PANDEMIC INFLUENZA PREPAREDNESS IN THE FINANCIAL SERVICES SECTOR

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BEFORE THE

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OVERSIGHT AND INVESTIGATIONS

OF THE

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PANDEMIC INFLUENZA PREPAREDNESS IN THE FINANCIAL SERVICES SECTOR

Thursday, June 29, 2006

U.S. House of Representatives,
Subcommittee on Oversight
and Investigations,
Committee on Financial Services,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:05 a.m., in room 2128, Rayburn House Office Building, Hon. Sue W. Kelly [chairwoman of the subcommittee] presiding.

Present: Representatives Kelly, Price, Gutierrez, Cleaver, and Scott.

Chairwoman Kelly. This meeting of the Subcommittee on Oversight and Investigations will come to order.

Good morning, all of you. I am very pleased to welcome our guests to this hearing of the subcommittee.

This morning, we will discuss the state of preparedness in the financial services sector for an influenza pandemic. We are all aware of growing awareness and concern over bird flu and its potential development into a global pandemic.

The term "bird flu" is used for a type of influenza common among wild birds and easily transmitted to domestic fowl, and as such, is a major concern to the poultry industry.

In its present genetic form, it can be transmitted from birds or other host animals to humans, and can cause very serious illness and death. It is a most critical health concern, however, with its potential problem to mutate into a form that could readily pass from human to human.

Should this mutation occur and should the disease then spread widely throughout the globe, we would face a true pandemic, something we have not dealt with in this country since 1918.

Presently, the H5N1 strain of the avian flu has not become a pandemic. It has, however, cropped up in humans in various locations, primarily in Asia.

Since the World Health Organization started tracking it closely nearly 4 years ago, 228 human cases have been identified, and 130 of those individuals have died.

Even though the H5N1 strain is not widespread, its very existence and potential puts the world on notice that the danger for a real pandemic exists here and now.

The attacks of 9/11 and Hurricane Katrina have shown the government and the private sector a need to plan for catastrophic events before they strike.

I am very pleased to note that our domestic financial services sector took up the preparedness planning challenge early on, and working with the Federal Government, have made major advances in preparation and planning.

I am also very pleased by the spirit of cooperation between the public and private sector, as well as the leadership shown by the Department of the Treasury on this vital issue.

The past clearly is a prologue, and our witnesses today represent financial services businesses, a sector of our economy which has had the vision to champion the need for preparedness.

I applaud you in this sector and the whole sector for this leadership.

To start our discussion of preparedness and planning, we will begin with Scott Parsons, the Treasury's Deputy Assistant Secretary for Critical Infrastructure Protection and Compliance Policy. That's a real mouthful.

Mr. Parsons will be followed by a four-person panel representing key components of the financial sector.

First, we will hear from Ed Yingling, head of the American Bankers Association. Then, we have Edwin Collins, president and CEO of the Lockheed Georgia Employees Federal Credit Union. Next is Dr. Robert Gleeson, medical director of the Northwestern Mutual Life Insurance Company, and finally, we have Gregory Ferris, managing director for Global Business Continuity Planning at Morgan Stanley.

I now turn to the ranking minority member, Mr. Gutierrez from Illinois, for his opening remarks.

Mr. GUTIERREZ. Good morning, and thank you, Chairwoman Kelly, for holding this hearing on pandemic influenza preparedness in the financial services sector.

I think we have two very good panels of witnesses today to give us a good broad perspective on the topic.

I would like to point out for the record that because of yesterday's official merger of the Bond Market Association and the Securities Industry Association, today the committee will hear, for the first time ever, testimony given on behalf of the newly formed Securities Industry and Financial Markets Association.

Let me be the first to welcome SIFMA to the House Financial Services Committee.

We all know that a pandemic in the United States from the bird flu, or any other strain of influenza, is a possibility, not a certainty, but it could happen here, with devastating results, and we want to be prepared.

No one person or institution has all the answers. That is why it is so important for us to get together in forums like this one and have an open non-partisan dialogue.

The estimates of possible effects of pandemic on the United States vary widely. Some studies estimate around 90,000 deaths will occur, while others bring the toll as high as 2 million. These numbers are staggering.

The estimated economic impact on the United States ranges from $71 million on the low end, to as high as $675 million.

Of course, priority one in a pandemic would be to reduce the cost in terms of human life. A stable economy would play a vital role in helping citizens cope with the distress and uncertainty.

Even more than that, the American economy is a symbol of our vitality and stability not only to our own citizens, but to the world. A strong financial services system is essential to achieving economic stability and a quick recovery.

I am proud to say that an organization from the City of Chicago, Chicago First, has been at the forefront of ensuring that our financial services sector is prepared for a pandemic. Chicago First is a coalition of financial institutions, partnered with State, local, and Federal Governments, to focus on the resiliency of the Chicago area business community. Chicago First was acknowledged by Congress as a model in the 2004 legislation implementing the recommendations of the 9/11 Commission.

In that legislation, we urged the Treasury Department to work to form similar organizations around the country. As a result, similar organizations have been formed in Minneapolis. California, and Florida.

Due to a scheduling conflict, Chicago First will be unable to participate today. The organization would like to submit written testimony. I think they have something of value to bring to this debate.

Therefore, Madam Chairwoman, I ask unanimous consent that Chicago First be allowed to submit written testimony for the record.

Chairwoman KELLY. Thank you.

Mr. GUTIERREZ. No. I ask unanimous consent that Chicago First be allowed to submit written testimony for the record.

Chairwoman KELLY. With unanimous consent, so moved.

Mr. GUTIERREZ. I am looking forward to hearing from our witnesses today. I am especially interested in hearing from Deputy Assistant Secretary Parsons about the Treasury Department's plan to coordinate and communicate with the financial services industry during a pandemic.

Equally important is how the government and industry will communicate with the public. For example, what instructions will the Treasury Department pass along to financial institutions to help them maintain adequate cash reserves, and what steps can be taken to keep the public adequately informed so we avoid a run on cash.

I believe we have learned some important lessons from the color coded terrorist threat system, and we should apply these lessons in our preparedness.

I am also interested in hearing from Deputy Assistant Secretary Parsons on how we plan to address the issue faced by our citizens who do not have bank accounts, yet still need access to basic financial services like the ability to cash a weekly paycheck. How can we be sure that the money services businesses will have access to adequate cash during a pandemic? If not, how will working Americans without bank accounts be able to obtain cash?

I yield back the balance of my time, Madam Chairwoman.

Chairwoman KELLY. Thank you, Mr. Gutierrez. Mr. Price?

Mr. PRICE. Thank you, Madam Chairwoman, very much. I appreciate you and Chairman Oxley and your staffs working hard to bring this pressing issue before the committee.

As was mentioned, since 2003, there have been 228 reported cases and 130 deaths resulting from avian flu and a mortality rate of greater than 50 percent.

Federal and World Health officials suggest that in the event of a human avian influenza pandemic, businesses should assume that 40 percent of their employees will be sick or absent at any one time for a period of at least 2 months. This could result in the loss of critical infrastructure, including in the financial services arena.

We all remember the SARS epidemic that occurred, but there is a key difference between the avian influenza and SARS, severe acute respiratory syndrome, in that a person with avian influenza may be asymptomatic but contagious and the incubation period for the avian influenza appears to extend for as long as 17 days after exposure.

In December 2005, the U.S. Departments of Homeland Security, Health and Human Services, and Commerce joined to issue an open letter to businesses.

In it, they say, "Your business should develop specific plans for the way you would protect your employees and maintain operations during a pandemic. Companies that provide critical infrastructure services such as power and telecommunications also have a special responsibility to plan for continued operation in a crisis and should plan accordingly."

Financial institutions like those represented on today's panel represent the backbone of the America economy, and we must work to protect them accordingly.

For these reasons, I think it is important that this committee exercise its oversight responsibilities to ensure that government agencies are properly planning and educating the private sector on the need to do the same.

I want to thank each of the panel members for joining us today and bringing their expertise. As Mr. Gutierrez has noted, there are others who have some great knowledge in this area, and I would also request unanimous consent that a written statement from the law firm of McGuire Woods be allowed to be submitted into the record.

Chairwoman KELLY. With unanimous consent, so moved.

Mr. PRICE. Thank you. I want to thank again the chairwoman for her work in bringing this forward, and I look forward to the testimony of the panel members.

Chairwoman KELLY. I would also ask unanimous consent that the written testimony of National Association of Securities Dealers be submitted for the record.

Mr. Scott?

Mr. SCOTT. Thank you, Madam Chairwoman. Again, I want to commend you for your sterling leadership on this committee and for what you have contributed, and it is a pleasure working with you and other members of the committee, and with the ranking member, Mr. Gutierrez.

To review efforts by the government and the financial industry to prepare for the flu pandemic as well as other natural disasters, we need only look back to the destruction caused by Katrina to see the need for disaster planning—effective, meaningful disaster planning.

An example of health emergencies can be found in the anthrax attack and scare that we had in our own office buildings right here in Washington, which were evacuated for weeks due to contamination fears.

Today's hearing deals specifically with pandemic flu, but lessons learned could also apply to terrorist induced health emergencies, or energy blackouts.

I certainly commend all of the Federal agencies who are working with the financial services industry to plan for flu pandemic emergencies.

Based on the written testimony that I have had a chance to review earlier, this has definitely been given your very serious, serious attention, and we appreciate it.

We need to continue to game out these threats and others that may cause disruptions to our financial system. Some of the failures of 9/11 were not due to awareness of the threat of terrorism but rather due to a failure in the planning to take terrorism seriously, and boy, have we paid the price for that.

I would also like to say a special word of recognition at this time if I may, Madam Chairwoman. We have one of my distinguished constituents here from Lockheed Georgia, and while I am on that subject, let me give great congratulations for our recent procurement of 20 F–22 fighter pilot planes, and all the great work that Lockheed Georgia is doing to keep, and make, this Nation safe and secure with our major and significant air superiority, and it all comes from my district, and that is Mr. Ed Collins, president and CEO of Lockheed Georgia Employees Federal Credit Union, and our credit union is celebrating its 55th year of service.

Might I add, Madam Chairwoman, that my very first job was at Lockheed Georgia. I am very proud of that.

He represents over 86,000 credit union members, many of whom live in my new district. Mr. Collins has been involved in credit union business for 42 years, including as an examiner with the National Credit Union Administration, and I am glad to have him.

There are three questions that I think are very important for us to examine as we go forward.

One, what system is in place for bank customers who do not have Internet banking access, or if Internet service is interrupted during a health emergency?

Two, what lessons have we learned from Katrina on interruptions of our banking services?

And three, since Atlanta, Georgia is the home of the Centers for Disease Control, it is important for us to discuss here today whether they have been fully involved in flu pandemic planning and discussion.

That is just three of the areas we want to cover, among others.

Thank you, Madam Chairwoman. It has been a joy working with you on this committee, and I look forward to the testimony. Thank you, ma'am.

Chairwoman KELLY. Thank you, Mr. Scott. Mr. Cleaver, do you have an opening statement?

Mr. CLEAVER. Thank you, Madam Chairwoman. Good morning to you and the panelists. I read a couple of editorials yesterday that did not exactly cause me great joy. One talked about the approval waiting at Congress, and the other talked about the decline of Congress because we did not deal with waiting issues.

This is one of the kinds of issues that I came to Congress to help solve. To the panelists who are here, this is one of the issues that I think the public intends to have us deal with.

I, like many Americans after 9/11 in 2001, saw some devastation of our financial sector. Then we saw it again in the aftermath of Hurricanes Katrina and Rita.

I am fully convinced, both theologically and politically, that we cannot halt natural disasters, but I do think that we can be prepared to respond in the aftermath.

As a Member of Congress, I believe that it is incumbent upon this body to fully prepare for all of the challenges that our Nation may face.

I look forward to hearing your testimony and to becoming involved biologically as we struggle with one of the major issues that could face our Nation.

Thank you, Madam Chairwoman.

Chairwoman KELLY. Thank you, Mr. Cleaver.

Let me just say without objection that all members' opening statements are going to be made part of the record.

You will be recognized for a 5-minute summary of your testimony. Mr. Parsons, I do not know if you have testified before, but the little black box on there has lights. It will light up green, you have 5 minutes. Yellow is a caution, just like it is with a stop light, and the red means exactly what it says.

We try to keep it in some kind of a framework because many people are trying to move in here.

With that being said, let me simply introduce you. Mr. D. Scott Parsons, Deputy Assistant Secretary for Critical Infrastructure Protection and Compliance Policy at the U.S. Department of the Treasury.

Mr. Parsons, we look forward to your testimony today. Please proceed.

STATEMENT OF D. SCOTT PARSONS, DEPUTY ASSISTANT SECRETARY FOR CRITICAL INFRASTRUCTURE PROTECTION AND COMPLIANCE POLICY, U.S. DEPARTMENT OF THE TREASURY

Mr. PARSONS. Thank you, Chairwoman Kelly, Ranking Member Gutierrez, and members of the subcommittee.

I appreciate the opportunity to speak to you about the Treasury Department's contribution to pandemic planning within the financial services sector.

Although the Treasury's efforts are just a small part of the enormous Federal effort, we have, indeed, been very active.

I am pleased to report that the financial services sector has undertaken significant steps toward ensuring its resilience to withstand both manmade and natural disasters.

President Bush has led the overall development and implementation of an effective program to defend our country's critical infrastructure.

I note that we have experienced a number of events in recent years that have tested our resilience, the attacks of September 11, 2001, the power outage of August 2003, and the elevation of the threat level for the financial sector in August 2004, all tested the preparedness and resolve of the sector. Most recently, Hurricane Katrina caused unprecedented devastation in multiple States.

Yet, the American financial system survived each of these events, and through hard work and investment, became stronger and better able to contend with such disruptions.

We have developed a two pillared structure within both the public and private sectors to support the Treasury's efforts to safeguard the financial services sector.

The first pillar is the Financial and Banking Information Infrastructure Committee, which is chaired by the Treasury's Assistant Secretary for Financial Institutions, and is comprised of the Federal and State financial regulators.

The second pillar is the Financial Services Sector Coordinating Council, comprised of the leading financial services institutions and trade organizations.

I would add that we also rely on the Financial Services Information Sharing and Analysis Center or FS–ISAC, to communicate with the sector during a crisis.

I want to take a brief moment to commend my colleagues in FBIIC and some of the private sector members that you will be hearing from on the second panel. We have been working very closely together and truly, their leadership on this subject has been both inspiring and extremely helpful.

We know that pandemic influenza is a very serious threat. This past May, the President released the National Strategy for Pandemic Influenza, which is a comprehensive plan that outlines how we, as a Nation, can prepare for, detect, and respond to a potential pandemic.

The plan directs the departments and agencies of the Federal Government to first protect their employees, to ensure continuity of operations, and to support the overall Federal response to a pandemic, and also asks departments to communicate pandemic preparedness and response guidance to their stakeholders, including the public and private sectors, and State and local governments.

Today, I am here to discuss the efforts of the Treasury to prepare the stakeholders in the financial services sector for a pandemic.

We have been very active in this area. We based our activity on principles. Our principles guide our leadership, and they include that our planning effort will be based on medical science, which is provided by experts outside of the Treasury.

Our planning efforts will emphasize the protection of the lives and safety of our fellow Americans. It will emphasize the importance of business continuity within financial firms, and it will recognize the interdependencies needed to sustain operations during an outbreak of a pandemic.

We have been working very closely with our FBIIC and FSSCC colleagues. Among other things, we have created a FBIIC working group to focus on pandemic influenza. We have been inviting top medical experts to address joint meetings between the FBIIC and the FSSCC. We have also been working to encourage the FS–ISAC effort, and they, in turn, have formed a working group on infectious disease.

We have been conducting a joint FBIIC/FSSCC outreach campaign that will reach over 21 cities by year end, and most recently, we have been holding exercises with Federal, State, and local officials and the financial sector to prepare for a pandemic.

There are a number of preparedness actions that should be taken. Among those for consideration are efforts to mitigate and contain the spread of a pandemic within a business, to cope with a likely increase in employee absenteeism, and to ensure that the internal information technology necessary to support a plan is in place and has been tested.

Finally, to address independencies, which includes reliance on telecommunications, transportation, and energy.

We are also looking closely at economic impacts, the estimates of which vary greatly. I can assure you that our economy is very strong and highly resilient, and it is very difficult to predict exactly what the economic impact of a pandemic would be.

Again, I thank you for allowing me the opportunity to testify before you today, and I look forward to your questions.

[The prepared statement of Mr. Parsons can be found on page 58 of the appendix.]

Chairwoman KELLY. Thank you, Secretary Parsons.

In reading your testimony, I am going to start with a couple of questions here. It seems to me that Treasury is appropriately responding in a proactive way. I appreciate the fact that in your testimony, it appears that you are thinking about all sectors of the economy, not just those that have standard financial structures. You are looking at money transfers and check cashing and things like that as well to make sure people who have no banking facilities are still able to have access to cash, and you are also looking at cash. I really appreciate the depth of what you are doing.

In your testimony, it seems that you have been working very carefully with all of the financial service regulatory people of the private sector, but this hearing is the first time that we have actually had any interaction with you on this topic.

There is nothing in your testimony that mentions anything about keeping Congress informed about what you are doing.

I want to know what plans you have to keep this committee and other interested Members of Congress fully involved in the process and aware of what's going on. I think it would benefit your efforts somewhat to be able to do that.

Mr. PARSONS. Certainly, Chairwoman Kelly, we are open to your suggestions as to how best to keep this subcommittee, as well as the Financial Services Committee, as a whole, informed. I would just say that we are pleased to discuss our efforts with you and any of the other committee members at any time you wish.

Chairwoman KELLY. I am glad to have that on record. I would hope that there would be a way that you could almost on a regular basis report back to the Financial Services Committee and its members, its interested members, so that we can stay abreast of what is likely to be out there.

The next question I have is that I would like to know to what extent the OTFI, the Office of Terrorism and Financial Intelligence, has been involved in developing the regulatory response that you have to the possible financing of terrorist efforts that might benefit from this disease.

Have you been working with them, and to what extent?

Mr. PARSONS. Our efforts to protect the financial critical infrastructure, the financial sector, and to prepare it for a pandemic, have been conducted primarily from the Office of Domestic Finance, and specifically from the Office of Critical Infrastructure Protection and Compliance Policy. That effort is focused with our other financial regulators.

Certainly, we are working within our FBIIC structure, but we have not to date, although TFI internally and Treasury is fully aware of our efforts to protect for a pandemic, we have not engaged them at this point in a dialogue about regulatory relief.

Chairwoman KELLY. It seems to me that might be a good dialogue to have with them for a number of reasons. It would not be impossible for a terrorist to strike if there is a pandemic. It might be worth taking a look and talking with them.

As a follow-up to that, as I was reading the Morgan Stanley testimony, I was interested in the fact that they had essentially a shadow organization set up that can step in as needed. FS–ISAC and OTFI are both analysis driven. They are both located here in Washington, D.C.

What is being done to enhance the redundancy in these offices so that analysis can continue even during an outbreak?

Mr. PARSONS. Chairwoman Kelly, what I can tell you is that the Department, as directed by the national plan to prepare for a pandemic, is working to ensure as one of our first priorities that we can continually sustain our operations.

Certainly, OTFI is part of the Department of the Treasury, and we have had an extensive effort underway to make sure that not only Domestic Finance and OTFI, but all capabilities of the Department can continue to function should we experience a pandemic.

Chairwoman KELLY. Although it could lead to have an infrastructure in place that is rapid and will not bog down with a larger extent of communications, it would also mean—I am talking about telecommunications. It also would necessitate very secure networks, if you are talking about FSISAC and OTFI communications, as well as some of the other communications within Treasury.

Have you addressed that?

Mr. PARSONS. As you know, there has been extensive effort across the Federal Government to prepare for contingency, for continuity of operations. What I can tell you is we have an extensive, well-thought-out—actually just 2 weeks ago, we tested our ability to operate from our continuity sites.

Some of the details of the sites, as you might naturally understand, are really sort of close hold, and I am reluctant to get into those in a public hearing.

We have thought through and tested extensively our ability to operate from remote locations during crises.

Chairwoman KELLY. Perhaps you and I could have a further private discussion about this.

Mr. PARSONS. Sure.

Chairwoman KELLY. Thank you. We turn now to Mr. Gutierrez.

Mr. GUTIERREZ. Thank you very much. Mr. Parsons, during a pandemic, we can anticipate that liquidity problems would be faced by nearly all financial institutions. Many of my constituents do not have bank accounts and rely on money services businesses to cash their paychecks and make other financial transactions.

I imagine that money services businesses will be among the first in the financial industry to face liquidity issues. Many of the customers who rely on MSB's are literally living paycheck-to-paycheck.

What steps will Treasury be taking or recommending to ensure that working families, from working class neighborhoods, will be able to get their paychecks cashed during a pandemic?

Mr. PARSONS. Mr. Gutierrez, that is an excellent question. One of the things that we have learned through past experience is that in the immediate aftermath of a crisis, in many ways, the local economy turns to a cash economy.

I would just comment that the Federal Reserve has a very well-developed and tested emergency cash system to supply cash to those regions, those areas of the country that need it.

I would also state that system has been tested most recently in Hurricanes Katrina and Rita. They have a well developed system.

We feel it is a priority to ensure that everyone has adequate supplies of cash, that everyone has the supply that they need, and as such, are committed to making sure that cash continues to flow during a crisis, be it a manmade crisis or in this case, a pandemic.

Mr. GUTIERREZ. Mr. Parsons, in your opinion, what measures should be taken to avoid runs on cash in the initial stages of a pandemic?

Once a run on cash begins, what steps do you suggest to stem the flow and halt the panic?

Mr. PARSONS. I think one of the things that we focus on at the Department of the Treasury is confidence, confidence in the banking system. One of the best ways to ensure confidence is to make sure that financial institutions remain open, that services are available, that for example, cash is available, and to that end, we believe confidence is a vital part of any recovery effort to a crisis.

Our intention is that we will try to pre-identify all needs, plan for those needs, and make sure that we are instilling confidence that the financial system is up, running, resilient, and will continue to function during crises as it has in so many other crises that we have faced.

Mr. GUTIERREZ. Mr. Parsons, both you and I agree that one of the first things that will be tested is liquidity issues. I certainly hope that you have them in place. We know there is going to be a run on cash in this country and it is going to be very, very comforting that people are going to be able to go to their financial institutions in a run.

Thank you, Mr. Parsons.

Chairwoman KELLY. Thank you, Mr. Gutierrez. Mr. Price?

Mr. PRICE. Thank you, Madam Chairwoman. I want to thank you, Mr. Parsons, for your testimony.

I would make just a few comments. The examples that you used of 9/11 and the power outage of 2003, the elevation of the threat level in 2004, and Hurricanes Katrina and Rita, were very significant events, each and every one of them.

I would respectfully suggest that the consequences of a true pandemic would make these emergencies pale in comparison.

I am hopeful that the kind of planning that is going into the work that you are doing, and others are doing, recognizes and appreciates, and I know they do, appreciates the consequence of the worst case scenario that we are discussing.

I am comforted by the fact that you all are going to rely on science. That is very comforting for a quasi-scientist, as a physician.

You had stated that you rely on the Financial Services Information Sharing and Analysis Center to communicate with the financial services sector during a crisis.

I am interested in what triggers the crisis. What kind of information or what kind of event triggers a crisis?

Mr. PARSONS. Mr. Price, it could be a number of things. We have used the FS–ISAC on a number of occasions in the past, for the London bombings, for example—any event that we believe rises to significant events and is potentially a threat to financial services.

I would just add that communications is a vital part of our strategy, both to share information about a crisis, to share information about a pandemic, and it is also a vital part of our strategy to instill confidence in the system.

If we can communicate with each other, I think we have a much—we have found that we can respond collectively and much more quickly and in a much more coordinated fashion that in turn instills confidence with our business partners, with our customers, etc.

To answer your question, the trigger as it relates to pandemic, we believe that trigger is going to be best determined by the health professionals. We would simply look for some indication from the medical experts as to what they believe to be efficient human-to-human transmission of the virus, efficient and sustainable human-to-human transmission of the virus.

We would look first to them, and once that determination is made by those who are expert in that field, then we would absolutely utilize and activate our communications systems.

I might add that it is not only the FS–ISAC, but the regulators have a well developed system to communicate with their regulated entities. FSSCC, the organizations that comprise FSSCC also have well developed communication protocols and each of those organizations has communication mechanisms.

We have, in fact, built in a certain level of redundancy in our communications, but all of these things would be activated during a crisis.

Mr. PRICE. When you say you look to the medical folks to determine that, to whom do you refer? Is it CDC?

Mr. PARSONS. If you look at the national strategy for a pandemic, they talk specifically about a collection of health officials, to include the WHO, input from the—

Mr. PRICE. How do you get that information? If they say that in fact we have stepped over the line and the event is indeed occurring, how do you get that information? What is the structure that is in place to inform you?

Mr. PARSONS. We are notified. We are obviously in close contact with the Homeland Security Council, which is leading this effort. We have an ongoing dialogue. In fact, we participate in a number of working groups.

We would expect notification to come through that organization.

Mr. PRICE. I want to touch briefly on the issue of confidence that you discussed. I think it is remarkably important. Confidence in our system occurs because people sense it to be fair. The facilities are open. They have access to the services.

One of the things that gives them that confidence is the regulatory activities, and if we have a significant decrease in workforce reduction, then it may be, as you touched upon, that regulatory activities need to be altered.

What kind of plans are in place should you have, for example, a 40 percent workforce reduction for a significant period of time?

Mr. PARSONS. Mr. Price, as you noted in your opening statement, a pandemic certainly is an unique event. It is going to affect the entire country.

As I have mentioned, we have been working closely with our colleagues on the Information Infrastructure Committee, which is comprised of the Federal and State banking regulators.

What I would say to you is that the regulators have a strong track record, most recently in Hurricane Katrina, of working with their regulated entities to identify problems and to provide regulatory relief.

I know that they are considering actions related to what they would have to do. I would just tell you that is something that is under consideration among the financial regulators.

I would be reluctant to speak for them because as you might imagine, there are a number of different issues that come up, issues with credit unions versus banks versus securities firms.

I can tell you that within the FBIIC and within our working group, that is a matter that has been raised as an issue that we would want to plan for.

Mr. PRICE. My time has expired. Thank you.

Chairwoman KELLY. Thank you, Mr. Price. Mr. Scott?

Mr. SCOTT. Thank you, Madam Chairwoman.

Let me ask you if we have a real good handle on what would be the most fierce scenario that could happen as a result of this panic in preparing and planning, to kind of look at a model of what really could happen.

The most significant area would be within the area of human resources. If a flu epidemic happens, the most important thing is to keep people apart from one another, which means there would be a greater emphasis on telecommuting, and dealing over the Internet.

The first question is are we capable of doing that? Do we have that in place? What are we doing to prepare ourselves for telecommuting, and particularly, are we satisfied that the very sensitive issues and sensitive areas of financial data and breach possibilities—what are we planning to do with that in terms of our preparedness to make sure the data is secure?

Are we where we need to be in terms of telecommuting? What are the plans in place to increase that infrastructure?

Mr. PARSONS. Mr. Scott, I do believe that we are capable of executing a telecommuting plan, but it does require pre-planning. It does require us to think about these issues in advance.

First of all, it is important—I am encouraged because I have talked to a number of financial services firms. It is something that we talk about in our dialogue with them, with the regulators, with the private sector, but the need to identify what type of information technology infrastructure you will need to support a telecommuting plan, a working from home plan, and that is vital because without the proper infrastructure, you can imagine you could quickly overwhelm a firm's ability to handle the type of Internet traffic, for example, that may come in.

Along with that planning, and one of the things that we talk about, is the need to extend the internal controls that financial services firms already have in place at their headquarters to those who would be working from home.

One additional thing that is very important. It is important to look at what functions could be performed at home and then to think about how you would want those functions to be performed.

In other words, can you stagger them? Do you need all functions performed at one time? Can you have one group work from say 8:00 to 10:00 a.m., and the next group from 10:00 to 12:00 p.m.?.

It is important that these things be considered up front. I am encouraged that a number of firms have already begun consideration of this, and I know that a number of firms have begun implementing the information technology needed to support that effort.

Mr. SCOTT. Is there a system in place for those banking customers who do not have access to the Internet, who are not wired in? That is a very serious case in this country. What about them?

Mr. PARSONS. Our objective is to—what we talk to financial institutions about is the importance of sustaining operations. First of all, is the importance of protecting employees, but also the importance of sustaining operations.

To the extent that they can do that, we would hope that, to some degree, it would be business as usual for their customers.

Some of whom, as you know, can access services through the Internet, but many of whom still utilize ATM networks, branch offices, etc.

Mr. SCOTT. Telephone.

Mr. PARSONS. Telephone.

Mr. SCOTT. I represent Georgia, of course, and that is the home of the CDC, probably at the epicenter of any flu pandemic. They certainly need to be involved in the planning early on.

Can you give us an assessment of what you have done to involve the CDC in the planning and preparedness for a pandemic?

Mr. PARSONS. Certainly. We recognize the CDC as one of the leading authorities certainly on infectious disease and pandemic. We have worked very closely with them, Mr. Scott.

In fact, most recently, just this past week, we had an exercise in Miami, Florida, with our regional coalition, Florida First. As part of the team on that exercise, we had a distinguished medical expert from the CDC who flew down from Atlanta and was a participant in that exercise.

I might add that the exercise was a tremendous success. Again, it goes back to our efforts to prepare and instill confidence.

We had a dialogue with the CDC. They certainly are working closely with the Homeland Security Council, and with the White House. We intend to keep them engaged.

Mr. SCOTT. That is full cooperation; there is no problem there.

Madam Chairwoman, if I can ask one last question. With the recent stories of the sensitive data being stolen from laptop computers such as the Veterans' Administration and Equifax, again, from Georgia, have you discussed the need for extra data protections in the case of a flu pandemic, and I am specifically thinking about an expanded telecommuting program, other scenarios in which sensitive data may need to be removed from the workplace.

Mr. PARSONS. We have indeed thought about the issue of data security, and again, our firm thought and in talking with financial firms is the need to extend the proper controls, the controls that are in at the office place to those who would be working from home, and consideration of their access to data, sensitive data, and make sure that the walls that currently exist at the office are indeed in place for that program.

Mr. SCOTT. We had two bills that are moving through on data protection, one through our committee here, and one through Energy. I am wondering if you weighed in on that.

Do you feel satisfied that this issue is being handled properly through the legislation that is moving through the committees, and if so, do you have a preference for which bill?

Mr. PARSONS. Mr. Scott, we certainly take identity theft and data security at the Department of the Treasury very seriously. However, I am not prepared to comment on that at this hearing this morning.

Mr. SCOTT. All right. Thank you.

Chairwoman KELLY. Thank you, Mr. Scott.

If the committee will indulge me, I would like to do just one follow up on that line of questioning, in terms of capacity of the system.

We had a transit strike in New York City. We have had experience with terrorist acts in New York City. Many companies were set up to do the at-home kind of workforce system. The problem was that the capacity of the infrastructure for at-home telecommuting was not robust enough, that it really sags in time. That is the nature, I believe, of your concern, Mr. Scott. That was a question that I had asked previously.

I hope, Mr. Parsons, that the Treasury Department is looking at what is needed, because if that system sags so much, it could stop, it could jam.

It is a serious concern when you have a pandemic. Have you looked at that?

Mr. PARSONS. Absolutely. It certainly is a major concern of ours. I think the top two that always come to mind are absenteeism, and if we do have a work-at-home plan, are we going to have the bandwidth, the capability to work?

We have thought about this problem in a couple of ways. One is we tried to think about what we can really truly impact within the financial services sector, and that is the information technology structure within the firm, first and foremost. Let's make sure that is robust enough to handle the traffic.

One of the things that we have learned is that in some cases, the routers and servers are not adequate, even though we have people who work at home, they are not adequate to handle a large number of people, and the problem can be at the enterprise level. We encourage a strong, hard look at that.

The second part of the problem is the telecommunications infrastructure. We have raised this as a concern. We know that the national communications system within the Department of Homeland Security is taking a look at the overall bandwidth issues that are out there. Certainly, many of the issues revolve around the last mile access to homes.

We are hopeful that they will—I know they are looking at the problem right now, and we are hopeful we will have some guidance on that soon.

Chairwoman KELLY. That is good news. We have been called for a vote, but we have time for Mr. Cleaver's questions, and let's proceed.

Mr. CLEAVER. Thank you, Madam Chairwoman. This is a very elementary question, but I learned from Katrina that we sometimes deal with the large issues and forget where the keys are that drive the car.

In the event of a problem, a pandemic, who flips the switch that informs the financial services sector that we are in pandemic mode? Who says it? Whose responsibility is it?

Mr. PARSONS. To the question of whether we are facing a pandemic, human-to-human transmission of the H5N1 virus or another virus, again, we would look first to the medical community.

Mr. CLEAVER. Only because we are rushing, I apologize for interrupting you. I am respectfully not looking for a community. I am looking for the person. Who flips the switch? Who says it? If something happens today, does George do it? Does Willie down in the basement? Does CDC in Atlanta? Who does it?

Mr. PARSONS. Once a determination has been made that we face human-to-human transmission, it is sustainable and efficient, then we, the Office of Critical Infrastructure Protection, would activate our communications mechanisms to include the FBIIC, FSSCC, and FS–ISAC. We would activate all those mechanisms and notify the financial sector that this determination has been made and begin to take appropriate action.

Mr. CLEAVER. You would also be responsible for giving the "all clear" signal as well?

Mr. PARSONS. We would use those same mechanisms once the determination has been made by the medical community to further relay that information.

Mr. CLEAVER. I would really like to get into this more, but I think I better go vote.

Chairwoman KELLY. Mr. Cleaver, we have only had the one call. We can wait until the second bell if you want to continue your line of questioning. It is a good one.

Mr. CLEAVER. I do. There is a system in place right now today, as we are here in this hearing room, that if we find out tonight, we can confirm the avian virus is spreading across this country, you can pick up the phone and put things in place in a matter of seconds?

Mr. PARSONS. That is correct. We have multiple communications mechanisms and we have exercised those in the past. They have been tested. We can reach a vast majority of the financial sector within seconds or minutes, as you note.

Again, they have been tested by previous events, and we also occasionally run drills on that very activity.

Mr. CLEAVER. That was my second question, whether or not you have had drills to make sure that it is, in fact, operable.

Mr. PARSONS. Yes, we do. I would note that the FS–ISAC runs a monthly drill of their emergency notification system, which uses a dial, it is called a SIN system, but it goes through a number of actions.

It starts with your cell phone, your home phone, your office phone, and your e-mail. It goes through all of those things to reach its members. That is done on a monthly basis.

Mr. CLEAVER. Does the financial services sector—have they been given any guidance on what steps they should take, once they are notified?

Mr. PARSONS. We have been working again to develop preparedness plans for a pandemic. Most people have agreed that when they see human to human, again, efficient sustainable human-to-human transmission, that has generally been thought of as a sign that they need to begin to enact their preparedness measures.

The answer is yes, once the communications go down, people will swing into action with their continuity plans. Many of the plans have different levels. They have some flexibility built in. Generally, they will begin the process of preparing for a pandemic.

Chairwoman KELLY. Thank you very much, Mr. Cleaver. The Chair and some members may have additional questions for you, Mr. Parsons. Without objection, this hearing will be held open for an additional 30 days for people to submit written questions and to place the responses in the record.

Thank you very much for the generous amount of time you have given us this morning. With that, we will excuse this panel, and we will adjourn.

We have three votes. I would imagine it will probably be about 20 to 25 minutes before we will empanel the second panel of witnesses.

We thank you. You are excused. Thank you very much, Mr. Parsons.

Mr. PARSONS. Thank you, Chairwoman Kelly.

[Recess]

Chairwoman KELLY. Thank you for your patience. Other members are still in the process of voting and will be down here shortly.

I now want to introduce our second panel. We have Mr. Edward L. Yingling, president and chief executive officer of the American Bankers Association. We have Mr. Edwin J. Collins, president and chief executive officer of Lockheed Georgia Employees Federal Credit Union.

Mr. Collins, I know that Mr. Price wanted to introduce you. He is coming back at some point. I am going to interrupt the proceedings so that he can talk about his relationship with you.

Then we have Dr. Robert Gleeson, vice president and medical director of Northwestern Mutual Life Insurance Company, and Mr. Gregory Ferris, managing director, Global Business Continuity Planning at Morgan Stanley.

Without objection, your written statements will be made a part of the record. You each will be recognized for a 5 minute summary.

Mr. Price, I am just in the process of introducing the second panelists, so if you would like to introduce Mr. Edwin Collins, we would be happy to hear from you.

Mr. PRICE. I apologize for being late. I welcome all members of the second panel. I just want to highlight Mr. Collins.

When you have a successful entity in your community, there are a lot of moms and dads. Lockheed is one of those. As Representative Scott described earlier his association with Lockheed, Lockheed also is in my district, and many of the individuals who work there, the employees who work there, live in my district, and many of them are participants in the Lockheed Employees Credit Union.

As I am sure you mentioned, Mr. Collins joined the Credit Union in 1984 as vice president and chief financial officer, and was promoted to president and CEO in 1995. He is the current chairman of Cooperative Services, Inc., a statewide credit union service that processes 90 percent of all share draft clearings for credit unions for all of the States.

The financial services community, as we have heard, is maybe significantly impacted by this, and clearly, the pandemic—I am interested in hearing about the private sector responses and preparation. I look forward to the testimony of Mr. Collins and the others on this panel.

Thank you, Madam Chairwoman.

Chairwoman KELLY. I thank you very much. We will now begin with you, Mr. Yingling.

STATEMENT OF EDWARD L. YINGLING, PRESIDENT AND CHIEF EXECUTIVE OFFICER, AMERICAN BANKERS ASSOCIATION

Mr. YINGLING. Thank you, Madam Chairwoman, and members of the subcommittee. My name is Edward Yingling, and I am president and CEO of the American Bankers Association.

Thank you for the opportunity to present the views of the ABA on the pandemic preparedness efforts of the financial services industry.

Over time, bankers have successfully coped with a wide variety of disasters, and will continue to deal with disasters effectively in the future.

All banks have disaster recovery plans and well-tested procedures and are revising them based on changing events and new risks.

The ability of banks to withstand events such as 9/11 and Hurricane Katrina is a testament to their preparedness. Banks are now undertaking the steps that will be necessary if a pandemic should occur.

No one knows whether the avian flu virus will mutate into a strain communicable from human to human. What we do know is the value of planning ahead.

Through our recently completed Emergency Preparedness Toolbox, the ABA has provided each of our members with resources to help them plan for a pandemic. The toolbox is based in part on the collaborative efforts underway across the entire financial services industry.

The Treasury Department and State and Federal bank regulatory agencies are active partners in this effort.

While much of a bank's existing disaster and recovery plan will be relevant during a pandemic, these plans will require some important adjustments to address this new threat.

These adjustments to emergency plans include:

First, developing business continuity plans that take into account the different phases of a potential pandemic.

Second, recognizing that high levels of absenteeism may occur and establishing back up personnel coverage.

Third, planning for the fact that a pandemic will not be limited to a specific geographic area, unlike other disasters, which means that assistance may be slow or unavailable from other parts of the country.

Fourth, anticipating disruptions in other key sectors of the economy that banks rely on for support, which may cause shortages of services and supply.

Fifth, developing pandemic communication programs for employees, including the discussion of employee health and safety issues.

And sixth, evaluating the need to upgrade and expand telecommunications systems to maintain critical operations.

Central to the efforts underway to assist banks in their preparedness is the work of the Financial Services Sector Coordinating Council. This council consists of all the major national financial trade associations, financial utilities, and other important financial organizations across the banking, insurance, and securities industries, and includes the ABA.

The Council's purpose is to coordinate critical emergency activities in the financial services industry, and toward that end, we work closely with the Treasury and the other financial regulatory agencies.

The ABA is also a member of the Council's Infectious Disease Forum. Many of the Council's efforts to assist financial institutions in their pandemic preparations will be accomplished in this Forum.

The goals of the Forum include: developing a home for best practices and other planning information for all of our members; developing preparedness guidelines that we can all give to our employees; and collaborating with the public sector to develop a common set of planning assumptions.

In closing, I would like to stress that we in the banking industry have always recognized the critical role we play in our communities and in the national economy during emergencies.

At the ABA, we are very proud of the way banks responded to 9/11 and to last year's hurricanes. Disaster preparedness is a well known notion to banks, and when new threats, such as a potential pandemic present themselves, our experience gives us confidence that the banks will be prepared, not just for themselves, but for their communities.

Thank you.

[The prepared statement of Mr. Yingling can be found on page 66 of the appendix.]

Chairwoman KELLY. Mr. Yingling, I thank you for your testimony. I have been taking a look at the ABA Toolbox, which I have here in my hand. With your permission, if you do not mind, I would like to ask unanimous consent to include the Toolbox in the hearing record. Would that be all right?

Mr. YINGLING. That would be fine.

Chairwoman KELLY. Fine. Then I ask unanimous consent to include the Toolbox in the record, and so moved.

We thank you very much.

Moving next to you, Mr. Collins. Welcome.

STATEMENT OF EDWIN J. COLLINS, PRESIDENT AND CHIEF EXECUTIVE OFFICER, LOCKHEED GEORGIA EMPLOYEES FEDERAL CREDIT UNION, ON BEHALF OF THE CREDIT UNION NATIONAL ASSOCIATION AND THE NATIONAL ASSOCIATION OF FEDERAL CREDIT UNIONS

Mr. COLLINS. Thank you, Madam Chairwoman. I have already been introduced, so I will skip all that. I am here today on behalf of the Credit Union National Association and the National Association of Federal Credit Unions.

There are about 8,800 State and Federal chartered credit unions serving approximately 89 million members in the United States.

My credit union has over 86,000 members and assets that total $552 million.

I want to commend the leadership of the subcommittee for addressing readiness and preparation within the financial services section.

I also want to recognize the Administration's effort to develop a national strategy. I would like to specifically commend the Department of the Treasury under the direction of Secretary John Snow, for its efforts to coordinate disaster planning, survival and recovery for the financial sector.

Both CUNA and NAFCU have been working on this important issue to help educate American credit unions and their members.

Yesterday, as part of the Federal agencies' continual efforts on this matter, representatives of Navy Federal Credit Union and the American Association of Credit Union Leagues participated in a lengthy meeting with Treasury, the Department of Health and Human Services, and others to address specific concerns relating to preparedness.

I also want to recognize the work of the Financial Services Sector Coordinating Council, of which CUNA and NAFCU are members.

Guidance from the Treasury Department and elsewhere has indicated that financial institutions should develop at least a first draft by this summer, and credit unions are seeking to modify their continuity plans to address unique needs that would arise.

Refining our plan is a priority at my credit union, and something that my human resources staff have worked hard to achieve.

Consistent with credit unions' tradition of member service, our focus will be to ensure members have timely access to their accounts.

The National Credit Union Administration Board has provided important guidance to credit unions on this topic, consistent with the other regulators.

Additionally, NCUA's efforts include review of credit unions' preparedness as part of their examination process. Guidance for examiners on disaster recovery issues, focusing on records preservation, encouraging credit unions to increase member access to their accounts via the Internet or other electronic means, and encouraging increased use of the Treasury Department's direct deposit program.

Continuity planning is a core element of preparedness and financial institutions, including credit unions, have a solid record in this area as a result of Y2K.

Thankfully, Y2K did not result in a broad-based disaster. However, another recent event did—Hurricane Katrina.

In the first few weeks and months after Katrina hit, all aspects of the credit union system, including credit unions from States outside the hurricane area and credit union leagues, NCUA, the national trade organizations, and State regulators worked together to provide assistance and coordinate relief efforts.

In fact, for many months, a displaced credit union from New Orleans operated inside our credit union. We also took special steps to make cash available to relocate credit union members in our community.

A report earlier this month from the Federal Financial Institution Examination Council indicates that generally, business continuity plans for financial institutions in the Katrina area worked well.

However, there were major difficulties experienced by institutions in the area. Further, as had been widely acknowledged, government entities with primary responsibility for disaster response should have been prepared better, should have responded quicker, and should have coordinated efforts more thoroughly, and should have communicated with those affected, as well as the rest of the Nation, in a more timely and comprehensive manner.

Previous national tragedies such as the attacks of September 11, 2001, and the bombing of the Federal building in Oklahoma City in 1995, also reinforced, among other things, the need for all financial institutions to maintain records properly.

All of these disasters, apart from the range of human issues, brought into focus a number of concerns for financial institutions, including how to respond to members' needs for cash, and how to meet compliance responsibilities.

They also gave us lessons learned that can be used to help prepare for the pandemic. These include that financial institutions must develop appropriate, well-tailored plans.

Financial regulators should continue providing guidance and resources. Financial regulators should be proactive in communicating information to their institutions.

The financial sector should continue its coordination efforts and develop best practices for all sizes of institutions.

Financial institutions must keep themselves informed of all developments regarding the pandemic. Financial regulators should provide limited but reasonable leeway to impaired institutions regarding compliance responsibilities.

Financial regulators should work with Congress to facilitate the use of electronic access to accounts, and all levels of government must coordinate and communicate on a timely basis among all levels of government.

While financial institutions are preparing, numerous issues remain, which I will be glad to address during your questions.

Thank you for the opportunity to provide our views, and again, I commend the subcommittee for this review.

[The prepared statement of Mr. Collins can be found on page 35 of the appendix.]

Chairwoman KELLY. Thank you, Mr. Collins.

Dr. Gleeson?

STATEMENT OF ROBERT GLEESON, VICE PRESIDENT AND MEDICAL DIRECTOR, NORTHWESTERN MUTUAL LIFE INSURANCE COMPANY, ON BEHALF OF THE AMERICAN COUNCIL OF LIFE INSURERS

Dr. GLEESON. Good morning. Thank you for this opportunity to appear. My name is Robert Gleeson, and I am a physician and medical director of Northwestern Mutual Life Insurance Company.

I am testifying today on behalf of both the American Council of Life Insurers, and my company, Northwestern Mutual.

The American Council of Life Insurance is the primary trade association for life insurers in the United States, representing 377 member companies, and Northwestern Mutual provides financial protection to over 3 million Americans in the form of life insurance, and we are the largest underwriter of individually underwritten life insurance in America.

We appreciate this opportunity to be here today, and to comment on pandemic influenza preparedness in the life insurance industry.

I want to thank and congratulate this committee for this kind of hearing where information can be freely exchanged about this important topic.

