Examiners should evaluate the Core Analysis in this section to determine whether an Expanded Analysis is necessary. Click on the hyperlinks found within each of the Core Analysis Decision Factors to reference the applicable Core Analysis Procedures.

Do Core Analysis and Decision Factors indicate that risks are appropriately identified, measured, monitored, and controlled?

<table>
<thead>
<tr>
<th>C.1. Are loan policies, approval procedures, and asset concentration limits adequate?</th>
<th>Refer to Core Analysis Procedure #4, Procedures #8-17, &amp; Procedure #32.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C.2. Are loan documentation, review procedures, and internal controls adequate?</td>
<td>Refer to Core Analysis Procedure #9, Procedures #18-23, Procedures #26-27, Procedure #30, Procedure #33, &amp; Procedure #35.</td>
</tr>
<tr>
<td>C.3. Are the audit and independent review functions adequate?</td>
<td>Refer to Core Analysis Procedures #40-41.</td>
</tr>
<tr>
<td>C.4. Are collateral controls adequate?</td>
<td>Refer to Core Analysis Procedure #28.</td>
</tr>
<tr>
<td>C.5. Are management reporting and communication systems adequate and accurate?</td>
<td>Refer to Core Analysis Procedure #7 &amp; Procedure #42.</td>
</tr>
<tr>
<td>C.6. Does management accurately identify and monitor policy exceptions?</td>
<td>Refer to Core Analysis Procedure #3, Procedure #20, Procedure #32, &amp; Procedures #43-44.</td>
</tr>
<tr>
<td>C.7. Is the process for loan disbursement, booking, and reconcilement adequate?</td>
<td>Refer to Core Analysis Procedure #20, Procedures #24-25, &amp; Procedure #29.</td>
</tr>
<tr>
<td>C.8. Does senior management effectively supervise this area?</td>
<td>Refer to Core Analysis Procedure #36-39 &amp; Procedure #45-46.</td>
</tr>
</tbody>
</table>
Examiners are to consider the following procedures but are not expected to perform every procedure at every bank. Examiners should complete only the procedures relevant for the bank’s activities, business model, risk profile, and complexity. If needed, based on other identified risks, examiners can complete additional procedures. References to laws, regulations, supervisory guidance, and other resources are not all-inclusive.

<table>
<thead>
<tr>
<th>Preliminary Review</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Review prior examination reports, prior examination work papers, pre-examination memorandum, and file correspondence to identify any previous deficiencies.</td>
</tr>
<tr>
<td>2. Review internal and external audit reports to identify areas of concern and significant loan operation deficiencies. Review current loan review reports and assess any documentation deficiencies or unsatisfactory practices.</td>
</tr>
<tr>
<td>3. Review remedial actions taken by management to correct audit and examination deficiencies.</td>
</tr>
<tr>
<td>4. Review all loan operation policies and procedures. Consider board approvals and last-reviewed date. Appropriate policies generally address items such as roles, responsibilities, lending authorities, underwriting processes, application and document flows, approval processes, and loan funding methodologies.</td>
</tr>
<tr>
<td>5. Discuss with management any significant changes in loan operations personnel, service providers, software, operating procedures, or new loan products planned within the next 18 months.</td>
</tr>
<tr>
<td>6. Review board and loan committee minutes for relevant discussions on loan operations.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Policy Considerations</th>
</tr>
</thead>
<tbody>
<tr>
<td>7. Determine whether lending policies are appropriate for the lending activities of the bank. Evaluate the frequency and timeliness of reviews and updates by the board of directors. Appropriate policies generally address items such as:</td>
</tr>
</tbody>
</table>
8. Determine whether the loan policy establishes appropriate underwriting standards for each loan type made by the bank. Appropriate underwriting standards generally address items such as:

