



October 12, 2021

Submitted Electronically

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

Re: Request for Information on the Federal Deposit Insurance Corporation’s Supervisory Approach to Examinations During the Pandemic; RIN 3064–ZA27

Dear Assistant Executive Secretary Sheesley,

The Wisconsin Bankers Association (WBA) is the largest financial trade association in Wisconsin, representing over 200 state and nationally chartered banks, savings and loan associations, and savings banks. WBA appreciates the opportunity to provide comment on the Federal Deposit Insurance Corporation’s (FDIC) notice and request for information (RFI) regarding its supervisory approach to examinations during the pandemic.

Introduction

FDIC has requested information and comments pertaining to examinations conducted during the pandemic, including on-site and off-site activities, use of technology, and communication methods. FDIC has utilized various advances in technology to allow examiners to conduct certain examination functions off-site for a number of years, even prior to the Coronavirus Disease 2019 pandemic (pandemic). In light of the experiences of last year’s fully off-site examination activity, FDIC has issued this RFI to leverage what worked well in the off-site examination context and streamline and improve the efficiency and efficacy of its examinations. WBA appreciates this opportunity to share the recent examination experiences of Wisconsin banks in an effort to assist FDIC in planning for future examinations.

Overall, WBA supports a continuation of an option for banks to have a portion or all of its examination conducted off-site. Those portions which are conducted off-site should be considered as appropriate to the bank and examiner’s needs and preferences. Each bank examination carries unique considerations because of variation in bank size and condition, examiner experience, technological capabilities on both sides, and the economic and business environment in which the bank is operating. As such, what is appropriate for each examination may vary. Because of this, WBA recommends a hybrid approach, in order to determine whether an examination might be better suited to be conducted in-person, or some portions in-person with others remote.

Generally speaking, many Wisconsin banks found the FDIC's off-site examination process to be workable, but indicated areas for improvement, and areas where an in-person examination would have been more appropriate. As such, WBA offers the following comments with its recommendation that FDIC consider a hybrid approach.

Discussion

For a number of years prior to the pandemic, FDIC has been leveraging advances in technology to allow examiners to conduct certain examination functions off-site that were previously performed on-site. In its RFI, FDIC discusses how this leveraging of technology has improved the efficiencies in the examination process and helped reduce burden on the institution, enabling examiners to be more targeted and risk-focused in the work performed on-site. WBA agrees that technology has enabled improvements to the examination process, which FDIC has been able to improve over time. WBA offers its comments in order to assist FDIC in continuing to enhance its examination process, believing that in the future, off-site portions of examinations would greatly benefit from enhanced communication, structure, and coordination.

Need for Better Communication

WBA has heard a variety of experiences from its members. In summary, areas which worked well for Wisconsin banks involved overall preparation and review of certain data, such as loan files and policies. However, the process presented difficulties, including overall coordination, structure, and duration. Banks in particular highlighted communication as an area in serious need of improvement.

WBA provides the following summary example of a common scenario which was shared by multiple banks involving examiner requests for information. While banks found the technological process workable, these tools were not leveraged in an effective manner. Situations arose where examiners were inconsistent with their requests, resulting in email communications which were unclear, redundant, and inefficient. Banks reported having to send multiple emails to communicate concepts that would have taken only minutes in-person. Frequently, employees also received many requests, to upload many files, often subsequently to previous requests, so that they had to respond to sporadic requests for information, rather than present files or answers to a single, efficient request for information.

As a result, WBA would comment that Wisconsin banks experienced an over-reliance on email communication which was significantly inefficient when compared to in-person communication. As with the example above, many situations are simply best resolved through quick conversation rather than multiple email exchanges. A common theme shared by Wisconsin banks is that smaller, routine matters frequently became larger, time-consuming ordeals because of numerous emails, rescheduling, delays, and overcomplication of issues that might have been quickly settled through conversation. Certainly, more complex issues such as complex loan issues or trust relationships, deserving of more detailed discussion, are not well-suited for email, either. That said, certain examination components do lend themselves well toward email conversation and off-site work, such as those aspects which do not require extensive discussion, including condition and performance analysis and general loan review.

WBA understands that the need for fully off-site examinations was unexpected and appreciates the efforts of FDIC and examiners to conduct exams as effectively as possible throughout the pandemic. However, going forward, based upon these experiences, WBA believes that the process can be improved by more effective communication. Another example of difficulty noted by Wisconsin banks was the lack of face-to-face interaction. A truly effective examination process involves the business relationship developed between bankers and examiners through in-person exchanges. It is also a matter of impression involving the bank's management, culture, and community which contributes to its overall business operation. Such aspects are often stripped away by the off-site examination process, and the loss of in-person interaction and relationship building must be considered as a potential diminishment as to the efficiency and effectiveness of the examination process. WBA recommends FDIC consider the need for in-person exchanges and relationship development between bankers and examiners in contemplating a hybrid examination approach.

Need for Better Coordination

As discussed in the RFI, FDIC seeks comment on what worked well in the off-site examination context to inform plans for future examinations, consistent with applicable law and the purpose of examinations. In addition to the above, WBA offers the following comments for consideration as FDIC seeks to further develop the coordination of off-site examinations in order to create a more robust process which works well for both examination teams and banks.

As discussed above, efficient and effective communication is a key component for examination efficiency. From a broader perspective, WBA recommends that FDIC promote enhanced organization of off-site examination procedures. Certain aspects of off-site examination during the pandemic have lacked coordination. For example, banks have reported receiving multiple requests for the same matter, frequently sent to different individuals at the bank, or to individuals not even designated as the appropriate bank contact, and situations where they were contacted by different members of the examination team, who may not have received the same information as the bank's initial contact. To enhance coordination for future off-site examinations, WBA recommends that FDIC consider implementing steps to ensure the Examiner in Charge (EIC) better manage the off-site examination process and exam team to ensure better coordination with banks, to better avoid duplicative efforts or creating miscommunications.

Lastly, WBA received numerous complaints from its membership regarding the extended length of off-site examinations conducted during the pandemic. In some cases, these examinations continued for multiple weeks beyond what would have otherwise should have been completed in a normal exam time period. Many banks reported their off-site examination was doubled in length from a normal exam. For these situations, the banks did not believe the extended duration was based upon pandemic-related staff shortages of FDIC but was instead due to mismanagement of the exam.

WBA believes that as FDIC continues to adapt its process, and considers comments from the industry, including the above, it will continue to increase efficiency in the off-site examination process, including timeliness. In improving that process, WBA recommends that FDIC implement reasonable off-site examination durations and create a process to ensure that the EIC adheres to the identified exam timetable, with appropriate adjustments as needs may arise.

Conclusion

WBA appreciates the opportunity to comment on FDIC's RFI to gather comments regarding off-site examinations. Overall, WBA supports FDIC's leveraging of technology to enhance the examination experience. However, FDIC need improve its communication and coordination of off-site examinations.

We appreciate your consideration of these comments.



Rose Oswald Poels
President/CEO