Life insurers are experts in managing and assessing risks. We know that some day, another disaster will occur, be it a repeat of the 1906 earthquake, or the 1918 pandemic, and we, in the normal course of events, plan for such catastrophes.

Our ability to understand and manage these risks is designed to be able to pay our claims. It is an essential function of our business process. We are subject to rigorous State solvency laws that require us to have adequate reserves and surplus to meet unexpectedly large claims, such as a disaster or pandemic might cause.

At the end of 2005, U.S. life insurers had policy reserves of $3.3 trillion and a surplus of $256 billion.

As a founding member of the Financial Services Sector Coordinating Council, FSSCC, the ACLI also works with other financial services industries, such as the securities and banking industries, to ensure that our efforts are coordinated and not at cross purposes.

This is a responsibility that we take seriously, and we work to continue our efforts with this committee to prevent and minimize any adverse financial consequences from a pandemic.

We are also acutely aware of the need to maintain excellent customer service during a pandemic. Most business resumption planning assumes the loss of physical structures, such as buildings. However, planning for a pandemic assumes that the buildings work, but the employees don't. Further, that these disruptions might occur 2 or 3 times spread out over 18 months.

The Northwestern Mutual pandemic response plan that we began work on it over 15 months ago, identifies critical business functions, minimum staffing needs, secure work-from-home plans, maintenance of flu-free buildings, and lots of communication.

I hope that this testimony has shed light on the ability of the life insurance industry to anticipate these low frequency/high impact events, such as a pandemic, to manage our finances so that we can meet our obligations, and in the event of a pandemic, to work with expert government agencies, such as FSSCC, to care for our employees and provide continuous service to our customers.

I look forward to answering your questions. Thank you.

[The prepared statement of Dr. Gleeson can be found on page 53 of the appendix.]

Chairwoman KELLY. Thank you, Dr. Gleeson.

Mr. Ferris?

STATEMENT OF GREGORY J. FERRIS, MANAGING DIRECTOR, GLOBAL BUSINESS CONTINUITY PLANNING, MORGAN STANLEY, ON BEHALF OF THE BOND MARKET ASSOCIATION AND THE SECURITIES INDUSTRY ASSOCIATION

Mr. FERRIS. Chairwoman Kelly, Ranking Member Gutierrez, and members of the subcommittee, my name is Greg Ferris, and I am a managing director of Global Business Continuity Planning at Morgan Stanley. I am also the chairman of the Securities Industry Association's Business Continuity Planning Committee.

Today, I am testifying on behalf of the Bond Market Association and Securities Industry Association.

I am grateful for the opportunity to speak to you on steps taken by our member firms to prepare for a pandemic. The members of these two organizations welcome and thank you for your leadership on this important issue.

Securities firms and banks take business continuity planning or BCP very seriously, and are committed to keeping the financial markets open during emergencies.

Firms have committed significant time and financial resources to this effort. Even before the September 11, 2001, terrorist attacks on New York and Washington, the industry was developing business continuity strategies in anticipation of business interrupting events, both natural and manmade.

The September 11th attacks highlighted serious weaknesses in the areas of firm communications. The industry began identifying and addressing these problems immediately. We learned a great deal from that experience, and we worked closely with Federal regulators and the self-regulatory organizations to craft effective rules and practices for business continuity planning. The results of this work have been positive and visible.

Lessons learned on September 11th helped form the foundation on which the industry-wide command center structure has been built. Recovery efforts following the 2003 New York City blackout and other events, such as the 2005 New York City transit strike, and the national immigration rallies, were most effective because this structure was in place.

As valuable as our preparation and experience over the past 5 years has been, it is not all completely transferrable to the prevention and recovery needs that would arise in the event of a pandemic.

A pandemic would affect people, the intellectual capital that makes the financial markets possible, not buildings, and not critical physical infrastructure.

The Association's global firms were the first to recognize the unique issues surrounding pandemic preparation during the SARS epidemic in 2003. Since then, all of our firms have become keenly aware of the need to anticipate the constraints on business operations a pandemic would present.

Members are carefully working through such questions as how do we minimize the effect of a pandemic on staff? How do critical business functions operate if, as is projected in advanced pandemic scenarios, employee absenteeism rates hit 60 percent?

As an industry, we have taken several steps to prepare for a pandemic, which are discussed in my written submission to this subcommittee.

The one initiative I will discuss in detail here is the pandemic preparedness exercise that took place this week in New York City. On Monday, the SIA and BMA gathered 14 of the largest securities firms to take part in a session that was observed by all of the financial regulators.

Participants were presented with an escalating scenario in which a pandemic broke out in Asia and gradually spread through Europe to the Americas.

In working through different firms' responses to the changing circumstances, the goal was to gain insight into the effect of a pandemic on operations, and identify issues that the industry needs to resolve.

Questions of regulatory treatment during a pandemic and the capacity of the telecommunications industry, given the likelihood so many employees would need to work from home, stood out.

I am pleased to say that as a direct result of this exercise, SIA and BMA members will be meeting with the SEC soon to discuss regulatory issues further.

We also plan to meet with the telecommunications industry officials to assess issues that may arise with that critical element of industry infrastructure.

Although no one can say with any certainty when and where the next pandemic will occur or how serious it will be, medical experts around the globe believe we are closer to that point than any other time since the last pandemic in 1968.

An infectious disease outbreak will challenge our industry and the global economy like no other event. It will know no borders.

Many of the solutions that we typically bring to bear to resolve problems will not be effective.

We must continue to work independently with our industry and the medical community and governments around the globe to develop creative solutions to this unique challenge.

Thank you again, Chairwoman Kelly, for your interest in this important issue and the opportunity to testify today. I am happy to answer any questions.

[The prepared statement of Mr. Ferris can be found on page 47 of the appendix.]

Chairwoman KELLY. Thank you, Mr. Ferris. I have to just start by saying that I came into this hearing, when we put this hearing together, without a great deal of knowledge about what preparations have been taken.

It is impressive that you have been thinking about it, that you are working on it, and that it is an active part of what you are doing for your customers. Thank you for doing that. I am interested in the fact that the Bond Market Association and the SIA had a joint exercise. What was the consensus of the joint exercise participants with regard to telecommunications capacity in the present day, under the present circumstances?

Mr. FERRIS. Chairwoman, I believe that the standout issue that we need to look at as an industry is the overall capacity and the ability for many, many people to work remotely concurrently.

During the 2005 New York City transit strike, which pales in comparison to a full blown pandemic, we did start to see problems with both capacity and when people could get connected, efficiency of the connection, if you will.

We think this is a matter that we need to look at and look at hard. We need to (a) try to understand what the limits are, and then (b) try to understand what we can do about those limits.

Chairwoman KELLY. Is there a way that we can help you?

Mr. FERRIS. We are working through the industry associations on some ideas to test capacity within regions. We do not know exactly how best to do that yet. We are heading down that path. If we get to a point where we think that we can use your support to help get some of that testing done, we will certainly be willing to accept that help.

Chairwoman KELLY. I am interested also in the response of everyone on the panel regarding how State regulators have responded with regard to the avian flu and what you are doing, if that has impacted what you are doing.

The Federal regulators are responding and you are responding. Are the State regulators involved here and to what extent?

Let's start with you, Mr. Ferris.

Mr. FERRIS. The industry associations have had little interaction with the States; the coordination has been happening at the Federal level, and more at the local level, in our experience. Frankly, it is decisions made during an event at the local level that really impact us.

We have been working most closely with groups like the New York City Office of Emergency Management and other OEM's in other municipalities. We think that is really where we need to be very well coordinated.

Chairwoman KELLY. Dr. Gleeson?

Dr. GLEESON. We are a State-regulated industry. The National Association of Insurance Commissioners is looking at this issue and currently has a survey out to companies asking many of the same questions you are asking.

I think at their next quarterly meeting they will be paying much more attention to this.

Chairwoman KELLY. That is helpful. Mr. Collins?

Mr. COLLINS. In the State of Georgia, the State Banking Department works very closely with the National Credit Union Administration, and these guidelines and things that are taking place in Federal credit unions are also taking place on a State level.

The State examiners have gone into State credit unions, looking at some of the same things as the Federal examiners.

Chairwoman KELLY. Thank you. Mr. Yingling?

Mr. YINGLING. My answer would be similar. You referred to our Toolbox earlier, and actually, this was a joint effort with our State associations. One of the real lessons from particularly the hurricanes that were referenced earlier, is the importance of State and local groups, that there are things you can do from the Federal level, but it is really important to have coordination on the ground.

We are well coordinated with our State associations and directly through them and then through the group at the Federal level that includes the Conference of State Bank Supervisors. We have good coordination with the State regulators.

Chairwoman KELLY. That is really very encouraging. My time is up. I am going to turn now to Mr. Scott.

Mr. SCOTT. Thank you. I would like to deal with our credit unions for a bit. Again, I welcome our distinguished guest from Lockheed.

Mr. Collins, how many members do you have in the Lockheed Credit Union?

Mr. COLLINS. Congressman, we have 86,000 members.

Mr. SCOTT. If you were to have this opportunity to be able to assure your credit union members that they could have access to their funds, even if your workforce is stricken, how would you assure them?

Mr. COLLINS. Right now, of the 86,000 members, I believe about 56,000 of them have an ATM card, which is also a debit card, and that same number also participate in home banking.

What we are doing right now is we are pushing very hard to get most of our members to accept this card in case we cannot open our offices.

By the way, it came up earlier, our home banking is accessible through the telephone also. You do not have to have a computer at home. You can actually transfer money. You can make an advance on a line of credit and put it in your checking account. You can go to an ATM and use it.

Our credit union is a member of all the national ATM networks. Our members can use an ATM anywhere. We would most definitely do away with foreign transaction ATM charges. We give them like five a month free. In a period like that, I would give them unlimited free access to foreign transactions.

There is one other thing that makes credit unions unique. We have a national shared branch network. For example, if Atlanta was the bad city right now, but Los Angeles wasn't, and a lot of our members migrated to Los Angeles, there are probably 50 to 100 offices in the Los Angeles area, where one of my members could walk into any other credit union and do a transaction.

Mr. SCOTT. Good. You are about the 25th largest. You are one of the largest. You are about the 25th/26th largest credit union in the Nation; is that right?

Mr. COLLINS. We were.

Mr. SCOTT. What I wanted to ask you is what about the smaller ones? Will smaller credit unions that may be relying on—many of these smaller credit unions, from my relationship with credit unions, and I work very closely with them, and one of my favorite people in the whole credit union world is Cindy Conley from down in Georgia—they represent smaller.

Some of the smaller credit unions have volunteers. The volunteers perform daily operations.

Will these smaller credit unions that are not as sophisticated have all of this and who depend upon volunteers, what plan do we have for them? Is it adequate, or do we need to do more to make sure the smaller credit unions are as prepared as say your larger ones?

Mr. COLLINS. Some of the small credit unions do not have the sophisticated technology that the bigger credit unions do for home banking and all those things.

I will give you an example. During Katrina, a lot of small credit unions in New Orleans who were not part of the shared network did not have sophisticated data processing systems.

As you remember, we had a lot of New Orleans' people in Atlanta. What we did was we let it be known that any credit union member from New Orleans who came in, all they had to do was show us identification that they were a member of a credit union in the affected area of Mississippi or New Orleans. We would actually—we had no idea how much money they had in their account, but we would allow them to make up to a $500 withdrawal of their savings.

Our credit union did maybe $250,000 to $300,000 and it was done on faith. To date, I think we have only written off something like $4,000. We spent $4,000 gladly to help people in time of need.

Mr. SCOTT. Good. Let me go to you right quick, Mr. Gleeson, in terms of insurance. It could be catastrophic in terms of insurance in this epidemic. It could present a threefold threat to the insurance industry, potentially resulting in unprecedented life and health claims and losses.

For example, the Fitch Ratings estimates that life insurance claims alone from a U.S. bird flu epidemic could be as high as $18 billion, based upon 200,000 deaths.

Have you run any models on what that threshold would be, where that point of no return would be? We hate to deal with deaths, but people here are in the death business and we all must be realistic about deaths and life insurance.

How large a hit can you take?

Dr. GLEESON. The life insurance industry routinely plans for, and assumes we will have at some time in the future, a very bad event, be it a repeat of an earthquake like 1906 or another pandemic. We manage our money so that we have the ability to pay those claims. We have a surplus today of $256 billion. I think you said $18 billion. Even if we had a much larger hit than that, our system would be working perfectly, because that is exactly what that surplus is designed to do.

We do not need it every year. It is sitting there for these very bad events. An integral part of our planning and fiduciary responsibility to our customers is to have that money.

Mr. SCOTT. At what point would you say your industry would face a capital crisis?

Dr. GLEESON. I do not know—I am a physician. I am not prepared to talk about that. We have $3 trillion in reserves. That is money that policyholders have paid that we are holding for future claims. We have $256 billion in surplus. It is the surplus that is designed to pay for the catastrophe.

Mr. SCOTT. Just one other point, Madam Chairwoman. My time is getting short. It is always good to learn from experience. Do you happen to know how the Senate, going back to you, Mr. Collins, and others if you can answer this—the Senate Hart Building was shut down during an anthrax scare. That should have been some good experience.

I am wondering if any of you gleaned that, and especially related to the Senate Credit Union and how it operated when the Senate Hart Building was shut down as a result of the anthrax scare, and did we learn anything from that, Mr. Collins?

Mr. COLLINS. I think we learned that we should very diligently making sure that our hot sites work.

Mr. SCOTT. When you say, "hot sites," you mean?

Mr. COLLINS. We have our main computer system in Marietta. We also have another duplicate system sitting out on the East-West Connector. Should our building be quarantined, we can within like 4 minutes switch over to our system out on the East-West Connector, so you just keep on going.

Mr. SCOTT. Good.

Mr. YINGLING. Congressman, we are required basically to have redundant locations. Of course, one of the things that is unique about this potential problem is that, unlike if a hurricane hits here and your redundant system is elsewhere, you are all right, the flu could be in both places at the same time. That is one of the things that makes this issue more difficult.

Mr. SCOTT. Absolutely.

Mr. FERRIS. I would echo that, Congressman. Events like that have highlighted the need to think about this differently. The old way of thinking about business continuity was primary and backup or active/inactive.

This puts forward the notion of diversification at all levels, not just data center, but people center, and everything really should just be active/active. We should not be concentrating all of anything in any one place to the extent that we can.

Mr. SCOTT. Thank you. Madam Chairwoman, this has been very illuminating for us. I am sure the Nation watching can say we are in very good hands. We have some good experts here who are giving us some very valuable information, showing we are being prepared. Thank you.

Chairwoman KELLY. Thank you. Mr. Price?

Mr. PRICE. Thank you, Madam Chairwoman. I, too, want to echo the commendations to each and every one of you for the clear preparation that you all have made in your industries and for that, we can be very, very grateful.

I think it also highlights the kind of nuts and bolts' preparation that each of you are taking, your industries are taking, as compared to some of the comments from the public side that may not be as nuts and bolts' oriented.

I want to commend you.

Mr. Yingling, as well as the Chair mentioned, I am particularly impressed with the Toolbox. I enthusiastically support what you all are doing there.

I wonder if you might comment about your distribution or how you are communicating that to the banking industry and potentially others.

Mr. YINGLING. Thank you for the compliment. The Toolbox was really prepared for a broader purpose. It is designed to address all types of emergencies, and clearly, our industry has a long history of being prepared; but after 9/11, after the hurricanes, after some local tornadoes and flooding, we just thought it was time to put it all together in terms of what we have learned recently.

We started that process, and then obviously it made sense to have a special focus within that on the potential for avian flu. We did that in one of the pieces.

Our Toolbox was available on June 1st. Like all human endeavors, it helped to have a deadline, and the start of hurricane season was a good deadline, which forced us to get it out in a timely fashion.

It was available to all of our members online as of June 1st, and then hard copies were sent out and are available.

Again, it is not just us distributing it. I want to again say it is done jointly with all our State associations, so it is not only us making it available and talking to our members. There will be follow up, but you have the State associations locally able to take that directly to bankers.

Mr. PRICE. Thank you. Congratulations again.

I want to move to a very mundane question about cash. It has been touched on. If we have a pandemic of significant consequences, it is possible we will not be able to move cash or get cash to the place where people can access it, for example, ATM's, notwithstanding the banks or credit unions might not be open.

Are there plans or do you have contingencies if cash cannot be moved to a community, for example?

Mr. YINGLING. I think this is a very important issue and it also relates to questions, and I think very important questions, that came out during the first panel about the un-banked and their access to financial services.

There are two conflicting streams going here, because on the one hand, during the first panel, there were legitimate concerns expressed about liquidity. Normally, during a crisis or disaster, one of the first things that happens in the financial services area is a liquidity crunch or a cash crunch right in that locality.

Frankly, we are used to dealing with that type of thing. The FED and the banks and others have a history, and we know how to do that.

This one is more complicated, as you point out, because there will be questions of who is going to handle the cash.

I think those can be addressed frankly. Banks and our regulators need to have gloves and masks and people that are willing to do that. The FED does have systems it has used in the past for dealing with contaminated cash, cash where flood waters came through and maybe the flood waters were contaminated. That takes work. As you all have said, nuts and bolts.

I think there is another question, and that is cutting the other way; are people going to want to have cash? Are you going to want to handle cash that has been handled by however many other hundreds of people at that time? I think that is a difficult question we need to address.

A lot of the answer is plastic, as my colleagues said here. If we were 5 or 10 years from now, because we are trending very rapidly towards alternative uses to cash of plastic and electronics, and I am not sure we are quite there; I think particularly for the unbanked, we have some work to do to make sure that they have access to financial services.

Mr. PRICE. My time is getting short, but I want to touch on one other topic, and I would ask any one of you to respond, if you would.

I am interested in the regulatory flexibility. Mr. Ferris, you touched on it in your testimony. I am interested in some specificity if you or your industry has specific recommendations about what kind of regulatory flexibility would be necessary in the happenstance of a pandemic.

Mr. COLLINS. I would say indeed, from the credit union point of view, some credit unions, you are considered well capitalized under prompt corrective action if you have 7 percent or more capital.

There are many credit unions that operate at like 7.5 percent. They are just half a percent over. My credit union happens to be very conservative. We have 13 percent capital.

I can envision if this goes on for 6 months, we will probably perhaps even stop accruing interest on some loans, because people have no way of paying them. We would like, if we could afford to, to continue paying our employees even if they do not come to work.

We have $35 million that we could lose and still be well capitalized. There could be some credit unions that could slip under the 7 percent. The regulatory relief that I think the National Credit Union Administration would have to be looking at is not jumping on a credit union with both feet just because they slipped under the magical 7 percent, which by the way, they did in many cases to small credit unions down in New Orleans.

Mr. FERRIS. Congressman, two of the topics that come up in the capital markets frequently are matters of supervision, can that be done remotely? Deadlines for a certain activity, would those be extended? Would the day be in essence elongated, if you will?

The way we have structured this with the regulators is we invited them, as I have indicated to you, to observe our table top this past Monday. They listened to all of the different firms' responses and reactions to what they would be doing as this evolved from a mild event to a severe event, and they agreed to re-group with us in a few weeks' time, and they will give us their thoughts on what our plans are, and then we are going to get into the nuts and bolts of some of the things that we need to talk about with respect to regulatory easing in certain areas.

Mr. PRICE. Is that time line comfortable for you?

Mr. FERRIS. Yes. We have a very good dialogue with the regulators post-9/11.

Mr. YINGLING. Congressman, one of the recommendations that came out of our group that developed the Toolbox was that the regulators—having been around the circuit a couple of times, particularly with the hurricane, but we have tornadoes and other things—know most of the relief we are going to need, although not all of it, as has been pointed out.

Sometimes it is like we are having to re-invent the wheel, and it takes a little time. We think the one thing that could be done is all the ideas to regulate flexibility should be on the shelf, pulled out right away, looked over carefully, and then released right away so we do not have to worry about it for a week or two.

We basically know the kind of relief we need, at least in the short run.

Mr. PRICE. Thank you. Madam Chairwoman, thank you. I appreciate again your holding this hearing and raising the visibility of this issue.

Chairwoman KELLY. Thank you. Mr. Cleaver?

Mr. CLEAVER. Thank you, Madam Chairwoman.

To the panelists, you probably heard Secretary Parsons say earlier that he believed that things were in place whereby the financial sector could react if and when there is some kind of pandemic.

Do you agree that the system is in place as best as it can be to protect the financial sector and those connected to it?

Mr. YINGLING. I think I would say that the structure is in place, the organizational structure is in place, and the Treasury and others have done a very good job with our industry. All of us in our industry have done a good job of setting up the structure.

This type of emergency is different. That is talked about in a lot of the testimony, for a lot of reasons.

I think we still have work to do building off that structure, and when we get the notice that you were asking about in the first panel, we have to be prepared to really go to work doubly hard, and we ought to be preparing for that now.

I feel good about the structure. However, because of the potential nature of the pandemic, I do not think we can rest on our laurels.

I think the points that several people have made about how we have to look at it from the people's point of view, not just our point of view, is another way. We need to do that exercise. Okay, we are looking at it internally. Now, let's look at it from the point of view of the people out there in our communities.

Mr. COLLINS. I echo Mr. Yingling's thoughts about the structure. I was anxiously awaiting an answer that I did not really get to your question.

Mr. CLEAVER. I was, too.

Mr. COLLINS. Who will ultimately flip the switch? It would be nice to know in Atlanta, Georgia, when it is declared an all out pandemic. Should we be going to work? Should we be letting our employees even come into work? I want to know, will somebody say, "that's it. The schools are closed."

Mr. CLEAVER. Yes. I wanted to know where George was going to be located, George who flips the switch. If it is not George, then Georgette. I want to know if that is in place, and I am not sure I got that answer.

I want to know who is going to drive the buses from the airport down to the Dome? More importantly, who is going to tell the bus driver that it is time to drive?

My concern is, and it is the paranoia resulting from what we saw from Katrina, and I do not want to beat up on FEMA, because I would have to stand in line and the line is long, but I wonder if FEMA had been in a hearing prior to Katrina, whether they would have said—we will never know. That is why I am pushing this question.

Whether they would have said, yes, everything is fine if there is a disaster, we know exactly the first step to take.

I am questioning whether or not it is in place here. It is really worrying me in spite of the Deputy Secretary of the Treasury and those of you in the industry, that could be impacted in a way that would devastate every day people.

Mr. YINGLING. I think if I could, my understanding would be—I agree with your concern. You always want to have somebody in charge. My understanding is that the Financial and Banking Information Infrastructure Committee headed by Treasury would have that role.

Assistant Secretary Henry, and I presume the Secretary, would say okay, now is the time to implement these parts, and that would go through them to all the regulators and then through our coordinating council it would go to all the trade associations and on down.

That is my understanding of how the system would work, and how we would expect and hope it would work.

Mr. FERRIS. If I could add to that, Congressman. At the command center level, the industry command center level, we have modified our communication protocol to pull in some pandemic red flags, if you will.

We, like many other firms, independently and other associations, are looking to the World Health Organization's six phrase pandemic model, and we are presently at a three. If that goes from a three to a four, that is going to cause a whole bunch of things to happen at the command center level. If it goes from a four to a five, even more things will happen, etc.

In many respects, this command center is going to be spinning its emotion locally, perhaps even before somebody at the Federal level flips that switch. We are looking to the World Health Organization. When that moves, we move; if that helps.

Chairwoman KELLY. If the gentleman would yield.

Mr. CLEAVER. Yes.

Chairwoman KELLY. As a committee, we will send an official letter to Under Secretary Henry and inquire, if you would like.

Mr. CLEAVER. Yes.

Chairwoman KELLY. To have some kind of a definitive answer. It is clear that it is not quite clear to members who are in charge of all of this where they are going to get that command. It is a good question. We will send an official letter.

Mr. CLEAVER. Ask him, where is George? Thank you.

Chairwoman KELLY. Thank you. We appreciate the time that you have given us and the answers to the questions. Again, I want to say that it is very impressive that you have begun the work. There is still more to be done. You have handled it very effectively. I thank you very much.

Without objection, the members may have additional questions for this panel. They may submit them in writing and without objection, the hearing record is going to remain open for 30 days for members to submit written questions to these witnesses, and to place their responses in the record.

We again extend our great thanks to all of you for being here with us today. This hearing is adjourned.

[Whereupon, at 12:32 p.m., the subcommittee was adjourned.]

A P P E N D I X

June 29, 2006

Statement of Chairwoman Sue Kelly
Subcommittee on Oversight and Investigations
"Pandemic Influenza Preparedness in the Financial Services Sector"
June 29, 2006

This morning, we will discuss the state of preparedness in the financial services sector for an influenza pandemic.

We are all aware of the growing awareness and concern over "bird flu" and its potential development into a global pandemic.

The term "bird flu" is used for a type of influenza, common among wild birds and easily transmitted to domestic fowl and as such a major concern to the poultry industry. In its present genetic form, it can be transmitted from birds or other host animals to humans, and can cause very serious illness and death. Its most critical human health concern, however, is found with its potential to mutate into a form that could readily pass from human to human.

Should this mutation occur and should the disease then spread widely throughout the globe, we would face a true pandemic, something we have not dealt with since 1918.

Presently, the "H5N1" strain of avian flu has not become a pandemic. It has, however, cropped up in humans in various locations, primarily in Asia. Since the World Health Organization started tracking it closely nearly four years ago, 228 human cases have been identified, and 130 of those individuals have died.

Even though the H5N1 strain is not widespread, its very existence and potential puts the world on notice that the danger for a real pandemic exists here and now.

The attacks of 9/11 and Hurricane Katrina have shown the government and the private sector the need to plan for catastrophic events before they strike. I am very pleased to note that our domestic financial services sector took up the preparedness planning challenge early on. Working with the Federal Government, it has made major advances in preparation and planning.

I am also very pleased by the spirit of cooperation between the public and private sector as well as the leadership shown by the Department of the Treasury on this vital issue.

The past clearly is prologue, and our witnesses today represent financial services businesses – a sector of our economy which has had the vision to champion the need for preparedness. I applaud you and the sector for this leadership.

To start our discussion of preparedness and planning, we will begin with Scott Parsons, Treasury's Deputy Assistant Secretary for Critical Infrastructure Protection and Compliance Policy.

Mr. Parsons will be followed by a four-person panel representing key components of the financial sector.

First, we will hear from Edward Yingling, head of the American Bankers Association. Then, we have Edwin Collins, President and CEO of the Lockheed Georgia Employees Federal Credit Union. Next, is Dr. Robert Gleeson, Medical Director of Northwestern Mutual Life Insurance Company. Finally, we have Gregory Ferris, Managing Director for Global Business Continuity Planning at Morgan Stanley.

STATEMENT OF

EDWIN J. COLLINS, PRESIDENT AND CEO OF LOCKHEED GEORGIA EMPLOYEES FEDERAL CREDIT UNION

ON BEHALF OF

THE CREDIT UNION NATIONAL ASSOCIATION

and

THE NATIONAL ASSOCIATION OF FEDERAL CREDIT UNIONS

BEFORE THE

HOUSE FINANCIAL SERVICES COMMITTEE

SUBCOMMITTEE ON
OVERSIGHT AND INVESTIGATIONS

PANEDMIC INFLUENZA PREPAREDNESS IN
THE FINANCIAL SERVICES SECTOR

JUNE 29, 2006

AMERICA'S
CREDIT UNIONS

Where people are worth more than money.

STATEMENT OF EDWIN COLLINS ON BEHALF OF THE CREDIT UNION NATIONAL ASSOCIATION AND THE NATIONAL ASSOCIATION OF FEDERAL CREDIT UNIONS
JUNE 29, 2006

Chairman Kelly, Vice Chairman Paul, and Ranking Member Gutierrez, I am Edwin J. Collins, President and CEO of Lockheed Georgia Employees Federal Credit Union. I am here today on behalf of the Credit Union National Association and the National Association of Federal Credit Unions. My credit union is a member of both trade associations. There are about 8,800 state and federal credit unions serving approximately 89 million members.

I have been involved with credit unions for forty-two years, including as a former examiner with the National Credit Union Administration in the earliest days of my career. I am a member of CUNA's Examination and Supervision Subcommittee and the immediate past chairman of the Georgia Credit Union League. My credit union has over 86,000 members and our assets are approximately $550 million as of May 31, 2006.

While the subject of today's hearing focuses on a very unpleasant topic – the unsettling specter of an influenza pandemic -- I want to commend the leadership of the Subcommittee for holding this hearing to address readiness and preparation within the financial services sector for a potential influenza outbreak.

I also want to recognize the early and ongoing efforts of the Administration to develop a national strategy designed to protect our government and businesses, as well as the general public should such a catastrophe occur. While it is impossible to plan for every contingency or potential outcome that may occur in the wake of a national or regional disaster, in our view, the strategy details a range of issues and recommendations that, if implemented properly, should support continuity of operations within the government, the business sector and throughout our society.

I would like to specifically commend the Department of the Treasury, under the direction of Secretary John Snow, for its efforts to coordinate disaster planning, survival and recovery for the financial sector. Both CUNA and NAFCU have been working with financial regulators on this important issue, and to educate their members, America's credit unions, to help them prepare for the effects of a pandemic. Yesterday, as part of federal agencies' continual efforts on this matter, representatives of CUNA and the American Association of Credit Union Leagues (AACUL) participated in a lengthy meeting with Treasury, the Department of Health and Human Services and others to address specific concerns relating to preparedness. I also want to recognize the work of the Financial Services Sector Coordinating Council for Critical Infrastructure Protection and Homeland Security (FSSCC), of which CUNA and NAFCU are members, for its diligence in helping financial institutions identify and address the complex issues surrounding the resumption of business operations following disasters or other widespread disruptions. This organization, working with Treasury and the Department of Homeland Security, took an early lead in helping financial institutions focus on the need for specific planning, including telecommunications infrastructure protection as well as steps that could be taken to protect staff, members and customers following a widespread outbreak.

Like the federal government as well as other businesses, credit unions are seeking to modify their business continuity plans to address unique and specialized needs that would arise in the event of an influenza pandemic. Guidance from the Treasury Department and elsewhere has indicated that financial institutions should develop at least a first draft of a pandemic response plan by this summer. Refining our plan is a priority that my credit union -- in particular my human resources staff -- has worked hard to achieve. As part of our plan, we have determined what is necessary during a pandemic in terms of staff and technology to sustain our operations from offsite, ensuring our members will have access to our website, their accounts via their personal computers, and to automated teller machines. Also, consistent with credit unions' tradition of member service, our focus will be to focus on ensuring members have timely access to their accounts.

A number of resources exist on which financial institutions have been able to rely to modify and enhance their disaster recovery and continuity plans.

For example, the National Credit Union Administration (NCUA) Board, along with the other federal financial regulatory agencies, provided important guidance to credit unions in the first quarter of this year to increase awareness concerning the potential threat of widespread influenza and how financial institutions and their vendors should modify their strategic plans to prepare for particular disasters such as an influenza pandemic. Much of the guidance provided by the financial institution regulators' was drawn from the National Strategy for Pandemic Influenza developed by the Administration.

NCUA's guidance is one of a number of activities the agency has undertaken to address pandemic preparedness, both within the agency and with credit unions.
Additional efforts the agency has underway include a review of credit union preparedness as part of the agency's risk focused examination process; guidance for examiners on disaster

recovery issues; focusing on records preservation; encouraging credit unions to increase members' access to their accounts via the Internet or other electronic means and to increase the use of the Treasury Department's direct deposit program, the *Go Direct Campaign*, to help ensure member funds will be available during a pandemic.

Addressing Key Issues

One of the first steps in developing a strategic plan is the consideration of issues the plan should address. In that connection, in January of this year, the FSSCC issued a "Statement on Preparations for 'Avian Flu'" and a paper entitled, "Issues of Consideration Regarding Preparations for 'Avian Flu'". These documents address specific concerns raised by financial institutions and provide substantial assistance for the identification of potential problems that should be addressed in plans as well as in preparatory and follow-through actions. Undoubtedly, the Subcommittee has reviewed those documents, and I won't detail them here. However, recognition of the substantive issues they address bears repeating in the context of this hearing.

- Business Continuity Issues. The FSSCC identified a number of concerns in this area including the fact that a flu epidemic could last for a number of weeks; certain activities such as certain face to face meetings that could be cancelled; dividing staff into teams to operate from different location;
  the use of expanded technology; staff telecommuting from diverse locations that may raise issues of security; greater use of teleconferencing; limiting long-distance travel; whether arrangements need to be made for key personnel to avoid using mass transportation; increased security, particularly where there is absenteeism in critical positions; and testing to ensure business continuity planning is adequate by focusing on

finite areas, such as whether an institution's plans for increased use of technology are feasible.

- Communication Issues, including providing a clear message to credit union members and staff on policies during an outbreak; staff education and awareness programs; communication with regulators as needed; and communication with vendors and service providers.
- Health and Safety Issues, including hygiene; emergency care and how the institution will respond should a member or staff become ill at the institution; identification of reliable sources of information about latest developments; and others.
- Budget and Administrative Issues, including the impact on the institution's budget of greater use of technology; absenteeism; legal issues including certain liabilities, and the institution's policies on sick leave and leave without pay; and documentation of the institution's business continuity plan as it relates to a potential pandemic.

Planning for Y2K Improved Strategic Planning for the Financial Sector

Financial institutions, including credit unions, have a solid record in continuity planning as a result of Y2K. As the millennium approached and the concerns regarding computer malfunctions increased in the late 1990's, financial institutions and their regulators worked closely together to identify concerns, develop reasonable approaches and implement them in an orderly, measured fashion. Following the turn of the century, the financial services sector was widely recognized for its efforts to prepare for Year 2000.

While thankfully Y2K problems did not generally materialize, a number of useful lessons were learned from that experience including the importance of a well- developed strategic plan that addresses business continuity, communications, and other relevant issues. Other key issues included the importance of testing that would help identify concerns and reveal failures or weaknesses in critical infrastructures, as federally insured credit unions and other federally insured institutions were required to do.

Recent Disasters Indicate Potential Weaknesses That May Resurface

While financial institutions' Y2K planning was commended, thankfully Y2K did not result in a broad based disaster. However, another recent event did – Hurricane Katrina.

A pandemic would undoubtedly differ from a natural disaster such as a hurricane, yet lessons learned from how the Katrina catastrophe and its aftermath were handled are useful for preparations for a potential pandemic.

In the first few weeks and months after Katrina hit, all aspects of the credit union system, including credit unions from states outside the hurricane area and credit union leagues and the national trade organizations, worked together to provide assistance and coordinate relief efforts within the credit union system.

A report earlier this month from the Federal Financial Institutions Examination Council (FFIEC) indicates that generally, business continuity plans worked well and allowed institutions to restore operations.

However, there were major difficulties experienced by institutions in the area, including credit unions. This included destruction of offices and facilities; lack of workable phones or other communication devices; lack of power or fuel for generators; lack of transportation; inability to provide cash through ATMs; personnel whose homes were destroyed or damaged were unable to come to work to staff their institutions; and no delivery or mail service, to name some of the most notable problems.

Further, as has been widely acknowledged, governments should have prepared better, should have responded quicker, should have coordinated their efforts better, and should have communicated with those effected as well as the nation in a more timely and comprehensive manner throughout the crisis.

Previous national tragedies such as the attacks of September 11, 2001 and the bombing of the federal building in Oklahoma City in 1995 also reinforced, among other things, the need for all financial institutions to maintain an ongoing record retention program.

All of these disasters – apart from the range of human issues -- brought into focus a number of real, operational concerns for financial institutions including how to respond to members' needs for cash and how to meet compliance responsibilities, some of which may carry penalties and fines for noncompliance, despite an institution's impairment or inability to operate. They also gave us lessons learned that can be used to help prepare for a pandemic.
These include:

- Financial institutions must develop appropriate, well-tailored plans for addressing a potential pandemic;

- Financial regulators should continue providing guidance to financial institutions and provide resources to institutions to develop specific plans;
- Should a pandemic occur, financial regulators should be proactive in communicating information to the institutions they regulate;
- The financial sector should continue its coordination efforts and develop best practices for all sizes of institutions to deal with a pandemic;
- Financial institutions must keep themselves informed of all developments regarding the pandemic;
- Financial regulators should provide limited but reasonable leeway to impaired institutions regarding compliance responsibilities;
- Financial regulators should work with Congress to facilitate the use of electronic access to accounts, such as by encouraging financial institutions to offer Internet access to members and customers.
- All levels of government must coordinate and communicate on a timely basis among all levels of government; this will be essential.

Further Clarifications Would Facilitate Preparations

We also recognize that experts warn us that an influenza pandemic could be vastly different from other catastrophes and planning for it should entail different considerations. While financial institutions have begun to prepare, numerous questions remained unanswered. The following issues, if clarified by Congress and the federal government, would help America's credit unions better prepare for future pandemics.

Information. While emphasized above, it is imperative that the financial services sector have accurate and timely information about any developments concerning possible pandemics and what steps the federal, state and local governments are taking or planning to take in response. For example, schools and day care centers may be forced to close. Having the latest information about such closures would be very important to credit unions who have parents of school age children within their workforces. In addition, credit unions need information about any potential hurdles to the implementation of their pandemic-related business continuity plans. For example, will credit unions be able to rely on the telecommunications infrastructure if workers wish to work from home? If not, such information should be made readily available.

Regulatory Flexibility. Also as indicated above, with credit unions facing high levels of absenteeism during a pandemic, it may be difficult for them to comply with certain regulatory requirements. For example, staff trained to comply with legal requirements under the Bank Secrecy Act may be ill at home for weeks. Credit unions may need to postpone or cancel mandatory member meetings. Vendors that supply member statements may also face staffing/supply interruptions. Also, the United States Postal Service may be facing high absenteeism as well. Filing deadlines may need to be relaxed - as employees normally responsible may be at home sick, scared, or caring for loved ones. Regulators should work with Congress to permit a reasonable level of flexibility should a pandemic occur. If we have this flexibility plan in place beforehand, financial regulators will not have to answer repeated questions during a pandemic - when the regulators themselves may have high absenteeism.

Notification. Many credit unions wonder who will be responsible for "flipping the switch" into "pandemic mode." Also, when and how will financial regulators decide when any pre-planned regulatory flexibility will go into affect? History indicates that an early, well-organized and thorough response to a pandemic will lessen its impact. While a strong, early response seems best, it is unclear as to who will force such a unified response. The flip side is this - who will give the "all's clear" signal once a pandemic has passed.

Liquidity. It will be reasonable to assume that during a national disaster such as a pandemic, consumers will want to have access to their cash. Indeed, the impact of Hurricane Katrina demonstrated the need to have cash available to meet liquidity needs. In preparation for Y2K, the Federal Reserve's discount window stood ready to provide additional liquidity. Also, the cap placed on the Central Liquidity Facility (CLF) for credit unions was removed and the CLF was allowed to borrow up to its statutory limit—twelve times the subscribed capital stock and surplus of the facility—if the need was there. Fortunately, it was not needed for Y2K, but such ability may be important should a widespread pandemic outbreak occur.

In raising these issues, I do not mean to criticize the efforts made to date by government officials to prepare for future pandemics. As I have stated earlier, speaking on behalf of my credit union, CUNA, and NAFCU, I wish to praise the Bush administration, the FSSCC, financial regulators, and this committee for all their efforts. Rather, I raise these issues in the hope that we can address them before a pandemic reaches American soil.

Conclusion

Thank you for the opportunity to provide our views on this timely topic. Again, I commend the Subcommittee for its commitment to addressing concerns relating to a pandemic and will be pleased to respond to any questions Subcommittee members may have.

Securities Industry Association

June 29, 2006

Statement of

Gregory J. Ferris
Managing Director
Global Business Continuity Planning
Morgan Stanley

Testifying on Behalf of
The Bond Market Association
and Securities Industry Association

Chairwoman Sue W. Kelly
House Financial Services Subcommittee on Oversight and Investigations
U.S. House of Representatives

Hearing on Pandemic Influenza Preparedness in the Financial Services Sector

I am Gregory J. Ferris, Managing Director of Global Business Continuity Planning at Morgan Stanley. I am also Chairman of the Securities Industry Association Business Continuity Planning Committee. Today I am testifying on behalf of the Bond Market Association (BMA) and the Securities Industry Association (SIA). I am grateful for the opportunity to testify on steps taken by our member firms to prepare for a pandemic. The members of these two organizations welcome and thank you for your leadership on this issue.[1]

Securities firms and banks take business continuity planning (BCP) seriously and have committed significant time and financial resources to the effort. Even before the September 11, 2001 terrorist attacks on New York and Washington, the industry was

[1] The Bond Market Association represents securities firms, banks and asset managers that underwrite, invest, trade and sell debt securities in the $46 trillion global bond markets. The Securities Industry Association brings together the shared interests of more than 600 securities firms including investment banks, broker-dealers, and mutual fund companies. The U.S. securities industry manages the accounts of nearly 93 million investors directly and indirectly through corporate, thrift, and pension plans.

developing business continuity strategies in anticipation of business-interrupting events, both natural and man-made. The September 11 attacks highlighted serious weaknesses in the area of firm communications. The industry began identifying and addressing these problems immediately. We learned a great deal from that experience and worked closely with federal regulators and the self-regulatory organizations to craft effective rules and practices for business continuity planning. The results of this work have been positive and visible. Lessons learned on September 11 helped form the foundation on which the industry-wide Command Center Structure was built. Recovery efforts following the 2003 New York City blackout and other events, such as the 2005 transit strike and national immigration rallies, were more effective because this structure was in place.

The Intelligence Reform and Terrorist Prevention Act of 2004 required the federal financial regulators to produce a joint report on the efforts of the financial sector to implement recommendations of the Interagency White Paper, *Sound Practices to Strengthen the Resilience of the U.S. Financial System.*[2] As you know, that report found that firms have substantially implemented the interagency recommendations, which include the creation of geographically diverse backup sites for critical functions.

Instead of damaging physical infrastructure, a pandemic would affect financial sector workers by limiting their ability or willingness to report to work. Traditional backup strategies that rely on remote facilities might not be effective in this case since it is likely that employees in many different geographic areas would be affected simultaneously. In more advanced pandemic scenarios, many individuals may have to work from home or dispersed locations rather than centralized backup facilities. Some firms with a global reach began actively addressing the pandemic issue during the SARS outbreak in 2003. Since then, firms of all sizes, in conjunction with the Federal Financial Institutions Examination Council, have begun to focus on the question. The national and local government public health response to a pandemic could include bans on non-essential travel and severely limit public activity for periods of weeks. Faced with these challenges, securities firms of all sizes began studying the issues and designing and implementing response strategies over a year ago.

Under a pandemic scenario, new questions are raised that can generally be categorized as either prevention or recovery. Prevention refers to limiting the effects of the pandemic on the work force in advance of an outbreak. Recovery focuses on business continuity, or how to maintain business operations as efficiently as possible once an outbreak occurs. Prevention-focused questions include how much medicine to stockpile and what type of hygienic supplies, such as surgical masks, should be kept on hand. The answers to other questions are contingent on government responses. If there are travel bans, school and day care center closures, and commuting is curtailed, firms will need to understand how they can operate remotely, with the majority of employees working from home.

To ensure continuity of business, the industry has begun taking dramatic steps to ensure that individual firms, exchanges and industry utilities remain open and that the financial markets continue to operate effectively. The resulting response strategies consider the

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[2] Securities Exchange Act Release No. 47638 (April 7, 2003), 68 FR 17809 (April 11, 2003)

following questions, among others: What functions can be performed from home and what functions will require employee presence at a centralized facility? Does the firm have sufficient online, or bandwidth, capacity? Is the remotely accessed computer system sufficiently secure?

The industry must also consider the aggregate effect of so much bandwidth utilization in a relatively confined geographical region. The usefulness of remote computing is limited if the available telecommunications infrastructure cannot adequately handle a sudden spike in activity. The sluggish system response during the 2005 New York transit strike provided an indication we can expect problems in this area.

A critical determinant of how the industry will ultimately respond to a pandemic is inextricably linked to the ability of the telecommunication infrastructure to meet the surge in demand associated with a pandemic. While this is not something the financial industry can directly control or manage, we are working closely with the telecommunications sector to address mutual issues of concern.

Industry Preparation Efforts

The BMA and SIA began addressing the possibility of a pandemic almost two years ago. Efforts are focused on four fronts: 1) information sharing; 2) strategies and practices; 3) emergency coordination; and 4) regulatory coordination.

Business Continuity Planning Committees: The BCP Committees of both associations, which are comprised of representatives of securities firms and other industry organizations and Association staffs, have worked together on the pandemic issue and have established special working groups to focus specifically on preparation and response. Committees dedicate meetings to reviewing various response strategies and both Associations make relevant information available via the Internet. While targeted to association members, these websites are public.

Securities Industry Command Center Structure: The Command Center Structure refers to a communication arrangement between the SIA Command Center, the BMA Command Center, federal regulators, self-regulatory organizations, the Financial Services Sector Coordinating Council, public sector emergency management organizations and others.[3] Working together, these command centers coordinate industry response to significant events affecting the securities industry. The command centers serve as focal points for information and response decisions. Physical and virtual facilities, communication links, and contact lists are all in place. The command center procedures have been modified to more effectively coordinate response to a pandemic.

Pandemic Scenario Exercise: This week the BMA and the SIA conducted a joint exercise focused on pandemic response issues involving 14 of the largest securities firms. This forum provided an opportunity for firms to highlight the most effective response

[3] Key Command Center participants include, in addition to the Associations, the New York City and New Jersey Offices of the Emergency Management (OEM) and the Federal Reserve Bank of New York.

strategies, identify remaining challenges and discuss open issues. The firms were presented with an escalating pandemic scenario that focused attention on issues that would likely affect the operation of the financial markets. Participants were asked how they would respond to the changing situations.

The exercise was intended to provide insight into the circumstances under which firms would operate and to determine what regulatory leeway may be required to ensure the continued efficient operation of the financial markets. Preparations discussed for an early-stage pandemic included routine preventative measures such as stockpiling hygienic supplies and preparing educational programs. In more advanced stages, firms' proposed operating procedures became less certain and based on assumptions that the telecommunications and clearing infrastructure would continue to function. The Depository Trust Clearing Corporation (DTCC) assured participants the clearing process would continue to operate even in the event of an advanced-stage pandemic, with a 60 percent employee absentee rate. The ability of the telecommunications system to handle a sudden spike in Internet demand in a specific geographic region with a concentration of securities industry workers simultaneously seeking network access is less clear at this point. The SIA and the BMA plan to form a working group with telecommunications industry representatives soon to better understand this situation.