- General fields of lending that the bank engages in and the types of loans within each general field;
- Limitations on the maximum volume of loans in relation to total assets;
- Description of the bank's normal trade area and circumstances under which the bank may extend credit outside the area;
- Guidelines that address the goals for portfolio mix and risk diversification and cover the bank’s plans for monitoring and taking appropriate corrective action on any existing concentrations to individual borrowers and their related interests and industries;
- Guidelines regarding loans to insiders;
- Guidelines for purchased and sold loans, including loan participations;
- Lending authority of each loan officer;
- Lending authority of a loan committee or executive committee;
- Responsibility of the board of directors in reviewing, ratifying, and approving loans;
- Guidelines under which unsecured loans will be granted;
- Limitations on the extension of credit through overdrafts;
- Guidelines for collateral requirements, pricing, and the terms of repayment for various types of loans offered;
- Limitations on the amount advanced in relation to the value of the collateral for various loan types, considering the Interagency Real Estate Lending Guidelines and the related documentation for valuing the collateral by loan type. (FDIC: Rules and Regulations, Part 365, Appendix A; FRB: 12 CFR 208, Appendix C);
- Documentation required by the bank for each type of secured loan;
- Guidelines on the use of interest reserves;
- Guidelines for obtaining and reviewing appraisals and evaluations of real estate or other collateral as well as for ordering new appraisals and evaluations;
- Guidelines for adequate safeguards to minimize potential environmental liability;
- Limits and guidelines on off-balance sheet credit exposures;
- Standards for loan presentation sheets and credit memoranda;
- Standards for proper underwriting and credit file documentation by loan type;
- Guidelines for ongoing documentation review and maintenance of complete and current credit files on each borrower;
- Guidelines addressing the bank’s loan review and grading system (watch list);
- Guidelines addressing the bank’s determination, assessment, and review of the appropriate level for the Allowance for Loan and Lease Losses (ALLL) (or allowance for credit losses (ACL), when applicable);
- Guidelines addressing loan modifications and the resultant accounting consequences including whether the modification meets the definition of a troubled debt restructuring (TDR);
- Guidelines addressing collection and workout procedures;
- Guidelines addressing charge-off practices and appropriate follow up for potential recovery;
- A process for approving, tracking, and reporting exceptions to policies; and
- The time interval for the board’s periodic review of the loan policy for its adequacy.

1 ACL replaces the term ALLL for those banks that adopted ASU 2016-13.
• Loan-to-value limits;
• The borrower’s business or occupation;
• The borrower’s past and current financial condition, income, and cash flow;
• The purpose of all loans granted to the borrower, the source of repayment, loan terms, and repayment period; and
• The collateral, its value, and the source of valuation.

9. Determine whether incentive compensation programs promote behaviors that are inconsistent with the bank’s strategic portfolio objectives and risk tolerances or with safe and sound banking practices.

10. Determine whether repossessed asset and ORE policies are sufficient for the needs of the bank.

11. Review the bank's charge-off policy. Consider the consistency with regulatory and accounting definitions, adherence to policy, timeliness, and senior management and board review.

12. Review the bank’s appraisal policies to determine whether they conform with outstanding regulatory requirements.

13. Determine whether the appraisal policy describes the conditions under which the bank will obtain a new or updated appraisal or evaluation of the real estate collateral on an existing commercial real estate (CRE) loan (e.g., movement into workout or material deterioration in real estate market conditions.)

Internal Controls

14. Determine whether appropriate separations of duty are in place. Consider items such as:
   • Preparation of loan documents,
   • Posting of subsidiary loan records to the core loan application, and
   • Disbursement of loan proceeds.

15. Evaluate the adequacy of the loan documentation process. Satisfactory loan documentation systems generally address items such as:
- Assignment of responsibility for assembling loan documents,
- Reviews of loan documentation to ensure that all required documents and signatures on applications are present prior to loan approval,
- Documentation is reviewed by an independent party after closing to verify that proper procedures are followed, and all required information is on file and properly executed, and
- Loan documents are secured during business hours and locked in a fireproof vault overnight.

16. Determine how new and renewed loans are approved and booked and whether loan officers are able to renew and extend loans without an independent review.

