LOAN OPERATIONS REVIEW

Expanded Analysis Decision Factors

This section evaluates the significance of deficiencies or other specific concerns identified in the Core and Expanded Analyses. Click on the hyperlinks found within each of the Expanded Analysis Decision Factors to reference the applicable Expanded Analysis Procedures. If needed, proceed to the accompanying Impact Analysis.

Do Expanded Analysis and Decision Factors indicate that risks are adequately identified, measured, monitored, and controlled?

E.1.	**Are deficiencies immaterial to the supervision of the lending function? *Refer to Expanded Analysis Procedures #1-47.***
E.2.	**Are deficiencies immaterial to the bank's condition? *Refer to Expanded Analysis Procedures #1-47.***

LOAN OPERATIONS REVIEW
Expanded Analysis Procedures

Generally, procedures used in the Expanded Analysis should target concerns identified in the Core Analysis and Decision Factors. The flexible procedures specified for the Core Analysis also apply to the Expanded Analysis.

Policy Considerations

1. **Investigate why the lending and loan review policy or procedure deficiencies identified in the Core Analysis exist. Discuss with management its response to examiner recommendations. Possible reasons for policy deficiencies may include the following:**
    - **Management overlooked these issues,**
    - **Management is unfamiliar with prudent loan and loan-review guidelines and procedures, or**
    - **Management is unwilling to create or enhance policies and procedures.**

2. **If poor compliance with policies and procedures exist, determine the reasons. Possible reasons are detailed below:**
    - **Poor internal communication of policy and procedures or subsequent revisions,**
    - **Lack of awareness of policy existence,**
    - **Disregard for established policies, and**
    - **Misunderstanding of policy or procedures.**

3. **Determine whether management commits to and supports proper controls and monitoring to ensure policy and procedures are followed in the future. Determine whether proposed controls, if any, are reasonable.**

Internal Controls

4. **Determine the underlying cause of internal control deficiencies identified within the Core Analysis section.**

5. **If internal loan reconcilements are inadequate, perform loan account reconcilements.**

6. **Determine whether management gives proper attention to out-of-balance conditions regardless of the amount.**

7. Evaluate the ability of loan records to provide satisfactory audit trails that allow for the tracing of transactions from initiation to disposition.

8. Consider tracing loan proceeds for a sample of loans including large and unusual credits and ascertain the adequacy of the disbursement controls.

9. Determine whether loan terms and other information on new loans are checked for accuracy and verified against loan trial reports.

10. Determine that two employees are required to effect a status change in a customer account record.

11. Determine whether source documents supporting loan modifications are supported by proper authorizations.

12. Determine whether supervisory overrides or approvals are required to perform the following, or similar, functions:

- **Processing payments on loans and leases in the process of foreclosure or other legal action, and**
- **Waiving late charges or other penalties.**

13. Determine whether loan officers are prohibited from processing loan payments.

14. Determine whether the employees who receive or release collateral to borrowers are different from those who post related entries to the collateral register and general ledger. In addition, determine whether appropriate records are maintained.

15. Determine whether collateral receipts exist and identify each item retained by the bank.

16. Determine whether negotiable collateral is under dual control.

17. Determine whether discount, interest, commission, and fee computations are compared or tested to initial records by employees who cannot originate entries.

18. Determine the extent of collateral attachment problems.

19. Determine whether the financial institution is identified as a loss payee on the collateral insurance coverages.

20. Determine whether tickler systems for insurance, taxes, and collateral filings are adequate.

21. Determine whether officers and employees are strictly prohibited from holding blank signed notes in anticipation of future borrowings.

22. Determine whether paid notes are canceled and promptly returned to customers.

23. Determine whether charged-off notes are adequately segregated, controlled, and verified.

24. Determine whether loan charge-offs are approved and reported to the board or appropriate committee.

25. Determine whether the record of charged-off loans is maintained by a person other than the one who has custody of the notes or receives payments.

26. Determine whether subsidiary payment records and files for serviced loans are adequately segregated and identifiable.

27. Review situations where loans are purchased and sold between institutions and evaluate the appropriateness of reciprocal arrangements.

Audit or Independent Review

28. Research the inaccuracies or inadequacies cited in audit or independent review findings to determine the underlying cause.

Information and Communication Systems

29. Research the inaccuracies or inadequacies in the loan reporting systems to determine the underlying cause.

30. Determine the appropriate distribution of reports to operating management.

31. Determine whether any of the inaccuracies cited above compromise executive management's planning efforts and negatively impact the overall effectiveness of implementing strategic initiatives.

Credit Administration

32. If credits are funded that exceed established lending limits, determine why approval procedures were not followed.

33. Assess management's plan for addressing staffing weaknesses.

34. **Determine why collection and workout procedures are ineffective. Reasons for ineffective workout strategies and resolution of problem loans may include the following:**
    - **Inadequate or slow recognition of problem loans,**
    - **Insufficient or inexperienced workout staff, and**
    - **Management's reluctance to address problem loans and implement corrective action.**

Managerial Effectiveness

35. **Determine the cause of any violations or non-compliance with internal policies and identify the responsible party or parties. Consider the following items:**
    - **Lack of familiarity with laws or regulations,**
    - **Negligence,**
    - **Misinterpretation, and**
    - **Willful disregard or noncompliance.**

36. **Determine why management has not addressed and corrected deficiencies cited by internal/external auditors, loan reviewers, and regulatory agencies.**

End of Expanded Analysis.

LOAN OPERATIONS REVIEW

Impact Analysis Procedures

Impact Analysis reviews the impact that deficiencies identified in the Core and Expanded Analysis and Decision Factors have on the bank's overall condition, and directs the examiner to consider possible supervisory options.

Impact Analysis Procedures
1. Determine the impact of noted deficiencies on the institution's capital, earnings, and liquidity, and assess the future impact on the institution if these deficiencies continue.
2. Determine the impact of identified weaknesses in risk management practices on the institution's overall condition.
3. Determine the need for direct confirmation of loan accounts.
4. Determine the need for administrative and enforcement actions, formulate specific recommendations, and advise appropriate supervisors on the nature of the concerns. (FDIC: field office supervisor, regional office.)
5. Discuss the possibility of administrative and enforcement actions with executive management and the board of directors–after consultation with appropriate field and/or regional office personnel.
6. Evaluate the circumstances and facts surrounding risk management deficiencies and apparent violations. Consider potential recommendations for administrative actions, Civil Monetary Penalties, Suspicious Activity Reports, and law enforcement referrals as needed. (FDIC: Section 8 removal action; FRB: administrative hearing.)
End of Impact Analysis.