANCIAL ACCOUNTING STANDARDS BOARD (FASB)

An independent organization that sets standards for financial accounting and reporting for public and private companies and nonprofit organizations that follow Generally Accepted Accounting Principles (GAAP).

FINANCIAL CRIMES ENFORCEMENT NETWORK (FINCEN)

A bureau of the United States Department of the Treasury that collects and analyzes information about financial transactions in order to combat domestic and international money laundering, terrorist financing, and other financial crimes.

FINANCIAL INSTITUTIONS REFORM, RECOVERY, AND ENFORCEMENT ACT OF 1989

Passed in response to the savings and loan crisis, this act established the Office of Thrift Supervision, which until 2011 regulated savings banks and savings and loan associations, and the Resolution Trust Corporation, which closed failed thrifts.

FINANCIAL STABILITY OVERSIGHT COUNCIL (FSOC)

Established by the Dodd-Frank Act, the Council identifies and monitors excessive risk to the U.S. financial system, and responds to emerging threats. Its ten voting members include the Secretary of the Treasury, who serves as chairperson, and the heads of the prudential regulators, including the Office of the Comptroller of the Currency, the Consumer Financial Protection Bureau, the Federal Deposit Insurance Corp. and the Securities and Exchange Commission.

FIXED EXCHANGE RATIO

A type of transaction exchange ratio that calls for each of the seller's shares to be converted into a specific number of the buyer's shares at closing, without adjustment prior to closing.

FLOATING EXCHANGE RATIO

A type of transaction exchange ratio that values the transaction at a dollar amount at the time of signing and allows the exchange ratio to adjust or float within a predetermined range between signing and closing based on the buyer's stock price.

GARN-ST GERMAIN DEPOSITORY INSTITUTION ACT OF 1982

The act deregulated savings and loan associations and granted banks the ability to provide adjustable rate mortgages.

GENERAL ACCEPTED ACCOUNTING PRINCIPLES (GAAP)

Standards that companies must follow in financial reporting. FASB monitors and updates these guidelines.

GRAMM-LEACH- BLILEY ACT OF 1999

This law repealed the Glass-Steagall Act, and allowed banks to combine commercial banking, insurance and investment activities.

HOME MORTGAGE DISCLOSURE ACT (HMDA)

The Home Mortgage Disclosure Act (HMDA), which was enacted by Congress in 1975, requires depository institutions and nonbank lenders that meet specific criteria to maintain and report data on home mortgage loans, in part to identify discriminatory lending patterns. In 2011, rulemaking authority was transferred from the Federal Reserve Board to the CFPB.

INCURRED LOSS MODEL

CECL replaces this method for recognizing credit losses, so named as it delays recognition of losses until it is probable a loss has been incurred.

INSTITUTIONAL SHAREHOLDER SERVICES (ISS)

Institutional Shareholder Services is a proxy solicitation firm that also provides information on corporate proxy votes, primarily for the benefit of institutional investors. They also make recommendations as to whether it is in a shareholder's best interest to vote for or against particular proxies, and they advise businesses on how to handle corporate governance issues.

INTEREST RATE SWAP

A derivative used to manage interest rate risk, in which two parties agree to share interest rate payments.

ISO 27005 STANDARD

ISO 27005 standard is part of the 27000 series standard covering information security risk management. The standard provides guidelines for information security risk management (ISRM) in an organization, specifically supporting the requirements of an information security management system defined by ISO 27001. These standards are published jointly by the International Organization for Standardization (ISO) and the International Electrotechnical Commission (IEC).

ISS GOVERNANCE QUALITYSCORE

Developed by Institutional Shareholder Services, this metric indicates a company’s governance risk across four categories: audit and risk oversight, board structure, shareholder rights and compensation.

LEGAL ENTITY CUSTOMER

As defined by the Financial Crimes Enforcement Network, a legal entity customer is an organization created through filing a public document with a secretary of state or other similar office. This definition excludes most trusts.

LEVERAGE RATIO

Measures an institution’s sustainability by dividing tier 1 capital by total assets. A higher ratio means the entity is more likely to survive negative shocks to its balance sheet.

LIABILITY SENSITIVE

A bank is liability sensitive when its balance sheet is structured so its liabilities—primarily deposits—reprice faster than its assets—primarily, its loans. In general, rising rates can challenge liability-sensitive banks.

LONDON INTERBANK OFFERED RATE (LIBOR)

A benchmark rate used by big global banks to charge one another for short-term loans. It serves as a benchmark rate for a number of financial products and instruments, including loans, bonds and derivatives. LIBOR is expected to be phased out after 2021.