17. Determine whether controls are in place to ensure loans are booked with the same terms as those approved.

18. Determine whether the code of ethics governs loan officers lending to relatives or other related parties.

19. Review management's procedures to prevent, detect, and respond to lending policy exceptions. In addition, determine whether deviations from the loan policy are properly approved and documented in accordance with internal loan policy guidelines.

20. Determine the adequacy of reconciliations between subsidiary loan records and the general ledger. Consider the frequency of reconciliations, the disposition of reconciling amounts, and the separation of duties for personnel involved.

21. Evaluate the adequacy of controls over loan closings and disbursements. Consider the following:
   - Documentation is complete and appropriate waivers are obtained before loans are funded,
   - Use of documentation waivers is not excessive,
   - Funds are disbursed in accordance with loan terms, and
   - Loan proceed disbursements and general ledger entries are properly controlled.

22. Ascertain whether items held in suspense accounts clear in a timely manner.
23. Evaluate the adequacy of controls over off-balance sheet lending activities.

24. Verify if commitments are limited in amount, cover a specific period, and indicate the conditions that must be satisfied before draws will be honored.

25. Evaluate the adequacy of controls over loan participation activities, such as independent credit analysis (prior to purchase and ongoing).

26. Evaluate the adequacy of loan participation agreements. Appropriate agreements generally:
   - Meet the definition of a participating interest* as defined by ASC Topic 860,
   - Address the timely exchange of information,
   - Establish expectations involving participants’ consultation with each other prior to taking action on defaulted loans, and
   - Specify the rights and remedies of the lead bank and participant(s).

   *Refer to the definition of Transfers of Financial Assets in the Call Report Glossary for additional information.

27. Evaluate the adequacy of controls over loan renewals and extensions. Consider the following:
   - An independent credit analysis is performed prior to renewal or extension;
   - The number of loan renewals or extensions is compliant with internal loan policy limits; and
   - The use of interest-only terms is limited.

28. Evaluate controls regarding collateral held at the bank. Consider the following:
   - Collateral held at the bank is documented with pre-numbered forms that provide a customer’s receipt, ledger record, and loan file copy;
   - Physical or negotiable collateral held at the bank is under joint custody; and
   - Controls to ensure holds on deposit accounts are maintained.

29. Evaluate the process for reconciling loan accounts to the general ledger. Consider the following:
- The frequency that subsidiary loan accounts are reconciled to the general ledger;
- Persons involved in approving loans, disbursing proceeds, accepting payments, or posting transactions do not have reconciliation authority;
- Reconciliations are reviewed and signed by senior officers; and
- The bank has adequate procedures and timeframes for disposing of stale items.

30. Evaluate controls regarding capitalization of interest.
   - Determine whether there are loans on which interest is not being collected in accordance with the terms of the note, such as loans that have been renewed without full collection of interest, with interest being rolled into principal, or interest paid from the proceeds of a separate note.
   - Determine whether there are any loans in which the terms have been modified by reducing the interest rate or principal payment, by deferring interest or principal, or by restructuring of repayment terms. Consider any formally restructured loans that were returned to accrual status after a partial chargeoff or before collection of interest in arrears.

31. Determine whether management appropriately identifies, measures, monitors, controls, and reports concentration risks of credit by industry, type, person, product type, and related borrowers, etc.

32. Determine whether loan approvals are properly documented, and verify that loan terms are consistent with officer, committee, and board approvals.

33. Determine whether credit-scoring models are regularly tested and evaluated to ensure that actual performance approximates initial projections.

