Pre-Examination Planning

Introduction

The overall objective of pre-examination planning is to collect as much information as possible prior to the review and analysis stage of the examination. This information allows the Examiner-in-Charge (EIC) and the examination team to efficiently plan and conduct its work both off-site and on-site during the second phase of the examination.

This chapter discusses the information gathering process and usage of the Pre-Examination Planning system (PEP). PEP is a web-based automated system with several tools used during the pre-examination process. PEP generates the Pre-Examination Information Package (IP), which consists of an introductory letter, reference information, brochures and a list of interview questions. In addition, PEP generates the Compliance Pre-Examination Request Package (C-PREP), which consists of a standardized entry letter and the Compliance Information and Document Request (CIDR) used for pre-examination planning. The CIDR contains a list of information and documents the financial institution can forward to examination staff in advance or make available at the commencement of the on-site examination. PEP also contains features to conduct and document the pre-examination interview and generate the Assessment of Risk of Consumer Harm (ARCH). The ARCH is used to document the scope of an examination with the focus on areas (products, services, and markets) that present the highest residual risk of consumer harm while evaluating the institution's compliance with consumer protection laws and regulations.

Pre-Examination Information Package

The Pre-Examination Information Package (IP) is designed to increase banker awareness of the examination process prior to the examination and to promote open communications with examination staff. The IP is also designed to ensure that bankers know what to expect during the examination and where to go in the event that their expectations are not met. The IP consists of an introductory letter which provides an overview of the examination process, discusses various resources available to the banker to help understand the examination process, identifies the appropriate communication channels for any concerns about the examination process or the resultant ratings, and provides contact information for the Field Supervisor and/or Supervisory Examiner. Three brochures and the Interview Questions for the Pre-Examination Interview are also included as part of the IP. The IP will be mailed to the institution by the Field Supervisor, or designee, within 60 – 75 days prior to the scheduled examination on-site date and approximately 2 to3 weeks prior to the initial pre-examination planning call to the institution by the EIC. The IP letter has been standardized and is used consistently by all field offices without changes. A sample IP letter is included in this Manual (see Section III).

Gather Internally Available Information

FDIC staff should collect information about an institution from both internal and external sources to aid in constructing the risk profile and scope of an examination (see "Review and Analysis" for discussion about risk profile and scope memorandum). Examiners should first concentrate on gathering as much of the information as possible from the FDIC field and regional offices, and from third party public sources. Then, information should be obtained from the financial institution. The following is a list of some key documents and information that the EIC should obtain for review because of their relevance to the financial institution's compliance posture.

From the Field Office (FO)/Regional Office (RO)

- Prior Compliance Risk Profile and Scope Memorandum (RPSM) or Assessment of Risk of Consumer Harm (ARCH), and other information from the System of Uniform Reporting of Compliance and CRA Examinations (SOURCE)
- Reports of Examination (ROE) and supporting workpapers for compliance, risk management, trust, and information systems
- Prior corrective actions (such as restitution) and responses to Reports of Examination
- Risk management supervisory plan (for complex institutions, or others, as available)
- CRA Performance Evaluations and community demographic data
- Uniform Bank Performance Report (UBPR) and Call Reports
- FDIC Monitoring reports
- Complaint and correspondence files
- Applications in process
- Previous years' Home Mortgage Disclosure Act Loan Application Registers (HMDA LARs)
- CRA small business and small farm report data
- Content of the financial institution's website

From Third Parties

- Public records, such as securities filings
- Newspaper or Web-site articles that raise examination related issues

- Vendor programs
- External audits
- Community contacts (for CRA evaluations)

Before contacting the institution to gather additional information, the EIC (or designee) must review the material gathered from internal sources. This will avoid duplicative requests. For example, if Board minutes were recently requested by risk management, then those minutes would not need to be obtained from the bank. Of course, it may still be necessary to verify or update the information or documents with the institution, but the burden of production will be reduced.

Contact the Institution

Approximately two months prior to the scheduled on-site date for the examination, the EIC must contact the institution and arrange a Pre-Examination Interview to be conducted either by telephone or through an in-person discussion. The purpose of the Pre-Examination Interview is to gather current information to ensure that the CIDR is narrowly tailored to request only what is necessary to properly conduct the examination. The Entry Letter, which includes both the CIDR and a request for electronic data download, must be sent to the bank no later than 45 days prior to the on-site date. This will ensure that the bank has sufficient time to properly gather and submit its response, and that the examination team has time to conduct its off-site review.

The preliminary discussion will reduce the amount of time needed on-site to gather certain information from the institution, and will assist in planning the on-site work. It also provides an opportunity to alert the bank to the staff members who the examiner will likely wish to interview during the on-site portion of the examination. This will allow the bank to take steps to ensure, to the extent possible, that those persons are available when needed. The EIC or designee should use the discussion to consider whether certain information should be sent to the examination team for review, or held for on-site review. They should also discuss the timing of production and the subsequent on-site examination. Questions to be discussed during the Pre-Examination Interview are maintained in C-PREP and are updated on an ongoing basis. The interview questions are also provided to the institution with the Information Package discussed above.

Director Involvement

During the preliminary discussion, the EIC should encourage management to invite all Directors to participate in regularly scheduled meetings with examiners or to schedule individual meetings with the EIC if that is the preference of the Directors. The EIC should emphasize that such participation is purely voluntary and that a lack of participation will not be viewed negatively. As stated in the memorandum announcing this initiative, "The primary objectives are to improve communication with outside Directors, increase director knowledge of the examination process, provide an opportunity for Directors to discuss their views with examiners on banking related matters, and give examiners the opportunity to gain further insight into the experience levels and leadership qualities of bank management."

Prepare and Send the Compliance Pre-Examination Request Package (C-PREP)

The C-PREP tool is used to produce the Entry Letter, the CIDR, and electronic data download request. These documents must be tailored as appropriate for each institution.

The CIDR is a comprehensive list of information and documentation that may be required to conduct a compliance examination. After conducting the review and discussion outlined above, the EIC (or a designee with whom he or she communicates closely) is expected to use C-PREP to customize and create a CIDR that includes only items that are relevant to the examination of a particular institution. C-PREP filters the availability of CIDR items based on the institution's responses to the Pre-Examination Interview questions. Time periods should be specified when seeking periodic reports, ledgers, administrative changes, etc., to avoid receiving data not relevant to the examination. Additional information about how to use C-PREP can be obtained from the user guides available within the tool.

The Entry Letter may be provided to the institution in either hard copy or electronic format, indicating where the materials should be delivered to the EIC or exam team and in what format. As indicated above, the timing of the request and the turnaround must ensure that the institution has sufficient time to assemble the requested information and the examination team has sufficient time to adequately review the materials. Where appropriate, the EIC may visit the institution prior to the formal on-site date to either pick up the documents, or review on-site any documents that are too bulky to duplicate or that are confidential. FDICconnect may be used for secure requests and transmission of electronic examination files, and its use should be encouraged where appropriate.