LONG-TERM INCENTIVES

Similar to an annual incentive plan, but both the measurement periods and payout periods are longer, generally three to five years. For publicly owned companies, long-term incentives are typically paid out in stock options, restricted stock or a combination of both.

MALWARE

Short for malicious software, malware is any software used to disrupt computer operation, gather sensitive information or gain access to private computer systems.

MANAGEMENT SUCCESSION

An orderly process where senior managers are trained and prepared to move into positions of higher authority, including that of chief executive officer.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION (MD&A)

The section in a public company's annual report in which management provides an overview of the prior year's operations and results.

MATERIAL ADVERSE CHANGES (MAC) PROVISION

A provision in a mergers and acquisition agreement that enables the buyer to terminate the transaction if the seller suffers a change in their business or financial condition or, when the buyer's stock is used as consideration, the financial condition of the buyer.

MATERIALITY

A concept within the discipline of auditing and accounting that refers to the significance of transactions, balances or errors contained in a company's financial statements. Materiality defines the threshold after which financial information becomes relevant to the decision making needs of the users. For example, if an individual borrower defaults on a \$1,000 loan to a bank with a \$10 billion balance sheet, the impact of the default would not have a material impact on the company's financial statement. However, default on a \$10 million loan would in all likelihood have a material impact on the bank's financial statement.

MILLENNIALS

The U.S. Census Bureau defines millennials as Americans born between 1982 and 2000. As of 2015, millennials totaled 83 million, and represented one-quarter of the U.S. population, exceeding the number of baby boomers in the United States.

MINIMUM COMMON EQUITY RATIO

A new requirement contained in the Basel III capital standard. Beginning in 2013, banks must have at least have capital from their common equity shares and retained earnings equal to 3.5% of their risk adjusted assets. This requirement rises to 4.0% in 2014 and 4.5% in 2015.

NASDAQ OMX

A global company headquartered in New York that operates the NASDAQ electronic stock market in the United States and eight European stock exchanges.

NATIONAL INSTITUTE OF STANDARDS AND TECHNOLOGY (NIST)

The NIST is the federal technology agency of the U.S. Department of Commerce that works to develop and apply technology, measurements and standards.

NET INTEREST MARGIN (NIM)

The net interest margin measures the difference between interest income and interest paid.

NETWORK VISIBILITY MAP

A visual depiction of an organization's network that displays all of the infrastructure such as the data center, endpoints, connectivity, network perimeter, security controls and monitoring.

NON-PERFORMING ASSET

Refers to a loan on which the borrower has made no interest or principal payments for at least 90 days and is considered to be in danger of default.

NYSE EURONEXT

A global company headquartered in New York that operates stock exchanges around the world including the New York Stock Exchange in the United States and Euronext in Europe.

OFFICE OF FOREIGN ASSETS (OFAC)

OFAC is a financial intelligence and enforcement organization of the U.S. government charged with planning and execution of economic and trade sanctions in support of national security and foreign policy objectives. A component of the U.S. Treasury Department, it operates under the Office of Terrorism and Financial Intelligence.

**OFFICE OF THE
COMPTROLLER OF THE
CURRENCY (OCC)**

A federal agency within the U.S. Department of the Treasury that oversees banks and thrifts with a national charter. Created by the National Currency Act of 1863 and signed into law by President Abraham Lincoln.

OPERATING LEVERAGE

The amount of noninterest operating expense a bank incurs relative to its asset base.

PEER-TO-PEER PAYMENTS

Refers to the ability to transfer funds between individuals directly from a bank account or credit card using the Internet or a mobile device.

PHISHING

An attempt to acquire sensitive information such as usernames, passwords and credit card details, often for malicious reasons, by masquerading as a trustworthy entity in an email communication.

**PRIVATE INVESTMENT IN
PUBLIC ENTITY (PIPE)**

A private investment in public equity, often called a PIPE deal, involves the selling of publicly traded common shares or some form of preferred stock or convertible security to private investors. It is an allocation of shares in a public company not through a public offering in a stock exchange. PIPE deals are part of the primary market. In the U.S., a PIPE offering may be registered with the Securities and Exchange Commission on a registration statement or may be completed as an unregistered private placement.

PROXY DISCLOSURES

U.S. securities law requires that public companies file an annual proxy statement -- known as a Form DEF 14A -- in advance of their annual meetings when soliciting shareholder votes for such things as the election of directors. There are various disclosures that companies are required to make in their proxy statements, including the Compensation Discussion and Analysis, or CD&A.