34. Determine whether the appraiser selection and appraisal review processes are independent from the lending function.

35. Determine how appraisers are added to the approved appraiser list and how appraisers are selected for assignments.
<table>
<thead>
<tr>
<th>36. Determine whether appropriate lending authorities exist at the loan officer and committee levels.</th>
</tr>
</thead>
<tbody>
<tr>
<td>37. Determine whether the lending and credit administration staff is appropriate given the size and nature of current and planned lending activities.</td>
</tr>
<tr>
<td>38. Evaluate the effectiveness of the organization’s collection and workout procedures.</td>
</tr>
<tr>
<td>39. Determine the extent and adequacy of training and continuing education provided to lending personnel.</td>
</tr>
</tbody>
</table>

### Audit or Independent Review

<table>
<thead>
<tr>
<th>40. Determine whether the audit program is sufficient to obtain reasonable assurance that:</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Loans exist and are owned by the institution as of the balance-sheet date;</td>
</tr>
<tr>
<td>• The level of the ALLL (or ACL, when applicable) is appropriate and is determined in accordance with generally accepted accounting principles (i.e., the ALLL (or ACL, when applicable) covers estimated credit losses on individually evaluated impaired loans and estimated credit losses inherent in the remainder of the loan portfolio);</td>
</tr>
<tr>
<td>• Loans are properly classified, described, and disclosed in the financial statements, including fair values and concentrations of risk;</td>
</tr>
<tr>
<td>• Recorded loans include all such assets of the institution and the financial statements include all related transactions during the period;</td>
</tr>
<tr>
<td>• Loan transactions are recorded in the proper period;</td>
</tr>
<tr>
<td>• Loans held for sale are properly classified and are stated at the lower of cost or fair value;</td>
</tr>
<tr>
<td>• Interest income, fees, and costs and the related balance-sheet accounts (accrued interest receivable, unearned discount, unamortized purchase premiums and discounts, and unamortized net deferred loan fees and costs) have been properly measured and recorded;</td>
</tr>
<tr>
<td>• Gains and losses on the sale of loans have been properly measured and properly recorded; and</td>
</tr>
<tr>
<td>• Credit commitments, letters of credit, guarantees, recourse provisions, and loans that collateralize borrowings are properly disclosed in the financial statements.</td>
</tr>
</tbody>
</table>

*(Note: Coordinate with the examiners reviewing the internal audit function.)*

<table>
<thead>
<tr>
<th>41. Determine whether the audit or independent review program provides sufficient coverage relative to the institution's size, scope of lending activities, and risk profile. Appropriate programs often:</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Recommend corrective action when warranted;</td>
</tr>
</tbody>
</table>
Core Analysis

- Verify that corrective action commitments have been implemented;
- Assess separation of duties, internal controls, and supervision of lending activities;
- Determine compliance with internal policies and procedures, and applicable laws and regulations; and
- Assess the adequacy, accuracy, and timeliness of reports to senior management and the board.

*(Note: Coordinate with the examiners reviewing the internal audit function.)*

Information and Communication Systems

42. Determine whether managerial reports provide sufficient information relative to the size and risk profile of the organization and evaluate the accuracy and timeliness of reports produced for the board and executive management. Reports may include the following types of information:

- Analysis of the appropriateness of ALLL (or ACL, when applicable);
- Chargeoffs and recoveries;
- Concentrations;
- Insider borrowings;
- Kiting suspects;
- Legal lending limits;
- Loan extensions and modifications;
- Loan renewals and new loan approvals/denials (above certain dollar amounts);
- Non-conforming loans;
- Non-sufficient funds;
- Out-of-territory lending;
- Overdrafts;
- Participations;
- Policy exceptions;
- Results of internal/external audits;
- Results of loan review;
- Suspense accounts (contents and reconciliations);
- Technical exceptions; and
- Unfunded commitments.

Managerial Effectiveness

**PROCEDURES AND PRACTICES**

43. Determine how management monitors for compliance with internal policy and limits.

44. Review audits and examinations performed to determine the effectiveness of internal audit in identifying and reporting internal control weaknesses.
45. Determine whether management has addressed and corrected deficiencies cited by internal/external auditors, loan review, and regulatory agencies.

46. Review board, loan, and audit committee minutes to determine whether relevant issues and audit findings are being addressed.

End of Core Analysis.