



Kentucky Bankers Association

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SENT VIA FIRST CLASS MAIL AND E-MAIL

Federal Deposit Insurance Corporation
James P. Sheesley, Assistant Executive
Secretary
Attn: Comments RIN 3064-ZA27
550 17th Street NW
Washington, DC 20429
Email: comments@fdic.gov

Re: Request for Information: Request for Information on the Federal Deposit Insurance Corporation's Supervisory Approach to Examinations During the Pandemic, Docket ID. RIN-3064-ZA27.¹

Dear Federal Deposit Insurance Corporation,

The Kentucky Bankers Association (KBA) is pleased to submit this response to the Request for Information (the "Request") from the Federal Deposit Insurance Corporation (FDIC), which "seeks feedback and comments from FDIC-supervised institutions regarding the FDIC's supervisory approach to examinations during the pandemic, including the impact of off-site activities on institution operations, the effectiveness of technology used to carry out off-site activities, and the effectiveness of communication methods used to support off-site activities" (the "Purpose").²

After consulting with representatives from the Kentucky Bankers Association's one hundred and fifty-four (154) member institutions ranging in asset size from twenty-one million dollars (\$21,000,000) to over three hundred and seventy billion dollars (\$370,000,000.00), the Kentucky Bankers Association submits its comments to the Request as set forth below.

1. On-Site and Off-Site Activities

"Prior to the pandemic, the FDIC established instructions for examiners regarding expectations for off-site and on-site examination activities."³ "The determination of the extent of off-site or on-site for each examination activity depends, in part, on the type and extent of electronic information available and whether the activity requires interaction with institution personnel."⁴

¹ Federal Deposit Insurance Corporation, Request for Information: Request for Information on the Federal Deposit Insurance Corporation's Supervisory Approach to Examinations During the Pandemic, 86 Federal Register 44364, August 12, 2021.

² Request, page 44365.

³ Request, page 44365.

⁴ Request, page 44365.

As noted in the Request, the FDIC is seeking information on what activities have or have not been well suited to completion on an off-site bases and what criteria should be used to determine the FDIC examination activities that are best suited for completion on either an offsite-site or on-site basis.”⁵

As noted in the Request, examiners have been conducting a number of activities off-site, including: reviewing historical financial and supervisory data; reviewing institution’s procedures; reviewing loan policies; reviewing performance; conducting in-depth discussions; and observing and assessing institution operations and controls.⁶

The KBA believes that examiners should maximize the use of off-site activities including requesting and uploading data and documents to minimize disruption of bank activity. The KBA also believes that examiners should utilize technology where possible to expedite the review process. After some initial challenges with implementation, it appears banks and examiners found efficiencies with these processes that should continue to be utilized.

Most, if not all, review activities can be conducted off-site. However, in order for examinations to be productive, there must be consistent and frequent communication between examiners and the examined institutions. While virtual examinations have many benefits, off-site examination can lead to less dialogue between the examiner and examinee bank, leading to adverse effects on examination results and ultimately, the bank. Examiners should be consistently and clearly communicating any concerns it has with a bank during the examination process.

Throughout the implementation of off-site examination, particularly during the Covid-19 period, it was brought to the KBA’s attention that dialogue with examiners had become less frequent and, at times, banks were not given the opportunity to explain their position on examiner concerns or particular reasons why they conducted business a certain manner that was consistent with banking regulations. Furthermore, banks reported that some informal dialogue that could lead to better banking practices was removed from the examination process.

In order for any examination to be successful, there must be open and candid conversation between examiners and examinee banks to ensure that the banking system remains safe and sound, and that banks are able to address concerns of examiners. Regardless of whether the conversation is conducted off-site or on-site, examiners must ensure that communication on examination findings is conferred timely and clearly in order for all parties to reach an informed conclusion. This may require examiners to be more deliberate in their approach during virtual examinations since banks cannot simply visit an examiner that is located off-site as they could during an on-site examiner. However, the availability of frequent and direct lines of communication should alleviate any examination issues regardless of location of the examination.