PRUDENTIAL REGULATORS

The term "prudential regulator" refers to the appropriate federal banking agency for an insured depository institution, a holding company or its subsidiaries. For a credit union, the prudential regulator is the National Credit Union Administration (NCUA).

QUALIFIED MORTGAGE

A home loan that meets certain standards set forth by the federal government. Lenders that generate such loans will be presumed to have also met the Ability-to-Repay rule mandated by the Dodd-Frank Act.

RAM SCRAPER

A relatively old malicious software tool that hackers install on point-of-sale systems to steal credit card information that is stored in memory, as opposed to on a hard drive or being transmitted over a network.

REAL ESTATE SETTLEMENT PROCEDURES ACT (RESPA)

The Real Estate Settlement Procedures Act was passed by Congress in 1974, and prohibits kickbacks between third-party settlement service agents and lenders. Under RESPA, lenders are required to provide a "good faith estimate" for all of the costs of a loan. In 2011, administration and enforcement of RESPA was transferred from the Department of Housing and Urban Development to the CFPB.

REALIZABLE PAY

A methodology for determining whether an executive's incentive compensation plan contains a strong link between pay and performance and is thus aligned with the interests of shareholders. This approach looks at the amount of cash compensation actually paid, plus the period-ending economic value of long-term equity awards, rather than their grant value. In essence, realizable pay compares a compensation value that is closer to what is actually paid, using the outcomes after performance has been measured.

REDLINING

References the denial of services to residents of a particular community, either directly or by charging higher prices or rates. Redlining can violate the Fair Housing Act or the Equal Credit Opportunity Act when a financial institution provides unequal access to credit or unequal terms of credit due to race, color, national origin or other prohibited characteristics of residents in a specific area of location.

RESPONSIBLE INNOVATION

In a March 2016 white paper, the OCC defined responsible innovation as "the use of new or improved financial products, services, and processes to meet the evolving needs of consumers, businesses, and communities in a manner that is consistent with sound risk management and is aligned with the bank's overall business strategy."

RESTRICTED STOCK

This is a grant of company stock in which the recipient's rights in the stock are restricted until the shares vest. Once the vesting requirements are met, an employee owns the shares outright and may treat them as she would any other share of stock in her account.

REVERSE STRESS TESTING

A stress testing method that assumes a specific adverse outcome and then deduces the types of events that could result in such a scenario occurring.

RIEGLE-NEAL INTERSTATE BANKING AND BRANCHING EFFICIENCY ACT OF 1994

This act allowed banks to open branches and make acquisitions across state lines.

RISK APPETITE

The level of risk a bank is willing to accept in pursuit of its strategic goals. It can be easily expressed in a variety of metrics like level of loan delinquencies or sensitivity to a 100 basis point increases in interest rates.

RISK-WEIGHTED CAPITAL

Based on a regulatory calculation, each asset category is assigned a risk weighting factor to reflect the specific item's relative riskiness in terms of collectability. The total of all the risk weighted balances is used as the denominator in risk weighted capital ratios.

ROBO-SIGNING

For lenders, the act of "robo-signing" refers to the act of having employees automatically sign foreclosure documents without reviewing the details of the case, like a robot. In 2010, institutions including JPMorgan Chase & Co., Ally Financial Inc. and Bank of America Corp. came under increased scrutiny for the practice.

SARBANES-OXLEY ACT OF 2002 (SOX)

A byproduct of the accounting scandals in the 2000s at such companies as Worldcom and Tyco, SOX established tougher financial reporting requirements for public companies while also creating the Public Company Accounting Oversight Board to regulate the public accounting industry.

SAY-ON-FREQUENCY

The Dodd-Frank Act requires public companies to hold a nonbinding shareholder vote once every six years on whether the say-on-pay vote should be held annually, bi-annually or triennially.

SAY-ON-PAY

Under the Dodd-Frank Act, public companies are required to seek feedback regarding CEO and executive officer pay through a non-binding shareholder vote at its annual meeting indicating whether shareholders are in agreement with the bank's compensation programs, practices and levels related to those individuals.

SECTION 302 OF SOX

Section 302 of Sarbanes-Oxley requires that public company CEOs and CFOs personally certify in each quarterly and annual financial statement that disclosure controls and procedures have been implemented and evaluated.

SECTION 404 OF SOX

Part of the Sarbanes-Oxley Act of 2002, this section requires management and the external auditor to report on the adequacy of the company's internal control on financial reporting.

