

**Report of Examination Page 1 Template;
Sample Report of Examination (“Bank of Anytown”)**

SCOPE OF THE EXAMINATION

[INPUT THE DATE OF THE EXAMINATION AND REVIEW PERIOD COVERED; NAME OF EXAMINER-IN-CHARGE; TYPE AND PURPOSE OF THE EXAMINATION; COMPLIANCE MANAGEMENT, OPERATIONAL, AND REGULATORY AREAS REVIEWED; OFFICES VISITED; AND METHODS USED TO CONDUCT EXAMINATION]

CONSUMER COMPLIANCE RATING

[INSERT THE APPROPRIATE COMPLIANCE AND CRA RATINGS; BRIEF DESCRIPTION OF PRINCIPAL FACTORS SUPPORTING THE RATING; AND A COMMENT ABOUT THE OVERALL DIRECTION OF THE COMPLIANCE POSTURE]

COMPLIANCE MANAGEMENT

Board of Directors and Senior Management Oversight

[INPUT EXAMINER COMMENTS AND CONCLUSIONS REGARDING OVERSIGHT]

Compliance Program

[INPUT EXAMINER COMMENTS AND CONCLUSIONS REGARDING PROGRAM]

Audit Function

[INPUT EXAMINER COMMENTS AND CONCLUSIONS REGARDING AUDIT FUNCTION]

RECOMMENDATIONS FOR CORRECTIVE ACTION

[INPUT EXAMINER RECOMMENDATIONS FOR ADDRESSING THE SIGNIFICANT EXAMINATION FINDINGS; AND MANAGEMENT'S RESPONSE]

ENFORCEMENT ACTIONS

[INPUT COMMENTS REGARDING ENFORCEMENT ACTIONS, IF APPLICABLE. OTHERWISE, DELETE THIS SECTION.]

COMMUNITY REINVESTMENT ACT EXAMINATION

[INPUT BRIEF COMMENTS REGARDING RESULTS OF THE CRA EXAMINATION, IF APPLICABLE. OTHERWISE, DELETE THIS SECTION]

MEETING WITH MANAGEMENT

[INPUT DATE AND ATTENDEES OF MEETING WITH MANAGEMENT, AND BRIEF COMMENTS ABOUT DISCUSSION]

April 8, 2006

Board of Directors
Bank of Anytown
123 Main Street
Anytown, Anystate

Re: Compliance Examination Report and CRA Performance Evaluation

Members of the Board:

Enclosed is a copy of the Compliance Examination Report and the Community Reinvestment Act Performance Evaluation prepared as of the close of business March 14, 2006, by Examiner Mary A. Richards.

The results of the compliance examination, including the Consumer Compliance rating, are subject to the confidentiality restrictions of Part 309 of the FDIC Rules and Regulations.

Within thirty (30) business days of its receipt, the enclosed Performance Evaluation must be placed in the institution's CRA public file. The format and content of this evaluation may not be altered or abridged in any manner. Upon request, a copy of your current evaluation must be provided to the public. You are authorized to charge a fee not to exceed the cost of reproduction and mailing (if applicable).

Please review the report at an official meeting. If there are any questions, please contact Review Examiner Brian Wilson at (555) 123-4000.

Sincerely,

Field Supervisor

Enclosures

Bank of Anytown

Anytown

Anystate

Region: Any Region
Examiner in Charge:
Examination Date:

Certificate Number: #####
Mary A. Richards
March 14, 2006

SCOPE OF THE EXAMINATION

Examiner Mary A. Richards conducted a compliance examination of your institution as of March 14, 2006. The examination included a risk-focused review of the bank's compliance management system, and included tests to assess the bank's compliance with applicable consumer protection and fair lending laws and regulations. The examination focused on lending, deposit, and investment activities conducted since the January 15, 2004, FDIC compliance examination.

Examination procedures included a review of all compliance-related policies and written procedures, Board and committee minutes, training records, internal monitoring, loan files, general disclosures, and other bank records. Extensive interviews with senior managers, the Compliance Officer, and front-line personnel were conducted to determine the extent to which written and unwritten policies and procedures are implemented. Documentation related to specific loan and deposit transactions was also reviewed to identify operational weaknesses. On-site examination procedures were conducted at the bank's main office in Anytown, and at the Center Street branch office.