Officials from the Securities and Exchange Commission (SEC), the Department of the Treasury, the Commodity Futures Exchange Commission (CFTC), the Federal Reserve Board, the Federal Reserve Bank of New York, the National Association of Securities Dealers, the New York Stock Exchange, the Clearing Corporation and the DTCC all observed the exercise. An SEC official suggested the agency meet directly with the Associations' BCP committee members to further the discussion of pandemic preparedness. A dominant question in the exercise was how regulators would react in a crisis. While exercise participants agreed regulators have been responsive and understanding in past emergencies, there remains a concern that regulators across all markets act consistently.

Industry Directory Utility: During a pandemic, a significant percentage of securities industry personnel could be required to work from home or another remote location for an extended period of time. Communications between firms and other industry participants will be difficult for many reasons. Indeed, even identifying the staff responsible for various functions could prove to be an enormous challenge. The BMA and the SIA are exploring the possibility of creating an Industry Directory Utility (IDU) to facilitate better communication during a pandemic.

The IDU would serve as a secure, industry-wide repository of contact information both for individuals and functions at participating firms and other organizations. This would facilitate the ability of employees to communicate with each other in order to trade, sell, clear and settle securities transactions and to conduct related fundamental business activities and responsibilities in the interest of fostering the confidence of investors.

Several firms and regulatory agencies have expressed interest in the concept. The Associations are working to determine the extent of firm participation as well as funding sources. The Associations are also taking up questions of IDU structure, security and regulatory and internal control implications.

Regulation

A pandemic has the potential to severely damage the operation of the financial markets. With careful study and planning, however, the SIA and the BMA are confident the markets can continue to function smoothly. It is likely, however, that some regulatory flexibility will be required. Indeed, Congress and the financial regulators have contemplated this question. Under the Terrorism Prevention Act, the SEC is granted emergency powers—in consultation with the Federal Reserve Board, the Treasury Department and the CFTC—to alter or suspend any securities regulation, including those of self-regulatory organizations.

Precisely which areas of regulation are most likely to require flexibility is not completely known at this point. The SIA and the BMA are encouraged by the pro-active focus of regulators. In May, the New York Stock Exchange released a memo describing the types of regulatory latitude the exchange is likely to consider, including delays in real-time supervision where technology monitoring is feasible and additional time for reconciliations. This represents the sort of flexibility the industry will require to assure the financial markets can continue to operate without interruption in the event of a pandemic.

Regulators have challenged the industry in an appropriate way to put in place effective BCP plans. We welcome a continued constructive dialogue and specific guidance.

Conclusion

The terrorist attacks of September 11, the SARS outbreak in 2003, and current pandemic concerns all highlight the obligation the members of the SIA and the BMA have to ensure, to the best of their ability, that financial markets remain open and efficient during periods of emergencies. The associations and their members have committed significant resources to meet this obligation. Collectively, and with the assistance of our regulators, we have made great progress. Some substantial concerns remain, however, which we are committed to addressing.

Although no one can say with any certainty when and where the next pandemic will occur, or how serious it will be, medical experts around the globe believe we are closer to that point than any other time since the last pandemic in 1968. An infectious disease outbreak will challenge our industry and the global economy like no other event. It will know no borders, and many of the solutions that we typically bring to bear to resolve problems will not be effective. We must continue to work independently, with our industry and the medical community and governments around the globe, to develop creative solutions to this unique challenge.

Thank you again Chairwoman Kelly for your interest in this important issue and the opportunity to testify today.

A·C·L·I AMERICAN COUNCIL OF LIFE INSURERS FINANCIAL SECURITY FOR LIFE

Statement
of the
American Council of Life Insurers

On

"Pandemic Influenza Preparedness in the Financial Services Sector"

before the

Subcommittee on Oversight and Investigations
of the
House Financial Services Committee
of the
United States Congress

June 29, 2006

Good morning. I am Robert Gleeson, a physician and medical director of Northwestern Mutual Life Insurance Company. I am testifying today on behalf of both the American Council of Life Insurers (ACLI) and the Northwestern Mutual Life Insurance Company (Northwestern Mutual). We appreciate the opportunity to comment on pandemic influenza preparedness in the life insurance industry.

Northwestern Mutual provides financial services and protection to over three million Americans and is the largest seller of individually underwritten life insurance in America. I have been involved with the impact of new diseases on the life insurance industry for over 25 years, starting with AIDS in the 1980's, later dealing with SARS, and now evaluating the threat of pandemic influenza.

ACLI is the primary trade association for life insurers in the United States. It represents three hundred seventy-seven (377) member companies that offer life insurance, annuity, pension, reinsurance, and other retirement and financial security products. ACLI member companies account for 91 percent of total assets, 90 percent of the life insurance premiums, and 95 percent of annuity considerations in the United States.

Life insurance provides a foundation of financial security for families against future uncertainties. Life insurers are keenly aware of the vital role their products play in their customers' financial security. Even though a human outbreak of avian flu remains a possibility and not a fact, life insurers are following developments closely to assure they can continue to serve policyholders and their beneficiaries in the event an outbreak occurs. As they have in the past, life insurers plan to respond promptly in fulfilling their promises.

Life insurers have extensive experience and expertise in assessing and managing risk. Indeed, life insurers' ability to anticipate and respond to risk is integral to the life insurance business. Life insurers are also subject to rigorous state solvency laws that require them to have reserves and capital and surplus adequate to meet unexpectedly large volumes of claims. The life insurance industry, with over $4 trillion in assets, is well-positioned to absorb the impact of an influenza pandemic without jeopardizing its commitments to policyholders and their beneficiaries. In addition, life insurers, such as Northwestern Mutual, are in various stages of efforts to undertake operational assessments, institute business continuity plans, and coordinate with federal, state, and local governments to ensure customer needs will continue to be met if there is a pandemic influenza.

It should be emphasized that an influenza pandemic is neither an imminent threat, nor a novel one. Quite certainly, the world will have another pandemic because they occur every thirty or forty years. Some, like the 1918 pandemic, are severe and others, like the 1968 pandemic, are only moderate. It is impossible to predict the severity of the next pandemic.

An influenza pandemic is typically identified as a low-frequency/high-severity event. Low-frequency/high-severity events, such as tsunamis and earthquakes, occur irregularly but are large in magnitude as measured by claims costs. Again, life insurers know such events will occur and plan for them even if the timing and severity of such events cannot be predicted.

The now circulating Avian Influenza virus, known as Bird Flu or H5N1, is a new influenza virus that has not previously infected humans; still, it has the potential to cause significant disease. So far, this virus has infected millions of birds across half the globe, but has rarely been transmitted from bird to human. In only two instances has there been transmittal from human to human. Scientists are concerned that this virus could mutate so that it could pass more easily from birds to humans and from humans to humans. If that happens, the virus might cause the next pandemic. In truth, however, the next pandemic might be some different influenza virus; or vaccines, drug treatments and other preventative measures could put a significant damper on the spread of disease.

Because life insurance companies sell insurance to large numbers of people, they can predict with considerable accuracy how many of those insured people will die the next year. Insurers also know with near certainty that someday another disaster will occur. Whether it will be a major earthquake or a repeat of the 1918 pandemic, again, is unknown. However, the ability to understand and plan for this lack of certainty is a core function of life insurers. Financial planning for high impact, low frequency disasters, such as a possible bird flu pandemic, is an integral part of our business processes.

To ensure that life insurers honor their contractual obligations to policyholders and their beneficiaries, state law requires each life insurer to maintain reserves (i.e. invested assets) that are sufficient to cover all expected future claims. The required level of reserves is calculated on a very conservative actuarial basis, taking into account expected mortality experience, future premium payments, and investment earnings. In addition, life insurers are also required to have additional capital and surplus, over and above reserves, that are available to cover even catastrophic levels of claims. It is highly unusual for an insurer's reserves to be inadequate and for the insurer to have to dip into capital and surplus to cover catastrophic claims of its policyholders and beneficiaries. At the end of 2005, the policy reserves of U.S. life insurers totaled $ 3.3 trillion and capital and surplus totaled $256 billion.

Although the life insurance industry has more than adequate funds to handle catastrophes, policyholders and beneficiaries cannot be served if life insurers' critical business activities cannot be sustained and life insurers' employees are not provided the resources necessary to maintain their own health and employment in the event a catastrophe such as a pandemic occurs. An influenza pandemic will pose new and very different challenges to all businesses. Like all industries, the life insurance industry took extraordinary steps prior to Y2K to ensure continuity of their businesses functions. Insurers took additional steps after September 11 to further protect their operations in the aftermath of a major catastrophe.

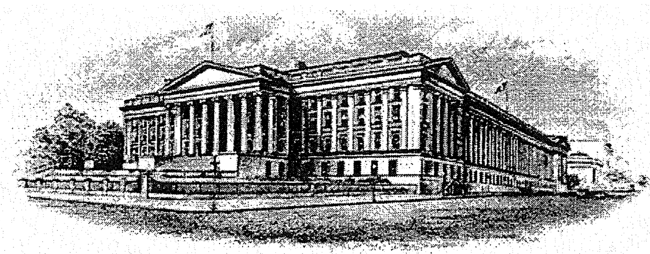
Life insurance companies are now in various stages of development of business plans to respond to a pandemic influenza. Of course, the plans will vary from company to company. Pertinent to life insurers' contingency planning for pandemics, a recent report of the Government Accountability Office explored the life insurance industry's ability to recover critical operations after a terrorist attack or natural disaster. The report concluded that life insurers have taken sufficient steps to ensure business continuity and to minimize effects on their service to policyholders. The report also stated that since life insurers operate independently of one another, difficulties at one insurer are not likely to impact the rest of the industry.

One important lesson learned from prior terrorist attacks and natural disasters has been the importance of rapid reaction by federal, state, and local governments and coordination by businesses with these agencies. Life insurers have found coordination with state insurance departments and local health departments to be invaluable in refining claims and settlement procedures to their most essential elements and in targeting geographical areas in need of assistance. In the wake of Hurricanes Katrina and Rita, insurance departments in the Gulf States and in many other affected states mitigated certain regulatory requirements to facilitate rapid processing and payment of claims. These efforts were also replicated by federal agencies such as the Securities and Exchange Commission and the Department of Labor with respect to time-sensitive aspects of pension management. ACLI and its member companies work closely with these agencies, as well as with the Departments of the Treasury and Homeland Security, to develop contingency plans before disasters occur.

As a founding member of the Financial Services Sector Coordinating Council (FSSCC), ACLI also works with other financial services industries, such as the securities and banking industries, to ensure that our efforts are coordinated and do not work at cross-purposes. ACLI applauds the FSSCC's progress in the development of contingency plans relating to telecommunications, internet, and employee issues and has found FSSCC materials regarding contingency planning and disaster recovery, particularly those relating to avian flu, to be very helpful. Recently, ACLI participated in a "readiness" conference call of the FSSCC designed to test the federal government's ability to communicate emergency information to the private sector. ACLI and many of its member companies also have access to the Government Emergency Telecommunications Service.

Most business resumption planning assumes the loss of physical structures, such as buildings. However, planning for a possible pandemic must take into account implications for employees and business operations of a pandemic that might occur in waves over several months and result in significant absenteeism. By way of example, the Northwestern Mutual response plan focuses on identification of critical business processes and minimum staffing need for their fulfillment, planning for communication with employees, field representatives and policyholders, and preparation of buildings and employees to keep them as "flu-free" as possible.

Life insurers, working with government agencies and other financial services industries, have typically found innovative solutions to service their policyholders and their beneficiaries when faced with disasters of unexpected magnitude. While these events may not be predicted with any certainty, we have learned that it is important to plan ahead together. This is a responsibility that the life insurance industry takes seriously. We look forward to continuing our efforts and working with this Subcommittee to prevent and minimize any adverse consequences from an influenza pandemic and again thank you for the opportunity to appear before you today.



U.S. TREASURY DEPARTMENT
OFFICE OF PUBLIC AFFAIRS

EMBARGOED FOR 10:00 A.M., June 29, 2006
CONTACT Jennifer Zuccarelli, (202) 622-8657

Testimony of D. Scott Parsons, Deputy Assistant Secretary for Critical Infrastructure Protection and Compliance Policy U.S. Department of the Treasury

Before the U.S. House of Representatives Committee on Financial Services Subcommittee on Oversight and Investigations

Thank you Chairwoman Kelly, Ranking Member Gutierrez, and Members of the Subcommittee. I appreciate the opportunity to speak to you about the Treasury Department's contribution to pandemic planning within the financial services sector. Though the Treasury's efforts are just a small part of the enormous Federal effort, we have been very active. President Bush stated, "Together we will confront this emerging threat and together, as Americans, we will be prepared to protect our families, our communities, this great Nation, and our world."

I would like to begin my remarks by telling you about the sector's general state of preparedness and then tell you about the Treasury's leadership on pandemic planning within the financial services sector.

Financial Services Sector Preparedness

I am pleased to report that the financial services sector has undertaken significant steps toward ensuring its resilience to withstand both man-made and natural disasters. President Bush has led the overall development and implementation of an effective program to defend our country's critical infrastructure. The financial services sector plays an indispensable role in the Nation's economic system, providing individuals, businesses, and the government with credit and liquidity, short and long-term investments, risk-transfer products, various payment systems, and depository services. It enables people to save for their education and retirement, to purchase their homes, and to invest in their dreams. The financial services system is essential to America's overall economic well being.

I note that we have experienced a number of events in recent years that have tested our resilience. The attacks of September 11, 2001, the power outage of August 2003, and the elevation of the threat level for the financial sector in August 2004 all tested the preparedness and resolve of the sector. Most recently, Hurricane Katrina caused unprecedented devastation in multiple States. Yet the American financial system survived each of these events, and through hard work and investment, became stronger and better able to contend with such disruptions.

On December 17, 2003, the President issued Homeland Security Presidential Directive – Seven (HSPD-7), which established a national policy for Federal departments and agencies to identify and prioritize United States critical infrastructure and key resources and to protect them from terrorist attacks. HSPD-7 recognizes that various Departments and agencies have specific knowledge, expertise, and experience in working with certain sectors. Therefore, this directive provides for Sector Specific Agencies, or lead agencies, for given sectors. The Department of the Treasury is designated as the Sector Specific Agency for the banking and finance sector.

Under this designation, the Treasury collaborates with Federal, State, and local governments and the appropriate private sector entities to encourage the development of information sharing and analysis processes, and to support sector-coordinating mechanisms to: (1) identify, prioritize, and coordinate the protection of critical infrastructure and key resources; and (2) facilitate sharing of information about physical and cyber threats, vulnerabilities, incidents, potential protective measures, and best practices.

We have developed a two-pillared structure within both the public and the private sectors to support the Treasury's efforts to safeguard the financial services sector. The first pillar is the Financial and Banking Information Infrastructure Committee (FBIIC), which is chaired by the Treasury's Assistant Secretary for Financial Institutions and is comprised of the Federal and State financial regulators. The second pillar is the Financial Services Sector Coordinating Council (FSSCC) which is comprised of the leading financial services institutions and trade organizations. We also rely on the Financial Services Information Sharing and Analysis Center (FS-ISAC) to communicate with the sector during a crisis.

The Treasury has a strong commitment to ensuring the financial system continues to serve all Americans. The Secretary has tasked the Treasury Department's Office of Critical Infrastructure Protection and Compliance Policy with the responsibility for developing and executing policies affecting the resilience of the United States financial system. The majority of these efforts require close cooperation and partnership with the public and private sector. In carrying out these efforts, the Treasury continues to:

- Work with government agencies, private sector firms, and national and regional organizations to establish a single point of contact for critical financial infrastructure issues;
- Promote strong relationships between financial institutions and the State and local governments where financial sector operations are located;
- Inform the private and public sectors about the available resources that protect the financial infrastructure; and
- Support the availability of accurate and timely information about potential threats on a national and regional level.

Treasury's Contribution to Pandemic Planning in the Financial Services Sector

Let me now turn specifically to today's topic. Pandemic influenza is a serious threat. Moreover, although the narrow specifics of an influenza pandemic threat are unique, elements contained within the planning for pandemic countermeasures are relevant to preparedness for radiological, nuclear, biological and chemical threats. The United States experienced three major pandemics in the twentieth century. The influenza pandemic of 1918 killed tens of millions of people worldwide, and estimates are that between 500,000 and 800,000 people in the United States lost their lives. Milder outbreaks of influenza in 1957 and 1968 killed tens of thousands of Americans, and perhaps millions more across the world.

Most disasters are confined to a limited geographic area, usually measured by the number of cities and States that are impacted. Pandemic influenza is unique in that it has the potential to affect our entire country very quickly, from Wall Street securities firms to Midwestern credit unions, to back-office operations centers in the Arizona desert that serve them both and many others.

This type of potential disruption forces us to think differently about how we prepare for something as widespread as a pandemic. For example, we must change the way businesses within the financial services sector think about business continuity. A firm cannot simply move to out of region back-up facilities and restore operations because it is likely those facilities are also experiencing challenges associated with the pandemic. Without proper planning, a pandemic could disrupt the ability of a financial institution to operate.

For example, contingency planning, in both the public and private sector, must now take into consideration efforts to mitigate the spread of influenza within the firm or a department. Among the key issues for consideration are the stockpiling of masks, gloves and anti-viral agents, additional hand washing stations for employees, and identifying and isolating employees who may be sick.

There are many possible impacts of a pandemic on firms' abilities to operate. One of the most likely is a sharp increase in employee absenteeism. It is important that we begin to consider now how best to cope with high absenteeism rates. Here, too, there are many considerations, including making provisions to provide parking for employees who may not want to take public transportation, childcare for workers if schools are closed, cross training so that workers can do multiple jobs, and identifying work streams that can be performed at home, and ensuring that internal information technology is prepared to support that work from home.

Finally, as we consider all of these issues, we must also recall that for unbanked Americans, the ability to access financial services is generally based on person-to-person interactions, such as cashing a check or purchasing a money order, and we must take into consideration the unbanked and consider whether there are unique or specific concerns that affect them and the financial services firms that serve them.

The financial sector uses many independent third parties to provide services that range from cleaning, to the repair of computer systems, to security. Many financial firms are now requiring their service providers and, at times, even their business partners, to have business continuity plans in place as a condition of doing business. We view this as beneficial as this produces a positive cascading effect in the financial services supply chain which increases the overall preparedness for a pandemic.

Interdependencies with other sectors must also be taken into consideration. Financial sector regulators and institutions have been considering their interdependencies with other sectors of the economy. For example, we are considering whether the telecommunications infrastructure would be adequate to support the internet traffic generated by a large number of people working at home, especially the residential portion that connects an employee's residence to major trunks of the internet, and the need for any additional data security measures should employees be required to work from their homes. Similarly, the financial sector is dependent upon transportation, especially public transportation for its employees, and therefore it is vital to understand public transport planning for coping with a pandemic. We have engaged with each of these sectors, as we have during other threats, and we remain committed to working together with these sectors to ensure the needs of the financial community are met.

The President is leading a massive Federal effort that respects and appreciates the role of States and localities, as well as the private sector, in such an event. The Homeland Security Council's *Implementation Plan for the National Strategy for Pandemic Influenza* contains over 300 critical actions to address the threat of a pandemic. At the end of last year, as part of this effort, the Congress appropriated $3.8 billion dollars for pandemic planning. In addition, there was $2.3 billion appropriated recently for pandemic flu, as part of the emergency supplemental appropriations.

The Treasury has been very active within the financial services sector to provide and share the most current thinking about what a 21st century pandemic could look like, so that sector participants can use the latest information to build and improve plans and scenarios to mitigate the potential risks. The principles that guide our leadership role in the financial services sector are that our planning efforts will be based on medical science, which is provided to us by experts outside of the Treasury, and that planning efforts will emphasize the protection of the life and safety of our fellow Americans, whether they be employees or customers of financial firms, or others, the importance of business continuity within financial firms, and the significant number of interdependencies needed to sustain operations during an outbreak of a pandemic. Please allow me to spend a few minutes describing key elements of our plan, which focuses on coordination, education, outreach, and an effort to exercise and test the plans and procedures that have been developed.

Last year, the FBIIC created a working group to focus on pandemic influenza. The purpose of the group is to identify areas of concern and to identify and share best practices as it relates to business continuity for the financial community. This group has been meeting regularly, and has also been in close communication with the FSSCC.

One concern that we have been often asked about is banknotes and coinage. In the immediate aftermath of any disaster, there may be some movement toward a greater use of currency. This may be no different in the immediate aftermath of a pandemic. In this vein, the Treasury's United States Mint and the Bureau of Engraving and Printing are working with the Federal Reserve Banks to ensure that banknote and coin inventories are adequate should financial institutions need additional supplies. The Treasury and the relevant financial services sector regulators are committed to working with sector participants to address these types of issues before a pandemic, or any crisis, arrives.

An important mission for the FBIIC is to be in a position to centrally coordinate policymaking and decision-making in the event of a situation that requires emergency actions. The FBIIC has in place well-tested emergency protocols, that were employed during Hurricanes Katrina, Rita and Wilma, and during the elevation of the threat level in New York and Washington, DC. These protocols have explicit provisions for reaching out to the private sector. In the event of any pandemic, these collaboration, communication and coordination tools would be used to ensure that those within financial regulatory agencies as well as the entities within the financial services sector are in touch with the most up-to-date information and instructions.

The FSSCC has recently formed an infectious disease working group. I know that you will be hearing from a private sector panel next, but I would like to say that these two working groups, the FBIIC group and the FSSCC group, are working well together and representing public and private interests.

I mentioned previously that our strategies to protect the sector are grounded in sound medical science. To that point, the Treasury has hosted two presentations with leading Federal officials from the health and medical community. On December 16, 2005 we invited a leading medical expert in the area of vaccine science to speak to members of the FBIIC and the FSSCC. This physician discussed several pertinent topics such as: the history and spread of pandemics in the US; the composition of the H5N1 avian flu strain and the spread of the virus; and a forecast of the possible infection rates should the disease mutate into a form that is transmittable between humans. Meeting participants also discussed vaccines and prophylaxis against the virus, including issues involving anti-viral agents. This session helped the regulatory agencies and private sector representatives share a common understanding of many aspects of the virus.

On June 6, 2006, the Treasury hosted a joint meeting of the FBIIC and FSSCC to get an update on the H5N1 virus and an update on the latest thinking in the medical community. At this meeting we invited a leading physician and health care administrator to give an update on the *President's National Strategy for Pandemic Influenza.* This physician spoke about community shielding strategies and also gave an update on the H5N1 virus. His presentation was particularly relevant, given the effect that community shielding strategies (such as school closures and "snow days") would have on the financial services sector. The sector is particularly interested in any actions the Federal government might take so that it can modify its contingency planning to take into consideration those actions. Our plan is to continue to hold joint medical briefings every six months, or as needed, to ensure we are collectively aware of the latest medical science in this area.

We also believe it is vital to reach beyond Washington, DC and conduct an outreach campaign to carry the message for pandemic preparedness to all parts of the country. The Treasury's outreach initiative, sponsored by the FBIIC and the FSSCC, will take us to twenty-one cities across the country by the end of the year. The objective of these meetings is educational – to promote financial services sector preparedness to deal with man-made or natural disruptions, including terrorism, hurricanes, and pandemics and encourage the formation of regional financial coalitions, such as the very first one created in Chicago, and the others that have been created or are under development. These events bring together Federal, State, and local officials with financial institutions and provide a great opportunity to encourage financial services pandemic preparation at the community level.

I now turn to one of our most important strategies, which is the use of exercises. We learn many lessons from thinking through what actions will be taken during a potential crisis. Last week the Treasury sponsored a pandemic flu tabletop exercise with FloridaFIRST, a newly formed regional financial coalition based on the highly successful ChicagoFIRST model. FloridaFIRST represents the second in a Treasury Department supported private sector initiative to establish regional financial coalitions around the country. The exercise brought together financial services, public health, and law enforcement officials from local, State, and Federal levels. Participants took home a long list of lessons learned, of which the key insights include:

- Development of contingency plans specific to a pandemic influenza is vital;
- Private sector institutions will look to Federal, State and local health officials for trigger points to enact certain parts of pandemic plans and for other information related to the pandemic;
- Development of an all-inclusive plan for the safety of employees, their families, and clients is important, and the plan must be communicated and understood by employees before a pandemic hits; and
- Implementation of good personal hygiene plans, such as hand washing, should begin now, not during a pandemic; and
- Infrastructure to support work at home programs must be strengthened <u>before</u> a pandemic occurs.

The Treasury, together with its FBIIC partners, will be working with financial institutions to assist them in working towards the development of measures to implement or enhance their efforts in these areas.

Robert Otero, FloridaFIRST Chairman, said that the "exercise will be a catalyst for a paradigm shift in the way institutions prepare for future disasters." We look forward to continuing to work with the Florida financial institutions we met with last week, and their appropriate regulators, to ensure that we all continue along the path of preparedness.

The exercise was so successful that we are going to schedule a joint FBIIC and FSSCC exercise on pandemic planning this summer. We would like to host similar exercises with other regional financial coalitions established, with the Treasury's support, based on the ChicagoFIRST model. Coalitions have been established in Southern California and the San Francisco Bay Area and there is interest in Las Vegas, Houston, Seattle, and Philadelphia as well as other cities.

The Treasury Department has been actively involved with our counterparts abroad. We have had enlightening conversations with financial regulators in Hong Kong. They have a unique perspective, not only because recent cases of H5N1 in humans are in their backyard, but because of the outbreak of the Severe Acute Respiratory Syndrome virus a few years ago. We have also met with representatives from the UK's Tripartite Standing Committee about how they interact with their own UK financial services sector. We hope to take the any lessons learned from our counterparts and apply them here in the United States.

In addition to these presentations, working groups, exercises, and meetings, the Treasury represents the financial sector across Federal government, from the Department of Homeland Security to the Department of Labor and to the Small Business Administration. My staff and I spend countless hours promoting education and preparedness for pandemic influenza.

One of the questions we are considering is what the economic impact of a pandemic would be. This is a very difficult question to answer. We know the direct effects are disease and mortality. Indirect effects include the reaction citizens have to a pandemic: -- would people continue to show up at work, and would they isolate themselves physically so as to avoid contagion? Some have suggested there would be little or no economic impact, while others have forecast declines in GDP of 5% or more. Certainly economic impacts depend on the severity of the influenza, and it is likely that an outbreak as severe as that of 1918 could have some measurable effect on the economy.

It is important to remember that we have a strong economy that is highly resilient. There is an effort currently underway across the government to build new economic models to try and understand economics based on previous pandemics, but also taking into account structural changes in our economy, which is much different than that of the last major influenza outbreak in 1968. We anticipate that this work will continue to develop through the rest of this year.

Pandemic Planning within the Sector

Pandemic preparedness requires the collective efforts of Federal, State, and local authorities in close partnership with the private sector. The financial services sector is active in its preparedness efforts and it is taking the threat of pandemic influenza very seriously. We still have a lot of work to do — it is often said that preparedness is a race with no end – but working together we have made great strides. While it is difficult to quantify or measure progress on pandemic preparedness, I can state definitively that awareness about the threat of a pandemic has increased dramatically in the financial services sector, and a significant number of firms are now planning to deal with a pandemic as part of their business continuity strategies

I don't want to spend too much time talking about what I know you will hear from my private sector colleagues but I do want to spend a few minutes talking about the serious and productive work the sector is undertaking to prepare itself. The sector is currently building robust plans to continue to operate during a pandemic and, though some nonessential services may be temporarily halted, critical functions will continue to operate.

The sector's professionals have concerns and they are actively working with health professionals to address their unanswered questions. Overall, I believe that you will hear that the number one priority from the financial services sector is the safety of their fellow Americans – employees, their families, and customers.

Conclusion

Again, thank you for allowing me the opportunity to testify before you today. As I said before, we are working very hard to prepare the financial services sector for a pandemic outbreak, but the Treasury's efforts are only a single part of the overall Federal response. We are committed to ensuring that payment systems, settlement and clearing, retail banking networks, credit and debt, liquidity, insurance, and derivative instruments remain available during a crisis, either man-made or natural, including a pandemic. These are the operations that enable an efficient and orderly financial system on which investors, businesses, and our global trading partners rely. These financial functions are vital to providing our citizens the financial services all Americans depend on every day. And, while I believe we have made great progress toward preparedness for the financial services sector, it is clear that all levels of the public and private sectors must work together to have an effective plan to handle a pandemic.

Thank you for your attention to this important topic.

-30-

Testimony of

Edward L. Yingling

On Behalf of the

AMERICAN **BANKERS** ASSOCIATION

Before the

Subcommittee on Oversight and Investigations

Of the

Committee on Financial Services

United States House of Representatives

June 29, 2006

AMERICAN
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Testimony of Edward L. Yingling
on behalf of the
American **Bankers** Association
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June 29, 2006

Madam Chairwoman and members of the Subcommittee, my name is Edward L. Yingling. I am President and CEO of the American Bankers Association (ABA). ABA, on behalf of the more than two million men and women who work in the nation's banks, brings together all categories of banking institutions to best represent the interests of this rapidly changing industry. Its membership – which includes community, regional and money center banks and holding companies, as well as savings associations, trust companies and savings banks – makes ABA the largest banking trade association in the country.

Thank you for the opportunity to present the views of the ABA on the pandemic preparedness efforts of the financial services industry. Banking institutions have significant business continuity programs in place designed to maintain and recover their critical operations if any disruptive event occurs. Over the course of recent years, these plans have evolved to cover low-probability, high-impact events such as terrorist attacks, wide-scale natural disasters, and other significant disruptions that might affect specific institutions, an entire financial district or metropolitan area, or particular segments of the economy. A pandemic falls into this category of potential events, and preparations are currently underway.

No one knows whether the virus currently infecting birds, commonly known as the avian flu, will mutate into a strain communicable from human-to-human. What we do know is the value of planning ahead, even for remote events. Moreover, the current avian flu is not the only threat. As Secretary Michael Leavitt of the Department of Health and Human Services recently noted, it is highly likely that at some point in the future a virus will trigger pandemic flu.

In my statement today, I would like to make three points:

- **Banks have a proven record of effective disaster recovery.** Over time, bankers have successfully coped with a wide variety of business disruptions and will continue to deal with such disruptions effectively in the future. Banks have well-tested procedures for developing and revising their disaster recovery and business continuity plans based on changing events and new risks. The ability of banks to withstand events such as 9-11 and Hurricane Katrina is a testament to their preparedness.

- **The banking industry is undertaking significant preparations for a potential pandemic.** Our industry has already completed a great deal of work to assist financial institutions in their preparations. Through our recently completed Emergency Preparedness Toolbox, which I will discuss in greater depth later in my testimony, the ABA has provided each of our members with resources to assist their pandemic planning. This resource is based, in part, on the collaborative efforts underway across the entire financial services industry to address this issue. The Treasury Department and the federal and state financial institution regulatory agencies are active partners in this collaboration.

- **Industry preparations are taking into account how a pandemic differs from other events.** While existing bank disaster recovery and business continuity plans will be relevant during a potential pandemic, institutions are isolating those issues that are distinct to pandemics. Our ultimate goal, as always, is to ensure we can provide the critical banking services we offer to our customers as our customers deal with and recover from any emergency.

I will discuss these points in more detail.

I. Banks Have a Proven Record of Effective Disaster Recovery

Recent history shows that American banks have been prepared for and effectively responded to disasters. When faced with natural disasters, banks have a proven record of operating smoothly, protecting consumers' deposits and providing continued access to their funds. Banks are also required by law and regulation to have extensive disaster recovery plans in place and state and federal regulators routinely examine each bank on their preparations.[1]

Disaster preparedness and business continuity plans are generally focused on restoring a bank's ability to operate regardless of the nature of the disruption. The objective of these plans is to allow the institution to continue to serve its customers, minimize financial loss to the institution, and also mitigate the negative effects disruptions can have on an institution's overall operations.

There are several distinct components to a bank's disaster preparedness and business continuity planning process:

- ***A business impact analysis*** that identifies the bank's critical business functions and prioritizes them;
- ***A risk assessment*** that prioritizes potential business disruptions based on severity and likelihood of occurrence; and
- ***A risk management process*** that documents strategies and procedures to maintain, resume, and recover critical business functions.

These components are continually reviewed within banks to ensure that they accurately reflect the institution's current critical functions and the potential disruptions to those functions. It is only through active and ongoing review that an institution can ensure that it has an appropriate risk management process that addresses current threats to the institution.

This continuous review process has recently been "battle-tested" as a result of the hurricanes of 2005, in particular Hurricane Katrina. We may be in a weather cycle wherein storms of significant magnitude will be more likely than in the most recent past. Banks in hurricane-prone zones have reevaluated their risk assessments and amended their disaster recovery and business continuity plans in light of the increased threat, and will continue to do so going forward. The review process these institutions are going through today will allow them to withstand the storms of the future better.

[1] The Federal Financial Institutions Examination Council (FFIEC) *Business Continuity Planning IT Examination Handbook, March 2003,* details many of the pre-Hurricane Katrina disaster preparedness and business continuity planning regulatory expectations of the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the National Credit Union Administration, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision.

Many of the lessons from Hurricane Katrina and the other storms of 2005, as well as recent earthquakes, floods and fires, tornadoes and 9-11, are applicable to banks no matter where they are located. It is for this reason that, in October 2005, ABA Chairman Harris Simmons appointed a special joint task force of ABA member financial institutions and state bankers associations to apply the lessons we have learned from such emergencies so that the banking industry will be even better prepared to protect the financial assets of our customers, provide banking services as quickly as possible, and speed relief to help rebuild our communities.

The task force recently completed work on the ABA Emergency Preparedness Toolbox. This resource assists banks across our nation in refreshing their disaster preparedness and business continuity plans as a result of recently experienced threats. It also is designed to help institutions modify their existing plans to deal with the avian flu and other potential pandemics.

II. The Banking Industry is Undertaking Significant Preparations for a Potential Pandemic

Central to the efforts underway to assist banks in their pandemic preparations is the work of the Financial Services Sector Coordinating Council. The Council is essentially an "association of associations," consisting of all the major national financial trade associations, financial utilities, and other important financial service organizations across the banking, insurance and securities industries, including the ABA. The Council's purpose is to coordinate critical infrastructure and homeland security activities in the financial services industry, and toward that end it works closely with the U.S. Department of the Treasury and the financial institution regulatory agencies on these issues.

This collaborative effort is of great assistance to our industry. In January of this year, the Council completed some important work on pandemic preparations, issuing a paper entitled *Issues for Consideration Regarding Preparations for "Avian Flu."* The paper is intended to assist financial institutions in thinking through and addressing the issues posed by the potential for a serious influenza outbreak in the United States in the next several years. As I noted earlier, the pandemic preparedness portion of ABA's new Toolbox draws upon the collaborative work of the Council. The ability to distribute such resources broadly throughout the financial services sector is an important component of our overall preparedness efforts.

The ABA is also a member of the Council's Infectious Disease Forum. Many of the Council's efforts to assist financial institutions in their pandemic preparations will be accomplished through the

Forum. The goals of the Forum include:

- Develop a repository for best practices and other planning information for Council member firms and their member organizations relative to infectious disease;
- Collaborate and coordinate with:
  - Public sector partners to develop a common set of planning assumptions to use in developing individual company plans;
  - Other financial sector infectious disease working groups to facilitate information sharing and ensure a consistent approach to planning;
  - National government agencies/health organizations to understand their response plans and trigger points; and
  - Other sectors upon which the financial sector is dependent for the purpose of determining their readiness and identifying issues for further study.
- Develop personal preparedness guidelines that Council members and their member organizations can provide to employees;
- Explore the feasibility of conducting an Avian Flu tabletop simulation exercise; and
- Develop relationships, contacts and protocols among Council organizations that will facilitate collaboration and coordination during an actual event.

Importantly, much of the future work of the ABA and the Council will be accomplished in conjunction with the Financial and Banking Information Infrastructure Committee, which has organized an Avian Flu Working Group. The Committee consists of the federal and state financial regulatory community across banking, insurance, and securities, and is charged with enhancing the resiliency of the financial sector, particularly through improving coordination and communication among financial regulators and the institutions that they oversee. The Department of the Treasury's Assistant Secretary for Financial Institutions, Emil Henry, chairs the Committee.

Coordination between the Council and the Committee on financial resiliency issues has been a cornerstone of the partnership between the industry and the regulatory agencies since 9-11, was vital during the storms of 2005, and will be an important component of private sector preparations associated with a pandemic.

III. Industry Preparations are Taking Into Account How a Pandemic Differs from Other Events

While much of a financial institution's existing disaster recovery and business continuity plans will be relevant during a pandemic, banks are currently adjusting their existing plans to address this new threat. The section of the ABA Toolbox entitled *Preparing for the Avian Flu and Other Potential Pandemics* is designed to help banks adjust their plans, focusing on the avian flu to illustrate the considerations for all potential pandemics.

Unlike other disaster events, it is not likely that a pandemic will directly affect the physical infrastructure of an institution. Another notable difference is that a pandemic will not be limited to a specific geographic area, which means that assistance may not be available from other parts of the country. A third difference is that key sectors of the economy, that banks rely on for support, may be affected by a lack of available personnel, meaning that supplies may not be available. For example, will gasoline be available if many refinery workers are not at work for long periods of time.

Therefore, banks and other key sectors need to plan for these differences. Much of the planning associated with the pandemic is to ensure that banks have an effective communication program in place for employees and customers. Reviewing any current procedures to share pandemic-related information with local health and emergency management organizations is also advisable as part of a bank's preparations. There are a variety of employee health and safety issues that we have advised our members to consider as they go through the process of revising their plans, as well.

As a pandemic has distinct phases, we have recommended that our members develop a specialized business continuity plan for such an event that is structured accordingly. In reviewing their current plans, we have advised our members to consider taking the following steps during this planning stage:

- **Identify a Coordination Team –** Identify a pandemic coordinator and team with defined roles and responsibilities for preparedness and response planning.
- **Identify Critical Operations –** Review current business continuity plans to determine how they can better take into account the potential difficulties posed by a pandemic. Communicate with third-party service providers of these operations to ensure they are aware of your plans.

- **Identify Operations that Could be Suspended –** Review existing business continuity plans to identify activities or functions that could be suspended during a pandemic.
- **Plan to Split Critical Staff –** During a pandemic, split critical staff into two or more teams operating out of different locations.
- **Expand Telecommuting Capabilities –** Determine the level of telecommunication capacity necessary. Evaluate the need to upgrade telecommunication systems to maintain critical operations.
- **Address Local Transportation Issues –** Make special transportation arrangements if necessary for critical employees who would need to report in person to a facility during a pandemic.
- **Address Security Needs –** Evaluate whether in-house or contracted security need to be enhanced to the extent that police and other security services are depleted during a pandemic.
- **Have a Crisis Information System –** Have an automated system in place for management to track how the event is affecting employees and the institution.
- **Phase Your Implementation Plans –** Develop a business continuity plan for a pandemic that is structured to phase in escalating responses as the developments warrant.
- **Coordinate with Local Emergency Management –** Have the bank's escalation plan coincide with any plan that exists in jurisdictions where facilities are located.
- **Test the Plan –** While comprehensive testing of the pandemic response plan may be unrealistic, testing discrete portions of the pandemic response plan, such as the ability to handle a high volume of telecommuting or teleconferencing, is advisable.

In closing, I would like to stress that we in the banking industry have always recognized the essential services we offer and the critical role we play in our communities and in the national economy, particularly during emergencies. Disaster preparedness is a well-known notion to financial institutions, and when new threats, such as a potential pandemic, present themselves, our experience gives us confidence and commitment to deal with them successfully going forward as we have done in the past.

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ABAToolbox
on Emergency Preparedness

TO: ABA Member CEOs

FROM: Harris Simmons, ABA Chairman

You didn't have to live in New Orleans to be horrified and terrified by the devastating sweep of Hurricanes Katrina and Rita through the Gulf Coast region. The pictures and first-person accounts communicated powerful messages and made those of us in higher, drier regions count our blessings.

Nor are hurricanes and floods the only potential source of destruction, chaos and loss. There are blizzards, fires, tornadoes, earthquakes, terrorist attacks and now threats of avian flu. None of us is necessarily spared by virtue of where we happen to live, and we forget that at our peril.

There are lessons to be learned from these storms and from other emergencies bankers have faced in recent years. But the lessons are only meaningful if we use them as a spur to action.

In October of 2005, I appointed a task force, made up of bankers and state bankers association executives who have experienced one or more local disasters, to compile a comprehensive resource to help our member banks be better prepared if and when disaster strikes. The task force's efforts have produced the enclosed ABAToolbox on Emergency Preparedness. It contains information about the steps task force members had taken or wish they had taken before disaster struck, the government's response and resources, and even what an avian flu pandemic would mean.

This resource is intended to help bankers from all regions, not just those in a flood plain. As Michigan banker Dave Hickman observed about the Toolbox's broad applicability, "It's important to all of us. Some of us just don't know it yet." Don't think it can't happen to you.

So use it. Share it widely with your staff. Emergency preparedness is everyone's business. During emergencies, we find ourselves — as family members, citizens and bank employees — doing things we never anticipated. The more we know and the more we do in advance, the better we can protect ourselves, our families, our communities and our banks.

JOINT PREPAREDNESS TASK FORCE

An Alliance Between State Bankers Associations and the American Bankers Association

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ABAToolbox

on Emergency Preparedness

ABA MEMBERS ONLY

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ABOUT THIS TOOLBOX

Lessons from the Storms **And Other Emergencies**

The role that bankers play as community leaders was never more apparent than in the aftermath of hurricanes Katrina, Rita, and Wilma. In addition to making financial services available, banks provided humanitarian aid and ongoing support for individuals, families, and businesses struggling to recover. Bankers personally rose to the occasion, rolled up their sleeves, and lent a hand. After any disaster — hurricanes and earthquakes, floods and fires, tornadoes and acts of terrorism — bankers are in the forefront of efforts to respond.

The magnitude of the damage from the recent storms and the substantial disruption to homes, businesses, governments, and telecommunication systems have challenged even the best prepared banks. Not surprisingly, many lessons were learned from this experience.

To assist the industry in dealing with future emergencies, American Bankers Association Chairman Harris Simmons appointed the ABA's Joint Preparedness Task Force, composed of bankers and the chief executives of several state bankers associations. The Task Force represents a broad cross-section of bankers from across the nation and from banks of different sizes. Members of this Task Force generously contributed their real-world experiences and insights to develop this Toolbox.

Regardless of the emergency your institution may face, the lessons learned from the recent storms, 9-11, earthquakes, tornadoes, and floods can greatly assist your bank. This Toolbox is designed to provide your bank with resources to better protect the financial assets of your customers, provide financial services as quickly as possible, and speed relief to help rebuild your community.

For the online version of the ABAToolbox on Emergency Preparedness, please visit:

www.aba.com/about+aba/abatoolboxes.htm

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TOOL 1

Improving Emergency Communications

Restoring communications after an emergency is vital. Effective communication within the financial services industry greatly promotes public confidence. When a disaster strikes, every consumer should know that their bank is prepared, their deposits are safe, and they will have continued access to their funds.

The ABA Task Force focused on the question of how communication can be improved within and between financial institutions during emergencies. Communication with bank regulatory agencies was also examined. Tool 1 contains steps that can help improve your bank's internal communication. Contingency planning issues regarding communication, including the loss of power, telephones, cell phone networks, and the Internet, are discussed.

State bank trade associations and state bank commissioners play a vital role in the communications process during an emergency. In the states directly affected by Katrina, Rita, and Wilma, the state bankers associations, along with the ABA and other organizations, quickly began regular telephone briefings with state and federal regulators.

Tool 1 provides considerations for improving the communication among the ABA, state bankers associations, bankers, and the bank regulatory agencies during an emergency.

There are a number of priority systems for both voice and data communications coordinated by the federal government. While some of these systems are broadly available, others are currently only available to financial institutions posing systemic risk to the financial system. Tool 1 discusses these programs, as well as efforts to broaden them to be available to a greater number of institutions.

TOOL 2

Plugging into Your Local Emergency Management Process

The recent storms demonstrated just how important it was for banks to work together to share cash reserves, processing facilities, and communications. The storms also confirmed the need to accelerate efforts to develop strong public/private partnerships at the local level to address these emergencies.

All financial institutions should have established at least informal contact with emergency management agencies in the communities that they serve. Several regions and cities have gone one step further to more formally link financial services with federal, state, and local emergency management agencies.

The Task Force found that the implementation of this type of regional infrastructure protection coalition substantially advanced the financial sector's infrastructure protection efforts. Tool 2 cites a number of regional public/private partnerships and contains a review of how these organizations were established and the factors critical to their success.

Refreshing Your Emergency Preparedness and Disaster Recovery Plans

3
TOOL

All financial institutions have established emergency preparedness and disaster recovery plans. The Task Force reviewed how the lessons learned from the recent storms could help any institution refresh its existing plans. Also examined was how regulatory expectations have changed since the storms. In fact, this tool reviews the recent FFIEC examiner guidance on emergency preparedness and disaster recovery, which cuts across a number of topics.

Tool 3 also reviews the issues surrounding the establishment of backup and mobile facilities, plan testing, and handling of contaminated items. The aim is to help you refresh, not rewrite, your existing plans across the wide array of issues that emergency preparedness and disaster recovery present.

Understanding Disaster Financial Assistance

4
TOOL

The Task Force also reviewed the manner in which financial assistance and relief funds were distributed to individuals, families, and businesses during hurricanes Katrina and Rita. After the recent storms, banks worked closely with the Federal Reserve to ensure that cash deliveries arrived where they were needed. The industry also worked with the U.S. Treasury Department, the Social Security Administration, and other agencies to ensure that customers and non-customers could access Social Security and other government payments. Bankers also assisted the Red Cross by cashing assistance vouchers in the evacuee areas.

During the recent storms, the bulk of financial assistance was distributed by checks and vouchers. At this time, government and industry are working toward deploying federal benefit and financial assistance and relief electronically whenever possible, through direct deposit and debit or prepaid cards. There is a general consensus that electronic solutions are less costly and more efficient than other forms of distributing such financial assistance. Tool 4 examines the implications of each of these delivery systems.

Financial assistance also comes in the form of loans, particularly through the Small Business Administration. Loans issued through the SBA are critical following a disaster. SBA loans jump-start local economies, support a broad-based private sector recovery, and encourage residents in the affected areas to stay. Prior to the recent storms, disaster lending was done directly by the SBA, rather than through financial institutions. This process can lead to a backlog in the delivery of small business loans to recipients. The SBA has begun to develop programs for banks to directly administer disaster loans. Tool 4 also contains a description of the existing SBA disaster loan programs and discusses the potential for banks to conduct more direct lending in the future.

