

# FDIC Atlanta Regional Office Regulatory Conference Call December 20, 2018

1

## **COMMON EXAMINATION FINDINGS – A YEAR IN REVIEW**

# Common Examination Findings

2

**Purpose of the call today is to discuss common examination findings, identify any emerging issues, and assist banks in prioritizing efforts to address examination findings**

# Common Examination Findings

3

- **Management**
  - **Succession Planning**
    - ✦ Should address positions critical to a bank's operations, especially those that require specialized skills and are difficult to fill
  - **Strategic Planning**
    - ✦ Should provide clear objectives, well-defined risk limits, and measurable goals
  - **Regulation O - Executive Officers**
    - ✦ Duties and responsibilities are relevant when determining whether an individual is an Executive Officer under Regulation O

# Common Examination Findings

4

- **Asset Quality**
  - **Underwriting Exceptions**
    - ✦ Monitoring and reporting underwriting exceptions ensures the bank's risk profile remains within parameters set by the board of directors
  - **Appraisals and Evaluations**
    - ✦ Written policies should clearly address when an appraisal is required and when an evaluation is required
  - **Lending Concentrations**
    - ✦ Risk management practices and capital levels should support lending concentrations

# Common Examination Findings

5

- **Asset Quality**
  - **Credit Risk Grading Systems**
    - ✦ An effective system provides information for use in establishing and maintaining appropriate reserves and helps with the development of appropriate loan administration strategies to address developing risk
  - **Holding Other Real Estate**
    - ✦ Holding ORE for periods beyond the shorter of Federal or State limits requires regulatory approval

# Common Examination Findings

6

- **Sensitivity to Market Risk**
  - **Risk Limits**
    - ✦ Should reflect the board of director's interest rate risk appetite
  - **Modeling Assumptions**
    - ✦ Should be bank-specific and properly documented
  - **Scenario Analysis**
    - ✦ A range of interest rate scenarios should be modeled when assessing interest rate risk
  - **Back-Testing**
    - ✦ Allows bank management to assess the validity of model assumptions and may lead to refinement that improves the accuracy of model output

# Common Examination Findings

7

- **Liquidity**
  - **Cash Flow Analysis**
    - ✦ Cash flow projections need to be consistent with the contractual terms and demonstrated behavior of the underlying assets and liabilities
  - **Scenario Analysis**
    - ✦ Management should periodically conduct scenario analyses for a variety of bank-specific and market-wide events to identify possible liquidity constraints that could affect operations
  - **Funding Concentrations**
    - ✦ Management should actively monitor funding concentrations and maintain funds management policies that mitigate the increased liquidity risk

# Common Examination Findings

8

- **Liquidity**
  - **Contingency Planning**
    - ✦ A bank's contingency funding plan should be commensurate with the overall liquidity risk profile
    - ✦ Banks with elevated liquidity risk should have contingency funding plans that have identified tested liquidity sources that would be available, if needed, on short notice
  - **Reporting, Policies, and Audit**
    - ✦ Bank management and the board of directors should be provided with management reports that measure liquidity risk, monitor conformance with policy limits, and assess the effectiveness of liquidity practices



# Common Examination Findings

- **Bank Secrecy Act**
  - **Policies**
    - ✦ Policies should be reviewed frequently to ensure they are current, relevant, and reflect actual practices
  - **Risk Assessments**
    - ✦ A well-developed risk assessment will assist in identifying the bank's BSA risk profile
  - **Customer Due Diligence**
    - ✦ Comprehensive CDD policies, procedures, and controls are the cornerstone of a sound BSA compliance program

# Common Examination Findings

10

- **Bank Secrecy Act**
  - **Suspicious Activity Monitoring and Reporting**
    - ✦ Proper suspicious activity monitoring and reporting processes are essential for an effective BSA compliance program
  - **Management Information and Monitoring Systems**
    - ✦ Management should fully understand the capabilities and limitations of the bank's monitoring systems

# Common Examination Findings

11

- **Audit**
  - **Audit Programs**
    - ✦ Audit programs must remain commensurate with the bank's size, complexity, and overall risk profile
  - **Risk Assessments**
    - ✦ Thorough risk assessments aid management in developing an effective internal control environment
  - **Exception Tracking**
    - ✦ Effective exception tracking mechanisms provide for full remediation of identified issues and comprehensive reporting

# Common Examination Findings

12

- **Information Technology**
  - **Risk Assessments**
    - ✦ Effective IT risk assessments support a bank's overall, enterprise-wide risk management framework
  - **Strategic Planning**
    - ✦ The IT strategic plan should align with the overall business strategy and include an information security strategy to protect the bank from ongoing and emerging threats
  - **Vendor Management**
    - ✦ Strong vendor management processes are imperative to sufficiently control risk

# Common Examination Findings

13

- **Information Technology**
  - **Business Continuity Planning**
    - ✦ Management should ensure it has implemented a well-defined testing strategy
  - **User Access Rights**
    - ✦ Management should ensure user access reviews are routinely conducted, and that they cover all of the bank's systems, not just those considered mission critical

# Common Examination Findings

- **Resources**

- Federal Reserve Board Regulation O
  - ✦ <https://www.fdic.gov/regulations/laws/rules/7500-1300.html>
- Part 323 of the FDIC Rules and Regulations
  - ✦ <https://www.fdic.gov/regulations/laws/rules/2000-4300.html>
- Appraisal Regulations, Frequently Asked Questions
  - ✦ <https://www.fdic.gov/news/news/financial/2018/fil18062.html>
- Interagency Appraisal and Evaluation Guidelines
  - ✦ <https://www.fdic.gov/regulations/laws/rules/5000-4800.html#fdic5000interagencyaae>

# Common Examination Findings

15

- **Resources**

- Part 362 of the FDIC Rules and Regulations

- ✦ <https://www.fdic.gov/regulations/laws/rules/2000-8000.html>

- Concentration Guidance

- ✦ <https://www.fdic.gov/news/news/financial/2006/fil06104.html>

- ✦ <https://www.fdic.gov/news/news/financial/2008/fil08022.html>

- Interest Rate Risk Guidance

- ✦ <https://www.fdic.gov/regulations/laws/rules/5000-4200.html#fdic5000jointps3>

- ✦ <https://www.fdic.gov/news/news/financial/2010/fil10002.html>

# Common Examination Findings

16

- **Resources**

- Liquidity Guidance

- ✦ <https://www.fdic.gov/regulations/laws/rules/5000-5230.html#fdic5000interagencyflrm>
- ✦ <https://www.fdic.gov/news/news/press/2017/pr17065.html>

- FFIEC Information Technology Handbooks

- ✦ <https://ithandbook.ffiec.gov/>



# Common Examination Findings

17

Questions?

# Common Examination Findings

18

## **FDIC Atlanta Region Contact**

**Tony Womack**

**Senior Examination Specialist**

**[awomack@fdic.gov](mailto:awomack@fdic.gov)**