For these reasons, the KBA supports the use of off-site examinations so long as there is frequent and candid communication between examiners and banks during the examination process.

2. Use of Technology

The Request asks for opinions on technology that has worked well and those that could be improved during the examination process.

⁵ Request, page 44365.

⁶ Request, page 44365.

In early implementation of remote examination, bankers reported significant problems with the FDIC's ability to receive the transmission of information and documents as required by the examination process.

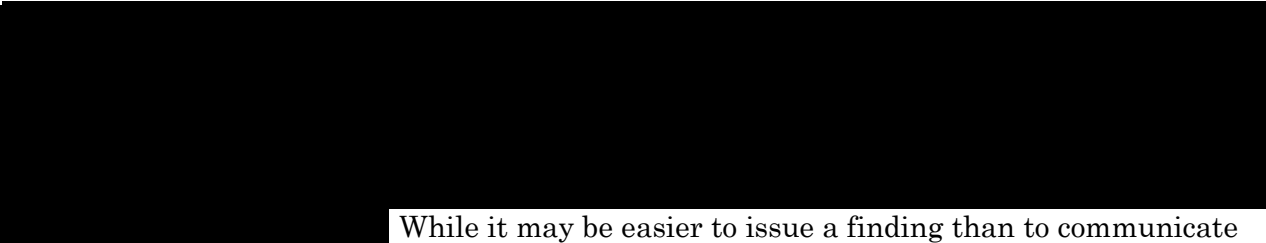
While many of these issues appear to be resolved, the FDIC should continually seek to improve its abilities to upload documents and to better interface with banks. The banking industry and its technological demands change regularly. Consequently, the FDIC should also seek to frequently update its technology to address technological advances in the banking industry.

3. Communication Methods

The Request asks for opinions on the off-site communications that were effective and ineffective and to explain when such communication was successful or unsuccessful.⁷ The Request also asks whether outgoing supervisory correspondence should be sent via "hardcopy".⁸

When an examiner requests documents, e-mails and other electronic forms of communication are effective so long as the communication is specific. Lists are effective so long as there is sufficient description or references of the documents the examiner is seeking. In most instances, insufficient or incorrect submissions are correctable through additional electronic communication.

Examination concerns, questions or results should be conducted primarily through conversation whether via phone, video conference or in-person meeting. Dialogue between examiners and bankers should be clear, candid and conversational to ensure that there is no miscommunication in the examination process and that the proper conclusion is reached in examination. Oftentimes, an item of concern during an examination can be explained through clear conversation. However, if the concern is not brought to the attention of the institution, a misguided examination conclusion may be issued, leading to detrimental effects for the examiner and the banker.



While it may be easier to issue a finding than to communicate with a bank, communication is necessary to ensure examinations correctly reflect an institution's safety, soundness, and compliance.

Written communication of examination findings are only appropriate after initial concerns are discussed through constructive dialogue.

"Hardcopy" delivery of examination through the mail system is no longer a necessary part of the examination process. "The mail system is buckling."⁹ Bankers have consistently expressed various concerns about the mail system. So long as bankers have the ability to download and save FDIC transmitted documents in a safe and secure manner, the mail system should no longer be utilized.

4. Adopt the Proposed Comments to the Request

⁷ Request, page 44365.

⁸ Request, page 44366.

⁹ Aaron Mack, *Why the Mail System is Buckling*, SLATE, December 18, 2020.

The KBA supports the Request and its Purpose. The KBA believes that with the revisions above, the FDIC should be able to better examine banks. This process will help assess the safety and soundness of the banking system and ensure that banks will experience an improved examination process, have less disruption, and ultimately be able to better serve communities at large.

Thank you for considering our suggestions. If there are any questions, please do not hesitate to contact the undersigned.

Sincerely,



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