5 TOOL

Anticipating the Regulatory Response

While every emergency will differ, enhancing the commonalities in how the government reacts is important for an efficient and effective response. The ABA Task Force found that the bank regulatory authorities were very effective in responding to the issues raised by the impact of the hurricanes. Federal and state banking agencies minimized regulatory impediments to banks seeking to serve their customers, as well as non-customers displaced by the storms. As the Financial Services Sector Coordinating Council noted, "A variety of significant issues were identified and thought through in a very limited period of time. ... Memorializing the details of these decisions and actions into a template of action steps for use in future emergencies would help to preserve all of these 'precedents,' and ensure that they could be quickly reviewed and redeployed in the event of future emergencies with similar effects." Tool 5 outlines those actions by governmental agencies that can be anticipated in future emergencies based upon our experiences during the recent storms.

6 TOOL

Understanding a Disaster's Economic Impact

Banks have historically performed well in the aftermath of natural and man-made disasters, as noted by the Federal Deposit Insurance Corporation in a recent report. The Task Force reviewed our industry's high level of resilience following disasters and found a distinct economic pattern typically followed these events.

Understanding this cycle of business activity after a disaster can assist in preparing for and countering some of the event's negative effects. Tool 6 contains a description of the impact of significant insurance proceeds, increased short-term deposits, diminished loan demand, increased loan delinquencies, increased fraud, and other factors on financial institutions affected by past storms and other events.

7 TOOL

Preparing for the Avian Flu and Other Potential Pandemics

There has recently been a lot of focus on the possibility of a serious outbreak of influenza if the virus currently infecting birds in various areas of the globe mutates into a strain communicable from human to human. Banks have always developed business continuity programs designed to maintain or recover their critical operations, but current approaches to business continuity planning may not be sufficient to address circumstances in which the institution must try to function during an outbreak of avian flu or another serious infectious disease.

Tool 7 outlines why the Avian Flu and other infectious diseases or biologically-based threats must be approached differently from a business continuity perspective. This tool uses the Avian Flu concern to illustrate the emergency preparedness issues and contains suggestions on how to modify your existing plans to deal with these types of pandemics.

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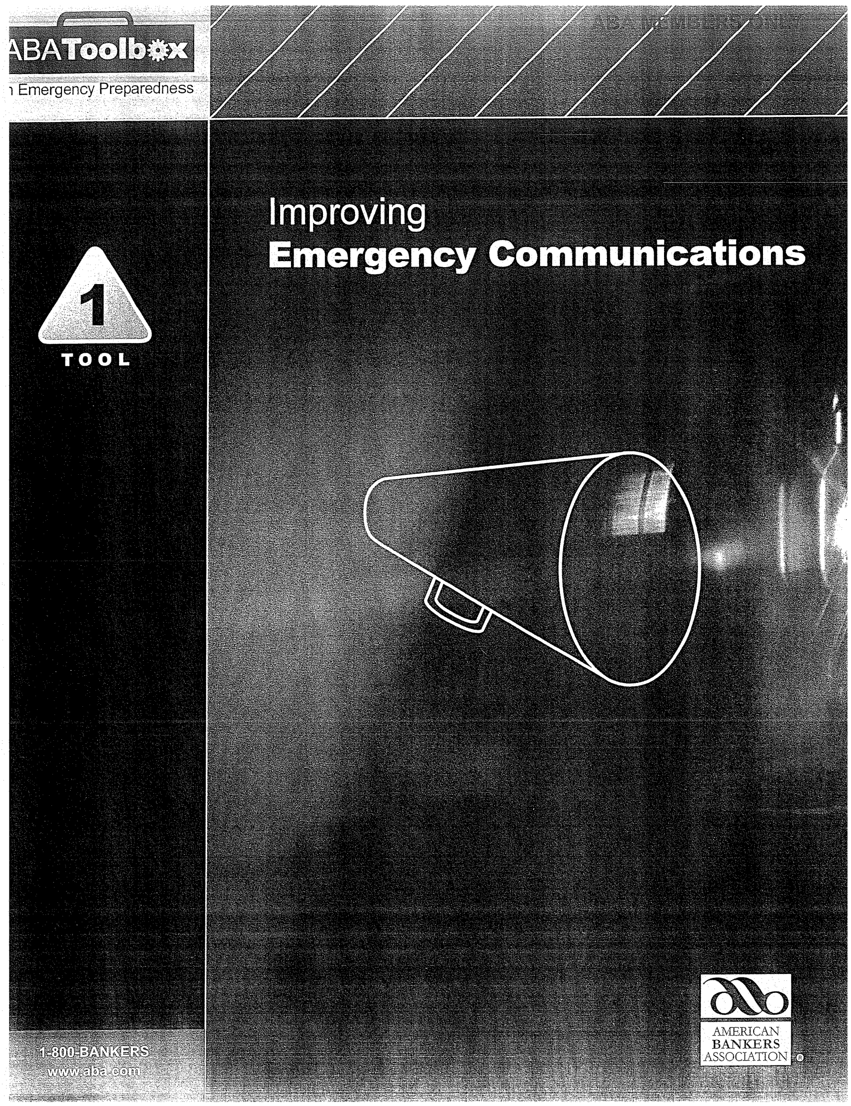
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The American Bankers Association, on behalf of the more than two million men and women who work in the nation's banks, brings together all categories of banking institutions to best represent the interests of this rapidly changing industry. Its membership — which includes community, regional and money center banks and holding companies, as well as savings associations, trust companies and savings banks — makes ABA the largest banking trade association in the country.

Improving Emergency Communications

Improving Emergency Communications

Introduction

Throughout history, U.S. banks have been prepared for and responded to disasters both real and imagined. Bankers have dealt successfully with economic recessions, natural disasters and other business disruptions. When faced with natural disasters, banks have a proven record of operating smoothly, protecting consumers' deposits and providing continued access to their funds. Post-9/11 procedures and extensive preparations for Y2K have also strengthened the banking industry's ability to deal with a broad range of disruptions.

A vital part of any bank's preparations for an emergency is having an effective communications plan. The Federal Financial Institutions Examination Council (FFIEC), in its Business Continuity Handbook, identifies communication as a critical aspect of a bank's business continuity plan.

The storms of 2005 and other recent disasters also demonstrated the importance of effective communication between the bank and its employees, its customers, the media, other banks, trade associations, regulatory agencies and the general public both before and after a disaster.

What the FFIEC Requires for Communication Planning

According to the FFIEC's Business Continuity Booklet:

- ❑ Communication planning should identify alternate communication channels to utilize during a disaster.
- ❑ Emergency telephone numbers, e-mail addresses, and a physical address list should be provided to employees to assist in communication efforts.
- ❑ The list should provide all alternate numbers since one or more telecommunications systems could be unavailable.
- ❑ The phone list should provide numbers for vendors, emergency services, transportation, and regulatory agencies.
- ❑ Wallet cards, Internet postings, and calling trees are ways to distribute information to employees.
- ❑ Institutions should establish reporting or calling locations to assist them in accounting for all personnel following a disaster.

There are many aspects to communicating effectively during an emergency. The action steps on the following page are designed to help your bank improve your emergency communication process.

Action Steps for Your Bank

- ❑ Have a variety of methods available to communicate with employees during an emergency. Expect several of them to be non-operational. Have employees identify one person out of the area whom they will contact after a disaster.

- ❑ Consider hosting your Internet banking, Web site, voice response, and other systems out of market so they are not as easily affected by emergencies.

- ❑ Develop sample customer messages to supplement your crisis communications. See examples contained in this Toolbox, and visit ABA's Crisis Communications page on the Web for other communications resources.

- ❑ Use the new ABA statement stuffer, *Preparing for Emergencies*, to help your retail customers be better prepared and to reassure them that your bank is already prepared.

- ❑ Help your *business* customers prepare for emergencies. Alert them to bank services that can enable them to function during an emergency and provide resources to help them protect themselves.

- ❑ Rely on your state bankers association and the ABA during an emergency and make sure they understand your needs. The bank trade associations have formed an alliance that provides an important communication link between you and the local and national financial community during an emergency.

- ❑ Join the Financial Services Information Sharing and Analysis Center by contacting the ABA. The Center will provide you with physical and cyber security alerts coming from a large number of sources, including the Department of Homeland Security.

- ❑ Request a Government Emergency Telecommunications Service (GETS) card from your primary federal regulator. This card allows you to make either land-line or cell phone calls when the systems are congested by giving you priority in the system because of the importance of financial services during an emergency.

- ❑ Determine if your bank warrants data communications restoration priority. Ask your core processing, Internet banking, and other vital service providers if they have such priority.

Your Crisis Communication Plan

When a disaster strikes, consumers should know that their bank is prepared, their deposits are safe, and they will have continued access to their funds. Your crisis communications plan is vital to let the public know the status of your bank, what locations you have available, and what services you are offering.

Why a Crisis Communications Plan is Necessary

How your organization is perceived during a crisis can be critical to the future success and reputation of your bank. During a crisis, inaccurate, incomplete, false, and misleading information flows rapidly. Rumors are perceived as fact. Remember, a crisis is a "living" situation. It evolves as new information becomes available. A crisis communications plan will help your organization ensure the negative effects of the crisis are kept to a minimum.

If a communications plan is successful:

- ✔ The organization is perceived as taking the appropriate actions to address the situation.
- ✔ The key messages of the organization are quickly and accurately heard, understood, and remembered by target audiences.
- ✔ The organization is viewed as responsive, truthful, and concerned about its customers.

In communicating with the public about a disaster affecting your bank, it is important to designate a single person as your bank's media contact. All other employees should be told not to speak to the press and to refer reporters to this designated spokesperson. It is important that the community is informed about your bank's current situation. But it is also important that your bank's message be accurate and consistent. The best way to have a consistent message is to have a consistent messenger.

Five Crisis Communications Commandments

Although any communications plan is specific to an organization, all successful plans are based on fundamental communications principles. Be sure to incorporate the following principles into your team's plan:

- ❑ Tell the truth
- ❑ Speak to the concerns of your target audience
- ❑ Respond promptly
- ❑ Be certain your information is accurate
- ❑ Be solution-oriented, not defensive

Creating a Framework for Effective Crisis Communication

❑ **Assemble a Crisis Communications Response Team**
The purpose of the team is to develop the crisis communications plan, review and update it regularly, and implement it in the event of a crisis. Identify members of the crisis communications response team; assign roles and establish the chain of command. Standard roles include a media spokesperson, a liaison for employees, a liaison for regulatory agencies, and an operations manager.

❑ **Conduct a Brief Communications Audit**
It's important to examine your organization's internal and external communications practices to ensure good relationships are established with your key audiences *before* a crisis. Communicate often with your key audiences (e.g., employees, customers, shareholders, community leaders, regulators, media, members of Congress). Develop appropriate internal and external communication channels such as newsletters, Internet and Intranet sites, and routine meetings with reporters. These are good ways to make sure stakeholders and others already know your bank. When a crisis strikes, your communications channels should already be in place.

❑ **Coordinate Communications Channels**
Make sure internal communications are coordinated.

- ✔ Establish protocols for decision-making and approvals.The process must be streamlined and fast.
- ✔ Develop alternative systems for team communications.
- ✔ Adjust your communication plan and strategy as the crisis develops and changes.
- ✔ Include crisis communication training in new employee orientation.
- ✔ Identify updates to the plan including staff changes, employee information and planned responsibilities, and incorporate changes/updates in internal employee publications at least quarterly.

❑ **Craft a Crisis Communications Plan**
Your team should develop a communications plan that offers the who/what/when/where and how of communicating during a crisis at the bank. The contents of the plan should include the overall goal (to survive the crisis with the bank's credibility intact), the strategy (to be timely, candid, and honest), and the tactics (steps to follow during the crisis).

❑ **Establish On-site and Off-site Command Centers**
The command center serves as a meeting place for the crisis communications response team. Use it to gather the team at the beginning of the emergency to review facts, identify options, and determine strategy and actions. Use it as a home base until the crisis is over. Keep current copies of the bank's disaster recovery plan, emergency procedures, and the crisis communications plan in the command center.

A disaster may render your bank inoperable. Prepare to enact your crisis plan away from the bank by establishing a temporary work site. Make sure the space is stocked with supplies, records, and crucial documents, including the crisis plan. Each team member should keep a copy of the crisis plan in his or her home.

Crisis Communication in Action

- ❑ **Identify your key audiences and their concerns.**
  To be credible, communication during a crisis must make emotional connections with specified audiences. For most banks, key audiences include employees, customers, regulators, investors, the media, board members, and opinion leaders such as local politicians and community groups. Tailor your approach and messages to each target audience by keeping in mind their concerns and anticipating their reactions. Since the organization's resources will be stretched during a crisis, determine the primary and secondary audiences that the organization wants to reach.

- ❑ **Develop key messages.**
  Address the basic information elements: who, what, where, when, why, and how. In emergencies, a simple "how do you feel?" helps establish a personal connection. Early in the communication process, the emphasis should be on carefully crafted statements outlining what is known. Communicate only after sufficient research and coordination. Establish a baseline of knowledge that outlines what you know to be true and serves as the starting point for subsequent updates, clarifications, and revisions. Stick to the facts and explanations of them. Don't let legal concerns dominate decisions on what to say. Although limiting communications make perfect sense from a legal perspective, be aware of the consequences that may result if your institution is perceived as not being forthcoming.

- ❑ **Anticipate questions and prepare answers.**
  Developing a list of possible questions and answers can be useful. Be certain the questions are what your audience will likely ask, not a preamble to self-serving talking points. Remember that any customer of yours has an overarching question: "How will this crisis affect me?" Generate questions from this perspective and answer them truthfully.

- ❑ **Use the news media to get out your message.**
  As soon as possible following an emergency, you want to be able to provide facts to the media. Contact local reporters and state the facts, as you know them. Tell them to expect updates as information becomes available.

- ❑ **Offer fact sheets, backgrounders, and bios.**
  Develop a basic fact sheet about your organization. Include the number of employees, asset size, history of the organization, description of products and services, community involvement, awards, and recognitions.

- ❑ **Acknowledge that the CEO may not be the best spokesperson.**
  Choose your bank's best communicator. Often, the best choice is someone who can speak to the needs of the target audiences rather than to the needs of the organization. Never use someone from outside the organization.

- ❑ **Never say "no comment."**
  Refusing to comment or to return phone calls is the wrong response. You may appear to be uncooperative or hiding information. It's in your best interest to give out whatever information you have as soon as you have it. This sets up a cooperative, rather than an adversarial, relationship. It also gives you much more control of the message.

- ❑ **Evaluate the plan.**
  Practice implementing your plan. After a real crisis, do an evaluation. Analyze news coverage, response from customers, employees, and other key audiences. Were the goals met? What could be improved?

Possible Questions During an Emergency

From Customers

- ❑ Is my money safe?
- ❑ When will the bank reopen?
- ❑ Will temporary quarters be established?
- ❑ Which bank services are available?
- ❑ How can I access my accounts?
- ❑ How will I make loan payments?
- ❑ Will you waive any fees if my payment is late?
- ❑ Will I get charged fees for using another bank's ATM?
- ❑ How long will it take for my deposits to clear?
- ❑ When the bank reopens, how will I know that I will be safe in the bank?

From Employees

- ❑ Will the bank close?
- ❑ Will the bank financially recover from this event?
- ❑ Is my job secure?
- ❑ What should I say to our customers?
- ❑ Where should I go for information about this crisis?
- ❑ Should I report to work?
- ❑ Is it safe to return to work?

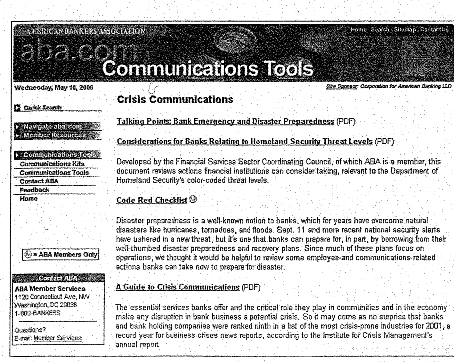
From Shareholders

- ❑ Will the bank financially recover from this event?
- ❑ What will be the long-term impact?
- ❑ What can I do to help?

From the Community

- ❑ When will the bank reopen?
- ❑ Will the bank move to a new location?
- ❑ Will bank services to local businesses be disrupted?
- ❑ Will you cash checks for non-customers?

Visit ABA's *Crisis Communications* Web page for additional resources!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Crisis Communications

Talking Points: Bank Emergency and Disaster Preparedness (PDF)

Considerations for Banks Relating to Homeland Security Threat Levels (PDF)

Developed by the Financial Services Sector Coordinating Council, of which ABA is a member, this document reviews actions financial institutions can consider taking, relevant to the Department of Homeland Security's color-coded threat levels.

Code Red Checklist

Disaster preparedness is a well-known notion to banks, which for years have overcome natural disasters like hurricanes, tornadoes, and floods. Sept. 11 and more recent national security alerts have ushered in a new threat, but it's one that banks can prepare for, in part, by borrowing from their well-thumbed disaster preparedness and recovery plans. Since much of these plans focus on operations, we thought it would be helpful to review some employee-and communications-related actions banks can take now to prepare for disaster.

A Guide to Crisis Communications (PDF)

The essential services banks offer and the critical role they play in communities and in the economy make any disruption in bank business a potential crisis. So it may come as no surprise that banks and bank holding companies were ranked ninth in a list of the most crisis-prone industries for 2001, a record year for business crises news reports, according to the Institute for Crisis Management's annual report.

Communicating with Employees

Being able to communicate effectively with your bank's employees during and after an emergency is crucial for a number of reasons. First, you want to know they are safe and what immediate needs they may have to help them recover. Second, you want to know who is available to help your bank restore operations and handle customer needs. Finally, you want to be able to provide employees with information on when, if, and how to report to work.

Historically, many businesses depend on telephone call trees to determine the status of their employees. While such trees can be effective, there is always the potential that land-line and wireless telephones will not work. Also, call trees will suffer if there are gaps or miscommunication from one party to another, and they can sometimes be slow.

E-mail alerts and message recordings are helpful for getting a consistent message to your employees. A page on your Web site or an Internet message board allows your employees not only to read about the status of the bank, but also lets them check in with their status. Some companies also designate an out-of-town phone number where employees can leave an "I'm Okay" message in a catastrophic disaster.

Some banks have found that two-way radios and satellite phones are the most effective means of communication when land-line and cell phone service deteriorates or is unavailable. The bottom line is that the more options you have available, the better chance you have of reaching employees with critical information.

Using these methods in conjunction with your bank's telephone call tree can greatly enhance your ability to communicate during an emergency. Redundancy is important, as you never know which systems will work most effectively to reach all employees given the circumstances.

Use a Variety of Communications Channels

- ❑ Call trees
- ❑ E-mail alerts
- ❑ Two-way radios
- ❑ Pagers
- ❑ Password-protected Web page
- ❑ Internet message board
- ❑ Out-of-town call-in number to leave or receive messages
- ❑ Satellite phones

Tips for Your Bank
Communicating with Employees

- ❑ Inform or remind your employees of your bank's disaster recovery plans.
- ❑ Have a phone tree established, but make sure you have alternate means of communicating with all employees in the event of a disaster.
- ❑ Carry a laminated card with key employee or director home and cell phone numbers in your wallet. However, make sure your crisis communications plan is not dependent on cell phones. Similarly, make sure key employees who may call in from home have corded phones. Cordless phones need electricity to work.
- ❑ Prepare a password-protected Web site where you can load specific, critical information on any disaster that may strike your bank or community.
- ❑ Store extra communications supplies and your institution's crisis communications plan at a backup location in case you are unable to use your office.
- ❑ Inform your employees of extra security measures your bank will institute in an emergency situation.
- ❑ Make sure your bank employees have copies of your town or city's evacuation map. Familiarize yourself with alternative transportation options in your community, should one form of transportation become unavailable or impractical.
- ❑ Let your employees know if your bank has identified a "safe room" for employees to gather in the event of an attack. Let them know if the room is equipped with emergency supplies (e.g., water and batteries, etc.) or if they should pack their own emergency supply kits to keep on hand by their desks.
- ❑ Store battery-powered radios with your emergency supplies so you have access to news and information should a power outage occur.
- ❑ Does your bank store emergency medical supplies, including defibrillators, in the safe room, in each department, or on each floor of your institution? If so, make sure employees know where to find them and how to use any equipment.
- ❑ Prepare to communicate immediately with your employees after an event — even if you don't have much to say.

Caring for Your Employees

Any emergency preparedness or disaster recovery plan is only as good as the people who are implementing it. First and foremost on the minds of ABA Task Force members was that during and after a disaster, "it is all about the people." Making sure that your staff is safe is, of course, at the top of the list of things to do. Learning to recognize and help employees through the stress they will undoubtedly encounter is an important piece of their recovery, as well as the recovery of your bank.

Signs of Stress

- ❑ Recurring dreams or nightmares
- ❑ Reconstructing the events surrounding the disaster in an effort to construct a different outcome
- ❑ Trouble concentrating or remembering things
- ❑ Questioning spiritual or religious beliefs
- ❑ Repeated thoughts or memories of the disaster which are hard to stop
- ❑ Feeling numb, withdrawn or disconnected
- ❑ Experiencing fear and anxiety when things remind you of the event
- ❑ Feeling a lack of involvement or enjoyment in everyday activities
- ❑ Feeling depressed, blue, or down much of the time
- ❑ Feeling bursts of anger or intense instability
- ❑ Feeling a sense of emptiness or hopelessness about the future
- ❑ Being worried about safety and overprotective of family members
- ❑ Seeking isolation and withdrawing from others
- ❑ Becoming very alert at times and startling easily
- ❑ Having problems getting to sleep or staying asleep
- ❑ Avoiding activities, people, or places that recall the disaster
- ❑ Having increased conflict with family members
- ❑ Keeping excessively busy to avoid thinking about the disaster
- ❑ Being tense or crying for no apparent reason

It is normal for people to have difficulty managing their feelings after traumatic events. However, not dealing with the stress can be harmful to an individual's mental and physical health. Outlined on the next page are a number of things your bank can do to help your employees recover from a stressful event, whether it happened just to them, their family, or to the larger community.

Helping Employees Cope with Stress

- ❑ **Educate your supervisors and managers.** Supervisors and managers should be aware of signs of emotional distress and available mental health resources, so they can advise their staff. Stress can occur with any employee, even those that may not have been directly affected by the emergency. It is, of course, especially important to be responsive to and watchful of employees that have suffered particularly devastating losses.

- ❑ **Encourage communication among employees.** Support of co-workers can help employees work through the stress. Allow your employees the opportunity to break from work to talk.

- ❑ **Have a professional counselor at the workplace.** Prepare to bring in professional help to counsel employees after a crisis or disaster. A professional can lead group meetings as well as provide individual counseling. This approach can help lift everyone's spirits and give extra help to those who need it. Look to your company Employee Assistance Program (EAP) for ideas on appropriate topics and guest speakers. It is very useful to make contact with professionals before any crisis occurs. Having an established relationship will facilitate immediate assistance after an emergency. Without such a relationship or a formal arrangement, finding professional help may be difficult if an emergency is widespread.

- ❑ **Host a community event.** Hold a blood drive at your worksite, collect clothes and household items for a local shelter, or host a special event for some heroes in your community. Doing something positive for others will help everyone feel they have some control over what happens to them.

- ❑ **Make allowances in your leave policy.** Allow people time off who wish to do something positive on the anniversary of a tragedy (such as volunteering at community organizations or visiting family members). Activities that help people feel they're making a difference will lift their spirits. And they'll share that improved morale at the workplace.

- ❑ **Plan for future emergencies.** Make sure all of your staff is aware of your bank's emergency preparedness and disaster recovery plans. Knowing there's a plan will help promote some peace of mind.

Communicating with Customers

During an emergency, such as a major natural disaster, your bank's customers are predominately concerned about their safety and the safety of their family. Directly after an emergency, your bank's customers must deal with a significant number of issues, many of which involve their finances.

When disaster strikes, every customer should know that their bank is prepared, their deposits are safe, and they will have continued access to their funds. Customers may want cash, feeling that many businesses will be unable to take credit and debit cards and unwilling to take checks. During the recent storms, while some temporary cash shortages did present themselves, most banks found that it was advisable not to ration cash. While there will be instances where your bank must limit cash withdrawals, it is very important to assure customers that their money is safe in the bank and will always be available later if need be.

Your bank's Web site can be extremely helpful in communicating with customers during an emergency, particularly if the site is hosted in an area outside of the vicinity of the event. Consider using some of the following sample messages, which can be posted online or at a branch location, as part of a call center script, or made available through other means to keep customers informed of your bank's recovery process.

"Our home banking service, our bank's Web site, and the bank's voice response system never faltered, as all of them were hosted in locations beyond the storm area."

Guy Williams,
President and CEO,
Gulf Coast Bank and Trust,
New Orleans

SAMPLE

A Message to Our Customers

[Your Bank] has put its disaster recovery plan into effect and our disaster recovery team is working hard to restore normal service levels to our customers and communities.

- ✔ [Your Bank] will reopen offices as conditions permit. We are monitoring conditions to ensure the safety and security of our customers and employees.
- ✔ The following branches are currently open: ______________________
- ✔ The following branches are currently closed: ______________________
- ✔ Our extensive ATM system is up and running. Customers may obtain cash from their checking accounts by using their ATM and VISA debit cards. We will waive or reimburse all fees that are charged to our customers for using another bank's ATM. However, those ATM owners may assess their own fees.
- ✔ We are receiving and crediting to customer accounts direct deposits, such as Social Security and payroll. We will be able to accept other deposits and execute transactions on certificates of deposit when we resume service at our offices.
- ✔ Our Internet banking site is also up and running. Customers can use it to perform all of the activities that are routinely available online, including checking balances, transferring funds, and paying bills online.
- ✔ We have also set up a special customer service line. **The number is xxx-xxx-xxxx.** Our customer service line will give you information about the progress we are making daily and give you the opportunity to leave a message that will be handled as soon as possible by a [Your Bank] banker.
- ✔ If you need funds wired to you, please call the ___________ xxx-xxx-xxxx.
- ✔ [Your Bank] has made arrangements with the United States Postal Service to have the bank's mail rerouted so that we can process lockbox services for our commercial customers, as well as any other transactions that are routinely handled through the mail. Mail service has been significantly disrupted, however, and we ask for your patience and understanding if there are delays with some of these services.
- ✔ We will continue to do everything we can to provide service to our customers and to fully restore our bank's operations.

Thanks for your understanding. Our thoughts are with you and your families and we sincerely hope they are all safe.

Giving Customers Financial Flexibility

After the storms of 2005, the FFIEC provided guidance asking banks to be flexible during the crisis. Details regarding this guidance are contained in Tool 5, ***"Understanding the Regulatory Response."*** Banks were encouraged to allow those customers hit hardest by Hurricane Katrina to skip some loan payments without it counting against credit histories, extend the terms of loans, and to restructure loans to take into account the new situation.

Depending on the scope of the disasters, your bank may want to consider giving automatic payment deferral to any customer in the affected area rather than requiring your customers to contact you.

SAMPLE

[Your Bank] Programs for Customers

[Your Bank] is here to support you in this critical time by offering a variety of financial resources.

- ✔ **Loan Payment Deferral** — Payment deferral on personal installment loans and lines of credit and business line of credit. (Call xxx-xxx-xxxx to inquire.)
- ✔ **Discounted Rates** — Discounted rates on new direct consumer installment loans and home equity loans. (Call xxx-xxx-xxxx for more information.)
- ✔ **Mortgage Payment Deferral** — Payment deferral assistance for [Your Bank] mortgage loans in ____________ affected areas. (Call xxx-xxx-xxxx to inquire.)
- ✔ **Credit Cards** — Credit card line increases and payment deferrals. (Call xxx-xxx-xxxx to learn more about this option.)
- ✔ **Waived Fees** — Fees waived for retail customers on incoming and outgoing wire transfers. (International wire transfers not included.)
- ✔ **Line Increases** — Consumer line of credit and home equity line increases. (Call xxx-xxx-xxxx for more information.)

Helping Retail Customers Prepare for Emergencies

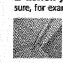
Letting your customers know that your bank is prepared for an emergency, and helping them get prepared at the same time, is a great way to establish a partnership with your customers. The following statement stuffer, ***"Preparing for Emergencies"*** can help get this message across, and can be ordered at **www.bankstuffers.com**.

Prepare one or more emergency evacuation bags. Most of what you're likely to pack inside will be related to personal safety—first-aid kits, food, water, prescription medications to last several days, flashlights and so on. But your emergency kit also is the place to keep some essential financial items and documents, such as a small amount of cash, a few blank checks, copies of your credit cards and identification cards, and contact information for your financial services providers. Also periodically review the contents of the bag to make sure the contents are up to date. It won't do you any good to write a check on a closed account. An evacuation bag should be waterproof, easy to carry and kept in a secure place in your home.

Sign up for direct deposit. With direct deposit, your paycheck and other incoming payments will be transmitted automatically to your bank account.

Use automatic bill payments from your bank account. This service enables you to make scheduled payments—such as for your phone bill, insurance premiums and loan payments—and avoid late charges or service interruptions.

Review your insurance coverage. Make sure, for example, you have enough insurance to cover your home, car and other valuable property against major damage.

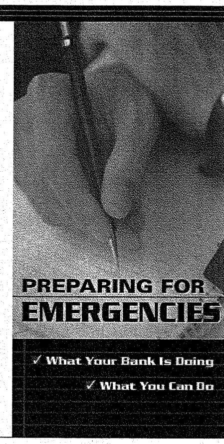


These steps should help you to prepare for possible emergency situations. And while we hope that you never have to confront an emergency, remember that it's important to be prepared.

For more tips about emergency preparedness, go to:
Department of Homeland Security
www.ready.gov

Your Bank Logo Here

Presented by the American Bankers Association



Your Bank Is Prepared. ARE YOU?

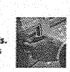
The nation's banks play a vital role in supporting the communities that we serve. Because of our importance to the economy—serving the financial needs of businesses and families—we are required to develop and test emergency and disaster preparedness plans and recovery procedures. These plans spell out how we will protect and recover electronic data and information, ensure the availability of cash, continue customer service and otherwise be up and running after a wide-ranging disaster—one in which personnel are unavailable, key facilities are closed, and power and phones are out for an extended period. We're prepared for emergencies when—not if—they happen. *Are you?*

HERE ARE SOME IMPORTANT ITEMS TO HAVE ON HAND IN THE EVENT OF AN EMERGENCY:

Keep forms of identification handy. These documents are important if you need to rebuild lost records or otherwise prove who you are. They include driver's licenses (or state-issued identification cards), insurance cards, Social Security cards, passports and copies of birth certificates.

Your checkbook with enough blank checks and deposit slips to last several weeks. Your need for checks will vary depending on how long you may be displaced or how often you write checks.

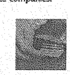
ATM cards, debit cards (for use at ATMs and merchants) and credit cards. These cards will give you access to cash and the ability to make payments on outstanding bills.



A small amount of cash. The amount you should have available will depend on several factors, including the number of people in your family and your ability to use ATM, debit and credit cards to get more cash or make purchases. Remember that cash in your house or wallet and not in your bank account can easily be lost or stolen.

Key phone numbers. These include family members and friends, as well as local and toll-free numbers for your bank, credit card issuers, brokerage firms (for stocks, bonds or mutual fund investments) and insurance companies.

Selected account numbers. These include bank and brokerage account numbers, credit card numbers, and homeowner's or renter's insurance policy information.

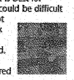


The key to your safe deposit box. You can't get into your safe deposit box at the bank without your key, no matter how many forms of identification you have.

ADDITIONAL STEPS THAT YOU CAN TAKE:

Make backup copies of important original documents. You will want duplicates for yourself, but also consider giving copies to loved ones (or at least let them know where to find your records in an emergency) or perhaps your attorney. You can make traditional copies or scan documents and store the images on computer disks.

Determine what to keep at home and what to store in a safe deposit box at your bank. A safe deposit box is best for protecting certain papers that could be difficult or impossible to replace but not anything you might need quick access to, in case your bank is closed for the night or weekend. Original birth certificates and important contracts can be stored in a safe deposit box.



Seal the most important original documents in airtight and waterproof containers to prevent water damage. This is good advice even if you place the items in a safe deposit box at the bank, because the boxes are water resistant but not waterproof.

Helping Business Customers Prepare for Emergencies

Small business owners are especially vulnerable to large-scale emergencies, as the 2005 storms clearly demonstrated. Their ability to get back on their feet, and your ability to help them do so, will go a long way toward your community's success in recovering from the event.

One of your first steps as a banker is, of course, to help the business get financing to rebuild, develop inventory, meet payroll, and make other payments, either directly from your bank or from the Small Business Administration. Review Tool 4 of this Toolbox, ***"Understanding Disaster Financial Assistance"*** to learn how the SBA's disaster lending program differs from the agency's more conventional program, and more importantly, how the program is evolving to help you better serve your business customers.

"If the residents of the community can't work, can't get the wherewithal to be employed, make money, make payments, then the banks can't survive. They're all in this together. It's an economic engine that has to work together."

Mac Deaver,
Executive Director,
Mississippi Bankers
Association

SAMPLE

Bank Programs to Help Your Business Survive During an Emergency

Internet-based Services — Internet-based balance reporting and transaction initiation service can be used from any location with Internet access. In a disaster, that means you can work from home or an alternate company location and continue to perform critical banking activities, such as monitoring and managing cash flow, transferring funds, and collecting and depositing payments from customers.

ACH and Direct Deposit — Large companies are much more likely to use Direct Deposit than small and medium size businesses. According to a recent study, only 26 percent of the small businesses surveyed used direct deposit to pay their employees even though 75 percent were aware of such services. Employees depend on a regular paycheck, and tax and vendor payments have firm due dates. Automating these time-sensitive payments will greatly aid you in the event of an emergency, enabling you to conduct a host of vital transactions electronically, including direct deposit of payroll, state and federal tax payments, vendor payments, and more.

Online Bill Presentment and Payment — Online bill presentment and payment service is a great tool for automating your everyday business payments such as rent and utilities, and eliminates the need for contingency plans for accessing paper checks in the event of an evacuation.

Corporate Cards — A bank corporate credit card for employee business purchases also supports disaster recovery. By distributing corporate cards to key staff members, they can continue to conduct business despite a workplace evacuation. Staff members no longer need a checkbook to make purchases, and they can access cash with their cards.

Provide this checklist or a similar one to your business customers to help them prepare and also direct them to www.ready.gov.

Disaster Recovery Planning Checklist for Businesses

Safeguard your property. How well will your property withstand a disaster?

- ❑ Building
- ❑ Equipment
- ❑ Computer systems
- ❑ Company vehicles
- ❑ Other company assets

Have contact information available to you. Have contact information for:

- ❑ Employees
- ❑ Key customers
- ❑ Important vendors, suppliers, business partners
- ❑ Insurance company

Determine which functions are critical to the survival of your company.

- ❑ Which functions must you perform?
- ❑ How soon do they have to be functioning again?
- ❑ What functions can wait?

Build a disaster recovery team.

- ❑ Who will participate in recovery?
- ❑ Who will not?

Determine where you will go. What alternatives are available to you?

- ❑ A satellite or branch office of your own business
- ❑ The office of a business partner
- ❑ Home
- ❑ Other ____________________

Build your disaster recovery procedures.

- ❑ Who will you want to contact and when?
- ❑ Who will be responsible for specific tasks or functions?
- ❑ How will business in a disaster differ from business as usual?
- ❑ How will you track progress and effectiveness?

Determine what you will need to perform critical functions from your alternate location.

- ❑ Computers and software
- ❑ Access to data
- ❑ Phones/radios
- ❑ Equipment
- ❑ Other ____________________
- ❑ Vehicles
- ❑ Common supplies
- ❑ Supplies unique to your business (order forms, contracts, etc.)

Document your strategies based on the elements above, print your plan, supply it to key Disaster Recovery employees, and store the plan outside the place of business.

How the Banking Industry Communicates During a Disaster

During a large-scale emergency, there is a well-defined process at the national level for members of the financial services industry to communicate with each other and with the regulatory community. Two organizations, one public and the other private, drive these communication links.

On the public side, the Financial and Banking Information Infrastructure Committee (FBIIC or the Agencies) consists of all the financial services regulatory agencies, as well as the Department of the Treasury and the Homeland Security Council. FBIIC is chartered under the President's Working Group on Financial Markets, and is charged with improving coordination and communication among financial regulators, enhancing the resiliency of the financial sector, and promoting public/private partnerships. Treasury's Assistant Secretary for Financial Institutions chairs the group.

On the private side, the Financial Services Sector Coordinating Council (FSSCC or the Council) consists of all of the national trade associations across the financial services industry including the ABA, and other entities of importance to the industry. The mission of the Council is to "foster and facilitate the coordination of financial services sector-wide voluntary activities and initiatives designed to improve Critical Infrastructure Protection and Homeland Security."

US Treasury Department
Commodity Futures Trading Commission
Conference of State Bank Supervisors
Federal Deposit Insurance Corporation
Federal Housing Finance Board
Federal Reserve Board of Governors
Homeland Security Council
National Assn of Insurance Commissioners
National Credit Union Administration
New York Federal Reserve Bank
Office of the Comptroller of the Currency
Office of Federal Housing Enterprise Oversight
Office of Thrift Supervision
Securities and Exchange Commission

↔

Financial Services Trade Associations & Institutes (including the ABA)
Depository Trust & Clearing Corporation
New York Stock Exchange
ChicagoFIRST
The Clearinghouse
FS/ISAC
Securities Industry Automation Corporation
The Options Clearing Corporation
VISA USA
Fannie Mae
NASDAQ
AMEX
ASIS International

Both organizations have produced a number of publications to help banks with critical infrastructure protection and disaster recovery issues. For instance, much of Tool 7: ***"Preparing for the Avian Flu and Other Potential Pandemics"*** is based on a Council document. More information regarding FBIIC and the Council can be found on their respective Web sites, as well as Treasury's critical infrastructure Web site.

The Council maintains a crisis communication system that allows it to convene an immediate conference call of members in case of an emergency. These calls typically include Council members, as well as representatives from the Department of Homeland Security and the Federal Energy Regulatory Commission and other agencies, as necessary. After these calls, Council members relay information to their own membership, including state bank associations, across the financial services industry.

An important public/private partnership has been formed to help bankers prepare for and recover from disasters.

FBIIC and FSSCC are designed to help the financial services industry prepare for and recover from disasters.

Look for FBIIC and FSSCC to get vital information to you and your state bankers association during an emergency.

The Role of FBIIC and FSSCC During an Emergency

- ✔ Ensure that relevant information known to national organizations is relayed to state bankers associations and local financial institutions
- ✔ Develop an accurate picture of the situation on the ground to understand:
  - ❑ The needs of local financial institutions
  - ❑ The extent of power outages
  - ❑ Whether gas shortages exist
  - ❑ Where any evacuees are being sent
  - ❑ How and where financial assistance is being distributed
  - ❑ Where additional shipments of cash are needed
  - ❑ How many bank branches have been affected
- ✔ Determine the level of regulatory flexibility necessary to speed recovery

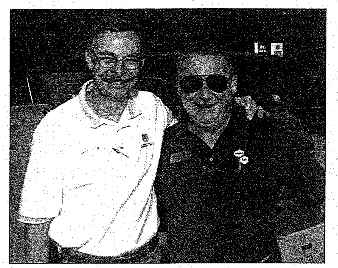
This process has been used several times and continues to improve. For example, on August 14, 2003, Ontario and much of the northeastern United States experienced the largest blackout in North America's history. Electricity was cut to 50 million people, bringing darkness to customers from New York to Toronto to North Bay. During the power outage, the Agencies and the Council activated their crisis communication protocols immediately and held periodic conference calls throughout the day in conjunction with Homeland Security and the Federal Energy Regulatory Commission. The speed and high-quality level of communication between regulators, private institutions, and federal, state, and local participants allowed rapid information gathering and dissemination.

On August 1, 2004, this process was tested again when Homeland Security announced that it had received intelligence from multiple sources indicating that al Qaeda terrorists could be poised to strike financial institutions in the Northeast. Prior to the public announcement, the Council was able to assist Homeland Security in informing the appropriate institutions of the threat and convene a call of Council members with Homeland Security and Treasury before the public announcement.

Finally, the hurricane seasons of 2004 and 2005 have significantly strengthened these communication links and allowed the Council to fully integrate state associations into the process and understand their importance.

In the future, you can anticipate that state associations will play an increasingly important role in facilitating communications among all key participants.

Communicating with Other Financial Institutions



Kyle Waters of Hibernia and Ric Smith of Metairie Bank.

The 2005 storms demonstrated just how important it is for banks to work together to share cash reserves, processing facilities, and communications. There were many instances of banks helping each other after the storms to meet each others customer's needs. Tool 2, ***"Plugging Your Bank into the Local Emergency Management Process"*** discusses the value of banks accelerating efforts to develop strong public/private partnerships at the local level to address emergencies. A crucial first step in this process is the development of more formal lines of emergency communications with other local financial institutions.

The Role of Your State Bankers Association During an Emergency

There are many examples over the years of state bankers associations playing a vital role in banks and communities preparing for and recovering from a disaster. These associations serve as the central point of contact for coordination among local banks, state banking commissioners, and state officials. State associations also provide the bridge to federal emergency management, the ABA, and federal regulatory officials.

During most natural disasters, the most important information is available locally, on the ground. During such emergencies, local financial institutions and your state bankers association will participate in Council calls. For instance, during the 2005 storms, the calls between FSSCC and FBIIC that were hosted by the FDIC included the national and state bankers associations and state banking commissioners of the states surrounding the Gulf of Mexico.

In past large-scale events, much attention was paid to whether large-dollar transactions and settlements could be accomplished. However, Hurricanes Katrina, Rita and Wilma demonstrated that preserving retail customers' ability to conduct smaller-value transactions is just as important to maintaining public confidence in the banking industry. With the assistance of their state bankers associations, banks were able to share facilities, resources, and information, providing most banking services under the most difficult of circumstances.

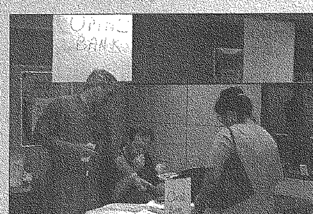
During the 2004 and 2005 hurricanes, all of the associations in the affected states performed admirably. The following case study of the Louisiana Bankers Association's actions during and after Hurricane Katrina is one that we can all be particularly proud of as members of this industry.

CASE STUDY

The Louisiana Bankers Association in Action After Hurricane Katrina

"Sleep is what I want for Christmas," said Peter Gwaltney, speaking as much for the New Orleans banking community as for himself. For Gwaltney, chief executive officer of the Louisiana Bankers Association (LBA), the sleepless nights began the day before Katrina hit. That's when he and State Banking Commissioner John Ducrest worked out a multi-level communications plan so they could stay in close contact throughout the anticipated disaster. While individual banks have been pursuing their own recovery plans, nearly everything involving industry-wide coordination in areas hit by Katrina and other parts of the state have relied on coordination by both regulators and state-level banking associations.

LBA headquarters helped organize banking caravans, enabling representatives of area banks to check out their facilities while under the armed protection of troops or other officials. As conditions improved, LBA helped arrange individual bank trips into affected branches, including clearing visits through the relief authorities, as coordinated by the banking commissioner.



Security was at a premium, creating limits on how many and which branches could be opened. Gwaltney says that Commissioner Ducrest could only provide security for about 16 branches out of the 117 that normally serve the New Orleans area. It was determined that eight on each side of the banks of the Mississippi River would be opened, with institutions sharing the space to enable all banking customers access to their banking accounts.

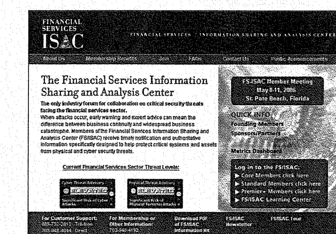
The sharing was not the result of any forward planning, according to Gwaltney, but the product of understandings hammered out minute by minute at LBA headquarters. Gwaltney gave credit for this arrangement to certain bankers who stepped up and said it was the thing to do and gained support among fellow bankers.

Meanwhile, LBA's building became a combination phone center, crash pad, and island of calm for evacuated bankers attempting to get their bearings, take inventory of staff and facilities, or simply get an outbound phone call made.

Republished from the ABA Banking Journal, www.ababj.com/subscribe.html

The Financial Services Information Sharing and Analysis Center

One of the ABA's emergency preparedness goals is to ensure that your bank receives important Homeland Security and critical infrastructure threat and vulnerability alerts in a timely and useful way.



The primary source of these alerts is the Financial Services Information Sharing and Analysis Center (FS-ISAC or Center). The Center is a privately funded organization, owned by the financial services industry, and serves as the operational arm of the FSSCC. The mission of the FS-ISAC is to disseminate trusted and timely information regarding the physical and cyber-security operating risks faced by our industry. The departments of Treasury and Homeland Security view the Center as the primary means for sending alerts to the financial industry.

Making FS-ISAC basic participation a free feature of your ABA membership is a big step in making our sector stronger and safer against terrorism and other malicious physical and cyber events. ***The ABA strongly recommends that your bank become a Basic Participant of the FS-ISAC.*** If you have any questions, please contact the ABA's Don Rhodes at **drhodes@aba.com**.

Joining the FS-ISAC

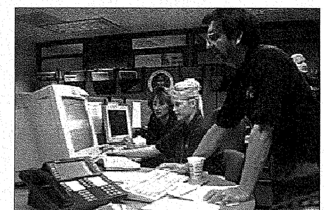
The ABA has reached an agreement with the FS-ISAC that allows your bank to become registered as a basic participant of the Center, by virtue of your membership in the ABA, at no cost to your institution. This free service will provide your institution with the following benefits:

- ✔ Direct linkage to the U.S. Treasury and DHS for the delivery of critical messages in times of crisis
- ✔ Delivery of Urgent Alerts and Crisis Alerts from the FS-ISAC via e-mail to two officers in your bank
- ✔ Participation in industry surveys to assess sector condition in critical times
- ✔ The ability to submit anonymous or attributable events by e-mail

Contact the ABA to make sure your bank is a member.

Securing Priority in the Telecommunications System

There are a number of priority systems for both voice and data communications coordinated by the National Communications System (NCS). The FSSCC is working to have these programs broadened so that they can be made available to a greater number of institutions.



Employees of the National Communications System (NCS) monitoring telecommunications.

Securing Local and Long-Distance Priority

There are two programs, one for land-lines and one for wireless systems, that allow businesses to receive priority emergency phone service.

GETS allows your bank to make emergency calls when phone lines are congested.