The bank's performance under the Community Reinvestment Act (CRA) was also evaluated during this examination. A review of the bank's loan portfolio, CRA data, and public file was performed. Interviews were held onsite with the bank's Compliance Officer and lending personnel.

CONSUMER COMPLIANCE RATING

A Consumer Compliance Rating of "2" is assigned. An institution in this category is in a generally strong compliance position. While the bank's compliance program is effective, lax monitoring in certain regulatory areas resulted in significant violations. Although the bank has a strong Compliance Officer, senior management and the Board of Directors have not devoted sufficient attention to consumer compliance. Several areas of improvement were noted since the prior examination, including an increased emphasis on training and the further development of an audit program. Overall, the compliance posture of the bank has improved since the last examination.

COMPLIANCE MANAGEMENT

Board of Directors and Senior Management Oversight

Board and senior management oversight is adequate.

The Board and senior management designated a Compliance Officer, and provided him with the necessary resources to be effective. Compliance Officer Grand is knowledgeable, committed to maintaining a strong compliance management system, and demonstrates a positive attitude toward compliance issues. However, the Board's and President Smith's compliance knowledge and commitment is somewhat low relative to their responsibilities. For example, although the Board is scheduled to review and

approve compliance policies annually, these policies were last approved in January 2003. In addition, according to the bank's Compliance Policy, the Compliance Officer is supposed to present a quarterly compliance report to the bank management and the Board; however, for the last six calendar quarters no such report has been documented in the Board minutes.

Compliance Program

The existing compliance program is adequate, but some significant deficiencies were noted.

Policies and Procedures

The bank's informal approach to documenting bank procedures in the form of policies has proven adequate in the past largely due to Compliance Officer Grand's knowledge of applicable regulations and his organizational abilities, as well as the limited turnover of key personnel. However, the combination of written and unwritten policies which serves as the bank's compliance program has become inadequate given the growth in the bank's size and complexity. Examiners discovered several differences in compliance processes at the various bank facilities. The lack of a uniform approach to compliance throughout the bank has resulted in significant violations. For example, difference in procedures at a branch office resulted in home equity loans at that branch not receiving the appropriate rescission notice, which is a repeat violation of Regulation Z.

Monitoring

Monitoring is performed by bank personnel on most transactions subject to consumer compliance regulations and is credited with alerting them and Compliance Officer Grand to potential violations on numerous occasions. The checklists implemented by Compliance Officer Grand cover several areas and have had a positive impact on internal operating procedures. However, during the examination four regulatory areas were identified that were not subject to monitoring: Flood Insurance, Truth in Savings, Advertising, and Privacy. Significant violations of the Flood Insurance regulations occurred when the bank originated and extended loans without the required flood insurance coverage in place; appropriate monitoring could have prevented the violations. Additional instances of this significant violation could have resulted in the assessment of civil money penalties against the bank.

Training

The bank's training manuals are current, accurate, and comprehensive. While the bank's training efforts have generally been effective, the loan officers' knowledge of the fair lending laws and regulation is weak. The bank's training records indicate that loan officers have not received formal training on all regulations applicable to their job responsibilities, including fair lending.

Audit Function

The bank does not currently have an internal or external audit function in place for any areas other than Truth in Lending, but is working on a system of internal audits to be implemented soon. The lack of an audit function has not hampered the bank's compliance performance primarily because of the existence of a generally strong monitoring system. Due to the previously mentioned gaps in the bank's monitoring system, management was counseled that all areas need to be covered by either internal monitoring or by an internal or external audit. The bank's proposed audit structure is limited in scope, but appears to adequately address the areas of highest risk.

Please refer to the Significant Violations pages for further details on all significant violations found during the compliance examination.

RECOMMENDATIONS

As noted in the sections above, while the compliance management system is adequately managed, the board should take action in the following areas to address the noted weaknesses:

- Discuss significant compliance issues and receive compliance training at least semi-annually, documenting those activities in the board minutes.
Management's Response: President Smith committed to having Compliance Officer Grand provide brief, semi-annual compliance presentations to the board. The presentations will include a general status report, the results of the bank's monitoring efforts, and overview-type compliance training.
- Develop a compliance program that ensures uniform procedures and practices at all facilities.
Management's Response: Mr. Grand agreed to develop a written compliance program within the next six months.
- Implement expanded monitoring procedures for the four areas discussed above, with a priority placed on ensuring that the requirements of the Flood Insurance regulation are met.
Management's Response: Mr. Grand committed to developing and implementing monitoring procedures for these areas in the next three months.
- At a future date, conduct a follow-up discussion on the deficiencies noted during this examination and ensure that corrective action was taken and was effective.
Management's Response: President Smith stated that the Board would have such a discussion.