SECURITIES AND EXCHANGE COMMISSION (SEC)

An agency of the federal government that holds primary responsibility for enforcing the federal securities laws and regulating the securities industry, the nation's stock and options exchanges, and other electronic securities markets in the United States.

SHADOW BANKING SYSTEM

Refers to nonbank financial firms that carry out the same functions as traditional banks but aren't subject to regulatory oversight, or to unregulated activities conducted by regulated entities.

SINGLE-TRIGGER WALK-AWAY PROVISION

This walk-away provision only considers the buyer's stock price and triggers a walk-away right if the buyer's stock price declines between signing of the merger agreement and closing by an amount usually in the 15-20% range.

**SOUND INCENTIVE
COMPENSATION POLICIES**

Developed by the Federal Reserve, the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corp. in 2010, this guidance is intended to assist financial institutions in the design and implementation of incentive compensation arrangements. They apply to all depository institutions.

SQL INJECTION

A code injection technique, used to attack data-driven applications, in which malicious SQL statements are inserted into an entry field for execution. SQL injection is mostly known as an attack for websites but can be used to attack any type of SQL database.

STRESS TESTING

An analysis of a bank's vulnerability to a variety of economic shocks through the use of simulated models that can be set to a variety of scenarios. An example would be how the bank's auto loan portfolio would perform if unemployment spiked to 9%.

**SUPERVISORY
HIGHLIGHTS**

Supervisory Highlights is a report published quarterly by the CFPB, and includes information about recent public enforcement actions by the bureau.

**SUPPLEMENTAL
EXECUTIVE RETIREMENT
PLANS (SERPS)**

A non-qualified retirement plan for key company employees that provides a higher level of benefits than those provided in more commonplace retirement plans such as IRAs and 401(k)s. The plans are also costly to provide and have been criticized by some shareholder advocates.

**SUSPICIOUS ACTIVITY
REPORTS (SARS)**

A report made by a financial institution to the Financial Crimes Enforcement Network (FinCEN), an agency of the United States Department of the Treasury, regarding suspicious or potentially suspicious activity.

**SUSTAINABLE
ACCOUNTING STANDARDS
BOARD (SASB)**

A nonprofit organization that sets standards around sustainability disclosures.

**SYSTEMICALLY
IMPORTANT FINANCIAL
INSTITUTION (SIFI)**

A systemically important financial institution (SIFI) is a bank, insurance company, or other financial institution whose failure might trigger a financial crisis.

TANGIBLE BOOK VALUE

A valuation ratio that expresses the price of a security compared to its hard, or tangible, book value. A company's tangible book value is equal to the company's total book value less the value of any intangible assets, including such things as patents, intellectual property or goodwill accumulated through an acquisition.

**TASK FORCE ON CLIMATE-
RELATED FINANCIAL
DISCLOSURES (TCFD)**

Established by the Financial Stability Board to recommend effective climate disclosures.

TEXAS RATIO

A simple but effective measurement of a bank's financial stability that came out of the oil and gas lending crisis in Texas during the late 1980s. A bank's Texas Ratio is calculated by dividing the book value of all existing non-performing assets by its tangible equity capital plus loan-loss reserves. When the ratio exceeds 100 percent, the bank no longer has enough capital to absorb additional loan losses and there is a higher likelihood of failure.

TIER 1 CAPITAL

First part of the two-tier risk based capital standard commonly used by regulatory agencies to assess a financial institution's capital adequacy. Tier 1 capital includes common stock and retained earnings and is the basis on which a bank, thrift or, credit union supports its deposit and lending operations. Also called core capital or primary capital.

**TILA/RESPA INTEGRATED
DISCLOSURE (TRID)**

In 2013, the CFPB amended the Truth-in-Lending Act and the Real Estate Settlement Procedures Act with new disclosure requirements and forms. TRID took effect in October 2015.

TOTAL CAPITAL

The measure of a bank's qualifying capital in the calculation of its risk based capital reserves. The calculation for total capital is Tier 1 equity capital, consisting of common and qualifying preferred stocks, plus Tier 2 capital, made up of subordinated debt, loan losses and preferred stock not counted in Tier 1 capital.

TRANSACTION CONSIDERATION

The monetary instrument which is used to pay for the acquired bank. This can involve a straight exchange of shares, all cash or a mixture of cash and stock.

TRANSACTION EXCHANGE RATIO

When stock is used as consideration in a merger transaction the exchange ratio defines the number of shares of the buyer's stock that the seller's shareholders will receive for each share of stock they own. This exchange ratio determines the value of stock consideration received by the seller's shareholders.