The Government Emergency Telecommunications Service

The Government Emergency Telecommunications Service (GETS) provides emergency phone service for land lines. The service enables public and private entities to receive emergency access and priority processing of both local and long distance calls. It is intended to be used in an emergency or crisis situation when the system is congested and the probability of completing a call over normal or other alternate telecommunication means has significantly decreased.

GETS is a cost-effective, easy-to-use emergency telephone service that is accessed through a simple dialing plan and Personal Identification Number card verification. While there is no subscription fee, GETS calls are billed at the rate of $0.15 per minute for calls within North America and most of the Caribbean. International calls are billed at commercial rates. The card provides a priority number to be called when calls cannot otherwise be completed. It is maintained in a constant state of readiness as a means to overcome network outages through such methods as enhanced routing and priority treatment.

Wireless Priority Service

For wireless service, NCS provides the Wireless Priority Service (WPS). Wireless network congestion was widespread on September 11, 2001. With wireless traffic demand estimated at up to 10 times normal in the affected areas and double nationwide, the need for wireless priority service during emergencies became a critical and urgent national requirement. In response, the National Security Council requested that the NCS deploy a nationwide priority access queuing system for wireless networks.

Multiple carriers and access technologies are needed to make WPS work. T-Mobile became the first WPS carrier in December 2003. Cingular and Sprint Nextel followed in July 2004. Verizon is anticipated to come into the WPS system during 2006.

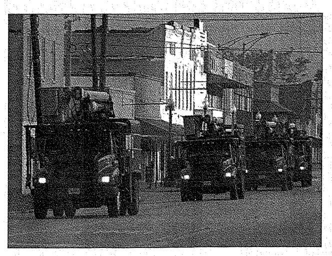
Anyone wishing WPS priority must first apply for and receive a GETS card, after which they can apply for and should receive WPS priority as well.

Applying for Voice Telecommunications Priority

- ✔ The FBIIC agencies have decided that to qualify for GETS or WPS sponsorship, organizations must support the performance of emergency preparedness functions necessary to "maintain the national economic posture during any national or regional emergency."
- ✔ A high standard limits the number of banks that can participate in the program. There is a realization that there is great benefit in expanding both programs' reach.
- ✔ The Council envisions changes to these programs over the next two years that will enhance your bank's ability to acquire a GETS card.
- ✔ We encourage you to apply for the GETS program if your bank has not done so by contacting your primary federal regulator, who acts as your sponsor to the program.
- ✔ The request for GETS sponsorship can be found at **http://www.fbiic.gov/policies/GETS_policy.htm**.

Securing Data Communications Priority

The National Communications System also sponsors the Telecommunications Service Priority (TSP) Program, which was developed to ensure priority treatment for the nation's most important telecommunication services. Following natural or technical disasters, telecommunications service vendors may become overwhelmed with requests for new services and requirements to restore existing services.



Restoring data lines in Louisiana.

The TSP Program has two components: restoration and provisioning. A restoration priority is applied to new or existing telecommunication services to ensure their restoration before any non-TSP services. A provisioning priority is obtained to facilitate priority installation of new telecommunication services.

Telecommunications services are designated as essential where a disruption of a few minutes to one day could seriously affect the continued operations that support a national security or emergency preparedness function.

The FBIIC agencies currently sponsors only circuits that support what they have determined to be ***critical*** payment system participants. FBIIC has contacted these financial organizations and service providers that meet this criterion and requested that they apply for TSP sponsorship.

If a financial organization or service provider believes that one or more of its circuits qualify for TSP sponsorship, that institution should submit a sponsorship request in accordance with the process established by its primary regulator. The FSSCC and the ABA are working with FBIIC to determine how to broaden the TSP program to include more financial institutions.

Maintaining and Restoring Data Communications

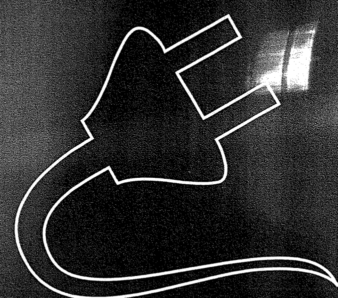
- ❑ Maintain contact with your data communication providers and ensure that they understand your requirements during an emergency.
- ❑ Ask your core processing, Internet banking, and any other vital service provider if they have TSP and how it will affect restoration of service during an emergency affecting your bank.
- ❑ Review Tool 2, **"Plugging Your Bank into the Local Emergency Management Process"** to learn how to accelerate your efforts to develop strong public/private partnerships at the local level to address emergencies.

ABA Toolbox
on Emergency Preparedness

ABA MEMBERS ONLY

2
TOOL

Plugging Into Your **Local Emergency Management Process**



1-800-BANKERS
www.aba.com

AMERICAN BANKERS ASSOCIATION

Plugging Into Your Local Emergency Management Process

Introduction

Historically, business continuity, emergency management, and disaster recovery plans have been developed by and geared to individual financial services firms — with firms establishing, testing, and refining their own plans. Yet financial institutions are also dependent on each other, as well as on the efficiency and effectiveness of the local emergency management process during an emergency.

Protecting the security of the financial services sector has an important local dimension. Threats to the physical security of the financial services infrastructure occur in specific locations, and responding to these threats often requires the involvement of state and local governmental officials, local law enforcement, and local first responder organizations.

The 2005 storms demonstrated just how important it was for banks to work together to share cash reserves, processing facilities, and information. The storms also pointed out the need to accelerate efforts to develop strong public/private partnerships at the local level to address these emergencies.

All financial institutions have established at least informal contact with emergency management agencies in the communities that they serve. Several regions and cities have gone one step further to more formally link financial services with federal, state and local emergency management agencies. This Tool examines a number of localized public/private partnerships, reviews how these organizations were established, and factors critical to their success. Implementation of these types of localized emergency management networks can greatly assist your bank in preparing for and recovering from major emergencies.

"A crisis is no time to exchange business cards."

Brian Tishuk, Executive Director, ChicagoFIRST

What the ABA and the Joint Preparedness Task Force Are Doing for Your Bank

- ✔ Supporting the efforts of financial institutions in a number of communities to establish a local financial services emergency preparedness network.
- ✔ Working with the U.S. Department of the Treasury and federal regulatory agencies to seed the establishment of private networks around the nation.

Action Steps for Your Bank

- ✔ Make sure you are aware of how the emergency preparedness and response process works in your state and community.
- ✔ Find out how well prepared your community is for a disaster. Take the lead with others in your community to make yourselves better prepared collectively.
  - Evaluate how well the public sector understands your needs and the needs of other financial institutions during a disaster, as well as your bank's vital role in any recovery.
  - Join a private sector organization, either for all businesses or for the financial services industry, in your community that is devoted to emergency management issues and partners with public sector first responders. Two examples of such groups — Citizen Corps and ChicagoFIRST — can be found in this Tool.
  - If a private-sector organization does not exist, start one. This Tool outlines the value of these networks and discusses what it takes to make them successful.
- ✔ Following a major disaster, first responders who provide fire, medical and other emergency services will not be able to fully meet the demand for these services. Having employees across the bank trained in emergency management procedures can assist your bank's recovery.
  - Have Human Resources determine how many of your employees have had various forms of emergency preparedness training and if this training needs to be more actively supported by the bank.
  - Determine if your community has a Community Emergency Response Team (CERT) program. CERT emergency management training programs are generally sponsored by local emergency response agencies and organizations, providing an excellent way to integrate your bank into the local emergency management process.

Why Organizing Locally Is Important

Regardless of the size of the community your bank serves, there is a common set of concerns that arise when preparing for or responding to an emergency, including how to get your people out of the area, how to keep serving your customers, how to get timely and accurate information, and how to get essential personnel back into affected areas for recovery:

Bank Concerns During an Emergency

- ✔ How can we get people out of the area safely?
- ✔ How can we keep serving our customers during an emergency?
- ✔ How can we get timely and accurate information?
- ✔ How can we get essential personnel back into affected areas for recovery?

Understanding your local emergency management process and making contacts with officials that can answer these questions prior to an emergency is vitally important.

Emergency management and critical infrastructure protection are not competitive issues. They are issues of public confidence — not just in your bank — but in the ability of all financial institutions to meet their customers' needs.

Local financial institutions will naturally join together during times of crisis. Formalizing these arrangements before an emergency makes recovery that much easier. It also makes the job of your community's first responders easier. When the local banking industry is organized, first responders know whom to contact to answer questions about how to evacuate an area, who to get emergency information to so that the banking industry is informed about events, and how to get essential bank personnel back into the area.

The following offices or organizations can be helpful to you as you build your emergency preparedness network.

Contacting Your Homeland Security Office

Your state's Homeland Security contact is an important link to the state and federal emergency management process. In some instances the contact will be affiliated with state law enforcement. In others, he or she will be affiliated with state emergency management. The state Homeland Security Web site will also generally link to regional and local contacts within your state and other information of local importance. These resources allow you to better understand and establish more contacts within your local first responder community.

Locate Your State's Primary Homeland Security Contact

The U.S. Department of Homeland Security maintains a map linking to these contacts, as well as the state-based Homeland Security Web site, if available.

http://www.dhs.gov/interweb/assetlibrary/states.htm

Joining Your Local Citizen Corps Efforts

While you may consider your first responder contacts to be obvious, having your bank more directly involved in your community's emergency management process will help you be better prepared. One avenue that you can use to get more involved is your local Citizen Corps, a component of USA Freedom Corps that creates opportunities for individuals to volunteer to help their communities prepare for and respond to emergencies.

Currently there are almost 2,000 local Citizen Corps Councils in the United States, serving over 70 percent of the nation's population. A central goal of many Citizen Corps is to coordinate emergency management efforts with local government during a disaster. In this way, the public and private sector are fully integrated when events occur.

The Citizen Corps mission is to have everyone participate in making America safer.

Citizen Corps Encourages Citizens to:

- ✔ Accept the personal responsibility to be prepared
- ✔ Get training in first aid and emergency skills
- ✔ Volunteer to support local emergency responders, disaster relief, and community safety

Existing Citizen Corps efforts are typically directed at the local level by Citizen Corps Councils or a similar coordinating body that brings together leaders from the relevant sectors of the community to interact with first responder organizations.

Citizen Corps Council Responsibilities

- ✔ Build on community strengths to develop strategic plans for the whole community
- ✔ Focus on public education, training, and volunteer opportunities for community and family safety
- ✔ Ensure citizens are connected to emergency alert systems
- ✔ Promote and oversee Citizen Corps programs
- ✔ Provide opportunities for special skills and interests
- ✔ Organize special projects/community events

Supporting Your Local Community Emergency Response Team Program

In many communities, Citizen Corps emergency preparedness and response efforts are centered on Community Emergency Response Teams (CERT), the official emergency preparedness program of the Federal Emergency Management Agency (FEMA). The CERT concept was originally developed and implemented by the Los Angeles Fire Department in 1985.

Following a major disaster, first responders who provide fire and medical services will not be able to fully meet the demand for these services. A large number of victims, communication failures, and road blockages could prevent people from accessing emergency services they have come to expect at a moment's notice through 911. People will have to rely on each other for help in order to meet their immediate life-saving and life-sustaining needs. ***The better prepared, informed and trained your employees are, the better your bank will fare during an emergency.***

Because CERT programs are generally sponsored by local emergency response agencies and organizations, supporting your local CERT program, or starting one, is another excellent way to fully integrate your bank into the local emergency management process.

The Value of the Community Emergency Response Team Program

The program can train your employees to be better prepared to respond to emergency situations in their communities. The program:

✔ Educates people about disaster preparedness for hazards that may impact their area

✔ Trains people in basic disaster response skills, such as fire safety, light search and rescue, team organization, and disaster medical operations.

CERT members can assist others in their neighborhood or workplace following an event when professional responders are not immediately available to help.

Over 1,100 communities have listed their program on the CERT Web site, available at:

https://www.citizencorps.gov/citizenCorps/certsByState.do

Over 90 percent of the time a private citizen provides the first assistance in an emergency.

Joining or Starting a Regional Infrastructure Protection Coalition

In addition to the efforts of the private sector to organize their emergency preparedness and response through the Citizens Corps and CERT, the financial services industry is organizing private sector regional infrastructure protection coalitions around the country.

ChicagoFIRST is looked to as the model for the financial services coalitions that are currently being formed around the country. The purpose of the coalition is to build a close operational relationship between private institutions and public agencies to better protect Chicago's financial sector. The organization works to facilitate cooperation among all the key players, such as fire and rescue, police, and state and federal Homeland Security representatives in order to provide better response in the event of an emergency.

Banks and other financial companies are organizing regional protection coalitions, privately owned and operated by the industry, to protect their and their customers' assets.

The Value of Regional Coalitions

Coalitions are normally designed to help protect the industry by:

✔ Raising the prominence of financial institutions in the emergency management process

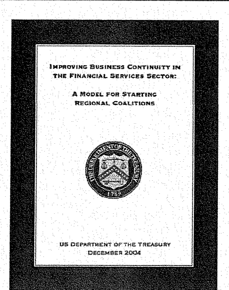
✔ Improving the business continuity of members

✔ Building better relationships with first responders

✔ Understanding local evacuation plans

✔ Resolving access issues to declared disaster sites

✔ Placing personnel in Emergency Operations Centers


IMPROVING BUSINESS CONTINUITY IN THE FINANCIAL SERVICES SECTOR:

A MODEL FOR STARTING REGIONAL COALITIONS

US DEPARTMENT OF THE TREASURY
DECEMBER 2004

Coalition-Building Resource

An excellent guide for those seeking to establish a similar regional coalition is the U.S. Department of the Treasury publication, "Improving Business Continuity in the Financial Services Sector: A Model for Starting Regional Coalitions"

This document can be found at:

http://www.treas.gov/press/releases/reports/chicagofirst_handbook.pdf

FloridaFIRST currently serves South Florida, is organizing in South Central Florida, and will ultimately have locations in most major Florida cities.

While Treasury is extremely supportive and encourages the development of regional coalitions, each coalition is/will be governed and funded by the financial institutions and other private firms involved in it. Each coalition has its own unique characteristics. The best example of this uniqueness is comparing ChicagoFIRST's concentration on the city's financial district to FloridaFIRST's desire to serve the entire state, given the threat of hurricanes.

Additional coalitions following the ChicagoFIRST model are currently being organized in Los Angeles, San Francisco, and Washington, D.C. Others are anticipated in a number of cities across the nation over the next few years.

Plugging Into Coalitions Outside Financial Services

There are several coalitions that have been formed in other areas of the country that include other businesses beyond financial institutions.

The New England Disaster Recovery Information X-Change is a non-profit organization with more than 1,200 active members throughout New England. Its mission is to provide a low-cost venue for disaster recovery and business continuity planning professionals from the six New England states to meet and share ideas and experiences. Additional information on NEDRIX can be found at **www.NEDRIX.com**.

The key is to not reinvent the wheel, but rather leverage those organizations that already exist in your community.

Another coalition currently being organized is the Minnesota Information Sharing and Analysis Center (MN-ISAC). ***Tool 1: Improving Emergency Communications*** in this toolbox discusses the Financial Services Information Sharing and Analysis Center (FS-ISAC), a national organization designed to serve the entire financial services industry. The MN-ISAC has taken the national concept and applied it regionally to share information and analysis between businesses and government in Minnesota that are critical to the local, regional, or state economy. Additional information on the Minnesota ISAC can be found at **http://webpages.charter.net/cterzich/MN-ISAC/**.

Starting a Citizens Corps Council or Regional Infrastructure Protection Coalition

If the financial institutions in your area are not formally organized in some fashion for emergency management purposes, consider starting a Citizens Corps Council, a regional infrastructure protection coalition, or some variation of these two types of organizations.

Any form of partnership with other financial institutions, other businesses, and first responders in the same market can greatly enhance the ability of a regional area to absorb and recover from disasters, both natural and man-made.

The Citizens Corps/CERT model will more naturally fit smaller communities and is designed to be flexible. Every community is different, with different strengths and vulnerabilities.

Typical Citizens Corps Council Membership

- ✔ First responders/emergency managers
- ✔ Members of the volunteer community
- ✔ Elected officials
- ✔ Business leaders, bankers
- ✔ School systems representatives
- ✔ Representatives from the transportation sector
- ✔ Media executives
- ✔ Minority and special needs representatives

The responsibilities of local Citizen Corps Councils are more broadly-based than a regional coalition's would be, and generally include the following:

Local Citizen Corps Responsibilities

- ✔ Promoting and strengthening the Citizen Corps programs at the community level, such as Volunteers in Police Service programs, CERT teams, Medical Reserve Corps units, and Neighborhood Watch groups
- ✔ Providing opportunities for special skills and interests
- ✔ Developing targeted outreach for the community, including special needs groups
- ✔ Providing opportunities of training in first aid and emergency preparedness
- ✔ Organizing special projects and community events
- ✔ Encouraging cooperation and collaboration among community leaders
- ✔ Identifying effective practices and reporting accomplishments

Conversely, the regional coalition model will more naturally fit larger cities. The following issues generally exist in cities currently setting up these coalitions:

Reasons for Establishing Regional Coalitions

- ✔ To participate in the city's emergency center in the event of a crisis affecting the financial community
- ✔ To provide permits/passes or otherwise credential essential personnel to safely access business facilities in the event of a general evacuation of the city (credentialing)
- ✔ To develop and communicate standard evacuation procedures for industry personnel to exit the city in the event of a disaster
- ✔ To increase city and state administrators' awareness of the critical role of the financial services sector

Key Success Factors

The U.S. Department of the Treasury report, "Improving Business Continuity in the Financial Services Sector: A Model for Starting Regional Coalitions," lists a number of key success factors associated with establishing a regional coalition, many of which will also apply to setting up a Citizen Corps Council or similar initiative.

Key Success Factors

- ✔ Have senior, dedicated, and determined leadership at the outset.
- ✔ Arrange for support and involvement of key federal agencies to help jumpstart progress.
- ✔ Obtain buy-in of local authorities.
- ✔ Ensure that the private sector understands the public sector and vice versa.
- ✔ Stay focused on a prioritized and practical agenda with concrete, identifiable goals.
- ✔ Rely on a trusted third party for interim project management support.
- ✔ Steadily increase participant involvement and commitment over time.
- ✔ Appreciate the benefits of establishing an informal network to support business continuity and disaster recovery across the financial services sector.

Leadership

In the case of ChicagoFIRST, having senior, dedicated, and determined leaders has been crucial to its success. The individuals leading the effort are senior within their company, dedicated to the cause, able to garner the support of their institution, and effective at outreach and mobilizing the coalition. Because the effort involved a number of institutions ensured that the project was seen as a collective effort from the outset other than being formed for one institution's benefit.

Support

The support and involvement of key federal agencies has jumpstarted the process in ChicagoFIRST, FloridaFIRST, and the other coalitions currently organizing. Having the U.S. Department of the Treasury involved added credibility to the effort and greatly assisted the process of getting local authorities involved.

Buy-in of Local Authorities

There are a number of benefits the local public sector can receive from having the private sector better organized. It increases the flow of timely, accurate information across both sectors and allows for the establishment of a single point of contact during a crisis. Coalitions also enlarge the overall network of private sector individuals who can provide support to each other, allowing the public sector first responders to focus on those most in need.

Understanding

There must be also a mutual understanding across the public and private sectors of the rules under which both parties operate. The private sector members should understand that the public sector can't focus on the needs of just one group, has a different pace and culture, and may be understaffed or unable to respond due to other factors.

Focus

Regional coalitions should stay focused on a practical and prioritized agenda with concrete, identifiable goals. Ideally, the agenda should include three or four initial objectives to allow participants to stay on track and focus on what they have in common. Limiting the number of objectives will allow for optimal use of the available resources.

Interim Project Management Support

The Treasury report notes that one of the challenges when launching a regional coalition is finding the resources necessary to devote to the task. Representatives from member institutions will have full-time responsibilities at their individual institutions. Relying on a trusted third party for initial project management support is a practical and effective way to deal with this potential roadblock. Financial services trade associations or regional business roundtables are examples of organizations that could potentially provide staff to serve in this capacity. In the case of ChicagoFIRST, BITS, the technology arm of the Financial Services Roundtable, played the interim role. In the case of FloridaFIRST, the Florida Bankers Association has stepped up in a similar capacity.

Involvement and Commitment

It is vitally important that coalition members be committed to the cause. The clearest way to demonstrate that commitment is through gradually increasing involvement over time, as the benefits of membership become increasingly clear. The sequence could begin with simply attending meetings and then moving on to host them and pay for assorted incidentals; volunteering to lead and "own" an agenda initiative; and finally serving as an external representative of the organization to recruit members and resources.

Informal Benefits

The Treasury study also notes that one of the unexpected but clear benefits arising from participation in ChicagoFIRST was the opportunity to open up communication links and interact with colleagues at other financial institutions and strategic public agencies and not-for-profit organizations on an ongoing and informal basis. This social network can only help to increase the preparedness and resilience of the financial sector in your community.

ABA Toolbox
on Emergency Preparedness

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3
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Refreshing Your **Emergency Preparedness and Disaster Recovery Plans**

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Refreshing Your Emergency Preparedness and Disaster Recovery Plans

Refreshing Your Emergency Preparedness and Disaster Recovery Plans

Introduction

All the tools in this Toolbox can help you refresh your bank's plans in light of recent disastrous events. There were some lessons learned from the recent storms that deserve special attention, such as dealing with contaminated currency and safe deposit boxes, having adequate emergency power systems, and establishing mobile branches.

This Tool provides you with resources and guidance for these and a variety of additional topics. Moreover, the tool also reviews FFIEC recent examiner emergency preparedness and disaster recovery guidance that cuts across a number of topics. The aim is to help you refresh, not rewrite, your existing plans across the wide array of issues that emergency preparedness and disaster recovery present.

Action Steps for Your Bank

- ❐ Review the Lessons Learned from the Storms (on pages 3 and 4) for tips on how to refresh your bank's plans.
- ❐ Refine how your bank tests your plans to include emergency responses of your core service providers and other critical business partners.
- ❐ Review your bank's strategy for emergency power during a disaster and include scenarios where both primary and secondary power sources fail in your testing procedures.
- ❐ Evaluate the use of mobile branches and ATMs.
- ❐ Discuss the possibility of shared facilities with other banks in your community and work out prior agreements for such arrangements. Also set up agreements with other banks to provide cash and other banking services.
- ❐ Educate employees about procedures for handling contaminated currency, checks, safe deposit boxes and other items. Strongly consider using ACH and Check 21 to turn contaminated checks into electronic payments.

Keep it Simple

Refreshing your existing plans in light of new threats does not have to be an exhaustive undertaking. In fact, the more complicated you make your plan, the less effective it may be if you have to implement it. Focusing on those lessons learned from the 2005 storms should make your efforts more effective.

In February 2006, the Federal Financial Institutions Examination Council (FFIEC) released guidance instructing examiners to focus on certain areas when supervising banks located in the region affected by Hurricanes Katrina and Rita. **Tool 5: Anticipating the Regulatory Response** recommends action steps to prepare for a post-disaster examination, based on this guidance. The guidance explicitly states that examiners should assess the adequacy of a bank's disaster recovery and business continuity plans and consider whether these plans need to be modified.

Lessons from the Storms

Bankers affected by the storms of 2005 have been an excellent source of guidance as to where their own plans needed buttressing and how to address the disaster recovery and business continuity issues raised by the FFIEC. While many of these lessons are discussed throughout this Toolbox, the following two pages provide an overview of areas that have been highlighted by the Task Force and others.

Disaster Recovery and Business Continuity Examination Focus

The bank regulatory agencies can be expected to extend their focus on disaster recovery and business continuity to banks unaffected by Hurricanes Katrina and Rita, as appropriate. Expect examiners to check your bank's ability to:

- ✔ Deal with extensive damage to facilities and equipment.
- ✔ Operate with limited staffing.
- ✔ Re-establish internal telecommunications capabilities.
- ✔ Retrieve and restore data systems and electronic information.
- ✔ Handle contaminated loan files, collateral, and other documentation.
- ✔ Locate and contact third-party service providers and key suppliers.
- ✔ Replace contaminated cash and coins.
- ✔ Handle contaminated safe deposit boxes and their contents.
- ✔ Locate and contact other key business partners and suppliers.

Learned from the Storms

- ❑ Care For Your Employees
  - ✔ An emergency preparedness or disaster recovery plan is only as good as the people who are implementing it. Making sure that your staff is safe is at the top of the list of things to do.
  - ✔ Encourage your staff to take adequate precautions to protect themselves and their families against disasters.
  - ✔ Learn to recognize and help employees through the stress they will undoubtedly encounter. Addressing emotional distress is an important piece of their recovery, as well as that of your bank.
- ❑ Establish Multiple Forms of Communication
  - ✔ Assume that much of the communication system will be inoperable and that backup circuits are unavailable. Consider obtaining satellite phones as backup.
  - ✔ Provide multiple ways for your employees to get in touch with your bank. Use a combination of Web site message boards and out-of-market call-in numbers to provide status updates and allow employees to leave messages about their situation. Have each employee provide the contact information for an out-of-market person they will contact after a disaster.
- ❑ Provide Critical Supplies
  - ✔ Critical supplies will be in short supply or non-existent after a disaster. If you are in a region prone to hurricanes, consider warehousing food, water, lumber, tarps, tools and medicine for a four-day or longer period.
  - ✔ Consider placing your bank's external suppliers on retainer to deliver needed materials automatically with no contact or request.
  - ✔ Make arrangements in advance for tetanus shots for employees and families. Cuts and minor injuries can become infected quickly and pose a serious health threat.
  - ✔ Remember that Power is King. Be sure to warehouse fuel for generators in several locations. Have multiple vendors for fuel to help supply you after a disaster.
  - ✔ Work out arrangements with partner banks in and out of your market to assist each other with critical supplies during disasters.
- ❑ Evacuate Quickly
  - ✔ Ensure your branch evacuation plans are consistent with evacuation plans of the counties, cities, and municipalities where they are located.
  - ✔ Evacuate critical employees to pre-tested, established locations. If the disaster can be anticipated, strongly consider sending key information technology staff to any recovery center ahead of the event to be ready to restore systems.
  - ✔ If a natural disaster is pending, ensure branches are closed early, but in an orderly fashion, allowing evacuating customers to get cash and other services.

Learned from the Storms

- ❑ **Build Redundancy in Your People and Systems**
  - ✔ Identify employees critical to short-term recovery and make sure each has a staff member assigned as backup support. Anticipate that several key people will be unavailable and test the capabilities of their replacement. Critical staffing areas may include wire room, information technology, check processing, ACH processing, correspondent and cash letter reconciliation and cash vaulting personnel.
  - ✔ Your Internet banking, ATM, check processing, voice response units, call centers, commercial cash management, and wire technology should all have backup systems available for immediate activation. Where possible, implement redundant systems in differing markets. Decide which systems can be hosted out-of-market, such as Internet banking and voice response.
  - ✔ Make sure each branch has basic customer account information. Have a simple application that provides account, name, address, identifier, account status, and balance information.
- ❑ **Establish Key Locations**
  - ✔ Anticipate that employees will likely not be available to open all locations. Establish key locations as rallying points for returning employees and to serve customers. Each employee should know where to report, with one backup location in case a key location is inoperable.
  - ✔ Have generators installed at key locations that can run the entire building. Have a pre-defined source to deliver currency to these locations and have the source keep delivering until told to stop.
  - ✔ Key locations must have sufficient, visible security located outside the facility before operating.
- ❑ **Establish Business and Operational Unit Responsibilities**
  - ✔ Have simple, practical, and executable plans. Appoint a business recovery coordinator for each business and operational unit who understands the unit's role and is held accountable for its employees. Have each unit identify key employees, who must understand evacuation strategy and dependencies on other units or service providers.
  - ✔ Each unit's plan should be volume-tested. Run a full day's worth of activity (not just a low volume) through the alternative system.
- ❑ **Provide Management Oversight of Business Recovery Plans**
  - ✔ Set up a business recovery steering committee of objective, experienced front- and back-office professionals. Rotate membership to spread expertise.
  - ✔ Charge the committee with ensuring every area of the bank has an adequate recovery plan. Require annual testing.
- ❑ **Understand Key Partner Plans**
  - ✔ Make sure you have copies of the business recovery plans of your key vendors, services providers, and customers, and ensure they are compatible with your plans.
  - ✔ Assume a key partner will not deliver needed services during or after a disaster. Determine how this would impact your operations and what alternatives you would have if this were to occur.

Testing Your Plans

As part of your bank's risk monitoring process, the FFIEC requires that you test your business continuity plan at least annually, subject it to independent audit and review, and update your plan based upon changes to personnel and the internal and external environments.

According to the FFIEC, the frequency and complexity of testing should be based on your bank's risk assessment and business-impact analysis. Management should clearly define what functions, systems, or processes are going to be tested and what will constitute a successful test. The objective of a testing program is to ensure that the plan remains accurate, relevant, and operable under adverse conditions. Testing should include applications and business functions that were identified during the impact analysis. The business-impact analysis determines the recovery point objectives and recovery time objectives, which then help determine the appropriate recovery strategy.

Given the recent storms, anticipate greater regulatory attention on how your bank tests its emergency response procedures.

The most important and valuable aspect of business continuity testing is the validation of documentation and processes. Process recovery procedures, manual workarounds, restoration procedures, resource listings and call trees cannot be counted on until tested and proven complete and accurate in a test environment. Any test of your bank's business continuity should include emergency response procedures, including your bank's escalation and notification processes; alternate processing procedures, including security procedures at an alternate site; and full recovery procedures, including returning to normal processing.

The Different Types of Tests

To assist banks, the FFIEC has outlined four different types of business continuity tests in their guidance (see the checklist on page 6 for details). In order of complexity they are:

- ✔ The orientation/walk-through
- ✔ The tabletop
- ✔ Functional testing
- ✔ Full-scale testing

The agencies recommend that when testing objectives, start small and gradually increase in complexity and scope. The FFIEC testing guidelines state that even small banks should participate in tests with their core service providers and test other critical components of their business continuity plan. Unmanned recovery testing, where back-up tapes are sent to the recovery site to be run by service provider employees, is not a sufficient test of a bank's plan.

The regulatory expectation is that banks, regardless of size, are conducting or moving toward conducting functional tests with their core service providers and other critical business partners.

Business Continuity Testing Types Noted in the FFIEC Guidance

Orientation/Walk-through. An orientation/walk-through is the most basic type of test. Its primary objective is to ensure that critical personnel from all areas are familiar with the business continuity plan. Action steps:

- ❑ Discuss the plan in a small group setting.
- ❑ Conduct individual and team training.
- ❑ Clarify and highlight critical plan elements.

Tabletop/Mini-drill. Participants choose a specific scenario and apply the business continuity plan to it. Action steps:

- ❑ Practice and validation of specific functional response capabilities.
- ❑ Focus on demonstration of knowledge and skills, team interaction, and decision-making capability.
- ❑ Role-play with simulated response at alternate locations or facilities to act out critical steps, recognize difficulties, and resolve problems in a non-threatening environment.
- ❑ Mobilize all or some of the crisis management and response team to practice proper coordination.
- ❑ Vary degrees of actual — as opposed to simulated — notification and resource mobilization to reinforce the content and logic of the plan.

Functional Testing. Functional testing involves the actual mobilization of personnel at other sites to establish communications and coordination as set forth in the business continuity plan. Action steps:

- ❑ Demonstrate emergency management capabilities of several groups by practicing a series of interactive functions, such as direction, control, assessment, operations, and planning.
- ❑ Conduct actual or simulated response to alternate locations or facilities using actual communications capabilities.
- ❑ Mobilize personnel and resources at varied geographical sites.
- ❑ As experience is gained, increase degree of actual — as opposed to simulated — notification and resource mobilization.

Full-scale Testing. In a full-scale test, the bank implements all or portions of its business continuity plan by processing data and transactions using back-up media at the recovery site. Exercises generally extend over a longer period of time to allow issues to fully evolve as they would in a crisis. Action steps:

- ❑ Validate crisis response functions and demonstrate knowledge and skills, management response, and decision-making capability.
- ❑ Conduct activities at actual response locations or facilities with on-the-scene execution of coordination and decision-making roles.
- ❑ Conduct actual — as opposed to simulated — notifications, mobilization of resources, and communication of decisions and actual processing of data utilizing backup media.
- ❑ As experience is gained, conduct testing involving enterprise-wide participation and interaction of internal and external management response teams with full involvement of external organizations.

Planning for Emergency Power

Backup power plays a critical recovery role in all disasters. Permanent backup systems can sustain facilities that safeguard public health, safety, and welfare, even through extended utility outages. On a wider scale, mobile generators of all sizes can help life return to normal by powering schools, stores, offices, factories, homes, and your bank while rebuilding goes forward and the utility company restores the power grid.

When testing your bank's plan, include the use of emergency power, so that bank emergency personnel know in advance what key facilities and services will need power, how much they will need, and what hurdles must be overcome regarding emergency power's availability. Bank employees should also be trained in using emergency power, particularly the safety precautions necessary for its proper use.

Consider involving the local electric utility in your test. During an actual emergency, coordination between utility staff and emergency personnel can improve the utilization of mobile equipment. For example, if your bank's emergency personnel know when power is about to be restored in a given sector, they can plan to release mobile power units to other areas where they are needed.

Power is never more precious or more scarce than after a disaster. Lights are out, telephones disabled, businesses shut down. People may need food, water, heat and medical attention. There can be no real recovery without power.

Don Rhodes, American Bankers Association

Establishing Permanent Backup Power

The first imperative in emergency power planning is to outfit your key facilities with permanent backup power, and to make sure existing backup equipment is the proper size and in good repair.

At a minimum, your bank's permanent backup systems should be sized to deliver all the facility's necessary services. For each key branch and other facility, determine whether your backup needs to carry the load of the entire building, or if it is possible to operate effectively with only a portion of the building operational and choose the equipment best suited for the purpose.

Using Mobile Power

Your plans should also envision scenarios where backup power systems fail. Such was the case during the flooding in New Orleans after Hurricane Katrina, where many backup systems were installed in basements and sub-basements that filled with water. If your bank's personnel are not experienced with power-generating equipment, it is necessary to arrange — in advance — for professional assistance to install and operate the mobile units.

If possible, mobile power equipment should be sized to have the same capacity as permanent backup power. However, your ability to operate at the same capacity may be limited by the space that is available to place a mobile generator outside your building. Plan beforehand at your key facilities so you know what size generators will be appropriate. If a facility has a large power requirement, but lacks space to install a large power unit, two or more smaller units might perform just as effectively.

Many banks found the capacity of backup generators was not large enough to handle operations after Hurricane Katrina.

Types of Emergency Power

Generators may be fueled by gasoline, natural gas, propane or diesel. Each has advantages and disadvantages. Larger facilities rarely install a gasoline backup generator, preferring natural gas or diesel. Gasoline has a very limited shelf life and using gas stored for a long period causes it to fail. Long-term storage of gasoline can also be a fire hazard. Worst of all, when power outages occur due to ice storms, hurricanes, tornadoes, earthquakes, and all other disasters, gasoline may be scare because it is the first commodity to be hoarded.

Natural gas and propane offer an alternative to gasoline and are readily available from local sources. They do deteriorate or evaporate with age. The most significant disadvantages of propane are its low energy content per volume and the reliability of the engine. Propane generators are nearly all built on converted gasoline engines. The conversion to propane leaves intact all the complexity and short life of these engines. Propane does allow a gasoline engine to run cleaner and somewhat more quietly, but the engine design is unchanged, so reliability issues remain.

Diesel power — essentially the same fuel oil that heats many homes — is often required for large, commercial installations. Diesel engines are popular because of their reliability, ruggedness, low maintenance, economical operation, and low initial cost for larger capacities. This is the safest of the fuels and the most economical. Diesel engines are the simplest and most reliable internal combustion engines in common use. They have the fewest moving parts, fewest total parts, and fewest adjustments.

Sourcing Power Equipment

Often, the same supplier will offer permanent backup systems for sale or lease, as well as mobile power units for rent. Look for:

Adequate Inventory. The supplier should have all necessary equipment in stock — generator sets and accessories — or be willing to commit to getting it on demand. Suppliers who do not have the equipment in the region must have the capability to deliver it in an emergency.

High Level of Service and Support. The supplier should be willing to deliver power generating sets and, in some cases, additional equipment like power cable, transformers, etc. In addition, suppliers should train personnel in the equipment operation or, if necessary, provide staff for operation, service, and maintenance.

Location. At a minimum, the supplier should be strategically located to serve the customer base. The ideal supplier will have multiple locations from which to deliver equipment and dispatch support staff.

Experience. Longevity in business can be a good indicator of a supplier's reliability. Suppliers should be willing to discuss their track record for delivering and installing equipment under tight deadlines, as well as their experience in emergencies. Reputable suppliers will provide references.

Retainer Contracts. When renting power units for emergencies, it is not always possible to secure an absolute guarantee of equipment availability. However, some suppliers offer contracts that provide a "right of first acceptance." In this arrangement, a party pays the supplier a retainer fee for an allocation of specified equipment. In return, the supplier agrees not to release that equipment to another entity without the first party's consent.

Guidelines and recommendations for power-generating backups may be found at
http://www.fema.gov/plan/prevent/howto/index.shtm

Mobile Branches and ATMs

The storms of 2005 demonstrated that branches and even backup sites were vulnerable to long-term disruptions. Moreover, many bank customers had to find temporary places to live, often a great distance away from the bank's branches. One way to continue to serve customers is through the use of mobile branches and ATMs.

Purchasing mobile branches or ATMs for future disaster recovery needs is obviously an expensive investment. The large "mobile-home" facility is not very mobile and cannot be used except in a disaster recovery mode. However, there are smaller "recreational-vehicle" mobile branches/ATMs that offer greater flexibility for deployment. Some mobile branch/ATM manufacturers will lease these vehicles and others may allow banks to contract for emergency uses in advance.

While there are many manufacturers and suppliers of mobile branch/ATMs, we are listing a sampling below. This listing does not indicate endorsement, but is only provided as a resource.

Mobile Branch/ATM Providers
Mobile Automated Teller Terminal Systems http://www.matts.com/newpgrt.html
Mobile Branch Facilities, Inc. http://www.mobileatm.com/about.html
CAPS Business Recovery Services http://www.capsbrs.com/mobile.php
North American Buildings, Inc. http://www.nabsinc.com/Catalog/information.asp
Whitley Manufacturing, Inc. http://www.whitleyman.com/casestudy/banks/index.html
Nortex Modular Space http://www.portablebuilding.net/
Tyson Corp. http://www.tysoncorporation.com/html/custommodular/banks.html
Pac-Van, Inc http://www.pacvan.com/index.php

Sharing Branch and Other Facilities

Sharing facilities is a common practice after a disaster and is a practical strategy for offering financial services when the branch operations of a number of banks within an area become subject to either short- or long-term business interruptions.

The development of reciprocal aid agreements between banks serving a community prior to a disaster facilitate setting up such arrangements when a disaster does occur. Some of the potential responsibilities of the "Host" and "Guest" banks in such circumstances are detailed below.

Sharing Facilities

Potential Responsibilities of the Host Bank

- ❑ Permit the Guest bank to place temporary banners or other signage outside and within the Host bank.
- ❑ Permit the Guest bank to use at least one teller station and a customer service desk.
- ❑ Provide the same security measures for the Guest bank's teller station as the Guest bank provides for its own operations, such as dual security control.
- ❑ Sell cash to the Guest bank and provide associated security measures.
- ❑ Sell cashiers' checks, traveler's checks, money orders, Series EE bonds and similar instruments to the customers of the Guest bank's customers.
- ❑ Permit the Guest bank to use an area within the vault of the Host bank.
- ❑ Permit the Guest bank reasonable use of business equipment on mutually agreeable terms.

Potential Responsibilities of the Guest Bank

- ❑ Obtain all necessary regulatory approvals to operate a temporary branch facility.
- ❑ Abide by the Host bank's normal rules and procedures, including operating hours.
- ❑ Provide staff at the Host bank's facility.
- ❑ Reimburse the Host bank for expenses.
- ❑ Maintain all work separately from the Host bank.
- ❑ Provide own courier services or network.

Meeting Cash Needs

Your bank's ability to fulfill your customers' cash needs during an emergency is, in all likelihood, the most important role you will initially play. Your bank and your customers may also have currency that needs to be replaced because it has become contaminated or mutilated.

Federal bank regulatory agencies responded to the aftermath of the recent hurricanes by taking immediate steps to ensure that the market had sufficient liquidity to meet consumers' and businesses' demands for cash in the absence of alternative electronic payment options. The Federal Reserve System activated contingency operations and procedures to provide currency and check services to the Gulf Coast region from alternative Federal Reserve locations. The Federal Reserve Bank of Atlanta began armored car transports to the region as soon as possible, relocated their check-clearing operations to Atlanta, and maintained the discount window to assist all depositories in meeting their liquidity needs.

During an emergency, the Federal Reserve may have to relocate where your bank would normally receive currency services. For instance, as a result of Hurricane Katrina, regular currency services for financial institutions in the New Orleans Branch zone were provided by the Atlanta Federal Reserve Bank's head office or its Birmingham or Jacksonville branches, by the Dallas Federal Reserve Bank's head office or its Houston Branch, or by the St. Louis Federal Reserve Bank's Memphis Branch. Your armored carrier company should be able to inform you which location the carrier will use, so that you can contact that Reserve Bank office.

Setting up agreements across banks to provide cash and other banking services to each others' customers before a disaster can assist your efforts when one occurs.

The ability of the carrier and the Federal Reserve to get currency to your bank, however, may be impeded by limited fuel supplies in the area. This may require searching for alternative sources of currency. Partnering with other local financial institutions to supply cash and other banking services to the overall community can be essential in these circumstances. Entering into such agreements before an event, through your local banker's bank, state bankers association or otherwise, can greatly assist your efforts.

Given potential disruptions to cash suppliers, many bankers become concerned about their ability to meet customer cash needs and may consider limiting cash withdrawals. Reports from bankers affected by the 2005 hurricanes indicate that, in some instances, such limits increased customers' concern about their ability to withdraw future cash and caused them to withdraw more cash than they otherwise would have. Maintaining your bank's current policies regarding ATM and other cash withdrawals, and in some cases raising them if it is possible, can minimize customer fears about access to cash.

Dealing with Contaminated Currency and Checks

Any event that includes flooding can contaminate banks' cash and checks. Items can become contaminated after being subjected to floodwater or prolonged exposure to water or other liquids. As a result, they may have come into contact with sewage, chemicals, or other hazardous matter that make the items unsuitable for handling and personal contact.

Contaminated items create health issues for any party involved in the collection process. Cash and checks in ATMs and other items that could not be protected from the environment in the banks' branches and operations centers, or held by retail establishments, are all vulnerable.

Contaminated Currency Deposit Procedures

The Federal Reserve routinely handles contaminated currency for financial institutions. The agency also requests that customers speak to their bank if they have contaminated currency so after an emergency you may have to accept (and replace) your customers' and some non-customers' currency as well as handle your own contaminated currency.

- ❑ If you possess contaminated currency, contact your servicing Federal Reserve office to obtain additional deposit instructions and arrange for delivery of special shipping bags, provided free of charge by the Federal Reserve.
- ❑ If you are returning currency received from a customer, obtain as much information as possible regarding the type and extent of the contamination of the currency.
- ❑ Prepare currency as a separate deposit labeled "Special Handling — Contaminated Currency" in a strong tamper-evident clear plastic bag to be place inside the shipping bag.
- ❑ Notify the local Federal Reserve office of the incoming shipment and the nature of the contamination before forwarding the currency. These precautions are necessary to ensure the currency is handled in a manner that will protect the health and safety of all parties that may be exposed to it.
- ❑ Contact the local law enforcement authorities (and the Federal Reserve Bank) prior to depositing currency that is suspected of being contaminated with a bio-hazardous agent.
- ❑ Do not comingle contaminated currency with regular deposits. Failure to segregate contaminated deposits from regular deposits could result in refusal of deposits.
- ❑ Assemble currency into full straps and/or bundles — by denomination — if possible.
- ❑ Complete a separate deposit ticket providing the breakdown of the currency by denomination to accompany the deposit. UCAP fees and the minimum deposit requirements of Operating 2 Circular will be waived for a contaminated deposit submitted under these guidelines.
- ❑ Include a letter describing the source of the contamination with all deposits of contaminated currency. Do not place this letter within the shipping bag. Ship the currency to the Federal Reserve via the normal armored carrier delivery schedule.
- ❑ Determine if the Federal Reserve Bank is accepting contaminated coin deposits. Under normal circumstances they do not accept such deposits, but may do so during unusual circumstances. Alternatively, contact the U.S. Mint at (215) 408-0203 for contaminated coin deposit instructions.

Source: The Federal Reserve Board.

Contaminated Check Collection Procedures Using ACH

The Federal Reserve, in concert with NACHA - The Electronic Payments Association, has developed guidelines to assist banks in collecting contaminated checks and minimizing the potential for health issues.

Bank employees may have to deal with a variety of contaminated items after a disaster.

Automated clearing house rules allow destroyed checks to be collected using the automated clearing house system under the Destroyed Check Entry (XCK) format. This collection alternative can be utilized for forward items only. Most ACH origination software supports the destroyed check format.

Generally, checks must be for less than $2,500. However, in extenuating circumstances such as the recent storms, NACHA can opt not to impose penalties on financial institutions when compliance with the dollar restriction is not practical. This waiver generally lasts for a set period of time; during Hurricanes Katrina and Rita the restrictions were waived from September 1 through October 31, 2005.

The health risks of contaminated items should not be underestimated. Turning contaminated items into electronic payments, either through the ACH system or Check 21, minimizes these risks.

Treasury can also agree, in extenuating circumstances, to accept U.S. Treasury checks under the XCK format. Contaminated postal money orders cannot be collected using XCK and must be submitted using the check channel procedures that are described below.

Originating depository financial institutions (ODFIs) should be aware that the acceptance of XCK entries is optional, although NACHA will encourage receiving depository financial institutions (RDFIs) to be accommodating. Additionally, during Hurricane Katrina the ACH XCK format used the two-character discretionary field in the entry detail record where banks could identify the entries as Hurricane Katrina. You should contact your ACH software vendor if there are questions regarding using this format for future emergency situations.

Contaminated Check Collection Procedures Using Check Channels

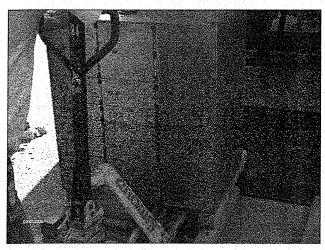
As with 9-11, the recent storms have demonstrated the value of check conversion initiatives, recently facilitated by Check 21. If your bank has Check 21 software, converting contaminated checks into substitute checks for electronic collection is the most effective way to start the presentment process.