COMMUNITY REINVESTMENT ACT

A CRA rating of "Satisfactory" is assigned. An institution in this group has a satisfactory record of helping to meet the credit needs of its assessment area, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities. Please refer to the enclosed Public Evaluation for a discussion of the bank's CRA performance.

MEETING WITH MANAGEMENT

On March 23, 2006, Examiner-in-Charge Richards, Field Supervisor Lou B. Grant, and Compliance Examiner David C. Jones met with management and two outside directors to discuss the results and the recommended Compliance and CRA ratings. Representing the bank were President Michele J. Smith, Compliance Officer Douglas F. Grand, and Directors Neil S. Sharp and Jim L. Steele. During the meeting, each attendee received a list of the violations cited during the examination. That list will serve as the institution's record of violations identified during the examination.

The Compliance Examination findings and CRA performance were discussed in detail. The scope of the examination, strengths and weaknesses in the compliance management system, and noted violations, including significant, technical and isolated violations, were discussed at length. In addition, the recommendations stated in this report were discussed at length. Management displayed an interest in the topics being addressed and was receptive to the recommendations made. The proposed ratings for compliance and CRA were disclosed.

Significant Violations

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Violations cited below are of supervisory concern due to their serious nature, recurrent pattern, or system-wide impact. Individually or collectively these violations reflect deficiencies requiring prompt corrective action by the financial institution.

The bank *originated* seven loans secured by property in a special flood hazard area since the prior examination. The bank also *extended* loans secured by property in a special flood hazard area a total of ten times since the previous examination. Violations of three different sections of the flood insurance regulations were found during the examination.

FLOOD INSURANCE

Section 339.3(a) of FDIC regulations prohibits a financial institution from making, increasing, extending, or renewing a designated loan secured by a building, a mobile home, or personal property unless the underlying security is covered by flood insurance. [150101]

The bank violated this section because loan officers either originated or extended credit without flood insurance in 5 of 17 instances. This violation is attributed to a lack of sufficient monitoring and to errors in the training provided to loan officers. The affected loans are detailed below.

Borrower Name	Loan Number	Origination /Extension Date	Loan Balance
Fielding, Chris	28161	2/01/2004	\$9,179
Fielding, Chris	28161	09/19/2004	\$5,596
B & B Appliance, LLC	40121	12/01/2003	\$25,000
Braymore, Matt	42409	08/30/2004	\$41,809
Crocker, James	42219	08/09/2004	\$26,215

Management has taken or will take the following corrective actions:

- **Fielding** – Flood insurance expired on October 26, 2001 at which time the loan balance was \$9,592 and the value of improvements was \$35,000. The loan officer believed that flood insurance was no longer needed since the value of the land was greater than the loan balance. The loan balance is now less than \$1,000. Since the balance of the loan is less than \$5,000, the bank will not be required to ensure a policy is in force.
- **B & B Appliance** – The borrower purchased an appropriate amount of flood insurance as of April 3, 2004, and it remains sufficient.

- **Braymore** – Bank personnel sent the borrower a notice on February 17, 2005, and informed him that the bank will force-place flood insurance if he does not purchase it within 45 days.
- **Crocker** – The borrower purchased flood insurance on August 27, 2004, and paid the loan in full on January 17, 2005.

Compliance Officer Grand noted similar issues in an audit he conducted as of March 28, 2004. Training was provided to the loan officers at that time and again during this examination. Mr. Grand stated that future violations would be prevented through additional training and new monitoring procedures. In an exit meeting with examiners on March 23, 2005, President Smith stated that the Board of Directors would fully support ongoing training, transaction monitoring and internal audits of the flood insurance regulations.