TRANSACTION PRICE PROTECTION MECHANISM

Often used in larger M&A transactions, the parties will negotiate various forms of protection to protect the buyer and seller against fluctuations in either party's stock price.

TRANSACTION TERMINATION PROVISION

This provision in a mergers and acquisition agreement allows either party to terminate a transaction due to the failure to meet certain closing conditions, including the failure to receive shareholder or regulatory approvals, breaches of representations and warranties, and/or material adverse changes.

TRANSACTION VALUE

The negotiated value of the target bank which is determined by extensive financial modeling. Key metrics examined during the negotiation process include pricing in relation to trailing and forward earnings, and also the premium the buyer is paying above the seller's tangible book value.

TROJAN

A Trojan horse, or Trojan, is generally a non-self-replicating type of malware program containing malicious code that, when executed, carries out actions that have not been authorized by the user, typically causing loss or theft of data, and possible system harm.

TROUBLED RELIEF ASSET PROGRAM (TARP)

A program created by the United States government to purchase assets and equity from financial institutions to strengthen the financial sector was signed into law by President George W. Bush on October 3, 2008. It was a component of the government's measures in 2008 to address the subprime mortgage crisis.

**TRUST PREFERRED
SECURITIES**

Preferred stock issued by a bank or bank holding company through a business trust. Trust preferred issues qualify as debt instruments for tax purposes and also meet the bank regulatory definition for Tier 1 capital.

**TRUTH-IN-LENDING ACT OF
1968 (REG Z)**

A federal law designed to protect users of consumer credit by requiring uniform disclosures about loan terms and costs. Is sometimes referred to as Regulation Z after a Federal Reserve Board regulation that implemented the statute. Also known as TILA.

**UNFAIR OR DECEPTIVE
ACTS OR PRACTICES
(UDAP)**

The Federal Trade Commission (FTC) has authority under the FTC Act to promulgate regulations that define unfair credit practices, often referred to as in the financial services industry as Unfair or Deceptive Acts or Practices. The applicability of the FTC's Credit Practices Rule to banks, thrifts and federal-chartered credit unions was repealed in 2010 following passage of the Dodd-Frank Act. However, in August 2014, Interagency Guidance issued by the Federal Reserve, Consumer Financial Protection Bureau, Federal Deposit Insurance Corporation, National Credit Union Administration and Office of the Comptroller of the Currency stated that repeal of the FTC's Credit Practices Rule should not be construed as a sign that previously prohibited acts or practices were now permissible, and could still be in violation of certain existing federal statutes.

**UNITED STATES PRIME
RATE**

A short-term interest rate commonly used by financial institutions in the U.S. to determine pricing for short and medium-term loans. The rate is tied to the Federal Funds Target Rate, which is set by the Federal Open Market Committee.

USA PATRIOT ACT OF 2001

Passed in response to the September 11 terrorist attacks, this law strengthened anti-money laundering laws and expanded the authority of the U.S. Treasury. These expanded powers include the development of regulations to encourage communication between financial institutions to stem laundering activity, and the ability for the Treasury to stop a merger between financial institutions that exhibit inadequate compliance with anti-money-laundering (AML) laws. It also enhanced expectations regarding the due diligence and monitoring of customer accounts.

VOLCKER RULE

Section 619 of the Dodd-Frank Act -- known informally as the Volcker Rule and so-named after its principal proponent, former Federal Reserve Chairman Paul Volcker -- restricts the proprietary trading activities of commercial banks. The restrictions are scheduled to go into effect in April 2014.

VOLUNTARY DEFERRAL PROGRAM

A voluntary retirement plan in which an employee may elect to place a portion of their annual compensation into an account, which is invested and distributed following retirement. The employee does not have to pay tax on this income until retirement.

WALK-AWAY PROVISION

This termination provision allows the seller to terminate the transaction if the buyer's stock price falls precipitously between signing and closing of the transaction.

WHISTLEBLOWER PROVISION

Section 922 of the Dodd-Frank Act of 2012 established a system of rewards and protections for whistleblowers who voluntarily provide original information about violations of the U.S. securities laws. Under the law, employers are prohibited from retaliating against employees who provide the Securities and Exchange Commission with information about possible securities law violations.

WHOLESALE FUNDING

An alternate source of funds that can include federal funds, foreign deposits, brokered deposits and borrowings in the public debt market.

YIELD CURVE

The yield curve measures the difference between short-term and long-term interest rates.