In lieu of presenting substitute checks in emergency situations, if the items have been processed and filmed prior to contamination, an indemnified film copy can be submitted. If the items has not been processed, consider the use of a recodak film machine to create a collectible film copy in lieu of the original. If readily available, you may also use a copy machine to create a legible photo in lieu of the original. If none of the these alternatives is available, contact the paying bank and request instruction on direct presentment and collection.

More details regarding the handling of contaminated items and converting them to electronic payments can be found in the resources noted in the final section of this Tool.

Revising Your Vault and Safe Deposit Box Procedures

Customers view your bank vault and safe deposit boxes as an important way for them to store their most vital records. You may be finding that demand for safe deposit boxes has increased at your bank as a result of recent disasters. Demand may also spike in the future prior to hurricanes or other events where notice is given.



Safe deposit boxes may have to be moved after a disaster.

After a disaster occurs, you can anticipate that customers will be contacting you to ask about the status of their safe deposit box and how to access it.

While fire-*resistant* and water-*resistant* vaults and safe deposit boxes are not completely immune to fire or flood. Even if your safe deposit boxes were not harmed, your bank may experience damage to a branch that will require that you move the boxes to another location.

If you must move your safe deposit boxes due to floodwaters, these boxes must be checked for contaminants before you can provide your customers access to them. Make your customers aware of these dangers and give assurances that your bank is doing everything possible to protect and reclaim boxes and, at the same time, protect all recovery workers and box renters alike from contact with harmful pollutants. Your first concern should be protecting the health and welfare of those involved in safe deposit box reclamation.

Knowing how to deal with potentially contaminated safe deposit boxes and having set answers to standard customer questions regarding how to access their boxes will greatly assist your bank after a disaster has occurred. The following pages contain a number of tips on how to deal with severe flooding, as well as some sample frequently asked questions for your bank to use in the event you have branch or vault damage that affects customer safe deposit boxes.

Steps to Take for Safe Deposit Boxes Following Severe Flooding

- ❑ Notify your bank's insurance and bonding company of the extent of damage, if known, including how many safe deposit boxes may be involved. Find out if they want to be present when the boxes are opened.
- ❑ Follow your local hospital's procedures on how to decontaminate the building, including the safe deposit boxes.
- ❑ Contact other banks in your immediate area not involved in the flood and inquire if they have vacant safe deposit boxes that could be rented to your customers.
- ❑ Give all employees a tetanus shot as well as any vendors or customers that are allowed inside a contaminated building.
- ❑ Take pictures of the bank prior to any cleanup of the area as proof of damage.
- ❑ Have a professional service clean floors and walls and remove any debris.
- ❑ Contact your service provider for assistance with opening the vault door. Anyone entering the vault area should use rubber gloves and a surgical mask. Obtain deodorizers to place in the vault when the door has been opened.
- ❑ Once the vault door is open, take pictures or videos and then clean and decontaminate the area following the procedures recommended by the hospital. Have your cleaning company clean the floors and exposed walls in the vault. Have your service provider wipe down and dry the surfaces of the sections of the boxes and vault door. Oil should be applied to the doors to prevent rusting.
- ❑ Various tools, such as tongs, screwdrivers, and pliers may be needed to remove items swollen with water.
- ❑ Contents should only be handled according to procedures provided by your medical advisors, attorney and insurance company. Secure access forms for entry to the boxes. If original contracts are available, have the customer sign the release portion. If contracts not available, have affidavits prepared by your attorney for release. When the vault doors are opened and after the customer's safe deposit box tin has been removed, the interior of the boxes should be wiped out and dried.
- ❑ Be sure a security officer is present in the vault area when customers are allowed to access the boxes.
- ❑ Place large trash cans in the vault area for removing water emptied from the safety deposit boxes.
- ❑ Contact your service provider to see if they will be available to assist when customers come in to force open or drill boxes that will not open. Contact your customers and set up appointments 15 minutes apart to handle the maximum number of customers per day.
- ❑ Supply large plastic bags to customers for removal of box contents. Additional employees may be needed to assist customers with accessing the vault. Have customers inventory the contents and provide you with a complete claim form, according to your insurance company's instructions.
- ❑ Contact local jewelers to see if anyone will volunteer to clean all flood-affected jewelry for free.

Source: American Deposit Services, Inc.

SAMPLE
Safe Deposit Box Frequently Asked Questions

As you are aware, some of our bank locations were damaged as a result of [describe the event]. The safe deposit boxes located within these branches have also been affected.

We are currently working to assess the damage and any possible contamination to the boxes in these locations. Once that assessment has been made, we will contact you via mail and let you know the status of your safe deposit box. We expect to complete this process in approximately ___ weeks.

If your box needs to be moved to a secure location, you will be notified of the new location along with instructions on how to collect your belongings via mail.

What happened to the contents in my safe deposit box? Because we have been unable to enter all locations, we do not know the condition of specific safe deposit boxes. We are working as quickly as possible to re-open the most severely damaged locations and make an assessment of damage and contamination. We will communicate to you as quickly as we can the condition and any change in location of your box.

Has my safe deposit box been relocated and where is it now? The safe deposit boxes located at __________ have been, or are in the process of being, relocated to ______________ . All safe deposit boxes located in the __________ branch have been relocated to ____________________ . Please contact ______________ at xxx-xxx-xxxx for more information and to make an appointment to access your safe deposit box(es).

If possible, contact the branch or office where your box was located to determine the condition of your box.

When will I be able to retrieve my safe deposit box contents? This depends upon the level of damage and possible contamination in the location where your safe deposit box is currently housed. If your box needs to be moved to a secure location, you will be contacted regarding how to make arrangements to retrieve your belongings. If the location is not damaged or contaminated, you will be able to access your safe deposit box at its current location when the branch re-opens. Those dates are still being finalized.

Are my safe deposit box contents insured by the bank? Who is responsible for any damaged or ruined contents? The bank does not insure customer contents. Customer contents are insured by a customer's homeowners insurance.

Can the bank write me a letter for my insurance company, stating that the branch was damaged? Yes. Branch associates can provide a letter to customers who request information for their insurance companies or agents.

Are safe deposit boxes waterproof? Safe deposit boxes and the vault are water resistant — not waterproof.

If the keys to my box were lost or left in my house, how will I get in my box? If you lost or misplaced your keys as a result of the emergency, you will need to present appropriate identification. The boxes will be drilled at the bank's expense.

How do I make my safe deposit box payment? You may make your safe deposit payments at any branch. You need to inform the branch of the location of your box.

Dealing with Damaged Records

After the storms of 2005, large numbers of bank records were destroyed entirely; others survived only to be damaged later by high humidity and mold. Recovery of damp or damaged records was often made even more difficult by unhealthy residue in the buildings. The time and money spent by banks to recover damaged records was significant.

Traditional response plans were not equal to the devastation after Hurricane Katrina. For example, plans often envision removal of wet records from affected areas within 48 hours. This was impossible as access to buildings and areas damaged by Hurricane Katrina was controlled by law enforcement or military personnel. Moreover, hazardous conditions also prevented any quick response.

Traditional disaster plans also assume that staff most familiar with the records and responsible for their care will be available. In the aftermath of Hurricane Katrina, however, record-keepers were often displaced or preoccupied with their own overwhelming needs. If the primary record-keepers are unavailable, the response will be left to others who have little experience with records.

The challenges associated with paper bank records after a disaster demonstrates the value of your bank having an aggressive imaging program and electronic document storage strategy. Imaging existing documents and limiting the paper created during bank transactions greatly enhance your ability to restore operations.

Having your procedures for dealing with damaged records documented will prevent records from being unnecessarily destroyed by employees not familiar with the proper techniques to protect them.

Procedures for Dealing with Damaged Records

- ❑ Remember that not every record can be saved. Have a vital records management plan and give priority to identified vital records. Identify information that may be duplicated from another source.
- ❑ Contract with a recovery service and have a representative present when you do the damage assessment walk-through. Use a damage assessment report form for consistency across record groups.
- ❑ Categorize the records and information into three groups: (1) Destroyed or unsalvageable records and information; (2) Damaged records and information requiring recovery techniques; and (3) Unharmed, retained records and information
- ❑ Concentrate limited resources on stabilizing unharmed records.
- ❑ Stabilize the damaged area as quickly as possible. Reduce air temperature and humidity and increase air circulation to the damaged area to help prevent the growth of mold and mildew. Remove recoverable records and information and transfer them to an area that can be environmentally controlled.
- ❑ Place water-damaged microfilm and magnetic media in clean, clear water, or rinse media and place in sealed plastic bags while still wet. **Do not allow microfilm to dry** before it is restored by a qualified lab. **Do not use diskettes or hard drives** before they have been cleaned and restored.
- ❑ Begin insect extermination procedures immediately on isolated infested records.
- ❑ Wet records must be dried or frozen within 48 to 72 hours to limit mold and mildew. They should be packed in appropriate cartons, such as plastic milk crates, for drying. Consider using a commercial vacuum drying chamber. Be sure to label every box and keep an inventory of contents. Every box and crate should have a lid.

Continued on Next Page

Procedures for Dealing with Damaged Records, Continued

- ❑ **Handle wet paper records very carefully.** Use plastic gloves at all times, and try not to lift large groups of wet records with your hands. Use a flat, straight piece of wood or plastic (such as a paint-stirrer stick) to lift and separate wet paper to give more support to the length of the paper. This also helps in spotting insects lodged between pages and folders.
- ❑ Wet film (including microfilm and photos), audio and video tape, imaging media and magnetic media should not be freeze- or vacuum-dried. Contact professional services or labs for recovery assistance.

Sources: Criticall, The Library of Virginia, Northeast Document Conservation Center.

Sources of Additional Information

Disaster Response

FEMA Emergency Response Action Steps
http://www.fema.gov/plan/ehp/response.shtm

Testing Your Plan

Business Continuity Plan Testing: Considerations and Best Practices, Brian Zawada
http://www.isaca.org/PrinterTemplate.cfm?Section=Publications1&CONTENTID=7888&TEMPLATE=/ContentManagement/ContentDisplay.cfm

Dealing with Contaminated Currency and Checks

Federal Reserve Contaminated Check Procedures
www.frbservices.org/Retail/pdf/ContaminatedCheckProcedures91905.pdf

NACHA Enforcement Bulletin on Destroyed Check Entry
http://www.nacha.org/ACH%20Operations%20Bulletin%20-%20NACHA%20Decision%20on%20Rule%20Enforcement%20in%20Aftermath%20of%20Hurricane%20Katrina.pdf

Federal Reserve Board Financial Services Damaged Currency/Coin Procedures
www.frbservices.org/Cash/ContamProc1st.html

Handling Wet Records

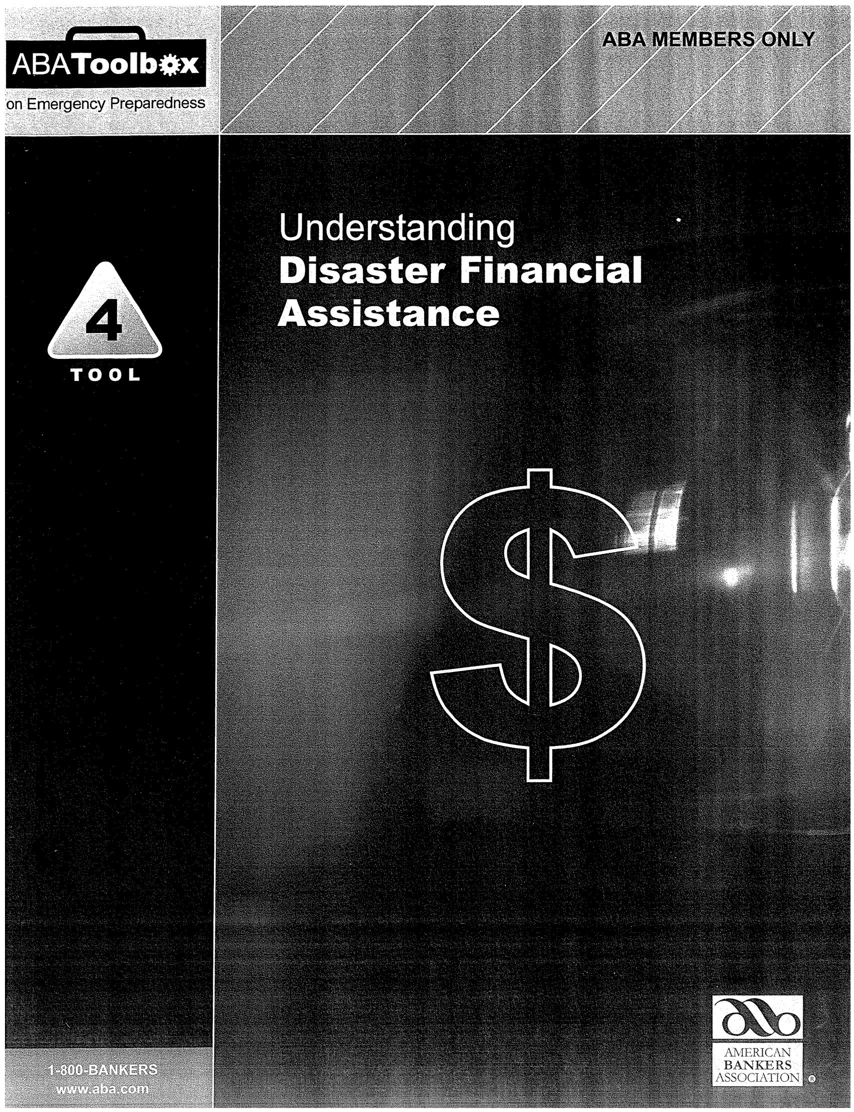
Emergency Salvage of Wet Books and Records, Northeast Document Conservation Center
http://www.nedcc.org/plam3/tleaf37.htm

Tips for Salvaging Water Damaged Valuables, Heritage Preservation
http://heritagepreservation.org/programs/TFTIPS.HTM

Hurricane Katrina Records Recovery Information, Alabama Department of Archives and History
http://www.archives.state.al.us/whatsnew/prkatrina.html

Safe Deposit Box Procedures

Steps to Take After Severe Flooding, American Safe Deposit Box, Inc.
http://www.americansafedeposit.com/rightframenewsletter.htm



ABA Toolbox
on Emergency Preparedness
ABA MEMBERS ONLY
Understanding
Disaster Financial
Assistance
4
TOOL
1-800-BANKERS
www.aba.com
AMERICAN
BANKERS
ASSOCIATION

Understanding Disaster Financial Assistance

Understanding Disaster Financial Assistance

Introduction

After a disaster, customers and non-customers will be looking to your bank to help them cash or deposit their Federal Emergency Management Administration (FEMA) disaster assistance checks and other forms of financial aid, as well as their federal benefit checks. Your bank will also encounter aid that has been distributed by charitable programs.

Financial assistance also can come in the form of loans, particularly through the Small Business Administration. Loans issued through the SBA are critical following a disaster. This section of the Toolbox will help you anticipate how financial assistance is distributed and assist you in detecting attempts to defraud your bank. It also contains a description of the existing SBA, Department of Housing and Urban Development (HUD) and Department of Agriculture (USDA) disaster loan programs and discusses the potential for banks to be more directly involved in processing SBA disaster loans in the future.

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Financial assistance after a disaster will take a variety of forms. Understanding them will help you serve customers and non-customers and limit your vulnerability to fraud.

Action Steps for Your Bank

- ❑ Assist in limiting the overall number of checks that need to be cashed by informing customers of the Treasury's "Go Direct" program, which allows your customers to directly deposit any Social Security checks. Encourage customers to enroll in this program.
- ❑ Encourage your local Red Cross chapter to issue client assistance debit cards as opposed to checks and dispersing orders during relief efforts.
- ❑ Help deter assistance and benefit fraud by training employees to recognize fraudulent items and red flags. Use key terms such as "Red Cross," "hurricane," or other disaster specific terms in any suspicious activity reports filed that involve disaster-related fraud.
- ❑ Become an approved SBA lender so that your bank will be positioned to assist SBA in processing of disaster loans under the Disaster Loan Partners Initiative. Unlike other SBA programs, in a disaster the agency provides financial assistance to individuals and homeowners in addition to businesses.

What the ABA and the Joint Preparedness Task Force Are Doing for Your Bank

- ✔ Encouraging the use of debit cards to distribute future disaster financial assistance payments for aid recipients who do not have bank accounts or who may have difficulty accessing their accounts.
- ✔ Investigating the potential of placing ***all*** disaster financial assistance on a single debit card, e.g., placing financial assistance on state Electronic Benefits Transfer (EBT) cards.
- ✔ Working to ensure that aid recipients who can access their bank accounts can receive EFT transfers of disaster financial assistance to minimize the need for cash at banks serving the disaster area and locations where evacuees have been sent.
- ✔ Encouraging Treasury to use a "positive pay" system for FEMA financial assistance checks to help minimize fraud.
- ✔ Working with the federal Katrina Fraud Task Force to detect instances of federal assistance fraud.
- ✔ Encouraging the SBA to allow banks to take a more direct role in processing SBA-funded disaster loans.

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FEMA Disaster Assistance

A major component of the federal disaster response effort is the Individuals and Households Program (IHP), which is designed to provide financial assistance to those affected by natural disasters who have serious needs and expenses that cannot be met through other means. FEMA distributed nearly $5.4 billion in IHP assistance to more than 1.4 million individuals as a result of hurricanes Katrina and Rita.

Disaster relief covered by IHP includes temporary housing assistance, real and personal property repair and replacement, and other necessary expenses related to a disaster. This assistance is generally delivered after an inspection has been conducted to verify the extent of loss and determine eligibility. Because of the tremendous devastation caused by hurricanes Katrina and Rita, FEMA paid $2,000 in expedited assistance payments — to eligible disaster victims to help with immediate, emergency needs of food, shelter, clothing, and personal necessities.

Characteristics of IHP Financial Assistance

- ✔ Anyone who may require federal disaster assistance must first register with the Federal Emergency Management Agency by calling **1-800-621-FEMA** or by visiting **www.FEMA.gov**.
- ✔ Typically a household can receive only one expedited assistance payment of $2,000. Exceptions are made in situations where household members move to separate locations.
- ✔ Aid registrants may also be eligible to receive additional IHP payments in the form of a grant up to $26,200. These aid registrants first must apply for and be denied a loan under the Small Business Administration's disaster lending program.

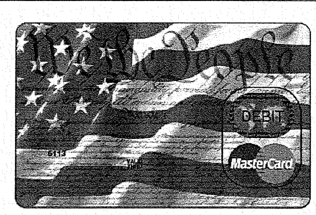
FEMA provided expedited assistance payments related to the 2005 hurricanes predominantly through electronic funds transfer (EFT) and checks sent to the registrants' current addresses. The distribution of assistance checks proved to be particularly problematic. After the storms, FEMA, Treasury and the U.S. Postal Service (USPS) partnered to deliver such checks. Approximately every four hours, FEMA forwarded to Treasury a list of people who were approved to receive disaster assistance. Treasury would produce the checks, and the USPS sent them to recipients via Express Mail, the USPS's fastest way to send documents.

Checks issued by Treasury on behalf of FEMA were also not subject to any positive-pay process. The Joint Task Force recommended to Treasury that, in the future, the agency make a file available to banks containing issued check information that could be used to compare incoming assistance checks. Bank employees would know not to honor an assistance check if one or more of the elements of the check do not match the issue file and could also alert authorities to the potential fraud.

The FEMA Assistance Card

While the collaboration to issue aid checks was impressive, it certainly was not as efficient as distributing aid via EFTs or debit cards. FEMA provided a limited amount of expedited assistance via debit cards distributed at three locations in Texas. The agency had never issued debit cards as a means of distributing aid prior to hurricanes Katrina and Rita. The debit-card program was a pilot implemented primarily to provide expedited assistance to individuals and households.

The program was ultimately halted but shows great promise. ***A recent GAO report demonstrated that distributing debit cards as opposed to checks can lower disaster assistance cash requirements by approximately 40 percent.***



Characteristics of the FEMA Assistance Card Distributed During Hurricane Katrina

- ✔ The FEMA Assistance Card is a debit card. It may be used to obtain cash at any ATM on the NYCE, Cirrus, Pulse or Allpoint networks and may be used to purchase food, clothing, airline tickets, building supplies and other goods and services at any merchant accepting MasterCard. The card may be used in person, over the telephone and over the Internet.
- ✔ ATM transactions are free of charge at the issuing bank's locations. Other ATMs may charge a surcharge, and the issuing bank may charge a fee for foreign ATM transactions. JP Morgan Chase was the issuing bank during Hurricane Katrina.
- ✔ The card cannot be used with some merchants that are not authorized for customer purchases, such as liquor stores.
- ✔ Card holders can check card balances by calling the toll-free customer service number on the back of the card (1-888-606-7058). A written summary of transactions for the last 60 days can also be requested.
- ✔ Only FEMA or another authorized entity may place funds on the card. FEMA may add additional disaster assistance. With FEMA's approval, other federal and state agencies as well as private charitable organizations may also be able to place benefit payments on the card.
- ✔ Charges to the card can be disputed in the same fashion as other debit cards and are subject to the same federal laws regarding debit card disputes.

FEMA Assistance Card Customer Service
Toll-Free Number: 1-888-606-7058

ABA Recommendation

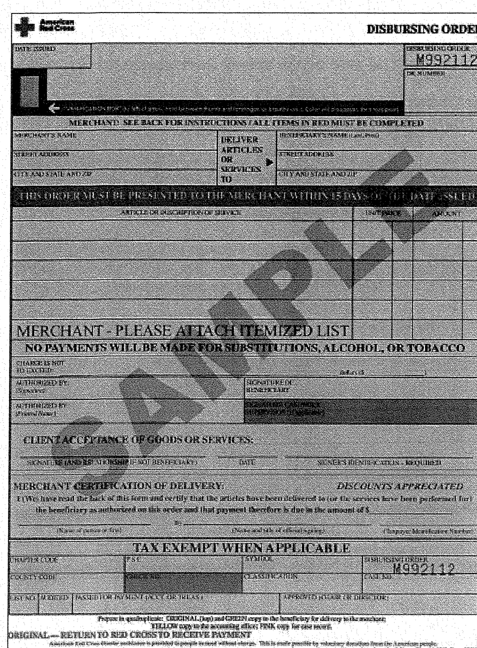
The ABA Joint Preparedness Task Force recommended that Treasury and FEMA take full advantage of charitable organizations' ability to place benefits on the assistance card. Placing both types of assistance on one card would make the distribution process significantly more efficient. Using state-based Electronic Benefit Transfer (EBT) cards — something the Task Force also recommended — would be even more efficient.

Red Cross Disaster Assistance

The American Red Cross provides disaster assistance in many ways – through direct distribution, disbursing orders, checks, and client assistance debit cards. After hurricanes Katrina and Rita, the Red Cross gave out $1.3 billion to evacuees in more than 1.4 million households. It was the charity's largest cash-assistance program ever — double the amount of cash it distributed after the September 11, 2001 terrorist attacks.

Disbursing Orders

Normally, disbursing orders (sometimes referred to as "vouchers") are like purchase orders, written to a specific store by the Red Cross for specific items of assistance. This binds the client to that store and location only. During Hurricane Katrina, the Federal Reserve worked with the Red Cross to make these vouchers available for cash at financial institutions. ***Your bank is not obligated to convert these vouchers to cash.*** Working closely with your local chapter of the Red Cross during emergencies, and communicating with them beforehand, will allow you to understand the types of assistance the chapter will be using.



American Red Cross

DISBURSING ORDER

M992112

MERCHANT: SEE BACK FOR INSTRUCTIONS / ALL ITEMS IN RED MUST BE COMPLETED

DELIVER ARTICLES OR SERVICES TO

THIS ORDER MUST BE PRESENTED TO THE MERCHANT WITHIN 15 DAYS OF THE DATE ISSUED

MERCHANT - PLEASE ATTACH ITEMIZED LIST

NO PAYMENTS WILL BE MADE FOR SUBSTITUTIONS, ALCOHOL, OR TOBACCO

CLIENT ACCEPTANCE OF GOODS OR SERVICES:

MERCHANT CERTIFICATION OF DELIVERY: DISCOUNTS APPRECIATED

TAX EXEMPT WHEN APPLICABLE

M992112

ORIGINAL — RETURN TO RED CROSS TO RECEIVE PAYMENT

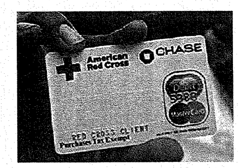
SAMPLE

Disbursing orders are used by the Red Cross during relief efforts.

Client Assistance Cards

Banks can play a role in expediting disaster assistance by encouraging local Red Cross chapters to issue client assistance cards as opposed to checks and dispersing orders during relief operations.

The Red Cross Client Assistance Card is much more flexible than disbursing orders, as it can be loaded with a specific dollar amount. If an individual needs further assistance, such as for a furniture purchase after locating an apartment, additional value can be loaded onto the existing card. Due to its greater convenience, the card is now the preferred method of providing financial assistance during large, nationally-funded disaster relief operations and by many Red Cross chapters in their local disaster response programs.



During Hurricane Katrina, the national Red Cross and its local chapters provided financial assistance through a combination of disbursing orders, checks and cards being distributed. After the storm, the large number of checks issued to aid recipients caused cash shortages in some evacuee areas. The Red Cross is committed to move more chapters to card-based assistance distribution. In the interim, however, institutions should still anticipate serving customers and non-customers who want to cash Red Cross checks after a disaster.

The Red Cross Client Assistance Card

- ✔ The Client Assistance Card is a stored-value card. The Red Cross has contracted with J P Morgan Chase to issue cards and manage the program through at least 2007.
- ✔ The Red Cross has placed a cap of $5,000 on each card, but assistance levels are generally less. After the 2005 hurricanes, payments to evacuees were generally the same: $360 for a single-person household to a maximum of $1,565 for households with more than four people. The card will also permit "reloads" if additional assistance is needed.
- ✔ Cards can be issued as either "cash-restricted" (signature-based) or "cash-enabled" (PIN-based). Recipients getting cash-restricted cards cannot obtain cash at an ATM or receive cash back during a retail purchase. In most instances the Red Cross now issues cash-enabled cards.
- ✔ Purchases made with the card are generally tax-exempt (in accordance with state laws). The face of the card states that purchases are tax-exempt. A listing of state tax treatment can be found at the following Web site: **http://www.redcross.org/pubs/taxexempt/**.
- ✔ The card cannot be used for certain purchases. Printed on the card, in bold letters are the words: NO ALCOHOL, TOBACCO OR WEAPONS.
- ✔ Recipients can check their card balance online 24 hours a day, seven days a week. If the cardholder does not have access to the Internet, he or she may call a Chase toll-free customer service number listed on the back of the card.

Chase Card Customer Service
Toll-Free Number: 1-866-260-5304

Bank of Brookhaven and Britton & Koontz Bank

CASE STUDY

Picture your community with a 25 percent increase in population in about three days' time. And consider that most of these people are of limited means, many having nothing more than the clothes on their back. And their stay in town will be indefinite.

Brookhaven, Miss., population 10,000, took a pretty good hit from Katrina — winds of 100 mph toppled hundreds of trees and knocked out power for days. But it was the arrival of 2,500 evacuees from New Orleans — 100 miles to the south—that was the biggest challenge.

Three weeks after the storm, more than half these people remained in eight shelters run by local churches and other groups. "I have three friends — one of them a director of our bank — who have been cooking breakfast for 170 people every morning for 26 days beginning at 6:00 a.m.," says Bill Sones, the president and CEO of Bank of Brookhaven. "Then they go to work."

The arrival of FEMA and Red Cross checks brought huge cash demands on the $78 million bank. Sones says there were some security concerns initially because the phone links to the police station were out for several days. The Red Cross checks, at least, were drawn on local banks, so he knew they were good.

Customers of Britton & Koontz and Hurricane Katrina evacuees fill the bank's lobby.

West and a little north of Brookhaven, Natchez, Mississippi sits high atop a bluff overlooking the Mississippi River. The city of 19,000 escaped the worst of both storms, but experienced an influx of 5,000 evacuees after Katrina. Like Brookhaven, many were still in shelters more than a month later.

Within about a week of the storm, recalls Page Ogden, president and CEO, Britton & Koontz Bank, N.A., the Red Cross started writing relief checks, and the lines to receive them stretched all through Natchez' antebellum historic district. "People were in line seven or eight hours in the heat," says Ogden. Once they got the checks, then they had to stand in line at one of the local banks to cash them. This procedure went on for about a week.

"We were getting cash shipments daily," he says. "You didn't want to run out of money, so we met with the Red Cross to coordinate with them. We were actually recycling money on some days." As a security precaution, several Indiana National Guard soldiers stayed near the bank during this time.

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Social Security Benefit Payments

The U.S. Department of the Treasury and the Federal Reserve strongly encourage the direct deposit of Social Security and Supplemental Security Income (SSI) payments in order to decrease the number of checks issued monthly. ***During normal times, your bank's customers are 30 times more likely to have a problem with their federal benefit check than with their direct deposit payment.*** Encouraging your customers to sign up for direct deposit now will make the receipt of their benefit payments significantly easier during an emergency.

Go Direct, kicked off in 2005, is a national campaign to motivate more Americans to select direct deposit for their federal benefit payments.

Accelerated Direct Deposit Enrollment Procedures

During Hurricane Katrina, Treasury announced, through communications with the ABA, state bankers associations, and its Web site, that it had implemented accelerated direct deposit enrollment procedures for displaced Social Security and Supplemental Security Income (SSI) check recipients and strongly recommended that banks encourage customers presenting Treasury checks to sign up for direct deposit.

- ✔ A federal SSA benefit recipient must wait approximately a month to activate direct deposit of their benefits.
- ✔ During Hurricane Katrina, evacuees who enrolled by September 18, twenty days after the storm hit, had their October payment and all future payments deposited directly into their bank account.
- ✔ A toll-free help line for Go Direct was established after the storm: **(877) 654-6347**.
- ✔ During a large-scale emergency your bank can anticipate a similar attempt by Treasury to accelerate the direct deposit enrollment process.

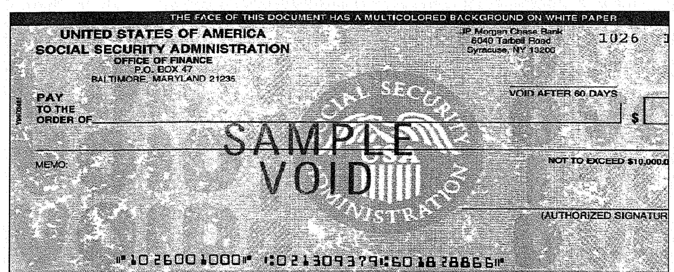
Education and Training Materials

The Go Direct Campaign has statement stuffers and other materials for your bank to use to educate your customers and train your employees. Go to **www.GoDirect.org** for more information.

For federal benefit recipients still receiving checks after Hurricane Katrina, the SSA issued replacement checks in the form of third-party drafts, if a recipient was unable to receive or locate their regular Treasury checks.

Characteristics of Social Security Administration Third-Party Drafts Issued During Hurricane Katrina

- ✔ The drafts were bluish/green in color
- ✔ A large SSA seal was in the middle of the draft in white
- ✔ The paying bank listed on the draft was JP Morgan Chase Bank



SSA field offices also provided a letter (similar to the one below) to each recipient of a third-party draft to be presented by the recipients when cashing their checks.

TO WHOM IT MAY CONCERN:

The Social Security Office in ____(city, state)________has issued the attached check on this _____day of __________ 2005. This check has been issued out of the local office due to the fact that this individual is from the area that has been affected by Hurricane Katrina.

_(insert name)______________________is due the check because
he/she is entitled to monthly Social Security and/or Supplemental Security Income payments.

Please cash the check for this individual so that he/she can meet their living needs during this very difficult time.

If you have questions, or need to verify the check, please call ____(contact name and telephone number, including extension)_____.

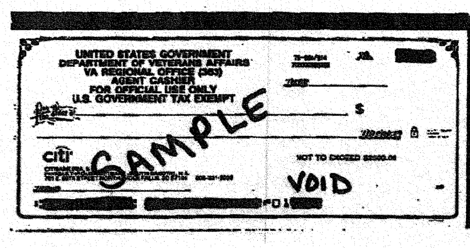
Thank you for your kindness in assisting these individuals.

Sincerely,

District Manger name
City, State

Veterans Administration Payments

After Hurricane Katrina, the Veterans Administration issued third party drafts with an accompanying letter signed by the director of the regional office that issued the draft. The letter stated that these drafts should be treated as normal Treasury checks. Each letter contained a contact name and phone number, should the bank have any questions.



(Print on VA Letterhead)

(Date)

To the Banking Community:

In an effort to accommodate veterans who have been adversely affected by Hurricane Katrina, the Department of Veterans Affairs has implemented a policy to issue replacement checks to veterans who are unable to receive their VA benefits by normal means. These third party drafts are issued by CitiBank and, though they do not resemble normal Treasury checks, they should be treated as such.

The check accompanying this letter is one of these replacement checks and has the backing of the Federal government. We request you honor it as you would any US Treasury check.

Your cooperation in this matter is appreciated and will greatly assist our nation's veterans during this difficult time. If you have any questions, please contact (INSERT CONTACT NAME) at (INSERT PHONE NUMBER).

Recognizing Assistance and Benefit Fraud

In the wake of the devastating storms of 2005, an unusually large amount of emergency financial assistance was distributed to victims relocated in many parts of the country. As a result of the tremendous volume of aid, there were many unfortunate instances of individuals fraudulently attempting to get disaster assistance. Attempts to pass fake Social Security checks were also common.

The Hurricane Katrina Fraud Task Force, led by the Department of Justice, is charged with prosecuting all fraud relating to the 2005 hurricanes. This task force has identified possible signs of fraudulent activity that financial institutions can use to identify and combat benefit fraud during any emergency.

Red Flags of Potential Financial Assistance Fraud

- ✔ Deposits of multiple FEMA, Red Cross, or other emergency assistance checks or electronic funds transfers into the same bank account, particularly when the amounts of the checks are the same or approximately the same (e.g., $2,000 or $2,358).
- ✔ Cashing of multiple emergency assistance checks by the same individual.
- ✔ Deposits of one or more emergency assistance checks, when the account-holder is a retail business and the payee/endorser is an individual other than the account-holder.
- ✔ Opening of a new account with an emergency assistance check, where the name of the potential account-holder is different from that of the depositor of the check.

If your bank encounters any of these situations, or other situations that you suspect may involve disaster-related benefit fraud or other potentially illegal transactions, immediately complete and file a Suspicious Activity Report (SAR) and also contact your local office of the Federal Bureau of Investigation or the United States Secret Service.

To ensure that such fraudulent transactions are identified by law enforcement as early as possible, FinCEN requests that your bank use key terms in the narrative portion of all SARs filed in connection with disaster-related benefit fraud. Examples of such key terms during the 2005 storms included "Katrina," "Rita," "Wilma," "FEMA," "Red Cross," and "hurricane."

Honoring Treasury Checks During an Emergency

If FEMA financial assistance was provided by check, your bank is responsible for determining if the check issued by the U.S. Department of the Treasury is legitimate. Under normal circumstances, your bank could be subject to a Treasury reclamation action if the check is not legitimate, either because it is a fraudulent item or the endorsement was forged or unauthorized.

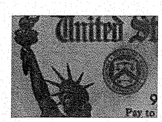
During extreme emergencies, many individuals displaced from their homes and communities do not have standard forms of identification, making it difficult for institutions to confirm the identity of those seeking to cash Treasury assistance and benefit checks.

Under any circumstances, your bank will be liable for a reclamation action for any fraudulent Treasury check other than an improper endorsement.

Cashing Federal Assistance or Benefit Checks During Emergencies

- ✔ Treasury can issue an interim policy relieving depository institutions from liability for cashing or accepting for deposit assistance or benefit checks bearing a forged or unauthorized endorsement.
- ✔ The bank's obligation in such instances is to attempt to verify the identity of the individual cashing the check by calling a telephone number provided by the issuing agency (for instance, FEMA or the Social Security Administration). The issuing agency will not verify identity to a third party, but will identify an individual when that individual is on a three-way call or speaker phone with the institution.
- ✔ If phone verification is not possible, other prudent efforts to identify the individual should be made. Prudent efforts depend upon the circumstances of each situation, but might include seeking identification documents such as a driver's license, military identification or passport; inspecting other documents such as utility bills, leases, or revolving charge bills; or comparing information provided by the individual to information obtained through electronic searches of consumer reporting agencies, public databases or other sources.
- ✔ Your bank should document all efforts to verify identity.

In no instances did FEMA issue handwritten checks during the 2005 hurricanes. The agency issued U.S. Treasury checks, all of which have security features.



The most verifiable security feature on a Treasury check is the Treasury seal, located to the right of the Statue of Liberty, which contains security ink that will run and turn red when moistened. The FEMA Location Code (70070002) should also be located on the second line of the check. In addition, the amount for which a particular check was issued can be verified by calling the Federal Reserve Bank of Richmond's Treasury check assistance number, which was 884-697-2605 during 2005. Treasury check security features can be found at **http://www.fms.treas.gov/checkclaims/check_security_new.pdf.**

Forging a federal government document is a federal crime. Your bank should make copies of any suspicious document that you receive, whether you cash it or not, and report it to the proper federal authorities, including the U.S. Secret Service and the FBI. In addition, you should also send a copy to your regulator so that they can help prevent additional financial crimes.

Small Business Administration Disaster Lending Programs

While FEMA provides direct assistance in the form of grants to residents in the area of a disaster, SBA provides loans to households and businesses affected by disasters. The SBA's Office of Disaster Assistance (ODA) oversees the agency's responsibilities. The mission of the ODA is to provide affordable, timely and accessible financial assistance to homeowners, renters, businesses of all sizes and nonprofit organizations. Unlike other SBA programs, in cases of disasters the agency provides financial assistance to individuals and homeowners in addition to businesses.

Potential FEMA grant recipients first must attempt to get an SBA disaster loan.

Also unlike other SBA programs, the SBA is a ***direct*** lender following disasters. Generally, the agency is committed to providing a decision to a disaster applicant within 21 business days upon receipt of their application. In the past, the SBA has met this commitment. However, hurricanes Katrina, Rita, and Wilma pushed the capabilities of the agency's program far beyond normal limits. In the first six months after Katrina struck, the SBA approved more than $5.2 billion in disaster loans to over 73,000 homeowners, renters and businesses in Louisiana, Mississippi, Alabama, Texas and Florida.

There are currently four types of SBA disaster loans: home disaster loans; business physical disaster loans; economic injury loans; and Gulf Opportunity Loans. The last type of loan, known as a GO Loan, is a new program resulting from the 2005 storms that may be utilized in some fashion in future disasters.

Many potential FEMA grant recipients did not realize that they first had to apply for an SBA disaster loan and be denied. Confusion surrounding this requirement caused some grants to be delayed and added to the lending backlog because of the magnitude of storms and resulting requests.

The SBA is currently examining how the private sector can best support the delivery of the agency's disaster assistance, an initiative that the ABA and the Joint Preparedness Task Force fully support. On February 27, 2006, the agency announced the Disaster Loan Partners Initiative, designed to increase the role of private sector financial institutions in the hurricane recovery efforts throughout the Gulf region.

Ultimately, the SBA envisions soliciting bids from local banks and other entities to assist in processing SBA disaster loans. The intention is to complement, not supplant, the existing SBA disaster loan fulfillment process. Banks wishing to assist in the processing of SBA disaster loans under the Disaster Loan Partners Initiative will most likely have to be approved SBA lenders under the agency's Basic 7(a) Loan Program.

Unlike the traditional 7(a) business loan program, which is a public-private loan guarantee program where the lender and government share in the risk, the disaster loan program is a direct government loan with established interest rates based on the customer's credit history. All disaster loans are held on SBA's books.

Collateral is required for all physical loss loans over $100,000 and all Economic Injury Disaster Loans (EIDL) over $5,000. SBA takes real estate collateral where it is available. Applicants do not need to have full collateral; SBA will take what is available to secure the loan.

Interest rates for SBA disaster loans are determined by formulas set by law, and may vary over time with market conditions. They range from 2.6 percent to 5.3 percent for home loans; 4 percent to 6.5 percent for business loans; and up to 4.0 percent for economic injury loans. The law authorizes loan terms up to a maximum of 30 years.

For most disasters, SBA has primarily assisted businesses with physical disaster loans. However, given the nationwide economic impact resulting from the terrorist attacks of September 11, 2001, economic injury disaster loans became SBA's primary form of assistance. Of the approximately 24,000 September 11 disaster loan applications, SBA approved about 11,000, for a total of $1.1 billion. Over 10,000 of these loans, totaling $1 billion, were for economic injury.

The Four Types of SBA Disaster Loans

Home Disaster Loans

Renters and homeowners may borrow up to $40,000 in personal property loans to repair or replace clothing, furniture, cars or appliances damaged or destroyed in the disaster. They first must register with the Federal Emergency Management Agency to obtain a FEMA Registration ID Number by calling **1-800-621-3362**. Homeowners may also apply for real property loans of up to $200,000 to repair or restore a main residence to its pre-disaster condition. While the loans may not be used to upgrade homes or make additions, loans may be increased up to 20 percent for structural improvements to lessen property damage that could be caused by future disasters. Second homes or vacation properties are not eligible for these loans but may qualify for disaster business loans under certain conditions. Any proceeds from insurance coverage will be deducted from the total damage to the property to determine the eligible loan amount.

Business Physical Disaster Loans

Businesses hurt by a disaster may qualify for a fixed-rate, low-interest loan to address physical property damage and economic injuries and can apply directly to the SBA without first registering with FEMA. The agency provides loans to cover physical damage to both small and large businesses, enabling them to repair or replace damaged real property, machinery, equipment, fixtures, and inventory to begin restoring the property to its pre-disaster condition. Businesses of any size are eligible. Nonprofit organizations such as charities, churches, private universities, etc., are also eligible. Individual business loans are limited to $1.5 million.

Economic Injury Disaster Loans (EIDL)

Working capital loans are available to small businesses and small agricultural cooperatives to assist them during the disaster recovery period. EIDL assistance is available only to applicants with no credit available elsewhere — if the business and its owners cannot provide their own recovery from non-government sources. Economic injury loans are also limited to $1.5 million.

Gulf Opportunity Loans (GO Loans)

Due to the unprecedented need for disaster loans after the 2005 storms, in November 2005 the SBA launched their Gulf Opportunity Pilot Loan (GO Loan) program. Similar programs may be used by the SBA in future large-scale emergencies. The program is designed to strengthen and expand the role of local banks in the SBA disaster lending process by allowing lenders to employ streamlined, expedited processing of certain disaster loans. GO Loans, modeled after the SBAExpress loan program, allow lenders to use their own forms and underwriting. The loans are available up to $150,000 and have an 85 percent SBA guarantee. The agency states that applicants should receive a decision from the SBA in 24 hours or less. The SBA prescribes maximum interest rates participating banks may charge, but the actual rate is negotiated between the lender and the borrower. GO Loans will only be available through September 30, 2006, and any similar program set up in the future will likely expire after a reasonable period of time.

The program's loans, with a low lending cap and higher interest rate, are not as attractive as standard SBA disaster loans. The Joint Preparedness Task Force and the ABA believes that allowing banks to develop a partnership with the SBA, such envisioned under the Disaster Loan Partnership Initiative, is the most effective way to get the largest amount of disaster lending into the greatest number of victims' hands.

Housing and Urban Development Assistance

HUD's Rehabilitation Mortgage Insurance Program, commonly known as the Section 203(k) program, enables homebuyers and homeowners to finance either the purchase of a house, refinancing existing mortgages, or consolidate borrowings for the cost of repairing the property through a single mortgage.

Section 203(k) insured loans save borrowers time and money, and also protect lenders by allowing them to insure the loan even before the condition and value of the property offers adequate security. Many of the rules and restrictions that apply to FHA's basic single-family mortgage insurance product (Section 203(b)) also apply to 203(k) loans, with the exception that lenders may charge some additional fees, such as a supplemental origination fee, fees to cover the preparation of architectural documents and review of the rehabilitation plan, and a higher appraisal fee. However, unlike other FHA single-family mortgages, Section 203(k) borrowers do not pay an upfront mortgage premium.

The extent of the rehabilitation covered by Section 203(k) insurance may range from relatively minor to virtual reconstruction: a home that has been demolished or will be razed as part of rehabilitation is eligible, for example, provided that the existing foundation system remains in place. Section 203(k)-insured loans can finance the rehabilitation of the residential portion of a property that also has non-residential uses; they can also cover the conversion of a property of any size to a one-to-four unit structure.

Sources of Additional Information

Federal Benefit and Assistance Distribution

FEMA Disaster Assistance Process
http://www.fema.gov/assistance/process/individual_assistance.shtm

U.S. Treasury Check Security Features
www.fms.treas.gov/checkclaims/check_security_new.pdf

Expedited Assistance For Victims of Hurricanes Katrina and Rita: FEMA's Control Weaknesses Exposed the Government To Significant Fraud and Abuse, Government Accountability Office Testimony
www.gao.gov/new.items/d06403t.pdf

Guidance to Financial Institutions Regarding Hurricane-Related Benefit Fraud, Financial Crimes Enforcement Network
www.fincen.gov/hurricanebenefitfraud.html

Interim Guidance on Cashing and Accepting for Deposit Federal Emergency Management Agency (FEMA) Disaster Assistance Checks and Government Benefit Checks Issued by the U.S. Treasury, Treasury Department
www.fms.treas.gov/katrina_fedregister_fema.pdf

The Treasury and Federal Reserve program to encourage direct deposit of federal benefit payments
www.GoDirect.org

U.S. Treasury accelerated direct deposit program during Hurricane Katrina
www.godirect.org/Media/News-Releases/9-13-05-Hurricane-Katrina-.html

U.S. Treasury Guidance on Government Benefit Checks and the Use of Third-Party Drafts
www.fms.treas.gov/flexibility_thirdparty.html

Small Business Administration Disaster Lending Programs

Small Business Administration Disaster Recovery Assistance Page
www.sba.gov/disaster_recov/index.html

SBA GO Loan Program
www.sba.gov/financing/goloans

Housing and Urban Development Assistance Programs

HUD Recovery Assistance Page
www.hud.gov/katrina/citizens.cfm

HUD Section 203(k) Rehabilitation Mortgage Insurance Program
www.hud.gov/offices/hsg/sfh/203k/203k—df.cfm

ABA Toolbox
on Emergency Preparedness

ABA MEMBERS ONLY

5
TOOL

Anticipating the **Regulatory Response**

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Anticipating the Regulatory Response

Anticipating the Regulatory Response

Introduction

The disruption caused by Hurricane Katrina to individuals and businesses is unmatched in recent history. After each of the 2005 storms, banks in the affected and evacuee areas faced a number of regulatory issues while attempting to provide financial services to customers and non-customers. In response, the state and federal banking agencies, under the auspices of the Federal Financial Institutions Examination Council (FFIEC), moved with impressive speed to issue guidance across a wide range of issues.