Section 339.9(a) of FDIC regulations requires a financial institution to furnish a written notice to the borrower and to the servicer in all cases whether or not flood insurance is available under the Act for the collateral securing the loan when making, increasing, extending, or renewing a loan secured by a building or a mobile home located or to be located in a designated special flood hazard area. [150501]

The bank violated this section because in one of seven loan originations and in four of ten loan extensions, it did not provide the required written notice. Compliance Officer Grand, who noted similar violations in his audit dated March 28, 2004, attributed this violation to a misunderstanding of the requirements for extensions. A speaker at a compliance seminar he attended mistakenly told him that the notices required by this section were not necessary for extensions because the bank had already provided the notice at origination. After this seminar, Compliance Officer Grand informed the loan officers that the notices were no longer required for extensions. At the March 23, 2005, exit meeting with examiners, he stated that lending personnel had been informed that these notices are required for extensions as well as increases, renewals, and originations.

Borrower Name	Loan Number	Origination /Extension Date
B & B Appliance, LLC	40121	06/01/2004 (extension)
B & B Appliance, LLC	40121	12/01/2004 (extension)
Goodman, David	44567	08/31/2004 (extension)
Goodman, David	44567	11/30/2004 (extension)
Braymore, Matt	42409	08/30/2004 (origination)

Section 339.9(c) of FDIC regulations requires that the financial institution provide the notice required by paragraph (a) of this section to the borrower within a reasonable time before the completion of the transaction, and to the servicer as promptly as practicable after the financial institution provides notice to the borrower and in any event no later than the time the bank provides other similar notices to the servicer concerning hazard insurance and taxes. [150502]

This section was violated because in three of seven originations, the bank did not provide the required notice within a reasonable time before the completion of the transaction. This violation is attributed to gaps in the bank's monitoring system. Mr. Grand promised future compliance. Details are listed in the following table.

Borrower Name	Loan Number	Origination or Extension Date	Date Notice Provided
B & B Appliance, LLC	40121	12/01/2003	03/16/2004
Paulson, James	42226	08/10/2003	08/13/2003
Crocker, James	42219	08/09/2004	08/13/2004

TRUTH IN LENDING

Section 226.23(b)(1) of Regulation Z requires the creditor to furnish each consumer entitled to rescind with two copies of the notice on a separate document which identifies the transaction and clearly makes the disclosures required by this section. [089301]

A review of nine rescindable loans revealed that the bank did not provide the appropriate rescission notices to three home equity loan customers. This is a repeat violation. The review included three loans from each of the bank's three facilities. The transactions in violation were all originated at the Center Street branch in Othertown. Discussions with Compliance Officer Grand and Center Street Branch Manager Naomi Parker indicated that the cause of the violation was that the Center Street facility uses the same internal loan code for home purchase and home equity loans. As a result, the loan disclosures generated at the main office for the branch's home equity loans did not include rescission notices. The loan code issue was discussed at the prior examination. However, each branch operates somewhat independently with respect to compliance procedures and the Center Street branch failed to take the appropriate corrective action. Examiners discussed with management the potential ramifications of the violation. Ms. Parker performed a file search during the examination and determined the number of affected borrowers to be 20. Compliance Officer Grand committed to formalizing compliance procedures in a written compliance program that will guide actions at all facilities. The three loans initially identified by examiners are detailed below.

Borrower Name	Loan Number	Origination Date	Loan Amount
Clinton, Charles	19295	12/16/03	\$ 6,000
Dunlop, Horace/Martha	19252	11/19/03	9,500
Valentine, R. J.	19751	11/14/03	12,600

HOMEOWNERSHIP COUNSELING

Section 106(c)(5) of the Housing and Urban Development Act requires the creditor to inform borrowers, within 45 days of initial loan default, of the availability of homeownership counseling.

The bank is in system-wide violation of this section for not informing delinquent borrowers of the availability of homeownership counseling. Discussions with Compliance Officer Grand and President Smith revealed that management was unaware of the November 26, 2001, reinstatement of this requirement. President Smith stated that she is certain that some borrowers have been 45 days delinquent over the past several years and would have been eligible for counseling, but were not provided a notice informing them of the available options. Due to management's admission of this violation, a transaction review was not performed. During the examination, a suitable notice was drafted and procedures were established to ensure future compliance with this section. Compliance Officer Grand also committed to performing a file search to identify currently delinquent customers and provide the appropriate notice to them.

COMPLIANCE SUPERVISORY COMMENTS

BANK NAME: Bank of Anytown

CITY, STATE: Anytown, Anystate

CERT. # #####

President Smith notified the examiner-in-charge in confidence that she plans to retire later this year. She indicated that CLO Jones will take her place. CLO Jones has always been a strong supporter of the bank's consumer compliance and CRA efforts.