

Review and Analysis

Introduction

The FDIC's compliance examination process assesses how well a financial institution manages compliance with federal consumer protection laws and regulations. The review and analysis phase of the compliance examination starts with a top-down, comprehensive evaluation of the compliance management system (CMS) used by the financial institution to identify, monitor, and manage its compliance responsibilities and risks. The procedures outlined below guide the examiner through an assessment of an institution's CMS, and assist the examiner in identifying specific areas of weakness for further analysis. Many procedures listed in this section can be performed at the field office or other location prior to the on-site portion of the examination, if materials are available.

Off-Site Review and Analysis

The Examiner-in-Charge (EIC) reviews and analyzes the material gathered from FDIC, third parties, and the institution in response to the Compliance Request Letter in order to develop the risk profile and scope memorandum and plan the on-site portion of the examination. This review and analysis should be broad enough to obtain an understanding of the organizational structure of the institution, its related activities, and compliance risks associated with each of its activities. The review should be used to preliminarily determine whether the institution's management and Board of Directors identify, understand, and adequately control the elements of risks facing the financial institution. In general, management and Directors are expected to have a clearly defined system of risk management controls governing the institution's compliance operations, including those activities conducted by affiliates and third party vendors. During this review the EIC should consider what types of questions should be asked while on-site to test whether the bank's written policies and procedures accurately reflect actual operations.

Risk Profile and Scope Memorandum

The goal of a risk-focused, process-oriented examination is to direct resources toward areas with higher degrees of risk. To accomplish this goal, the examiner must assess the financial institution's CMS as it applies to key operational areas, and evaluate the risk of non-compliance with applicable laws and regulations. The result of this assessment is the Risk Profile, a matrix and narrative that summarizes the perceived risks, and provide the basis for preparing the Scope Memorandum. The Scope Memorandum describes the focus of the examination, including issues to be investigated and regulatory areas to be targeted during the examination.

A Risk Profile and Scope Memorandum template should be downloaded from SOURCE at the beginning of the examination process. SOURCE will automatically populate it

with relevant information from other FDIC databases. After conducting the off-site review and analysis, the examiner should document the preliminary risk assessment and expected examination scope in the Risk Profile and Scope Memorandum, and obtain and document appropriate approval. During the examination the EIC should obtain approval for any material changes to the scope of the examination, in accordance with regional or field office requirements.

At the conclusion of the examination the EIC must review the preliminary Risk Profile and Scope Memorandum developed at the beginning of the examination and edit it as needed to reflect the post-examination risk assessment of the institution, and the actual scope of the examination. The final Risk Profile and Scope Memorandum should be posted to SOURCE, making it available to all staff and management during the exam review and for future internal use, especially for the start of the subsequent examination.

Additional information about crafting the Risk Profile and Scope Memorandum is provided in the following sections.

Developing a Risk Profile

In order to properly assess a financial institution's risk, the EIC or designee reviews the following primary areas:

Compliance Management System:

- Management and Director Oversight
- Compliance Program
 - Policies and Procedures
 - Training
 - Monitoring Procedures
 - Complaint Response
- Audit Procedures

Operational Areas:

- Lending
- Deposits
- Insurance Sales
- Investment Sales
- Other Products or Issues

The resulting risk profile compares the strength of the CMS to the risks attendant to particular operational areas.

While reviewing a bank's operations, the examiner should consider the impact of the following types of risk:

Performance Risk:

- Current & Past Enforcement Actions
- Reimbursement History
- History of Compliance with Fair Lending laws