Each bank regulatory agency provided substantial guidance after the 2005 storms. Visit aba.com for direct links to this guidance and a listing by subject matter.

The agencies encouraged banks to consider all reasonable and prudent steps to meet customers' cash and financial needs in the affected area. They also provided increased flexibility under Bank Secrecy Act customer identification guidelines when it became apparent that identifying customers and non-customers by normal means was difficult for banks in many instances.

The FFIEC also provided flexibility in the filing of regulatory reports and issued guidance on the handling of allowances for loan and lease losses and other accounting treatments. In sum, the FFIEC agencies worked closely with financial institutions after Hurricane Katrina to help those institutions fulfill customer and non-customer financial needs.

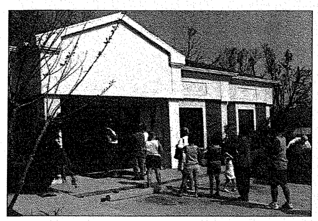
While every disaster is different, this guidance can be viewed as a template for how the banking agencies will respond to both small- and large-scale events. In fact, the ABA and the Joint Preparedness Task Force have recommended that the bank regulatory agencies use the guidance that was issued during the storms of 2005 as a model for future disasters to the greatest extent possible.

Every bank regulatory agency maintained an extensive Web site listing both its own and the FFIEC's guidance. This Tool also contains a listing, by subject matter, of the major disaster recovery regulatory guidances issued by the agencies as a result of the recent storms. Visit **www.aba.com** for the online version of this Toolbox which contains direct links to each of these agency documents.

Assisting Bank Customers

Immediately after Hurricane Katrina, the FFIEC issued guidance encouraging financial institutions to consider all reasonable and prudent actions that could help meet the critical financial needs of their customers and their communities.

Bank regulatory guidance helped instill confidence in the financial system after the 2005 storms by giving banks necessary flexibility.



BancorpSouth customers await service after Hurricane Katrina.

While banks would have been able to take any of these actions without the FFIEC guidance, the fact that the agencies expressed concern about assisting bank customers set the right tone after the storm. It was designed not only to provide banks with guidance, but also to instill confidence for bank customers that their need for financial flexibility would be met.

Many banks in the affected areas took action to assist customers by allowing them to defer or skip loan payments on revolving credit, mortgages, and other loans. Fannie Mae and Freddie Mac, holders of a large number of mortgage loans serviced by banks, gave similar guidance. While the duration of these grace periods varied between banks, they generally lasted at least 90 days.

The Agencies Recommended that Institutions Consider the Following Actions Consistent with Safe and Sound Banking Practices:

- ✔ Waiving ATM fees for customers and non-customers
- ✔ Increasing ATM daily cash withdrawal limits
- ✔ Easing restrictions on cashing out-of-state and non-customer checks
- ✔ Waiving overdraft fees as a result of paycheck interruption
- ✔ Waiving early withdrawal penalties on time deposits
- ✔ Waiving availability restrictions on insurance checks
- ✔ Allowing loan customers to defer or skip some payments on loans
- ✔ Waiving late fees for credit-card and other loan balances due to interruption of mail and/or billing statements or the customer's inability to access funds
- ✔ Easing credit-card limits and credit terms for new loans
- ✔ Delaying delinquency notices to the credit bureaus

Tool 1: Improving Emergency Communication, has sample messages to help describe your bank's efforts to assist customers affected by a disaster.

After a disaster, you can anticipate that the FFIEC will take similar measures to encourage your bank to provide customers flexibility to help them recover their financial strength. Your bank's emergency preparedness plan should detail which actions your bank will take to assist customers, but also provide some flexibility in your response, as each disaster is different. Also ensure that your bank systems and procedures can accommodate such changes in policy. Flexibility is also advisable in responding to unanticipated customer needs.

Customer Identification Program Guidelines

The FFIEC and the Financial Crimes Enforcement Network (FinCEN) encouraged banks to be reasonable in verifying the identity of individuals temporarily displaced by Hurricane Katrina.

Under normal circumstances, under the Customer Identification Program (CIP) requirements of the Bank Secrecy Act, a bank must obtain, at a minimum, an individual's name, address, date of birth, and taxpayer identification number or other acceptable identification number before opening an account.

Importantly, the regulation provides that verification of identity may be completed within a reasonable time after the account is opened, allowing your bank to provide financial services to those in need and to verify their identity later.

At the same time, the CIP requirement allows banks to design a program that uses documents, non-documentary methods (such as a consumer credit report or an inquiry to a fraud detection system), or a combination to verify a customer's identity.

Recognizing the urgency of the situation after Hurricane Katrina, the agencies encouraged depository institutions to use non-documentary verification methods for affected customers who were not able to provide standard identification documents, as permitted under the regulation. Institutions in the affected area or those dealing with new customers from the affected area were allowed by the agencies to amend their Customer Identification Program immediately and obtain the required board approval for program changes as soon as practicable.

After a disaster, the FFIEC may release similar guidance giving you the flexibility to use purely non-documentary methods to identify affected customers and non-customers. Incorporate disaster preparedness planning into your Customer Identification Program by amending your program now to account for such circumstances and getting the proper board approval before an event.

Financial Reporting

After Hurricanes Katrina and Rita, the FFIEC noted that the storms might affect financial institutions' ability to submit timely and accurate regulatory reports. In those instances, banks were instructed to contact their primary federal regulatory agency to discuss their situation. The agencies did not assess penalties or take other supervisory action against institutions that took reasonable and prudent steps to comply with regulatory reporting requirements, but were unable to fully satisfy those requirements in a timely manner because of the effects of the hurricanes.

The FFIEC also recognized that banks in the affected area would need time to evaluate the financial condition of their individual borrowers, assess the condition of underlying collateral, and determine potential insurance proceeds and other available recovery sources. Given the short time between the storms and the required filing date for third-quarter regulatory reports consistent with generally accepted accounting principles (GAAP), banks were instructed to consider all information available about the status of their borrowers and make their best estimate of probable losses within a range of loss estimates.

As discussed earlier, after the storms of 2005, many banks temporarily provided consumers and businesses with flexibility in repaying loans. For example, some banks encouraged borrowers who were affected by the storms to contact them to work out new repayment arrangements. Other banks provided similar repayment arrangements across-the-board to all consumer borrowers in the affected area, unless a customer requested otherwise.

While the accounting treatment of such loans must still conform to GAAP and regulatory reporting instructions, the agencies provided important guidance in 2005 that clarified the extent to which loans in a temporary deferral program should be reported as either past due or put on nonaccrual status.

Determining and reporting your bank's allowance for loan losses after any disaster can be difficult. Your bank may be unable to contact some borrowers. Other borrowers will have pending insurance proceeds of uncertain amounts. These circumstances alone would generally not warrant increasing your reserves.

Past-Due Reporting

In their guidance, the agencies stated that past-due status for regulatory reports should be determined in accordance with the contractual terms of a loan, as its terms have been revised under a temporary payment deferral program, either as agreed to with the individual customer or provided across-the-board to all affected customers. Accordingly, if all payments are current in accordance with the revised terms of the loan, the loan would not be reported as past due. For loans subject to a payment deferral program on which payments were past due prior to being placed in the program, the delinquency status of the loan may be adjusted back to the status that existed at the date of the disaster for the duration of the payment deferral period. For example, if a consumer or business loan subject to a payment deferral program was 60 days past due on the date of a disaster, it would continue to be reported in its regulatory reports as 60 days past due during the deferral period (unless the loan is reported in nonaccrual status or charged off as discussed below).

Nonaccrual Status, Allowance for Loan and Lease Losses, and Charge-offs

The FFIEC guidance makes clear that each bank should still abide by the applicable regulatory reporting instructions, as well as its internal accounting policies, in determining whether to report loans to affected customers on which payments have been temporarily deferred as nonaccrual assets in regulatory reports. Furthermore, the agencies stated that banks should maintain an appropriate allowance for loan losses for these loans. As information becomes available indicating a specific loan would not be repaid (e.g., information related to the likelihood of collection on a specific loan or the inability of the bank to contact the borrower within a reasonable period), the bank's charge-off policies should be applied.

Under any circumstances, a bank's allowance for loan losses should include those amounts that represent probable losses that can be reasonably estimated. As your bank is able to obtain additional information about individual borrowers, estimates of probable losses will eventually be possible, and revised estimates of loan losses can be reflected in your bank's subsequent regulatory reports.

Preparing for a Post-Disaster Examination

After disasters, particularly those of the magnitude of Hurricane Katrina, state and federal banking agencies use as much discretion as possible in establishing the scope and frequency of examinations and inspections. After the storms of 2005, bank inspections were the norm, as the agencies wanted to get a feel for the overall condition of the industry and determine if individual institutions needed any special assistance.

Six months after Hurricane Katrina, the FFIEC issued examiner guidance to outline supervisory practices to be followed in assessing the financial condition of institutions directly affected by the storm. This guidance also applied to examinations of institutions located outside the disaster area, but that had loans or investments to individuals or entities in the disaster area.

The guidance stressed that examiners should be flexible in their supervisory response. A, of course, major consideration for the agencies will be management's plans for responding to the disaster's ramifications on its business strategy and future operations, given the economic conditions in its business markets.

An examiner's assessment of a disaster's effect on the CAMELS component ratings may result in a lower composite rating for some affected institutions. However, in considering the supervisory response for institutions accorded a lower composite rating, examiners should give appropriate recognition to the extent to which weaknesses are caused by external problems related to the hurricane and its aftermath. Formal or informal administrative action that would ordinarily be considered for lower-rated institutions may not be taken by the agencies, provided that prudent planning and policies are in place and management is pursuing realistic resolution of the problems facing the institution.

Action Steps to Preparing for

- **Prepare a Risk Assessment**
  Examiners will expect banks affected by a disaster to have completed an initial risk assessment and have a process for refining their assessments as more information becomes available and recovery efforts proceed. The assessment should include:
  - ✔ Management's best estimate of its asset quality, given the prevailing economic conditions in its business markets
  - ✔ The disaster's implications on the institution's earnings and capital, as well as its effect on liquidity and sensitivity to market risk
  - ✔ The identification of all loans and investments significantly affected by the disaster and potential loss exposure
  - ✔ A system to track the condition of collateral and the collectibility and timing of insurance
- **Prepare a Capital Restoration Plan**
  If your bank experienced significant declines in your capital ratios, examiners will evaluate whether your board of directors developed a satisfactory capital restoration plan that provides for capital augmentation in a timely manner.
- **Amend Your Loan Underwriting Standards as Necessary**
  Examiners will review a sample of loans originated after a disaster to determine whether your bank's underwriting standards are appropriate and look for any significant changes in the bank's lending practices to ensure that these activities are consistent with the bank's loan policies and the board of directors' strategic plan.
- **Document Credit Modifications**
  After a disaster, examiners generally will not criticize an institution that is attempting to work constructively with its borrowers in affected areas. Examiners will review an institution's policies and procedures for providing a borrower with a loan modification, extension, restructuring, or workout. If a performing credit was appropriately modified as a result of the disaster, then barring any unusual circumstances, examiners will not criticize these practices. However, examiners but will expect to see appropriate documentation to support the institution's agreement with the borrower.
- **Document Real Estate Values**
  Significant fluctuations in real estate values are typical in disaster-affected areas and neighboring evacuee locations. For both existing and new real estate loans, examiners will assess the institution's policies and practices with regard to estimating values on collateral in real estate markets that have experienced a significant, but possibly temporary, decrease or increase in real estate values as a result of the disaster.
- **Document Support for Credit Decisions Without Appraisals**
  The banking agencies granted a three-year waiver from their appraisal regulations to institutions affected by Hurricanes Katrina and Rita. If your bank decides to rely on the appraisal waiver for a real estate transaction in a disaster, provide sufficient documentation in the loan file to support the credit decision and valuation of the collateral.

a Post-Disaster Examination

- **Amend Your Disaster Recovery and Business Continuity Plans**

  Tool 3: Refreshing Your Disaster Recovery Plan is designed to assist you in addressing the adequacy of your bank's disaster recovery and business continuity plans. Examiners have been instructed to focus on certain areas in regions affected by Hurricanes Katrina and Rita, and the agencies are extending this focus to banks not affected by the storms.

  In future examinations, expect examiners to check your bank's ability to:

  - ✔ Deal with extensive damage to facilities and equipment
  - ✔ Operate with limited staffing
  - ✔ Re-establish internal telecommunications capabilities
  - ✔ Retrieve and restore data systems and electronic information
  - ✔ Handle contaminated loan files, collateral, and other documentation
  - ✔ Locate and contact third-party service providers and key suppliers
  - ✔ Replace contaminated cash and coins
  - ✔ Handle contaminated safe deposit boxes and their contents
  - ✔ Locate and contact key business partners

- **Revise Your Budget and Strategic Plan**

  After a disaster, the banking agencies will consider the duration or longevity of any reductions to your bank's core earnings caused by the event and evaluate the adequacy and reasonableness of any revisions to the bank's budget and strategic plan.

- **Revise Your Asset and Liability Management Plan**

  Banks affected by a disaster may experience sharp fluctuations in liquidity resulting from the receipt of FEMA payments, insurance proceeds, or other funds, as well as outflows of municipal deposits, out-of-area funds, or other large deposits. In addition, collateral requirements for secured funding sources (such as a line of credit from a Federal Home Loan Bank) may be temporarily modified. Examiners will consider the nature and timing of disaster-related inflows and outflows when reviewing the adequacy of an institution's liquidity as well as how management is employing any influx of liquid resources.

  A disaster may also cause a bank to experience temporary shifts in its interest rate risk profile from changes in cash flows. Ensure that your bank's asset and liability management models are reviewed and updated for any unusual fluctuations in deposit balances, adjustments to loan payments, changes in interest rates, and other modifications to ensure the integrity, accuracy, and reasonableness of the models.

Review the FFIEC Hurricane Katrina Examination Guidance:
http://www.fdic.gov/news/news/financial/2006/fil06012a.pdf

Disaster Recovery Regulatory Guidance

Appraisals

OTS, Thrift Bulletin 71, August 8, 1997.

OTS may grant emergency exceptions to applicable appraisal standards if the Director determines that the exception is consistent with safety and soundness and would facilitate recovery from a natural disaster. 12 U.S.C. § 3352.

FFIEC Order, Real Estate Appraisal Exceptions in Major Disaster Areas, October 12, 2005.

The federal financial institution regulatory agencies have granted a waiver of their appraisal regulations for three years to institutions affected by Hurricanes Katrina and Rita. To qualify for the waiver, a financial institution needs to document that: (1) the property involved was directly affected by the major disaster or the transaction would facilitate recovery from the disaster; (2) there is a binding commitment to fund the transaction that is made within three years after the date the major disaster was declared; and (3) the value of the real property supports the institution's decision to enter into the transaction.

Assisting Customers

FFEIC, NR 2005-87, September 2, 2005.

To the extent consistent with safe and sound banking practices, such actions may include:

- Waiving ATM fees for customers and non-customers
- Increasing ATM daily cash withdrawal limits
- Easing restrictions on cashing out-of-state and non-customer checks
- Waiving overdraft fees as a result of paycheck interruption
- Waiving early withdrawal penalties on time deposits
- Waiving availability restrictions on insurance checks
- Allowing loan customers to defer or skip some payments
- Waiving late fees for credit card and other loan balances due to interruption of mail and/or billing statements or the customer's inability to access funds
- Easing credit card limits and credit terms for new loans
- Delaying delinquency notices to the credit bureaus

BSA/CIP/PATRIOT Act

FFEIC, NR 2005-87, September 2, 2005.

The agencies, in consultation with FinCEN, also encourage depository institutions to be reasonable in their approach to verifying the identity of individuals temporarily displaced by Hurricane Katrina. Under the Customer Identification Program requirement of the Bank Secrecy Act, depository institutions must obtain, at a minimum, an individual's name, address, date of birth, and taxpayer identification number or other acceptable identification number before opening an account. The Customer Identification Program requirement provides depository institutions with flexibility to design a program that uses documents, non-documentary methods, or a combination to verify a customer's identity. Moreover, the regulation provides that verification of identity may be completed within a reasonable time after the account is opened. Recognizing the urgency of this situation, the agencies encourage depository institutions to use non-documentary verification methods for affected customers that may not be able to provide standard identification documents, as permitted under the regulation. A depository institution in the affected area, or dealing with new customers from the affected area, may amend its Customer Identification Program immediately and obtain required board approval for program changes as soon as practicable.

FinCEN/FFIEC FAQs, September 12, 2005.

The federal bank, thrift, and credit union regulatory agencies and the Financial Crimes Enforcement Network issued responses to questions frequently asked by financial institutions regarding the application of the Bank Secrecy Act in providing services to victims of Hurricane Katrina.

Federal Reserve Statement on Supervisory Practices Regarding Financial Institutions and Borrowers Affected by Hurricane Katrina, September 15, 2005.

The Federal Reserve recognizes that many persons displaced or affected by Hurricane Katrina may not have access to their normal identification and personal records. For this reason, the Federal Reserve, in conjunction with the other federal depository institutions regulatory agencies and the Financial Crimes Enforcement Network (FinCEN), has reminded banking organizations that the Customer Identification Program requirements of the Bank Secrecy Act provide organizations the flexibility to use documents, non-documentary methods, or a combination to verify a customer's identity. In addition, applicable regulations do not require a banking organization to verify a customer's identity prior to opening an account, so long as the organization does so within a reasonable period of time after the account is opened.

U.S. Treasury Provides Guidance on Government Benefit Checks and the Use of Third Party Drafts.

Recognizing the urgency of the situation, the Treasury encourages depository institutions to seek other verification methods for affected customers.

Consumer Laws

Fed SR 05-16/CA 05-6, September 15, 2005.

Regarding consumer loans, the Truth in Lending Act and the Board's Regulation Z normally provide a consumer with the right to rescind certain credit obligations secured by the consumer's principal dwelling for three days after becoming obligated. This brief waiting period required by statute gives consumers an opportunity to reflect on the loan terms before becoming finally committed to the transaction. However, consumers may modify or waive their right to cancel a transaction to meet a "bona fide personal financial emergency." In accordance with the regulation, consumers experiencing a bona fide personal financial emergency due to Hurricane Katrina may waive their right to rescind by providing a brief written, signed and dated statement referencing the emergency and indicating that they need the funds immediately.

CRA

OTS, Thrift Bulletin 71, August 8, 1997.

OTS will consider the institution's response to a disaster as an important element of "performance context" under OTS' Community Reinvestment Act regulations (12 C.F.R. § 563e.21 (b)) when evaluating the institution's reconstruction, stabilization, and redevelopment activities in its community.

Federal Reserve Statement on Supervisory Practices Regarding Financial Institutions and Borrowers Affected by Hurricane Katrina, September 15, 2005.

In accordance with Regulation BB, which implements the Community Reinvestment Act (CRA) and existing guidance, the Federal Reserve will favorably consider activities that revitalize or stabilize a designated disaster area, but will give greater weight to those activities designed to benefit low- or moderate-income individuals or areas. Other activities, such as providing affordable housing or community services to low- and moderate-income individuals, may also qualify for community development consideration under CRA.

OTS, CEO Letter 232, December 20, 2005.

OTS confirms that it will give favorable Community Reinvestment Act (CRA) consideration to activities by OTS-supervised institutions around the country that provide lending, investment, or service activities to revitalize or stabilize the hurricane stricken areas. We will also recognize activities that benefit displaced individuals. We will consider these activities and give significant weight to activities that benefit low- to moderate-income individuals or areas.

Deposits and Deposit Growth

OTS, CEO 224, August 29, 2005.
OTS will work with institutions that experience sudden growth due to temporary deposits of insurance proceeds.

FDIC, FIL-101-2005, October 7, 2005.
Brokered Deposit Waiver. The FDIC may modify certain informational requirements on a case-by-case basis for brokered deposit waivers when information is not available or other good cause.

Examination Standards and Frequency

Fed SR 05-16/CA 05-6, September 15, 2005.
In the conduct of safety and soundness supervision, the Federal Reserve will work with banking organizations affected by the disaster and will use appropriate discretion in establishing the scope and frequency of examinations and inspections, consistent with principles of safety and soundness and applicable law.

FFIEC Supervisory Guidance for Institutions Affected by Hurricane Katrina, February 3, 2006.
The Interagency Supervisory Guidance for Institutions Affected By Hurricane Katrina describes examination procedures for institutions adversely affected by the hurricane.

Fraud/Forgery

FDIC FIL-87-2005, September 2, 2005.
Due to operational issues resulting from Hurricane Katrina, certain Social Security Administration offices are issuing handwritten, typewritten, and laser Social Security checks. Banks in the impacted areas and surrounding states may see these items presented for payment as recipients pick up their checks and take them to their temporary locations for processing.

The FDIC is encouraging banks to assist those impacted by Hurricane Katrina by honoring — after reasonable verifications — handwritten, typewritten, and laser Social Security checks issued by Louisiana, Mississippi, and Alabama Social Security Offices. FDIC officials have been in contact with Social Security Administration officials, who indicated that they were not aware of any fraud problems relating to third-party drafts in previous weather-related disasters.

Treasury Guidance in Verifying the Identity of Individuals Presenting Treasury Benefit and Disaster Assistance Checks for Deposit or Cash, September 14, 2005.
In response to the feedback from depository institutions, Treasury is clarifying our policy for dealing with check reclamations. This policy will remain in effect for 60 days from the date of this notice. A depository institution that verifies the identity of an individual seeking to cash a Treasury benefit or assistance check by calling a telephone number provided by the issuing agency for this purpose will not be liable in a reclamation action based on a forged endorsement. In addition, a depository institution will not be liable for cashing a Treasury benefit or assistance check bearing a forged endorsement if the depository institution has used prudent efforts to verify the identity of the individual cashing the check. Depository institutions that follow this procedure under these extraordinary circumstances will be granted flexibility in the event of a check forgery reclamation action.

Lending

OTS, Thrift Bulletin 71, August 8, 1997.
OTS will not criticize reasonable loan documentation deficiencies arising from office relocation or personnel shortages during disasters. OTS may waive the Qualified Thrift Lender requirement to allow capital compliant institutions to help re-build businesses.

OCC, NR 2005-83, August 29, 2005.

The OCC encourages national banks to consider various alternatives that may include:

- Extending the terms of loan repayments;
- Restructuring a borrower's debt obligations; and
- Easing credit terms for new loans to certain borrowers, consistent with prudent banking practice.

The OCC notes that these measures could help borrowers recover their financial strength and enable them to be in a better position to repay their debts. These recovery efforts can contribute to the health of the local community and the long-term interests of the national bank and its customers.

Fed SR 05-16/CA 05-6, September 15, 2005.

The Federal Reserve recognizes that banking organizations may have to take prudent steps to adjust or alter terms on existing loans in areas affected by this disaster. Efforts by banking organizations to work with borrowers in communities under stress, if conducted in a reasonable way, are consistent with safe and sound banking practice; can contribute to the health of the local community and promote recovery; and are in the public interest.

Banking organizations may, for example, work with borrowers to extend the terms of repayment or otherwise restructure the borrower's debt obligations. Such cooperative efforts can ease pressures on troubled borrowers, improve their capacity to service debt, and strengthen the banking organization's ability to collect on its loans. Banking organizations may also ease documentation requirements or credit-extension terms for new loans to certain borrowers, consistent with prudent banking practices. Such easing may help borrowers to recover their financial strength and place them in a better position to service their debt.

Banking organizations in the affected areas may find that their levels of delinquent and nonperforming loans will increase. Consistent with long-standing practices, the Federal Reserve will consider the unusual circumstances these organizations face in reviewing their financial conditions and determining any supervisory response.

FFIEC Release, Credit Card Temporary Hardship and Workout Programs, January 4, 2006.

An institution may place a customer in a temporary hardship program before making contact with the customer. However, placing a customer in a long-term hardship program without communication with the customer generally would not be appropriate. Institutions should work to reestablish communications with customers within 90 days to determine if a temporary hardship program is appropriate for the customer's circumstances. The timeframes for re-establishing communications with customers in the comments below may not be appropriate for institutions physically located in the disaster area. These institutions should work with their primary supervisor to determine appropriate timeframes.

FFIEC Release, Troubled Debit Restructurings, November 22, 2005.

Financial institutions should determine whether commercial loans to affected borrowers with renegotiated repayment terms should be reported as troubled debt restructurings (TDRs) in separate memoranda items for such loans in regulatory reports. A TDR is a loan restructuring in which an institution, for economic or legal reasons related to a borrower's financial difficulties, grants a concession to the borrower that it would not otherwise consider. However, a loan extended or renewed at a stated interest rate equal to the current interest rate for new debt with similar risk is not reported as a TDR.

FFEIC Release, Accounting and Regulatory Reporting Questions and Answers, November 22, 2005.

Each financial institution should consider the specific facts and circumstances regarding its temporary payment deferral program for consumer borrowers affected by the hurricanes in determining the appropriate reporting treatment in accordance with generally accepted accounting principles (GAAP) and regulatory reporting instructions.

FFIEC Press Release, November 30, 2005.

Following Katrina, the agencies encouraged lenders to work with borrowers affected by the devastating storm. Many lenders responded by deferring loan payments from 60 to 120 days, with 90 days being the most common period. As the end of many initial deferral periods approaches, many insured depository institutions and customers have inquired about the agencies' views on additional deferral periods, as well as what happens to the amount due when the deferral period ends.The agencies continue to encourage lenders to work with both individual and commercial borrowers who have been affected by the storms. It is recognized that a great deal of uncertainty exists for many borrowers and it will take time to work through each individual situation. Granting additional deferral periods for some borrowers in accordance with sound risk management practices may be appropriate given that the timing and amount of insurance payments, disaster payments, and other assistance may still be unknown.

Opening and Closing Branches

Fed SR 05-16/CA 05-6, September 15, 2005.

Hurricane Katrina has required some state member banks to temporarily cease some or all the operations of a branch, or to temporarily move some branch operations to new locations. State member banks forced by Hurricane Katrina to temporarily relocate some or all of a branch's operations should advise the appropriate Reserve Bank accordingly, but will not be required to file an application with the Federal Reserve in connection with a temporary relocation. Once it ascertains its ultimate plans for the operations of a displaced branch, however, a state member bank should consult further with the appropriate Reserve Bank to determine whether any application or notice to the Federal Reserve will be required.

FDIC FIL-95-2005, September 21, 2005.

Section 42 of the Federal Deposit Insurance Act requires institutions to provide certain advance notifications to their federal regulator and customers before permanently closing a branch. However, the FDIC understands that the severe damage caused by Hurricane Katrina may affect institutions' compliance with publishing and other requirements for branch closings.

FDIC, FIL-101-2005, October 7, 2005.

Main and Branch Relocations. The FDIC may accept applications for main office and branch relocations in emergency situations in telephonic communication, electronic mail, and facsimile.

Reporting/Publishing Requirements

OTS, Thrift Bulletin 71, August 8, 1997.

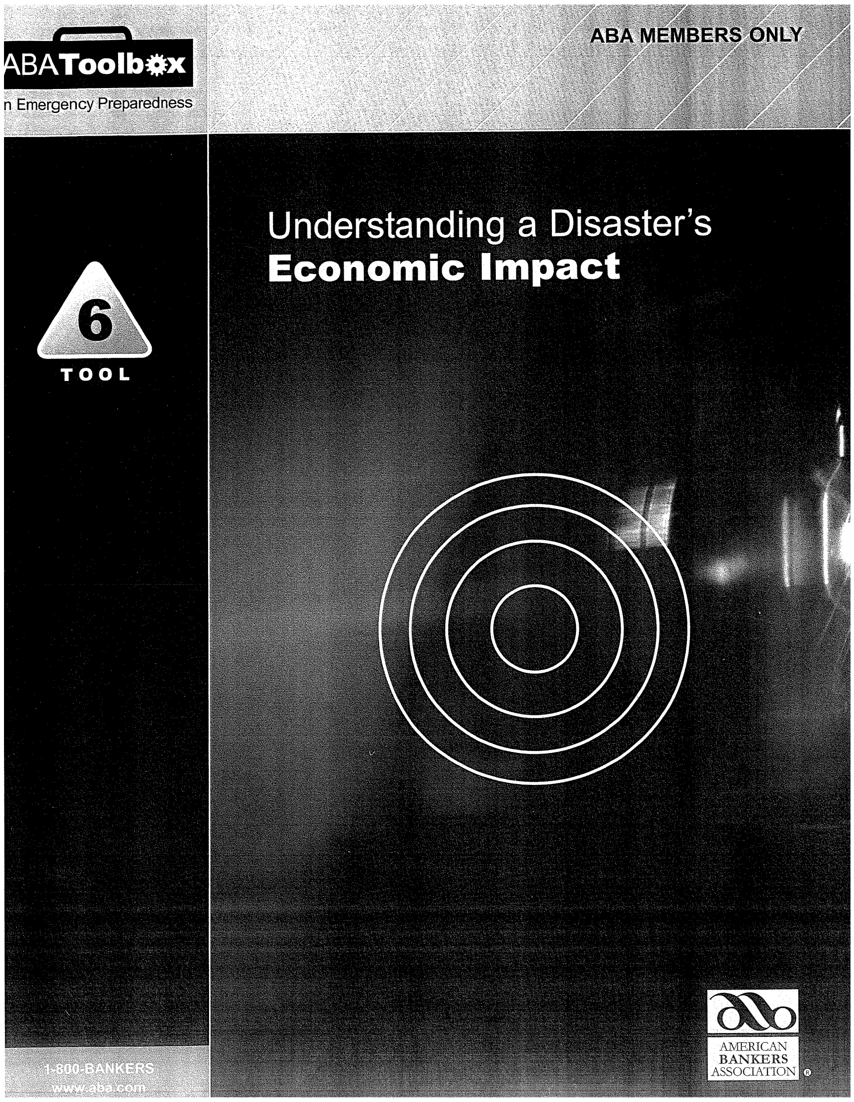
OTS may grant filing extensions for institutions that are unable to file their Thrift Financial Reports because of flooding or other disasters. For thrifts with destroyed or severely damaged facilities, OTS will accelerate procedures to approve temporary facilities to serve customers affected by disasters.

FDIC, FIL-85-2005, August 29, 2005.

FDIC-supervised institutions affected by the hurricane and severe storms should notify their FDIC regional office if they expect a delay in filing their Reports of Income and Condition (Call Reports) or other reports. The FDIC will take into consideration any causes beyond the control of a reporting institution in determining how long of a filing delay will be acceptable.

Fed SR 05-16/CA 05-6, September 15, 2005.

The Federal Reserve is aware that this disaster may affect banking organizations' ability to submit accurate and timely regulatory reports to the Federal Reserve, including, for example, the FR Y-9 and FR Y-11 reports submitted by bank holding companies, bank Call Reports, and other regulatory reports. Banking organizations having difficulty submitting accurate and timely data because of this disaster should contact the Federal Reserve Bank where it submits its reports. The Federal Reserve does not expect to take supervisory action against banking organizations that take reasonable and prudent steps to comply with the Board's reporting requirements but that are unable to do so due to circumstances caused by Hurricane Katrina.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Understanding a Disaster's Economic Impact

Understanding a Disaster's Economic Impact

Introduction

Recently, banks have been able to withstand natural and man-made disasters quite well, with few if any long-term negative financial implications. In fact, the inflow of disaster assistance and the large-scale rebuilding efforts that typically follow a disaster can usually be expected to generate business for banks in terms of funds management and financing the rebuilding.

At the same time, any major disaster has serious repercussions for the community that your bank serves. Understanding the economic impact of such events can help your bank's and your community's recovery efforts.

Steps for Your Bank

While long-term bank financial performance has not been impacted by recent disasters, plan beforehand for a variety of shorter-term disaster-related funding, reserving, credit-allocation, and credit-granting decisions.

- ❑ **Greatest Impact: First Six Months.** For most disasters, expect any impact on loan quality, deposit growth, equity capital, and income to be felt within the first six months. Based on recent natural disasters, there is some indication that floods have a longer-term impact, with loan quality adversely impacted for multiple years.
- ❑ **ROA Impact: 25 to 35 Basis Points.** For disasters the scope of Hurricane Katrina, in the first six months anticipate drops in return on assets of as much as 25 to 35 basis points and declines in capital ratios of potentially as much as 100 basis points.
- ❑ **Uneven Recovery Across Industries.** Anticipate that any recovery will be uneven across industries, with any company dependent on discretionary spending to be impacted to a greater degree than others. For disasters the scope of Hurricane Katrina, anticipate that business activity could be down significantly across the majority of industries.
  - ❑ Evaluate your business customer base to look for concentrations in any particular industry sector and assess their ability to handle business interruption.
  - ❑ Determine if your business customers have sufficient insurance coverage and assist them in applying for insurance after a disaster.

Bank Performance After a Disaster

In late 2005, the FDIC completed a study of bank performance before and after four disasters: the Loma Prieta earthquake of 1989; Hurricane Andrew of 1992; the Northridge earthquake of 1994; and the Grand Forks flood of 1997. The following chart compares the economic losses incurred and economic aid received as a result of those disasters, comparing them to Hurricane Katrina. The more recent storm will bring much higher economic losses, along with higher levels of disaster assistance. In fact, the economic loss from Hurricane Katrina may exceed one-and-one-half times the economic loss from the other four disasters combined.

Economic Losses and Levels of Disaster Assistance

(in billions of 2005 dollars)

		Economic Loss			Economic Aid		
Natural Disaster	Date	Damage	Lost Output	Total Loss	Insurance Payments	Government Assistance	Total Aid
Loma Prieta Earthquake	Oct 1989	$10.6	$5.4	$16.0	$1.6	$7.6	$9.2
Hurricane Andrew	Aug 1992	$36.7	$11.6	$48.4	$21.5	$10.8	$32.3
Northridge Earthquake	Jan 1994	$20.1	$12.5	$32.7	$3.3	$15.5	$18.8
Grand Forks Flood	Apr/May 1997	N/A	N/A	$2.0	N/A	$1.0	>$1.0
Hurricane Katrina	Aug 2005	N/A	N/A	$125-$150	$40-$60	>$100	>$140-$160

The loss estimates for Hurricane Katrina are preliminary, and a breakdown between damage and lost output has not yet been quantified.
Sources: FDIC, Moody's Economy.com, Risk Management Solutions, and Congressional Research Service.

Recent natural disasters have not caused long-term financial implications for banks that have been in their path.

Surprisingly, the FDIC study found that no bank failed or exhibited significant financial deterioration in the years following a disaster. Adequate capital, insurance reimbursements, and government financial assistance, as well as the ability of bank managers to adapt to challenging circumstances, have all contributed to banks' ability to withstand these events.

After a disaster, your bank will encounter a variety of funding, reserving, credit-allocation, and credit-granting decisions. In the first three years after these four disasters, there were some patterns in bank performance that can assist your bank in making these decisions.

One of the most compelling aspects of the FDIC study was the greater apparent impact of the Grand Forks flood on bank financial performance, in comparison to the hurricanes or earthquakes that were evaluated in the study. While all events are potentially devastating depending on their magnitude, the Grand Forks flood clearly had a greater impact on bank loan quality than the other events.

For more information about the FDIC study, please visit:

http://www.fdic.gov/bank/analytical/regional/ro20054q/na/t4q2005.pdf

Bank Performance After Disasters

Loma Prieta Earthquake

- ✔ The ratio of loan loss provisions and noncurrent loans to total loans increased, but generally more slowly than in the state as a whole.
- ✔ Equity capital growth exceeded state and national averages following the earthquake, favorably affecting equity capital ratios.
- ✔ Return on average assets dipped slightly immediately following the earthquake, and then recovered to at least as high as returns experienced in the quarters preceding the disaster.

Hurricane Andrew

- ✔ Loan loss provision and noncurrent loan ratios generally declined after the hurricane, in a manner quite similar to banks throughout Florida and across the nation.
- ✔ Banks did exhibit a slight decline in the ratio of equity capital to total assets for a few quarters after the hurricane struck, but equity capital soon recovered to the same level as the state and national averages.
- ✔ By these measures, the FDIC found that banks proved to be remarkably resilient in the face of the enormous damage caused by Hurricane Andrew.

Northridge Earthquake

- ✔ Prior to the earthquake, banks headquartered in the area most affected by the earthquake were already suffering from an economic downturn, with higher loan loss provision and noncurrent loan ratios than state or national levels. After the earthquake, bank lending performance did not noticeably worsen.
- ✔ Prior to the earthquake, ratios of equity capital to total assets were slightly below state and national levels, and the return on average assets was actually negative and well below the state and national averages.The ratio of equity capital to total assets for banks in the affected area exhibited a strong, improving trend in the years following the earthquake. Return on average assets also demonstrated significant improvement.
- ✔ Banks headquartered in the area affected by the earthquake continued to struggle in the years after the disaster, but the disaster did not appear to contribute significantly to those institutions' difficulties.

Grand Forks Flood

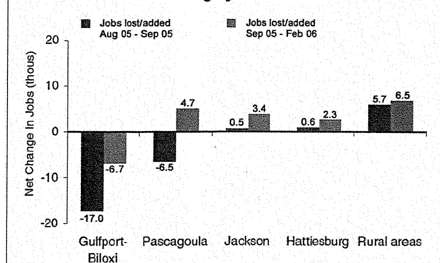
- ✔ Banks affected by the flood experienced significant spikes in their loan loss provisions and noncurrent loan ratios the first three quarters after the flood.
- ✔ One year after the flood, banks began reporting provisions consistent with pre-flood levels. Noncurrent loans remained high for an additional year.
- ✔ Beginning the second quarter after the flood, banks experienced increases in the ratio of equity capital to total assets, and the banks' return on average assets was virtually unchanged from prior periods.

Source: FDIC.

Comparing the Mississippi and Louisiana Recovery

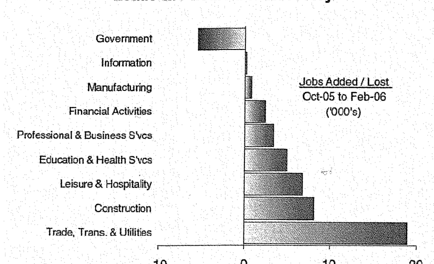
A review of recent economic indicators in Mississippi and Louisiana, post Hurricanes Katrina and Rita, also demonstrates that a flood has a potentially longer-range impact on a community. In Mississippi, the hurricane was largely a wind-and-storm-surge event consistent with most hurricanes. In New Orleans, Hurricane Katrina was clearly a flood.

Employment Levels in Mississippi Have Largely Recovered



Source: Bureau of Labor Statistics; not seasonally adjusted.

The Trade, Transportation and Utilities Sector Leads the Louisiana Recovery



Source: Bureau of Labor Statistics, seasonally adjusted data.

According to the most recent FDIC State Profiles, both states lost significant portions of their employment base as the result of Hurricane Katrina. While the nation reported a 1.4 percent increase in payroll employment for fourth quarter 2005, compared to a year before, Mississippi and Louisiana were two of only four states to report year-over-year job losses for the period.

While Mississippi reported a 0.2 percent decline in employment during 2005, all of the 22,300 jobs lost in Mississippi after Hurricane Katrina had been regained by February. The state has experienced a geographic reshuffling of jobs, with reported employment in Gulfport-Biloxi in February 2006 still 23,700 below the August 2005 figure. Gulfport-Biloxi employment levels are believed to be improving with the December reopening of several casinos. Statewide, all major sectors gained jobs in Mississippi between September 2005 and February 2006 except for leisure and hospitality. As Mississippi transitions from relief to recovery mode, continued strength is likely in construction, and job gains will likely emerge in the leisure and hospitality sector.

In contrast to Mississippi, Louisiana's employment recovery remains weak and uneven in the wake of the 2005 hurricanes. As of February 2006, Louisiana had regained just 41,600, or 17 percent, of the over 244,000 jobs lost in September and October because of Hurricanes Katrina and Rita.

Leading the way toward a Louisiana recovery has been the trade, transportation and utilities sector (particularly the retail trade segment) and the construction sector (including debris removal), which combined have accounted for two out of every three jobs added since the storms.

In both states, industries vulnerable to changes in discretionary income, particularly the leisure and hospitality industries, have struggled the most since the 2005 storms. The FDIC observes that these sectors may not recover for some time, and the timing and degree of the recovery will be influenced greatly by how residential neighborhoods rebuild and how quickly they can be repopulated.

A comparison of the impact of Hurricane Katrina on the cities of New Orleans, Louisiana, and Gulfport-Biloxi, Mississippi, shows the dramatic impact of the storm. Non-farm employment declined by 34 percent overall in New Orleans and 15 percent in Gulfport-Biloxi. In some sectors employment levels continue to decline in both cities; as of March 2006, no sector has recouped more than 20 percent of the employment loss experienced as a result of the storm.

Louisiana employment levels are taking longer to recover than Mississippi's, though both states experienced significant declines in employment from Hurricane Katrina.

New Orleans and Gulfport-Biloxi Employment Decreased Across the Board After Hurricane Katrina and has Bounced Back Unevenly

	NEW ORLEANS		GULFPORT-BILOXI	
	Percent Decline Aug-Sept	Percent Recouped Sept-Mar	Percent Decline Aug-Sept	Percent Recouped Sept-Mar
Non-farm Employment	-34%	3%	-15%	-5%
Construction	-44%	20%	0%	7%
Manufacturing	-30%	2%	-20%	7%
Trade Trans Utilities	-33%	4%	-22%	4%
Financial Activities	-25%	-2%		
Professional and Business	-41%	0%		
Education and Health	-48%	7%		
Leisure and Hospitality	-46%	11%	-20%	-31%
Government	-3%	-8%	-3%	1%

Source: Bureau of Labor Statistics

Some sectors of the economy will take longer to recover than others after a disaster, particularly those that depend upon discretionary income.

The financial services sector in New Orleans lost 25 percent of its employment base as a result of Hurricane Katrina, and continued to lose an additional 2 percent for the first six months after the storm. Statewide, financial services employment decreased 9 percent in September 2005, and is still down 6 percent from pre-storm levels.

While your bank will be in close communication with your customers after a disaster, following labor trends can give your bank a good feel for how your community is progressing and give you a sense for which sectors are continuing to experience the greatest difficulties.

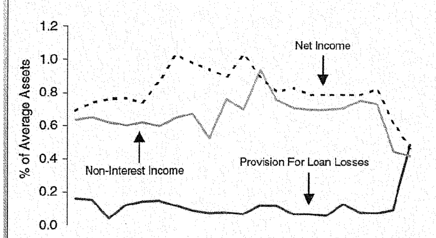
Louisiana and Mississippi Bank Performance

In banks most impacted by Hurricane Katrina, return on assets was driven down 25 basis points in Mississippi and 35 basis points in Louisiana.

The profitability of all insured institutions in Mississippi fell in fourth quarter 2005 from the period before Hurricane Katrina. The decline in bank profitability was more dramatic among those headquartered in the six most severely damaged counties along the Gulf Coast. The FDIC reported that the median return on assets (ROA) for institutions headquartered in those counties decreased from 1.16 percent to 0.91 percent during the last two quarters of 2005, the lowest since second quarter 1989 and down 25 basis points. In comparison, the median ROA was 1.13 percent in the fourth quarter of 2005 for insured institutions outside the most severely damaged counties, down 8 basis points from mid-year.

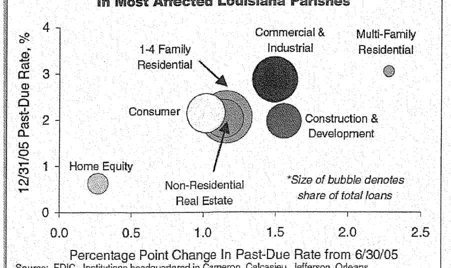
In Louisiana, prior to Hurricane Katrina, 2005 was shaping up to be a record earnings year for institutions headquartered in the state, with the first and second quarter of 2005 marking the second- and third-highest quarterly earnings totals ever.

Profitability Declines for Institutions In Most Affected Louisiana Parishes



Source: FDIC, median figures. Institutions headquartered in Cameron, Calcasieu, Jefferson, Orleans, Plaquemines, St. Bernard, and St. Tammany Parish only.

Loan Performance Declines In Most Affected Louisiana Parishes



Source: FDIC. Institutions headquartered in Cameron, Calcasieu, Jefferson, Orleans, Plaquemines, St. Bernard, and St. Tammany Parish only.

Institutions headquartered in the seven most affected parishes reported sharp declines in profitability over the last half of 2005. The fourth-quarter median ROA of 0.46 was the lowest quarterly figure for this subset of parishes since the recession of 1990-1991 and down 35 basis points from mid-year 2005. In addition to significantly higher provision expenses for loan and lease losses, institutions reported lower non-interest income.

These Louisiana institutions also reported a median total past-due rate of 2.68 percent in fourth quarter 2005. The past-due ratio for all major loan categories, except home equity loans, increased significantly since June 2005. Commercial and industrial and construction and development loan delinquencies grew faster than residential real estate, though it is anticipated that residential delinquencies escalated the first quarter of 2006 as the flexibility that institutions provided to retail borrowers began to diminish at the end of 2005.

Institutions headquartered throughout Mississippi and Louisiana reported strong deposit growth during the fourth quarter of 2005. However, growth was particularly strong in the most significantly affected parishes and counties. Deposits in institutions headquartered in the seven Louisiana parishes grew by over 15 percent during the last quarter of 2005, compared to 2.5 percent nationwide. Deposits in the affected Mississippi counties grew by 9.6 percent during the same period.

This growth is largely attributed to deposits of insurance and aid relief and is likely to decline as rebuilding accelerates. The deposit growth led to a 119 basis point decline in the median Tier 1 leverage capital ratio for institutions headquartered in the most affected Louisiana parishes.

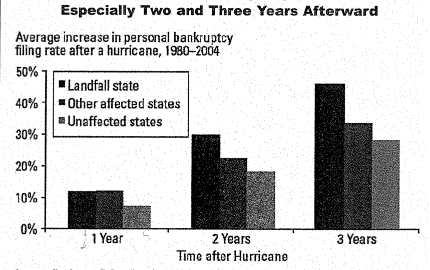
The additional deposits were invested in securities, particularly liquid U.S. government agency securities. Because most of the deposit growth occurred in demand deposit accounts, net interest margins were maintained despite the relatively low yields earned on these securities. While deposit growth has been strong, loan growth reported by institutions in the most affected Louisiana parishes slowed the last half of 2005 and was expected to remain depressed in the near term until key rebuilding issues associated with flood and other insurance were resolved. Loans in institutions headquartered in the seven Louisiana parishes grew by less than a quarter of a percent during the fourth quarter of 2005, compared to 2.2 percent nationwide. Loan growth in the six Mississippi counties most impacted by Hurricane Katrina was comparable to national levels.

Deposit growth spikes as a result of a disaster can affect a bank's capital ratios but generally do not affect net interest margins.

Bankruptcy and Disasters

Average personal bankruptcy filings in states hit by hurricanes and tropical storms historically have increased at rates significantly greater than those in non-affected states. Over the past 25 years, states where major hurricanes made landfall have seen bankruptcy filings subsequently increase 50 percent faster than filings in states not affected by the storms. The largest deterioration is typically seen two to three years after the hurricanes hit, indicating that banks could continue to experience some decline in credit quality for several years after a disaster.

Over the Past 25 Years, Personal Bankruptcy Filings Have Surged in Areas Hit by Major Hurricanes Especially Two and Three Years Afterward



Source: Professor Robert Lawless, University of Nevada, Las Vegas.

The new personal bankruptcy law that became effective in October 2005 includes provisions that could decrease the level of bankruptcy filings under normal circumstances, particularly reducing the number of people who qualify for debt relief under Chapter 7 through the imposition of a financial means test. The new law also allows judges to grant waivers to debtors who can prove special circumstances.

After the 2005 storms, the U.S. Department of Justice (DOJ) agreed to waive certain provisions for residents of those states affected by Hurricane Katrina. DOJ's United States Trustee Program, which administers bankruptcy laws, announced several measures for storm victims along the Gulf Coast, including waiving certain documentation requirements, allowing lost income and increased expenses to be considered under the means test, and potential waiving of the counseling requirement. As of May 2005, these waivers were still in place for victims of the 2005 storms.

Flood Insurance

For any disaster involving a flood, the availability of flood insurance has been an important component of the affected area's economic recovery. The National Flood Insurance Program (NFIP) is currently under stress as a result of Hurricane Katrina, and Congress most likely will be making significant changes to the program in the near future.

In 1968, Congress created the NFIP in response to the rising cost of taxpayer-funded disaster relief for flood victims and the increasing amount of damage caused by floods. Nearly 20,000 communities across the United States and its territories participate in the NFIP by adopting and enforcing floodplain management ordinances to reduce future flood damage. In exchange, the NFIP makes federally backed flood insurance available to homeowners, renters, and business owners in these communities.

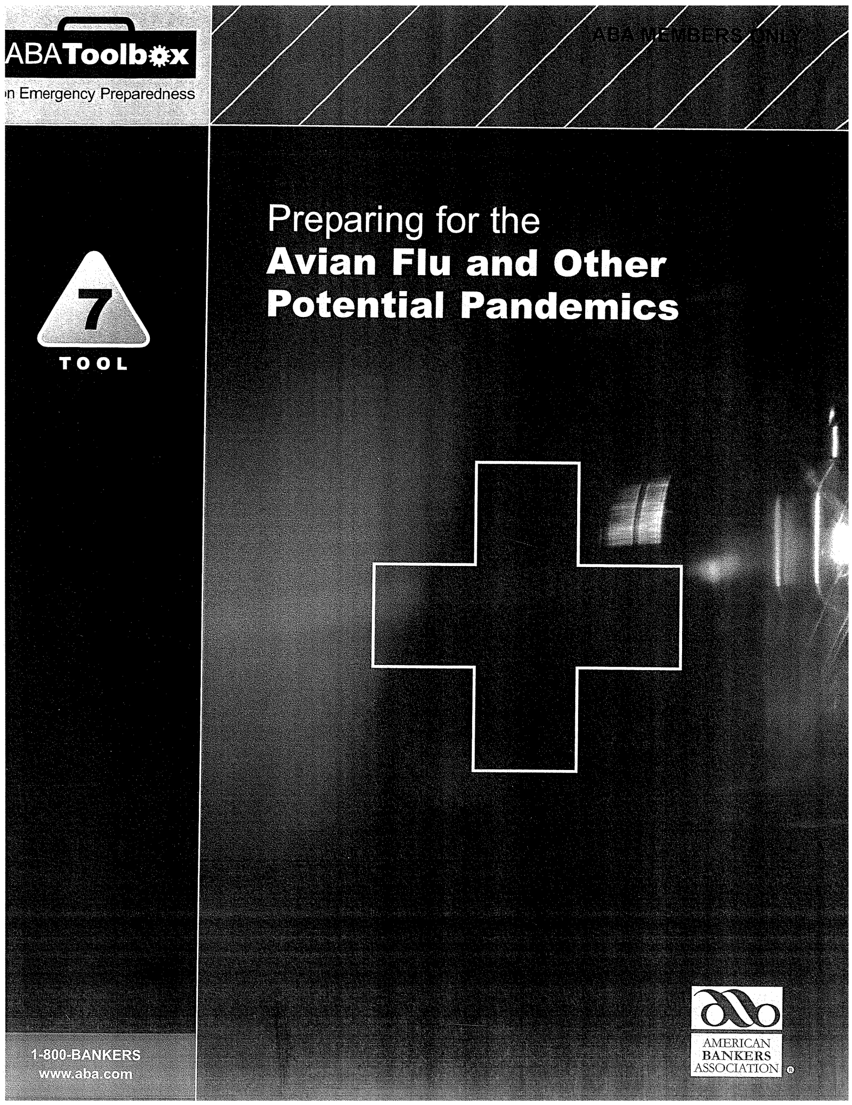
Continued uncertainties regarding flood insurance can adversely impact an area's ability to recover by creating uncertainty in the lending market.

The NFIP is, in theory, self-supporting for the average historical loss year, which means that operating expenses and flood insurance claims are not paid for by the taxpayer, but through premiums collected for flood insurance policies. The program has borrowing authority from the U.S. Treasury for times when losses are heavy. However, these loans are paid back with interest. Losses from the 2005 storms have left the NFIP over $23 billion in debt to the Treasury. The NFIP is likely to need an additional $3 billion to $5 billion in borrowing authority to pay additional claims resulting from these disasters. There is no way that the NFIP can reasonably repay this debt and provide payment for future losses under the current rate structure.

The NFIP significantly affects lending practices in flood-prone areas. For instance, to get secured financing to buy, build, or improve structures in Special Flood Hazard Areas (SFHA), borrowers are required to purchase flood insurance. Lending institutions that are federally regulated or federally insured must determine if the structure is located in an SFHA and must provide written notice requiring flood insurance.

However, many of the flood zone maps are out of date. It is often difficult for lenders to determine which properties require flood insurance. Lacking good information regarding which properties may be exposed to flooding creates uncertainty. If an institution is uncomfortable with its due diligence analysis, it may find that the risk of originating the loan outweighs the reward and simply refuse to fund the loan.

In order for the program to remain viable, a number of reforms will be necessary. The ABA has convened a Flood Insurance Task Force to review the current program and make recommendations for reform.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Preparing for the Avian Flu and Other Potential Pandemics

Preparing for the Avian Flu And Other Potential Pandemics

Introduction

To say that the possibility of a bird or avian flu has caught the public's imagination is a gross understatement. In fact, searching the term "bird flu" on Google generated 81 million results. There has even been a made-for-TV movie entitled "Fatal Contact: Bird Flu in America."

No one knows whether the virus currently infecting birds (H5N1) will mutate into a strain communicable from human to human. No one knows how quickly it could spread and how series the health effects would be.

What we do know is the value of planning ahead, even for very remote problems. As Secretary Leavitt of the Department of Health and Human Services recently noted, it is highly likely that at some point in the future a virus will trigger pandemic flu. Moreover, the pandemic flu is not the only threat. Biological or ecological terrorism are not outside the realm of possibilities in today's uncertain world. For that reason, preparatory measures are both appropriate and prudent.

Banks have always developed business continuity programs designed to maintain or recover their critical operations if a disruptive event occurs. Over the course of the last five years, these plans have evolved to cover low-probability, high-impact events such as terrorist attacks and wide-scale disruptions that might affect an entire financial district or metropolitan area. Nevertheless, an "all-hazards" approach to business continuity planning may not be sufficient to address circumstances in which the institution must try to function during an outbreak of avian flu or another serious infectious disease. Gathering key people together at a remote site may work well for some disasters, but may be completely the wrong approach for a biological or infectious disease.

This tool is designed to help your bank understand and plan for infectious and biological disasters. We focus on the bird flu as it illustrates the considerations for all these potential pandemics.

"... the reality is that if the H5N1 virus does not trigger pandemic flu, there will be another virus that will."

Michael O. Leavitt, Secretary of Health and Human Services

Why the Avian Flu is Different
From a Business Continuity Perspective

- ✔ **Business continuity plans that address discrete events that might affect organizations for limited time periods may prove inadequate for the longer-term impact of an avian flu outbreak.** A serious avian flu outbreak could erupt in waves over weeks or even months, with some waves appearing to be mild only to be followed by others that are much more severe.
- ✔ **Personnel absences may become so widespread that existing succession plans may not provide sufficient staff to maintain even critical operations.** During an avian flu outbreak, organizations may have to deal with unprecedented absenteeism for weeks at a time — from illness, family demands or fear of contagion. Historic patterns suggest that, over the course of such an outbreak, staff absences due to illness might be in a range of 20 to 30 percent (although absenteeism due to illness on any given day would be less — perhaps in a 10 to 15 percent range). If staff absences due to the need to care for ill family members and from fear of contagion are taken into consideration, the absenteeism rate might approach the 40 percent level.
- ✔ **Back-up facilities that have been established by many financial organizations — even remote sites hundreds of miles distant from primary facilities — may be just as affected by the outbreak as the primary locations they are intended to back up.** An avian flu outbreak is likely to simultaneously affect multiple regions of the country and the globe.
- ✔ **Since corporate business continuity strategies often rely heavily on the availability of public sector emergency service providers, disruptions in these services from high absenteeism could present significant challenges to corporate plans.** Disruptions could spread to other key infrastructures, such as power, transportation, telecommunications, water systems — even police, fire, and emergency medical services. Moreover, basic retail services might also be disrupted. These types of problems might make it very difficult for employees to function effectively at work.

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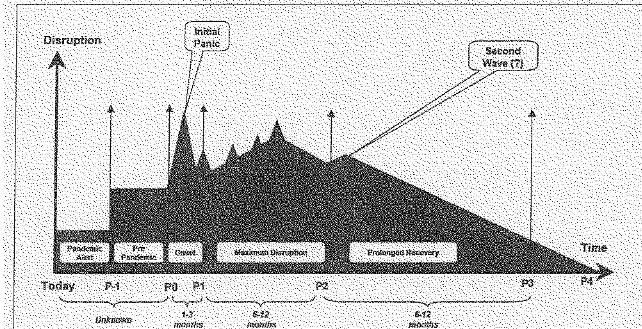
Potential Stages in a Pandemic

A serious avian flu outbreak could erupt in waves over weeks or even months. While the actual duration of any pandemic is uncertain, for planning purposes the following graphic shows the various stages that the flu could conceivably go through.



Source: Banks and the Avian Flu, Planning for a Possible Pandemic, Dr. Pat McConnell, Risk Trading Technology

Since 2004, the avian flu migration has escalated efforts in major cities in the United States to develop quarantine plans and take other steps in anticipation of flu cases eventually reaching this country.

1. **Pandemic Alert** — This is where we are today. Governments have been put on notice that a pandemic is possible and that preparedness plans should be reviewed and updated. Individual firms are becoming increasingly aware of the threats and should consider the potential negative impacts of such an event.

2. **Pre-Pandemic** — During this stage, localized outbreaks of the disease occur with human-to-human transmission. Government and firms begin to assign specific resources to address the heightened threat level and prepare contingency communication plans for the general public and staff.

3. **Pandemic Outbreak** — During this stage, there are general outbreaks of the disease with human-to-human transmission across borders. At this stage, governments and firms would activate pre-planned measures, such as border and travel restrictions, to minimize the spread of the disease. Despite earlier warnings, there will be some panic in the general public at this stage. Planners must ensure that they also do not overreact.

4. **Maximum Disruption Period** — It is in this stage that maximum disruption to business will occur. Outbreaks, and accompanying minor panics, will occur simultaneously and unpredictably across the world.

5. **Prolonged Recovery** — Recovery from the pandemic will be slow. Any slowdown to the underlying economy will lag the disease's onset by several months as the pandemic impacts various industrial sectors and geographic regions at different times.

The Flu's Potential Human and Economic Impact

While it is impossible to predict with confidence the human and economic impact of the next pandemic, the Congressional Budget Office (CBO) and the Center for Disease Control (CDC) have both developed assumptions based on past events, particularly the flu outbreaks of 1918-1919, 1957 and 1968.

The CBO has developed two pandemic scenarios. In its view, a severe pandemic scenario, similar to the 1918-1919 episode, could infect 90 million people in the United States and cause the deaths of more than 2 million. A mild pandemic resembling 1957 and 1968 outbreaks might be expected to infect 75 million people and cause roughly 100,000 deaths in the United States.

The CDC has developed scenarios ranging from 89,000 to 207,000 deaths; 314,000 to 734,000 hospitalizations; and 18 to 42 million outpatient visits.

The uncertain nature of a pandemic also makes predicting its ultimate economic impact difficult. The following table contains both CBO and World Health Organization estimates of the economic and employment effects of a pandemic. Both agencies' work is based on past pandemics, as well as evaluation of the economic impact of the SARS epidemic in Asia.

Economic and Employment Effects of a Pandemic

	Mild Scenario	Severe Scenario
Percent of Employees Ill	25 percent	30 percent
Employee Fatalities	0.1 percent	2.5 percent
Days of Work Missed per Employee	4 days	15 days
Percent of Total Employee Absenteeism	No separate estimate	20-40 percent
Percent of Employee Absenteeism per Day	No separate estimate	10-20 percent
Effect on GDP (Supply-side)	0.5 percent lower	3 percent lower
Effect on GDP (Demand-side)	1.0 percent lower	2 percent lower

Sources: CBO and World Health Organization.

The supply-side effects on GDP are due to the large share of the labor force becoming ill and those who do not report to work for fear of becoming infected, while the demand-side decline in GDP reflects the pandemic's effect on demand in individual industries. As much of the supply side effect is dependent on assumed absenteeism rates, an effort is currently underway by Treasury and others in government and the medical profession to refine currently available absenteeism estimates to assist businesses in their avian flu planning process.

How the Avian Flu Might Affect the Economy

Based on current estimates, the CBO has made the following observations regarding the impact of an avian flu pandemic on the overall economy:

- ✔ An avian flu pandemic could be thought of as a shock to the economy, with both demand and supply-side effects in the short run.
- ✔ The short-term effects of the pandemic would depend on its scope. Under the CBO's severe scenario, the human toll would be devastating, and the economic effects would be greater than in recent recessions and roughly the same size as the average post-war recession. In a more moderate pandemic, the economic effects might not even be felt.
- ✔ In the long term the economy's response to natural disasters demonstrates that people can adapt to extreme hardship and businesses can find ways to work around obstructions. As a result, economic activity would recover, and the economy would eventually return to its previous trend growth rate.

Source: Congressional Budget Office.

In addition to workers' absences, many businesses (such as restaurants and movie theaters) would probably suffer a falloff in demand because people would be afraid to patronize them or because the authorities would close them. To calculate these demand-side effects, CBO examined GDP by industry and assumed different declines in demand for different industries, based loosely on Hong Kong's experience with SARS.

Your bank's exposure to certain industries can have a financial impact in the event of a pandemic.

CBO assumed that a pandemic's effects would be especially severe among industries whose products required that customers congregate; examples include the entertainment, arts, recreation, lodging, and restaurant industries. Other industries, including retail trade, were assumed to suffer a smaller decline in demand, and one industry, health care, was assumed to experience an increase because of the surge in demand for medical care.

Assumed Percentage Declines in Demand In the Event of an Avian Flu Pandemic

	Mild Scenario	Severe Scenario
Agriculture/Mining	3	10
Construction	3	10
Manufacturing/Wholesale/Retail Trade	3	10
Transportation/Warehousing	17	67
Professional/Business Services	0	0
Education	0	0
Health Care	-15	-4
Arts/Leisure/Entertainment	29	80

Considerations for Avian Flu Preparation

On March 15, 2006, the FFIEC released an interagency advisory to financial institutions and their technology service providers intended to raise awareness of the threat of a pandemic influenza outbreak and its potential impact on the delivery of critical financial services. The advisory discusses the National Strategy for Pandemic Influenza, the roles and responsibilities for financial institutions, and advises financial institutions and their service providers to factor this and similar threats into their event response and contingency strategies.

FFIEC Avian Flu Guidance

According to the FFIEC, responsibilities of the U.S. private sector and critical infrastructure entities include the following:

- ✔ Establishing an ethic of infection control in the workplace that is reinforced during the annual influenza season, to include, if possible, options for working offsite while ill, systems to reduce infection transmission, and worker education.
- ✔ Establishing contingency systems to maintain delivery of essential goods and services during times of significant and sustained worker absenteeism.
- ✔ Where possible, establishing mechanisms to allow workers to provide services from home if public health officials advise against non-essential travel outside the home.
- ✔ Establishing partnerships with other members of the sector to provide mutual support and maintenance of essential services during a pandemic.

The FFIEC Guidance can be Found at:

http://www.fdic.gov/news/news/press/2006/pr06030a.html

The following series of checklists have been compiled to assist your bank in a review of your current business continuity plans as you consider how to respond to this potential threat. The issues identified are relevant for a serious outbreak of any infectious disease, or, indeed, for any biologically-based threat.[1]

[1] Many of the checklist components were derived from the work of the Financial Services Sector Coordination Council (FSSCC). Links to this work and other resources can be found in the "Additional Resources" portion of this document.

Infectious Disease or Biologically-Based Threat Business Continuity Planning Checklist

- ❑ Identify a Coordination Team
- ❑ Identify Critical Operations
- ❑ Identify Operations that Could be Suspended
- ❑ Plan for Splitting and Segregating Staff and for Office Quarantines
- ❑ Expand Telecommuting Capabilities
- ❑ Expand Teleconferencing and Videoconferencing Capabilities
- ❑ Plan for Long-Distance Travel Limitations
- ❑ Address Local Transportation Issues
- ❑ Address Security Needs
- ❑ Have a Crisis Information System
- ❑ Phase Your Implementation Plans
- ❑ Coordinate with Local Emergency Management
- ❑ Test Your Plan

1. **Identify a Coordination Team** — Identify a pandemic coordinator and team with defined roles and responsibilities for preparedness and response planning. The team should contain:
   - **Medical expertise** to provide independent, objective information on the background, status and potential trajectory of a pandemic;
   - **Communications expertise** to develop material for distribution to customers and staff;
   - **Information experts** to develop and operate public/private Web sites and firm-wide communications capabilities, such as e-mail and Web-logs;
   - Telecommunications experts who would ensure efficient, secure, access to corporate information by remote staff and who would develop and promote the effective use of voice and videoconferencing; and
   - **Security experts** who would ensure that the premises and the staff remaining in them are secured and who would communicate with civil authorities to ensure compliance with changing ordinances.

2. **Identify Critical Operations** — Identify critical operations that must be sustained throughout the period. Review current business continuity plans to determine how they can better take into account the potential difficulties posed by an avian flu outbreak of extended duration. Communicate with third-party service providers of these operations to ensure they are aware of your plans for providing services during an avian flu outbreak and that they have appropriate plans in place. These discussions should address how you will communicate during such an event and work around any disruptions that might take place.

3. **Identify Operations that Could be Suspended** — Review existing business continuity plans to identify activities or functions that should be suspended throughout the duration of an extended outbreak.

4. **Plan for Splitting and Segregating Staff and for Office Quarantines** — Address the risk of a potential disruption to critical operations that might arise if even a single individual in an office or branch becomes ill with a highly contagious flu, raising the possibility that other employees in that office need to be quarantined. As the decision to quarantine rests with local public health officials, institutions should understand in advance the decision-making process governmental entities would use to address this question and how information about any such steps would be communicated to the public.

   In order to minimize this possibility, consider splitting critical staff into two or more teams operating out of different locations. Such teams need to remain segregated from each other throughout the height of an outbreak — including separate restrooms and eating facilities. Even the sharing of printed (as opposed to electronic) documents between the groups should be minimized.

5. **Expand Telecommuting Capabilities** — Vastly expanded telecommuting capabilities for employees might prove essential to maintain critical operations in these circumstances. Consider upgrading systems and expanding training to accommodate a sudden need to expand existing telecommuting programs.

The Implications of Expanded Telecommuting Considerations

- ✔ Upgrades to IT infrastructures to accommodate vastly expanded use of telecommuting may require substantial budget resources and weeks or months of advance planning.
- ✔ Expanded telecommuting from diverse locations using a wide range of devices and communication links may raise significant cyber security issues that must be addressed to minimize the chances that sensitive information might be compromised.
- ✔ In a severe avian flu outbreak, expanded use of online services by the general public may result in slow Internet service that may interfere with telecommuting capabilities.

6. **Expand Teleconferencing and Videoconferencing Capabilities** — Consider canceling all but the most essential face-to-face meetings with persons (both internal and external) during such an event and expand your bank's ability to conduct teleconferences and videoconferences, including establishing at least one "reservationless" teleconference number for the exclusive use of staff in each office or department so that its staff can more easily share critical information from home or other diverse locations.

7. **Plan for Long-Distance Travel Limitations** — An employee's travel to areas where an outbreak has already occurred raises difficult issues regarding restrictions on the employee's return to work. As a result, even if your bank decides to refrain from canceling its own meetings under these circumstances, it may be forced to use teleconferences and videoconferences to conduct business that ordinarily would involve travel.

8. **Address Local Transportation Issues** — In metropolitan areas, your bank may want to consider making special arrangements so that critical employees who need to report in person to a facility would not unduly increase their risk of contagion by taking mass transit to and from work. These plans often include arranging for additional parking spaces at key facilities.

9. **Address Security Needs** — Because of the potential for police and other security services to be severely compromised because of a combination of absenteeism and heavy demands for area-wide security efforts, your bank may wish to enhance in-house or contractor security services during an avian flu outbreak.

10. **Have a Crisis Information System** — Review Tool 1 of this Toolbox, ***Improving Emergency Communication***. Consider putting an automated system in place for senior management to track how the event is affecting employees. For example, such a system could be used to provide management with up-to-date information on how many employees are absent (for whatever reason) or working from a location (home or an alternate facility) that is not customary for the employee.

11. **Phase In Your Implementation Plans** — Consider developing specialized business continuity plans for an avian flu outbreak, structuring these plans to phase in escalating responses as developments warrant. For example, your bank might develop its own phase-in plan along the following lines.

Implementation Plan Phases

- ✔ **Phase One** at a particular institution might be the current situation, with no outbreak. At this point your efforts might be limited to planning and stockpiling some basic supplies.
- ✔ **Phase Two** might be when an epidemic is declared in a foreign location. Planning might be accelerated, with briefings held for key staff and any additional necessary planning and stockpiling accelerated.
- ✔ **Phase Three** might be declared internally when isolated outbreaks are confirmed in the U.S. Further measures, such as preparing for distributions of antiviral medication and temporarily splitting staff into teams operating from segregated locations, might be triggered.
- ✔ **Phase Four** might be declared internally when there is evidence that an outbreak is affecting the locations of the organization's critical facilities, in which case the full array of your bank's response measures might be employed.
- ✔ **Phase Five** might cover a period after the worst of an outbreak appears to have passed but worries of a follow-up wave of infection remain high. At that point, protective measures might be slowly relaxed and normal operations restored incrementally until a return to Phase One can be declared.

12. **Coordinate Your Implementation Plans** — Have your bank's plan coincide with alert programs that are being developed in locations in which the organization's facilities are located. While such alert programs are not yet common in the U.S., your bank should be aware of them if and when they exist. Tie your bank's response measures to whatever alert programs are established either nationally by HHS or DHS or at the state or municipal level.

13. **Test Your Plan** — Comprehensive testing of response plans for an avian flu outbreak that could last for an extended period of time may be unrealistic. At the same time, it would be realistic for your bank to test discrete portions of your response plan, such as the ability to handle a high volume of telecommuting or teleconferencing.

Communication and Education Issues

Communication and Education Checklist

- ❑ Communicate with Employees
- ❑ Enhance Your Human Resources Programs
- ❑ Prepare an Education Program
- ❑ Communicate with Customers
- ❑ Communicate with Other Institutions
- ❑ Coordinate with Local Emergency Management Organizations

1. **Communicate with Employees** — Messages for external and internal communications on all matters relating to the impact of the pandemic should be developed. Specific material for employees that describes not only how businesses should operate in reduced circumstances but also provides information for handling personal issues (e.g., sick relatives and absenteeism) should be distributed.

2. **Enhance Your Human Resources Programs** — Plan for the emotional toll of a catastrophic event on employees and their families. Consider what special efforts your bank needs to put in place to address the high degrees of fear and family worries that employees are going to have to deal with while trying to work during the weeks or months of an avian flu outbreak. Evaluate employee access to and availability of healthcare, mental heath care, and social services during an outbreak.

3. **Prepare an Education Program** — Consider working with local health officials to prepare an education program to clarify your policies during an avian flu outbreak and to use publicly available information to educate your employees on the need to take relatively simple precautions to limit exposure to a flu outbreak.

4. **Communicate with Customers** — Develop specific material for customers, including guides to using electronic services (e.g., ATM, online banking, call centers). It should also be recognized that existing communication material may be overtaken by events, such as alterations to terms and conditions on lending and credit card products and changes to customer contact numbers. Your bank's Internet site can be invaluable for updating material as it changes.

5. **Communicate with Other Institutions** — Review your bank's procedures to share crisis-related information with other businesses located within the affected area. These might include leveraging your state bankers associations' crisis conference call structures, and coordinating with regional groups, local chapters of Citizen's Corps, Chambers of Commerce, and Health Coalition Groups. All of these information-sharing and coordination programs may prove essential during an avian flu outbreak.

6. **Coordinate with Local Emergency Management Organizations** — Review your bank's processes for coordinating with emergency management organizations at the municipal and state level, recognizing that in a severe avian flu outbreak local authorities might be imposing quarantines and limiting crowd exposures by restricting public gatherings and use of mass transit.

Employee Health and Safety Issues

Employee Health and Safety Checklist

- ❑ Acquire Medical or Other Health Care Expertise
- ❑ Develop Vaccination and Medication Programs
- ❑ Develop Testing and Monitoring Programs
- ❑ Develop a Disinfection Program
- ❑ Distribute Hygiene Supplies
- ❑ Enhance or Consider an In-House Health Unit
- ❑ Address Other Emergency Care and Office-Isolation Issues

1. **Acquire Medical or Other Health Care Expertise** — Consider identifying a medical expert (either in-house or on a consulting basis) who can provide insights into how to organize any in-house vaccination, medication distribution, disinfection or quarantine programs, as well as advice on the types of medical supplies that your bank might want to have on hand should an outbreak occur.

2. **Develop Vaccination and Medication Programs** — Develop plans to operate or sponsor programs to provide vaccinations for your employees once such vaccines become available. Consider providing your employees with medications (such as antiviral medications) that, if taken properly, might lessen the duration or severity of their illness.

3. **Develop Testing and Monitoring Programs** — You may want to establish a program to routinely test employees for signs of infection during an outbreak (e.g., by monitoring temperatures using tools ranging from simple thermometers to expensive scanning devices to screen staff at facility entrances) and developing procedures to require supervisors to report any instances in which a member of their staff is showing signs of an infection (such as coughing and sneezing).

4. **Develop a Disinfection Program** — Supplement routine office cleaning programs with special disinfection procedures for certain common areas at your facilities. Develop procedures to temporarily isolate any offices or other areas that may have been contaminated until they can be thoroughly cleaned and disinfected.

5. **Distribute Hygiene Supplies** — Distribute hygiene supplies throughout your offices during an avian flu outbreak. These supplies would include hand sanitizers, tissues, and special trash receptacles with hands-free lids.

6. **Enhance or Create an In-House Health Unit** — If your bank has an in-house health unit, your operation will potentially have to handle not only influxes of ill employees, but large numbers of the "worried well" who might overwhelm current capacity. Consider arranging for additional health care staff to serve as backups in case in-house health care professionals themselves become too ill to serve. If your bank does not currently have an in-house health unit, you may want to establish such a unit temporarily in the event of a pandemic. Alternatively, having a nurse onsite would be beneficial.

7. **Address Other Emergency Care and Office-Isolation Issues** — Develop procedures to address situations in which employees report to work feeling fine but suddenly become severely ill, potentially contaminating other personnel and the areas in which they have become ill. Encourage employees to volunteer to be trained and equipped (with masks, gowns, gloves, etc.) to assist in handling these situations. Employees who have already been ill with the virus and have recovered are likely to have a degree of immunity and may also be available to act in a volunteer capacity.

Administrative Considerations

Administrative Checklist

- ❑ Address Budget and Administrative Issues
- ❑ Address Legal Issues
- ❑ Document Your Program

1. **Address Budget and Administrative Issues** — A number of the issues discussed throughout this Tool have significant budget or administrative implications. For example, stockpiling supplies that might prove essential during an actual avian flu outbreak would need to be budgeted for. In addition, advancing sick or administrative leave for large numbers of personnel involve both the budget and leave programs.

2. **Address Legal Issues** — Have your legal staff or counsel carefully scrutinize business continuity and employee safety arrangements implemented to address issues associated with an avian flu outbreak. For example, your bank will need to consider potential liability for in-house vaccination or medication distribution programs, as well as for any harm experienced or caused by in-house volunteers. In addition, these programs, as well as procedures for self-quarantine and other policies, would need to be reviewed for compliance with personnel and privacy laws and regulations. Legal staffs should also consider the implications of exhausted sick leave, leave without pay and similar issues.

3. **Document Your Program** — Your bank's business continuity plan is most likely structured as an "all hazards" document designed to address impacts on critical operations without focusing on single threats such as fires, floods or terrorist acts, and may not adequately address some of the unique challenges posed by an avian flu outbreak. Documenting your specific plans for such an outbreak may prove especially valuable in the event that your bank's business continuity managers become incapacitated at the onset of an outbreak.

Sources of Additional Information

Web Sites for More Details

U.S. Government Official Site
http://www.pandemicflu.gov

World Health Organization
http://www.who.int/csr/disease/avian_influenza/en

Center for Disease Control
http://www.cdc.gov/flu/avian/index.htm

The National Strategy for Pandemic Influenza
http://www.whitehouse.gov/homeland/nspi.pdf

Business Pandemic Influenza Planning Checklist Prepared by the Department of Health and Human Services (HHS) and the Centers for Disease Control and Prevention (CDC)
http://www.pandemicflu.gov/plan/pdf/businesschecklist.pdf

State And Local Pandemic Influenza Planning Checklist Prepared by HHS and the CDC
http://pandemicflu.gov/plan/pdf/Checklist.pdf

FFIEC Interagency Advisory on Influenza Preparedness
http://www.fdic.gov/news/news/press/2006/pr06030a.html

Statement on Preparations for "Avian Flu" and Issues for Consideration Regarding Preparations for "Avian Flu" The Financial Services Sector Coordinating Council for Critical Infrastructure Protection and Homeland Security (FSSCC)
http://www.fsscc.org/reports/avianflu.html

Banks and the Avian Flu, Planning for a Possible Pandemic, Dr. Pat McConnell, Risk Trading Technology
http://www.continuitycentral.com/Avian_Flu_OpRisk.pdf

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Statement of

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Chairwoman Sue W. Kelly
House Financial Services
Subcommittee on Oversight and Investigations
U.S. House of Representatives

Hearing on Pandemic Influenza Preparedness in the Financial Services Sector

Chairwoman Kelly, Vice Chairman Paul, Ranking Member Gutierrez, Congressman Price of Georgia and other members of the Subcommittee on Oversight and Investigations, I am Andrew J. Cataldo, a partner in the law firm of McGuireWoods LLP. McGuireWoods LLP is a U.S. - based law firm of 750 lawyers, located in 15 offices around the world.

Thank you for permitting me to offer my perspective on certain key aspects of pandemic influenza preparedness in the financial services sector. My testimony today will focus on three main points:

1. <u>Need for further international coordination and operational resiliency efforts.</u> Important progress has been made to date in the financial services sector in preserving operational resiliency, which is the ability to maintain or recover core operations. As that progress continues, additional attention is warranted to strengthen international coordination and to prepare less regulated financial services participants, such as hedge funds, for the challenges they might face.

2. <u>Need for important planning and coordination to address economic viability risks.</u> As progress continues on operational resiliency, significant attention must now be focused on what the International Monetary Fund identifies as even greater risks from a pandemic influenza, namely, risks to the global financial system, national economies and continuing viability of key financial institutions. These risks may stem from sharp declines in revenues; sharp increases in costs; and the liquidity, balance of payment and other ramifications of an expected 'flight to quality' by domestic and international investors and creditors. In response, U.S. and international regulators, central planners and governments must prepare and coordinate to exercise prudent forbearance and to provide extraordinary

support to minimize damage and speed recovery, including to injured financial services participants.

3. Need for important planning and coordination to minimize damage and speed recovery of financial services customers. Just as financial service sector participants may need prudent forbearance and extraordinary support to survive a pandemic, all sector participants must be strongly encouraged to provide similar and extensive relief and support for consumer and business customers, who will themselves be hard hit by a pandemic. In other words, if the goal of all of our pandemic planning efforts in financial services is to protect our economic security (not just keep the ATM machines running), then important regulatory, sector participant and central bank planning must cascade down to the individual and business borrowers, consumers and investors who are the true engine of the American economy.

Background. Over the past two months, it has been my privilege to brief members and staff of this subcommittee on the potential impacts of an avian influenza pandemic on the national economic security of the United States, beginning with Congressman Price and his staff, and to then assist Congresswoman Kelly and subcommittee staff in preparations for these hearings. Let me commend and thank Chairwoman Kelly and Congressman Price for their leadership and foresight in conducting these important hearings. These are, to my knowledge, the first Congressional hearings on pandemic preparedness involving any of the 17 critical infrastructure and key resource sectors identified by President Bush as essential to our national economic functions.[1]

As in all prior briefings and discussions, I am here today as a concerned citizen and not on behalf of any current or prospective client, industry, or McGuireWoods LLP. I hope that my brief comments will further assist you in protecting our national economic security against the threat of pandemic influenza and other potential major disasters of national significance, such as radiological, nuclear, biological or chemical events.

The U.S. financial services industry serves as the heart of our economy. It is imperative that individuals, businesses, and governments (domestic and foreign) continue to have access to credit and liquidity, short and long-term investments, risk-transfer products, various payment systems, and depository services provided through the U.S. financial services industry.

Need for further international coordination and operational resiliency efforts. As evidenced by the testimony of Mr. Parsons of the Department of Treasury and Messrs. Yingling, Collins, Gleeson, and Ferris on behalf of key components of the financial sector, important progress is underway to improve the likelihood of operational continuity in the event of pandemic influenza. In fact, the financial

[1] Homeland Security Presidential Directive 7 (HSPD-7), December 17, 2003.

services sector is probably among the more resilient, at this time, of the 17 critical infrastructure and key resource sectors mentioned earlier.

By 'resilient', I mean able to maintain or quickly recover critical and core operations and functions. This challenge of resiliency or maintaining or recovering critical and core operations and functions is at the heart of all business continuity planning, regardless of whether the scenario involves damage to infrastructure or loss of personnel due to high absenteeism. In a pandemic scenario, preparedness to address unusually high levels of absenteeism (such as 40-50%) may be needed.

As Mr. Parsons and others outlined in their testimony today, further efforts to promote, test and secure operational resiliency across our financial services sector are needed. As part of your continuing leadership and oversight of those efforts, let me encourage you to also pursue greater international coordination and communication among central bankers, regulators and key financial service sector participants in other countries.

We live in a global economic system where financial events in one country may quickly cross borders to affect others. Let me recommend your review and consideration of the preliminary recommendations on international coordination and communication in the December 2005 report on High-level Principles for Business Continuity prepared by The Joint Forum – established under the aegis of the Basel Committee on Banking Supervision, the International Organization of Securities Commissions, and the International Association of Insurance Supervisors.[2]

Let me also suggest that you consider next steps of regulation, required disclosure or other encouragement for what are now less regulated sector participants, such as hedge funds. The Managed Funds Association (MFA, which is the Association for investment professionals in hedge funds, managed futures and other alternative investments) has highlighted the need for appropriate planning on business continuity and disaster recovery in its 2005 Soundness Principles for Hedge Fund Managers. But, and I stress, based solely on anecdotal evidence, that general advice for hedge fund managers seems to have not spurred a robust effort in preparedness in that important sector of financial services.

For example, as the head of our firm's legal and consulting teams offering pandemic preparedness services, I had occasion recently to visit with a prospective client, a $10+ billion hedge fund in the U.S. (As an aside, I wonder how many of the over 26,000 FDIC insured institutions in the U.S. have assets over $10 billion?) What was very interesting about that meeting, as illustrative of my concern, is that the otherwise sophisticated general counsel of the firm was oblivious to the need to now prepare for pandemic and also resistant to the idea

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[2] **The Forum's high-level principles for business continuity can be found at http://www.bis.org/publ/joint14.htm.**

that any of the recent government, SEC, and other regulatory admonishments to prepare have put the hedge fund on notice of its need to prepare. He was also resistant to acknowledge that the fiduciary duty of the fund to its investors could be breached by a failure to so prepare.

Similar anecdotal feedback that we and our colleagues in the hedge space have received seems to suggest three things: that pandemic planning is not on the 'to-do' list of most U.S. hedge funds; even if it were, it would not be high in priority on that list; and that hedge funds may not have the internal resources to undertake this type of planning, even if they were to choose to do so. Regardless of one's ideological perspective on the need for government oversight of hedge funds, I am concerned as a practical matter that a lack of preparedness for pandemic in this sector could create significant injury to both hedge fund clients and other investors in U.S capital markets. I also wonder if these more opaque, less regulated, vehicles may facilitate a greater likelihood of 'naked' short selling, insider trading, and other illegal or unethical activities should a pandemic occur, especially if a firm is unprepared and willing to use whatever means necessary to thwart financial loss in the bet that weakened regulatory and investor scrutiny (as a result of a pandemic) will not uncover or pursue wrongdoing.

Need for important planning and coordination to address economic viability risks for U.S. government and financial service sector participants. We must be cognizant of the fact that operational resiliency is only one of the major challenges posed by a pandemic or other mass threat. As a result, we should also focus on the actions required to facilitate, if not assure, continuing economic viability. This issue is the subject of much discussion in the February 2006 of the International Monetary Fund Report (IMF) on the Global Economic and Financial Impact of Avian Flu Pandemic.[3]

According to the IMF: "[a]n AFP [avian flu pandemic] will affect both the firm's business and its ability to conduct business. Few institutions are advanced in integrating these two risks."[4] Pandemic influenza threatens not only a firm's ability to conduct business but the economic viability of the business itself. And that risk of economic viability challenges financial institutions, private sector businesses, and even national economies.

The IMF acknowledges the considerable uncertainty on the nature of an avian pandemic and substantial uncertainty about the economic impact of a pandemic of any given severity. In that context, however, the IMF reports that "[i]f a pandemic is severe, the economic impact is likely to be significant", including a

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3 The Global Economic and Financial Impact of an Avian Flu Pandemic and the Role of the IMF can be found at http://www.imf.org/external/pubs/ft/afp/2006/eng/022806.pdf. (I will be quoting or paraphrasing that report extensively in the following comments, at times without direct attribution.)

4 Ibid, page 16

sharp but temporary decline in global economic activity. A severe pandemic could, however, also pose risks to the global financial system"[5]

The IMF suggests that operational risks would pose the *second* greatest challenge to the global financial system. The greatest risk stems from sharp changes in asset prices, as an increase in risk aversion is highly likely, leading to a corresponding surge in demand for liquidity, especially for cash and low risk assets. (As an aside, it was good to hear from Mr. Parsons today that Treasury is already at work to increase the supply of available banknotes and coinage.)

This 'flight to quality' would lead to at least temporary declines in asset prices and widening of credit spreads, for both corporations and emerging markets. Asset price declines could put the balance sheets of some financial institutions under stress resulting in potential challenges in meeting regulatory norms. Financial repercussions could exacerbate the economic impact, particularly in a severe pandemic in which worldwide current account effects would necessarily balance.

The report also highlights the likely fiscal impact of an avian pandemic, noting that if a pandemic hits, government finances will likely deteriorate sharply, at least in nominal terms, as expenditures for health and safety would surge. Revenues would be hit as business and consumers put off purchases, firms scale back production or close, and borders close. Government would likely face calls for compensation by affected sectors. In the pre-pandemic stage, compensation might be requested by those in the poultry sector (due to culling losses) but expanding, in a full-blown pandemic, into tourism, transport, retail and insurance sectors of the economy. A range of sectors may experience bankruptcies, and even many other viable firms might fail to survive the weeks or months of much lower demand. Unemployment may rise.

The IMF further notes that regardless of the severity of a pandemic, some effects will last. Some in the labor force would not return and some firms might fail. Other firms might have built up debts that the government would be under pressure to assume. And the government too would have built up more debt to finance its weaker fiscal position. And because many, especially the vulnerable, would likely suffer, a social safety net should be in place that will quickly be able to cushion the financial impact of those most affected. Financing would need to be obtained, and with financial markets likely to be thin at best, recourse to central bank borrowing may be inevitable. [6]

To the IMF, the "economic and social conditions that would prevail during a pandemic will be influenced by the way in which behaviors of people and institutions change, and the extent to which people panic. A pandemic event will affect the whole economy, so that a financial institution's risk assessment and

[5] **Ibid, pages 3, 4**
[6] **Ibid, page 9**

management plans may have to be expanded to cover the possibility of widespread economic disruptions and their impact on loan and other assets' performances."[7]

In a similar vein, the DHS has just released its Pandemic Influenza Preparedness, Response and Recovery Guide for Critical Infrastructure and Key Resources (CI/KR).[8] In that guide, DHS advises CI/KR businesses to consider how they would ensure their economic viability at each phase of a pandemic and how they plan to prepare and respond when other businesses around them are failing[9] The DHS Guide further recommends that CI/KR businesses move beyond standard continuity of operations planning to "COP-E" planning, which assumes a major disaster of national significance like a pandemic cascades into a national and international catastrophe.[10]

The recommended COP-E planning exploits three worsening scenarios of assumptions and actions to support local and national outcomes. Scenario Three, for example, assumes a pandemic disaster of national significance that catastrophically affects businesses directly or indirectly for an extended period.

In anticipation of challenges to economic viability and resiliency, the President's Pandemic Influenza Implementation Plan of May 2006 calls for the Federal government to develop modifications to law and regulations to facilitate the national pandemic response and modifications to monetary policy to mitigate the economic impact of a pandemic on communities and the Nation.

Both the IMF and Joint Forum recommend the need for central planners, regulators, governments and others to develop a macro economic policy response to economic viability challenges, including the need for financial regulators to consider a degree of 'prudential forbearance' with regard to liquidity requirements, capital adequacy rules, and even regulatory requirements that would need change for a 'work at home' environment.

For example, how should banks treat loans coming due but not paid? Should prudent rules on minimum liquidity and loan classification be modified? How will these decisions be made? What plans and responses will be needed to recover injured financial institutions? How will we encourage and monitor prudent, versus predatory action, by institutions with respect to business and consumer recoveries? How will we monitor and address illegal and/or predatory actions (such as insider trading or 'naked' short-selling) to prevent significant damage to issuers, investors and other participants in our capital markets? And what back

[7] **Ibid, page 13**

[8] **The DHS guide can be found at http://www.pandemicflu.gov.**

[9] **Ibid, page 25**

[10] **Ibid, beginning page 29**

up plans will be in place should, against all efforts, we be unable to maintain resilience or viability at national, state or CI/KR sector system levels?

It is imperative that as we continue the important progress toward operational resiliency, we place important attention toward the challenges of sustained economic viability.

Need for U.S. government, central bankers, regulators and financial service sector participants to minimize damage and speed recovery of financial services customers. Any effective planning to protect the national economic security of the U.S. or the economic viability of our financial services sector must also take into account the needs, challenges and expected predicaments of the true engines of the U.S. economy: small and large businesses, consumers and investors.

The Conference Board just released survey results which reveal that large and publicly held companies have planned for the challenges posed by a pandemic outbreak more than small and mid-market companies[11]. The survey also found that:

- About 95% of companies with sales over $5 billion have either updated their readiness plan or are in the process of planning;
- 65 percent of companies with less than $100 million do not yet have any plans in place;
- A significant gap in planning exists between companies in critical industries (those designated by government as vital to national economic continuity in a crisis, such as financial services) and non-critical industries; and
- Protection of the workforce, operational continuity and telecommuting capabilities are key priorities in pandemic planning;
- Boards of directors are significantly uninvolved at the current stages of planning for at least half of the respondents, and cooperation with government at many organizations is weaker than might be expected.

These findings are not inconsistent with other surveys by reputable firms. Note that those with plans have focused largely on operational resiliency with a complementary focus on economic viability. The truth is that should a pandemic be widespread, some firms will suffer severe challenges to the viability of their business and may even lose viability despite their best efforts.

Unless, in advance of a pandemic, central bankers, regulators, legislators, financial service sector participants and other stakeholders prepare to minimize the damage and speed recovery for businesses, consumers and investors in the U.S. economy, we may win the battle (of operational resiliency) but lose the war (of continuing national economic security). Be relentless and thorough in your

[11] The Conference Board report can be found at http://www.conference-board.org/pdf_free/eareports/A-0204-06-EA.pdf

assessment of the need for regulatory, financial and other accommodations for participants in the financial services sector, but also for their customers who are, as we know, the real engine of our economy.

In summary, building on the important progress to date in operational resiliency, expanding our focus and coordination across international borders and in more opaque financial services sectors, and planning to protect the economic viability of our government, businesses, consumers and investors will ensure that we have done all that we could possibly do to protect our national economic security.

Thank you again for the privilege of serving you in these hearings and in offering these brief comments. I pray that those efforts will assist in your continuing leadership and oversight in our financial services sector.